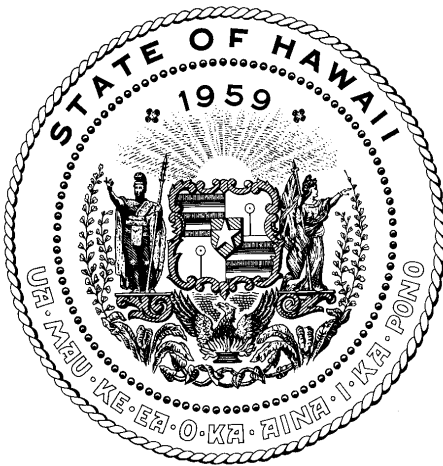


**2017 Annual  
Compliance Resolution Fund Report  
to the Legislature**



**DEPARTMENT OF COMMERCE  
AND CONSUMER AFFAIRS**

**STATE OF HAWAII**

## DIVISION OF FINANCIAL INSTITUTIONS (DFI)

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### OVERVIEW

The Division of Financial Institutions (DFI): (1) addresses the safety and soundness of state-chartered and state-licensed financial institutions; and (2) ensures regulatory compliance by state-licensed financial institutions, escrow depositories, money transmitters, mortgage servicers, mortgage loan originators, and mortgage loan originator companies by fairly administering applicable statutes and rules to protect the rights and funds of depositors, borrowers, consumers, and other members of the public. To effectively regulate a growing and diverse group of industries and implement state and federal regulatory requirements, DFI made changes to its licensing and examination programs to focus its resources on risk-based supervision.

DFI provides regulatory oversight for the State's financial service providers, which include both bank and nonbank companies. 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, DFI works closely with the Federal Deposit Insurance Corporation (FDIC), Federal Reserve Bank of San Francisco (FRB), Consumer Financial Protection Bureau (CFPB), and National Credit Union Administration (NCUA).

The major functions of 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 escrow depositories.
- License, supervise, regulate, and examine money transmitters.
- License, supervise, regulate, and examine mortgage loan originators, mortgage loan originator companies, and mortgage loan originator branches.
- License, supervise, regulate, and examine mortgage servicer companies.
- Accept and investigate complaints by consumers.

DFI is recognized by two accreditation organizations as providing the highest standards of training for its staff and for appropriately supervising and examining chartered and licensed companies and individuals. DFI was first accredited by the Conference of State Bank Supervisors (CSBS) in 1990 and reaccredited in 1995, 2000, 2005, and 2012.<sup>1</sup> The CSBS accreditation program sets high standards for state banking regulators nationwide. Forty-three out of 50 states meet CSBS accreditation requirements. DFI will seek to maintain its accreditation in 2018 for both banking and mortgage.

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<sup>1</sup> Hawaii did not seek reaccreditation in 2010. With the new commissioner appointed in 2011, and updates made to the banking supervision, regulation, and examination, DFI received accreditation in 2012.

In 2Q FY 2015, DFI was the eighteenth state in the nation to be accredited by the CSBS/American Association of Residential Mortgage Regulators (AARMR)<sup>2</sup> for mortgage supervision. The CSBS/AARMR accreditation program sets high standards for state mortgage regulators nationwide. Currently, 24 out of 66 mortgage regulatory agencies meet CSBS/AARMR accreditation standards. The accreditation program includes the mortgage loan originator, mortgage loan originator companies, and mortgage servicer programs. Hawaii was also recognized for its robust regulatory scheme and oversight, as well its mature examination program.<sup>3</sup>

The following is DFI's contact information:

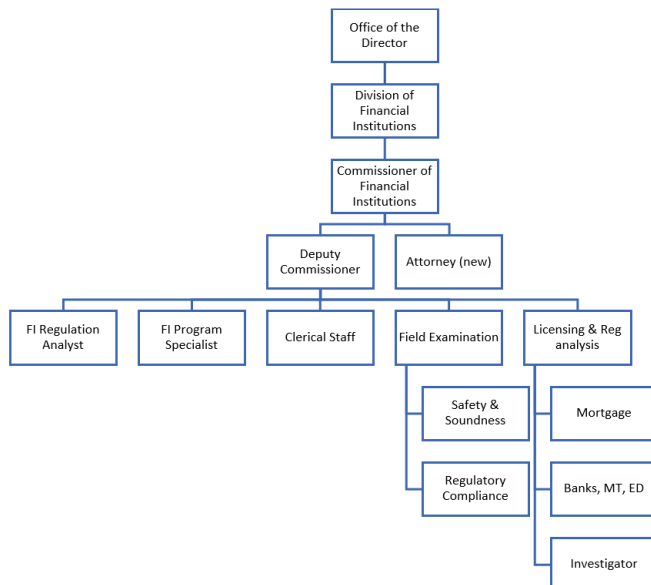
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## COMPOSITION

DFI is led by the Commissioner of Financial Institutions, who is assisted by the **Administrative Section**, which has a deputy commissioner, a specialist, a regulation analyst, and secretarial staff supervised by the secretary of the Division. This section coordinates and facilitates activities within DFI, with other divisions, and with other state and federal agencies regarding regulatory and supervisory oversight issues.



<sup>2</sup> AARMR is a trade organization for mortgage regulators.

<sup>3</sup> In 2009, the Hawaii Secure and Fair Enforcement for Mortgage Licensing Act was passed, giving DFI authority to supervise, regulate, and examine mortgage loan originators and mortgage loan originator companies. In late 2010/early 2011, DFI began its supervision. From 2011 to 2012, DFI provided training to the industry. In 2013, DFI began its examination program.

DFI is divided into two branches:

The **Field Examination Branch** is composed of financial institution examiners and supervised by a branch manager. The branch is responsible for on-site and off-site examinations of all state-chartered and state-licensed financial institutions. Examinations, unlike accounting audits, are forward-looking and risk-based reviews of factors underlying the safety and soundness of financial institutions. For example, examiners not only evaluate existing and projected financial information, but also assess the effectiveness of management, its policies, and implementation of those policies in administering the institution's risk management programs and practices. The branch is divided into two sections: one section focuses on the safety and soundness of state-chartered banks, credit unions, and money transmitters, while the other section focuses on compliance with federal and state regulatory laws and guidance for mortgage-related industries.

The **Licensing and Regulatory Analysis Branch** is composed of financial institution examiners and supervised by a branch manager. The branch is responsible for licensing activities and other regulatory approvals, the quarterly off-site monitoring program, responding to complaints and inquiries from consumers and licensees, and investigating alleged violations of state and federal laws. Licensing activities include reviewing and analyzing all applications for new financial institutions (bank and nonbank), opening, relocating, or closing branches, and adding new or unique services to determine whether consumers may be harmed by the action of any licensee. The branch reviews all license renewals for state and federal compliance before issuing an approval. The branch has two sections: one section focuses on banks, money transmitters, and escrow depository matters, while the other section focuses on the mortgage industry, including mortgage loan originators, mortgage loan originator companies, and mortgage servicers.

## **GOALS AND OBJECTIVES**

### **Goals**

DFI's mission reflects its role in protecting consumers and providing an avenue for companies to provide products and services to Hawaii's residents. The following are DFI's goals and objectives:

- (1) Maintain reliability and integrity of financial and operational information.
  - DFI does not receive any general funds. Instead, the division receives funding from its chartered and licensed companies and individuals. DFI operates like a business, as it balances revenues and expenses to provide oversight and supervision for the benefit of Hawaii's residents.
- (2) Comply with state and federal laws.
  - DFI reviews and proposes changes to its laws to appropriately meet the everchanging environment in which it functions. The innovative business models and functions of licensees have changed the landscape of compliance to become complex and multifaceted. Instant fulfillment of services has become the norm for consumers, and DFI struggles to continue maintaining proper supervision of licensees.
  - DFI provides joint regulation, supervision, and examination of state-chartered financial institutions. DFI is the primary regulator for non-depository industries.

- (3) Have effective and efficient operations and programs.
- DFI processes its work through electronic means. Licensees apply for licenses, renewals, and any changes through a secure electronic channel. All processing of applications and requests occurs electronically. Examinations are also conducted electronically, where licensees provide examination documents through a secure channel. Examiners spend less time on-site with the licensee, saving money for the licensee and travel times by the examiners. DFI still accepts paper inquiries and complaints from consumers, although more consumers have taken advantage of DFI's online consumer complaint process.
- (4) Achieve the division's strategic objectives.
- Over the last five years, DFI's staffing has undergone a tremendous change, with the addition of 23 new staff members who work with technology to meet DFI's goals and objectives. In FY 2017, DFI added three new examiners. DFI's goals and objectives center on the orientation, training, and effective deployment of its examiners and providing best practices to licensees in a professional manner. Federal training programs administered by the FDIC and the Federal Reserve System are regularly used for this purpose, as are web-based programs provided by CSBS, the Risk Management Association, and the Hawaii Bankers Association. On-the-job training is also a valuable component of the training plan. DFI's goals also focus on recruiting new staff who will be able to adjust to the rapidly changing landscape of the financial services industry. New financial service products continue to be created, modified, and initiated by licensees regulated and supervised by DFI. Delivery methods have also expanded through use of the internet, cellular phones, and other mobile devices, as well as their impact upon cybersecurity. Consequently, it is challenging for examiners to stay up-to-date with the latest iteration of products, services, and delivery methods.

### **Strategic Plan**

As a part of the CSBS accreditation process, DFI established a strategic plan and developed policies and operating guidelines to achieve plan objectives. The following is DFI's strategic plan, which is updated annually:

- Stay relevant in a changing environment.
- Provide value for the services the division offers.
- Expand employees' respective skill sets.
- Embrace the new regulatory and compliance environment.
- Deliver effective and timely services.
- Communicate respectfully, timely, and meaningfully.

This strategic plan guides DFI's objectives, and the policies to accomplish those objectives are embedded in its policy and operating manuals.

### **Action Plan**

DFI's action plan is built around its strategic plan. DFI has achieved or continues to work toward completion of its strategic goals. In FY 2018, DFI will revisit its strategic plan for the next five years by setting new goals, objectives, and action plans. DFI continues to explore various technology to improve its efficiency, databases, and outreach to consumers and licensees. In addition, DFI has joined other states in

the supervisory oversight and examination of non-depository companies who conduct business in the United States and globally.

### **Performance Measurement**

DFI measures performance in two ways. The first measurement is empirical and involves financial and examination-based measurements of the fiscal health and regulatory compliance of DFI-regulated financial institutions. This measurement is critical, especially in the current climate of global turmoil in the financial services industry, and demonstrates DFI's key area of responsibility: to ensure the safety and soundness of Hawaii-chartered and licensed financial institutions. The second measurement involves DFI's internal throughput, i.e., how many complaints have been answered, how many applications have been processed, etc. This measurement is difficult to quantify, since the increasing complexity of inquiries makes reviewing applications and complaints and conducting investigations time- and resource-intensive. This measurement provides DFI with insight into how companies use innovations and solutions to address financial services. DFI is mindful that these measurements do not comprehensively indicate the division's efforts or the regulatory activity occurring at the state and federal level.

## **ACCOMPLISHMENTS**

### **(1) Special projects**

After passage of Hawaii's medical cannabis dispensary law, DFI conducted research for two years to find a banking solution for medical cannabis dispensaries. Through an arrangement with a Colorado credit union, the Commissioner of Financial Institutions provided an option for safe and sound banking services to the medical dispensaries. This arrangement is temporary until a Hawaii-based financial institution is able to provide banking services to the medical dispensaries. The Commissioner of Financial Institutions continues to provide training and oversight over financial institutions that weigh the risks associated with violating the federal laws regarding the Controlled Substances Act and the Bank Secrecy Act.

### **(2) Effective supervision**

Hawaii has six Hawaii state-chartered banks, two out-of-state chartered banks (CA and WA), two national banks, one intra-Pacific branch, and one foreign bank. DFI directly supervises the six Hawaii state-chartered banks, oversees with its sister states the two out-of-state chartered banks, and oversees the one foreign bank. All state-chartered banks are operating in a safe and sound manner and complying with regulatory laws and guidance. As of 2Q FY 2017, all state-chartered banks have reported increased earnings due in part to increased loan growth. DFI conducts multi-state examinations with other states for non-depository companies who conduct business in the United States and abroad.

### **(3) Use of technology for education**

DFI used social media to provide free education to its licensees and consumers. DFI frequently updates its website with regulatory guidance or training videos and sends "e-blasts" to affected industries. DFI uses YouTube videos to educate licensees about regulatory compliance issues. Every year, DFI uploads a training session to remind licensees about renewal requirements; this has increased compliance and reduced the processing time to renew licenses. DFI has also used Twitter to quickly alert followers to new developments or information about fraud, elder financial abuse, cybersecurity, disaster planning, DFI website updates, and upcoming training opportunities.

**(4) Use of technology for applications**

DFI uses the Nationwide Multistate Licensing System (NMLS) to process applications for the non-depository industries of mortgage loan originators, mortgage loan originator companies, mortgage servicers, money transmitters, and escrow depository companies. This technology requires licensees and applicants to respond to each question before submitting an application to DFI for review. DFI communicates with applicants through a secure email channel.

**(5) Use of technology for examination requests**

DFI is using a secure email system to both send and receive examination request information from licensees. Use of this technology has eased the communication between the examiner and licensee and reduced the number of days DFI spends on-site at any location.

**(6) Business continuity/disaster planning**

The Commissioner of Financial Institutions continues to participate with the financial institutions (all banks and credit unions) to improve communication and disaster planning.

**(7) CSBS District V**

The Commissioner of Financial Institutions serves as Chairperson for the CSBS District V, which consists of the commissioners for banking departments in the Western states of the United States. As Chair, the Commissioner of Financial Institutions coordinates semi-annual meetings of the District V states and territories to discuss emerging issues in supervision, regulation, and examination, with emphasis on issues affecting Alaska, Arizona, California, Guam, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, and Washington. The meetings also include representatives of the FDIC, FRB, CFPB, and the Office of the Comptroller of the Currency. The Commissioner of Financial Institutions also serves on several CSBS committees, including the regulatory compliance, supervision, technology, and legislation committees with other state commissioners.

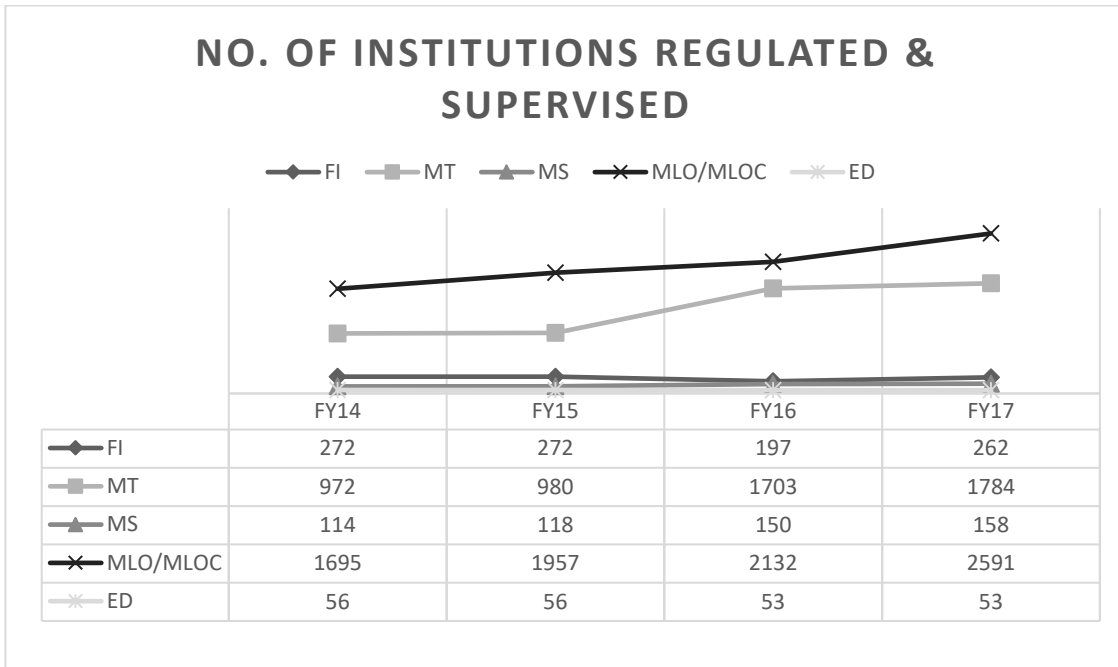
**(8) Efficiency**

DFI continued its efforts to automate the initial application and renewal process for mortgage loan originators, mortgage loan originator companies, mortgage servicers, money transmitters, and escrow depository companies. The limited success of this automation is due to statutory constraints that will be addressed in upcoming legislative sessions. With automation, additional electronic tools are necessary to implement document management by chartered institutions and licensees. The automation effort includes filing additional documentation through NMLS. All states can share regulatory information with one another to assist in ongoing supervision, licensing, and enforcement of multi-state licensees.

**(9) Workload**

DFI's workload has increased dramatically, both in the type and number of institutions regulated (*see* Chart 1: No. of Institutions Regulated & Supervised) and in the scope and complexity of the work.

**Chart 1: Number of Institutions Regulated and Supervised**



The complexity, security, and privacy of the money transmitter industry and emerging payments industry has increased exponentially. Money transmitter companies use the newest technologies and are innovative in how they transmit funds from person-to-person, business-to-business, and person-to-business. Following trends in other states, money transmitter companies are no longer “mom and pop” stores; instead, money transfers via virtual wallets and mobile devices, and the use of internet money transfers, prepaid cards, and virtual currencies has expanded in this rapidly developing industry. DFI is working to address these issues as they impact cybersecurity, consumer security and privacy, potential money laundering and fraud, and others.

DFI has implemented its examination program for mortgage loan originator companies and mortgage servicers. With over 400 licensed companies that need to be examined at least once every five years, DFI added additional examiners to properly examine these companies. Currently, DFI has four field examiners conducting examinations. To improve efficiency, DFI has teamed with other states to conduct multi-state examinations on the larger mortgage loan originator companies and mortgage servicers. In addition, DFI has teamed with CFPB in examining very large (licensed in 35 states or more) mortgage loan originator companies and mortgage servicers.

**CRF FINANCIAL SUMMARY**

The following is DFI’s CRF financial summary for FY 2017:

Personnel Expenses	Operating Expenses	Total Expenses	Revenues Received
\$3,016,932	\$982,820	\$3,999,752	\$5,578,296



## **CONCLUSION**

The long-term impact of the global financial crisis of the last decade has created a “new normal” for financial service products and delivery of products and services. This evolution has increased supervisory oversight, as mandated by new federal laws and as a response to consumer expectations.

Overall, DFI and its federal partners have provided Hawaii’s state-chartered banks and financial institutions with the supervision necessary to operate in a safe and sound manner, with adequate capital and capable management. Oversight over non-depository financial institutions has increased due to their complex business models, innovative use of product delivery, and creative thinking to circumvent state and federal laws in providing products and services to consumers.

During FY 2017, while DFI maintained its established regulatory, supervisory, and licensing programs and devoted considerable resources to implementing the newer mortgage servicer and mortgage loan originator examination programs, the division continued finding solutions to overcome its resource challenges. Recent appropriations by the Legislature to increase DFI staffing will improve the division’s ability to provide appropriate ongoing supervision, regulation, and examination of licensees for the protection of consumers. DFI continues to use technology to inform and educate licensees and consumers, process applications from applicants and licensees, and conduct examinations on licensees.

The mission and goals of DFI have been met through its service to applicants, state-chartered institutions, state-licensed companies and individuals, and Hawaii’s residents. The focus on cybersecurity, information security, and information technology will continue as companies use technology more innovatively and creatively. DFI will endeavor to keep pace with the changing times through training opportunities and providing appropriate oversight over licensees.