

**INTERPRETIVE LETTER 93-031 (DECEMBER 21, 1993)**

**Loans among affiliates, the stock of which is at least 80% owned by parent company, are exempt from lending limit and collateral requirements.**

This is in reply to your letter dated \*, in which you requested an opinion regarding limitations on loans between affiliated banks. Specifically, you sought confirmation that Illinois state-chartered banks owned by \* ("BHC") are authorized to make loans to affiliated banks ("BHC Affiliates") without being subject to lending limits or collateral requirements. BHC owns at least 80% of the stock of each of the BHC Affiliates. For the reasons described below, it is the position of this Agency that the lending limits and collateral requirements would not apply to loans between BHC Affiliates.

An Illinois state-chartered bank's transactions with its affiliates are generally subject to the restrictions of Section 35.2 of the Illinois Banking Act ("Act"), 205 ILCS 5/35.2 (1992). Section 35.2 limits a state bank's covered transactions with any one affiliate to 10% of the bank's capital, surplus and undivided profits. The aggregate of all covered transactions between the state bank and all of its affiliates is limited to 20% of the bank's capital, surplus and undivided profits. Furthermore, Section 35.2 requires minimum amounts of collateral that apply to loans or extensions of credit to affiliates. These general limitations and requirements, however, do not apply when the transactions in question are covered by one of the exemptions set forth in subsection (d) of Section 35.2.

Subsection (d) of Section 35.2 states, in relevant part:

The provisions of this Section...shall not be applicable to the following as to which there shall be no limitation:

(1) any transaction...with a bank  
(C) in which 80% or more of the voting shares are controlled by the company that controls 80% or more of the voting shares of the state bank.

Given this exemption contained in Section 35.2, it is our conclusion that loans between affiliated banks that are each 80% owned by the same bank holding company are not subject to the lending limits and collateral requirements of Section 35.2. Such transactions remain, however, subject to the requirement in subsection (a)(4) of Section 35.2 that they be on terms and conditions that are consistent with safe and sound banking practices.