



pennsylvania

DEPARTMENT OF BANKING

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Statement of

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before the

Senate of Pennsylvania
Banking and Insurance Committee

9:00 a.m., April 12, 2011 – Senate Majority Caucus Room 1, Harrisburg

Thank you, Senator Schwank, for being here today and for your kind introductory comments. Welcome to the Pennsylvania Senate!

Good morning Chairman White, Democratic Chairman Stack, President Pro Temporary Scarnati, members and staff of the Senate Banking and Insurance Committee.

Thank you for the opportunity to come before you today for this confirmation hearing on my nomination as Secretary of Banking.

Please let me begin with a bit of personal background. My wife and I were born and raised in southeastern Pennsylvania and now live in Berks County. We have grown, married children – a son and a daughter – and recently became proud grandparents. Following my graduation from Boyertown High School, I earned a bachelor's degree in Secondary Education from Penn State, a master's degree in

Education from Eastern New Mexico University, and an MBA from St. Josephs University. Following my graduation from Penn State, I had the privilege to serve as an officer in the U.S. Air Force from 1973 to 1977 and to live in the southwestern part of our country.

My professional career has been completely in the private sector, starting in 1977 with a management training program at American Bank and Trust Company in Reading (later Meridian Bank). I eventually served Meridian in several senior level positions, including Division President, until 1995. In 1995, I had the opportunity to become President, CEO and Director of The Elverson National Bank in Chester County, a smaller community bank. In 1999 Elverson National decided to merge with National Penn Bank in Boyertown. I served National Penn Bancshares in various executive positions, and became Chief Operating Officer in 2001 and President and CEO in 2007. I retired from National Penn last month after serving as a senior advisor to my successor.

My career and mindset have been defined by my years as a community banker, because I'm convinced that robust and vibrant communities are the strength of Pennsylvania. I continue to enjoy serving my community in different volunteer capacities. Being part of the financial services industry that encourages active volunteer commitments to those communities has been and continues to be important to my wife and me. We enjoy helping neighbors most in need by actively supporting organizations such as the United Way of Berks County and working to support quality education in Berks County and our commonwealth.

My nomination by Governor Corbett to be Secretary of Banking is my first experience in the public sector – so I have a lot to learn about the processes of government. I am humbled by this selection and want to assure you that, as I have Governor Corbett, my full and undivided attention will go into this position. The confirmation process has given me a chance to meet with you and your colleagues and hopefully build relationships so we can work together on issues of common interest. This is a top priority for me.

I would like to make a few brief comments relating to my general goals for the department and then take questions.

Departmental Operations

My primary focus as secretary is to operate the Department of Banking in an efficient and effective manner so that we can ensure the overall safety and soundness of the 227 members of the Pennsylvania state-chartered banking system, which includes banks, trust companies, savings banks, savings associations and credit unions.

This is a challenge as we come out (slowly, I suspect) of a deep and protracted economic downturn that is negatively impacting traditional banking business models.

Of equal importance is that the Department of Banking protects all Pennsylvania consumers by ensuring compliance with state laws and regulations by the more than 13,000 financial professionals and institutions under the department's purview. Some of the larger groups of licensees include mortgage lenders, brokers and originators as well as car dealers that make loans. Some of the smaller groups of licensees include check cashers, pawnbrokers and debt management companies.

My observation is that the department has a strong team of professional regulators and support staff who take pride in their work. Together, we will manage the department's resources effectively and attain these program goals. As we succeed, we will be a strong contributor to the ongoing, sustainable growth of our commonwealth.

The State-Chartered Banking System

Having operated and worked at both state and nationally chartered banks over the past 33 years, I am a proponent of the dual system of banking with a strong state-chartered component. The department has experienced, well-trained examiners. We are more accessible and less costly than the federal regulators and, in my opinion, we understand better the banking needs of Pennsylvania communities.

My intent is to make sure that all Pennsylvania financial institutions are aware of the department's strengths, our support for a strong economy in the commonwealth and our interest in supporting the business models that they have determined to be good for their market. We are open to charter conversion applications from well-capitalized and well-run federally chartered companies in our commonwealth.

The Impact of Federal Dodd-Frank Legislation

We have all heard about the Dodd-Frank Wall Street Reform and Consumer Protection Act that was enacted last summer. It represents a "sea change" that will have significant impact on how financial firms do business for years to come. The reach and scope of the new Consumer Finance Protection Bureau; the timing of implementing the Durbin Amendment that affects how much banks can charge businesses for use of debit cards; how state and federal regulators share information about consumer complaints – this short list of important topics represents just a fraction of issues confronting state financial regulators across the country.

I wish I was smart enough to say definitely what things will look like for all of us in the financial services world five years from now – but not even the most experienced regulators can say for sure. However, I am concerned that we at the state regulatory level do not get too far ahead of – or behind – our federal counterparts.

What I am clear on is that, as a state, we need to speak up as much as we can with our federal counterparts as the many new interpretations and regulations are considered. We need to let the Washington regulators know that, while we respect them and their work, we are not going away – and that the balance between the state and federal charters needs to be clear and preserved for the future.

The Department's Revenue Model

From a budgeting perspective, the Department of Banking is a Special Fund agency that receives no General Fund appropriation. Operations are funded through a system last revised in the 1990's. The department is funded through assessments on state-chartered depository institutions – banks, trust companies and credit unions – through licensing fees, fines and penalties paid by licensed entities and individuals – mortgage lenders and brokers, money transmitters and other non-bank lenders – and through the direct charging for departmental examinations of depository institutions and licensees.

The responsibilities of financial regulators have been evolving in recent years as both economic and regulatory compliance stresses have mounted. The department's current funding model may be inadequate in distributing operation costs among the industries supervised and in meeting the increased demands in this evolving environment.

For these reasons, I want to undertake a comprehensive review of the department's revenue model to determine its sustainability and its ability to provide effective regulation and supervision in the future.

Rising to Meet the Foreclosure Crisis

In the course of meeting with you and your Senate colleagues, I heard your concern about how the residential foreclosure crisis is affecting our citizens and communities. Though Pennsylvania is faring better than most states on this issue, we recognize that increased foreclosures threaten the vitality of our communities. Pennsylvania has an agency charged with addressing the needs of homeowners in crisis: the PA Housing Finance Agency. This agency (often referred to as PHFA), under the leadership of Brian Hudson, does an excellent job for our commonwealth and is respected nationally for its innovation and commitment to quality housing for our citizens.

Earlier this month, Governor Corbett announced that PHFA will receive \$105 million from the U.S. Department of Housing and Urban Development to aid Pennsylvania homeowners facing foreclosure. These monies will fund the new Emergency Homeowners' Loan Program, which is modeled after PHFA's nationally recognized HEMAP program.

One of my roles in the Corbett Administration is to serve as chairman of PHFA. I am aware of the strong ties between PHFA and the Department of Banking and look forward to continued collaboration between our two agencies.

Allow me to conclude my remarks by simply thanking you, and others, for your support throughout this nomination and confirmation process. All over Pennsylvania, hard decisions about our future are being made, discussed and then implemented. The Department of Banking looks forward to playing a significant role in that process, and I look forward to working with each of you in that regard.

Thank you, and I'd now be happy to hear your questions and comments!