

INTERPRETIVE LETTER 91-18 (JULY 31, 1991)

Investments in "alternate bonds" that are supported by the full faith and credit of a municipality located in the county in which the state bank is located are exempt from investment limits.

I am writing in reply to your letter of * addressed to *. In your letter, you inquired whether a state bank could purchase and hold "alternate bonds" in the bank's bond portfolio and whether there is any limit on the amount of alternate bonds that a state bank could purchase and hold. You cited Ill. Rev. Stat., ch. 17, par. 6915, for a statutory discussion of alternate bonds and "double-barreled" bonds. You stated that "the primary feature of an alternate bond is a combination of a revenue bond and a general obligation bond. Alternate bonds first look for repayment of the bond to the revenue source, in this case the water district. If, for any reason, that revenue source is not sufficient, then alternate bonds become a general obligation of the municipality...."

After having reviewed chapter 17, paragraph 6915, I am inclined to agree with your analysis. In fact, that statute concludes with the following paragraph:

Once issued, alternate bonds shall be and forever remain until paid or defeased the general obligation of the government unit, for the payment of which its full faith and credit are pledged, and shall be payable from the levy of taxes as is provided in this Act for general obligation bonds.

If a governmental unit issues alternate bonds which are, in fact, supported by the full faith and credit (including the taxing authority) of the governmental unit, then an Illinois state-chartered bank is authorized to invest in those alternate bonds without limitation if the governmental unit is located in whole or in part in the county in which the bank is located [see Section 35(4) of the Illinois Banking Act]. If the governmental unit which is issuing the alternate bonds is not located in the same county as the bank, then the bank is authorized to invest in the alternate bonds subject to a maximum equivalent to the unimpaired capital and unimpaired surplus of that particular bank [see Section 34(3) of the Illinois Banking Act].

Because this Office has not seen the specific alternate bonds which you describe in your letter of *, this letter should not be considered as specific authorization for a state bank to invest in those particular alternate bonds. The authority to purchase alternate bonds which I have indicated in this letter is subject to the condition that the specific alternate bonds in question are, in fact, ultimately supported by the full faith and credit (including taxing authority) of the governmental unit issuing the bonds.