

INTERPRETIVE LETTER 90-16 (AUGUST 22, 1990)

State bank may accept assignment of letters of credit issued by affiliated bank as security for loans without regard to lending limits.

I am writing in response to your letter dated * in which you raised several questions regarding letters of credit and lending limits. The facts that you presented are that Bank A issues various letters of credit ("LC's") on behalf of its borrowers. The beneficiaries of those LC's assign them to Bank B, an affiliate of Bank A, as security for loans made to them by Bank B.

The basic question your letter raises is whether it would cause a violation of the Illinois Banking Act for Bank B to have LC's assigned to it which in the aggregate exceed Bank B's legal lending limit. There is no limitation on the amount of LC's a bank may accept as security for a loan or loans. Therefore, if the aggregate of the LC's issued by Bank A and assigned to Bank B exceeds Bank B's legal lending limit, there would be no violation on the part of Bank B. This would be the case whether the loans made by Bank B were with or without recourse or whether the loans made by Bank B were to the same or different entities.