

MINUTES
STATE BANKING BOARD OF ILLINOIS
Meeting of Monday, January 13, 2014
Via Video Conference

Illinois Department of Financial and Professional Regulation
Division of Banking
100 West Randolph, Suite 900
Chicago, IL 60601

and

Illinois Department of Financial and Professional Regulation
Division of Banking
320 West Washington Street
Springfield, IL 62786

MEMBERS PRESENT

Manuel Flores, Chairman and
Acting Secretary
Department of Financial and Professional Regulation

Lisa M. Derezinski
Public Member
Chicago, Illinois

Mark G. Field
President
The Farmers Bank of Liberty
Liberty, Illinois

Walter Grady
President
Seaway Bank and Trust Company
Chicago, Illinois

James B. Jurgens
President
State Bank of Arthur
Arthur, Illinois

Mike Polanski
Chairman of the Board
Village Bank & Trust
Arlington Heights

Dory Rand
Public Member
Chicago, Illinois

Andy Sauk
President
First Eagle Bank
Chicago, Illinois

STAFF PRESENT

Scott Clarke, Assistant Director
Division of Banking

Thomas J. Olsen, Attorney
Division of Banking

Michael Diaz, Deputy General Counsel
Division of Banking

Marc Edwards, Manager
Bank and Thrift Supervision

Edward Pugh, District Supervisor
Division of Banking

Belinda Daugherty, Administrative Assistant
Division of Banking

Chairman Flores called the meeting to order at 1:05 pm. A quorum was present. Members and staff introduced themselves.

Chairman Flores stated for the record because of a technical difficulty, due to audio in his location, he would not lead the meeting. He asks Ms. Lisa Derezsinski to spear head the meeting. Ms. Derezsinski accepted.

APPROVAL OF MINUTES OF OCTOBER 21, 2013

Dora Rand identified some minor corrections to be made.

Mike Polanski motioned to approve the minutes of October 21, 2013 with corrections, Mark Field seconded; minutes approved unanimously.

APPROVAL OF DECEMBER 31, 2013 FINANACIAL STATEMENT OF THE ILLINOIS BANK EXAMINERS' EDUCATION FOUNDATION

Dory Rand motioned to approve the December 31, 2013 financial statement of the Illinois Bank Examiners' Education Foundation, James Jurgens seconded. The motion passed unanimously.

TAX FORM 990 FOR THE 2012 CALENDAR YEAR

The Board reviewed tax form 990 of the Illinois Bank Examiners' Education Foundation. Scott Clarke clarified Part IX (page 10) Statement of Functional Expenses, which totaled \$50,958. He explained that the majority of the expense \$37,711 was expended for training and \$13,217 for travel associated with attending training.

Mr. Clarke further stated that the Foundations revenue is generated from investment in certificates for deposit. He noted that the Foundation has four certificates maturing in the near future; two on February 28, 2014 and two on March 1, 2014. He stated that the agency would send out a broadcast fax to all Illinois State Chartered Banks and Savings Institutions requesting certificate of deposit rate quotes. He further stated that the Foundations Investment Policy states that the funds can only be invested in a Bank that received a 1 or 2 CAMELS rating at their last examination.

The consensus of the Board was to reinvest the funds for one year with the highest bidders.

CURRENT CONDITION OF THE INDUSTRY

Scott Clarke stated that there was a spreadsheet in the meeting packet that outlines the current condition of the banks in Illinois. He stated that there was no significant change from the prior meeting of the board. He further stated about 80% of the banks in Illinois remain a composite 1 or 2; and about 40% of the banks in the Chicago metropolitan area are rated 3, 4 and 5, which is down by 10% from the past year. Mr. Clarke further stated that only 1 bank failed in the calendar year 2013, which is a significant reduction from calendar year 2010.

MERGER AND CONSOLIDATION ACTIVITY

Scott Clarke stated that the agency is starting to see a significant increase in the number of applications to merge banks. He further stated that Illinois still has the largest number of state chartered banks in the country, but in the past year there have been about 25 applications to merge or consolidate. Mr. Clarke mentioned that the agency has received its first expression of interest from a bank that would like to voluntarily dissolve. He stated that the bank may sell their assets and deposits to another institution, but then voluntarily liquidate its charter.

IDFPR PROPOSED LEGISLATIVE AGENDA FOR 2014

Scott Clarke stated that the agency has a couple of ideas for the upcoming legislative session. He indicated that there are provisions in the Illinois Banking Act for appointment of receiver. In general the agency would appoint the FDIC as receiver. He stated that in some cases, for example our foreign banks (banks of other countries located in Illinois) they do not have FDIC insurance, because they don't do a retail function. Mr. Clarke stated if they should fail the department could serve as the receiver or appoint a third party to serve as receiver. Similarly in the case of an Independent Trust Company (corporations that do trust activities) they do not have a banking charter or collect deposits therefore they do not have FDIC insurance. Mr. Clarke stated the department has only had one instance where the FDIC was not appointed as receiver. He further stated that he would like to make sure that should one of these limited circumstances occur the agency would have full powers as receiver. Mr. Clarke stated while there are statutory provisions governing receivership right now, but the FDIC has broader powers under their statute. He further stated that with respect to billing, historically the agency has used the last quarter's assets to bill the banks. He stated four or five years ago that was changed to use the year end numbers, even if the banks would grow or shrink in asset size they would pay the same amount based on the December 31st numbers. Mr. Clarke stated that the agency is proposing to go back to the quarterly assessment because it would be more fair. If the bank should shrink in size they would pay less and if they grew they would pay more. He stated that each bank files their quarterly report of condition statement on March 31st, June 30th, September 30th and December 31st and the agency would use the quarterly statement to bill the bank. Mr. Clarke stated the Trust Companies pay based on the number days the agency spends to examine the institution.

DISCUSSION OF NEW MORTGAGE RULES

Mr. Edwards stated that with regards to Qualified Mortgage Rules (QM Rules) the banks will be required to consider the consumers ability to repay the mortgage before making the loan. He stated that the regulation would cover all consumer mortgages except home equity loans, time share plans, reverse mortgages or temporary loans. Mr. Edwards further stated that the new rules went into effect on January 10, 2014. He stated that there are some minimal underwriting factors that the bank will have to look at when they are making any mortgage loan and that would be the current income or assets of that customer, their current employment status, the monthly payment on the real estate loan and the monthly payment on any other loans that were provided simultaneously; the monthly payment for mortgage-related obligations, current debt obligations, including any alimony, and child

support, monthly debt-to-income ratio or residual income, and the borrower's credit history. Mr. Edwards stated that the points and fees on a Qualified Mortgage cannot exceed 3% of one hundred thousand dollars or more. He also stated that there are special payment calculation rules which apply for loans with balloon payments, interest-only payments or negative amortization. Mr. Edwards stated that the agency does plan to examine for this as part of the safety and soundness examination, and that the federal regulators plan to examine for this in connection with Community Reinvestment Act (CRA) examinations. He stated that the agency will be working with them to coordinate that examination schedule process and in the near future obtain training for agency examination staff with regards to the new rules.

After some discussion by the Board on the regulation of the Qualified Mortgage Rule, Mr. Clarke mentioned that the Secretary held an outreach session in the Rockford area in December and a banker in the audience came forward and stated that they have three employees in the bank. The banker ask how can the smaller institutions keep track of the mortgage rules, the Volcker rule and all the other rules that are out there and develop systems to make sure that they are following the rules. Mr. Clarke stated that this is a struggle for the smaller institutions but hopefully they would have joined one of the Trade Associations which would help keep them informed. He also stated that it is part of our examiners efforts to make sure that our institutions are fully informed. Mr. Clarke stated that the larger institutions generally have a compliance department which keeps them informed.

DISCUSSION OF VOLCKER RULE AND ITS IMPACT ON ILLINOIS BANKS

Mr. Clarke asked Mr. Edwards to describe the rule and the impact it has on Illinois institutions.

Mr. Edwards stated that similar to the QM Rules born out of the Dodd-Frank Act the Volcker Rule is Section 619 of the Dodd-Frank Act. The purpose of the rule was to limit the type and amount of speculative risk that can be undertaken by entities that have public deposits. He stated that while the Volcker Rule applied to all banking entities regardless to size, the types of activities that the Volcker Rule was intended to prevent generally occur at larger more complex banking entities. Mr. Edwards stated that some of the agency's banks were caught within the Volcker Rule with regards to their investment in Trust Preferred Securities collateralized debt obligations (CDOs). Mr. Edwards gave a brief description of Trust Preferred Securities stating that in the past Bank Holding Companies might have had difficulty raising capital through other investors or a type of common stock, the Holding Company could issue a Trust Preferred Security which is debt but is treated as procurement of capital within the Holding Company. He stated that this is basically how a lot banks were able to generate additional capital, to grow the institution. A lot of banks due to their size would pull these Trust Preferred Securities into CDOs which would make them more able to sell to another party or group of investors with regards to this CDOs issuance. Mr. Edwards stated that direct investment in Trust, where you would not have these CDOs do not fall under the Volcker Rule. He stated that the Volcker Rule requires that securities be divested by July 21, 2015. He further stated that the Department took a look at their banks that hold these types of investments and a little less than 20 banks hold investments in Trust Preferred CDOs. The majority of the banks that held these investments did have market losses associated with this type of investment. He further stated that while the number of banks that held this type of investment wasn't significant compared to the agency's total number of charters, none the less if you were one of these banks that now fell under this new Rule and you did have a market loss with regards to this investment you would have some concerns. Mr. Edwards stated the largest market loss of one of the agency's banks that currently hold this investment might have been less than 30 Million. He stated that the agency has reached out to all of its institutions to talk with them about the Rule and how they were impacted by the new rule making under the Dodd-Frank Act and cautioned them on making any hasty decisions with regards to what to do with that investment, to consult with their investment advisor to see whether or not these investments would indeed fall under this new Rule. He further stated that the agency talked with them about additional rules that may be coming to address this issue. Mr. Edwards

stated that the agency is hopeful that changes will be made with regards to this rule making but, that has not occurred yet.

OPEN COMMENT PERIOD FOR MEMBERS OF THE BOARD

One of the Board members asks if there was an update on the Illinois Conceal Carry Law. Mr. Clarke stated that there has not been an update since the last meeting other than the signage which has to be 4" x 6" and placed on any door of a business that wishes to prohibit Conceal Carry. He stated that banks are not automatically exempt; they would have to decide whether they would prohibit concealed firearms.

OPEN COMMENT PERIOD FOR MEMBERS OF THE PUBLIC

None

ADJOURN

The meeting was adjourned at 2:46 pm.