

Interpretive Letter No. 00-06 (July 31, 2000)

State banks may utilize letters of credit issued by a Federal Home Loan Bank as collateral for the deposit of public funds.

This is in response to your letter of June 5, 2000. You have requested that the Office of Banks and Real Estate, (the "Agency") confirm the authority provided to state-chartered banks pursuant to the recent enactment of Public Act 91-0773. Effective June 9, 2000, Public Act 91-0773 amends Section 6 of the Public Funds Investment Act [30 ILCS 256/1] adding letters of credit issued by a Federal Home Loan Bank to the items that a financial institution may utilize as collateral for deposited public funds. Prior to enactment of this legislation, a financial institution could collateralize the amount of public funds deposited in excess of the insurance limitations of the FDIC or the NCUA with securities, mortgages, or loans covered by a State Guaranty under the Illinois Farm Development Act. 30 ILCS 235/6.

However, ambiguity existed with respect to additional sources of eligible collateral to secure uninsured public funds deposited with financial institutions. Many local treasurers followed the State Treasurer's guidelines for determining additional eligible collateral. The State Treasurer's guidelines indicated that such letters of credits were eligible for collateralizing these uninsured deposits. Other Local treasurers questioned whether they could consider these letters of credit as eligible collateral since they were not specifically listed in the Public Fund Investment Act. The legislation was intended to alleviate any ambiguity that such letters of credit are acceptable collateral for local public funds.