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April 16, 2012

Mr. Daniel Hancock  
Chairman, Little Hoover Commission  
925 L Street, Suite 805  
Sacramento, CA 95814

Dear Mr. Hancock:

On behalf of the California Bankers Association (CBA), I appreciate the opportunity to comment on Governor Brown's proposal to streamline state government functions and consolidate existing state government entities, specifically the consolidation of the Department of Financial Institutions (DFI) and the Department of Corporations (DOC) into a new Department of Business Oversight. The CBA, which was founded in 1891, is an industry trade association representing 170 banks conducting business in California, of which more than 70 percent are state-chartered institutions. In addition to providing professional services to our members, CBA actively advocates on public policy on behalf of its members and the banking industry as a whole. In reviewing the governor's consolidation proposal, we deem it necessary to provide our observations regarding the current mission of DFI and the function of the Financial Institutions Fund (the Fund).

The CBA and our members have the utmost respect for the role DFI provides as the state's commercial banking regulator, placing the safety and soundness of the banking industry as its main mission. DFI has historically discharged its duty to ensure safety and soundness by appointing commissioners that have a deep understanding and practical experience of the banking system. These experienced professionals have guided the industry during times of economic growth and provided invaluable leadership during struggling financial circumstances. This type of leadership is highly respected and provides necessary piece of mind to banking industry leaders.

Another way DFI has continued to meet its mission has been by examining state-chartered banks on a biennial basis for compliance with state statutes and regulations. These examiners are very professional employees that provide an invaluable public service not just to the state but also to the institutions they are examining. They are well-trained, have a deep understanding of bank operations and are well-respected by bankers.

DFI is a fee-supported department and the Financial Institutions Fund provides the resources necessary to support its regulatory function. Because these fees are for the necessary examination of state-chartered banks it is important that the Fund is protected against uses for non-examination functions. Non-examination expenditures diminish the primary function of the

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Fund and result in added cost pressures. These cost pressures can result in unnecessary fee increases to state-chartered banks without any added benefit.

While reviewing the governor's consolidation proposal, we do not see substantive changes to current law relating to the professional experience of the commissioner, current examination functions and the use of the Fund. We do, however, believe that additional policy changes can be made that strengthen these roles and functions in a new Department of Business Oversight. For example, it would be helpful to provide greater assurances that there is no diminution of the role and influence of what is currently the DFI Commissioner on policy affecting the banking industry. In addition, the safety and soundness of the banking system must remain the overriding mission of the new department. Further, policy changes can be made to ensure the protection of the Financial Institutions Fund and that its primary function is for the examination of state-chartered banks.

Once again, we appreciate the opportunity to provide our input on the governor's consolidation proposal and look forward to testifying before the Commission on April 24. If you have further questions, please do not hesitate to contact me.

Sincerely,



Alex Alanis  
Vice President, State Government Relations

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cc: All Members, Little Hoover Commission  
Stuart Drown, Executive Director, Little Hoover Commission  
Wayne Davis, Project Manager, Little Hoover Commission