

MINUTES

**STATE BANKING BOARD OF ILLINOIS
Meeting of Monday, January 14, 2013
Via Video Conference**

**Illinois Department of Financial and Professional Regulation
Division of Banking
122 South Michigan Avenue, Suite 1900
Chicago, IL 60603**

and

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

MEMBERS PRESENT

Manuel Flores
Acting Secretary
Department of Financial and Professional Regulation

Joy French Becker
President
Farmers State Bank & Trust Company
Jacksonville, Illinois 61651-1127

Lisa M. Derezinski
Public Member
Chicago, Illinois 60604

Mark G. Field
President
The Farmers Bank of Liberty
Liberty, Illinois 62347-0196

James B. Jurgens
President
State Bank of Arthur
Arthur, Illinois 61911

S. Michael Polanski
Chairman of the Board
Village Bank & Trust
Arlington Heights, IL 60004

Dory M. Rand
Public Member
Chicago, Illinois 60602

STAFF PRESENT

Elba Acevedo, Manager
Fiduciary Activities Section

Scott D. Clarke, Assistant Director
Division of Banking

Michael Diaz, Deputy General Counsel
Division of Banking

Belinda Daugherty, Administrative Assistant
Division of Banking

Marc A. Edwards, Manager
Bank and Thrift Supervision – Springfield

William Jones, Field Supervisor
Information Technology Section

Chad Montgomery, Legal Counsel
Division of Banking

Acting Secretary Flores called the meeting to order at 2:08 pm without the presence of a quorum and stated that without the presence of a quorum the board would delay on any matters requiring a vote. Acting Secretary Flores stated that the agency is making every effort to fill the vacancies on the State Banking Board that are outstanding.

Acting Secretary Flores stated that he would like to take a call of the members present for the record. Members of the board and staff introduced themselves.

Mr. Clarke reminded the Board that the meeting was being video and audio recorded for the purpose of transcribing minutes and could be made available to public.

Approval of Minutes

Acting Secretary Flores stated that the Board is unable to approve the minutes of May 14, 2012 without the presence of a quorum.

Old Business

Acting Secretary Flores stated that there was no old business to discuss at this time.

New Business

Acting Secretary Flores informed the Board that Governor Quinn appointed him Acting Secretary of the Illinois Department of Financial and Professional Regulation (IDFPR). Acting Secretary Flores further

stated that he is grateful to the Governor for the opportunity to lead IDFPR and to build on the good work of his predecessor Mr. Brent Adams.

Acting Secretary Flores stated IDFPR is the primary department that focuses on consumer protection, and regulating and insuring the integrity of a number of professions and industries that we supervise. Acting Secretary Flores further stated the agency also supervises the commercial banking sector. Acting Secretary Flores gave an overview of the state of affairs and the economy. He stated that in the area of banking the agency did not close as many banks as in the previous years. He further stated that initially there was an anticipation of closing 7 to 9 banks in the previous year, as of December 31, 2012 the agency had closed 5 banks. He stated that this is a representation that the economy is starting to improve.

Acting Secretary Flores stated that the state chartered banks and credit unions will receive communication from the agency regarding an information technology (IT) fraud alert and the need for protecting your IT systems. He further stated that state chartered banks should remain vigilant and to strengthen their systems to avoid sabotage and infiltration by cyber criminals. Acting Secretary Flores stated that the Federal government is placing a lot of attention on cyber criminals targeting financial institutions this is a national security concern.

Acting Secretary Flores stated that there is an investigation regarding a very complex scheme where individuals were approached and promised mortgage rescue services. He stated the scheme required the individuals to turn over the property to a fictitious company, paying a fee for the service and then lead to believe they were remaining current or working something out with their primary lender. He further stated that the victims principally include the borrower, and the financial institution. He further stated that in some instances had the scheme not have taken place that the borrower and the lender could have worked something out. Acting Secretary Flores stated that most of the banks involved are large lenders but it could happen to a community bank as well. Acting Secretary Flores further stated that the agency is making progress in uncovering these scams and are working hard to prevent them.

Ms. Rand stated that Secretary Flores had mentioned that the Board may have some type of roll to play regarding the Federal Reserve's monetary policies, as a new member how in the past has the state banking board taken a position on issues like that.

Acting Secretary Flores responded that sometimes the Federal Reserve will hold a public meeting locally and he would encourage the members of the board to individually and/or collectively write letters, comments or responses on regulation issues to the Federal Register. Acting Secretary Flores stated that he is open to new ideas of how the Board can become more active in engaging the Federal Reserve or other government agencies that are going to have an impact on our monetary policies or other policies that we believe will affect the work that we do.

Ms. Rand stated that recently the president of the Chicago Federal Reserve, Charles Evans was very influential in arguing that the Federal Reserve Board should be doing more to get us out of the high unemployment rates. Ms. Rand further stated that he convinced Ben Bernanke and others to adopt a new policy to hold interest rates low until a certain unemployment level is met. Ms. Rand stated that she thought that this was somewhat encouraging because unemployment is affecting our economy throughout the state. Ms. Rand further stated that the Board could write some kind of statement of support or encouragement to the Federal Reserve in support of their efforts to get employment down.

Ms. Rand stated that since the last meeting in May of 2012, she was appointed to the Consumer Financial Protection Bureau (CFPB) the first Consumer Advisory Board. Ms Rand further stated that the first meeting was in September, the next meeting is on February 20th and 21st in D.C.; Ms. Rand stated she would be happy to share the Illinois State Banking Boards opinions with the CFPB Consumer Advisory Board.

Acting Secretary Flores stated that he is familiar with that meeting. Acting Secretary Flores stated it was an opening meeting and that some of the staff from the agency had attended. Acting Secretary Flores stated the State Banking Board should use those experiences for advancing good policy and that this is the time for leadership.

Acting Secretary Flores reminded the Board of the process by which to communicate with one and another as not to violate the Open Meetings Act. Acting Secretary Flores encouraged the Board to communicate with him and other members but advised against including everyone at once on the same email because you could be potentially violating the Open Meetings Act. Acting Secretary Flores stated that they could communicate individually and still get to a collective understanding.

Legislative Update

Mr. Diaz directed the Board to documents included in the meeting packet and stated that he would like to highlight a few of the items listed starting with the Home Loans and Tax Refund Loans (Public Act 97-849). Mr. Diaz stated that what is important about this Act is it limits the prepayment penalties in connection with high risk home loans. Mr. Diaz further stated that the challenge with our Federal counter parts because of Dodd-Frank we're supposed to implement similar requirements that has not yet happened and will not happen until sometime next year. Mr. Diaz stated that House Bill (HB 5019) will extend the effective date of the Public Act until the Federal Agencies come out with their rules or statutes.

Mr. Diaz summarized the recent changes in laws relating to Elderly Exploitation (Public Act 97-865) by stating that it improves the criminal code, and provides that when an elderly person is defrauded in the amount of \$5,000 or greater; while the case is pending the court can freeze the assets of the alleged perpetrator. Mr. Diaz further stated that it allows the elderly person a way to recover what was taken from them.

Mr. Diaz discussed changes to provisions related to Power of Attorneys (Public Act 97-868). He indicated what was key if you are a financial institution is a durable power of attorney will trump all. Mr. Diaz further stated the previously established statutory revocation authority when exercised will not carry over to specified types of agreements; if it is a durable power of attorney you don't have to worry about that. Mr. Diaz further stated you would not have the customer or representative of that person come in, generally this happens when the individual granting the power of attorney is incapacitated.

Mr. Diaz stated the Illinois Service Member Civil Relief Act was created as of January 1, 2013; it is similar to a federal law which grants certain privileges for those who served in the armed forces. Mr. Diaz further stated that what we have attempted to do here in the state of Illinois is provide the same kinds of assurance and protection afforded our national service members, to those who serve in the Illinois National Guard when they are called into duty. Mr. Diaz stated that an example of one of the things the Illinois Service Member Civil Relief Act provides is that when there is an eviction proceeding or something of that nature the state law grants the service member the right to suspend the eviction while

the service member is occupied in military service and for up to 90 days after their service ends. Mr. Diaz stated that these are the most important items.

Mr. Diaz gave the Board an opportunity to ask questions in which he responded.

Mr. Clarke stated as a follow-up regarding the financial exploitation of the elderly is that there is a new law which we talked about at the last meeting that requires that a financial institution employees to receive training (minimal of 30 minutes duration) once every three years. Mr. Clarke further stated that the training includes recognizing the indicators of financial exploitation and how to properly report it. Mr. Clarke stated that in the first reporting cycle which started July 1, 2012 there were about 35 thousand state bank employees that received training. Mr. Clarke further stated that this is something that is reviewed at every examination. Mr. Clarke stated that agency examination staff also completed the training.

Legal Update

Mr. Diaz gave a regulatory update on 2012 cases; a highlight of those cases was provided in the meeting packet.

Proposed Changes to Administrative Rules

Mr. Diaz stated that there is a rule pending with the Joint Committee on Administrative Rules (JCAR), this rule will authorize state chartered banks and state chartered savings banks to engage in derivative transactions and complies with Section 611 of the Dodd-Frank Act [12 USC 1828(y)] which prohibits state chartered banks from engaging in derivative transactions after January 21, 2013, unless otherwise authorized by the law of the state where the bank is chartered. Mr. Diaz further stated that we are in the first comment period, the Department of Commerce and Economic Opportunity may if it so chooses to determine if there is an impact on small business; the general public would have a right to comment as well. Mr. Diaz stated the first comment period would expire on February 4, 2013, once that's done we go into the second notice period, which JCAR would review the rule along with its legislative counterparts and determine whether or not the agency has the authority to issue the rule. Mr. Diaz further stated that JCAR would issue comments or amendments as they so choose; once that is done ideally it would be the end of the process. Mr. Diaz stated that if you read the lending limit section 32 of the Illinois Banking Act there is no clear authority for participating in derivative transactions, for that reason the Division has decided to go forth and adopt the rule.

Mr. Clarke stated that because Dodd-Frank had a deadline and the rule may not meet that deadline the agency has an alternative.

Mr. Diaz stated in the state of Illinois there is a National Wild Card provision in the Illinois Banking Act Section 5(11) under that section of the Act a state chartered bank can do whatever a National Bank is authorized to do. Mr. Diaz further stated that in the coming days the Division will issue a letter explaining how that works and how a bank that chooses to engage in derivative transactions may do so by utilizing the National Wild Card provision of the Act.

Update on Financial Condition of Illinois Banks

Mr. Clarke stated we still have an overwhelming percentage nearly 75% of our banks in Illinois that are rated in the two highest rating categories which are a composite "1" or "2" but when you analyze where those banks are located, you will notice in the Chicago metropolitan area 54% have a composite rating of "3, 4 or 5" compared to 13.54% downstate in the same category. Mr. Clarke further stated that the chart enclosed in their packet list the number of failed institutions in the last year. Mr. Clarke stated of the 5 listed the majority of them where in the Chicago metropolitan area and 1 downstate.

Mr. Edward's gave an overview on the financial condition of the downstate banks highlighting concerns regarding the concentration of lending in one area, such as the agricultural industry which could cause a risk to the bank. Mr. Edward further stated that with the increase in farmland prices there is a concern that there's a bubble there and with all bubbles it can burst.

The consensus of the Board was that farmland has doubled in price in 5 to 7 years and is still going up.

Mr. Clarke stated that he had heard in Iowa there was farmland going for \$20,000 an acre. Mr. Clarke further stated that anything that increases in value 3 times in 4 or 5 years is a significant concern to watch for.

Mr. Clarke stated that a trend we are seeing downstate is a merger and consolidation trend. Mr. Clarke further stated in the past quarter there were 10 institutions that merged out of existence and the department has been advised of a couple more this year and could equally project another 10 or 15 to merge out of existence with stronger, healthier institutions by the end of the year.

Update on Information Technology Risk

Mr. Jones stated that one of the newest trends out there is the ability to do banking transactions with a mobile device; a few years ago only a few of the large banks were using this technology. Mr. Jones further stated now you are starting to see more community banks using the technology. Mr. Jones stated that we are reviewing the risks associated with virtual servers. Mr. Jones further stated that the issue with virtual servers is they have the same risk as a physical server; you can have one server with 10 to 20 virtual servers on it and basically you are multiplying your risk by that amount. Mr. Jones stated that there are some new products coming out that will help with managing that. Mr. Jones further stated it is just a matter of getting the word out to banks and making sure that they are aware of the problem.

Mr. Clarke stated that something he has seen for business is remote deposit capture, he ask Mr. Jones if he could provide some information regarding it.

Mr. Jones stated that the good thing about remote deposit capture is that he hasn't seen a situation where anyone has abused that feature yet. Mr. Jones further stated that a business that receives a lot of checks can use a PC and scanner to scan the checks to the bank or bank data center and it will be deposited into their account. Mr. Jones stated that also with the mobile devices an individual can take a picture of a check and deposit it into their account. Mr. Jones stated that an individual might be at more risk, because of the nature of cell phones which could be lost. Mr. Jones further stated the remote deposit capture for businesses have been going quite well. Mr. Jones stated that businesses have very good scanning equipment that prints a stamp across the face of the check to indicate that the check has been cashed; the

term for this is called Franking. Mr. Jones further stated this procedure makes it difficult for anyone to take that check somewhere else to try and cash it.

Ms. Derezinski stated that in her office she has not seen any fraud with remote deposit capture, but she has seen so much fraud hit their account with people taking images and depositing those images off the banking information they have on their accounts. Ms Derezinski further stated that through their systems she can catch the transaction and deny it through deposit pay acceptations; she sees at least a dozen of these fraud transactions a week.

Mr. Clarke mentioned that Target stores had a recently published scandal of 40 million credit card numbers stolen and the person who stole them never stepped foot in the institution. Mr. Clarke stated that this person was able to get a sniffer and was able to electronically capture the information that was being transmitted from the checkout lane to the service desk and to the home office. Mr. Clarke further stated that with technology comes higher risk. Mr. Clarke stated that we see banks that have their entire balance sheets on wireless LANS which pushes our IT staff to always be constant and up to speed with the latest and greatest technology.

Mr. Jones stated that the credit card companies are putting computer chips in credit cards so that customers can pass the card in front of a store scanner in order to pay without handing over there credit card to a cashier. Mr. Jones further stated with this technology a radio signal is transmitted and anyone in proximity can probably get your confidential information. Mr. Jones stated this technology will grow because there are always people who want the latest and greatest technology, but people should know that there is risk that comes along with it.

Update from the Corporate Fiduciary Department

Ms. Acevedo stated that people are happy that amendments to the tax code passed. Ms. Acevedo further stated that the new tax code increased the amount that you do not have to pay tax on, which is now \$5.25 million.

Mr. Clarke stated that in Ms. Acevedo's area the agency supervises about \$6 trillion in trust assets. Mr. Clarke further stated that this is other people's assets that the bank is managing.

Review of Financial Statements of the Illinois Bank Examiners' Education Foundation as of December 31, 2012

Mr. Clarke stated that a copy of the financial statement and a copy of the most recent 990 tax return for the Illinois Bank Examiners' Education Foundation are included in the meeting packet for review.

Proposed Resolution 2013-01

Acting Secretary Flores stated that they would defer on the proposed Resolution 2013-01.

Open Comment Period for Members of the Public

Acting Secretary Flores stated at this time the meeting is open for comments from members of the public; there were no public members present.

Adjournment

Acting Secretary Flores thank the members of the board for their continued service and stated with there being no further business before the board the meeting is adjourned. The meeting adjourned at 3:30 pm.