

Internal Revenue Service

Department of the Treasury

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Date:

April 18, 2001

Holdings	=
Acquiring	=
Target 1	=
Target 2	=
Foreign Corp. 1	=
Foreign Corp. 2	=
New Target 1	=
New Target 2	=
Foreign Bank 1	=
Foreign Bank 2	=
State A	=
State B	=
State C	=
Government Agency	=

This letter responds to your November 14, 2000 request for rulings on certain federal income tax consequences of a proposed transaction. Additional information was requested and submitted in letters dated January 5, February 13, February 26,

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March 14, March 29, and April 12, 2001. The information submitted for consideration is summarized below.

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

Summary of Facts

Holdings, a State A corporation, is a bank holding company. Holdings is the common parent of an affiliated group that files a consolidated federal income tax return with its subsidiaries, including Acquiring, Target 1, and Target 2.

Acquiring, Target 1, and Target 2 are State A chartered banks. Holdings owns all of the stock of Acquiring, Target 1, and Target 2.

Foreign Corp. 1, a State B corporation, is a bank holding company that is unrelated to Holdings. Foreign Corp. 1 owns all of the stock of Foreign Bank 1.

Foreign Corp. 2, a State C corporation, is a bank holding company that is unrelated to Holdings. Foreign Corp. 2 owns all of the stock of Foreign Bank 2.

For what are represented to be valid business reasons, Holdings wants to combine the operations of Target 1, Target 2, and Acquiring, and to cause the sale of the bank charters of Target 1 and Target 2. Government Agency will not permit State A bank charters to be transferred by themselves. Holdings proposed to effect this combination in a manner that the Service has ruled upon in accordance with Rev. Proc. 89-50, 1989-2 C.B. 631. Government Agency refused to approve such form. Government Agency is requiring that Holdings effect the transaction (the "Proposed Transaction") in the manner described below.

Proposed Transaction

(i) Holdings will sell all of the stock of Target 1 to Foreign Corp. 1 in exchange for a cash payment in the amount equal to the sum of (i) the book value of Target 1 ("Amount X1") and (ii) the value of the Target 1 bank charter and any required minimum capital ("Amount X2"). Holdings will sell all of the stock of Target 2 to Foreign Corp. 2 in exchange for a cash payment in the amount equal to the sum of (i) the book value of Target 2 ("Amount Y1") and (ii) the value of the Target 2 bank charter and any required minimum capital ("Amount Y2").

(ii) Target 1 will merge with and into Foreign Bank 1 ("Merger 1"). Foreign Corp.

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1 will cause Foreign Bank 1 to transfer all the assets that Foreign Bank 1 received from Target 1 in Merger 1 (except for the Target 1 bank charter and any minimum capital) to Acquiring in exchange for Holdings' payment of Amount X1 and Acquiring's assumption of the liabilities attributable to Target 1 immediately prior to Merger 1. Target 2 will merge with and into Foreign Bank 2 ("Merger 2"). Foreign Corp. 2 will cause Foreign Bank 2 to transfer all the assets that Foreign Bank 2 received from Target 2 in Merger 2 (except for the Target 2 bank charter and any minimum capital) to Acquiring in exchange for Holdings' payment of Amount Y1 and Acquiring's assumption of the liabilities attributable to Target 2 immediately prior to Merger 2.

All of the parties to the agreements effecting the Proposed Transaction have agreed to treat the Proposed Transaction consistently with the requested rulings provided for herein for federal tax purposes.

Representations

In connection with the Proposed Transaction, the following representations have been made:

(a) All transfers of stock and assets described in steps (i) and (ii) above will occur pursuant to written binding contracts between the parties entered into before these steps are undertaken.

(b) The fair market value of the constructive Acquiring stock and other consideration received by Holdings will be approximately equal to the fair market value of the Target 1 and Target 2 stock surrendered in the exchange.

(c) There is no plan or intention by Holdings to sell, exchange, or otherwise dispose of a number of shares of constructive Acquiring stock received in the Proposed Transaction that would reduce Holdings' ownership of Acquiring stock to a number of shares having a value, as of the date of the Proposed Transaction, of less than 50 percent of the value of all of the formerly outstanding stock of Target 1 and Target 2 as of the same date. For purposes of this representation, shares of Target 1 and Target 2 stock exchanged for cash or other property, surrendered by dissenters or exchanged for cash in lieu of fractional shares of Acquiring stock will be treated as outstanding Target 1 and Target 2 stock on the date of the transaction. Moreover, shares of Target 1 and Target 2 stock and shares of Acquiring stock held by Holdings and otherwise sold, redeemed, or disposed of prior or subsequent to the Proposed Transaction will be considered in making this representation.

(d) Acquiring will acquire at least 90 percent of the fair market value of the net assets and at least 70 percent of the fair market value of the gross assets held by each of Target 1 and Target 2 immediately prior to the Proposed Transaction. For purposes of this representation, amounts paid by Target 1 and Target 2 to dissenters, amounts

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paid by Target 1 and Target 2 to shareholders who receive cash or other property, amounts used by Target 1 and Target 2 to pay its reorganization expenses, and all redemptions and distributions (except for regular, normal dividends) made by Target 1 and Target 2 immediately preceding the transfer will be included as assets of Target 1 and Target 2 held immediately prior to the Proposed Transaction.

(e) After the Proposed Transaction, Holdings will be in control of Acquiring within the meaning of § 368(a)(2)(H) of the Internal Revenue Code.

(f) Except as may be deemed to occur as a result of the requested recast of the Proposed Transaction under § 1.1502-13(f)(3) of the Income Tax Regulations, Acquiring has no plan or intention to reacquire any of its stock constructively issued in the Proposed Transaction.

(g) Acquiring has no plan or intention to sell or otherwise dispose of any of the assets of Target 1 or Target 2 acquired in the Proposed Transaction, except for dispositions made in the ordinary course of business.

(h) The respective liabilities of Target 1 and Target 2 assumed by Acquiring plus the respective liabilities, if any, to which the transferred assets are subject were incurred by Target 1 and Target 2 in the ordinary course of their respective businesses and are associated with the assets transferred.

(i) Following the Proposed Transaction: (1) Acquiring will continue the historic businesses of Target 1 or use a significant portion of Target 1's historic business assets in a business; and (2) Acquiring will continue the historic businesses of Target 2 or use a significant portion of Target 2's historic business assets in a business.

(j) At the time of the Proposed Transaction, Acquiring will not have outstanding any warrants, options, convertible securities, or any other type of right pursuant to which any person could acquire stock in Acquiring that, if exercised or converted, would affect Holdings' acquisition or retention of control of Acquiring, as defined in § 368(a)(2)(H).

(k) Acquiring, Target 1, Target 2 and Holdings will pay their respective expenses, if any, incurred in connection with the Proposed Transaction.

(l) There is no intercorporate indebtedness existing between Acquiring and Target 1, or between Acquiring and Target 2, that was issued, acquired, or will be settled at a discount.

(m) No parties to the Proposed Transaction are investment companies as defined in § 368(a)(2)(F)(iii) and (iv).

(n) The fair market value of the respective assets of Target 1 and Target 2

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transferred to Acquiring will equal or exceed the sum of the respective liabilities of Target 1 and Target 2 assumed by Acquiring, plus the amount of the respective liabilities of Target 1 and Target 2, if any, to which the transferred assets are subject.

(o) The respective total adjusted basis of the assets of Target 1 and Target 2 transferred to Acquiring will equal or exceed the sum of the respective liabilities of Target 1 and Target 2 to be assumed by Acquiring, plus the amount of the respective liabilities of Target 1 and Target 2, if any, to which the transferred assets are subject.

(p) Neither Target 1 nor Target 2 is under the jurisdiction of a court in a title 11 or similar case within the meaning of § 368(a)(3)(A).

(q) Foreign Bank 1 will transfer all of its assets attributable to Target 1 and Foreign Bank 2 will transfer all of its assets attributable to Target 2 to Acquiring, except that they will retain the Target 1 and Target 2 respective corporate charters and those assets, if any, necessary to satisfy state law minimum capital requirements to maintain corporate existence immediately after the completion of step (ii) of the Proposed Transaction.

(r) For purposes of the representation that Acquiring will acquire at least 90 percent of the fair market value of the net assets and at least 70 percent of the fair market value of the gross assets held by each of Target 1 and Target 2 immediately prior to the Proposed Transaction, the corporate charters of Target 1 and Target 2 and any minimum capital will be included as assets of Target 1 and Target 2, respectively, held immediately prior to the Proposed Transaction.

(s) Assuming the transaction is recast as requested, the bank charters deemed to be acquired by Acquiring will be treated for federal tax purposes as distributed by Acquiring in redemption of a portion of Holdings' Acquiring stock and as though Holdings contributed the bank charters to the capital of New Target 1 and New Target 2 in exchange for the issuance of New Target 1 and New Target 2 stock to Holdings. Immediately following this deemed distribution and contribution, New Target 1 and New Target 2 will be treated for federal tax purposes as new corporations and each will obtain new employer identification numbers.

Rulings

Based solely upon the information submitted and the representations set forth above, we rule as follows:

(1) For Federal income tax purposes, the Proposed Transaction will be viewed as (i) the acquisition by Acquiring of all of the respective assets of Target 1 and Target 2 (including the bank charters and any amounts constituting minimum capital)

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solely in exchange for constructive Acquiring common stock, and the assumption by Acquiring of the respective liabilities of Target 1 and Target 2; (ii) the distribution to Holdings by Target 1 and Target 2 of the respective amounts of constructive Acquiring stock, in exchange for all of Holdings' respective Target 1 and Target 2 stock in complete liquidation of Target 1 and Target 2; (iii) the distribution by Acquiring of the bank charters of Target 1 and Target 2 and any minimum capital in redemption of a portion of Holdings' Acquiring stock constructively received in (ii) above; (iv) the contribution by Holdings of the respective bank charters of Target 1 and Target 2 and any minimum capital respectively received in (iii) above to the capital of New Target 1 (the "Deemed Contribution to New Target 1") and New Target 2 (the "Deemed Contribution to New Target 2"), respectively, in exchange for the issuance of New Target 1 and New Target 2 stock, respectively, to Holdings; and (v) the sale of all of the respective stock of New Target 1 and New Target 2 to Foreign Corp. 1 (the "Deemed Sale of New Target 1") and Foreign Corp. 2 (the "Deemed Sale of New Target 2"), respectively, for Amount X2 and Amount Y2, respectively.

(2) The acquisition by Acquiring of all of the respective assets of Target 1 and Target 2 (including the bank charters and the amounts constituting the minimum capital, if any) solely in exchange (in each case) for constructive Acquiring common stock and the assumption by Acquiring of the respective liabilities of Target 1 and Target 2, followed by the distribution to Holdings by Target 1 and Target 2 of the constructive Acquiring stock, in exchange for all of Holdings' respective Target 1 and Target 2 stock in complete liquidation of Target 1 and Target 2 will constitute tax-free reorganizations within the meaning of § 368(a)(1)(D) of the Code.

(3) No gain or loss will be recognized by Acquiring upon the receipt of the Target 1 and Target 2 assets in exchange for constructive Acquiring stock (§ 1032(a)).

(4) The basis of each asset of Target 1 and Target 2 (including the bank charters) in the hands of Acquiring will be the same as the basis of such asset in the hands of Target 1 and Target 2 immediately prior to the Proposed Transaction (§ 362(b)).

(5) The holding period of each asset of Target 1 and Target 2 (including the bank charters) in the hands of Acquiring will include the period during which such asset was held by Target 1 or Target 2, as the case may be, immediately prior to the Proposed Transaction (§ 1223(2)).

(6) No gain or loss will be recognized by Target 1 or Target 2 upon the transfer of all of their assets to Acquiring in exchange for constructive Acquiring stock and the assumption by Acquiring of the respective liabilities of Target 1 and Target 2 (§§ 361(a) and 357(a)).

(7) No gain or loss will be recognized by Target 1 or Target 2 on their distribution

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of constructive Acquiring stock in exchange for Holdings' respective Target 1 and Target 2 stock (§ 361(c)(1)).

(8) No gain or loss will be recognized to Holdings upon the receipt of constructive Acquiring stock in exchange for its Target 1 and Target 2 stock (§ 354(a)(1)).

(9) The basis of the shares of constructive Acquiring stock received by Holdings will be the same as its basis in the Target 1 and Target 2 stock surrendered in exchange therefor (§ 358(a)(1)).

(10) The distribution by Acquiring of the Target 1 and Target 2 charters and any minimum capital in redemption of Holdings' constructive Acquiring stock will be treated as a redemption to which § 302 applies (§ 1.1502-13(f)(3)).

(11) The distribution of the Target 1 and Target 2 bank charters and any minimum capital in redemption of Holdings' constructive Acquiring stock will not be included in the gross income of Holdings. Holdings will, however, be required to make a corresponding negative adjustment in the amount of the distribution to its basis in its Acquiring stock under § 1.1502-32 (§ 1.1502-13(f)(2)(ii)).

(12) Acquiring will recognize gain or loss under § 311(b) or § 1.1502-13(f)(2)(iii) from the distribution of the Target 1 and Target 2 bank charters and any minimum capital in redemption of Holdings' constructive Acquiring stock and such gain or loss shall be taken into account under the timing rules of § 1.1502-13 (§§ 1.1502-13(c), 1.1502-13(f)(2)(iii)). With respect to such gain or loss with respect to the bank charter and any minimum capital of Target 1, such gain or loss shall be taken into account upon the Deemed Sale of the New Target 1 (§ 1.1502-13(c)). With respect to such gain or loss with respect to the bank charter and any minimum capital of Target 2, such gain or loss shall be taken into account upon the Deemed Sale of the New Target 2 (§ 1.1502-13(c)).

(13) Holdings' basis in each of the Target 1 and Target 2 bank charters and any minimum capital will be the fair market value of such asset (§ 301(d)).

(14) The holding period of each of the Target 1 and Target 2 bank charters and any minimum capital in the hands of Holdings will include the holding period of such asset in the hands of Target 1 or Target 2, as the case may be (§ 1.1502-13(c)(1)(ii)).

(15) Immediately following the Deemed Contribution of New Target 1, New Target 1 will be treated for federal tax purposes as a new corporation and will obtain a new employer identification number (Rev. Proc. 89-50, 1989-2 C.B. 631; see also Rev. Rul. 73-526, 1973-2 C.B. 404).

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(16) Immediately following the Deemed Contribution of New Target 2, New Target 2 will be treated for federal tax purposes as a new corporation and will obtain a new employer identification number (Rev. Proc. 89-50, 1989-2 C.B. 631; see also Rev. Rul. 73-526, 1973-2 C.B. 404).

Caveats

No opinion is expressed about the tax treatment of the Proposed Transaction under other provisions of the Code or regulations, or the tax treatment of any conditions existing at the time of, or effects resulting from, the Proposed Transaction that are not specifically covered by the above rulings.

Procedural Statements

This ruling is directed only to the taxpayer(s) requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

A copy of this letter must be attached to any income tax return to which it is relevant.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

Associate Chief Counsel (Corporate)

By: _____

Stephen P. Fattman
Assistant to the Chief
Branch 4