

## DIVISION OF FINANCIAL INSTITUTIONS

### OVERVIEW AND COMPOSITION

The Division of Financial Institutions (DFI) provides regulatory oversight for the State's financial service providers, which include both bank and nonbank companies. 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 nondepository), 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 nondepository 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.

The DFI is recognized by two accreditation organizations for appropriately licensing, supervising, and examining chartered and licensed companies, providing consumer protection to individuals, and providing the highest standards of training for its staff. The DFI was first accredited by the Conference of State Bank Supervisors (CSBS) in 1990 and reaccredited in 1995, 2000, 2005, 2012<sup>8</sup>, and 2018. The CSBS accreditation program sets high standards for state banking regulators nationwide. Forty-seven out of 52 states<sup>9</sup> meet CSBS accreditation requirements.

In 2Q FY 2015, the DFI was the eighteenth state in the nation to be accredited by the CSBS/American Association of Residential Mortgage Regulators (AARMR)<sup>10</sup> for mortgage supervision. The CSBS/AARMR accreditation program sets high standards for state mortgage regulators nationwide. Currently, 27 of 66 mortgage regulatory agencies meet CSBS/AARMR accreditation standards. The accreditation program includes mortgage loan originators, mortgage loan originator companies, and mortgage servicer programs. Hawaii was also recognized for its robust regulatory scheme and oversight, as well as for its mature examination program.<sup>11</sup>

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<sup>8</sup> Hawaii did not seek reaccreditation in 2010. A new commissioner was appointed in 2011.

<sup>9</sup> Includes the District of Columbia and Puerto Rico.

<sup>10</sup> The AARMR is a trade organization for mortgage regulators.

<sup>11</sup> In 2009, the Hawaii Secure and Fair Enforcement for Mortgage Licensing, or SAFE, Act was passed, giving the DFI authority to supervise, regulate, and examine mortgage loan originators and mortgage loan originator companies.

**Contact information:**

Office address:	335 Merchant Street Room 221 Honolulu, Hawaii 96813
Mailing address:	P.O. Box 2054 Honolulu, Hawaii 96805
Phone:	(808) 586-2820
Website:	<a href="http://cca.hawaii.gov/dfi">cca.hawaii.gov/dfi</a>
Email for general matters:	<a href="mailto:dfi@dcca.hawaii.gov">dfi@dcca.hawaii.gov</a>
Email for mortgage program:	<a href="mailto:dfi-nmls@dcca.hawaii.gov">dfi-nmls@dcca.hawaii.gov</a>

The **Administrative Section** coordinates and facilitates activities within the DFI, with other divisions, and with other state and federal agencies regarding regulatory and supervisory oversight issues.

The **Licensing and Regulatory Analysis 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 emerging financial technology companies including money transmitters, while the other section focuses on the mortgage industry, including mortgage loan originators, mortgage loan originator companies, and mortgage servicers. This branch also oversees banks and escrow depositories and conducts investigations in all industries supervised by the DFI.

The **Field Examination 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.

## **GOALS AND OBJECTIVES**

- Maintain public confidence and trust in the financial system in a changing environment.
  - The DFI does not receive any general funds. Instead, the division receives funding from its chartered and licensed companies and individuals. The DFI operates like a business, as it balances revenues and expenses to provide oversight and supervision for the benefit of Hawaii's residents.
  - The 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 the DFI struggles to continue maintaining proper supervision of licensees.
  - The DFI provides joint regulation, supervision, and examination of state-chartered financial institutions. The DFI is the primary regulator for nondepository industries.
  
- Have an effective and collaborative workforce with satisfied and valued employees who see the DFI and DCCA as their employer of choice.
  - Since 2011, the DFI processes its work through electronic means and continues to expand the use of technology in processing work from applicants and licensees. 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 onsite with the licensee, saving money for the licensee and travel times by the examiners. The DFI still accepts paper inquiries and complaints from consumers, although more consumers have taken advantage of the DFI's online consumer complaint process.
  - The DFI has been developing a career path for employees to advance and retain employees. The DFI has been successful in recruiting new employees and retaining employees once trained.
  - The DFI leverages its resources with other state and federal agencies to provide oversight over state-chartered and licensed companies. This coordination involves communication skills to efficiently discuss and take appropriate action on licensees.
  
- Have effective and efficient operations and programs.
  - The DFI implemented a new database system and continues to work with the vendor to implement a workflow process that would include a searchable database.
  - The DFI continues to use the Nationwide Multistate Licensing System & Registry (NMLS) for licensing, supervision and examination of its nondepository licensees.

- Achieve the DFI’s strategic objectives, which center on the orientation, training, and effective deployment of the division’s 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 the CSBS, Risk Management Association, and Hawaii Bankers Association.
  - The DFI seeks to recruit new staff who, through on-the-job training, 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 that the DFI regulates and supervises.
  - DFI examiners aim to stay up-to-date with the latest iteration of financial products, services, and delivery methods, which have greatly expanded through technology and impact cybersecurity.

## **ACCOMPLISHMENTS IN FY 2020**

### **Impact of COVID-19 on DFI Operations**

The DFI was well-prepared for the COVID-19 pandemic. Since 2012, DFI staff have been using laptops instead of desktops, and the division periodically conducts exercises to ensure its staff can work remotely during an emergency. The DFI’s digital filing system and electronic processing of examinations also enable its staff to work from any location. Consequently, during the stay-at-home orders, the DFI continued to timely process applications, respond to inquiries and consumer complaints, and examine licensees off-site. The division also continued to deliver training to licensees through webinars and live presentations on WebEx, Zoom, and Microsoft Teams.

### **Digital Currency Innovation Lab**

In conjunction with the Hawaii Technology and Development Corporation, the DFI launched the Digital Currency Innovation Lab to study cryptocurrency companies who provide money transmission activities for consumers. Through the lab, the DFI will study the services offered by the digital currency companies and determine if it should regulate this activity. If regulation is warranted, the DFI will determine what and how the activity should be regulated and whether any activity causes consumer harm.

### **New Database to Monitor Financial Institutions; Pilot Testing**

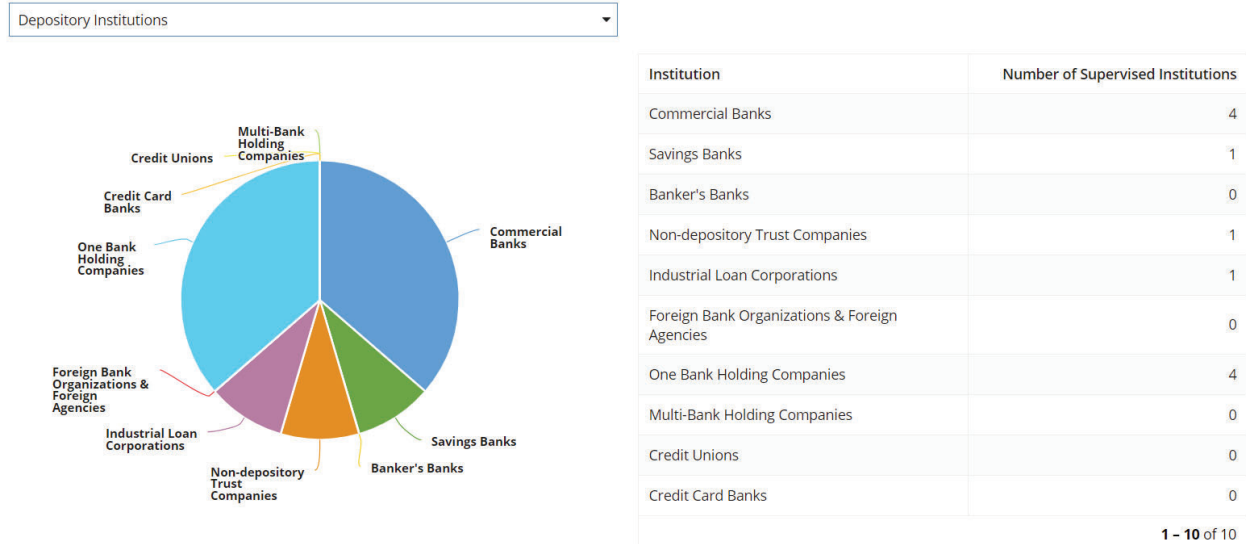
The DFI successfully implemented phase II of a new database to track and monitor financial institutions. Phase II allowed the DFI to more efficiently use the workflow function of the database software. The DFI anticipates implementing phase III to run reports on licensees and allow the division to monitor nondepository companies in late 2021.

In addition, through the DFI, Hawaii is one of six states (and the District of Columbia) piloting a complaints portal of a multi-state examination system with the CSBS. The State Examination System is used to conduct off-site examinations of nondepository licensees. The DFI is also testing an online consumer complaints platform that will allow consumers to submit a complaint against a licensee for investigation by multiple states.

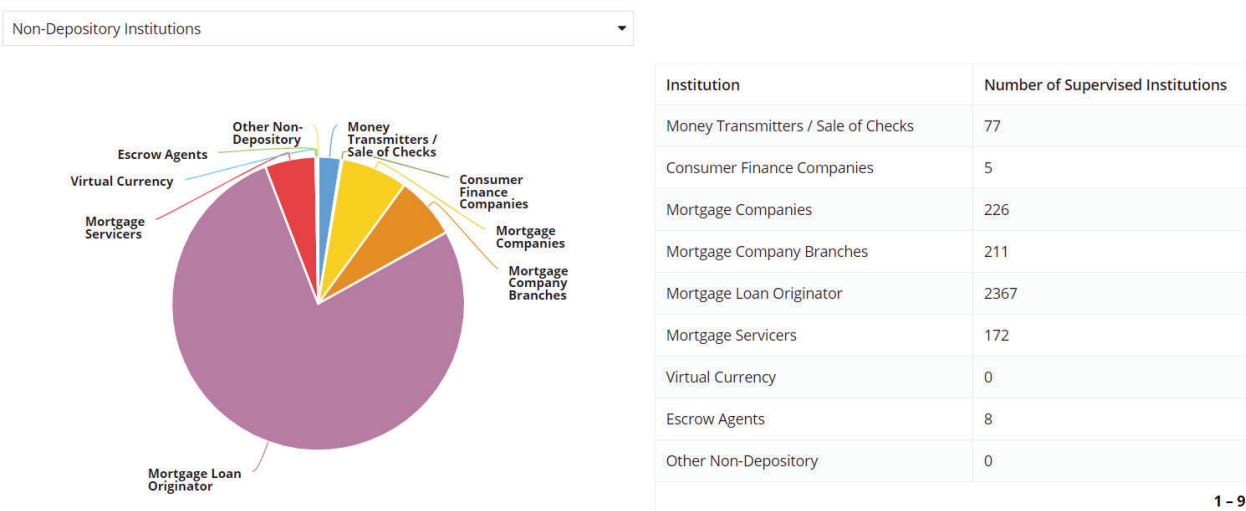
### Supervision of Depository and Non-Depository Institutions

The DFI used the NMLS to license and register nondepository financial service providers (i.e., mortgage industry, money transmitters, and escrow companies). See below charts for the number of institutions the DFI regulated and supervised in 2020<sup>12</sup>.

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



**Chart 2: Number of Non-Depository Institutions Regulated and Supervised**



Although the DFI’s partnership with other agencies and training is ongoing, every effort the DFI undertook sought to ensure the safety and soundness of the financial system, protect consumers, and encourage economic growth — all while promoting innovative and responsive supervision.

<sup>12</sup> Data from the CSBS annual accreditation report as of December 31, 2019.

Lastly, through the efforts of state banking agencies, including the DFI, state regulators were represented through the State Liaison Committee on the Federal Financial Institutions Examination Council, which: issued updated Bank Secrecy Act examination procedures; issued new customer due diligence and beneficial ownership examination procedures; and identified areas of the supervisory process that could be modernized to reduce burden and improve efficiency.

**CRF FINANCIAL SUMMARY FOR FY 2020**

Personnel Expenses	Operating Expenses	Total Expenses	Revenues Received
\$4,174,182	\$495,736	\$4,669,918	\$5,052,160