Joint Release

Office of the Comptroller of the Currency

Federal Deposit Insurance Corporation

Board of Governors of the Federal Reserve

Office of Thrift Supervision

FOR IMMEDIATE RELEASE PR-140-92 (10-5-92)

FEDERAL REGULATORS AGREE TO ISSUE LETTERS ABOUT BANK AND THRIFT TAX DEDUCTIONS FOR LOAN LOSSES

The four federal bank and thrift regulators announced today an agreement that will reduce documentation burdens on institutions filing for tax deductions for their loan losses.

Under current federal tax law, banks and thrifts are permitted bad debt deductions for loans charged off because of uncollectibility. As with any tax deduction, the Internal Revenue Service (IRS) often seeks additional evidence to ensure that loans are being charged off appropriately. In most cases, institutions have supported their bad debt deductions with internal documentation. However, recent IRS regulations allow institutions to obtain a new form of supporting evidence from their primary federal regulator at examinations involving the loan review process after October 1, 1992.

Under the agreement announced today, when examiners find an institution's loan loss classification standards to be consistent with regulatory standards regarding loan charge-offs, examiners are authorized to provide, upon request, a letter to the institution at the conclusion of the examination that expressly states this finding. The IRS will accept these "express determination" letters, enabling banks and thrifts to establish for federal income tax purposes a conclusive presumption of worthlessness for loans that have been charged off for regulatory reporting purposes.

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The agreement involves the Federal Reserve, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision. The agencies expect that this agreement will ease the burdens on depository institutions by eliminating redundant work by the IRS while still assuring the IRS and the American taxpayers that the bad debt deductions being taken by these institutions are appropriate.

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