Illinois Banking Brief: All The Notable Legal Updates In Q2

By **David Aguilar and Peter Zagotta** (July 1, 2026)

*In this **Expert Analysis series**, attorneys provide quarterly recaps discussing the biggest developments in Illinois banking regulation and policymaking.*

David Aguilar

Peter Zagotta

The second quarter of 2026 proved to be one of the more consequential periods for Illinois banking law in recent memory.

A landmark federal court ruling dramatically reshaped the landscape of the Illinois Interchange Fee Prohibition Act, the state Legislature moved to fill enforcement gaps that were created by the federal regulatory rollback, and several significant bills affecting financial services providers advanced through the state's capital.

Meanwhile, federal regulators finalized changes to the community bank leverage ratio framework that will meaningfully affect Illinois' substantial community banking sector.

The following is a summary of the notable developments in the Illinois banking and financial services sector during the second quarter of 2026.

Permanent Injunction in Interchange Fee Prohibition Act Litigation

Nearly two years after the IFPA was signed into law, litigation challenging the statute reached a critical juncture this quarter.

On June 1, in Illinois Bankers Association v. Raoul, Chief U.S. District Judge Virginia Kendall **granted** a permanent injunction in the U.S. District Court for the Northern District of Illinois on remand from the U.S. Court of Appeals for the Seventh Circuit that fundamentally alters the IFPA's reach and enforceability against a broad swath of financial institutions operating in the state.

The court's decision concluded that the IFPA's interchange fee prohibition is preempted and cannot be enforced against national banks, banks chartered by states other than Illinois that are subject to the Riegle-Neal Interstate Banking and Branching Efficiency Act, federal savings associations, and payment card networks.

Notably, federal credit unions do not fall within the scope of the injunction as to the interchange fee prohibition. As for the IFPA's data usage limitation, the court found that preemption extends even further — covering all the entities above, as well as federal credit unions and other entities participating in electronic payment transactions, including payment card networks.

The ruling came after the Office of the Comptroller of the Currency issued both an interim final order — designed to supplant the district court's previous ruling — and an interim final

rule encompassing interchange fees. In an interesting analytical move, the court diminished the significance of the OCC's order, stating that "the Interim Final Order does not add much to the conversation for all of the procedural and substantive shortcomings."

Instead, the court relied on the same standard it employed in its prior ruling, which was established by the U.S. Supreme Court's 2024 **decision** in Cantero v. Bank of America NA. Under Cantero, state legislation that imposes an undue burden on the performance of a national bank's functions is preempted. The court found that the IFPA imposes precisely such a burden, particularly in light of the OCC's new rule establishing the federal regulatory framework for interchange fees.

Importantly, Illinois-chartered banks, state savings associations and state credit unions received no injunctive relief in this decision, as Attorney General Kwame Raoul invoked sovereign immunity.

The American Bankers Association and other plaintiffs have expressed continued concern over what they describe as significant operational challenges that remain, even with the permanent injunction in place.

The IFPA continues to face challenges in the Seventh Circuit, as Raoul contends that the OCC's interim final rule is both procedurally and substantively invalid. Additionally, the Illinois General Assembly voted to delay the IFPA's effective date to July 1, 2027, and Gov. JB Pritzker approved that change on June 26.

For practitioners, while this ruling represents significant relief for national banks and other federally regulated entities, the IFPA carries important national implications as the first state law of its kind and will not become insignificant anytime soon. The Illinois financial services industry should continue to closely monitor developments in both the courts and the Legislature.

Executive Order Enforcement on Debanking and Illinois' Response

The ripple effects of President Donald Trump's August 2025 **executive order** directing federal agencies to stop "politicized or unlawful debanking" based on political or religious beliefs or lawful activities became considerably more concrete during the second quarter of 2026.

On April 7, the OCC and the Federal Deposit Insurance Corp. **jointly issued** a final rule codifying the elimination of reputation risk from the supervisory framework, prohibiting agencies from "criticizing, formally or informally, or taking adverse action against an institution on the basis of reputation risk." The agencies simultaneously released model risk guidance establishing nonenforceable standards for complex quantitative estimate methods.

Illinois has responded to these federal developments with characteristic assertiveness. In response to the Trump administration's April 2025 **executive order** directing enforcement agencies to deprioritize disparate impact liability, the Illinois Legislature advanced S.B. 3777, the Civil Rights Safeguard Act, which amends the Illinois Human Rights Act to preserve protections from disparate impact discrimination. As of June 1, 2026, the bill **passed** both the House and Senate.

S.B. 3777 provides that it is a civil rights violation for any financial institution to use criteria or methods that "have the effect of subjecting individuals to discrimination on the basis of unlawful discrimination, citizenship status, family responsibilities, work authorization status,

arrest record, or conviction record," if such criteria are not necessary to achieve a substantial, legitimate and nondiscriminatory interest.

This represents a clear legislative intent to backstop antidiscrimination protections at the state level, regardless of changes to federal enforcement priorities.

Meanwhile, the ongoing battle over the Consumer Financial Protection Bureau's future continues to have state-level consequences. Consumers submitted approximately 244,000 complaints to the CFPB in 2025 — nearly double the complaints received in 2024.[1]

Reports to the CFPB more than doubled nationwide from 2.7 million in 2024 to 5.6 million in 2025,[2] yet the bureau resolved only seven public enforcement actions by the end of 2025.[3]

The IDFPR has responded by launching a new online submission portal to streamline the complaints process, and is now accepting complaints for both the Division of Banking and the Division of Financial Institutions. Raoul has publicly called upon the CFPB to scale back plans that would severely affect its supervisory capabilities.

Illinois is clearly positioning itself to fill the enforcement gaps left by the federal regulatory rollback. Financial institutions operating in the state should carefully evaluate whether Illinois courts will continue to apply the disparate impact framework, and should anticipate increased state-level supervisory activity in the coming quarters.

Legislative Activity Affecting Financial Services Providers

Springfield, Illinois, was far from quiet this quarter, as several significant bills affecting financial institutions advanced through the legislative process.

First, H.B. 228, known as the Junk Fee Ban Act, passed both chambers in May and was signed by Pritzker on June 25. Effective July 1, 2027, the act will impose new requirements on fee disclosures and prohibit certain hidden fees in consumer transactions.

Critically for the banking industry, entities that are required to comply with the Truth in Savings Act, the Electronic Fund Transfer Act, the Federal Reserve Act, the Truth in Lending Act, the Real Estate Settlement Procedures Act or the Motor Vehicle Retail Installment Sales Act, among other federal consumer financial protection statutes, are deemed compliant with the Junk Fee Ban Act.

While this deemed compliance provides welcome clarity, financial institutions should ensure that their fee structures comply with the underlying federal statutes that trigger the carveout.

Second, the Illinois Consumer Data Privacy Act would create baseline consumer rights, including the right to access, delete and stop the sale of personal information. The bill, S.B. 340, contains strong data minimization provisions relating to sensitive data and would prohibit the sale of consumers' most sensitive personal information. The act passed the Senate on May 21 and remains pending in the House.

Financial institutions should monitor this bill closely, as its data minimization requirements and prohibitions on selling sensitive data may require significant operational adjustments to data governance practices.

Third, S.B. 3019 was passed on June 1 and signed by Pritzker on June 16. Beginning on Jan. 1, 2027, the bill will apply a 0.2% tax on the value of digital assets on any business that exchanges, transfers or stores a digital asset for, or on behalf of, a customer.

This legislation is noteworthy for financial institutions that have entered, or are considering entering, the digital asset custody or exchange space, as it imposes a direct transaction-based cost that must be factored into pricing and profitability analyses.

Federal Community Bank Leverage Ratio Framework Revision

On the federal front, the OCC, the Federal Reserve Board and the FDIC have **adopted a final rule** that lowered the community bank leverage ratio, or CBLR, requirement from 9% to 8%, effective July 1. While this is a federal development, it carries particular significance for Illinois given the state's large and active community banking sector.

The rule implements Section 201 of the Economic Growth, Regulatory Relief and Consumer Protection Act. As of the second quarter of 2025, approximately 84% of community banking organizations qualified to use the CBLR framework, but only 48% had actually adopted it.[4] The revised threshold is expected to bring that qualification rate to approximately 95% of community banking organizations, with 477 organizations newly qualifying under the lower requirement.[5]

The rule also extends the grace period for an institution that temporarily falls below the threshold from two consecutive quarters to four consecutive quarters, subject to an eight quarter limit within any five-year period. This extended grace period provides meaningful flexibility for community banks that are navigating temporary balance sheet fluctuations without being forced to exit the simplified framework.

The practical implications are significant. The reduced requirement could give participating organizations the capacity to expand their balance sheets by an estimated $64 billion in aggregate.[6] Notably, smaller banking organizations are more likely to adopt the framework. As of June 2025, 53% of qualifying organizations with assets under $1 billion were participating, compared to 28% of those with assets exceeding $1 billion.[7]

For Illinois community banks, the reduced requirement supports additional lending capacity and lowers the regulatory burden. Banks that have not yet adopted the CBLR framework should evaluate whether the more favorable 8% threshold makes the simplified capital framework a viable and attractive option, particularly for institutions that are focused on balance sheet growth.

Conclusion

The second quarter of 2026 demonstrated that Illinois remains at the forefront of state-level financial regulation, both in its willingness to challenge the federal preemption doctrine and in its proactive legislative posture to fill perceived gaps in consumer protection.

The permanent injunction in the IFPA litigation provides welcome clarity for many financial institutions, but leaves significant uncertainty for state-chartered entities and raises broader questions about the intersection of state innovation and federal uniformity in payment systems regulation.

As Illinois positions itself as a backstop against perceived federal regulatory retreat, financial institutions operating in the state should anticipate a complex, multilayered

compliance environment that demands ongoing attention to developments in both Springfield, Illinois, and Washington, D.C.

The remainder of 2026 promises to be equally active, with Seventh Circuit proceedings on the IFPA, implementation of the CBLR changes and potential gubernatorial action on several pending bills, all of which warrant close monitoring.

David Aguilar is a partner and Peter M. Zagotta is counsel at Riley Safer Holmes & Cancila LLP.

[1] Ill. Dep't of Fin. & Prof. Reg., IDFPR Launches New Online Portal to Streamline Consumer Financial Complaints (May 11, 2026), https://idfpr.illinois.gov/news/2026/idfpr-launches-new-online-portal-streamline-consumer-financial-complaints.html.

[2] Id.

[3] Consumer Fin. Prot. Bureau, 2025 Enforcement Lookback (May 28, 2026), https://www.consumerfinance.gov/enforcement/2025-enforcement-lookback/.

[4] Regulatory Capital Rule: Revisions to the Community Bank Leverage Ratio Framework, 91 Fed. Reg. 82 (Apr. 29, 2026) (to be codified at 12 C.F.R. pts. 3, 217, 324) (final rule effective July 1, 2026).

[5] Id.

[6] Id.

[7] Id.