

CALIFORNIA FRANCHISE TAX BOARD

Legal Ruling No. 314

August 25, 1966

SAVINGS AND LOAN ASSOCIATIONS: BAD DEBT RESERVE UNDER REGULATION 24348(a)

Syllabus:

Advice has been requested for an interpretation of the word "in existence" as used in Regulation 24348(a) with respect to (1) a savings and loan association which was inactive for a period of years after incorporation; (2) an active savings and loan association which ceased operations for a period of years and resumed operations; and (3) a savings and loan association which for a period of years was in the process of liquidation.

For years beginning after December 31, 1958, Regulation 24348(a)(3) permits savings and loan associations to select either a moving average based on 20 years experience of bad debts or an average experience factor based upon any 20 years after 1927. Where an association selects the latter method ("alternative method") and the selected 20-year period extends back into years in which it was not in existence, such association is required to use the bad debt experience of similar associations located in the State for the years it was not in existence and its own experience for the years it was in existence.

It is our opinion that the words "in existence" as used in Regulation 24348(a)(3) should be interpreted to mean "in existence and conducting a regular savings and loan business". Accordingly, the statewide average should be used for the years during which an association was inactive or in the process of liquidation. The use of the statewide average is not only more meaningful than the association's own experience for the years but also achieves the purpose of the regulations. Union National Bank of Youngstown v. U.S., 237 F. Supp. 753.