

**DEPARTMENT OF CORPORATIONS***Business Services and Consumer and Investor Protection*

**Jan Lynn Owen**  
**California Corporations Commissioner**  
**Sacramento, California**

**Testimony**

Jan Lynn Owen, Commissioner  
California Department of Corporations

Little Hoover Commission  
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The Department of Corporations provides protections to consumers, and services to businesses, engaged in financial transactions. We license and regulate a variety of financial services and securities businesses that represent a significant part of the state's economy and affect the lives of all Californians. The Department has exclusive authority to bring both civil and administrative actions under the laws subject to the jurisdiction of the California Corporations Commissioner.

The Department is the first line of defense for many of the most significant financial transactions that Californians make, from mortgages to retirement plans. The mission of the Department of Corporations is to:

- Ensure an efficient and accessible financial services marketplace in California,
- Educate the public about the risks and rewards in investing and finances, and
- Enforce California's financial services laws to protect the public from fraud.

The Department has authority over finance lenders and brokers in California who, in 2010, made or assisted in the making of approximately \$115 billion in consumer and commercial finance loans. The Department also regulates mortgage bankers who made \$70 billion in home loans to Californians in 2010, and who serviced \$235.4 billion in home loans during that year.

Now, in an innovative and visionary move, Governor Brown has proposed a strong restructuring of California's executive branch of government. I am here today as the Commissioner of the California Department of Corporations to endorse that proposal, in full, but especially as it concerns the Department. The documentation submitted by the Governor's office makes the case for the restructure, but I would like to add and highlight the following benefits.

## SUMMARY

Merging the Department of Corporations and the Department of Financial Institutions into a new Department of Business Oversight will promote efficiencies and enhance state regulatory authority of financial services through a variety of ways.

1. The Department of Business Oversight will unite California's financial regulatory authority;
2. A merged department is more responsive to market events and changing institutional structures;
3. The restructure results in budget savings by eliminating duplicative functions.

### **(1) THE DEPARTMENT OF BUSINESS OVERSIGHT UNITES ALL LENDING AND BANKING ENTITIES UNDER ONE AUTHORITY**

The restructure will develop a positive synergy in the oversight of financial services and the enforcement against firms and individuals that violate laws and regulations. The Department of Corporations will bring an effective and experienced in-house enforcement unit to the Department of Business Oversight.

The Department of Business Oversight will enhance the Department's current reporting requirements (both statutory and regulatory) which afford a great deal of transparency to the licensing and regulatory process. Enforcement actions, summary reports, and statistical information are posted to the website or available upon request.

The Department has a robust and effective Enforcement Division. It has the ability and actively prosecutes violations of law in the administrative, civil and criminal arenas. Since 2001, the Department has brought approximately 5,905 enforcement actions against people or companies perpetrating frauds, making misrepresentations, and pursuing predatory practices. In that time, the Department has compelled finance lenders and mortgage bankers to make over \$55 Million in refunds to consumers.

The Department's civil actions include actions for injunctive relief and the appointment of receivers and results in awards of restitution to investors and penalties to the state. This ability allows the Department to control its litigation and, due to the expertise in the various laws and also in civil litigation, the Department can proceed quickly and efficiently in prosecuting its civil actions.

### **(2) THE DEPARTMENT OF BUSINESS OVERSIGHT IS MORE RESPONSIVE TO MARKET EVENTS AND CHANGING INSTITUTIONAL STRUCTURES**

In 1999, the Gramm-Leach-Bliley Act was passed by the U.S. Congress. The new law reformed financial services regulation at the federal level based on the concept of functional regulation. "Functional regulation" means that the same regulator is responsible for regulating an activity, rather than regulating by institution. This was, in part, due to the recognition of an evolving marketplace for financial products and services especially in the area of securities offerings. With

the expansion of Internet platforms, the consolidation of investment banks through mergers and acquisitions, and the popularization of crowdfunding microfinance models, restructuring California's financial regulators becomes even more important and timely.

Many of the functions and responsibilities of the Department of Corporations and the Department of Financial Institutions correspond directly and, occasionally, overlap. A single department with authority over California-based lending activity will enhance the state's ability to continue to respond effectively and proactively to a host of economic issues and to institute safeguards and consumer protections.

**(3) THE DEPARTMENT OF BUSINESS OVERSIGHT RESULTS IN BUDGET SAVINGS BY ELIMINATING DUPLICATIVE FUNCTIONS**

The combining of the Department of Corporations and Department of Financial Institutions will not only achieve administrative efficiencies but can be accompanied by administrative changes that can streamline and simplify the regulatory process and assist California businesses navigate the regulatory system.

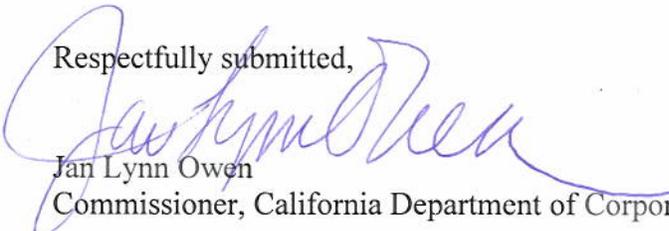
The Department of Corporations is implementing a new IT system, with the latest technology, for licensing, examination, and enforcement activities. The Department is currently ensuring that planning and preparation for the new system will accommodate a combined entity.

Restructuring would merge two separate offices of consumer education and outreach resulting in a more comprehensive Consumer Financial Literacy and Outreach Program. The Department of Corporations currently maintains a Consumer Services Office with a live-staffed call center to respond to a variety of inquiries including filing of complaints. The Department of Corporations call center provides direct access to staff to respond to both consumers and business regarding questions and complaints. A single agency that includes oversight of most lenders and financial service providers in California would make it easier for both businesses and consumers to resolve issues and inquiries.

**CONCLUSION**

The new Department of Business Oversight will give California an opportunity to more efficiently regulate California businesses with resulting benefits to both consumers and the business community. A single regulatory authority over financial services enhances the ability to coordinate with federal and local agencies in the areas of business oversight, consumer and investor protections, and consumer education and outreach. The Department of Corporations has historically been able to balance business concerns with consumer concerns and the restructure will only enhance that success.

Respectfully submitted,



Jan Lynn Owen

Commissioner, California Department of Corporations