

# Interest on Real Estate Loans

JLARC Staff 2015 Tax Preference Performance Evaluation



A **tax deduction** for interest received on residential property loans was **narrowed to apply only to community banks**, as defined in the preference

## Community bank defined as lenders with locations in 10 or fewer states

May reflect a desire to:

- Focus on lenders that benefit the local community, and
- Respect Constitutional requirement to avoid impacts on interstate commerce

252

qualified lenders

headquartered in 40 states & online

\$16.8

billion loaned

71%

of the loan amount resold

by the lenders

IN 2013

## Other definitions of community bank could focus the preference differently

### REGULATORY DEFINITION

#### Federal Reserve Board

Includes banking organizations with assets of \$10 billion or less.

QUALIFYING LENDERS

168

### RESEARCH DEFINITION

#### Federal Deposit Insurance Corp.

Includes asset size, loan to asset ratio, number of states with offices, & more.

138

### INDUSTRY TERMINOLOGY

#### "Portfolio Lenders"

These lenders retain mortgages for the duration of the loans. The loans are not resold.

There is no standard threshold for the amount of retained loans that defines a portfolio lender.

91

Lenders with 50% resold

71

Lenders with no loans resold

### Preference and Recommendation

Banks and other financial businesses may receive a **business and occupation (B&O) tax deduction** for the **interest they receive on residential property loans**.

The Legislature should review the detailed information in the complete report about the lenders that qualify under the 2012 definition and alternate definitions and **determine whether the preference is focused as intended**.

The [complete report](#) is on the JLARC web site.

**For more information, contact:**  
Keenan Konopaski,  
Washington State  
Legislative Auditor  
(360) 786-5187  
keenan.konopaski@leg.wa.gov

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