

# FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 73-231  
September 12, 1973

To the Chief Executive Officer of the  
State Member Bank Addressed:

We have been advised by the Internal Revenue Service that Section 1.166-2(d) of its Income Tax Regulations which pertains to charge-off of bad debts by a bank has been amended.

Prior to the amendment, the relevant portion of the IRS Regulations read as follows:

"Section 1.166-2(d)--If a bank or other corporation which is subject to supervision of Federal authorities, or by State authorities maintaining substantially equivalent standards, charges off a debt in whole or in part in obedience to the specific orders of such supervisory authorities, then the debt shall, to the extent charged-off during the taxable year, be conclusively presumed to have become worthless, or worthless only in part, as the case may be, during such taxable year. . . (26 CFR 1.166-2(d))."

The amendment to the Regulations added another provision to the above-quoted section, and after the amendment, the section reads:

"If a bank or other corporation which is subject to supervision of Federal authorities, or by State authorities maintaining substantially equivalent standards, charges off a debt in whole or in part, either --

- (i) In obedience to the specific orders of such authorities, or
- (ii) In accordance with established policies of such authorities, and, upon their first audit of the bank or other corporation subsequent to the charge-off such authorities confirm in writing that the charge-off would have been subject to such specific orders if the audit had been made on the date of the charge-off, then the debt shall, to the extent charged-off during the taxable year, be conclusively presumed to have become worthless, or worthless only in part, as the case may be, during such taxable year. . ."

Examiners for the Federal Reserve Bank of Dallas have been instructed to review at your request at each examination any voluntary

charge-offs made by your bank since the prior examination and determine whether those loans would have been regarded as a loss if the examination had been made on the dates of the charge-offs. Examiners have also been instructed to list all such loans so determined and confirm in writing that such loans would have been classified as "loss".

To assist the examiner in making an evaluation, it will be necessary for your bank to maintain complete records of the charge-offs, including the name of the borrower, unpaid balance, date of the charge-off, length of time loan was delinquent when charged off, financial statements and other related documents, and the reasons for making the charge-offs.

Yours very truly,

P. E. Coldwell

President