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**Testimony of Commissioner Steven M. Goldman
NJ Department of Banking and Insurance
Before
Senate Budget Committee
April 23, 2007**

Good afternoon, Chairman Kenny and members of the Senate Budget Committee.

Before I begin, I would like to introduce the department staff that is here with me today:

- Don Bryan, Director of Insurance;
- Terry McEwen, Director of Banking;
- Jaimee Gilmartin, Director of Operations and Communications;
- Sheila Kenny, Director of Legislation and Policy; and
- Tom Gallagher, Chief Financial Officer.

Today, I am proud to report that DOBI is fulfilling its mission to "regulate the banking, insurance and real estate industries in a professional and timely manner that protects and educates consumers and promotes the growth, financial stability and efficiency of those industries."

Now, I would like to briefly take you through each of the Department's divisions, their accomplishments, and goals for the upcoming year.

Though funded through industry assessment rather than through the General Fund, the Department has met the Governor's mandate for reduction of staff.

The FY '08 budget reflects a reduction of 10 positions and a total work force of 495 people charged with the responsibility to regulate and monitor the financial solvency of property, casualty, life and health insurers; examine all state chartered depositories, as well as mortgage banks and brokers, licensed lenders, check cashers and money transmitters, and process applications for its 265,000 licensees.

The Department currently has 119 employees eligible for retirement within the next five years, or 24 percent of the total workforce. Faced with this reality and the continued desire to reduce state government, it is essential to look for ways to do more with less.

When I came before you last year, I announced that the Department would be conducting a top-to-bottom review, position-by-position. This task has been completed.

The review highlighted, among other things, the need for a structural realignment in the way the Department interacts with consumers. Following the consolidation of the Department of Banking with the Department of Insurance in 1996, many functions

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common to both departments remained in their individual units.

Identification of these commonalities has enabled the Department to begin the internal construction of a Consumer Inquiry and Complaints Unit.

This unit will be the primary intake and tracking mechanism for consumer inquiries in insurance, banking and real estate. Inquiries requiring that a case be opened will originate in this unit and when necessary be routed to investigators for further inquiry and disposition.

The departmental review also gave insight into the variations in the fee and penalty structures across operating units. Fees and fines that are deposited into the General Fund currently account for nearly \$29 million, as of FY 2006.

DOBI will attempt to standardize those fines where possible and re-examine fees to determine if they are comparable to surrounding jurisdictions, and make appropriate adjustments.

Further implementation of the reorganization will involve a streamlining of the current phone system with an emphasis on providing fewer phone numbers, more menu items and direct access to information for consumers and licensees.

Through our website and with the cooperation of the Office of Information Technology, we intend to work toward an eventual merging of systems and databases of the previously free standing departments of banking, insurance, and real estate.

The consumer protection part of our mission includes the provision of education and information. Our Public Affairs unit has continued to expand its efforts in this regard.

Last year, our consumer education staff made 492 presentations to an estimated 20,000 New Jersey residents on topics ranging from preventing identity theft to the pitfalls of certain non-conventional financial products. This represents an increase of more than 25 percent since last year.

And our Financial Literacy Program, launched in October in conjunction with the New Jersey banking community, resulted in more than 100 school visits, reaching more than 6,000 students. This pilot program has now been expanded to Financial Awareness Months to be held each year in April and October.

Extensive information is provided to consumers via the Department's website, which is currently undergoing a complete overhaul. This overhaul will include the ability to complete such tasks as renewal of licenses online, which is already taking place in many renewal contexts.

By most measures, the 2003 auto insurance reforms have exceeded expectations with respect to availability and affordability.

Eight of the ten largest national carriers are now actively engaged in full-blown competition in New Jersey, saving New Jersey drivers nearly \$1 billion on their policies – and this doesn't include consumers that realized savings by shopping around.

We are certainly pleased with the progress gained through the 2003 auto insurance reforms. But we know the industry is cyclical – and we should not wait for problems to arise before we address them.

We need to finish the job of creating a stable and sustainable marketplace capable of withstanding the cyclical nature of the industry.

Toward that end, the Department has proposed two regulations that represent the final pieces needed to complete the reform process: a comprehensive Personal Injury Protection, or PIP, fee schedule, and an update of the state's territorial rating system.

In addition we, along with other cabinet departments, have been working to reform the healthcare market for the benefit of all New Jersey residents. The Department is also working to reduce the burdens on both providers and payees and make health insurance coverage more transparent for consumers.

This has been a year of substantial activity in the banking and real estate industries both nationally and certainly here in New Jersey.

The most recent development has, of course, been the disruption in the sub-prime lending market, with a number of institutions being forced to cease doing business with unfunded loans in their pipelines.

The Department is watching these trends very carefully, and the Office of Consumer Finance continues to be aggressive in its examination of these entities on an as-needed basis. Within recent weeks, the Department has issued cease and desist orders against four sub-prime mortgage lenders due to their inability to fund loans.

We are also working with members of the Legislature, as well as industry trade groups, to determine if a more extensive licensing procedure is warranted for certain aspects of the mortgage lending industry.

In recent years many unconventional mortgage products have emerged on the market, and it may be time to determine if additional consumer protections should be put in place to avoid the inappropriate marketing of these products to those that cannot afford them.

While the financial press has widely reported on troubles in the sub-prime lending market where default rates run well into double digits, New Jersey institutions have default rates that are less than half of those in such trouble spots as Michigan and Ohio. We believe that the strong predatory lending laws passed by this Legislature have been responsible for preventing many risky and abusive loan practices that protect New Jersey consumers. However, the continued problem of federal preemption remains a concern.

Currently, state chartered banks can only open branches in neighboring states if they accept charter costs and regulation by multiple states. As a result, it has actually become desirable for banks to relinquish their state charters in favor of Federal charters that are more costly, but less restrictive.

In essence, our state-chartered institutions are playing on an uneven field tilted in favor of their federally-chartered counterparts.

In an effort to strengthen the state chartered bank system, the Department has been actively engaged with neighboring states in developing agreements that would permit state-chartered banks to open branches across state lines and continue to be regulated only by their home state.

The ability of New Jersey chartered banks to expand outside our borders and for other institutions to do business here is an important component for New Jersey's continued economic development. Therefore, the Department fully supports a new de novo banking statute enabling these changes to occur.

We are joined by the New Jersey Bankers Association and the New Jersey League of Community Bankers in this effort.

Finally, last year I spoke of the importance of learning the lessons of 9/11 and Hurricane Katrina in terms of the long-term recovery of our financial infrastructure.

Clearly, the timely assessment of damage and payment of insurance benefits is essential to the economic recovery of individuals, businesses, and the state as a whole. This cannot be accomplished without close cooperation between the insurance industry, the banking industry, the Department, and the state Office of Emergency Management.

The Department has organized a special Disaster Preparedness Development Group, which has been meeting and working to develop the necessary steps to implement a comprehensive disaster response plan for the financial services industries.

This group consists of representatives from the banking and insurance industries, and is led by Department staff.

The recommendations of this group will lead to the formation of a permanent statewide banking and insurance disaster coalition. The operating plan developed will be integrated with the Office of Emergency Management and Office of Homeland Security Preparedness statewide disaster plan.

We hope this plan is never needed. But if it is, it should prove invaluable to New Jersey's economic recovery.

In conclusion, the staff at the Department of Banking and Insurance is dedicated to its mission.

We are faced with many challenges at the Department as we address the needs of consumers and the constituencies of the industries we regulate. Fortunately, we have a talented and dedicated staff willing to meet those challenges for the benefit of the citizens of New Jersey.

We will continue to maximize the resources at our disposal to maintain the safety and stability of the state's financial services industries and protect the best interests of all New Jersey residents.

Thank you...I would be happy to take any questions.

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