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.

An unrelated foreign multinational corporation, Z, is solicited by P’s home office and negotiates with that office for lines of credit that far exceed the funding capability of an individual branch such as B. In cases where P has approved such a large line of credit, it does so in anticipation that its various branches will participate in the funding of the loan. Regarding B’s participation, P’s home office forwards the loan documentation to B and instructs B, subject to B’s normal credit analysis and other loan review procedures, to fund a part of the loan to Z. Z’s wholly-owned domestic subsidiary contacts B for purposes of obtaining the designated loan amount. With the benefit of the information contained in the prior loan documentation forwarded from P, an independent global credit analysis is not performed by B. However, an account officer of B negotiates with Z’s United States subsidiary for the necessary collateral which is standard under B’s loan practices. C performs a thorough credit analysis of Z’s domestic subsidiary, evaluates the collateral and confirms to B that the collateral is adequate to secure the loan. B funds the loan.

B’s and C’s activities are considered active and material. Although P’s home office solicited and negotiated the overall line of credit, B negotiated the collateral for the loan and C performed an independent credit analysis and evaluation of the collateral prior to the granting of the loan. The fact that P’s home office also actively and materially participated in the acquisition does not affect this result. 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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