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CONNECTICUT
GEN. ASSEMBLY
HOUSE

PROCEEDINGS
1992

VOL. 35
PART 11
3495-3861

HOUSE OF REPRESENTATIVES

Tuesday, April 28, 1992

Seeing none, so ordered.

CLERK:

Calendar 465, on Page 9, substitute for Senate Bill 8, AN ACT CONCERNING BROKERS OF UNSECURED LOANS AND DEBT ADJUSTERS. (As amended by Senate Amendment Schedule "A")

Favorable Report of the Committee on Judiciary.

SPEAKER BALDUCCI:

Representative Brown of the 74th.

REP. BROWN: (74th)

Thank you Mr. Speaker. I move acceptance of the Joint Committee's Favorable, I move acceptance of the Joint Committee's Favorable Report and passage of the bill in concurrence with the Senate.

SPEAKER BALDUCCI:

Question is on passage in concurrence. Is there objection? Will you remark?

REP. BROWN: (74th)

Thank you Mr. Speaker. This bill bans brokers of unsecured loans of charging an advanced fee for their services. It also allows the Banking Commissioner to issue cease and desist orders to enforce this ban and lets the Banking Commissioner issue regulations and enter into written consent orders to facilitate administrative settlement of violations of the ban on

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advanced fees. And I would also ask the Clerk to please call and may I be allowed to summarize, LCO3456, Senate Amendment "A".

SPEAKER BALDUCCI:

Clerk please call LCO3456, previously designated Senate "A".

CLERK:

LCO4, excuse me LCO3456, Senate "A", offered by Senator Casey.

SPEAKER BALDUCCI:

Question is on summarization. Is there objection? Seeing none, Representative Brown.

REP. BROWN: (74th)

Thank you Mr. Speaker. Senate Amendment "A" Specifies that the exemption from the advanced fee ban for financial institutions and other licensed lenders covers those that are chartered or licensed by Connecticut and other state or the federal government, and makes the technical correction in the criminal penalty. So, I move adoption.

SPEAKER BALDUCCI:

Question is on adoption. Further remarks on the adoption of Senate "A". If not, we'll try your minds. All those in favor signify by saying aye.

REPRESENTATIVES:

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Aye.

SPEAKER BALDUCCI:

Opposed nay. The ayes have it. (gavel) Senate
"A" is adopted, ruled technical. Will you remark
further on the bill as amended? Representative Belden.

REP. BELDEN: (113th)

Thank you Mr. Speaker. The file and the amendment
deal with setting up a procedure for managing people
who deal with unsecured loans. Through you Mr. Speaker
to the lady, was any consideration given to making the
file applied to those who issued secured loans as well?
Through you Madam, Mr. Speaker.

SPEAKER BALDUCCI:

Representative Brown.

REP. BROWN: (74th)

Through you Mr. Speaker, at this point, the
Attorney General's Office and the Department of Banking
wanted to address the problem of the upfront fees for
the unsecured loans that were actually not being given
in the loan run to defer any type of fraud. So, this
is basically consumer bill and not related to the
banking industry as such.

SPEAKER BALDUCCI:

Representative Belden, you still have the floor,
sir.

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REP. BELDEN: (113th)

Thank you Mr. Speaker. I guess we're going to have 2 standards. One for people who loan money on unsecured loans and one who loan money for secured loans. Through you Mr. Speaker to the lady, does the Banking Industry, to her knowledge, when they, do they charge advanced fees for any of their loans? Through you Mr. Speaker.

SPEAKER BALDUCCI:

Representative Brown.

REP. BROWN: (74th)

Through you Mr. Speaker, it depends on the type of loan. I mean, you've got a point system that is incurred in terms of mortgages and commercial lending. So I think that's built in the loan industry. So the fee is included, yes.

SPEAKER BALDUCCI:

Representative Belden.

REP. BELDEN: (113th)

Thank you Mr. Speaker. I guess I'm not sure why we have a law that only deals with 1 segment of our population and leaves others that do the same thing out of the same jurisdiction. Through you, thank you.

SPEAKER BALDUCCI:

Representative Belden, will you remark further on

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the bill? If not, staff and guests to the well,
members please be seated. The machine will be opened.

CLERK:

The House of Representatives is voting by roll,
members to the Chamber please. Members to the Chamber
please. The House is voting by roll.

SPEAKER BALDUCCI:

Have all members voted and is your vote properly
recorded? If so, the machine will be locked. Clerk
take a tally. Clerk, Representative Dyson of the 94th.

REP. DYSON: (94th)

Thank you Mr. Speaker. In the affirmative please.

SPEAKER BALDUCCI:

Representative Dyson the affirmative.
Representative Fusscas of the 55th.

REP. FUSSCAS: (55th)

Thank you Mr. Speaker. In the affirmative.

SPEAKER BALDUCCI:

Representative Fusscas in the affirmative. Clerk,
please announce the tally.

CLERK:

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Senate Bill 8, as Amended by Senate "A"

Total Number Voting	149
Necessary for Passage	75
Those voting Yea	142
Those voting Nay	7
Those absent and not voting	2

SPEAKER BALDUCCI:

Bill as amended is passed. (gavel)

CLERK:

Page 12, Calendar 272, substitute for House Bill 5506, AN ACT CONCERNING STATE HOUSING PROGRAMS AND FAMILIES WITH CHILDREN WITH LEAD POISONING. (As amended by House Amendment Schedule "A")

Favorable Report of the Committee on Public Health.The Committee recommends passage with House "A".

SPEAKER BALDUCCI:

Representative Langlois of the 51st.

REP. LANGLOIS: (51st)

Thank you Mr. Speaker. I would move acceptance of the Joint Committee's Favorable Report and passage of the bill as previously amended by House "A".

SPEAKER BALDUCCI:

Question is on passage as amended. Will you remark?

REP. LANGLOIS: (51st)

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recognize Senator Jepsen.

SENATOR JEPSEN:

Thank you, Madam President. It's my understanding that one of my colleagues wishes to draft an amendment on this and so I would move that it be passed temporarily.

THE CHAIR:

Thank you very much. Mr. Clerk.

THE CLERK:

Calendar Page 9, Calendar No. 321, File No. 442,
Substitute for Senate Bill 8, AN ACT CONCERNING BROKERS
OF UNSECURED LOANS AND DEBT ADJUSTERS.

Favorable Report of the Committee on Judiciary.

The Clerk is in possession of one amendment.

THE CHAIR:

Thank you very much. The Chair would recognize Senator Casey.

SENATOR CASEY:

Thank you very much, Madam President. I move acceptance of the Joint Committee's Favorable Report and passage of the bill and I hope that your amendment is mine and not Senator Avallone's.

THE CHAIR:

Mr. Clerk.

THE CLERK:

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LCO3456, which will be designated Senate Amendment
Schedule "A", offered by Senator Casey of the 31st
District.

THE CHAIR:

Thank you very much. Senator Casey.

SENATOR CASEY:

Thank you very much, Madam President. I move the amendment and ask the reading be waived.

THE CHAIR:

Please proceed, sir.

SENATOR CASEY:

Thank you. This is a technical amendment which changes from state bank and trust company to the word "bank" and also makes sure that we're dealing with Connecticut banks in this amendment.

THE CHAIR:

Thank you very much. Would anybody else wish to remark on Senate Amendment "A", LCO No. 3456? Are there any further remarks? If not, then please let me know your mind. All those in favor of LCO No. 3456, Senate Amendment "A" please signify by saying aye.

SENATORS:

Aye.

THE CHAIR:

Opposed.

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The ayes have it.

The amendment is adopted.

Senator Casey.

SENATOR CASEY:

Thank you very much, Madam President. This bill, as amended, will prohibit brokers of unsecured loans from assessing or collecting an advance fee for their services, provide for the issuance of cease and desist orders to enforce the act and authorize the banking commissioner to enter into consent orders to facilitate administrative settlement of violations of this act.

If there are no objections, I ask that it be placed on the Consent Calendar.

THE CHAIR:

Thank you very much, Senator Casey. Would anybody else wish to remark on Substitute for Senate Bill 8, as amended? Are there any further remarks? If not, is there any objection in placing Senate Calendar No. 321, Substitute for Senate Bill No. 8, as amended, on the Consent Calendar? Is there any objection? Hearing none, so ordered. Mr. Clerk.

THE CLERK:

Calendar No. 322, File No. 455, Substitute for Senate Bill 344, AN ACT CONCERNING CERTAIN ELECTION PROCEDURES, THE STATE REGISTER AND MANUAL AND A STUDY

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THE CHAIR:

Senator Matthews.

SENATOR MATTHEWS:

Thank you, Madam President. I was absent on legislative business for Calendar 295 and for the roll call vote. I wish to be recorded in the affirmative.

THE CHAIR:

Thank you very much, Senator. The Journal will so note. Mr. Clerk.

THE CLERK:

Madam President, I believe that we are ready to vote the first Consent Calendar.

THE CHAIR:

Thank you very much. Would you make the necessary announcement for a roll call vote.

THE CLERK:

An immediate roll call has been ordered in the Senate on the Consent Calendar. Will all Senators please return to the Chamber. An immediate roll call has been ordered in the Senate on the Consent Calendar. Will all Senators please return to the Chamber.

THE CHAIR:

Thank you very much, Mr. Clerk. The issue before the Chamber is Consent Calendar No. 1 for today, Friday, April 24, 1992. Mr. Clerk, would you please

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read the items.

THE CLERK:

Madam President, the first Consent Calendar begins on Calendar Page 9, Calendar No. 321, Substitute for Senate Bill No. 8.

Calendar Page 13, Calendar No. 349, Senate Bill No. 134.

Calendar Page 14, Calendar No. 355, Senate Bill No. 383.

Calendar Page 15, Calendar No. 360, Substitute for Senate Bill No. 496.

And Calendar Page 19, Calendar No. 383, Substitute for Senate Bill 477. Madam President, that completes the first Consent Calendar.

THE CHAIR:

Thank you very much, Mr. Clerk. You've heard the items that have been placed on the first Consent Calendar for today. The machine is on. You may record your vote?

Senator Hale. Senator Maloney. Thank you very much. Have all Senators voted that wish to vote? Have all Senators voted that wish to vote? The machine is closed.

The result of the vote:

36 Yea

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0 Nay

0 Absent

The Consent Calendar is adopted.

The Chair would recognize Senator O'Leary.

SENATOR O'LEARY:

Thank you, Madam President. Madam President, we're going to ask for a recess to review the matters that have been passed temporarily and to review amendments which may have come in. So I would ask that we recess until 3:00 and ask for an immediate Senate Democratic Caucus.

THE CHAIR:

Thank you very much, Senator. Senator Eads, do you have any announcements?

SENATOR EADS:

A Republican Caucus right now. Thank you.

THE CHAIR:

Are there any other announcements? If not, the Senate will stand in recess until 3:00.

On motion of Senator O'Leary of the 7th, the Senate at 2:04 p.m. recessed.

The Senate reconvened at 3:12 p.m., the President in the Chair.

**JOINT
STANDING
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HEARINGS**

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BANKS

February 11, 1992
3:00 p.m.

PRESIDING CHAIRMEN: Senator Casey
 Representative Ritter

COMMITTEE MEMBERS PRESENT:

SENATORS: Munster, Nickerson,
 Spellman

REPRESENTATIVES: Newton, Schlesinger,
 Anastasia, Belden, Brown,
 Conway, Duffy, Foley,
 Hartley, Krawiecki,
 McCavanagh, Millerick,
 Polinsky, Rennie, Varese,
 Wollenberg

REPRESENTATIVE RITTER: Good morning. I want to welcome everybody to the public hearing. Sorry we're starting 44 seconds late. We like to be very prompt here. We have just a new speakers, and then what we're going to do is take a five minute recess after the public hearing to start our committee meeting. So if here are any members who have to go our during the public hearing, please let Mary Ellen Shea know where you're going to be and we'll try to track you down. I know Larry Anastasia is sitting in the Commerce meeting and there are other meetings going on, but we'll try our best to take a five minute recess again after the conclusion of the public hearing to track down members for our meeting.

We are very please to have our first guest--a former colleague for both Stephen's and mine, we're proud to say--our Attorney General Richard Blumenthal.

ATTY. GEN. BLUMENTHAL: Representative Ritter, Senator Casey and members of the committee, I'm honored to be back with you, and grateful for this opportunity to give you a few of my thoughts about SB8 particularly. This bill has been co-sponsored by the Department of Banking and my office. As Attorney General, I have been obligated to bring numerous lawsuits against scam artists who take advantage of the consumer. Most reprehensible, in

my view, are scams promising desperately needed loans to consumers, typically the unemployed or those in debt who are financially strapped. These scam artists demand hundreds and even in some instances, thousands of dollars in advance fees. Many individuals who are faced with burgeoning debt are unable to get credit from traditional sources and find these offers very attractive. Unfortunately, in the fast majority of cases, the consumer doesn't even receive the promised loan and is left in even more desperate financial straits.

We all know that 1991 was a year marked by deep, hurtful economic downturn. Unfortunately, these scam artists thrive on recession. There's been a proliferation of illegitimate lenders and loan funders during the past year. The Better Business Bureau estimates consumers and small businesses are losing more than \$1 million a month to these con artists. We work closely with the Better Business Bureau and I am happy to say they are supportive of this legislation.

Several months ago I obtained, for example, a court order shutting down an illegal loan business which routinely took cash fees from unsuspecting customers, and who failed to provide the promised loans and mortgages. The owners of the business in the previous year had taken over \$25,000 in a similar four month scam. Less than two months later, my office obtained a court order shutting down another advance fee broker, and late last year, I initiated an investigation along with the Department of Consumer Protection into other companies soliciting business from Connecticut residents. That investigation is still active and ongoing and I suspect it will be concluded shortly.

We are working with other state and federal agencies to track these business that prey on the financial vulnerable and financially strapped. Federal legislation has been proposed by Senator Lieberman in Washington, but we desperately need firm and effective statutory action in our state and we need it now. We must put these operators out of business. That is why Commissioner Shulansky and I submitted this legislation (inaudible microphone off at speaker's table) by unlicensed lenders and brokers. This proposal should provide strong civil

and criminal penalties for violating this law. Most importantly, the proposal would allow for a court order that would prevent the scam artists from operating, and provide restitution to the victim.

Our research has found that few if any legitimate, unlicensed lenders or brokers charge advance fees. I would note that this proposal defends institutions such as banks and other licensed businesses from this ban of advance fees. The state oversight of these licensed businesses already provides adequate protection for most consumers. The law that we have proposed is modeled after other states such as Florida. They've already banned such advanced fees and have found that the ban really provides effective protection.

An additional notice provision is contained in SB11, AN ACT CONCERNING THE REFUND OF ADVANCE FEES BY FIRST AND SECOND MORTGAGE LENDERS AND BROKERS, and I support that proposal that has been submitted to you by the Commission of Banking. I urge your committee to favorably consider SB 8. Connecticut should be in the forefront of consumer protection in this area by prohibiting advance fees by unlicensed lenders and brokers. Again, I thank you for this opportunity to be with you and comment on these two pieces of legislation and I welcome any questions you may have.

REP. RITTER: I appreciate very much you bringing this to our attention. Just in terms of the effective date it says July 1st. Is there any reason why we can't do this on passage or would that make further complications?

ATTY. GEN. BLUMENTHAL: I see no reason why it couldn't be done on passage. In fact, if the committee is inclined to do so, I would recommend that you make it effective on passage.

REP. RITTER: Okay. Thank you again. Are there any questions of the Attorney General?

ATTY. GEN. BLUMENTHAL: Thank you.

REP. RITTER: So how many states now? Are we at the beginning of the trend?

ATTY. GEN. BLUMENTHAL: We are at the beginning. We would at the forefront of this movement. There are one or two other states that have done it already.

REP. RITTER: Beautiful.

ATTY. GEN. BLUMENTHAL: But we would be among the first.

REP. RITTER: Great. Thank you very much. Our Deputy Banking Commissioner, Barb McGrath.

COMM. BARBARA MCGRATH: Good afternoon, Mr. Chairman and members of the committee. I'm Barbara McGrath, Deputy Banking Commissioner for this great state. The Department of Banking has provided detailed memoranda on each of the eight bills that we have proposed. I would like to comment briefly on six of those and Bob Focht, the Director of our Consumer Credit Division will comment on two others. Gayle Fierer who is the Director of our legal division and I will also comment very briefly on six other bills. We will strive to be brief as possible and we will all be available to answer your questions.

SB5, AN ACT CONCERNING THE ASSESSMENTS AND FEES OF THE DEPARTMENT OF BANKING. This bill would accomplish two goals. First, providing assessment of banks would provide that the entire assessment and the liability of the bank upon the assessment without (inaudible) for any reason, and the Department of Banking would have a priority claim even if the institution would go into receivership or change its charter subsequent to the assessment. Second, the bill raises certain application, renewal, and registration fees some of which have not been raised since as long ago as 1958, 1973, 1981. In addition, it would impose fees for the processing of certain applications for which there is currently no fee. The intent is that these increases will reflect the department's actual current processing costs.

In addition, I would like to note that the memorandum on this particular bill suggests an amendment that deals with the priority of assessments in the possibility of a liquidation of

anything...I always refer them to Bob who is the consumer person inside the Banking Department. I think we are very lucky to have you over there. I can just tell you I appreciate very much your prompt responses, courteousness, and because we have a new member here...it's very nice to have someone over there in the Banking Department that we can call upon. That was an introduction. I thank you and go ahead.

ROBERT FOCHT: I appreciate your comments. Representative Ritter, Senator Casey, members of the Committee, my name is Bob Focht. I am in the direction of the Consumer Credit Division of the Department of Banking. I'm here today to testify on two bills, SB8, AN ACT CONCERNING BROKERS OF UNSECURED LOANS, and SB11, AN ACT CONCERNING THE REFUND OF ADVANCE FEES BY FIRST AND SECOND MORTGAGE LENDERS AND BROKERS. We have memos on each bill so I will probably summarize our position since the order of the day seems to be brevity.

SB8, AN ACT CONCERNING BROKERS OF UNSECURED LOANS. As the Attorney General told you earlier this is a joint proposal on the part of his department and ours. The purpose is to control in Connecticut what can best be described as a nationwide scam which has usually worked in the following manner. I will just describe it to you briefly. Usually it involves a borrower with poor or marginal credit who has been turned down by local mainstream lenders, and basically don't have access to the credit market in (inaudible) fashion. They seen an ad, typically in the classified section of the paper "Loans \$1000 to \$20,000. Poor credit, no credit, slow credit all OK. Quick results guaranteed", and call an 800 number. This person then gives a call to that 800 number, gives some elementary credit information over the telephone and receives usually assurances that this looks great and we'll have no trouble helping you.

Usually then the scenario is that they receive a call back within a short period of time with the great news that their loan has been approved--one catch--we need a processing fee. A few dollars to as many as \$400-\$500. An average of about \$250 seems to be about the norm. Usually the promise is that a check from a lender, usually an unspecified

lender will follow in about 10 days. Almost always, the advanced fee is asked for in some readily negotiable form other than check or money order, bank check or something of that nature.

When the advance fee is set, guess what? No loan ever materializes. The insidious thing about this is that it victimizes the people who can least afford it. We have heard a number of stories from people who tell us that they borrowed the money to send to these people, and are now even further in the hole than they were before. This scene has been repeated in virtually every state in the union. It has received national publicity. All three television networks have done stories, magazines, newspaper feature articles have appeared in the Courant. National alert by the Better Business Bureau, press releases by consumer regulatory agencies.

I should tell you that the Commissioner joined the other 37 regulators in urging the federal trade commission to attack this problem on a nationwide basis. I should also tell you that we have been successful in getting newspapers to publish a form of warning at the head of the classified ad section under money loans which includes a warning about sending advance fees and gives a telephone number. We feel that in the months that this has been a hot item, we have received well over 1000 such phone calls and have discouraged many, many people from sending in money, hopefully savings Connecticut residents hundreds of thousands of dollars.

Many states, like Connecticut, are proposing legislation to remedy this scam. The Federal government is as well, as the Attorney General told you. The state of Florida already has. The bill attacks the problems in several ways. First it prohibits the taking of advance fees for brokers of unsecured loans. I should note that it doesn't prohibit the broker of the unsecured loan, only the taking of advance fees for that loan. It gives the Commissioner administrative power such as cease and desist orders, the ability to (inaudible). It gives the Attorney General the power to seek civil penalties in the amount of \$2000 per violation and to seek temporary and permanent injunctions. It provides criminal penalties after referral to the

State's Attorney's Office of \$1000 and one year in jail for each year violation, and it gives victims a private right to seek action to seek actual and punitive damages along with attorney's fees for the cost of the action.

We urge that the committee act favorably on this bill, and we hope that other states legislatures and perhaps the federal government will do the same to eliminate this problem from our (inaudible). Are there any questions?

SEN. CASEY: Bob, how many families in Connecticut are victimized like this every year? How many calls has your office gotten?

ROBERT FOCHT: It's hard to tell but it's got to be in the thousands. If as has been the case over the years, telephone calls typically represent the tip of the iceberg. We have received well over 1000 telephone calls just from the notices that are appearing over the head of those columns in the paper. So I would say thousands and thousands.

REP. RITTER: Representative Schlesinger.

REP. SCHLESINGER: My only fear is that we might be throwing the baby out with the bathwater. I am concerned with cutting off some of the credit to those who can least afford it. I'm wonder...this would in no way preclude points or anything like that? If the loan is made, they can charge in other words?

ROBERT FOCHT: That's absolutely right. I should also say that there is little or no market for broker...it almost always involves unsecured loans. It isn't related at all to the mortgages.

REP. SCHLESINGER: Alright.

ROBERT FOCHT: There is virtually no market for brokers with unsecured loans, especially those that center on the uncreditworthy. I think it's a fact that lenders who do their best to avoid credit losses are suffering at unprecedented rates. Lenders who specialize...or who are purporting to specialize in lending to people who are not creditworthy, can't possibly make a go of it. There simply is no

market for this kind of baloney. To encourage people to pay up front money on the promise that there's some undercurrent of lender there who's willing to give them the chance that no one else will simply is a fallacy that doesn't exist. So I don't think we're cutting off any credit. We're simply prevent people from paying for something that doesn't exist.

REP. SCHLESINGER: Okay.

REP. RITTER: Representative Varese.

REP. VARESE: Could you tell me what the number of points usually are that would be prepaid or the average amount of money that would be prepaid?

ROBERT FOCHT: Points is a phenomenon that is usually associated with mortgage payments. This has nothing to do with mortgage loans whatsoever. The fees charged here are usually flat fees that are just abstract numbers pulled out of the air by whoever the scam artist is. \$249, \$199. This week only \$97. The figures don't really bear any relationship to the amount of the loan. Again, the loan rarely, if ever materializes.

REP. VARESE: Normally, this is an unsecured loan.

ROBERT FOCHT: Right.

REP. VARESE: Where would we become involved, generally speaking, in an unsecured type fashion? I...if you buy a car, they're going to have the car as collateral. If you buy a house, obviously you have a mortgage. If you are buying something for the business, they're going to put a UCC-1 into position. So what type of transaction would we be talking about?

ROBERT FOCHT: We generally are not talking about purchase money type loans, at all. We're talking about remedial loans, bail out loans, people who have financial problems, back payments they need to catch up on and are looking for unsecured credit. Most of the people we talk to are not home owners at all and are simply looking for money to bail them out of a financial emergency.

REP. VARESE: Oh. Would the lending institutions, what we would call the legitimate lending institutions charge some type of a pre-payment before they would move forward on something like this?

ROBERT FOCHT: In the area of unsecured loans, I would say that I have never heard of it. Bona fide, mainstream lenders charging up front for an application for a loan--it simply isn't done.

REP. VARESE: Okay. Thank you.

REP. RITTER: Okay. More questions? Thank you very much, Bob.

ROBERT FOCHT: Okay, let me move on to SB11. This also was a Department of Banking proposal. Just a little bit of background...this act or this proposed bill, rather, is designed to give us a little bit of administrative assistance in handling a type of inquiry that has always been very difficult for us to handle. That involves what, if any, of the amount pre-paid to put a real estate secured (inaudible) to a first or second mortgage licensee is refunded in the event that the loan doesn't go through.

We receive probably in the area of 75 to 100 subject inquiries in the course of a year. This is a difficult area because there usually no written agreement as to what happens (inaudible). There is usually dispute, somebody disputes as to the facts, it is amazing how no one really knows exactly what the other one says, in a situation like that.

Frankly, there is some degree of white on both sides. We usually, I would say in 60 to 70% of the cases, end up dividing (inaudible) that we can't make a determination in such cases, perhaps it would be best if they went to small claims court to recover their money.

In other cases, we are able to convince the lender that they probably should do a refund, or if the customer is entitled to one, perhaps maybe they're not entitled to one. But it is a very difficult situation for us to handle and I should stress again that this is not at all related to the scam

BETTER BUSINESS BUREAU
OF WESTERN CONNECTICUT, INC.



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PRESIDENT

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STAMFORD 389-8982
WATERBURY 897-1177
FAIRFIELD 374-8161

February 11, 1992

Mr. Thomas D. Ritter
Mr. Steven C. Casey
Co-Chairs - Banks Committee
Legislative Office Building
State of Connecticut
Hartford, CT., 06106

Gentlemen:

I regret that it was impossible for me to appear personally at the public hearing related to Senate Bill 8, An Act Concerning Brokers of Unsecured Loans.

Be advised that I fully support the legislation being proposed and strongly encourage the enactment of this legislation. The "advance fee loan scams" have surfaced nationally as the fastest-growing and largest growing scheme to defraud the public! It is conservatively estimated that several millions of dollars monthly are being lost to these schemers, with the money expended coming from the ranks of the unemployed, and businesses on the verge of bankruptcy.

The lure with all of these operations evolves around the prospect of rapid approval of loans to all who send in "advance fees" via overnight mail, usually with the minimum fee averaging about \$250. The racket is national in scope and appears to be growing on a nearly daily basis, especially since loans of money from legitimate banking sources are so very difficult to obtain. The problem has existed since early 1991, and the nation's Better Business Bureaus conducted a national press conference last October 17, 1991, exposing the racket for what it really is, and urging the public to avoid being taken in by the lure of easy loans, as advertised, nationally. Similar endeavors have taken place since our national coverage, with such exposure being aired over "20/20", "60 Minutes," "Hard Copy," and most recently, "Geraldo Rivera. Despite these cautions, the scam continues unchecked, exception being a few arrests being made by the Postal Inspection Service. In all known instances, fees are accepted and no loans are ever made.

Legislation is indeed necessary at State and even National level, followed by most aggressive enforcement and a major campaign of public education, urging the print media to carefully monitor and screen advertising associated with this subject.

The "advance-fee loan scam" has been classified as one of worst scams of this century and it must be halted via all means at our disposal.

Very truly yours,

A. E. KERSTEIN
President

AEK:lm cc: Attorney General Blumenthal

RICHARD BLUMENTHAL
ATTORNEY GENERAL



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Office of The Attorney General
State of Connecticut

TESTIMONY OF
ATTORNEY GENERAL RICHARD BLUMENTHAL
BEFORE THE BANKS COMMITTEE
FEBRUARY 11, 1992

Good afternoon.

I appreciate the opportunity to speak before you in strong support of Senate Bill 8, An Act Concerning Brokers of Unsecured Loans. This bill has been co-sponsored by the Department of Banking and my office.

As Attorney General, I have brought numerous lawsuits against scam artists who take advantage of consumers. Most revolting and reprehensible are scams promising desperately needed loans to consumers, typically the unemployed or financially strapped, demanding hundreds and even thousands of dollars in advance fees. Many consumers, faced with burgeoning debts and the unavailability of credit from traditional sources, find these offers attractive. Unfortunately, in the vast majority of cases, the consumer does not even receive the promised loan and is left in even more desperate financial straits.

We all know that 1991 was marked by a deep, hurtful economic downturn. Unfortunately, scam-artists thrive on recessions. There has been a proliferation of illegitimate lenders and loan finders during the past year. The Better Business Bureau estimates consumers and small businesses are losing more than one million dollars a month to these con artists.

Several months ago, I obtained a court order shutting down an illegal loan business which routinely took cash fees from unsuspecting consumers and failed to provide the promised loans or mortgages. The owner of the business, in the previous year, had taken over \$25,000 in advance fees in a similar four month scam.

Less than two months later, my office obtained a court order shutting down another advance fee broker, and late last year I initiated an investigation, along with the Department of Consumer Protection, into other companies soliciting business from Connecticut residents. That investigation is active, and continuing. We are also working with other state and federal

agencies to track these business that prey on the financially vulnerable.

Federal legislation has been proposed in Washington by Senator Joseph Lieberman, but firm and effective statutory action in our state is needed now. We must put these operators out of business. That is why Commissioner Shulansky and I submitted this legislation to ban the use of advance fees by unlicensed lenders and brokers. This proposal provides strong civil and criminal penalties for violating this law. And, most importantly, the proposal would allow for a court to order the scam artist to provide restitution to the victims.

Our research has found that few, if any, legitimate unlicensed lenders and brokers charge advance fees. I would note that this proposal exempts institutions such as banks and other licensed businesses from the ban. State oversight of these licensed businesses already provides protection for consumers. An additional notice provision is contained in Senate Bill 11, An Act Concerning the Refund of Advance Fees by First and Second Mortgage Lenders and Brokers, and I support that proposal.

I urge the Banks Committee to favorably consider Senate Bill 8. Connecticut should be in the forefront of consumer protection in this area by prohibiting advance fees by unlicensed lenders and brokers.

Thank you.