



Office of the City Clerk

City Hall
121 N. LaSalle St.
Room 107
Chicago, IL 60602
www.chicityclerk.com

Legislation Text

File #: F2021-70, Version: 1

OIG FILE #20-1024
AUDIT OF THE MUNICIPAL DEPOSITORY DESIGNATION PROCESS

TABLE OF CONTENTS

I.	EXECUTIVE SUMMARY	4
A.	CONCLUSION	4
B.	FINDINGS	4
C.	RECOMMENDATIONS	5
D.	DOF RESPONSE	5
II.	BACKGROUND	7
A.	RESPONSIBLE BANKING ORDINANCES	8
B.	CHICAGO'S MUNICIPAL DEPOSITORY DESIGNATION PROCESS	8
C.	DOF'S REQUEST FOR PROPOSAL REQUIREMENTS	9
D.	CHICAGO'S MUNICIPAL DEPOSITORIES	11
III.	FINDINGS AND RECOMMENDATIONS	12
	FINDING 1: ALTHOUGH DOF ENSURES THAT BANKS' MUNICIPAL DEPOSITORY DESIGNATION RFP SUBMISSIONS ARE COMPLETE, IT DOES NOT EVALUATE THEIR COMMUNITY INVESTMENT AND EQUITABLE LENDING EFFORTS	12
	FINDING 2: DOF, CITY COUNCIL, AND THE TREASURER'S OFFICE HAVE NOT COORDINATED THEIR ROLES IN THE MUNICIPAL DEPOSITORY PROCESS TO ACHIEVE THE CITY'S OBJECTIVE OF ENCOURAGING EQUITABLE BANKING PRACTICES THROUGHOUT CHICAGO	14
IV.	OBJECTIVES, SCOPE, AND METHODOLOGY	16
A.	OBJECTIVES	16
B.	SCOPE	16
C.	METHODOLOGY	16
D.	STANDARDS	17
E.	AUTHORITY AND ROLE	17
	APPENDIX: LENDING PLEDGES FOR MUNICIPAL DEPOSITORIES	18

ACRONYMS

CRA	Community Reinvestment Act
DOF	Department of Finance
MCC	Municipal Code of Chicago
MSA	Metropolitan Statistical Area
OIG	Office of Inspector General
RBO	Responsible Banking Ordinance

RFP Request for Proposal

PAGE 2

OIG FILE #20-1024
AUDIT OF THE MUNICIPAL DEPOSITORY DESIGNATION PROCESS

City of Chicago Office of Inspector General

The Department of Finance (DOF), the Treasurer's Office, and City Council should coordinate their efforts to achieve the common goal of ensuring that banks selected as municipal depositories provide full banking to City residents in an inclusive and equitable manner.

**BECAUSE CITY COUNCIL HAS NOT REGULARLY VOTED ON THE
MUNICIPAL DEPOSITORY DESIGNATION ORDINANCE:**

One of the City's previously active banks had not responded to the annual request for proposals since 2012, but retained its designation as a municipal depository until March 2021. Three banks that had responded to the request for proposals on multiple occasions beginning in 2016 did not secure designation until March 2021.

PAGE 3

OIG FILE #20-1024
AUDIT OF THE MUNICIPAL DEPOSITORY DESIGNATION PROCESS

EXECUTIVE SUMMARY

The Office of Inspector General (OIG) conducted an audit of the Department of Finance's (DOF) administration of the process for designating municipal depositories. Banks designated as depositories hold and pay interest on funds deposited by the City and the Chicago Board of Education, essentially serving as the City's checking accounts. The objectives of the audit were to determine if DOF ensures that banks applying for designation submit the required information, and whether the designation process serves the City's goal of partnering with institutions that not only have the capacity to fulfill its banking needs, but also

provide financial services to Chicago communities in an inclusive and equitable manner.

A community's access to financing is critical to its prosperity. Financial institutions, however, invest much less in some communities than others. To address this inequality, Chicago and other cities have established responsible banking ordinances (RBOs) to encourage equitable lending by the banks that hold their deposits.

DOF administers Chicago's RBO through a request for proposal (RFP) process to determine banks' eligibility. The RFP process is intended to identify banks that can meet the City's financial needs and have demonstrated a commitment to providing equitable lending and other banking services throughout Chicago.

The municipal depository designation RFP process occurs annually, as required by state law. DOF solicits and reviews banks' submissions, then identifies eligible depositories in an ordinance. The ordinance is then transmitted to the City Council's Committee on Finance. The Committee does not always present the ordinance for consideration by the full Council. When it does, following Council proceedings, the Treasurer's Office determines which of the eligible depositories will hold the City's deposits. If the full Council does not consider the ordinance, the list of eligible depositories established by the most recent enacted ordinance remains in effect. This audit focused on DOF's role as the administrator of the process.

CONCLUSION

OIG concluded that, although DOF ensures that banks submit all documentation required by the RFP, it does not evaluate whether the banks provide inclusive and equitable financial services throughout Chicago. Furthermore, DOF, City Council, and the Treasurer's Office have not coordinated their roles in the municipal depository designation process to achieve the City's inclusivity and equity goals.

FINDINGS

Although DOF ensures banks' RFP submissions are complete, it does not evaluate the banks' community investment and equitable lending efforts. DOF does identify potentially predatory

PAGE 4

OIG FILE #20-1024
AUDIT OF THE MUNICIPAL DEPOSITORY DESIGNATION PROCESS

loans, such as those with an interest rate higher than the federal funds rate.¹ In these cases, the Department follows up with banks to inquire about the specific conditions underlying the loans. According to current DOF staff, however, they have never declined to designate a bank as a municipal depository on the basis of such lending conduct. Without undertaking a substantive evaluation of each bank seeking designation, DOF cannot identify demographic disparities in banking activity. Banks may then continue to lend inequitably across Chicago while the City continues to partner with them.

OIG also found that DOF, City Council, and the Treasurer's Office have not coordinated their efforts in the municipal depository designation process to achieve the City's objective of encouraging equitable banking

practices. The three entities largely act in isolation, and Council designates depositories infrequently. Because Council has not regularly voted on the designation ordinance, one of the City's previously active banks was able to keep its designation as a municipal depository until March 2021 despite not having responded to the RFP since 2012, and three banks that responded to multiple RFPs since 2016 did not secure designation until March 2021. Moreover, this lack of coordination has hindered meaningful discussion of alternative banking options that may better align with the City's equitable banking goals. For example, DOF, City Council, and the Treasurer's Office have all separately expressed interest in allowing credit unions to become municipal depositories. Members of Council and the Treasurer's Office have supported separate ordinances addressing this issue, but without a coordinated effort, the initiative has failed to gain traction.

RECOMMENDATIONS

OIG recommends that DOF, in collaboration with City Council's Committee on Finance, develop and implement a process to evaluate banks' lending and deposit records for equitable financial services provision. This process should include provisions related to sharing evaluation results with Council and applicant banks. We also recommend that DOF collaborate with Council and the Treasurer's Office to develop a coordinated municipal depository designation process that aligns with the City's equitable banking goals and allows the City to deposit public funds with banks that share and live up to those goals.

DOF RESPONSE

In response to our audit findings and recommendations, DOF stated that it is working with the Treasurer's Office and City Council committees to determine the information it will request and review from banks in the future. DOF also stated that it and the Treasurer's Office are updating the 2022 RFP process in a manner compliant with applicable law to ensure applicant banks have equitable lending practices. DOF committed to forming an evaluation committee with the

¹ "Federal funds rate is the target interest rate set by FOMC [Federal Open Markets Committee] at which commercial banks borrow and lend their excess reserves to each other overnight. The federal funds rate can influence short-term rates on consumer loans and credit cards as well as impact the stock market." James Chen, "Federal Funds Rate," Investopedia, April 6, 2021, accessed May 14, 2021, <<https://www.investopedia.com/terms/f/federalfundrate.asp>>.

PAGE 5

OIG FILE #20-1024
AUDIT OF THE MUNICIPAL DEPOSITORY DESIGNATION PROCESS

Treasurer's Office to ensure banks have met the requirements of the RFP. The Department committed to sharing information related to banks' predatory and equitable lending with the City Council Committee on Finance.

Finally, DOF stated its commitment to promoting equitable lending opportunities across Chicago communities. The Department stated that municipal depositories may not be the best vehicle for achieving these equitable lending goals, and that it has formed a task force along with the Treasurer's Office, State Treasurer, and banking institutions to explore alternative solutions.

The specific recommendations related to each finding, and DOF's response, are described in the "Findings and Recommendations" section of this report.

PAGE 6

OIG FILE #20-1024
AUDIT OF THE MUNICIPAL DEPOSITORY DESIGNATION PROCESS

II. BACKGROUND

Investment by private-sector financial institutions-such as home mortgages and business loans, and buying and leasing commercial real estate-is essential to a community's prosperity. In Chicago, financial institutions

invest much more in some community areas than others. A 2019 study by the Urban Institute compared investment by private-sector financial institutions in Chicago's low-poverty neighborhoods, where poverty rates are under 10%, with investment in high-poverty neighborhoods, where poverty rates exceed 30%. The study found that from 2011 to 2017, the amount invested in low-poverty neighborhoods was 4.3 times greater than the amount in high-poverty neighborhoods. Furthermore, the amount invested in majority-White neighborhoods was 2.6 times greater than the amount in majority-Latinx neighborhoods and 4.6 times greater than the amount in majority-Black neighborhoods.

Similarly, a June 2020 investigation by WBEZ found that between 2012 and 2018, majority-White neighborhoods received 68% of the total dollar amount of home mortgage loans in Chicago, while majority-Latinx and majority-Black neighborhoods received only 9% and 8%, respectively. Four majority-White communities—Near North Side, Lake View, Lincoln Park, and West Town—individually received more home mortgage dollars than all majority-Black neighborhoods combined.² Without access to home mortgage loans, it is difficult for community members to build wealth.

These inequitable investment patterns are not new. Discriminatory lending on the basis of race and wealth was perpetuated for decades by financial institutions, insurance companies, and the federal government through the practice of "redlining" maps to mark neighborhoods that purportedly presented excessive risk for lenders.³ In 1974, Chicago became the first city in the nation to require that banks bidding on the privilege of holding municipal deposits pledge to refrain from discriminatory lending⁴ and provide information about their community lending activities. Three years later, Chicago organizers' efforts were essential to Congress passing the Community Reinvestment Act (CRA), which encourages banks to lend in low- and moderate-income neighborhoods. In 1984, dissatisfied with the impact of the CRA, these organizers put public pressure on Chicago banks and negotiated agreements to invest \$173 million in disadvantaged neighborhoods. Those agreements set a precedent that other cities followed. In recent years, municipalities seeking accountability from banks have enacted what has come to be known as "responsible banking ordinances" (RBOs).

² Linda Lutton, Andrew Fan, and Alden Loury, "Where Banks Don't Lend," WBEZ, June 30, 2020, accessed March 31, 2021, <<https://interactive.wbez.org/2020/banking/disparity/>>. These disparities are partially attributable to higher home values in majority-White neighborhoods.

³ "Redlining is the practice of arbitrarily denying or limiting financial services to specific neighborhoods, generally because its residents are people of color or are poor." Bradford D. Hunt, "Redlining," Encyclopedia of Chicago, 2004, accessed May 3, 2021, <<http://www.encyclopedia.chicagohistory.org/pages/1050.html>>. See also Freddi L. Greenberg, "Redlining-The Fight Against Discrimination in Mortgage Lending," Loyola University Chicago Law Journal, 6, no. 1 Winter 1975): 72, accessed May 21, 2021, <<http://lawecommons.luc.edu/lucil/vol6/iss1/4>>.

* This is the second pledge provided in the appendix to this report, "Loan Policy Pledge for Municipal Depositories."

A. RESPONSIBLE BANKING ORDINANCES

RBOs work to encourage banks receiving municipal deposits to provide equitable banking services to low- and

moderate-income communities. Municipalities have employed a variety of legislative means to this end.⁵ For instance, Cleveland and Pittsburgh established oversight bodies that recommend which banks should receive public deposits based on an evaluation of their lending data and reinvestment performance. Philadelphia requires banks to identify goals for reinvestment in minority and low- to moderate- income communities, and to explain how they intend to remain competitive with peer institutions in this area. Chicago's RBO (Municipal Code of Chicago (MCC) § 2-32-400 et seq.), among other things, requires banks seeking designation as municipal depositories to submit lending and deposit information by census tract and to sign an anti-predatory lending pledge.

The power of RBOs to drive changes in financial institutions' lending behavior is limited. While municipalities have reasonably broad authority to ask banks about their lending practices, and take their answers into account when designating depositories, at least one RBO has been struck down in court as irreconcilable with the state and federal monopoly on banking regulation.⁶ This legal decision is not binding in other jurisdictions. Due in part to its deterrent effect, however, some municipalities have begun to explore alternative banking options to advance their equity goals. These options include allowing credit unions to accept public deposits and establishing municipal banks. Council members in Chicago have introduced ordinances concerning both measures, but they have not gained traction. Ultimately, although the extent of RBOs' ability to impact banks' behavior directly is uncertain and unsettled, existing RBO requirements remain an important source of data and a useful tool for deciding where to deposit municipal funds.

B. CHICAGO'S MUNICIPAL DEPOSITORY DESIGNATION PROCESS

The City's Department of Finance (DOF) administers Chicago's RBO for designating banks eligible to serve as municipal depositories through an annual request for proposal (RFP) process.⁷ These municipal depositories hold and pay interest on funds deposited by the City and the Chicago Board of Education. Essentially, they act as the City's checking accounts. MCC § 2-32-440 and the associated RFP application materials outline the process. New banks seeking designation, and

⁵See, e.g., Association for Neighborhood and House Development, Inc and National Community Reinvestment Coalition, "Keeping Banks Accountable to Our Communities," November 2011, accessed April 9, 2021, <https://anhd.org/sites/default/files/keeping_banks_accountable_to_our_communities_report_from_a_national_convening_on_local_responsible_banking_ordinances.pdf>.

⁶ See, e.g., Sullivan & Cromwell LLC, "Court Strikes Down New York City 'Responsible Banking Act' as Preempted by Federal and State Banking Laws: RBA Would Have Publicly Rated Banks and Threatened to Remove City Deposits From Them Based on the City's Assessment of the Banks' Community Lending and Other Activities," August 10, 2015, accessed June 10, 2021, <<https://www.sullcrom.com/court-strikes-down-new-york-city-responsible-banking-act-as-preempted-by-federal-and-state-banking->>

⁷ State law requires the comptroller to solicit bids at least annually (see 65 ILCS 20/21-9). "A request for proposal (RFP) is a business document that announces a project, describes it, and solicits bids from qualified contractors to complete it." Margaret James, "Request for Proposal (RFP)," Investopedia, April 11, 2021, accessed May 3, 2021, <<https://www.investopedia.com/terms/r/request-for-proposal.asp>>.

DOF reviews the RFP responses, determines each bank's eligibility to serve as a municipal depository, and prepares an annual ordinance.⁸ City Council may vote on the ordinance, designating the list of banks as municipal depositories. If Council takes no action on the ordinance, the most recently enacted ordinance remains in effect. The Treasurer's Office then chooses banks from those named in the ordinance for deposits of public funds. Figure 1 depicts the four phases of the municipal depository designation process.

v - ✓ -

Banks respond to the RFP. DOF reviews the submitted documentation for completeness and determines eligibility.

» fl _

DOF prepares an ordinance that includes all banks eligible to become municipal depositories.

City Council votes to designate the banks as municipal depositories. If City Council does not pass the proposed ordinance, the most recently enacted ordinance remains in effect.

The Treasurer's Office selects municipal depositories to receive funds and hold active City of Chicago accounts.

Source: OIG interviews with DOF staff.

C. DOF'S REQUEST FOR PROPOSAL REQUIREMENTS

Chicago's RBO requires banks to provide information on their home office, associated branches, and affiliates. Figure 2 provides an overview of required lending and deposit information.

⁸ DOF submits the proposed ordinance to City Council's Committee on Finance, which determines whether any banks should be removed and whether to submit the ordinance for consideration by the full Council.

PAGE 9

OIG FILE #20-1024
AUDIT OF THE MUNICIPAL DEPOSITORY DESIGNATION PROCESS

FIGURE 2: Chicago's RBO requires banks to submit detailed lending and deposit information

^icipliPe^

Residen	Within Chicago and the six-county Chicago Metropolitan Statistic
tial	purchase, refinancing, improvement, and construction loans • the
Lending	Administration/Veterans Affairs loans • By census tract within the
Consumer	Number and total amount of all l
Lending	City, and within the six-county M
Commercial	Number and total amount of all l
Lending	City, and within the six-county M
Savings and	Number of savings and checking
Checking	census tract
Account	
Additional	Loans for condominiums, cooper
Residential Loan	four families

Source: MCC § 2-32-440.

The RBO also requires banks to sign four distinct pledges related to socially responsible banking practices. The banks must pledge:

- not to engage in predatory lending;
- not to arbitrarily reject or vary the terms of a mortgage loan based on the location of the home and/or the race, color, religion, national origin, age, sex, marital status, ancestry, sexual orientation, parental status, source of income, disability, or military discharge status of the applicant(s);
- that they are committed to community reinvestment in low- to moderate-income communities in Chicago, and;
- that they will maintain any vacant buildings in their possession to the standards outlined in the Chicago Building Code.⁹

In addition to these pledges, banks submit demographic information about their employees, information about their home foreclosures in the last year, and copies of their most recent federal CRA evaluations. Banks also submit the financial information necessary to demonstrate they have the capacity to serve the City's financial needs.

⁹ The pledge forms are included in the appendix to this report.

PAGE 10

OIG FILE #20-1024
AUDIT OF THE MUNICIPAL DEPOSITORY DESIGNATION PROCESS

D. CHICAGO'S MUNICIPAL DEPOSITORIES

The City's 2019 Annual Financial Report states that, as of December 31, 2019, its depositories held a combined balance of \$455.3 million in cash and certificates of deposit.¹⁰ Currently, the 13 banks listed below are designated as municipal depositories. According to the Treasurer's Office, only the six banks indicated by bold type hold active City accounts.

Amalgamated Bank of Chicago

Associated Bank, N.A.

Bank of America National Association

BMO Harris Bank, N.A.

Citibank, N.A.

Fifth Third Bank National Association

GN Bank

JPMorgan Chase Bank, N.A.

MUFG Union Bank, N.A.

PNC Bank, National Association

The Huntington National Bank

Wells Fargo Bank, N.A.

Zions Bancorporation National Association

¹⁰ City of Chicago, Department of Finance, "Comprehensive Annual Financial Report For The Year Ended December 31, 2019," June 30, 2020, 72, accessed April 9, 2021, <[https://www.chicago.gov/content/dam/city/depts/fin/supp info/CAFR/2019CAFR/CAFR 2019.pdf](https://www.chicago.gov/content/dam/city/depts/fin/supp%20info/CAFR/2019CAFR/CAFR%2019.pdf)>.

PAGE 11

OIG FILE #20-1024
AUDIT OF THE MUNICIPAL DEPOSITORY DESIGNATION PROCESS

FINDINGS AND RECOMMENDATIONS

FINDING 1: Although the RBO's municipal depository designation requirements are complete, it does not evaluate their community investment and equitable lending efforts.

Chicago's responsible RBO requires each bank seeking designation as a municipal depository to submit information about its capacity to serve the City's financial needs, and to sign pledges related to the City's goals for equitable banking services provision. These equity goals are expressed in several RFP provisions, including, but not limited to, the loan policy and anti-predatory lending pledges, and the requirement that banks submit copies of their most recent Community Reinvestment Act evaluations.

OIG examined all documentation submitted in response to the 2021 RFP by the 13 banks designated as municipal depositories and concluded that DOF correctly assessed that each submission was complete. However, DOF has no process for evaluating the equity of service provision-i.e., its relation to race, geography, and median income. The eligibility determination is based solely on whether a bank provided the required information. DOF does not identify potentially predatory loans, such as those at interest rates higher than the federal funds rate.¹¹ In these cases, the Department follows up with banks to inquire about the specific conditions underlying the loans. According to current DOF staff, however, they have never declined to designate a bank as a municipal depository on the basis of such lending conduct.

While DOF reviews RFP responses for completeness, it does not have defined goals for evaluating RFP submissions for evidence of equitable service provision, and its current process manual does not have evaluation guidelines. Without substantive evaluation on a bank-by-bank basis, DOF cannot identify demographic disparities in banking activity. The RBO therefore presents no impediment to municipal depositories maintaining that status while engaging in inequitable lending across Chicago.

Although RFP submissions are voluminous, DOF currently assigns a single staff member to complete the

entire review process. Moreover, prior to 2021, all RFP responses were hard copy, making meaningful analysis particularly challenging. Lacking defined evaluation goals and the resources necessary to measure banks' performance against them, DOF has been unable to administer the RFP process in the substantive manner necessary to advance the public policy goals inherent in the RBO.

¹¹ "Federal funds rate is the target interest rate set by FOMC [Federal Open Markets Committee] at which commercial banks borrow and lend their excess reserves to each other overnight. The federal funds rate can influence short-term rates on consumer loans and credit cards as well as impact the stock market." James Chen, "Federal Funds Rate," Investopedia, April 6, 2021, accessed May 14, 2021, <<https://www.investopedia.com/terms/f/federalfundrate.asp>.

PAGE 12

OIG FILE #20-1024
AUDIT OF THE MUNICIPAL DEPOSITORY DESIGNATION PROCESS

RECOMMENDATIONS

DOF, in collaboration with the City Council's Committee on Finance, should develop and implement a process to evaluate the equitable service provision practices of banks seeking designation as municipal depositories. The process should,

- identify the factors DOF will consider in assessing banking practices (e.g., race, geography, and median income);
- set targets for equitable lending and deposit activity;
- establish detailed procedures for evaluating RFP submissions; and
- explain how DOF will share results of the annual evaluations with City Council and the applicant banks.

MANAGEMENT RESPONSE

"DOF and the Treasurer's Office have been working with the Committee on Finance, as well as the Committee on Housing and Real Estate, on the criteria that can be requested from the banks and reviewed by the City without creating any legal issues regarding the regulation of banks.

Over the last 18 months, DOF and the Treasurer's Office have worked with the Department of Law to add additional language to the Municipal Depository RFP regarding equitable lending that does not conflict with federal and State regulations. The 2021 RFP included this additional language.

DOF has established a process for reviewing each RFP response by ensuring that the respondent has provided the required information and evaluating that the information does not show that the respondent has used predatory lending practices, and that the respondent has provided loans throughout the Chicago area. DOF will share the information with the City Council Committee on Finance to the extent that it is not proprietary."

OIG FILE #20-1024
AUDIT OF THE MUNICIPAL DEPOSITORY DESIGNATION PROCESS

FINDING 2: DOF, City Council; and the Treasurer's Office; have not coordinated their roles in the 1% municipal depository process to achieve the City's objective of encouraging equitable banking practices throughout Chicago.

City Council designates depositories infrequently, and DOF, Council, and the Treasurer's Office largely execute their roles in isolation. As discussed in Finding 1, DOF determines which banks are eligible to serve as municipal depositories without evaluating banking practices for equitable service provision. Therefore, Council does not have the benefit of such an evaluation when voting to designate municipal depositories. Furthermore, although DOF makes this determination on an annual basis as required by state law, the full Council does not consider a designation ordinance every year. When Council does not pass a new designation ordinance, the most recently enacted ordinance remains in effect. In March 2021, Council passed an ordinance designating 13 municipal depositories-8 were most recently designated in 2010, 2 were designated in 2015, and 3 were new designees. Because Council has not regularly voted on the designation ordinance,

- despite not having responded to the annual RFP since 2012, one of the City's previously active banks kept its designation as a municipal depository until March 2021; and
- three banks that responded to the RFP in multiple years since 2016 did not secure designation until March 2021.

The Treasurer's Office chooses which banks actually hold public funds from a subset of designated municipal depositories designated by the Comptroller as "active banks." However, it does not use the lending and

deposit information gathered by DOF during the RFP process in making that choice; rather, it deposits funds based on the best return on the City's investments. Additionally, several of the City's most significant banking providers maintain that status due to their long-standing relationships with the City, rather than the merits of their RFP responses and evidence of their commitment to equitable service provision.

Another problem with the process for designating municipal depositories is the lack of coordination between City actors. DOF and the Treasurer's Office communicate regularly about daily operations, but not about overarching goals or issues with the designation process. On the legislative side, the Chair of the City Council's Committee on Finance has rarely submitted the annual designation ordinance to the full Council. Prior to March 2021, May 2010 was the last time Council considered the RFPs from all then-existing and potential depositories, and December 2015 was the last time Council dealt with the issue of municipal depositories at all, newly designating three banks. These three actors-DOF, the Treasurer's Office, and the Chair of the Committee on Finance-are aware they need to improve their coordination; they committed

PAGE 14

OIG FILE #20-1024
AUDIT OF THE MUNICIPAL DEPOSITORY DESIGNATION PROCESS

to forming a municipal depository task force to that end during the March 2021 Committee on Finance meeting.

Finally, the historical lack of communication has hindered meaningful discussion of alternative banking options that may better align with the City's equitable investment goals. For example, DOF, City Council, and the Treasurer's Office have all separately expressed interest in allowing credit unions to become municipal depositories. Members of Council and the Treasurer's Office have supported ordinances addressing this issue, but without a coordinated effort the initiative has not gained traction.

RECOMMENDATIONS

DOF should collaborate with City Council and the Treasurer's Office to develop a coordinated municipal depository designation process that aligns with the City's equitable investment goals and maximizes the City's ability to deposit public funds in banks that share those goals. Such a process might include,

- defining the goals of the municipal depository designation process and the responsibilities of each stakeholder;
- determining how progress towards such goals will be measured and documented;
- setting the frequency and format for submission of documentation required of depository applicants; and
- exploring banking options that may better leverage the City's deposits for greater investment in Chicago's historically under-served communities (e.g., establishing a municipal bank or allowing credit unions to accept public deposits).

MANAGEMENT RESPONSE

"DOF and the Treasurer's Office are currently reviewing the 2022 Municipal Depository RFP process with the Committee on Finance and the Committee on Housing and Real Estate to ensure that respondent banks have equitable lending practices, while being mindful of statutory and case-based legal constraints on municipalities seeking to regulate the banking industry. DOF and the Treasurer's Office will form an evaluation committee and jointly review the responses from the banks to ensure they have met the requirements of the RFP.

Regarding the setting and evaluation of goals, DOF will explore your suggestions and will take them under advisement to determine if there is a possibility of implementing them with consideration to the aforementioned legal constraints.

DOF and the Treasurer's Office are committed to promoting more equitable lending opportunities throughout all the communities within Chicago. Although the Municipal Depository RFP may not be the best method to achieve this goal, the Treasurer's office has formed a task force to work on such goals with the State Treasurer, City Comptroller and banking institutions."

PAGE 15

OIG FILE #20-1024
AUDIT OF THE MUNICIPAL DEPOSITORY DESIGNATION PROCESS

IV. OBJECTIVES, SCOPE, AND METHODOLOGY A.

OBJECTIVES

The objectives of the audit were to determine if,

- DOF ensured that banks seeking designation as municipal depositories submitted the lending and deposit information and signed pledges required by Chapter 2-32 of the MCC; and
- the process for designating municipal depositories serves the City's goal of selecting banks that provide equitable banking services throughout Chicago.

B. SCOPE

The audit focused on DOF and City Council's roles designating municipal depositories through the RFP process. The audit did not include the municipal depository selection process performed by the Treasurer's Office, which determines which of the active banks designated by the Comptroller hold public funds.

C. METHODOLOGY

To gain an understanding of RBOs in other cities, OIG researched best practices created by the National Community Reinvestment Coalition and interviewed a Philadelphia City Council member.

OIG interviewed staff from DOF, City Council, and the Treasurer's Office to gain an understanding of each party's role in the municipal depository designation process.

To understand City Council's role and viewpoints, OIG observed Committee on Finance meetings in February and March 2021 concerning municipal depositories, a Committee on Housing and Real Estate subject matter hearing on equitable mortgage lending in February 2021, and a budget hearing for the Treasurer's Office.

To determine if DOF correctly checked RFP submissions for completeness, OIG first reviewed the RFP language and DOF's process manual. We then reviewed each bank's response to the 2021 RFP and compared our results to DOF's results.

To understand which banks responded to the RFP between 2010 and 2021 and how City Council acted on DOF's annual ordinance submissions, OIG collected the 12 ordinances submitted to Council during that time period. This allowed us to determine which banks applied annually and what actions Council took.

PAGE 16

OIG FILE #20-1024
AUDIT OF THE MUNICIPAL DEPOSITORY DESIGNATION PROCESS

STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUTHORITY AND ROLE

The authority to perform this audit is established in the City of Chicago Municipal Code § 2-56-030 which states that OIG has the power and duty to review the programs of City government in order to identify any inefficiencies, waste, and potential for misconduct, and to promote economy, efficiency, effectiveness, and integrity in the administration of City programs and operations.

The role of OIG is to review City operations and make recommendations for improvement.

City management is responsible for establishing and maintaining processes to ensure that City programs operate economically, efficiently, effectively, and with integrity.

OIG FILE #20-1024
AUDIT OF THE MUNICIPAL DEPOSITORY DESIGNATION PROCESS

APPENDIX: LENDING PLEDGES FOR MUNICIPAL DEPOSITORIES

As a part of their response to the RFP, banks are required to sign pledges that address various equity goals. Below is the exact language of the pledges.

/

**Anti-Predatory Lending Pledge* for
Municipal Depositories**

We pledge that we are not and will not become a predatory lender as defined in Chapter 2-32 of the Municipal Code of Chicago. We further pledge that none of our affiliates is, and none of them will become, a predatory lender as defined in Chapter 2-32 of the Municipal Code of Chicago. We understand that becoming a predatory lender or becoming an affiliate of a predatory lender may result in the loss of our designation as a municipal depository.

Name of Financial Institution

Signature of Authorized Officer Title

Name of Authorized Officer (Print or Type) Business Telephone Number

Subscribed and sworn to before me this,

day of. __, 20

Notary Public

Date:

Name of transaction for which this certificate is submitted:

Contact Person: Address:

Telephone:.

*The definitions of certain terms set forth in Chapter 2-32 of the Municipal Code of Chicago and used in the Anti-Predatory Lending Pledge are reproduced on the attached pages.

57

PAGE 18

OIG FILE #20-1024
AUDIT OF THE MUNICIPAL DEPOSITORY DESIGNATION PROCESS

Loan Policy Pledge for Municipal Depositories

i
! We pledge not to arbitrarily reject mortgage loans for residential properties within a specific
| geographic area in Chicago because of the location and/or age of the property, or in the case of
proposed borrower to arbitrarily vary the terms of those loans or the application procedures for
those loans on the basis of race, color, religion, national origin, age, sex, marital status, ancestry,
I sexual orientation, parental status, source of income, disability or military discharge status. In
addition, we pledge to make loans available to low- and moderate-income residential property in the neighborhoods
of the City of Chicago within the limits of our legal restriction and prudent financial practices.

We understand that arbitrarily rejecting or varying the terms and/or application procedures of mortgage loans on the basis of the factors listed above may result in the loss of our designation as a municipal depository.

Name of Financial Institution

. Signature of Authorized Officer Title

Name of Authorized Officer (Print or Type) Business Telephone Number

Subscribed and sworn to before me this

day of ,:20,

Notary Public

Date:

Name of transaction for which this certificate is submitted:.

Contact Person: _ Address:.

Telephone:.

58

OIG FILE #20-1024

AUDIT OF THE MUNICIPAL DEPOSITORY DESIGNATION PROCESS

Compliance with Vacant Buildings Code Pledge* For-Municipal Depositories

We are in compliance^with the reporting requiremeriLs in regard to vacant property, as defined in Section 13-12-125 of the Municipal Code of Chicago. We further pledge we will maintain vacant properties in compliance with the Chicago Building Code as defined inSection 13-12r135 of the Municipal Code of Chicago. We understand that failing to adhere to these requirements .or becoming an affiliate of an offender of these requirements may result in the loss of our designation as a municipal depository.

Name of Financial Institution

Signature of Authorized Official Title

Name of Authorized Officer
(Print or Type)

Business Telephone Number

Subscribed and sworn to before me this

day of

Notary Public

Date

Contact Person: _____,
Address: _____

Telephone: _____

*Sec 13-12-125 of the Municipal Code of Chicago stipulates that the owner of any building that becomes vacant shall within 30 days after the

* Sec. 13-12-13.5 of the Municipal Code of Chicago stipulates that vacant buildings must be kept in compliance with the Chicago Building Code. This section includes, but is not limited to: ensuring that the building is adequately secured; that grass or weeds be kept below 10 inches in height; and the area be cleared of junk, rubbish and waste. The Section also mandates that all exit areas have continuous exterior lighting from dusk to dawn.

OIG FILE #20-1024

AUDIT OF THE MUNICIPAL DEPOSITORY DESIGNATION PROCESS

**AFFIDAVIT OF COMMITMENT TO COMMUNITY REINVESTMENT, RESPONSIBILITY AND
TRANSPARENCY CITY OF CHICAGO OFFICE OF THE COMPTROLLER**

_____, a duly, authorized representative of _____
represent and say as follows

t. That for the purpose of becoming an eligible depository for active deposits of the City of Chicago, the undersigned affiant states that it will use reasonable efforts to provide lending, financing and banking opportunities as a commitment of community reinvestment to Chicago's low and moderate income (LMI) communities;

Affiant states that such reasonable efforts shall include, but are not limited to:

A. Assignment of identifiable personnel to answer and respond to questions, concerns and inquiries by the citizens of Chicago, City Treasurer, City Comptroller and the City Council regarding financial services, investment and lending products, services and related issues, including the Community Reinvestment Act (CRA) of 1977;

B. Cooperate with and support non-profit neighborhood development/redevelopment organizations in the implementation of "neighborhood economic development" strategies that focus on revitalization of communities that are more locally focused where an institution has a branch or market presence;

C. Commit to affirmatively market and make available banking services throughout Chicago's low and moderate income communities by opening and/or maintaining branch locations within those communities and not merely by installing ATM distribution centers there;

D. Prepare an annual report of CRA activities, presented to the Comptroller, the Treasurer and the City Council, that is made publicly available, demonstrating investment in all Chicago Communities, as well as reinvestment in LMI communities of Chicago; by community, area that includes

the number of loans and amount of loans in the following (6) categories:

1. Home Purchase within LMI communities;
2. Refinancing within LMI communities;
3. Home Improvement;
4. Small Business-Loans (to companies with revenues under \$1 Million);
5. Community Development Loans including multi-family lending; and
6. Community Development Investments to eligible Community Development Financial Institutions (CDFI), and other community intermediaries to further the goals of an institution to meet its obligations to the Community Reinvestment Act of 1977 and this Affidavit.

Such a Municipal Depository annual CRA report will include, by community area, the number of mortgage loans originated and other strategies to minimize the impact of foreclosure and neighborhood instability.

ii: An institution acknowledges that failure to comply with this. Affidavit may result in discontinued status as a municipal depository.

Signed:

Dated:

The City of Chicago Office of Inspector General (OIG) is an independent, nonpartisan oversight agency whose mission is to promote economy, efficiency, effectiveness, and integrity in the administration of programs and operations of City government. OIG achieves this mission through, -

- administrative and criminal investigations by its Investigations Section;
- performance audits of City programs and operations by its Audit and Program Review Section;
- inspections, evaluations and reviews of City police and police accountability programs, operations, and policies by its Public Safety Section; and
- compliance audit and monitoring of City hiring and human resources activities by its Compliance Section.

From these activities, OIG issues reports of findings and disciplinary and other recommendations to assure that City officials, employees, and vendors are held accountable for violations of laws and policies; to improve the efficiency, cost-effectiveness government operations and further to prevent, detect, identify, expose and eliminate waste, inefficiency, misconduct, fraud, corruption, and abuse of public authority and resources.

OIG's authority to produce reports of its findings and recommendations is established in the City of Chicago Municipal Code §§ 2-56-030(d), -035(c), -110, -230, and -240.

PROJECT TEAM

Justin Gutierrez, Performance Analyst
Kathleen O'Donovan, Performance Analyst
Darwyn Jones, Chief Performance Analyst

PUBLIC INQUIRIES

Communications: (773) 478-8417 | [communications\(S\)igchicago.org](mailto:communications(S)igchicago.org)

TO SUGGEST WAYS TO IMPROVE CITY GOVERNMENT

Visit: igchicago.org/contact-us/help-improve-city-government <<http://igchicago.org/contact-us/help-improve-city-government>>

TO REPORT FRAUD, WASTE, AND ABUSE IN CITY PROGRAMS

Cover image courtesy of Canva. Alternate formats available upon request.

Call OIG's toll-free hotline: (866) 448-4754 / TTY: (773) 478-2066 Or visit:
igchicago.orfi/contact-us/report-fraud-waste-abuse/