

Why We Did This Audit

Access to financing is essential to a community's prosperity, yet inequitable lending patterns persist across Chicago neighborhoods. The audit sought to determine if DOF ensures banks applying for a municipal depository designation submit the required documentation on their community lending, and whether this process serves its goal of acquiring socially responsible banking partners for the City.

Background

In response to inequitable investment patterns, Chicago and other cities have established responsible banking ordinances to encourage equitable lending by the banks that hold their deposits. Chicago's Responsible Banking Ordinance is administered by DOF through a Request for Proposal (RFP) process designating the City's municipal depositories. The RFP process identifies banks that can satisfy the City's financial needs and provide equitable lending and banking services.

We thank the Department of Finance and Treasurer's Office staff and management for their cooperation during the audit.



AUDIT OF THE MUNICIPAL DEPOSITORY DESIGNATION PROCESS

The Department of Finance (DOF) ensures that banks seeking to become municipal depositories submit required documentation but does not evaluate those banks' service to disadvantaged communities. DOF, City Council, and the Treasurer's Office have not coordinated their roles in the municipal depository designation process to achieve shared goals for equitable lending.

Findings

1. Although DOF ensures banks' RFP submissions are complete, it does not evaluate the banks' community investment and equitable lending efforts. The Department does identify potentially predatory loans, such as those with an interest rate higher than the federal funds rate at the time the loan was issued. Without a substantive evaluation, however, the Department cannot identify demographic disparities in banking activity. Banks may then continue to lend inequitably across Chicago while the City continues to partner with them.
2. DOF, City Council, and the Treasurer's Office have not coordinated their municipal depository roles to achieve shared goals. This lack of communication has hindered depository designations and meaningful discussion of alternative banking options that may better align with the City's equitable investment goals.

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 service provision, including how evaluation results will be shared with City Council and applicant banks. We also recommend that the Department 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 allows the City to deposit public funds with banks that share those goals.

Department Response

DOF 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 committed to sharing equitable lending information with City Council Committee on Finance. DOF also stated that it is updating the 2022 RFP process—in manner compliant with applicable law—to ensure applicant banks have equitable lending practices. DOF committed to forming an evaluation committee with the Treasurer's Office to ensure banks have met the requirements of the RFP.