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The City of Davenport has more than \$66 million in the bank. One committee within city government hopes to make that money work harder for the city as a whole by encouraging banks to reinvest more in the community.

The city's Affirmative Action Committee is the primary force behind a proposed "linked deposit" program, through which only banks that meet certain reinvestment criteria would be eligible to receive city deposits.

"This policy would empower the city to affect that industry," said Redmond Jones, Davenport's affirmative-action officer and assistant to the city administrator.

"The government encourages lenders to invest more in the community by putting the assets of the government - savings and investments - in those banks," said John Taylor, president and CEO of the Washington, DC-based Community Reinvestment Coalition (NCRC). "You reward lenders who are doing more investment, particularly in under-served areas of the community."

Financial institutions "are the stewards of the community's wealth," he added. "The idea is to have as many of those institutions as possible reinvesting in Davenport, so Davenport does well."

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"There are certain parts of the city that are just neglected" in terms of bank loans or other investments, said Shelley Sheehy, a Davenport-based NCRC board member. Linked-deposit policies, she said, dictate that the city must "do business with banks that have a demonstrated record of reinvesting in *this* community."

But the linked-deposit proposal in Davenport is currently hung up on a philosophical disagreement between the Affirmative Action Committee and the Finance Department. Finance Director Alan Guard said he prefers to piggyback on a committee that determines eligible financial institutions for State of Iowa deposits, while the Affirmative Action Committee prefers a local, more-stringent, and more-targeted program.

Even though there is some disagreement on the method, any tool that pushes banks to reinvest in the community could prove powerful. "The city has to put its money somewhere," Taylor said. "Why not put it in those financial institutions who believe in the future of Davenport?"

How They Work

For a decade, Rock Island has included community reinvestment as part of its Request for Proposals for banking services. Moline, East Moline, and Bettendorf do not have linked-deposit programs.

Linked-deposit programs don't *require* a bank to *do* anything; instead, they use the incentive of city banking business to encourage financial institutions to assist with a city's development goals. "It's encouraging good behavior on the part of banks," Taylor said.

Linked-deposit programs can work in two ways, Sheehy said. In one model, the city uses existing Home Mortgage Disclosure Act and Community Reinvestment Act data to establish eligibility criteria for banks that hold city money.

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In another model, the city issues a Request for Proposals for its banking business that requires financial institutions to provide a community-reinvestment plan.

Rock Island will soon be requesting proposals for its banking services for a five-year contract scheduled to take effect on October 1. According to Finance Director Bill Scott, the draft request includes the following community-reinvestment language: “The Community Reinvestment Act is included in this request for proposals. [...] The goal is to increase bank investments in the City. The City of Rock Island tracks lending activity of local financial institutions within target areas. Please describe your financial institution's plans regarding lending to property owners in the City. Also, please include the benchmarks you believe are important for assessing this lending activity.” Similar language has been included in previous Requests for Proposals.

In this formulation of a linked-deposit program, a city would award points in areas typically important for financial decisions, such as security, liquidity, and return on investment. But points are also awarded for community-reinvestment criteria that can be established locally. A city could target particular census tracts, or could reward banks for making prime loans to low- and moderate-income people, or could add points for branches in poor neighborhoods, for example.

No matter the approach, there *is* some additional burden on city staff resources, which is one source of conflict in moving a linked-deposit proposal to the Davenport city council.

Local Control

At this point, there is a schism between the city's Finance Department and its Affirmative Action Committee.

Encouraging Good Behavior: Proposed "Linked Deposit" Could Push Banks to Reinvest in the Community

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Of the most recent version of the policy - which was sent out on May 8 - Guard said that "Redmond Jones is not pleased with it."

Guard would prefer to use a state committee that determines eligibility for State of Iowa funds, with the additional requirement that financial institutions receive a grade of "satisfactory" or above on their Community Reinvestment Act exams. The state allows its funds to be deposited in institutions that receive a "needs improvement" score.

"My goal is to do this in the simplest way possible," Guard said. "Why should we reinvent the wheel?"

Jones wrote in an e-mail to Guard that "your proposal can be implemented immediately for a reason. It doesn't constitute any changes from what we are doing already."

Guard's version of the policy would add a new test for banks, but it wouldn't alter how the city deposits its money. According to the Federal Financial Institutions Examination Council Web site (<http://www.ffiec.gov>), the four financial institutions with which the city currently deposits its money (see below) all received "satisfactory" ratings on their most-recent exams, which is the standard that Guard proposed.

Jones, in an interview with the *River Cities' Reader*, added that Guard's proposal doesn't address community needs because the ratings aren't Davenport-specific. "It looks to me that that version relies a lot on the state," he said. "The goal of the original policy was to have some local control."

Jones said that the Affirmative Action Committee had hoped to have a linked-deposit proposal before the city council this month, but at this point that seems unlikely.

Guard said he has asked for guidance from City Administrator Craig Malin on resolving the linked-deposit dispute. In an e-mail to the *River Cities' Reader*, Malin said that the city council will likely schedule a work session to explore the issue. "It is a policy question, so the

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council will ultimately decide," he wrote.

Guard said he believes that the city should take a first step by latching on to the state system.

"I think it makes perfect sense to use a system that is already in place with a staff that is trained and experienced in making these evaluations," Guard said in an e-mail. He stressed that nobody in Davenport city government is currently qualified to evaluate banks' community-reinvestment performance.

He said in an interview that if this state process doesn't provide the results the Affirmative Action Committee is looking for, the issue can be revisited. "I would say: 'Try it. Try this for a little while.'"

Guard also said he believes that the state system - which requires investigations when consumers file complaints about a financial institution - would be more effective if people were more aware of it and used it. "Nobody knows about it," he said of the complaint system. The state law, he said, "seems to have a lot of teeth."

Guard also said that a more-aggressive linked-deposit policy assumes that banks aren't doing enough in terms of community reinvestment. "I ... believe that our local banks are probably doing a pretty good job already," Guard wrote.

Red-Lining?

Guard's belief isn't supported by "The Analysis of Impediments to Fair Housing," a report that looked at Home Mortgage Disclosure Act data in the Quad Cities from 1997 through 2003. The study, which was commissioned by the cities of Davenport, Moline, and Rock Island,

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comes close to saying that financial institutions "red-lined" low-income census tracts in the three cities. Basically, it suggested that the success of a loan application appeared more closely tied to the census tract's income than the *applicant's* income.

For example, the report (available at <http://www.rigov.org/citydepartments/ced/fairhousing.html>) states in its Davenport section: "Comparing Very Low-Income tracts to High-Income tracts, large differences are noted between origination and denial rates. Within High-Income tracts, Very Low-Income applicants were successful 39.8 percent of the time, 17.1 percentage points higher than Very Low-Income applicants in the Very Low-Income tracts. High-Income applicants were successful 66.3 percent of the time in High-Income tracts, 20.4 percentage points higher than in Very Low-Income tracts. [...] While this analysis does not provide conclusive proof that red-lining exists, the expectation for higher-income applicants would be for relatively equal origination rates across all census tracts. The large differences in origination rates between Very Low and High-Income tracts suggest that some red-lining may be occurring."

The study comes to similar conclusions in both Rock Island and Moline.

But Guard said that community reinvestment, by law, can't be a high priority for the city. He said that his primary statutory responsibilities are to put the city's money where it is safe, is liquid, and provides a reasonable return on investment - the interest rate earned on deposits.

"I think 'satisfactory' is perfectly acceptable," Guard said. He added that if a bank with a "satisfactory" Community Reinvestment Act score provides a higher return on investment than a bank with an "outstanding" rating, "I think I need to take the 'satisfactory' rating."

Taylor said that the state's Community Reinvestment Act (CRA) test is virtually meaningless. "Very few banks fail the CRA exam - less than 2 percent," he said. "That's like saying the [city] will only make a deposit in an institution that has a building. ... They should never put anything in any bank that doesn't pass CRA."

The key is not the overall exam score but the information provided by the bank examiner, including city-specific data; it's critical to get below the surface, Taylor said.

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He acknowledged that a linked-deposit program *does* require extra effort on the city's part. "Everybody wants an easy standard, and a bright line," he said. "It's not rocket science, but just taking a CRA grade doesn't accomplish it either. ...

"If you want to do something right, sometimes it does take a little extra work. But if in exchange for the extra work you get a systemic change in the focus of private financial institutions and the well-being of Davenport citizens, I think it's worth it."

Furthermore, Taylor said, a local program can address community needs in a way that a state standard cannot. "It's up to you to set those criteria. Once you set those criteria, there's going to be someone who's better than everybody else based on that criteria ... and someone's who's on the bottom. It should be fair, it should be independent, and it should be based on what's important to the community.

"Davenport needs to establish for itself what its credit needs are."

Jones said that it would probably take city staff time to develop expertise in the Community Reinvestment Act, and that the criteria might initially be general. A linked-deposit program would represent "the first step," he said. "We're hoping that over time, we can really begin to get into real specific data." That echoes Guard's comments about the steep learning curve that would be required if the city tried to develop its own community-reinvestment standards and to apply them to financial institutions.

"Once we become familiar with looking at the data," Jones said, "we hope that the program will expand and focus itself to be able to look at specific corridors and neighborhoods."

Where They Keep Their Money

Finance directors for the five major cities in the Quad Cities provided the *River Cities' Reader* with the financial institutions in which they deposit their money, and in what amounts.

Bettendorf: THE National Bank, \$8,566,751; Federal National Mortgage Association, \$6,914,581; Federal Home Loan Bank, \$4,357,240; Bankers Trust Co., \$3,711,283; Federal Home Loan Mortgage Corporation, \$1,931,233; Federal Farm Credit Banks, \$1,002,810; Protective Life, \$955,500; Northwest Bank, \$836,488; Wells Fargo, \$59,406; Quad City Bank, \$8,578.

Davenport: Wells Fargo, \$44,766,612; Quad City Bank & Trust, \$9,988,274; U.S. Bank, \$8,000,000; Valley Bank, \$4,000,000.

East Moline: THE National Bank, \$7,373,132; JP Morgan Chase, \$6,850,841; Illinois Public Treasurers' Investment Pool, \$1,817,704; IH Mississippi Valley Credit Union, \$510,402.

Moline: First Midwest Bank, \$10,064,728; U.S. Bank, \$4,754,165.

Rock Island: cash and investment pools managed by the State of Illinois, \$8,131,675; American Bank, \$5,000,000; Illinois Metropolitan Investment Pool, \$3,089,544; THE National Bank, \$2,134,441; Blackhawk State Bank, \$1,025,180; Bank Orion, \$1,005,376; Midamerican Bank, \$525,109; First Midwest Bank, \$500,000.