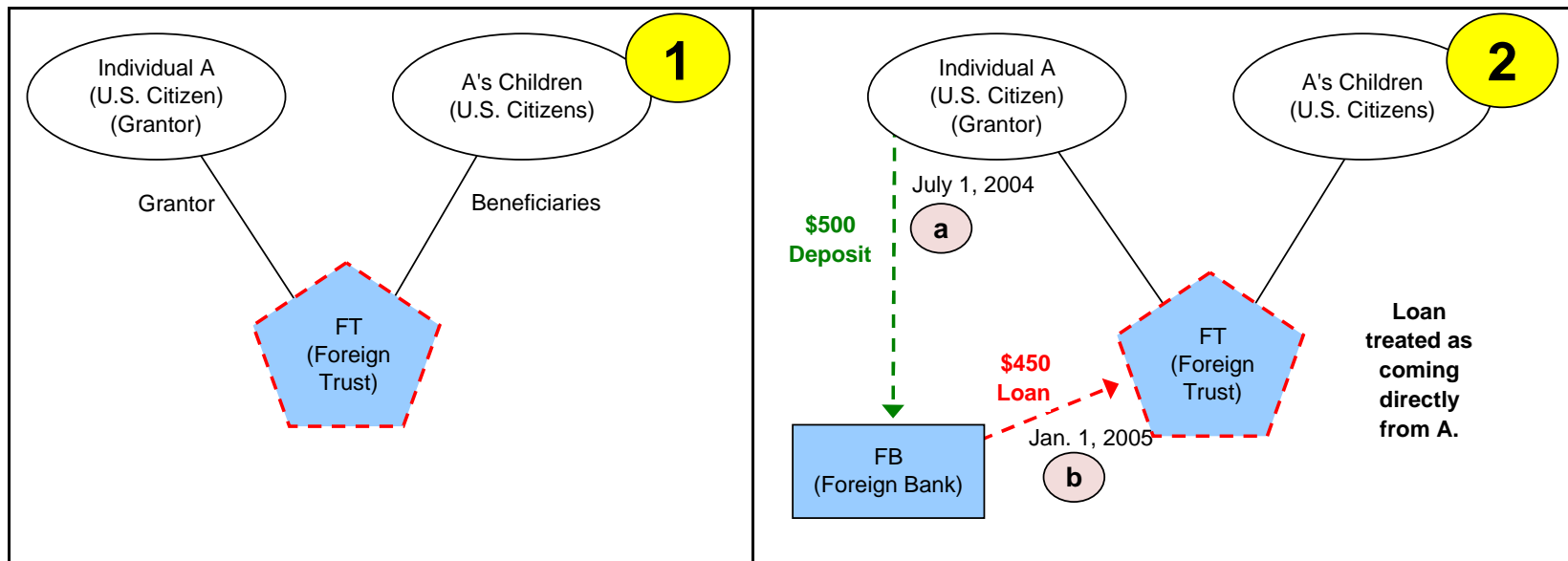


**Indirect Loan to Foreign Trust**

**Initial Structure**

**Indirect Loan**



A, a U.S. citizen, previously created and funded FT, a foreign trust, for the benefit of A's children, who are U.S. citizens. On July 1, 2004, A deposits 500X with FB, a foreign bank. On January 1, 2005, FB loans 450X to FT. A is unable to demonstrate to the satisfaction of the Commissioner, that FB has a relationship with FT that establishes a reasonable basis for concluding that FB would make a loan to FT or that FB acted independently of A in making the loan. A is deemed to have transferred 450X directly to FT on January 1, 2005. FB is treated as an agent of A. For possible exceptions with respect to qualified obligations of the trust, and the treatment of principal repayments with respect to obligations of the trust that are not qualified obligations, see Reg. 1.679-4.

Pentagon represents a trust. A red, dashed border of a pentagon indicates that the trust is treated as a "grantor trust" (i.e., the grantor is treated as the owner under sections 671-679).