

COMMONWEALTH OF PENNSYLVANIA  
HOUSE OF REPRESENTATIVES  
APPROPRIATIONS COMMITTEE HEARING  
BUDGET HEARING

STATE CAPITOL  
MAJORITY CAUCUS ROOM  
HARRISBURG, PENNSYLVANIA

MONDAY, FEBRUARY 25, 2008, 1:50 P.M.

VOLUME IV OF V

PRESENTATION BY BANKING DEPARTMENT

BEFORE:

HONORABLE DWIGHT EVANS, CHAIRMAN  
HONORABLE MARIO J. CIVERA, JR., CHAIRMAN  
HONORABLE STEPHEN E. BARRAR  
HONORABLE STEVEN W. CAPPELLI  
HONORABLE H. SCOTT CONKLIN  
HONORABLE CRAIG A. DALLY  
HONORABLE GORDON R. DENLINGER  
HONORABLE BRIAN ELLIS  
HONORABLE DAN B. FRANKEL  
HONORABLE JOHN T. GALLOWAY  
HONORABLE WILLIAM F. KELLER  
HONORABLE THADDEUS KIRKLAND  
HONORABLE BRYAN R. LENTZ  
HONORABLE TIM MAHONEY  
HONORABLE KATHY M. MANDERINO  
HONORABLE MICHAEL P. MCGEEHAN  
HONORABLE FRED MCILHATTAN  
HONORABLE DAVID R. MILLARD  
HONORABLE RON MILLER  
HONORABLE JOHN MYERS  
HONORABLE CHERELLE PARKER  
HONORABLE JOSEPH A. PETRARCA

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BEFORE: (cont'd.)  
HONORABLE SCOTT A. PETRI  
HONORABLE SEAN M. RAMALEY  
HONORABLE DAVE REED  
HONORABLE DOUGLAS G. REICHLEY  
HONORABLE DANTE SANTONI, JR.  
HONORABLE MARIO M. SCAVELLO  
HONORABLE JOSHUA D. SHAPIRO  
HONORABLE JOHN SIPTROTH  
HONORABLE MATTHEW SMITH  
HONORABLE KATIE TRUE  
HONORABLE GREGORY S. VITALI  
HONORABLE DON WALKO  
HONORABLE JAKE WHEATLEY, JR.

ALSO PRESENT:  
MIRIAM FOX  
EDWARD NOLAN

JEAN M. DAVIS, REPORTER  
NOTARY PUBLIC

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I N D E X  
TESTIFIER

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1           CHAIRMAN EVANS: We now have the Secretary of  
2 Banking before us.

3           Mr. Secretary, you know that we go right to  
4 the questions rather than any kind of testimony. We  
5 submit your testimony for the record. I would like  
6 to go right to the banking.

7           The issue that I would like to raise is the  
8 whole issue, there has been a lot discussed about the  
9 subprime market, and obviously in the Governor's  
10 speech he talked a little bit about some mortgage  
11 bills and some issues, and I know under your  
12 authorization you have the Mortgage Bankers and  
13 Brokers and Consumer Equity Protection Act.

14           I was very much a part of that act becoming a  
15 reality, and I'm very much interested in, you know,  
16 this whole debate around predatory lending,  
17 enforcement. Under your proposed budget, there's  
18 like a 6.1-percent increase as well as what I read  
19 here, that basically you are stating about the  
20 elements of legal fees and other things.

21           Can you talk a little bit about your  
22 department in the whole area of enforcement, in the  
23 question of predatory lending, the whole subprime  
24 market, and how you see things in terms of  
25 Pennsylvania and what the Governor said.

1           And also I want to make mention that we do  
2 this hearing jointly with the Banking and Commerce  
3 Committee, Chairman Pete Daley -- and who's the  
4 Republican Chairman? Dick Hess is here. Dick is  
5 over there, too.

6           So I will go to Dick. If he has any  
7 questions or he would like to say anything--- Okay.

8           Mr. Secretary.

9           SECRETARY KAPLAN: Thank you very much, Mr.  
10 Chairman.

11           First of all, my name is Steve Kaplan. I  
12 have been in my present position for just a little  
13 bit less than 7 months. So it's my first opportunity  
14 to speak to this group, and it is a delight to be  
15 here.

16           Since I took on this responsibility on  
17 August 1, what has been called the subprime mortgage  
18 crisis has become global news because of some of the  
19 implications around the globe in terms of the credit  
20 crunch and the affect on investors worldwide.

21           It started here in the United States, though,  
22 and let me talk very briefly about that history.

23           Twenty-five or thirty years ago, there was no  
24 subprime market. Mortgages were available only to  
25 prime borrowers, and this essentially meant that if

1 you didn't have pristine credit, you couldn't get a  
2 loan to buy a house and you were foreclosed from  
3 participating in what many people considered to be  
4 the American dream of home ownership.

5           There was a lot of pressure at that time, in  
6 the late seventies and into the mid-eighties, to  
7 extend the availability of credit to buy homes to  
8 people who had less than pristine credit. Thus, the  
9 subprime markets were created.

10           They have been evolving ever since and,  
11 unfortunately, since the turn of the 21st century,  
12 have evolved in very troubling ways. Many, many  
13 people have come to get a variety of mortgage  
14 products that they neither understood nor could they  
15 afford. They couldn't afford them oftentimes  
16 starting on the day that these loans were made.

17           The Pennsylvania Department of Banking has  
18 been very actively involved for some time now in  
19 trying to devise ways to fix this problem for the  
20 future, and in doing that, we have what we refer to  
21 as our regulatory and legislative package, and let  
22 me just describe them very briefly, because they  
23 reflect and respond to some of the difficulties we  
24 have perceived in the markets in the last several  
25 years.

1           First, as to our reg, which is presently  
2 working its way through the Independent Regulatory  
3 Review Commission process, the reg breaks down to two  
4 quite simple propositions, which it seems to me are  
5 so commonsense that it's hard to imagine these  
6 practices aren't in effect as we sit here.

7           The first is a one-page, plain-language cover  
8 sheet to go on every mortgage package so the  
9 consumers are made aware of critical details of the  
10 mortgage that they are acquiring.

11           An example is whether or not the rate of the  
12 mortgage adjusts. You have no idea how many people  
13 call the Department of Banking and say, my mortgage  
14 last month was \$672 and this month they say it's  
15 supposed to be \$847, and I don't know why. We help  
16 those people read their mortgages, and it turns out  
17 they have an adjustable-rate mortgage and they were  
18 not aware of it.

19           Secondly in our reg, we have what we refer to  
20 as the documented ability to repay. In recent times,  
21 lenders, oftentimes brokers representing lenders,  
22 have made loans to people based on what is called the  
23 low-doc or no-doc approach.

24           This essentially means that people are not  
25 required to come in and prove their incomes, prove

1 their expense levels, prove their ability to repay  
2 the loan that is being made, and the result of that  
3 has been, many, many people, not really understanding  
4 what they are getting into, have simply gotten loans  
5 that they couldn't afford to repay at the moment that  
6 they got them, and the problem has reflected itself  
7 in people defaulting on mortgages, sometimes as soon  
8 as the second or third mortgage payment -- not years  
9 down the line when someone is ill or not years down  
10 the line when someone loses a job, but on the second  
11 or third mortgage payment.

12 Now, that reg is going to be critical to  
13 Pennsylvanians going forward, so we are really  
14 encouraging its clearance of the regulatory process  
15 quickly.

16 And then there's a package of legislation  
17 which has been passed out of the Commerce Committee,  
18 and we have had great support there from Chairman  
19 Hess, who is with us today, and Chairman Daley. It  
20 passed out of the Commerce Committee unanimously, and  
21 it reflects a package of five bills.

22 The most critical one is what we call the  
23 individual mortgage loan originator bill. It is a  
24 bill that will regulate all of the mortgage  
25 industries in Pennsylvania in a single bill so we



1 won't any longer have a first mortgage act and a  
2 second mortgage act. This will be the combination  
3 act, and it will require people that sit across the  
4 table from a Pennsylvania consumer to have a license  
5 issued by the Pennsylvania Department of Banking.

6           It is purely anomalous, in my view, that if  
7 I walk out of this room today and walk across the  
8 street to get a haircut, the person cutting my hair  
9 would have to be licensed by the Commonwealth of  
10 Pennsylvania. But if I walked out of this room and  
11 walked across the street to get a mortgage, the  
12 person sitting across the table from me would not.  
13 We think that's wrong, and we think that that needs  
14 to be corrected.

15           There are several other components to this  
16 bill as well. Under Act 6, which we are seeking to  
17 amend, in 1974, prepayment penalties were capped at  
18 \$50,000 loans or less. That made sense in 1974. We  
19 are seeking to have that number adjusted upward for  
20 the inflation that has occurred since 1974. So what  
21 in that era was \$50,000 and made sense, in the new  
22 era would be \$200,000, and that would also make sense  
23 and, once again, make this law relevant to our  
24 marketplace.

25           We have seen in Pennsylvania that the whole

1 transaction involving home acquisition could be a  
2 very complicated one involving different kinds of  
3 professionals. In Monroe County a couple of years  
4 back, we had some issues that involved homes being  
5 appraised at what turned out to be much higher values  
6 than were appropriate, and people were taking out  
7 loans on these properties at those higher values.

8 In response to that, we are seeking to have  
9 at least two additional individuals, and they would  
10 be the Attorney General and myself, added to the  
11 board that certifies real estate appraisers.

12 There is also a proposal around that would  
13 add a banker to that board. Up until now, only  
14 real estate appraisers have judged other real estate  
15 appraisers, and we think it would add credibility to  
16 the system if we brought in some additional eyes to  
17 that equation.

18 We have also had difficulty in Pennsylvania  
19 gathering real-time data on mortgage foreclosures, in  
20 part because we have 67 county seats keeping records  
21 of this sort of thing in 67 ways. So staying up with  
22 what is going on in real time in Pennsylvania has  
23 been extremely difficult.

24 There is a provision in our package that  
25 would call for foreclosure documents when they are

1 filed with the county office to also be cc'd to the  
2 Pennsylvania Housing Finance Agency, PHFA, and that  
3 is an organization of which I am privileged to chair  
4 the board.

5 And then finally, there is a provision in  
6 Pennsylvania law which we refer to as Section 302,  
7 which essentially forbids anyone in the Banking  
8 Department, including myself, from talking about any  
9 complaints that we have received against people in  
10 the financial services industry until those  
11 complaints have resulted in oftentimes a long process  
12 and, ultimately, final judgment.

13 We want to be able to tell the public, warn  
14 the public sooner when we have information indicating  
15 that somebody is out there doing something wrong, and  
16 we want to move that up to the point where when we in  
17 the department believe in good faith that there is  
18 probable cause necessary to institute proceedings  
19 against an individual, that we would then be able to  
20 tell the public that we have instituted those  
21 proceedings and allowed the public to make their own  
22 judgments based on that additional information.

23 So the simple answer to your straightforward  
24 question, Mr. Chairman, is, we have done a great deal  
25 in the past to regulate the mortgage markets, but

1 this is an evolving industry that has continued to  
2 evolve and the pace of evolution has been very rapid.  
3 We now need to get additional power so that we can  
4 keep up with that pace as the industry evolves into  
5 the future.

6 CHAIRMAN EVANS: And the increase that you  
7 have proposed you think will be sufficient in order  
8 for the expansion of those additional duties?  
9 Because obviously when the Banking Department was  
10 created, it was created in a different era. There  
11 wasn't as much deregulation as there is, online  
12 banking, all of the kinds of things that you have  
13 today.

14 You know, I'm not trying to put words in your  
15 mouth for what you're requesting. I'm just truly  
16 concerned that sometimes I think what happens here in  
17 the General Assembly is we need folks like yourself  
18 to be very honest with us. I mean, we want you to be  
19 on top of it, but we sometimes think you can do that  
20 through magic than the element of really looking at  
21 it, because we all want to protect the consumer.

22 So I'm just concerned, you know -- do you  
23 know what I mean? In other words, a lot more  
24 expansion of duties. You yourself said subprime  
25 wasn't in existence 25, 30 years ago. We are asking

1 you to do more.

2 SECRETARY KAPLAN: Correct.

3 CHAIRMAN EVANS: Legitimately.

4 SECRETARY KAPLAN: Correct.

5 CHAIRMAN EVANS: And my question, I'm just  
6 concerned about, do the dollars align with the  
7 addition or expansion?

8 SECRETARY KAPLAN: Generally speaking, the  
9 answer to your question is, we are a special fund  
10 department.

11 CHAIRMAN EVANS: Correct.

12 CHAIRMAN EVANS: We ordinarily raise the  
13 money necessary to do our duties by charging fees to  
14 the people that we regulate.

15 CHAIRMAN EVANS: Correct.

16 SECRETARY KAPLAN: I will tell you that if we  
17 are fortunate enough to have our legislative package,  
18 as we hope it will be, approved and signed by the  
19 Governor later this spring, we will need to hire  
20 probably up to 30 people just to handle the influx of  
21 license applications that we expect to get.

22 Today, we license somewhat over 15,000  
23 entities. We expect that if we start licensing  
24 individual mortgage loan originators, as we hope to,  
25 we will have an additional 20,000 to 30,000 people

1 applying for those licenses. That will cost us  
2 manpower.

3 We expect in the long run to be able to  
4 absorb that in the fees that we charge, but we have  
5 not built in a specific appropriation into this  
6 budget for those 30 or so positions that will need to  
7 be filled in the spring.

8 If we are fortunate enough to have the  
9 legislation signed by the Governor, we will have to  
10 seek additional appropriation to deal with bringing  
11 the facility to license these individuals up to  
12 speed.

13 CHAIRMAN EVANS: Thank you.  
14 Chairman Dally.

15 REPRESENTATIVE DALLY: Thank you, Mr.  
16 Chairman, and good afternoon, Secretary.

17 SECRETARY KAPLAN: Good afternoon.

18 REPRESENTATIVE DALLY: Staying on that same  
19 issue with mortgage lending and mortgage broker  
20 licensing, does that legislation require that the  
21 mortgage sales people within a lending institution,  
22 each individual has to be licensed or just the  
23 institution has to be licensed?

24 SECRETARY KAPLAN: We license institutions  
25 today. We are talking about licensing the individual

1 who sits across the table from a consumer.

2           So if you are involved in that process  
3 specifically, we think that you ought to have the  
4 specific education that you have had, we think that  
5 you ought to have passed a test confirming that you  
6 are knowledgeable, and be of good repute and  
7 character in order to get a license from the  
8 Department of Banking.

9           This is a transaction that has become very  
10 loose in the recent past, and we are seeking to  
11 return professionalism to that entire transaction.

12           REPRESENTATIVE DALLY: Okay. So an  
13 independent mortgage broker, they aren't licensed  
14 today, and is the company they work for licensed?

15           SECRETARY KAPLAN: If a mortgage broker is a  
16 legal entity, it is licensed. Sometimes a legal  
17 entity isn't, in effect, one person. If that person  
18 has an employee or many employees, those individuals  
19 are not licensed today. We are seeking to have those  
20 people licensed as well.

21           REPRESENTATIVE DALLY: Okay. Because it just  
22 seems like it is a duplication for the financial, you  
23 know, the banks. It seems like it is a duplication  
24 to license them and also license the individuals that  
25 work for them since they are responsible for the

1 oversight of those employees anyway.

2 SECRETARY KAPLAN: We are not talking about  
3 banks.

4 REPRESENTATIVE DALLY: Okay.

5 SECRETARY KAPLAN: Banks are not subject to  
6 this sort of thing. They are subject to a  
7 combination. The nationally chartered organizations  
8 are subject to Federal preemption. We have a parity  
9 law in Pennsylvania giving State-chartered banks all  
10 the same rights as national banks.

11 REPRESENTATIVE DALLY: I see.

12 SECRETARY KAPLAN: So this excludes banks.

13 REPRESENTATIVE DALLY: Okay. That makes  
14 sense.

15 Your department, in addition to these efforts  
16 that you are talking about legislatively, started  
17 this Office of Financial Education. Perhaps you can  
18 give the committee an update on what is happening  
19 with that department.

20 SECRETARY KAPLAN: I'm really happy to,  
21 because I'm really very proud of it.

22 We recognize when we talk to consumers who  
23 have had difficulties, particularly with mortgages,  
24 which has been the hot issue lately, that it is very,  
25 very difficult for people in our society to



1 understand the nature of these complicated  
2 transactions that they are getting involved in more  
3 and more.

4           We think that no government agency, as much  
5 as we try -- we are 175 people in the Department of  
6 Banking -- we don't believe we are ever going to be  
7 able to protect Pennsylvania consumers as well as  
8 well-educated, well-informed consumers can protect  
9 themselves.

10           So we started this Office of Financial  
11 Education. The Governor did this by Executive Order  
12 back in 2004. It is housed in the Department of  
13 Banking. And we are seeking to reach out to  
14 Pennsylvanians along a variety of channels, the most  
15 significant of which, in my mind, is through the  
16 schools.

17           Our goal is to create curricula that will  
18 allow teachers from kindergarten through 12th grade  
19 to integrate financial concepts into the things they  
20 are already teaching.

21           You can learn to read reading a lot of books.  
22 There is a great Berenstain Bears series on financial  
23 topics -- kindergartners, first graders. "Berenstain  
24 Bears' Trouble with Money" -- great stuff.

25           You can learn to read as easily using that as

1 you can with anything else, and you can learn a  
2 little bit about financial responsibility at the same  
3 time. And this goes on, obviously the subject matter  
4 becomes more complex as kids go through school.

5 We recognize, however, that there are lots of  
6 people that we won't be able to reach in school, and  
7 they also need information. So we have reached out  
8 to employers.

9 Our statistics tell us that employers lose  
10 huge productivity because employees concerned about  
11 their financial affairs are so distracted from what  
12 they do at work that the numbers range from \$600,000  
13 to \$700,000 a year in productivity lost in certain  
14 industries.

15 So we have been engaging employers in the  
16 idea that if they introduce financial education to  
17 their workforce, they can actually benefit by the  
18 increased productivity.

19 REPRESENTATIVE DALLY: Okay.

20 SECRETARY KAPLAN: We are reaching out to  
21 community groups, which are often in cultural pockets  
22 where you have to talk to folks maybe in their own  
23 language about the kinds of issues that they confront  
24 in their community. We are reaching out to those  
25 folks so that they can incorporate financial

1 education in their community organizations.

2           And finally, there is a terrific Web site  
3 called "moneysbestfriend.com." Just type it into  
4 your search engine and you will come up with the  
5 Pennsylvania Office of Financial Education Web site  
6 -- plain language, very accessible, good for kids,  
7 good for adults. Anybody who wants more information  
8 about their financial affairs can learn a great deal  
9 at that Web site. And frankly, we have been doing a  
10 lot, and we hope to do even more as we go into the  
11 future.

12           REPRESENTATIVE DALLY: Well, it sounds like  
13 you are really moving along with that program.

14           My final question, Mr. Chairman.

15           You mentioned about the difficulty with,  
16 would consumers understand these transactions, and  
17 one of the things I think you are seeing more and  
18 more of today is, say, a large real estate firm where  
19 not only are they marketing the home but they are  
20 providing you the mortgage and selling you the title  
21 insurance and maybe even renting you the moving van,  
22 I don't know.

23           But is there concern about the tying of these  
24 services all together and bundling them like that as  
25 far as, you know, disclosure to the consumer and

1 whether that's in the best interests of the  
2 consumer?

3 SECRETARY KAPLAN: Well, the key point of  
4 view that we have is that it's the disclosure that is  
5 key.

6 The bundling -- I mean, the consumer can be  
7 deceived; the consumer can be misled. You can buy a  
8 product that is inappropriate for you, whether you  
9 are buying it from the same fellow or a fellow, you  
10 know, down the street.

11 We will be requiring folks who are members of  
12 professions that were traditionally exempt from  
13 mortgage licensing, like real estate agents, if they  
14 are going to do mortgage licensing, they will need to  
15 have a mortgage license as well.

16 This will give us a handle on the kinds of  
17 practices that folks use, and as we review their  
18 activities over time, if we see things that are  
19 problematic, we can take that up in our  
20 administrative process.

21 REPRESENTATIVE DALLY: Thank you, Mr.  
22 Secretary.

23 SECRETARY KAPLAN: Thank you.

24 CHAIRMAN EVANS: Chairman Hess from the  
25 Banking and Commerce Committee, the Republican

1 Chairman. Do you have any questions? Not now?

2 Okay.

3 Representative John Siptroth.

4 REPRESENTATIVE SIPTROTH: Thank you very  
5 much, Mr. Chairman.

6 Mr. Secretary, along with some of the other  
7 scams, I hail from Monroe County, Pennsylvania, and  
8 certainly have seen a number of issues there, and the  
9 department is making efforts to correct that along  
10 with the legislative process.

11 There has been the practice in the past, not  
12 too long ago, again picking up a little bit where Mr.  
13 Dally, Representative Dally, had just mentioned, that  
14 individuals hold multiple licenses?

15 SECRETARY KAPLAN: Yes.

16 REPRESENTATIVE SIPTROTH: And one individual  
17 may hold an appraisal license, an investor broker  
18 license, and a real estate broker license at the same  
19 time, and then folks have their homes refinanced and  
20 they invest the capital gain, if you will, of the  
21 refinance back with the broker, investment broker,  
22 and have a current mortgage.

23 Some of these individuals believe that their  
24 mortgages, their mortgage obligation, is reduced by  
25 \$300 to \$400 per month. Then the market takes a

1 dive, bottoms out, and the individual that may have  
2 been running this \$40 to \$60 million a year operation  
3 steps aside, and I don't know if there's criminal  
4 prosecution or not against that individual, but  
5 nonetheless, the mortgagee is holding an additional  
6 mortgage for \$300 to \$400 a month.

7           How are we going to try to regulate that  
8 situation?

9           SECRETARY KAPLAN: Well, first of all let me  
10 say that I think I'm aware of the situation that you  
11 are alluding to. It's a very specific situation.

12           I believe that it's also a fairly unusual  
13 situation. In this case, the evil was less about  
14 holding different licenses than it was simply about a  
15 criminal deceiving people in the marketplace.

16           The individual case that you are referring to  
17 resulted in the wrongdoer's filing of bankruptcy on  
18 September 18 of last year. That happens to be a date  
19 that sticks out in my memory, because that is the  
20 date I was confirmed as Secretary of Banking.

21           We are very concerned about that, and the  
22 Department of Banking has taken huge pains to be  
23 helpful and supportive of the consumers who are  
24 adversely affected. But as you point out, many of  
25 them now seem to be subject to mortgage obligations

1 that they were unaware of or that they thought  
2 someone else was going to be taking care of on their  
3 behalf, and that's not so.

4 We have spoken to all or virtually all of the  
5 mortgage servicing companies that hold this mortgage  
6 paper at this time, and we have been able to get an  
7 agreement that there won't be any foreclosures or any  
8 adverse action taken to these consumers so long as  
9 the consumers act responsibly. This started, as I  
10 pointed out, on September 18, and we have gotten the  
11 companies to forbear in taking these actions, at  
12 least until May 31 of this year.

13 The intention here is to give consumers an  
14 opportunity to figure out what they need to do and  
15 how they are going to get it done, learn what their  
16 rights are, if they need counsel and all that sort of  
17 thing, and we think that we have been successful in  
18 getting them that breathing room.

19 But I think, as I said a moment ago, we don't  
20 believe that the issue here is the mere fact of  
21 holding multiple licenses. This is simply a tragic  
22 situation involving a person who was very successful,  
23 in fact for 15 years, in conducting an ongoing  
24 criminal scheme for which he has now pled guilty in  
25 Federal court and for which he is due to be sentenced

1 next month.

2 REPRESENTATIVE SIPTROTH: Thank you.

3 I just want to, you know, kind of build on  
4 one thing. When you said that because they hold  
5 multiple licenses, and it is somewhat of an isolated  
6 case, I will agree, but had this individual not held  
7 those multiple licenses, do you think that the  
8 success for that 15 years would have been as great as  
9 it was, or do you think that he may not have even  
10 bothered to attempt to enter into those activities?

11 And again, that's a judgment call, and, you  
12 know, I'm not going to hold you to it, but I'm just  
13 curious as to that situation.

14 SECRETARY KAPLAN: Unfortunately, the case is  
15 presently the subject of criminal prosecution, and I  
16 am restricted legally in the specific details that I  
17 can allude to about that case.

18 There were several different business  
19 entities here, and it wasn't a question of multiple  
20 licenses. The business entity that this activity was  
21 going on in was not licensed, period.

22 REPRESENTATIVE SIPTROTH: Oh; okay.

23 What if they were licensed and someone tried  
24 this particular scenario? It could possibly lead to  
25 the same conclusion or the same effect 15 years down



1 the road when the market bottoms out.

2 SECRETARY KAPLAN: Right. And part of the  
3 bill that I was talking about in response to Chairman  
4 Evans's question does expand and extend the  
5 businesses that we will be licensing at the  
6 Department of Banking in the future, and that will  
7 enhance our ability to oversee this kind of activity  
8 going forward.

9 REPRESENTATIVE SIPTROTH: But is it a good  
10 practice, in your judgment, again, to hold multiple  
11 licenses as an individual? Is there more  
12 protectionism for the individuals if that's not the  
13 practice?

14 SECRETARY KAPLAN: From my perspective,  
15 holding licenses could subject you to more scrutiny.  
16 If you are holding multiple licenses, perhaps more  
17 scrutiny from more agencies.

18 In my experience, if a person holding one  
19 license sends a client to, you know, his  
20 brother-in-law or his cousin down the block who holds  
21 a different license, we wouldn't have gained very  
22 much.

23 REPRESENTATIVE SIPTROTH: Okay.

24 SECRETARY KAPLAN: It's really a question of  
25 appropriate scrutiny coming from the licensing

1 agencies for the activities involved.

2 REPRESENTATIVE SIPTROTH: Okay. Thank you  
3 very much, Mr. Secretary.

4 Thank you, Mr. Chairman.

5 SECRETARY KAPLAN: Thank you, sir.

6 CHAIRMAN EVANS: Representative Katie True.

7 REPRESENTATIVE TRUE: Thank you, Mr.  
8 Chairman.

9 I just would like to take a moment of my  
10 time, obviously you surely remember all the times we  
11 have been having in Lancaster County and Berks County  
12 with a despicable man that put a lot of people in a  
13 terrible situation. And I just wanted to be able and  
14 I am pleased to be able publicly to thank the  
15 Department of Banking and all of the good people  
16 that you have working there, because it was probably  
17 the most responsive agency I have worked with in  
18 14 years. Not that the others haven't been good, but  
19 I think there was some around-the-clock work being  
20 done there on behalf of these folks, and I thank you  
21 for that.

22 I was wondering, as I was listening to the  
23 discussion, I don't know if the person questioned was  
24 licensed or not. This package that you have, would  
25 that help possibly alleviate having someone come up

1 the way he did and do what he did to unsuspecting  
2 people? Would your package help that at all?

3 SECRETARY KAPLAN: The straightforward answer  
4 is yes.

5 It's not widely understood, but today in  
6 Pennsylvania, the Department of Banking regulates  
7 people in the second mortgage business up to  
8 mortgages of \$50,000. Under the proposed package, we  
9 would regulate all second mortgages, and without  
10 going into the details of this case, it would expand  
11 our authority.

12 And I don't know if it would have been  
13 successful in avoiding this. This was, as I said, a  
14 nefarious practice that had been going on for 15  
15 years. But we would be better armed and better  
16 equipped to try to deal with it, and it is one of the  
17 reasons why we think it is so important for this  
18 package to be enacted as soon as possible.

19 REPRESENTATIVE TRUE: And I agree with you on  
20 that, and again, I do thank you on behalf of my  
21 constituents and all those that I know you will try  
22 very hard to help.

23 SECRETARY KAPLAN: Well, on behalf of 170  
24 people in the Department of Banking, I can assure you  
25 that we have tried very hard. There were a lot of

1 hours -- late hours, extra hours -- attending  
2 meetings and on the phone with these people, and our  
3 folks did work very hard. We really feel for those  
4 people. We know that they were dreadfully affected  
5 by this, and we are doing everything we can to  
6 help.

7 REPRESENTATIVE TRUE: And it was obvious.  
8 Thank you.

9 Thank you, Mr. Chairman.

10 SECRETARY KAPLAN: Thank you, ma'am.

11 CHAIRMAN EVANS: Representative Cherelle  
12 Parker.

13 REPRESENTATIVE PARKER: Thank you, Mr.  
14 Chairman, and good afternoon, Mr. Secretary.

15 I'm not sure if you remember, but as I sit  
16 here and I listen to the legislative package that you  
17 reference, that we are moving forward to actually  
18 voting on it, could possibly see become law in our  
19 Commonwealth in the spring, and it is really making  
20 me take a trip down memory lane to Philadelphia.

21 In 2001, you know the city council of  
22 Philadelphia passed what was then considered to be  
23 the toughest anti-predatory lending bill in the  
24 nation, and during that time, I'm thinking about some  
25 of the arguments that we had received from many in

1 the industry when we talked about capping those  
2 prepayment penalties, we talked about the loan  
3 flipping, we talked about the low-docs and no-docs  
4 and making sure that the originators were licensed.  
5 So to see this package actually together, I know that  
6 we are moving closer. Possibly to seeing it become a  
7 reality is pleasing.

8           But one of the things that I was really  
9 looking for in the testimony, and I think you  
10 referenced it when you talked earlier, was that the  
11 reason why the subprime market -- and I always like  
12 to tell folk, you know, all subprime lending isn't  
13 predatory lending. The subprime market strived and  
14 it grew because there was a need for it. But people  
15 didn't need to be gouged because they had less than  
16 perfect credit, and one of the reasons why I think  
17 the market actually flourished was because many in  
18 the prime market did not want to take the risk of  
19 lending to those who had less than perfect credit.

20           And I wanted to know, in your opinion, do we  
21 see any interest among bankers in the prime market  
22 coming up with any creative products that could be  
23 used to help individuals with less than perfect  
24 credit, but they are lending at a very well  
25 respected, renowned institution that has been in our

1 communities for years.

2 I know in Philadelphia, two products came out  
3 of our meetings, and former Secretary Schenck was  
4 very instrumental in being supportive of us. That  
5 was working with the prime lenders to develop  
6 something called the PHIL Loan in Philadelphia and  
7 the Mini-PHIL and then a PHIL-Plus, because we found  
8 a lot of people were getting gouged when it came to  
9 home contracting or actually trying to get a second  
10 mortgage.

11 So I wanted to know, has the department taken  
12 a lead in bringing some of our primes to the table  
13 and say, hey, what can you do to work together to  
14 help us in addressing the needs of those who are in  
15 that subprime market?

16 SECRETARY KAPLAN: Well, if the Chairman will  
17 indulge me for a moment. I am a Philly boy and a  
18 member of the board of the Philadelphia Urban Affairs  
19 Coalition and the committee that came up with the  
20 PHIL Loan and the PHIL-Plus Loan.

21 Yeah; we have to be very careful about our  
22 terminology. Subprime lending and predatory lending  
23 are not the same thing.

24 Subprime lending is actually very important,  
25 and we have to make sure that the products that are

1 brought to the subprime market are fair and  
2 responsible products and that the people in the  
3 subprime market know what they are getting into when  
4 they are getting into these products. That's in  
5 large part what our regulatory and legislative  
6 package drives to.

7 But also in my capacity as Chairman of the  
8 Board of the Pennsylvania Housing Finance Agency, I  
9 can tell that you PHFA is working very hard on  
10 housing counseling, for example.

11 It is very important for consumers to have  
12 good information, to know what their options are, and  
13 we certify housing counselors across the Commonwealth  
14 of Pennsylvania now, and they have been very busy of  
15 late working with folks looking to buy homes, get  
16 mortgages, and also working with people looking to  
17 work out their difficulties.

18 I think that many of the traditional,  
19 responsible lending organizations, certainly the  
20 banking industry in Pennsylvania, and I come out of  
21 the banking industry in Philadelphia, and I can tell  
22 you that more and more there is sensitivity and  
23 awareness of the need for the traditional,  
24 responsible agencies to step up to the responsibility  
25 to allow all people to have an opportunity to

1 experience the American dream, and they are doing it  
2 with responsible products.

3 We have learned from this last go-around, it  
4 will take us awhile still, probably the next couple  
5 of years, to work through all the issues we are  
6 confronting now. But I'm hoping we are going to come  
7 out on the other side a better, smarter, and more  
8 sensitive lending industry and government regulatory  
9 industry.

10 REPRESENTATIVE PARKER: Thank you, Mr.  
11 Secretary.

12 SECRETARY KAPLAN: Thank you, ma'am.

13 CHAIRMAN EVANS: Representative Mario  
14 Scavello.

15 Representative Scott Petri.

16 REPRESENTATIVE PETRI: Thank you, Mr.  
17 Chairman.

18 I want to ask you some questions about the  
19 general comparative financial statement that you have  
20 presented on page 8 of your materials.

21 First of all, with regard to licenses and  
22 fees that are charged, and of course you regulate a  
23 broad category of licensees, but generally is it the  
24 department's philosophy to try to make those license  
25 fees somehow relate to cost of operation, and if so,



1 how do you do that?

2 SECRETARY KAPLAN: I think by your question,  
3 you actually put the dilemma quite well, which is  
4 that it is our philosophy to try to relate our  
5 expenses to our revenues. Our goal is to offset our  
6 expenses with our revenues, and we don't take dollars  
7 out of the General Fund as a result.

8 We do that by trying in a detailed way to  
9 understand and analyze our activities, the kinds of  
10 things that we need to do to appropriately license  
11 and regulate various individuals and industries, and  
12 simply have the cost of regulation, on a rough basis,  
13 equal the expense involved in that regulation.

14 There are variations in that. There are  
15 things that change on us year to year. As I said,  
16 many of the industries that we regulate are rapidly  
17 evolving industries, and there are expenses at times  
18 that we don't necessarily see coming down the pike.  
19 But when we become aware of them, we try to update  
20 the process by which we first determine our costs and  
21 then create revenues to meet those expenses.

22 REPRESENTATIVE PETRI: I noticed in the  
23 '06-07 actual numbers you had, you had anticipated or  
24 budgeted for, I guess it was a million dollars' worth  
25 of fines and penalties, and it ended up being

1 \$495,000. This year you are projecting \$750,000, and  
2 it seems like that item is very, very difficult to  
3 budget. Sometimes you project low and it ends up  
4 high, and then in other years you project it high and  
5 it ends up low.

6 When does a bank really or one of your  
7 regulatory agencies pay a fine and a penalty, and how  
8 do you project that number?

9 SECRETARY KAPLAN: Most fines and penalties  
10 result in the non-bank industries that we regulate.

11 People are required to file reports, people  
12 are required to respond to questions that are raised,  
13 and the failure to do so can result in penalties of  
14 various kinds.

15 When you ask a group of 15,000 entities to  
16 file reports on time, sometimes it's very hard to  
17 know if 15,000 are going to file them on time or if  
18 only 14,000 are going to file them on time. And as  
19 you pointed out, that does vary from year to year, so  
20 you try to estimate based on historic trends.

21 But the numbers, as you also pointed out, at  
22 least in terms of the kinds of numbers that are dealt  
23 with as a general proposition in this body, are  
24 relatively modest.

25 I can also tell you that in the recent past,

1 what has been happening in the mortgage industry, for  
2 example, has resulted in many people who were  
3 marginal players in the mortgage business dropping  
4 out of the industry entirely. So that in the past  
5 several months since I have been in office, we have  
6 actually seen a significant number, several hundred  
7 fewer people holding various kinds of mortgage  
8 licenses, simply because they have chosen to exit the  
9 business.

10 It is very hard to predict what the economic  
11 reality is going to be in that regard at any given  
12 time, so we have to adjust on the fly and, once  
13 again, each year try to readjust and get back to a  
14 place where our revenues offset our expenses.

15 REPRESENTATIVE PETRI: I guess my last  
16 question and my general concern in all this line of  
17 questioning is that you are talking about adding  
18 \$1.2 million to your expenditures, which really will  
19 come out of the reserve you have. And even at a flat  
20 level of expenditures going forward for the next  
21 couple fiscal years, you are approximating about a  
22 \$3, almost \$4 million loss in your reserve.

23 So the question I really have for you in a  
24 technical sense is, what's the purpose of the  
25 reserve, and I assume it is to protect consumers in

1 case one of your regulated entities goes south, and  
2 is there a magic number under which that reserve  
3 should never go, given that you are currently  
4 regulating licensees with \$135 billion in assets, and  
5 that's a lot of exposure.

6 SECRETARY KAPLAN: Yes, and I can tell you  
7 that if we just took one small group of companies  
8 that we regulate, to use them as an example, there's  
9 an entity in Pennsylvania called a nondepository  
10 trust company, and we have 24 or 25 of them here.

11 They range in size from relatively modest  
12 shops, you know, a dozen or so individuals working  
13 there, to companies like Vanguard, you know, just a  
14 huge, worldwide megacorporation.

15 There was a small company of this kind in  
16 Illinois that did fail recently. We have been in  
17 communication with our counterparts in the State of  
18 Illinois, and they are up to an \$18 million expense  
19 in wrapping up the affairs of that company and  
20 counting. They have not yet completed that  
21 effort.

22 So we do have a fund that over the next  
23 5 years is projected to vary perhaps between  
24 \$30 million, give or take, and \$25 or \$26 million.  
25 We believe at this time that that's a responsible and

1 prudent number to have against those kinds of  
2 contingencies.

3 REPRESENTATIVE PETRI: Thank you, Mr.  
4 Chairman.

5 I just think that's a number we ought to  
6 watch very carefully. I'm no expert in the banking  
7 industry, but I have represented banks over the  
8 years, and their requirement is to have more cash and  
9 reserve on deposit than we are requiring of  
10 ourselves.

11 SECRETARY KAPLAN: If I might follow up, Mr.  
12 Chairman.

13 We do have to understand that, for example in  
14 banks, if we are using that as a standard, there is  
15 Federal deposit insurance, the FDIC, and we do have a  
16 shared responsibility when it comes to the banking  
17 industry with Federal regulators.

18 We have to be mostly concerned about failures  
19 in the industries that we regulate outside of the  
20 banking and depository industries.

21 CHAIRMAN EVANS: Representative Dave Millard.

22 REPRESENTATIVE MILLARD: Thank you, Mr.  
23 Chairman.

24 My question today deals with economic  
25 development, and specifically your budget materials

1 indicate that your Office of Economic Development was  
2 involved in 82 projects in '07. Can you please  
3 discuss what specific assistance your department  
4 provides in these projects?

5 And a follow-up question to that is, how many  
6 jobs have been created and/or retained in each of  
7 those respective projects?

8 SECRETARY KAPLAN: The Commonwealth of  
9 Pennsylvania has a broad array of economic  
10 development projects, as I'm sure you are all aware.

11 They are, generally speaking, administered in  
12 DCED, and Secretary Yablonsky, if he hasn't been here  
13 already, when he comes here will likely be able to  
14 talk about those specific projects that have been  
15 supported.

16 The role that the Pennsylvania Department of  
17 Banking plays in this scenario is a recognition of  
18 the fact that we have so many economic development  
19 programs which are worthwhile, but are also complex  
20 and bureaucratic and sometimes very obscure to the  
21 folks that are out there on the lines actually making  
22 the loans, that it's necessary for someone to act as  
23 an intermediary, so that bankers, for example, are  
24 educated in knowing what programs are out there and  
25 how they work and how the paperwork needs to be done

1 and how the red tape can be cut.

2 So our very modest staff in the Department of  
3 Banking spends its time educating bankers, by and  
4 large, on the nature of the programs out there and  
5 helping them walk through the bureaucracy that they  
6 need to deal with in order to avail themselves of the  
7 assistance that is represented by these programs.

8 Our feeling is that if we can help bankers  
9 get involved in these deals, we have helped the  
10 banking industry make profits. We have seen the  
11 deals get done. We have put people to work.

12 I'm not prepared today to talk about the  
13 specific deals that we have worked on, but if you  
14 would like me to get back to you, I would be happy to  
15 provide you with a list, and then working with DCED,  
16 working through the economic impact of the deals we  
17 have been involved on should be possible.

18 REPRESENTATIVE MILLARD: I would appreciate  
19 that very much through the Chairman of the  
20 Appropriations Committee.

21 SECRETARY KAPLAN: Certainly.

22 REPRESENTATIVE MILLARD: Thank you.

23 Thank you, Mr. Chairman.

24 CHAIRMAN EVANS: Thank you.

25 Representative Doug Reichley.

1           REPRESENTATIVE REICHLEY: Thank you, Mr.  
2 Chairman.

3           Over here, Mr. Secretary. Way over here;  
4 okay.

5           They put me over to the far right, not for  
6 any particular reason, I'm sure.

7           SECRETARY KAPLAN: My right, but your left,  
8 sir.

9           REPRESENTATIVE REICHLEY: That's right;  
10 that's right.

11           This is going to be three sort of scattered  
12 shot questions. I apologize for their perhaps random  
13 nature.

14           First is in deference to Mr. Wentzel, who I  
15 think felt a little depressed, or not depressed; I  
16 should say disappointed. I wasn't here last year to  
17 ask you about your views on the need for any further  
18 regulation of credit unions.

19           I know that's some matter of controversy,  
20 especially for the smaller banks who feel that  
21 there's more that needs to be reigned in. Mr.  
22 Wentzel and I have had a lot of very helpful and  
23 productive conversations. I know someone is here  
24 from the credit unions, and we have talked about this  
25 before as well.



1           So let me just ask for your general overview  
2 as to if anything needs to be done in that area.

3           SECRETARY KAPLAN: I will tell you that it's  
4 not a topic that I have devoted a lot of thought to  
5 for a very specific reason.

6           Credit unions are a creature of Federal law,  
7 and they are reality. They were created by Federal  
8 law.

9           A number of years ago, the General Assembly  
10 in Pennsylvania passed what is referred to as a  
11 parity law, which essentially means that  
12 State-chartered credit unions -- and about 90 percent  
13 of the credit unions in Pennsylvania are federally  
14 chartered, the remaining 10 percent are State  
15 chartered, so it is a total of almost 700, with about  
16 70 State chartered.

17           The State-chartered credit unions are, as a  
18 matter of parity, able to do whatever the Federal  
19 credit unions can do. So our ability to determine  
20 how they should be regulated, what they should be  
21 permitted to do, is quite limited.

22           I will tell you, however, that in the not too  
23 far distant past, there was some controversy about  
24 the process for making decisions about chartering and  
25 charter changes and all that sort of thing.

1           We were extremely gratified toward the end of  
2 last year and into the early part of this year to be  
3 able to work with the bankers, the Pennsylvania  
4 Bankers Association -- I see Jim Biery here -- and  
5 the credit union folks and get what, in my view, was  
6 a historic compromise where all parties were happy  
7 and changing some of our processes for dealing with  
8 these issues. And we were delighted to be able to do  
9 that, and hopefully the compromise is reflected in an  
10 amendment, which is part of our regulatory and  
11 legislative package that is afoot right now.

12           So as our package moves forward, it will move  
13 forward with that amendment, and we were pleased to  
14 be able to coordinate that process.

15           REPRESENTATIVE REICHLEY: Okay. Good.

16           The second matter involves automobile  
17 dealerships.

18           I understand your department recently  
19 completed a statewide audit of the auto dealerships,  
20 and from my conversations with auto dealers back in  
21 the Lehigh Valley, they have found it to be a matter  
22 of, I will say consternation, that your department  
23 comes in to conduct an audit to ensure that they are  
24 complying with the law, they are found to be in  
25 complete compliance, and then they are handed a bill

1 from the department saying, okay, now that we found  
2 that you are following the law, now you owe me the  
3 payment for this service.

4 And I understand in part -- and you will  
5 correct me if I don't understand this as elaborately  
6 as I should -- that in part the audits were generated  
7 from a min-max regulation being put into effect on  
8 the amount of dealer profit, particularly on other  
9 kinds of sales components. And I guess the question  
10 arose in light of the fact that, as I understand it,  
11 most of the dealerships that you found, roughly 90  
12 percent of them or so, passed the audit with flying  
13 colors, and is it time to say, okay, we don't need to  
14 do this any longer.

15 There is a situation which we can do this on  
16 a random basis, but if we take away these  
17 minimum-maximum restrictions on auto dealerships and  
18 let the actual free market dictate as to what the  
19 prices would be that the dealers charge for these  
20 various other options and services beyond the  
21 automobile costs, why not let that take place? And  
22 if you get reports or allegations of somebody  
23 violating the law, then do an audit of that  
24 particular dealership.

25 SECRETARY KAPLAN: You have asked two

1 different questions in your question, and let me  
2 separate them out.

3           First of all, automobile dealers have not  
4 historically been subject to regulation and audits  
5 from the Department of Banking, and some of the  
6 consternation that you are hearing about was simply  
7 the result of, the General Assembly passed a law and  
8 gave us the responsibility to look at these things  
9 and we did it, and they weren't used to it.

10           You know, when we go into a bank, they say  
11 hi, you know, we call each other by first names, and,  
12 you know, we know one another well. This was an  
13 introductory situation with many of these car  
14 dealers.

15           We felt it was necessary and prudent to do a  
16 fairly complete survey of the industry in  
17 Pennsylvania as an initial pass. We don't determine  
18 what automobile dealers can charge for things.

19           If another part of government makes a  
20 determination that they shouldn't charge more than a  
21 certain thing, we can't help but notice that when we  
22 go in and we therefore report on it.

23           We are constantly looking for ways to do our  
24 audits in a much more cost effective way. We talk  
25 about risk-based audits a great deal in the Banking

1 Department, and that reflects a desire to expend our  
2 resources in the directions where we perceive there  
3 to be the most risk, and we are always looking for  
4 ways to update that.

5 But when the General Assembly gives us the  
6 responsibility to license and regulate an industry  
7 and says to us, and you are not to use General Fund  
8 dollars for the purpose, what we are compelled to do  
9 is look at those industries and charge those  
10 examinees for the privilege of being examined by the  
11 Department of Banking.

12 REPRESENTATIVE REICHLEY: Well, I'm hopeful  
13 that there will be some consideration for, at the  
14 very least, minimizing those fees or standardizing  
15 them to such a degree that dealerships statewide can  
16 look at a lower cost for having their books reviewed  
17 and be told they are following the law.

18 SECRETARY KAPLAN: And we are constantly  
19 looking for those opportunities.

20 REPRESENTATIVE REICHLEY: Okay.

21 The third area, and the last question, is in  
22 reflection, I guess, to some of the earlier  
23 questions, and as I understand it, you said that with  
24 the larger real estate sales firms, that you envision  
25 a situation where the realtors, the mortgage brokers,

1 and perhaps one other component in that transaction  
2 process would all be licensed by the department, and  
3 it raises the question for us as to whether there is  
4 any inherent conflict in a mortgage broker being  
5 within the same structure, more or less, as the  
6 realtor in that situation.

7           And I think your department is taking  
8 actually the right approach in changing the  
9 regulations to give advisory notices on the variable  
10 mortgages. I think it is completely antithetical to  
11 what Pennsylvania should be doing to place  
12 moratoriums on mortgage foreclosures, because I think  
13 that would actually stymie them providing for  
14 mortgages.

15           But are there any concerns about conflicts of  
16 interest for the larger practices that you would see  
17 with the licensing?

18           SECRETARY KAPLAN: Well, heretofore, licensed  
19 real estate brokers were exempt from holding licenses  
20 as mortgage brokers, even if they granted mortgages.

21           Our goal, our ambition, is to professionalize  
22 the entire process of granting a mortgage, and we  
23 want people to fill that role, regardless of whatever  
24 caption they hold in their primary business.

25           If you are giving somebody a mortgage, we

1 think that you ought to have the education that is  
2 required of the mortgage lender or broker. We think  
3 you ought to pass the test. We think you ought to  
4 meet the character requirements for holding a license  
5 as a mortgage lender or broker, and it really doesn't  
6 matter much to us whether otherwise you are a real  
7 estate agent or licensed in some other way.

8           So we are trying as best we can to be  
9 consistent in creating a professional, level playing  
10 field for people to grant mortgages. We think that's  
11 the best way to protect Pennsylvania consumers in  
12 what ordinarily is the biggest financial transaction  
13 of most people's lives.

14           REPRESENTATIVE REICHLEY: Okay.

15           Thank you, Mr. Chairman.

16           SECRETARY KAPLAN: Thank you.

17           CHAIRMAN EVANS: Representative Scavello.

18           REPRESENTATIVE SCAVELLO: Thank you, Mr.  
19 Chairman, and good afternoon, Mr. Secretary.

20           SECRETARY KAPLAN: Good afternoon.

21           REPRESENTATIVE SCAVELLO: First, I'm a  
22 legislator from Monroe County, so you mentioned  
23 Monroe before, and I want to thank the department,  
24 especially your Deputy, Paul Wentzel, and the other  
25 Deputies, because they made themselves available at

1 night and on weekends to meet with the consumers that  
2 were affected by those loans.

3           And in my mind, in a lot of cases it was the  
4 secondary loan, that shadow loan, I'll call it, that  
5 really put them into trouble. And the other thing  
6 was putting them into homes that they couldn't  
7 afford. And that is where education comes in, and  
8 frankly, most of my questions are going to be on the  
9 education aspect of it, because to me, I think if  
10 some of those folks realized that it wasn't just the  
11 mortgage payment -- it is the taxes; it is all the  
12 other bills associated with purchasing that home --  
13 some of them might not have put themselves in that  
14 position.

15           Your budget materials, first you talk about  
16 K through 12, and I look at that high-school-age  
17 student, that student, you know, who's a junior or  
18 senior in high school that is going to end up in  
19 college, and the minute they hit college, they get  
20 30 applications for credit cards.

21           SECRETARY KAPLAN: There's a table set up on  
22 campus most times to greet them as they walk on and  
23 give them a free T-shirt if they will apply for a  
24 credit card.

25           REPRESENTATIVE SCAVELLO: There you go.



1           SECRETARY KAPLAN: No doubt about it.

2           REPRESENTATIVE SCAVELLO: What do we do to  
3 try to educate them? You know, is that what you are  
4 doing at the high school level, to let them know that  
5 this is--- Okay.

6           SECRETARY KAPLAN: There are all kinds of  
7 components to this, and as I said, this isn't  
8 something that we believe can be done on a  
9 once-a-year or twice-a-year basis.

10           When I was a kid, and I suspect when you  
11 were, the firemen would come in once a year and talk  
12 to you about fire prevention, and the cop would come  
13 in once a year and talk to you about policing. We  
14 think that this needs to be integrated into curricula  
15 all the way through school, so that when kids  
16 graduate from high school, hopefully they can read  
17 and write and do arithmetic, but hopefully they also  
18 have some understanding that when you borrow money,  
19 it has to be repaid and with interest.

20           I can tell you that before Christmas this  
21 year -- a very quick anecdote -- I was watching  
22 television, and there was an ad on. And the  
23 innovation this year for a lot of the big toy  
24 companies is, games that used to involve money now  
25 involve credit cards.

1           And there was one particular ad for Shopping  
2 Barbie, and the ad said, you know, if you buy Barbie  
3 a dress, you swipe the card through a machine and the  
4 machine says, you now have \$150 in your account  
5 instead of \$200. But the troubling thing was, after  
6 you buy her three dresses and the amount is down to  
7 \$50, the next time you swipe the card through, it  
8 automatically goes back to \$200, and the announcer  
9 comes on the commercial and says, you never run out  
10 of money, all right?

11           REPRESENTATIVE SCAVELLO: Yeah.

12           SECRETARY KAPLAN: I mean, that's the kind of  
13 message -- and actually, I went with the head of our  
14 Office of Financial Education to a West Shore Toys R  
15 Us and we bought the game, and very boldly on the  
16 cover of this game it says, for ages 3 and up,  
17 okay?

18           Think about the implications of that. We as  
19 a society have an obligation to offset so many of  
20 those advertising messages that our kids are getting,  
21 and we have to do it through good, clear, intense,  
22 ongoing education. It has to permeate K through 12,  
23 in my view.

24           REPRESENTATIVE SCAVELLO: Has any discussion  
25 been -- I know it is a question for another -- but

1 have there been any discussions with the Secretary of  
2 Education about this?

3 SECRETARY KAPLAN: We actually have a  
4 terrific cooperative relationship with the Department  
5 of Education and Secretary Zahorchak.

6 Representatives of our office recently,  
7 within the last month or so, testified in front of  
8 the State Board of Education, and they were extremely  
9 enthusiastic for our proposals about incorporating  
10 this into education systems across the State.

11 REPRESENTATIVE SCAVELLO: Since you mentioned  
12 the game, this financial football game, the financial  
13 football that is on the Web site, I'm hearing there's  
14 a tremendous amount of hits that you are getting, and  
15 it's an NFL product.

16 I'll ask the three questions, and then if you  
17 can answer: What is the cost to the department using  
18 the NFL brand? In what way are you evaluating the  
19 success of this game and educating consumers? And  
20 what demonstrable return has resulted because of this  
21 game? Like, are we getting a bang for our buck or  
22 not.

23 SECRETARY KAPLAN: Well, the answer to your  
24 first question is, the cost to the department is  
25 zero.

1           REPRESENTATIVE SCAVELLO: Great.

2           SECRETARY KAPLAN: This is a cost that is  
3 borne by the people that produce the game.

4           We have assisted them in distributing it. I  
5 actually appeared at a Philadelphia high school with  
6 one of the players from the Eagles. I won't mention  
7 his name because he dropped way too many passes  
8 toward the end of the season. But we each coached a  
9 team, and we had our financial football face-off, and  
10 I won 7 to 6. But besides that, it was a great deal  
11 of fun for the kids.

12           I don't know what sort of follow-up we have  
13 done in terms of the impact. We are at this moment  
14 knocking ourselves out to push more and more product  
15 -- desirable, fun, easy-to-incorporate product --  
16 into the schools so that we can engage the teachers  
17 and ultimately engage the students.

18           REPRESENTATIVE SCAVELLO: My final question.

19           ATM fees. Is your department looking at  
20 them? Some of them are--- You know, I think the  
21 banks, for the most part, do a decent job, but, you  
22 know, some of these locations, you really pay through  
23 the nose. Is there any way of looking into maybe  
24 looking at some of those fees and getting them  
25 reduced?

1           SECRETARY KAPLAN: Yeah. Generally speaking,  
2 they are federally regulated matters, but what we  
3 tell consumers all the time, and this is part of  
4 education, is that you have to be prepared to shop  
5 with your feet. You have to make judgments, and when  
6 it costs \$5 to do something where it should cost \$1  
7 or should cost zero, just don't do it; find another  
8 place.

9           We have this issue come up frequently, and  
10 usually it's the poorest folks in our society that  
11 think that, you know, it's only \$5, and they don't  
12 sort of realize the implications of paying \$5 to take  
13 \$20 or \$50 out of your ATM.

14           REPRESENTATIVE SCAVELLO: Thank you,  
15 Mr. Secretary, and thank you, Mr. Chairman.

16           CHAIRMAN EVANS: Thank you.

17           I would like to thank the Secretary of  
18 Banking for you coming before this committee and  
19 answering all of our questions. We greatly  
20 appreciate that.

21           Again, I would like to thank you, and we will  
22 be working with you closely.

23           SECRETARY KAPLAN: I appreciate it. Thank  
24 you.

25           CHAIRMAN EVANS: I would like to take a

1 5-minute break and then bring the Acting Secretary of  
2 the Department of Labor and Industry, Ms. Sandi Vito,  
3 before the House Appropriations Committee.

4 Thank you very much.

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6 (The hearing concluded at 3:00 p.m.)

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1           I hereby certify that the proceedings and  
2 evidence are contained fully and accurately in the  
3 notes taken by me on the within proceedings and that  
4 this is a correct transcript of the same.

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Jean M. Davis, Reporter  
Notary Public

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