

ANNUAL REPORT

OF THE

Banking Commissioner

OF THE

STATE OF CONNECTICUT

FOR THE YEAR ENDED DECEMBER 31, 1985

HOWARD B. BROWN
ACTING BANKING COMMISSIONER

44 Capitol Avenue, Hartford, Connecticut 06106

Net operating income of Constitution State Corporate was \$23.3 million, of which \$22.4 million, or 96.1%, was paid out as dividends to member credit unions.

Major Changes

Exclusive of Constitution State Corporate Credit Union, Inc., the 123 state-chartered credit unions had total assets of \$419.3 million at year-end 1985. During the year, six state-chartered credit unions were merged into other state-chartered credit unions, two state-chartered credit unions were merged into federally-chartered credit unions, and one credit union was converted to a federal charter.

The average asset size of state credit unions was \$3.4 million. Thirty-two credit unions, or 26%, had assets of \$2 million or more. These credit unions accounted for 87.9% of all assets. Thirty-four credit unions, or 27.6%, each had assets of less than \$250,000; they accounted for 1.2% of all assets. The remaining 57 state-chartered credit unions, comprising 46.4% of this group, had assets between \$250,000 and \$2 million. They accounted for 10.9% of assets.

The 245 federally-chartered credit unions in Connecticut had total assets of \$1.6 billion as of year-end 1985, a 23.9% increase over 1984. The average asset size of federal credit unions was \$6.5 million.

In 1985 for the first time, credit unions were required by the National Credit Union Administration to establish a share insurance deposit equal to 1% of total insurable share capital as of Dec. 31, 1984. This deposit account is recorded as an investment on the books of the credit union. Earnings on these deposits are to be applied to the payment of the NCUA share insurance premium. Excess earnings, if any, are to be distributed in the form of income on investments to the insured credit unions.

The first distribution of excess earnings was made as of Sept. 30, 1985 in the form of a 5% dividend. In subsequent years, the NCUA share insurance deposit is to be maintained at a balance equal to 1% of a credit union's total insurable share capital as of the previous year end.

Another important change in 1985 was the substitution of a supervisory fee for the examination and license fees that had previously been charged annually. The new supervisory fee is determined by the total assets of each credit union as well as the budget needs of the Department of Banking. Public Act No. 85-94, which went into effect May 1, 1985, specifically addressed this matter.

A revised report of examination was introduced and used selectively in 1985. The main revision of this report was the use of the CAMEL rating system, in which five areas of a credit union's operation and condition (capital, assets, management, earnings, and liquidity) are individually, and then compositely, rated.

SECURITIES AND BUSINESS INVESTMENTS DIVISION

The Securities and Business Investments Division is responsible for the following areas subject to the general supervision of the Banking Commissioner: 1) the registration of tender offers, securities and business opportunity

programs for sale in Connecticut; 2) broker-dealer and investment adviser and agent registration; 3) routine examinations of broker-dealer and investment adviser registrants; and 4) enforcement of the tender offer, securities and business opportunity laws.

As of year-end 1985, the division was comprised of a division director, an assistant division director, a director of enforcement, eleven examiners, two Connecticut Careers Trainees, one Pre-Professional Trainee and ten support personnel.

Major Changes

In connection with the securities and business opportunity laws, as of the year-end 1985, 33,790 persons were registered to sell securities and to offer advice and management services regarding securities investments. This was a 16.7% increase over the number registered in 1984. Fifty-eight percent of those registered were engaged in the general brokerage business.

In 1985, 3,760 securities registration statements were received prior to sales. Fifty-three registrations by sellers of business opportunity programs were received. Twenty-eight business opportunity registrations were renewed.

During 1985, 165 securities and 18 business opportunity complaints or investigations were completed or resolved; 887 were received. Also during 1985, 20 routine broker-dealer and 12 investment adviser examinations were undertaken. One hundred and forty-four securities and 18 business opportunity investigations were initiated. Ten cease and desist orders were issued in the securities area compared with 11 the previous year. Five securities matters were referred for criminal action.

Of all the complaints processed and investigations opened, most were resolved on the administrative level. Many administrative resolutions required those believed to be violating the law 1) to offer rescissions to investors, 2) to submit affidavits that no business would be conducted in Connecticut until the offering was properly registered or exempted from registration, 3) to enter into consent agreements, or 4) a combination of these remedies.

In 1985, the Banking Commissioner referred to the Office of the Attorney General two securities complaints and two cases for enforcement of subpoenas. One securities complaint was referred to the New England regional office of the Securities and Exchange Commission.

Exemptive Orders

On Feb. 7, 1985, the Banking Commissioner issued an advisory interpretation on whether employees of certain financial institutions offering brokerage services through a separate broker-dealer would be considered "agents" of that broker-dealer under Section 36-471(b) of Chapter 662 of the Connecticut General Statutes, the Connecticut Uniform Securities Act.

The interpretation used a functional approach in applying the definition of "agent" to certain employees of financial institutions that have contractual arrangements with broker-dealers to provide securities brokerage services to their customers. The interpretation also provided that a broker dealer occupying physical space within a financial institution will be deemed to be operating a "branch office" as defined in Section 36-500-13(a)(4) of the Regulations

promulgated under the Act. The interpretation prescribed certain requirements for advertising securities services and segregating records. It also barred broker-dealers participating in contractual arrangements with financial institutions from effecting securities transactions for the fiduciary accounts of those institutions.

LEGISLATION

During the 1985 session of the General Assembly, the following public acts affecting areas regulated by the Department of Banking were approved and signed into law:

Banks and Savings Institutions

P.A. 85-100, *An Act Concerning a Study of Connecticut Banking Laws* (effective July 1, 1985) mandates the Joint Standing Committee on Banks to conduct a study of current state banking laws and proposed legislation on banking.

P.A. 85-111, *An Act Concerning a Study of Effective and Cost-Efficient Ways to Provide Banking Services to Low-Income Residents of the State* (effective July 1, 1985) establishes a voluntary study by financial institutions to explore effective and cost-efficient ways to provide banking services to low-income residents of Connecticut.

P.A. 85-188, *An Act Concerning Capital Stock Savings Banks and Savings and Loan Associations* (effective Oct. 1, 1985) clarifies that the limitations in Section 36-73a of the General Statutes on investments in IRAs and retirement plans for self-employed individuals apply only to those savings banks and savings and loan associations that are not authorized to exercise fiduciary powers. The Act amends General Statutes Sections 36-88 (change in capital stock), 36-89a (preemptive rights of stockholders), 36-89b (preferred shares, capital notes and debentures), 36-90 (examination by stockholders), and 36-9 (voting restrictions) to make their provisions applicable to state capital stock savings banks and savings and loan associations as well as state bank and trust companies, and to make the provisions correspond more closely to similar provisions for stock corporations generally. Finally, the Act clarifies that, pursuant to Section 36-314 of the General Statutes, savings banks and savings and loan associations authorized to exercise fiduciary powers need not obtain a second license to exercise trust power.

P.A. 85-194, *An Act Concerning the Length of Time a Bank May Hold Checks* (effective Oct. 1, 1985) amends Section 36-9v of the General Statutes to impose maximum limits on the length of time a depository institution may hold a check, as follows: four business days for an item from an in-state banking institution and seven business days for an item from an out-of-state institution.

P.A. 85-209, *An Act Concerning the Payment of Dividends by Banks* (effective May 24, 1985) amends Section 36-139 of the General Statutes to give savings banks parity with savings and loan associations by authorizing savings banks to pay dividends from earnings without requiring them to add funds to their aggregate surplus account when the payment of dividends would reduce such accounts to an amount less than 8% of deposits.

P.A. 85-208, *An Act Concerning Out-Of-State Credit Unions* (effective May 24, 1985) authorizes an out-of-state credit union to do business in Connecticut with the prior written approval of the Commissioner if a Connecticut credit union would be permitted to do business in the other state and the out-of-state credit union meets certain criteria. The Commissioner may examine an out-of-state credit union doing business in Connecticut; require such credit union to submit an annual audit report to him; and enter into an agreement with the supervisory agency of such credit union to ensure its effective examination and supervision. The legislation also authorizes the Commissioner to revoke or suspend the approval given to such credit unions to do business in Connecticut.

P.A. 85-210, *An Act Concerning Membership in Credit Unions* (effective Oct. 1, 1985) amends Section 36-194 of the General Statutes and deletes the requirement that immediate family members reside in the same household as primary members to be eligible to join a credit union. The Act provides a definition of "groups having a common bond of occupation or association" as used in Chapter 646. In addition, it amends Section 36-196a of the General Statutes to allow credit unions to include as members persons whose loans have been purchased from other credit unions; and to authorize the Commissioner to approve a change in the field of membership of any credit union without regard for the common bond where a merger is not feasible and continued operation without the change may result in liquidation of the credit union.

P.A. 85-234, *An Act Concerning Treasury Tax and Loan Account Authority for Credit Unions* (effective Oct. 1, 1985) defines "tax and loan accounts" and "note accounts" and provides that such accounts are not shares as defined in Section 36-194(d) of the General Statutes. It permits credit unions, subject to U.S. Treasury Department regulations, to serve as depositories for federal taxes or as U.S. Treasury tax and loan depositories and satisfy any requirement in connection therewith. Credit unions are required to pay a return on note accounts at rates required by the U.S. Treasury Department. The Act also requires credit unions availing themselves of treasury tax and loan account authority to meet all requirements to obtain any available insurance provided by the National Credit Union Administration's Share Insurance Fund for such accounts.

P.A. 85-415, *An Act Concerning Technical Revisions to the Provisions of the General Statutes Relating to Credit Unions* (effective Oct. 1, 1985) effected a technical recodification of Chapter 646 of the General Statutes.

Securities and Business Investments

P.A. 85-169, *An Act to Amend the Connecticut Uniform Securities Act* (effective May 13, 1985) deletes references to "mutual" when describing a savings bank in Sections 36-471(c), 36-490(b) and 36-471(f) of the General Statutes. The Act adds Section 36-474(d) to the General Statutes, which imposes notice requirements upon broker-dealers who intend to terminate business or, for specified reasons, cease to transact business at any office in Connecticut. The Act amends Section 36-481 of the General Statutes by clarifying that registration renewal fees for broker-dealers, investment advisers and their agents are non-refundable. It also amends Section 36-482 of the General Statutes by permitting registered broker-dealers and investment advisers to store records on

computerized systems provided that a printed copy of any record is immediately accessible. The Act amends the registration provisions of Section 36-486 of the General Statutes by requiring that only one copy of the latest form of prospectus filed under the Securities Act of 1933 accompany the registration statement and by requiring written notice to the Commissioner within one day after the federal registration statement becomes effective. Finally, this legislation amends Section 36-500 of the General Statutes to permit the Commissioner to issue administrative orders in appropriate circumstances.

Security Deposits

P.A. 85-231, *An Act Concerning the Amount of a Security Deposit for Tenants Sixty-Two Years of Age and Older* (effective Oct. 1, 1985) amends Section 47a-21 by requiring a landlord to refund to a tenant, sixty-two years of age or older, upon the tenant's request, that portion of the security deposit which exceeds one month's periodic rent.

Miscellaneous

P.A. 85-376, *An Act Concerning Funeral or Burial Funds* (effective Oct. 1, 1985) authorizes a licensed funeral director or embalmer to receive funds pursuant to a funeral service contract to pay for future delivery of funeral services or merchandise. All such funds must be deposited in an escrow account maintained by two escrow agents, one appointed by the funeral establishment and one by a depository institution, insurance company or broker-dealer. The legislation specifies the investments in which the funds held in escrow may be invested, the manner in which the escrow account shall be maintained, and the terms under which funds can be removed from the account.

P.A. 85-430, *An Act Establishing Requirements for the Payment of Mortgage Loan Funds by Lender* (effective Oct. 1, 1985) requires state and federal financial institutions and non-bank lenders that make first mortgage loans to pay the loan proceeds at the time of execution of the loan or the date the right to rescind the loan terminates by certified treasurer's or cashier's check. Payment may also be made by wire transfer to the mortgagor or the attorney for the financial institution.

P.A. 85-591, *An Act Amending the Mortgage Foreclosure Protection Act* (effective Oct. 1, 1985) amends Section 49-31i of the General Statutes by providing that the amount of a restructured mortgage debt at the end of a restructuring period shall not exceed either the original mortgage debt or 90% of the fair market value of the property, whichever is greater.

Table No. 35
REGISTRATIONS:
BROKER-DEALERS, INVESTMENT ADVISERS AND AGENTS

	In Effect Dec. 31		Increase	
	1985	1984	1985	1984
Broker-Dealers	1,237	1,154	7.2%	26.0%
Agents	33,790	28,964	16.7	28.2
Investment Advisers	341	310	10.0	17.9
Investment Adviser Agents.....	1,798	1,547	16.2	41.3
Agents of Issuer	194	169	14.8	11.9

	Broker-Dealers	Agents	Investment Advisers	Investment Adviser Agents
Applications:				
Received	384	14,758	56	365
Withdrawn by Request	24	14	5	0
Withdrawn Voluntary.....	59	247	8	4
Special Review (Agents).....		316		
Registrations Approved	301	12,497	43	361

Table No. 36
CLASSIFICATIONS OF BROKER-DEALER REGISTRANTS

Type of Business	Number		Percent	
	1985	1984	1985	1984
General Brokerage	690	658	4.7%	20.5%
Investment Trust	15	14	7.1	(30.0)
Other Specialists	532	482	10.4	37.7
TOTALS	1,237	1,547	7.2%	26.0%

Table No. 37
MAIN OFFICE
BROKER-DEALER AND INVESTMENT ADVISER REGISTRANTS

	Broker-Dealers	Investment Advisers
Alabama	1	0
Alaska	0	0
Arizona	10	0
Arkansas	2	0
California	70	12
Colorado	39	4
Connecticut	131	138
Delaware	1	1
District of Columbia	14	0
Florida	38	5
Georgia	19	3
Hawaii	1	0
Idaho	0	0
Illinois	36	3
Indiana	3	1
Iowa	3	1
Kansas	2	0
Kentucky	2	0
Louisiana	7	0
Maine	2	0
Maryland	13	2
Massachusetts	80	31
Michigan	8	1
Minnesota	25	2
Missouri	17	2
Mississippi	1	0
Montana	1	0
Nebraska	3	0
Nevada	1	0
New Hampshire	3	1
New Jersey	68	9
New Mexico	0	0
New York	460	110
North Carolina	4	0
North Dakota	0	0
Ohio	15	0
Oklahoma	11	0
Oregon	1	0
Pennsylvania	39	9
Rhode Island	6	0
South Carolina	4	0
Tennessee	13	1
Texas	38	2
Utah	6	1
Vermont	3	0
Virginia	10	2
Washington	12	0
West Virginia	1	0
Wisconsin	12	0
Wyoming	0	0
Bermuda	0	0
British West Indies	1	0
Totals	1,237	341

Table No. 38
TREND IN BROKER-DEALER, INVESTMENT ADVISER AND AGENT REGISTRATIONS

Year	Broker — Dealers	Percent Increase/ Decrease	Agents	Percent Increase/ Decrease	Investment Advisers	Percent Increase/ Decrease	Investment Adviser Agents	Percent Increase/ Decrease	Agents of Issuer	Percent Increase/ Decrease
1955	251	13.1	1,177	47.3	22	29.4	13	8.3	....	....
1960	312	24.3	2,223	88.8	24	8.3	23	77.0	....	....
1965	345	10.5	3,268	47.0	42	75.0	62	169.5	....	....
1966	346	.0	3,703	13.3	47	11.9	85	37.0	....	....
1967	353	2.0	4,112	11.0	56	19.6	110	29.4	....	....
1968	390	10.5	5,159	25.7	60	7.1	125	13.6	....	....
1969	434	11.3	5,955	15.4	72	20.0	145	16.0	....	....
1970	451	3.9	6,429	9.6	81	12.5	171	17.9	....	....
1971	464	2.9	6,522	1.4	86	6.2	191	11.7	....	....
1972	499	7.5	7,305	12.0	103	19.7	226	18.3	....	....
1973	464	(7.0)	7,519	2.9	109	5.8	235	4.0	....	....
1974	463	(.2)	7,543	.3	121	11.0	188	22.6	....	....
1975	453	(2.2)	7,899	4.7	135	11.6	322	11.8	....	....
1976	476	5.1	8,926	13.0	156	15.6	355	10.2	....	....
1977	494	3.8	9,611	7.7	186	19.2	383	7.9	3	....
1978	530	7.3	10,809	12.5	199	7.0	438	14.4	22	63.3
1979	511	(3.6)	11,318	4.7	189	(5.0)	453	3.4	178	254.5
1980	575	12.5	12,962	14.5	193	2.1	495	9.3	136	74.4
1981	647	11.1	14,700	11.8	200	3.5	618	19.9	193	29.5
1982	745	13.2	18,707	21.4	214	6.5	775	20.3	241	19.9
1983	916	22.9	22,587	20.7	263	22.9	1,095	41.2	151	(37.3)
1984	1,154	24.9	28,964	28.0	310	17.9	1,547	41.5	169	11.9
1985	1,237	7.2	33,790	16.7	341	10.0	1,798	16.2	194	14.8

Table No. 39
ROUTINE EXAMINATIONS
BROKER-DEALERS AND INVESTMENT ADVISERS

	1985	1984
Broker-Dealers	20	14
Investment Advisers	12	30

Table No. 40
REGISTRATIONS FILED AND EFFECTED OF
SECURITIES, TENDER OFFERS AND BUSINESS OPPORTUNITIES

	Received		Effectuated	
	1985	1984	1985	1984
Securities				
Open End Management Investment Companies	292	316	231	221
Renewals	1,083	1,454	903	840
Unit Investment Trusts	1,052	1,247	991	730
Renewals	14	13	15	13
Post-Sale Registrations	4	29	1	29
All Others	1,315	1,281	1,231	1,022
Total Securities Registrations	3,760	4,340	3,372	2,855
Tender Offer Registrations	0	1	0	1
Business Opportunity Registrations	53	51	40	37
Business Opportunity Renewals	28	19	26	15
Exempted Filings	3,042	4,885	3,166	4,598
Inquiries Received	492	460		

Table No. 41
ENFORCEMENT ACTIVITIES
SECURITIES AND BUSINESS OPPORTUNITIES

	Securities		Business Opportunities	
	1985	1984	1985	1984
Investigations Opened	144	183	18	16
Investigations Closed	165	160	18	8
Complaints Processed	314	260	5	0
Cease and Desist Orders Issued	10	11	5	1
Show Cause Orders Issued	5	11	1	0
Revocations Orders Issued — Broker-Dealer .	9	0	0	0
Denial Orders Issued — Broker-Dealer	1	0	N/A	N/A
Subpoenas Issued	44	28	10	0
Referrals for Criminal Action	5	3	0	1
Referrals for Civil Action	1	0	0	0
Other Referrals, (NASD, SEC, etc.)	1	0	N/A	N/A
Consent Orders	2	0	N/A	N/A
Cancellation of Orders	3	0	N/A	N/A

BANKING COMMISSIONER'S REPORT

ROSTER

DEPARTMENT OF BANKING

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Howard B. Brown, Acting Banking Commissioner

Ann M. Negrini, Secretary to the Commissioner

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