FINANCIAL INSTITUTIONS

RESPONSIBILITY ACT (FIRA)

FOR THE STATE OF ILLINOIS

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The Woodstock Institute

The Woodstock Institute is a not-for-profit organization based in Chicago. For the past fourteen years, the Institute has carried out applied research and developed and implemented programs which increase private sector investment in modest-income and minority communities for the benefit of those who live there. It designs programs which bridge the gap between the needs of communities and the resources of banks, savings and loan associations, foundations and others.

The Institute provides a variety of services to community-based organizations, financial institutions, foundations and government agencies, including applied research, policy analysis, program design and evaluation.

FINANCIAL INSTITUTIONS RESPONSIBILITY ACT

Fundamental changes--more basic than any time since the depression--are sweeping the banking industry. This revolution has affected the way that every Illinois resident and business pays bills, saves and borrows money. Many of the changes have been focused on faster and more convenient service to customers, and that is good for residents and businesses in our state. However, many of Illinois´ senior citizens, small businesses, rural communities, neighborhoods, and low- and modest-income residents have found that they are locked out of the new financial services industry because their banking needs are too small, too unique or are not viewed as big money makers.

The Financial Institutions Responsibility Act (FIRA) is designed to insure that every financial institution that does business in Illinois does business with people and businesses throughout the state. Through a series of provisions, FIRA clearly establishes a responsibility for meeting the basic credit, checking and savings needs of the average resident, farmer, small business and neighborhood. This legislation recognizes the significant role played by local banks and savings and loan associations, and holds the new nonbank corporations accountable to the same standards.

FIRA has five basic premises:

1. To establish the responsibility of nonbank corporations that provide banking services, to service all of Illinois and not just the more affluent residents and communities.

2. To define a reasonable standard of reinvestment performance for nonbank corporations in meeting those responsibilities.

3. To require banks, savings and loan associations, and nonbank corporations to provide affirmative marketing and full disclosure of deposits and loans by census tracts.

4. To mandate affordable basic banking services so that Illinois residents of modest means can have access to saving, checking, and check-cashing services.

5. To develop an adequate oversight and enforcement mechanism which ensures that residents, farmers and small businesses have a reasonable way to voice complaints and affect change in the reinvestment performance of banks, savings and loan associations, and nonbank corporations.

FIRA was developed by a working group that includes the Illinois AFL-CIO, Illinois League of Women Voters, Illinois Public Action Council, Illinois State Council of Senior Citizens´ Organizations, Illinois Support Center, Statewide Housing Action Council, and Woodstock Institute. It is composed of the three attached legislative initiatives. The first, which is actually labeled the Financial Institutions Responsibility Act, details responsibility and accountability for all nonbank corporations that take deposits or make loans in Illinois. The second proposes amendments to the Illinois Bank Holding Company Act that would make its disclosure requirements and oversight mechanisms parallel to those required by FIRA. The third legislative initiative would mandate provision of affordable basic banking services.

I. FINANCIAL INSTITUTIONS RESPONSIBILITY ACT

INTRODUCTION: The Financial Institutions Responsibility Act recognizes the special role that financial institutions play in the economy of the State of Illinois by providing credit and deposit services to Illinois residents and businesses. This Act is designed to ensure that the needs of low and modest income residents, communities, family farmers and small businesses in Illinois for those services continue to be met as the financial service industry continues to grow and change.

DEFINITIONS: For purposes of this Act, financial institutions include those organizations, except for banks, savings and loan associations and credit unions, that take deposits or make loans in Illinois. Specifically that means:

1. Mortgage Bankers as defined by Chapter 17, Paragraph 2302 of the Illinois Revised Statutes.
2. Consumer Finance Companies as defined by Chapter 17, Paragraphs 5201 and 5401 of the Illinois Revised Statutes.
3. Commercial Finance Companies which are those corporations that provide commercial credit to businesses and individuals for business purposes.
4. Money Market Funds
5. Insurance Companies as defined in Chapter 73, Section 614 of the Illinois Revised Statutes.
6. Farm Credit Institutions which are those corporations that provide agricultural credit to farmers and agricultural related businesses.

LICENSING: This Act shall require each of the above to be licensed by the appropriate agency, or where there is no current state licensing provision, by the Director of Financial Institutions.

Licensing shall be contingent upon the reinvestment performance of the licensee. Inadequate reinvestment performance shall be grounds for revoking the license.

Statement of Community Reinvestment in Illinois

STATEMENT OF COMMUNITY REINVESTMENT: Financial institutions that take deposits or make loans in the State of Illinois have a responsibility to meet the deposit and credit needs of all residents and businesses in Illinois and particularly those of low and moderate income communities, family farmers and small businesses. The board of directors of each financial institution shall annually adopt a **Statement of Community Reinvestment in Illinois** that describes its efforts to meet the deposit and credit needs of modest income residents, family farmers and small businesses in Illinois. Copies of the statement shall be publicly available at all locations in Illinois where the company does business.

CRA FILE: Each financial institution shall maintain a file of written comments from Illinois residents, family farmers and businesses for the last two years on its reinvestment performance. This file shall also contain copies of any responses that the financial institutions makes to these comments. This file shall be available to the public for review upon request.

Each financial institution shall post a notice at each business office in Illinois that describes how and where you can get a copy of the Statement of Community Reinvestment in Illinois; where and to whom you may send comments about the institution's reinvestment performance; where you can review the file of comments on the institution's reinvestment performance; and how you can file a complaint with the licensing agency.

A file containing the above information shall be available at each financial institution and branch.

Reinvestment Performance

MODEST INCOME: For purposes of this Section, modest income census tracts are defined as those census tracts where the median family income is at or below 120% of the median household income for the State of Illinois as defined by the last U.S. Census.

For purposes of this Section, rural areas are defined as those counties that have no census tract definitions.

SMALL BUSINESSES: For purposes of this Section, small businesses are defined as those whose annual sales are less than $10 million and who employ residents of the State of Illinois.

FAMILY FARMS: For the purpose of this Section, family farms are defined as those farms where the family makes all management decisions, where farming is the principal livelihood, where no more than a reasonable amount of labor is provided by non-family members, and where gross sales are less than $500,000 per year.

AFFIRMATIVE MARKETING: Licensed financial institutions are required by this Act to affirmatively market the products they offer in modest income census tracts and rural areas. This includes credit cards, other consumer loan products, mortgages, other residential loan products, agricultural loan products and commercial loan products. Affirmative marketing includes direct mail solicitations, publicly available printed materials on loan products, and advertisements in local newspapers and on local and ethnic radio and TV stations.

REINVESTMENT STANDARDS: Financial institutions that make residential loans in Illinois are required to annually reinvest in modest income communities and rural areas in Illinois in an amount equal to or greater than 30% of their new residential loan originations in Illinois or in an amount equal to or greater than 5% of their residential assets, whichever is greater.

Financial institutions that make commercial loans in Illinois are required to make loans to small businesses in Illinois each year, in an annual amount equal to or greater than 15% of their new commercial loan originations in Illinois.

Licensed financial institutions that make agricultural loans are required to annually make agricultural loans to family farmers in rural areas in Illinois in an amount equal to or greater than 30% of their new agricultural loan originations in Illinois.

DEPOSIT SERVICES: Licensed financial institutions that take deposits in the State of Illinois must affirmatively market deposit products in modest income census communities and rural areas.

Affirmative marketing includes direct mail solicitation and advertisements in local and ethnic newspapers and on local and ethnic radio and TV stations.

AUTOMATED TELLER MACHINES: Licensed financial institutions that own Automated Teller Machines or other electronic methods of access to banking services in Illinois must locate 25% of their ATM's or other electronic access machines in modest income census tracts and rural areas.

Reinvestment Reporting

DISCLOSURE: Licensed financial institutions must annually disclose by census tract or by county in rural areas the number and dollar amount of their deposits or loans. Disclosure is required only for those services provided in the State of Illinois. This includes: 1) deposits by type of account (checking or savings); 2) residential loans by type of loan (mortgages, FHA/VA loans, home improvement loans and multifamily loans); 3) commercial loans (by size of borrower, type of borrower, and use of funds); and 4) agricultural loans by size of farm. This data must be disclosed for each calendar year.

FORECLOSURE DISCLOSURE: Licensed financial institutions must also disclose by census tract the number and dollar amount of all residential and farm foreclosures.

PUBLIC ACCESS: The deposit and loan disclosure data shall be publicly available at the institution by March 31 of each year. Copies of the information must be provided upon request. A reasonable fee may be charged for the cost of copying.

PUBLIC COLLECTOR: Two copies of the loan and deposit disclosure information must be filed with the licensing agency by March 31 of each year. The licensing agency will maintain organized files of the disclosure information available to the public in Springfield and in Chicago. Each licensing agency shall make the information available for review and copying at their office during normal business hours.

Oversight

OVERSIGHT COMMITTEE: The Illinois State Legislature shall appoint an oversight committee made up of equal numbers of financial institution representatives and community representatives representing modest income census tracts and rural areas. The oversight committee shall hear complaints about the reinvestment performance of financial institutions and shall make recommendations on license renewals.

PUBLIC HEARINGS: Any community, rural or business organization that has a complaint about a licensed financial institution shall have the right to request a public hearing on the reinvestment performance of the financial institution, and the information presented at the public hearing shall be considered when the license is renewed. If a public hearing is requested by an organization or organizations representing more than 50 Illinois consumers, the appropriate licensing agency must hold the public hearing at a time and place convenient for consumers.

State Deposits

STATE DEPOSITS: The Illinois State Treasurer is encouraged to award state deposits to licensed financial institutions with particularly good reinvestment performance in meeting the spirit and goals of this Act.

Severability

SEVERABILITY: Should any court of competent jurisdiction hold any section, subdivision, clause, phrase, or provision of this Act to be unconstitutional or invalid for any reason whatsoever, such holding shall not affect the validity of the remaining portions of this Act.

II. AMENDMENTS TO THE ILLINOIS BANK HOLDING COMPANY ACT OF 1957

PURPOSE: The purpose of these amendments is to define reinvestment performance for banks and savings and loan associations in Illinois in terms of the minimum standard that is needed to safeguard the health and vitality of the Illinois economy.

ELIGIBILITY: The following amendments are proposed for banks, savings and loans, and credit unions doing more than $10 million in assets during a calendar year, to Chapter 17 of the Illinois Bank Holding Company Act of 1957, as amended in June 1985.

DEPOSIT DISCLOSURE:

1. A new subsection is added to Paragraph 503, Section 3 that would require every financial institution to annually disclose by census tract the number and dollar amount of their checking and savings deposits. This information must be reported for each calendar year and made publicly available on or before March 31 of the following year. Data must remain publicly available for five years at the main business office of the financial institution.

   In addition, by March 31, two copies of this data must be filed with the Commissioner of Banks and Trust Companies for banks, the Commissioner of Savings and Loan Associations for savings and loan associations, and the Director of the Department of Financial Institutions for credit unions. Each Commissioner shall make one copy available to the public in Springfield and in Chicago and provide photocopies of the data available upon request. A reasonable fee may be charged for the cost of the copying.

COMMERCIAL AND HOME MORTGAGE DISCLOSURE, FORECLOSURE DISCLOSURE:

2. A new subsection is added to Paragraph 505, Section 5 that would require every bank to annually file with the Commissioner of Banks and Trust Companies, every savings and loan association to annually file with the Commissioner of Savings and Loan Associations and every credit union to annually file with the Director of the

Department of Financial Institutions, a copy of their Home Mortgage Disclosure data by March 31 of the year following the calendar year reported. In addition, each bank, savings and loan association, and credit union shall annually file a disclosure statement listing the number and dollar amount of their commercial loans by census tract and in rural areas, by county. Commercial loans shall be disclosed by size of borrower, type of borrower, and use of funds. In addition, each bank, savings and loan association, and credit union shall disclose by census tract the number and dollar amount of all residential and farm disclosures. This disclosure statement shall be filed by March 31 of the year following the calendar year reported with their respective state regulators. The respective Commissioners shall make a copy available to the public in Springfield and in Chicago. Copies shall be available upon request. A reasonable fee may be charged for the cost of the copying.

PURPOSE: 3. A new Section is added to Paragraph 503 or 505 that encourages affirmative marketing and distribution of Automatic Teller Machines.

MODEST INCOME: For the purposes of this Section, modest income census tracts are defined as those census tracts where the median family income is at or below 120% of the median family income for the State of Illinois as defined by the U.S. Census.

RURAL AREAS: For the purposes of this Section, rural areas are defined as those counties where there are no census tract definitions.

AFFIRMATIVE MARKETING: Each bank and savings and loan association is required by this Act to affirmatively market deposit services, credit cards, other consumer loan products, mortgages, other residential loan products and commercial loan products in modest income census tracts and to small businesses. Affirmative marketing includes direct mail solicitations, advertisements in local, ethnic and trade publications and on local and ethnic radio and television stations.

AUTOMATED TELLER MACHINES:

Each bank or savings and loan association that owns Automated Teller Machines in Illinois or owns other electronic banking access machines must locate 25% of its ATM's or other electronic access machines in modest income census tracts and rural areas.

OVERSIGHT COMMITTEE:

4. A new Section is added to paragraph 503 or 505 that establishes an oversight committee made up of equal numbers of industry representatives and representatives of modest income census tracts and rural areas. The oversight committee shall hear complaints about the reinvestment performance of banks and savings and loan associations and shall make recommendations to the Commissioner of Banks and Trust Companies and the Commissioner of Savings and Loan Associations for remedial action in cases of a poor reinvestment record or noncompliance with the provisions of this Act. The recommendations of this oversight committee shall be placed in the bank or savings and loan association's Community Reinvestment File required by the Federal Community Reinvestment Act, and findings of non-compliance shall be seen as grounds for denial of permission to buy, merge, be bought by, or otherwise engage in interstate banking.

PUBLIC HEARINGS:

Any complaint filed by an organization or organizations representing more than 50 Illinois residents must be heard at a public hearing held by the oversight committee at a time and place convenient for the organization(s) filing the complaint.

STATE DEPOSITS:

5. A new Section is added to Paragraph 503 or 505 that encourages the Illinois State Treasurer to award state deposits to banks and savings and loan associations with particularly good performance in meeting the spirit and goals described in these amendments.

III. AFFORDABLE BASIC BANKING SERVICES

PURPOSE: The purpose of this proposal is to establish affordable access to basic banking services for modest income residents of the State of Illinois. This legislation is intended to apply to all banks, savings and loan associations and other licensed financial institutions as defined by the Financial Institutions Responsibility Act.

MODEST INCOME: For each of the following proposals, modest income residents are defined as those residents of Illinois whose household income falls below 80% of the median household income of the State of Illinois as defined by the U.S. Census.

LIFELINE CHECKING: An amendment is proposed to Chapter 17 of the Illinois Bank Holding Company Act of 1957, as amended in June 1985. Paragraph 504, Section 4(a) shall be amended to read "every financial institution shall offer a Basic Checking Account to any natural person 65 years of age or older <u>and to any modest income resident</u> who requests such an account."

A "Basic Checking Account" may be opened with a $100 minimum initial deposit or a written agreement for at least monthly direct deposits by a third party. No fees may be imposed on the first to 10 checks drawn each month, except customary stop payment and insufficient fund charges.

LIFELINE SAVINGS: A new Section is proposed for Chapter 17, Paragraph 504 of the Illinois Bank Holding Company Act of 1957, as amended in June of 1985. This section would require all banks and savings and loan associations to offer a basic savings account to any natural person 65 years of age or modest income residents of Illinois.

The "Basic Savings Account" shall require a minimum balance of no more than $10. It will pay an interest rate equal to or greater than passbook savings accounts. Unless there are more than three withdrawals per calendar quarter, there shall be no service fees charged.

GOVERNMENT CHECK CASHING: A new Section is proposed for Chapter 17, Paragraph 504 of the Illinois Bank Holding Company Act of 1957, as amended in June of 1985. This section would require banks and savings and loan associations to cash any government check when proper identification is presented by the payee. A reasonable fee for this service may be charged. The Department of Financial Institutions shall annually establish this fee.

N.S.F. FEES:

A new section is proposed for Chapter 17, Paragraph 504 of the Illinois Bank Holding Company Act of 1957, as amended in June of 1985. This section would establish a ceiling on fees charged for NSF checks. This fee would be set at $5.00 and reviewed biannually by the Director of Financial Institutions.