



OFFICE OF THE ILLINOIS STATE TREASURER  
ALEXI GIANNOULIAS

August 31, 2010

Jennifer J. Johnson  
Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551  
[submitted via email]

Re: Comment on Community Reinvestment Act Regulation Hearings [R-1386]

Dear Ms. Johnson:

Thank you for the opportunity to comment on modernizing the regulations that implement the Community Reinvestment Act. My office works with banks every day in a variety of ways and we are committed to making sure that these banks are doing right by their communities. By modernizing the CRA regulations we can make bank ratings more transparent and useful to consumers. In addition, a more transparent process will lead to more accountability – making sure banks are doing what they say, and making a positive impact on their communities.

While there is much to be done on the legislative side of this important law, including passage of a fair, safe, and more relevant version as proposed in the CRA Modernization Act of 2009 (HR 1479), the focus of this letter is the importance of building transparency within CRA, specifically with regard to qualifying activities, ratings, and reporting.

When more than 95% of banks in Illinois receive a grade of “Satisfactory” or better on the CRA exam, it appears they are already doing enough. With the exception of a few progressive financial institutions, however, we know this isn’t the case. There is still an overwhelming need for affordable credit and financial services in low-income neighborhoods. Community outreach groups and consumer advocates, as well as individual consumers, want to see what that grade of “Satisfactory” actually means.

When CRA ratings were first made public, in 1990, around 10% of all financial institutions failed their exam. Today, that number is less than 2%.<sup>1</sup> But millions of underserved Americans

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<sup>1</sup> <http://www.ffiec.gov/craratings/default.aspx>

go without access to credit and struggle each month to make ends meet. Where are we falling short?

In the State Treasurer's Office, we only want to do business with financial institutions that show commitment to their communities. Since last June, the state has required all banks that received or renewed state deposits to sign a CRA pledge that goes beyond simply earning a "Satisfactory" rating. It requires banks to serve the Illinois residents who need it most, by providing non-predatory foreclosure prevention products, conventional banking services to the unbanked, and small business loan and economic development products.

We're doing what we can at the state level to ask for community input and hold financial institutions accountable to their neighborhoods. But new federal regulatory reforms will help make clearer distinctions – for our office and all Illinois residents – between financial institutions that are really going the extra mile, and those that achieved "Satisfactory" by the skin of their teeth.

When regulators conduct CRA exams, they assign different weights to activities under the service and lending tests, but the rating reports do not clearly show how these weights add up to the total score. And because there are only four possible ratings, there is little indication of whether a "Satisfactory" financial institution actually fell one point short of Outstanding, or just a hair above Needs to Improve. Further stratification would help the public understand these ratings, and a numeric scale of 1 to 100, rather than 0 to 24, would be far more intuitive as a grading system.

In addition to making the rating system more transparent and intuitive, it is important to remained focused on the purpose of CRA and clarify what qualifies for CRA credit. We have come a long way since 1977. However, thousands of American communities still lack access to the most basic of financial services. The exam has long been focused on the lending test, diminishing other indicators of community development provided by the service test. Giving the service test more weight will encourage financial institutions to help serve low and moderate income communities – one individual at a time.

To give some examples, in 2009, my office launched a new micro-loan program, which encourages financial institutions to offer safe, affordable alternatives to payday loans. In partnership with the Illinois Asset Building Group, we promote these Small Dollar Loans across the state as a way for individuals to gain access to short-term, non-predatory loans when finances get tight between paychecks.

In addition, Illinois is the third state in the nation to develop a state-wide Bank On initiative, which pairs underserved, qualified individuals with new checking accounts. Nearly 370,000 Illinois residents rely on check cashing services to manage their monthly finances, spending an average of \$575 per year just to access their own paycheck. Participation in Bank On Illinois is an obvious way for banks to earn CRA service credit.

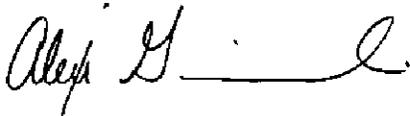
Finally, through our Linked Deposit programs, which provide state deposits to qualified financial institutions, banks can offer lower-interest loans for consumers, small businesses, and nonprofits, enabling Illinoisans to gain access to credit during tough economic times.

All of these activities should be counted toward CRA in a more meaningful way, to hold banks to a higher standard, and to highlight those institutions that are putting their money where their mouth is.

Finally, while these changes would make the process more transparent and the banks more accountable, we need to make sure that the resulting data is more accessible. Although the FFIEC collects aggregate information from each of the agencies and posts CRA ratings and high-level summary data on their website, there is no one-stop shop for obtaining full written reports. I propose a simple upgrade: the FFIEC searchable database should include full reports from all of the agencies, which in turn should require identical reports from their institutions. This will make it easier for the public and policymakers alike to make better decisions about where to do business.

I applaud the regulatory agencies for their efforts to modernize CRA and willingness to hear public comments at this critical juncture in our nation's financial history. I look forward to working together as we strive to better serve the needs of American communities.

Sincerely,

A handwritten signature in black ink, appearing to read "Alexi G. Giannoulias". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Alexi Giannoulias  
Illinois State Treasurer