of the debt obligations have recourse to the holder of that asset.

(c) Portion as obligor—(1) In general. For purposes of section 7701(i)(2)(A)(ii), a portion of an entity is treated as the obligor of all debt obligations supported by the assets in that portion.

(2) *Example.* The following example illustrates the principles of this section:

Example. (i) Corporation Z owns \$1,000,000,000 in assets including an office complex and \$90,000,000 of real estate mortgages.

(ii) On November 30, 1998, Corporation Z issues eight classes of bonds, Class A through Class H. Each class is secured by a separate letter of credit and by a lien on the office complex. One group of the real estate mortgages supports Class A through Class D, another group supports Class E through Class G, and a third group supports Class H. It is anticipated that the cash flows from each group of mortgages will service its related bonds.

(iii) Each of the following constitutes a separate portion of Corporation Z: the group of mortgages supporting Class A through Class D; the group of mortgages supporting Class E through Class G; and the group of mortgages supporting Class H. No other asset is included in any of the three portions notwithstanding the lien of the bonds on the office complex and the fact that Corporation Z is the issuer of the bonds. The letters of credit are treated as incidents of the mortgages to which they relate.

(iv) For purposes of section 7701(i)(2)(A)(ii), each portion described above is treated as the obligor of the bonds of that portion, notwithstanding the fact that Corporation Z is the legal obligor with

respect to the bonds.

§ 301.7701(i)-3 Effective dates and duration of taxable mortgage pool classification.

(a) Effective dates. Except as otherwise provided, the regulations under section 7701(i) are effective and applicable September 6, 1995.

(b) Entities in existence on December 31, 1991—(1) In general. For transitional rules concerning the application of section 7701(i) to entities in existence on December 31, 1991, see section 675(c) of the Tax Reform Act of 1986.

- (2) Special rule for certain transfers. A transfer made to an entity on or after September 6, 1995, is a substantial transfer for purposes of section 675(c)(2) of the Tax Reform Act of 1986 only if—
- (i) The transfer is significant in amount: and
- (ii) The transfer is connected to the entity's issuance of related debt obligations (as defined in paragraph (b)(3) of this section) that have different maturities (within the meaning of § 301.7701–1(e)).
- (3) Related debt obligation. A related debt obligation is a debt obligation whose payments bear a relationship

(within the meaning of § 301.7701–1(f)) to payments on debt obligations that the entity holds as assets.

(4) *Example.* The following example illustrates the principles of this paragraph (b):

Example. On December 31, 1991, Partnership Q holds a pool of real estate mortgages that it acquired through retail sales of single family homes. Partnership Q raises \$10,000,000 on October 25, 1996, by using this pool to issue related debt obligations with multiple maturities. The transfer of the \$10,000,000 to Partnership Q is a substantial transfer (within the meaning of § 301.7701(i)—3(b)(2))

(c) Duration of taxable mortgage pool classification—(1) Commencement and duration. An entity is classified as a taxable mortgage pool on the first testing day that it meets the definition of a taxable mortgage pool. Once an entity is classified as a taxable mortgage pool, that classification continues through the day the entity retires its last related debt obligation.

(2) Testing day defined. A testing day is any day on or after September 6, 1995, on which an entity issues a related debt obligation (as defined in paragraph (b)(3) of this section) that is significant in amount.

§ 301.7701(i)–4 Special rules for certain entities.

(a) States and municipalities—(1) In general. Regardless of whether an entity satisfies any of the requirements of section 7701(i)(2)(A), an entity is not classified as a taxable mortgage pool if—

(i) The entity is a State, territory, a possession of the United States, the District of Columbia, or any political subdivision thereof (within the meaning of § 1.103–1(b) of this chapter), or is empowered to issue obligations on behalf of one of the foregoing;

(ii) The entity issues the debt obligations in the performance of a governmental purpose; and

- (iii) The entity holds the remaining interests in all assets that support those debt obligations until the debt obligations issued by the entity are retired.
- (2) Governmental purpose. The term governmental purpose means an essential governmental function within the meaning of section 115. A governmental purpose does not include the mere packaging of debt obligations for re-sale on the secondary market even if any profits from the sale are used in the performance of an essential governmental function.
- (3) Determinations by the Commissioner. If an entity is not described in paragraph (a)(1) of this section, but has a similar purpose, then

the Commissioner may determine that the entity is not classified as a taxable mortgage pool.

(b) REITs. [Reserved]

- (c) Subchapter S corporations—(1) In general. An entity that is classified as a taxable mortgage pool may not elect to be an S corporation under section 1362(a) or maintain S corporation status.
- (2) Portion of an S corporation treated as a separate corporation. An S corporation is not treated as a member of an affiliated group under section 1361(b)(2)(A) solely because a portion of the S corporation is treated as a separate corporation under section 7701(i).

Margaret Milner Richardson,

Commissioner of Internal Revenue.

Approved: July 17, 1995.

Leslie Samuels,

Assistant Secretary of the Treasury. [FR Doc. 95–19285 Filed 8–4–95; 8:45 am] BILLING CODE 4830–01–U

DEPARTMENT OF JUSTICE

Parole Commission

28 CFR Part 2

Paroling, Recommitting, and Supervising Federal Prisoners: Revision of the Salient Factor Score

AGENCY: Parole Commission, Justice. **ACTION:** Final rule.

SUMMARY: The U.S. Parole Commission is revising the salient factor score at 28 CFR 2.20. The salient factor score is an actuarial device which the Commission uses to measure the risk that a prisoner will violate parole. The revised Salient Factor Score will improve the accuracy of the Commission's recidivism predictions in the case of older prisoners. Under the revised score (to be known as SFS-95), the Commission will add one point to the prisoner's total score if the prisoner was 41 years of age or more at the commencement of the current offense (or parole violation), provided the prisoner does not already have the highest possible total score (10). The revision is made appropriate by the fact that the Parole Commission has jurisdiction over an aging population of prisoners and parolees whose crimes were committed prior to November 1, 1987.

EFFECTIVE DATE: October 2, 1995.

FOR FURTHER INFORMATION CONTACT: Pamela A. Posch, Office of General Counsel, U.S. Parole Commission, 5550 Friendship Blvd., Chevy Chase,