

**INTERPRETIVE LETTER 91-22 (SEPTEMBER 12, 1991)**

**Foreign bank may establish a non-bank subsidiary to hold title to and administer property obtained in collection of a debt.**

This is in response to your letter of \* regarding \* Foreign Bank's proposal to establish a non-bank subsidiary ("Subsidiary") to hold certain assets classified substandard or loss.

As I understand the facts stated in your letter, the proposal involves only certain assets of the commercial banking division that are booked at the \* branch of \* Foreign Bank. The Subsidiary would be used by \* Foreign Bank to foreclose and hold the property in order to comply with \* [foreign country] banking regulations that prohibit bank ownership of real property. \*

Foreign Bank intends to capitalize the Subsidiary with the loan assets and cash in an amount sufficient to meet foreclosure expenses and operating costs. The cash investment will be contributed by \* Foreign Bank's head office, and the remaining assets of the subsidiary will come from the \* branch in the form of a transfer of the loan. Both the \* Foreign Bank head office and the \* branch will hold the shares of the subsidiary as investments in an amount that is proportionate to their contributions. The value of the transfer from the \* branch will equal the fair market value of the loan, which is the fair market value of the property securing the loan. The Subsidiary will foreclose on the loan and obtain title to the property, which will be held for up to five years.

Based on these facts, this Office will offer no objection to the proposal. Section 3 of the Foreign Banking Office Act, Ill. Rev. Stat. ch. 17, par. 2710 (1989), grants to foreign banks the same powers enjoyed by state banks in Illinois. Section 5(12)(a) of the Illinois Banking Act, Ill. Rev. Stat. ch. 17, par. 311(12)(a) (1989), authorizes a state bank to establish a subsidiary to hold title to and administer property obtained in collection of a debt. Thus, the Subsidiary that \* Foreign Bank proposes to establish is clearly authorized under Illinois law. Keep in mind, however, that the shares of the subsidiary held at the \* branch will be considered an asset due from a related institution, and thus the shares will not be an eligible asset for purposes of Section 13 of the Foreign Banking Office Act, Ill. Rev. Stat. ch. 17, par. 2720 (1989). Also, the property cannot be held by the subsidiary for longer than 5 years under Section 5(9) of the Illinois Banking Act, Ill. Rev. Stat. ch. 17, par. 311(9) (1989), unless a written request for an extension is approved by the Commissioner.