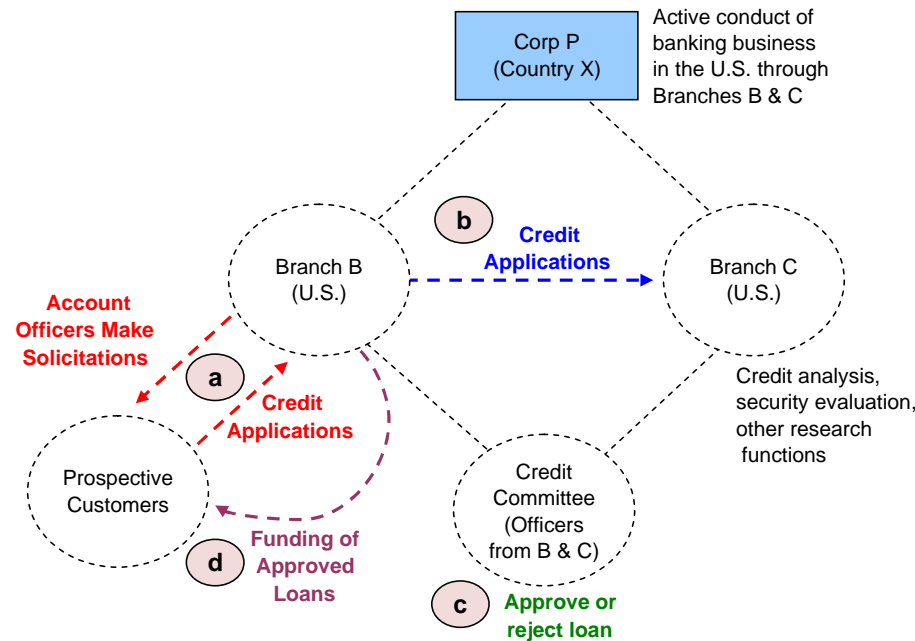


## Revenue Ruling 86-154, Situation 1

### Banking: Loans Attributable to U.S. Office Where the Office Actively & Materially Participates in Soliciting and Negotiating

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P, a foreign corporation whose home office is located in foreign country X, is actively engaged in the conduct of the banking business within the United States within the meaning of Reg. 1.864-4(c)(5)(i) through B and C, P's United States branch offices. B has in its possession and has recorded on its books interest-bearing securities of related and unrelated United States corporations evidencing funds advanced by B to these borrowers. Typically, the branch offices' participation in the loan acquisition process varies.

B has full-time permanent employees who are account officers. These account officers contact financial officers of medium size United States companies. Through scheduled appointments, the account officers propose terms to prospective customers, and, if a customer is interested in the terms being offered, the customer executes a credit application. B transmits the credit application to C, which is staffed with personnel particularly capable of performing credit analysis, security evaluation, and other research functions. C's findings are forwarded to B. The account officer incorporates C's findings into a loan package which is forwarded to a credit committee composed of officers from B and C. The credit committee generally approves or rejects the loan package. In some cases, the committee will suggest modification of terms, in which case further negotiation by the account officer with the customer is necessary. Once the customer has agreed to terms and those terms are approved by the credit committee, B prepares the loan documentation and forwards it to the customer for signature. After the customer has signed, B funds the loan.

The activities of B and C are considered to be active and material with respect to the acquisition of the security. B or C solicited and negotiated the loan, performed the credit analysis and loan review, and approved the loan. These factors demonstrate that P's branch office operation had the requisite authority and capability to make the loan and in fact performed all material functions with respect to the making of the loan. Accordingly, the interest income from the security held by B is considered effectively connected with the active conduct of a banking and finance business in the United States.

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