



DAVID Y. IGE
GOVERNOR

JOSH GREEN
LT. GOVERNOR

**STATE OF HAWAII
OFFICE OF THE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS**

335 MERCHANT STREET, ROOM 310

P.O. BOX 541

HONOLULU, HAWAII 96809

Phone Number: 586-2850

Fax Number: 586-2856

cca.hawaii.gov

CATHERINE P. AWAKUNI COLÓN
DIRECTOR

JO ANN M. UCHIDA TAKEUCHI
DEPUTY DIRECTOR

Testimony of the Department of Commerce and Consumer Affairs

**Before the
House Committee on Intrastate Commerce
Tuesday, February 12, 2019
9:45 a.m.
State Capitol, Conference Room 430**

**On the following measures:
H.B. 1125, RELATING TO THE DEPARTMENT
OF COMMERCE AND CONSUMER AFFAIRS
and
H.B. 1330, RELATING TO THE BUDGET OF THE
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS**

Chair Ohno and Members of the Committee:

My name is Catherine Awakuni Colón, and I am the Director of the Department of Commerce and Consumer Affairs (DCCA or Department). The Department supports H.B. 1125, which appropriates funds for the fiscal biennium (FB) 2019-2021 operating budget of the DCCA's Financial Services Regulation (DFI or Division), program ID CCA-104, under the purview of this committee. The Department also supports H.B. 1330, which establishes additional amounts to be appropriated or authorized for the FB 2019-2021 operating budget of the DFI.

Functions

The DFI provides supervision, regulation, and examination of all Hawaii state-chartered and state-licensed financial institutions, including banks, foreign banking

agencies and representative offices, savings banks, trust companies, financial services loan companies (both depository and non-depository), and credit unions. In supervising financial institutions authorized to take deposits, the DFI works closely with the Federal Deposit Insurance Corporation (FDIC), Federal Reserve Bank of San Francisco, Consumer Financial Protection Bureau, and National Credit Union Administration.

The major functions of the DFI are to:

- Charter, supervise, regulate, and examine all state banks and credit unions, foreign bank branches, agencies and representative offices, and intra-Pacific branches.
- License, supervise, regulate, and examine non-depository companies including escrow depositories, money transmitters, mortgage loan originators, mortgage loan originator companies, and mortgage loan originator branches and mortgage servicer companies.
- Accept and investigate complaints by consumers.

Sources of Revenue

The DFI does not receive any general funds. Instead, the DFI's revenue comes from state-licensed financial institutions, escrow depositories, money transmitters, mortgage servicers, mortgage loan originators, and mortgage loan originator companies, as well as a portion of the franchise tax. Supervisory activities include receiving funds from financial institution assessments, application fees, license fees, examination fees, and administrative fines. Revenue estimates are based on the current level of program activities and adjusted for projected changes, such as the number of pending applications and plans to fill vacancies.

Base Budget for FY 2019: \$5,089,192.

Number of Positions

The DFI currently has authorization for 40 positions.

Number of Vacancies

Currently, the DFI has two exempt-included vacancies anticipated to be filled by the end Q3 FY 2019.

Requests for FB 2019-2021

The DFI is requesting two appropriations out of the Compliance Resolution Fund:

- \$40,000 for FY 2019-2020 and \$40,000 for FY 2020-2021 for maintenance and software licensing costs of the DFI's database and records management system. The contract for the database and document management system was executed after the previous biennium budget was implemented. At that time, the DFI used its best estimate available in estimating the costs of the replacement of the outdated database and maintenance costs. The annual cost of the maintenance and software costs is \$140,000, and the DFI currently has \$100,000 allocated in its budget. The database and records management system is scheduled to "go live" in July 2019, when the division will be required to start the annual payment of maintenance and software costs.
- \$25,074 for FY 2019-2020 and \$25,074 for FY 2029-2021 to fund fringe benefits for collective bargaining and salary adjustments.

Expenditures

By way of background, the DFI's expenditure appropriation covers personnel costs, operations, equipment, and overhead. (The projected FY 2019 amount is \$5,096,803.) The largest expense in the DFI is machinery and equipment. The DFI must replace equipment every three years to maintain its bank and mortgage accreditations and to keep up with technology used by sister federal agencies and the industry. (The projected FY 2019 amount for laptops and accessories is \$144,353.)

In FY 2018, the DFI encumbered funds (\$156,457) that constitute the final payment for the database system. Since the vendor caused a delay in the "go live" date, the DFI and the vendor agreed to extend the "go live" date to July 2019.

Reserve Amount

The DFI requires at least 13 months of reserve to cover expenses in each fiscal year. The DFI receives \$2.0M from the franchise tax in July of each fiscal year but realizes the income in the previous fiscal year. Therefore, to cover expenses in the current fiscal year, the DFI requires 13 months of reserves. In addition, anticipated

future expenditures, including replacing the air conditioning system of King Kalākaua Building, repairing structural damage and roofing damage caused by Hurricane Lane, and developing a department-wide document management system, will require use of these reserves.

Thank you for the opportunity to testify on these bills.