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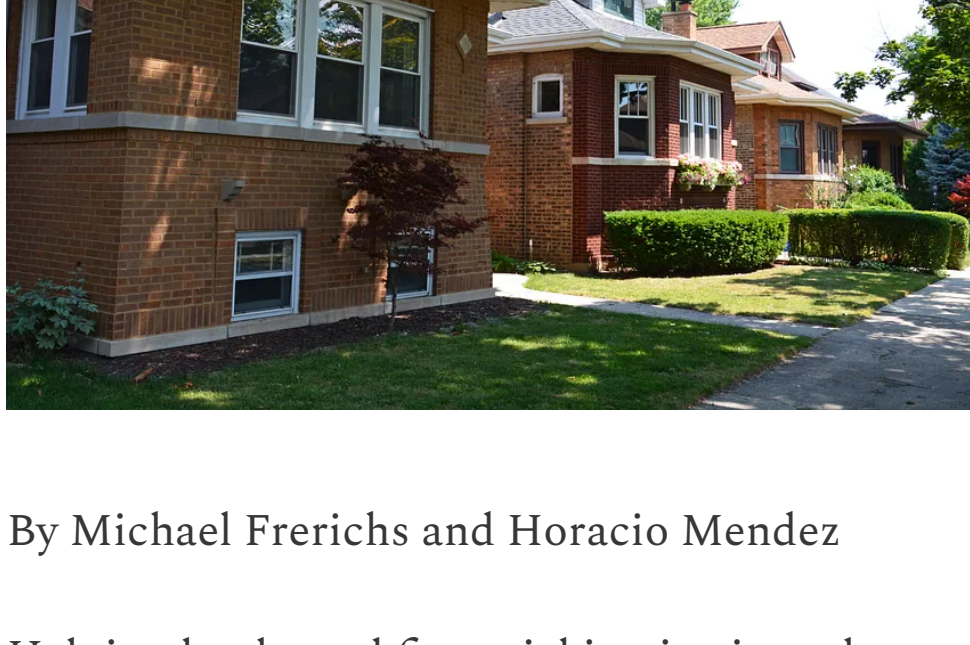
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# New Law Makes Banking Easier for Low- and Moderate-Income Families, Strengthens Neighborhoods



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By Michael Frerichs and Horacio Mendez

Helping banks and financial institutions that maintain a strong commitment to investing in their local communities just makes sense.

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People who live nearby can get easier access to open a savings account or take out a loan. And access to capital leads to a growing local economy, which means more money in the pockets of people who live in the neighborhood. In turn, that money is spent at local grocery stores and restaurants. Stronger neighborhoods also mean safer neighborhoods.

In 2021, our state's leaders enacted the Illinois Community Reinvestment Act, sponsored by Sen. Christopher Belt, Rep. Sonya Harper and Sen. Jacqueline Collins, to help ensure banks reinvest in their communities. Recently, the Illinois General Assembly took another positive step in that direction by enacting an update, Public Act 104-92, sponsored by Sen. Mattie Hunter and Rep. Kimberly Du Buclet, which prohibits state or public funds from being deposited in a financial institution subject to the Illinois Community Reinvestment Act unless the institution has a satisfactory or outstanding Illinois CRA rating. The idea is to make banking easier for low- and moderate-income families, and it received incredibly strong support among Democrats and Republicans, from Chicago to Cairo and the Mississippi River to the Indiana state line. No lawmakers voted against the legislation, and Gov. JB Pritzker signed it into law this month.

The primary sponsors worked closely with the Illinois State Treasurer's Office and the Woodstock Institute to make these very important changes that undoubtedly will help local communities access loans from banks, credit unions, and lending institutions that are chartered by the state of Illinois. Public Act 104-92 also included clarifying language to make sure that small banks and credit unions were not unduly harmed by the withdrawal of state and public funds prior to maturity based on a less than satisfactory Illinois CRA rating. Support from these financial institutions also led to the bill's success.

The new law makes it easier for the state to evaluate the health of a bank, credit union, or lending institution when deciding where to deposit government money before it is needed to pay the bills.

Previously, the state treasurer and other public agencies only could rely upon the federal Community Reinvestment Act, which did not apply to all financial institutions. The new state law ensures that all financial institutions must maintain a strong commitment to investing in their local communities to receive deposits of public funds.

This especially will help low- and moderate-income families that historically have had a difficult time opening a savings account or a loan because they do not have the cash or credit to meet minimum thresholds like wealthier families.

Why would banking institutions want government deposits? Government deposits are safe and reliable, and make the ledger of banks, credit unions, and lending institutions look good. Equally important, these deposits mean money is available to lend to patrons, and interest paid on loans is considered revenue, which also makes the financial institution's bottom line look good.

Access to capital – the ability to deposit money in a savings account and take out a loan to buy a house, or a car, or invest in a business - helps strengthen a community.

This is not a new concept. The federal government enacted its version of the Community Reinvestment Act in 1977 to ensure all banks, credit unions, and lending institutions chartered by the federal government treat its neighbors with dignity and fairness, consistent with safe and sound banking practices. Updating Illinois' law simply ensures that all financial institutions – not just those with a federal charter – are treated the same way. In turn, it helps ensure that all neighborhoods are treated the same way, too. And that makes Illinois safer and stronger for all of us. Thank you, Sen. Hunter, Rep. Du Buclet, and members of the General Assembly for leading the way on this important issue.

*Michael Frerichs is the Illinois State Treasurer and Horacio Mendez is president and CEO of the Woodstock Institute.*

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