WASHINGTON — The federal banking and thrift regulatory agencies announced today that they will allow banks, bank holding companies, and thrifts (collectively, "banking organizations") to recognize the effect of the tax change enacted in Section 301 of the Emergency Economic Stabilization Act of 2008 (EESA) in their third quarter 2008 regulatory capital calculations.

Section 301 of EESA provides tax relief to banking organizations that have suffered losses on certain holdings of Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) preferred stock by changing the character of these losses from capital to ordinary for federal income tax purposes. However, because the EESA was not enacted until October 3, 2008, banking organizations will not be able to recognize the tax effects of the ordinary losses resulting from Section 301 of EESA in financial statements prepared in accordance with generally accepted accounting principles until the fourth quarter of 2008. Today's decision by the agencies will allow banking organizations to recognize the economic benefits of the change in the tax treatment of losses on Fannie Mae and Freddie Mac preferred stock under Section 301 of the EESA in the third quarter of 2008 for regulatory capital purposes.

The agencies plan to provide regulatory reporting instructions to banking organizations describing how the effect of the tax change enacted in Section 301 of EESA should be reflected in the measurement of regulatory capital in their regulatory reports for September 30, 2008.

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