

the quarter

newsletter of the pennsylvania department of banking and securities



Protect ▶ Regulate ▶ Inform ▶

Office of the Secretary of Banking and Securities



Adapting to the Modern Securities Marketplace

By **Glenn E. Moyer**, Secretary of Banking and Securities

It has been almost four months since the PA Securities Commission "officially" merged into the Department of Banking to form a new financial regulatory agency. Among the issues we intend to pursue in 2013 is the modernization of the Pennsylvania Securities Act of 1972. [Learn more](#)



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Protect, Detect, and Respond: Reducing the Risk of Corporate Account Takeovers

Corporate account takeovers are on the rise, and for those small businesses and companies the experience may be quite costly.

[Learn more](#)



Pennsylvania Performance Report Released for 2011-12

In December, the Corbett administration released the 2011-12 Report on State Performance. This online report reviews the activities of 30 commonwealth agencies.

[Learn more](#)



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Adapting to the Modern Securities Marketplace

by **Glenn E. Moyer**, Secretary

It has been almost four months since the PA Securities Commission “officially” merged into the Department of Banking to form a new financial regulatory agency.

Prior to the merger, the PA Securities Commission built a solid reputation based on the leadership of its commissioners, its encouragement of Pennsylvania business and capital formation while protecting investors, and a dedicated, professional staff. With this sturdy foundation in place, Governor Corbett and

I look forward to leveraging new technologies, amending or eliminating statutes and rules that unnecessarily impede the development and growth of business capital, and taking advantage of new ideas and leadership to ensure that the securities industry is welcome and on competitive footing in Pennsylvania.

The merger transition has proceeded as smoothly as possible, the dust has begun to settle and our original estimate of cost savings of \$1 million has more than doubled. In October, a cost-effective lease amendment was approved to add space in our Market Square Plaza offices. This additional space will efficiently accommodate our colleagues in the Securities Deputate, who will be moving “crosstown” to our consolidated Harrisburg headquarters. We are well on track to complete this Harrisburg staff relocation by the end of January (see “Merger Facts” on Page 4).

Among the issues we intend to pursue in 2013 is the modernization of the Pennsylvania Securities Act of 1972. Like the “old” statutes governing the banking industry that were updated by Acts 170-172 of 2012, the Securities Act of 1972 has not been amended in many years and is in need of updating. Following the merger, we are now in a position to craft legislation that would enhance protections for the public from deceptive practices, extend/continue the license fee structure for securities licensees and encourage the availability of debt financing/capital accumulation to Pennsylvania businesses and industries. I look forward to hearing from members and representatives of the industry on ways to best achieve this goal.



I am also pleased to report that the first quarterly meeting of the new Banking and Securities Commission took place on November 15, chaired by new commissioner Jerry Pappert. Our other new commissioner, Todd Shamash, joined Steve Irwin, Vince Gastgeb and me in the proceedings.

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Commissioners from left to right: Todd Shamash, Glenn Moyer, Gerald Pappert (chair), Steven Irwin and Vincent Gastgeb

I would also like to note some significant appointments:

- **Aimee Toth** as Deputy Secretary for Securities
- **Scott Lane** as Senior Deputy Chief Counsel for Securities
- **Jeffrey Soderstedt** as Director of Corporation Finance

Regarding operational matters within the Securities Deputate, we have begun making structural and operational changes including the following:

- Streamlined enforcement case evaluation and closing procedures to expedite response, referral and/or potential regulatory actions;
- Streamlined Corporation Finance review procedures to eliminate duplication of efforts and to ensure timely review and approval or revision of registrations;
- Empowered division directors to act on routine matters to expedite efficient operations;
- Formed a multi-disciplinary internal workgroup to revise and expand the Entrepreneur Education Program to better assist PA businesses in raising capital, expand PA businesses and create additional jobs; and
- Began encouraging more robust collaborative efforts among staff.

Regarding securities-related issues in the Office of Chief Counsel area, we:

- Realigned the legal office reporting structure;
- Created and expanded the litigation and general assignment tracking databases;
- Unified enforcement action document templates; and
- Created new securities cease-and-desist order/warning letter protocols.

The pace of change in the way we support a “strong and fair” securities industry has been fairly rapid – but it needs to be if we are to meet the demands of the changing financial marketplaces under our supervision. I believe that the new Department of Banking and Securities is well on its way to becoming a modern example of integrated, cost-effective state financial services regulation – supporting financial institutions and financial services businesses, while protecting the interests of consumers and investors.



Department Welcomes Three Banks to State Charter

The Department of Banking and Securities converted three federally chartered depository institutions to the Pennsylvania state charter in the fourth quarter of 2012:

- **Franklin Security Bank**, Luzerne County, converted from a federal savings bank to a Pennsylvania state-chartered savings bank.
- Union National Bank of Mount Carmel, Northumberland County, converted from a national bank to a Pennsylvania state-chartered bank to be known as **UNB Bank**.
- **Washington Savings Bank**, Philadelphia, converted from a federal mutual savings bank to a Pennsylvania state-chartered, non-Federal Reserve member mutual savings bank.

Seven federally chartered depository institutions converted to the Pennsylvania state charter in 2012.

Merger Facts

All staff telephone/fax numbers and email addresses remain the same.

The mailing and delivery address for all Department of Banking and Securities employees headquartered in Harrisburg is: 17 North 2nd Street, Suite 1300, Harrisburg PA 17101-2290.

Banking and Securities Commissioners:

Gerald J. Pappert (chair), Glenn E. Moyer (vice-chair), Steven D. Irwin, Vincent J. Gastgeb and Todd A. Shamash.

Website: www.dobs.state.pa.us

Toll-Free Numbers: 1-800-PA-BANKS (consumers) and 1-800-600-0007 (investors)

Check Cashers to NMLS

The Department of Banking and Securities is pleased to announce that we will begin using NMLS in 2013 to manage **Check Casher** Licenses and **Retail Grocery Store Check Casher** Registrations. The timeline for license renewal:



- **February 15, 2013:** These licensees can access NMLS for review and to create company record.
- **March/April 2013:** License renewal (transition onto NMLS) period begins.
- **April 30, 2013:** License renewal deadline. *Note: fees will appear lower than in prior years because of pro-rating. License issued will be good until Dec. 31, 2013.*
- **November/December 2013:** NEW license renewal period begins.
- **December 31, 2013:** License renewal deadline. *Note: License renewal fees will return to prior years' schedule and license granted at this time will be good until Dec. 31, 2014.*



Share with colleagues and associates!

What do you think about The Quarter? Is there an issue you would like to see addressed in the next edition? Drop us an **email** and let us know your thoughts.



CYBERsection



SECURITY

Protect, Detect, and Respond: Reducing the Risk of Corporate Account Takeovers

by **Charles Martier**, PA Dept. of Banking and Securities

Any business customer performing electronic transfers is a potential target for cyber thieves. "While advancements in technology have created a world of accessibility to users and a convenience for customers, they have also left room for criminals to exploit even the smallest of loopholes" Special Agent Daphne Hearn recently commented in an FBI press release on cybercrime.

One such "loophole" takes the form of a corporate account takeover (CATO), a type of business identity theft where cyber thieves gain control of a business' computer system and access to their bank account information. This is done with the use of malicious software to steal employee passwords, PINs or other valid credentials. Once this information is obtained, thieves can then initiate fraudulent wire and ACH transactions. This makes any business customer performing electronic transfers a potential target for cyber thieves.

Corporate account takeovers are on the rise, and for those small businesses and companies the experience may be quite costly. Still, few businesses and not all financial institutions know what a CATO is or what actions to take when it happens.

The Conference of State Bank Supervisors, U.S. Secret Service and the Financial Services-Information Sharing Analysis Center have adopted best practices which we recommend to financial institutions to help reduce the risks of this type of electronic theft. These practices are centered on three core elements: Protect, Detect, and Respond.

Protect: Educating business account holders on how to protect their sensitive banking information is vital to the success of thwarting CATO attacks. It starts with alerting business owners of the need to safeguard their confidential banking information.

- Educate clients on this type of scheme;
- Suggest business clients consider using or upgrading their technology to protect confidential banking information. Simple steps include keeping their firewalls turned on and installing or updating antivirus and antispyware programs;
- Re-evaluate the security of your institution's computers and networks to protect against this type of fraud; and
- Encrypt all sensitive information.

Detect: Monitoring accounts for unusual activity, behavior patterns, structuring, frequency of transactions, and abnormal time of the day/ week activity can mitigate potential risks. Identification layers also provide additional protection and assist with early detection. Identification layers consist of multiple controls such as:

- Out of band verification of transactions;
- Restrictions on account activity based on past history;
- Dual authorization; and
- Tools that block connections from known suspected IP addresses associated with fraudulent activities.

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Respond: Knowing how to respond and acting quickly are keys in possibly recovering funds when an electronic theft does take place.

- Immediately verify if a suspicious transaction is fraudulent;
- Attempt to reverse all suspected fraudulent transactions;
- Notify the receiving institution to hold funds; and
- Contact law enforcement and regulatory agencies.

These examples are not all inclusive; however, by implementing CSBS' established best practices, an institution can help reduce CATO risk. For more information on corporate account takeovers and best practices, please visit www.csbs.org/ec/cato.



Pennsylvania Performance Report Released for 2011-12

In December, the Corbett administration released the 2011-12 Report on State Performance. This online report reviews the activities of 30 commonwealth agencies, providing details on their challenges and accomplishments as they work to improve the lives of Pennsylvania's citizens.

The report examines the commonwealth's performance in the areas of education, economic development, health and human services, the environment, public safety, consumer protection and government efficiency. By outlining agencies' key objectives and presenting measurable results in dozens of different categories, the report evaluates state government's ongoing efforts to deliver quality services to its citizens.

The report can be viewed on the website of the Office of the Budget: www.budget.state.pa.us.



Banking Department/FDIC Cooperate as NOVA Bank Closed

On October 26, the Department of Banking and Securities closed the \$483 million-asset NOVA Bank, Berwyn. The FDIC was unable to find another financial institution to take over the banking operations of NOVA Bank. The cost to the Deposit Insurance Fund was estimated to be \$91.2 million. This failure was the 47th U.S. bank failure of 2012 and the second bank failure in Pennsylvania in 2012.



The Advantages of NMLS for Licensees

by **Tim Siwy**, *Deputy Secretary for Non-Depository Institutions*

The advantages of a modern, efficient online business licensing practice are being extended to more Pennsylvania financial services professionals and entities licensed by the Department of Banking and Securities. Since 2009 the mortgage industry has been managing their license processes online using NMLS, and the industry and regulators alike have come to rely on NMLS.

Beginning in 2012, the Department of Banking and Securities began offering the capability of NMLS to manage the licenses of other businesses, most recently money transmitters, debt management services companies, check cashers and accelerated mortgage payment providers.

Looking forward, other businesses licensed by the Department of Banking and Securities should anticipate converting to NMLS for managing their state licenses. Based on the experiences of our licensees, businesses that will be required to use NMLS in the future can anticipate the following benefits:

- A business-to-business (B2B) capability to apply for and monitor license renewals;
- Enhanced communications between businesses and their state regulators;
- Savings in time due to streamlined renewal processes;
- Savings in costs due to elimination of mailing and delivery costs;
- A 24-hour call center operated by NMLS professional staff (363 days/year) who are trained to assist licensees with filings; and
- A one-stop, "digital filing system" of records for licensees.

Looking forward, we also expect that NMLS will allow licensees better interaction with state regulatory examiners and compliance staff.

If you or your business is licensed by the Department of Banking and Securities, you can begin to familiarize yourself with this new process by visiting the online NMLS Resource Center at:

<http://mortgage.nationwidelicencingsystem.org>.

For questions relating to NMLS, please contact the NMLS Call Center at (240) 386-4444. If you have other questions about licensing processes, please contact the Pennsylvania Department of Banking and Securities Non-Depository Licensing staff at (717) 787-3717 or by email to

ra-asklicensing@pa.gov.

April

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Save The Date!

"Money Matters" Conference

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COMPLIANCE CORNER

Fourth Quarter 2012 Public Enforcement Orders

The Non-Depository Bureau of Compliance and Licensing administered 17 public enforcement orders during the fourth quarter of 2012, which included fines in the amount of \$42,100.

The following violations were included in the orders:

- Three companies engaged in unlicensed mortgage loan origination activity;
- Two companies engaged in unlicensed mortgage loan activity;
- Ten companies engaged in unlicensed auto sales finance activity;
- One company engaged in illegal payday lending; and
- One company engaged in various other unauthorized non-mortgage related activity.

These orders include the prohibition of two individuals, the revocation of one license and the surrender of one license for unlicensed mortgage loan origination activity in Pennsylvania.

RESEARCH QUARTER

As part of the National Mortgage Servicers Settlement, the nation’s five largest mortgage servicers (Ally, Bank of American, Citi, JPMorgan Chase and Wells Fargo) are required to provide updates on their cumulative consumer relief. In November, the Office of Mortgage Settlement Oversight issued a progress report, which contained information specific to Pennsylvania homeowners who received assistance under the settlement. To read the report, visit: www.mortgageoversight.com.

