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Comptroller of the Currency  
Administrator of National Banks

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Central District Office  
One Financial Place, Suite 2700  
440 South LaSalle Street  
Chicago, Illinois 60605

**VIA FACSIMILE & FIRST CLASS MAIL**

**Interpretive Letter #847  
December 1998  
12 CFR 7.1000(d)**

October 28, 1998

Re: Purchase of Real Estate and Lease to Public School District

Dear [ ]:

This is in response to your submission of materials to the Office of the Comptroller of the Currency ("OCC") dated August 28, 1998, and our telephone conversations regarding a proposed real estate purchase and lease transaction that [

] ("Bank") is considering with the Board of Education of [ ]  
] ("School District").

The Bank proposes to purchase a ninety-four acre parcel of unimproved farmland located in [ ] County, [ *State* ], for the sum of \$1,060,000. The Bank would place the land into a/an [ *State* ] land trust with itself as beneficiary, facilitating the sale of partial interests in the property to other parties should the Bank wish in the future. The land trust will then enter into a 15-year, full net payout lease with the School District, at the conclusion of which the property will be sold to the School District for a nominal sum. The School District intends to construct a public school facility on the land.

During our telephone conversations, you advised that the Bank has reviewed the financial condition of the School District and confirmed its ability to make the projected monthly lease payments based on future tax revenues dedicated to building lease payments. Prior to entering into the transaction, a legal opinion will be obtained concluding that the School District has the

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legal authority to enter into the proposed lease as well as to utilize its public funding levy to make monthly payments as required.

As we have discussed, federal law limits the ability of national banks to hold real property.<sup>1</sup> The OCC has, however, issued interpretive rulings authorizing national banks to provide lease financing of public facilities.<sup>2</sup> Under this scenario, a national bank is permitted to acquire land and buildings or construct new facilities and lease it to a municipality or other public authority having sufficient resources to make all rental payments. At the conclusion of the lease term, title of the property is then transferred from the bank to the lessee. Accordingly, this transaction is essentially a loan secured by real estate. As such it is subject to the provisions of 12 U.S.C. § 84.

Based upon OCC Interpretive Ruling 7.1000 and the foregoing line of established precedence, the leasing transaction as proposed is permissible. This analysis is based upon the facts presented in your letter and representations made to this Office; different circumstances may affect the conclusions contained herein. If you have any further questions, please contact me or Roger Bainbridge at (312) 360-8805.

Sincerely,

/s/

Christopher G. Sablich  
Senior Attorney

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<sup>1</sup> See 12 U.S.C. § 29.

<sup>2</sup> See 12 C.F.R. § 7.1000. See also Letter from Thomas G. DeShazo to Ronald L. Keyser (October 23, 1968) (analyzing predecessor Interpretive Ruling 7.3300); Letter from Thomas G. DeShazo to Byron T. O'Connor (July 22, 1971); Letter from Kenneth W. Leaf to Roger L. Baldinger (November 28, 1972).