STATE OF CALIFORNIA
BUSINESS, TRANSPORTATION AND HOUSING AGENCY

EDMUND G. BROWN JR., Governor
BRIAN P. KELLY, Acting Secretary

DEPARTMENT OF FINANCIAL INSTITUTIONS
TEVEIA R. BARNES, Commissioner of Financial Institutions
www.dfi.ca.gov

April 13, 2012

Stuart Drown
Executive Director
Little Hoover Commission
925 L Street, Suite 805
Sacramento, CA 95814

Dear Director Drown:

Thank you for the opportunity to respond to the Little Hoover Commission's questions in advance of the April 24, 2012 hearing on the Governor's Reorganization Plan. Pursuant to your request for written testimony, please find enclosed my responses to the questions stated in your letter of April 10, 2012.

I look forward to testifying before the Commission on April 24 on this matter and addressing any questions from the members of the Commission.

Sincerely,

Teveia Barnes

Teveia R. Barnes
Commissioner

Enclosure:
Written Testimony

Testimony

Teveia Barnes, Commissioner, Department of Financial Institutions
Business, Transportation & Housing Agency

Little Hoover Commission
Public hearing on Government Reorganization Plan
April 24, 2012

I am Teveia Barnes, Commissioner of the California Department of Financial Institutions. Thank you for inviting me here today. I am pleased to be able to address your questions regarding the Governor's Reorganization Plan as it affects the Department of Financial Institutions.

Question One: Does your organization support the portion of the plan that pertains to it?

The Department of Financial Institutions (DFI) supports the Governor's Reorganization Plan as it pertains to the establishment of the Department of Business Oversight. The proposal would enhance and benefit the distinct roles and responsibilities of the Department of Financial Institutions and the Department of Corporations. The plan and the authorities it confers upon the new Commissioner of the Department of Business Oversight (DBO) should make the department less costly, more efficient and more sensible than the individual departments it succeeds. The two new divisions will continue to perform their respective statutory responsibilities. Such integration may improve communication among state financial regulators and reduce confusion consumers may have experienced trying to determine which department to contact for information about a licensee or to file a complaint.

Question Two: What advantages and risks would need to be considered?

Advantages: The plan keeps the program elements (Division of Financial Institutions and Division of Corporations) separate in order to maintain efficient accomplishment of their respective missions. The plan has the potential to streamline internal structures and reduce costs in general overhead areas such as administrative services, legal support, consumer services and information technology.

The new divisions would continue to have regulatory responsibility for their respective current licensees. Therefore, consumers may have an easier time finding government assistance for help with concerns and complaints they may have with regulated financial institutions.

Risks: The regulated industries may perceive some risks in the planned reorganization.

In the past five years, financial institutions have been subject to significant and numerous changes in the industry as a result of the meltdown of the financial markets. This has resulted in the passage of the Dodd-Frank legislation, and the many regulations required to be promulgated there under. Financial institutions prefer to operate in an environment of certainty. The proposed reorganization of DOC and DFI may create additional uncertainty. To the extent that licensees may seek to avoid this uncertainty, they have the ability to change to a federal regulator, in which case the new department could lose revenue from annual assessments. This might represent as much as a 23 percent potential loss of budget funding.

Question Three: Does this reorganization plan position the state to operate more effectively and efficiently? If not, what additional action is needed?

Under the new authority, the Commissioner of DBO could direct additional organizational changes to realign operating units between the proposed Division of Financial Institutions and Division of Corporations. For example, within the Division of Financial Institutions, an Office of Money Services Business could be realigned to regulate the growing money transmitter industry and incorporate similar licensees from the Division of Corporations such as payday lenders, check sellers, bill payers, and proraters.

DFI's analysis for the proposed reorganization identifies the potential that the information technology systems between the two departments may not be compatible. Resources may be required to address this issue and achieve effective integration.

DFI commends Governor Brown for his efforts to streamline internal structures and reduce costs and is committed to remaining vigilant in carrying out DFI's primary responsibility to protect and serve the people in California through the effective regulation and supervision of financial institutions licensed by the Department. Should the Governor's Reorganization Plan be implemented, DFI will work with the Department of Business Oversight and the Department of Corporations to ensure a smooth transition to the new organization.

Teveia Barnes

Teveia R. Barnes, Commissioner
Department of Financial Institutions