



VIA Electronic Mail (director@fasb.org)

August 20, 2009

Technical Director
Financial Accounting Standards Board
401 Merritt 7, P. O. Box 5116
Norwalk, CT 06856-5116

File Reference: No. 1700-100

Dear Board Members and FASB Staff:

The Mortgage Bankers Association¹ (MBA) appreciates the opportunity to comment on the FASB Proposed Statement of Financial Accounting Standards, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (the proposed Statement).

The proposed Statement would significantly change the disclosure requirements for the allowance for credit losses and the credit quality of financing receivables. It first defines two levels of disaggregation: 1) portfolio segment which is defined as the level at which the creditor develops and documents its systematic methodology for determining its allowance for credit losses and 2) a class of financing receivable which is defined as a level of information that enables users of financial statements to evaluate the nature and extent of exposure to credit risk arising from financing receivables held by the creditor at the date of the financial statements. It then provides for enhanced disclosures including 1) a rollforward of the allowance for credit losses on a portfolio segment basis, 2) a rollforward of the financing receivables on a portfolio segment basis, 3) the fair value of loans at the end of the reporting period on a portfolio segment basis, 4) the credit quality of the financing receivables portfolio at the end of the reporting period by class, 5) the aging of the past due financing receivables at the end of the reporting period by class, and 6) the nonaccrual status and impaired financing receivables at the end of the reporting period by class.

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,400 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

The following are MBA's general comments with respect to the proposed Statement and MBA's response to FASB's specific questions in the exposure draft for the proposed Statement.

General Comments

Effective Date and Transition Guidance: The proposed effective date would require most preparers to report the new disclosures as of and for the period ending December 31, 2009. This is too soon for preparers to identify the classes of financing receivables and put in place and test the systems and infrastructure necessary for the more granular reporting. Further, FASB recently issued FAS 166 and 167. Preparers have a massive job implementing those standards by January 1, 2010, and this coincides with the timeframe for implementing the system and infrastructure changes associated with the proposed Statement. Finally, significant quantities of loans will come back on the balance sheet as a result of FAS 166, and preparers will not have sufficient time and data to prepare the disclosures required by the proposed Statement for those new loans.

MBA recommends that the effective date be changed to "as of and for the year ended December 31, 2010." The transition guidance should be changed to request preparers to make best efforts to report the required quarterly information in the earliest quarter possible during 2010.

Rollforwards by Portfolio Segment: The proposed Statement requires a rollforward of the loans and related allowance for credit losses by portfolio segment, which includes a requirement to disaggregate between receivables evaluated for impairment in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies* (FAS 5) and those evaluated for impairment under Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan* (FAS 114). MBA believes that portfolio segment should not be disaggregated by impairment method as it is not relevant to the risk profile of the underlying portfolio segment.

Further, the systems for some reporting entities are not specifically programmed to track activity by receivables evaluated for impairment in accordance with FAS 5 and FAS 114. Accordingly, implementation of the proposed Statement will result in significant costs to implement for those reporting entities, and the information resulting from the exercise is not deemed to be decision-useful. FASB should consider why they are asking reporting entities to report information for users that management itself does not find useful.

Finally, the requirement to provide a rollforward of the allowance by impairment category will be misleading to users and should be removed from the proposed Statement. Subsequent to origination or purchase of a loan, most loans are

initially evaluated collectively for impairment under FAS 5. Many of these loans are charged off after a loan migrates to the category of being evaluated individually for impairment under FAS 114 (including commercial loans and residential mortgage loans that are modified in a troubled debt restructuring). Therefore, under the proposed statement, most charge-offs and recoveries will be reported in the rollforward in the FAS 114 bucket. This level of rollforward is also not analyzed by management for this very reason. MBA further notes this further disaggregation is not required by international accounting standards. MBA believes that the disclosures already required by FAS 114 provide the most useful information to users.

Loans With No Allowance for Credit Losses: Statement of Financial Accounting Standards No. 141, *Business Combinations* (FAS 141) requires that loans acquired in a business combination be accounted for initially at fair value. The amount of purchase price allocated to such loans includes estimated credit losses. However, FAS 141 precludes setting up an allowance for credit loss in the accounting for business combinations. In addition, Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-3), requires loans with credit deterioration subsequent to origination to be accounted for on a different measurement basis than other amortized cost loans. Given the large number of financial institution business combinations that have occurred during the current economic and credit cycle, the disclosures related to the allowance for credit losses are irrelevant to a significant portion of loans held by financial institutions and will result in lack of comparative financial statements under the proposed Statement. MBA recommends that FASB re-consider the proposed Standard because these differences will make it difficult for users to meaningfully interpret these disclosures.

Disclosure Framework Project: On July 8, 2009, FASB announced the addition of a new FASB agenda project aimed at establishing an overarching framework intended to make financial statement disclosures more effective, coordinated, and less redundant. In announcing the disclosure framework project, FASB stated that it intends to address “disclosure overload”, to enable all entities to focus on making more coherent disclosures in their annual reporting package, and to move away from what some assert has become a compliance exercise. FASB expects to announce its preliminary views during the first half of 2010. MBA believes that the proposed Statement contains disclosures which are prescriptive in nature, which may add to the current disclosure overload. Accordingly, MBA recommends that FASB postpone the effective date of the proposed Statement until the disclosures can be analyzed in light of the disclosure framework being developed in this separate project.

International Accounting Standards Convergence: FASB and the International Accounting Standards Board (IASB) are currently working on a major project to converge U. S. accounting standards with international

accounting standards. FASB and IASB have also decided to converge accounting standards related to financial instruments on an accelerated timetable. MBA supports this initiative and believes that the proposed Statement should become part of the larger, international convergence project. Currently, FASB's proposed approach for classification and measurement would be to measure all financial assets and liabilities at fair value, making the allowance for credit losses irrelevant. In contrast, the current IASB exposure draft for the classification and measurement would measure most loans at amortized cost. MBA believes this major difference in classification and measurement should be resolved before additional disclosures contained in the proposed Standard are implemented. Further, MBA believes that the proposed Statement would actually create further divergence of U.S. versus international accounting standards. The proposed Statement requires categorization of loans and related allowances for credit losses that are inconsistent with existing International Financial Reporting Standards 7, *Financial Instruments Disclosures* (IFRS 7). Accordingly, MBA recommends that the implementation date for proposed Statement be postponed and the project folded in with the international convergence of accounting standards for financial instruments including the convergence of U.S disclosures standards and IFRS 7.

Credit Quality Indicator: Paragraph 7 of the exposure draft defines a credit quality indicator by example. The examples cited include consumer credit scores and loan to value ratios. Paragraph 13(b)(2) requires that consumer credit scores be updated on an annual basis if a creditor discloses such information. Although many mortgage bankers update credit scores that frequently, MBA believes that the frequency for updating credit information is a risk management decision that should not be dictated by an accounting pronouncement to support disclosure.

Inconsistent Language in Exposure Draft Compared to Appendix C: MBA observes that proposed changes to existing standards are typically consistent with the text of the exposure draft. MBA notes that the disclosures of loan classifications on page 27 are not contained in the proposed Statement itself.

Internal Classifications for Current, Non-impaired Loans: Paragraph 13(b)(1) requires the reporting of loans carried at amortized cost that are neither past due nor impaired to be reported by risk ratings defined by bank regulators in *Uniform Agreement on Classification of Assets and Appraisal of Securities Held by Banks and Thrifts (regulatory guidelines)*. MBA believes that such categorization is not useful since substantially all loans that are neither past due nor impaired will be rated "Pass" under the regulatory guidelines.

Specific Comments

Issue 1: This proposed Statement defines a financing receivable as both loans as defined by FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan, and lessors' investment in leases other than operating leases that have been recorded as assets in accordance with FASB Statement No. 13, Accounting for Leases. Do you agree with the definition used to identify a financing receivable subject to the provisions of this proposed Statement? If not, why not?

MBA Response: MBA generally agrees with the definition of a financing receivable and the inclusion of a lessors' investment in leases other than operating leases. However, FASB and IASB are in the midst of a project where lease accounting is being reconsidered. The FASB and IASB recently exposed a discussion document that relates primarily to lessee accounting. However, in that exposure document, one of the approaches being considered for lessor accounting is to replace the existing risks and rewards model with a right-of-use model. Under a right-of-use model, lessors would not be required to classify leases as financing or operating leases. This may significantly impact the definition of a financing receivable in the proposed Statement.

Issue 2: This proposed Statement would apply to all creditors, including all public and nonpublic entities that prepare financial statements in accordance with generally accepted accounting principles. Do you agree with the scope of this proposed Statement? If not, why not?

MBA Response: MBA agrees with the scope of the proposed Statement.

Issue 3: This proposed Statement would require a rollforward schedule of the total allowance for credit losses in both interim and annual reporting periods by portfolio segment and in the aggregate. In addition, it also would require a rollforward schedule of financing receivables in both interim and annual reporting periods by portfolio segment and in the aggregate. Do you believe those disclosures will assist financial statement users in better understanding the financial information for the total allowance for credit losses as well as the associated financing receivables? If not, why not?

MBA Response: The proposed rollforward schedules of loans and allowances sorted first by FAS 5 determined reserves and FAS 114 determined reserves, then sorted by product type is deemed by MBA members to be an onerous task that will add little value to users of financial statements. Financial institutions do not assess the risk of or manage financial receivables and reserves based on the applicable reserve methodology they utilize. As stated in MBA's general comments above, MBA believes that portfolio segment should be defined based

upon how management defines portfolios for purposes of determining allowance for credit losses not based upon FAS 5 and FAS 114 buckets. As such, the MBA does not believe such a rollforward of the allowance or financing receivables at the FAS 5 and FAS 114 level would benefit users of financial statements if it isn't even deemed important for assessment of risk within the reporting entity itself. Within paragraph B9, the Board discussed the need to further disaggregate these disclosures to the level at which the allowance for credit losses is calculated and monitored. The allowance for credit losses is calculated at a FAS 5 and FAS 114 level, but a rollforward of activity is not monitored by management at that level.

MBA recommends that the FASB require this disclosure without the granular rollforward at the reserve level for both the allowance for credit losses and schedule of financing receivables, which will serve to obfuscate important, actionable financial information. MBA points out that present GAAP requires a disclosure of FAS 114 loans and allowance at period end on an aggregate basis.

Further, financial institutions' systems and records are not presently designed to capture the data in the manner prescribed in the proposed Statement. The proposed Statement would require significantly more time than what has been allotted (see further discussion with the general comments) and significant expense to properly implement. However, as an alternative to the proposed Statement's approach to portfolio segments and classes, FASB should consider the disclosures already in the Securities and Exchange Commission's Management's Discussion and Analysis rules for bank holding companies pursuant to Article 9 of Regulation S-X, which are much more relevant and decision-useful.

Issue 4: This proposed Statement would require interim and annual credit quality disclosures about a portfolio by class of financing receivable, including quantitative and qualitative information about the credit quality of financing receivables. Do you believe those disclosures will assist financial statement users to better understand the credit quality for the associated financing receivables? If not, why not?

MBA Response: Most financial institutions currently report credit quality information, impaired financing receivables, and nonaccrual status. The proposed Statement requires that such things be disclosed on a more granular basis. The key question is whether the additional level of granularity will serve to provide users with meaningful information or whether the additional layering of more disclosures may serve to obfuscate important trends. A more principles-based accounting pronouncement would require preparers to use judgment so that they report relevant information. The proposed Statement is more prescriptive in nature and may result in more of a "check-the-box" compliance exercise. The following are specific comments by MBA members:

- Paragraph 6 requires classes to be sorted on the basis of initial measurement attribute. The initial classification of fair value or amortized cost is not relevant to the classification of credit risk in many cases. For example, loans purchased in a business combination or other loan purchases with credit deterioration are measured initially at fair value. These loans will be classified in the fair value category in spite of the fact that they are managed and reserved for differently.
- The collection, aggregation and reconciliation of the proposed disclosures will require significant system and infrastructure changes as onerous as the proposed changes to accommodate the rollforward schedules.
- The disclosure of loans that are now current but were previously modified during the year (other than in conjunction with a troubled debt restructuring) will be difficult to aggregate, and MBA questions the relevance of the disclosure. In addition, MBA requests clarification of whether a year represents fiscal year or the previous twelve months.

Issue 5: This proposed Statement would require an analysis of the age of financing receivables that are past due, but not impaired, at the end of the reporting period separately for each class of financial instruments. Do you believe those disclosures will assist financial statement users in better understanding the credit quality for the associated financing receivables? If not, why not?

MBA Response: As stated in the general comments above, MBA disagrees with FASB's definition of portfolio segment in the proposed Statement. If FASB were to change that definition to be more in line with how management periodically evaluates the adequacy of the allowance for credit losses, MBA believes that it may be more relevant to report the aging at the portfolio segment level not the class level, so the user can discern trends in the provision and allowance for credit losses in relation to the aging trend. MBA also notes that for investments in pooled loans where the unit of account is pool level not loan level, impairment is not a relevant measure.

Issue 6: This proposed Statement would require the fair value of loans at the end of the reporting period by portfolio segment. Do you believe those disclosures will assist financial statement users in better understanding the credit quality for the associated financing receivables? If not, why not?

MBA Response: MBA disagrees with the proposed disclosure of fair value at the end of the period by portfolio segment. Although fair value does contain elements of credit risk, it is also significantly impacted by other risk factors including interest rate risk. Further, fair value, as currently defined, may not, in certain situations, provide the user with relevant information on the credit quality of financing receivables. Specifically, fair value measurements when markets

become illiquid require the use of a liquidity risk factor which often magnifies credit risk trends resulting in a distortion of the inherent value of the financing receivables.

Issue 7: Do you believe it is operational for entities to disclose all of the proposed requirements for interim and annual reporting periods? Why or why not?

MBA Response: MBA is concerned with the trend of layering on additional disclosures for interim reporting, including recent requirements for interim disclosures under FSP FAS 107-1 and APB 28-1—*Interim Disclosures about Fair Value of Financial Instruments* and FSP FAS 140-4 and FIN 46(R)-8—*Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*. SEC registrants have less time to prepare interim financial statements compared with annual financial statements, and the disclosure overload for interim periods is becoming acute. Further, FASB recently issued FAS 166 and 167. Preparers have a massive job implementing those standards by January 1, 2010, and this coincides with the timeframe for implementing the system and infrastructure changes associated with the proposed Statement. Finally, significant quantities of loans will come back on the balance sheet as a result of FAS 166 and 167, and preparers will not have sufficient time and data to prepare the disclosures required by the proposed Statement for those new loans. Also, see MBA's recommendation above related to postponing the effective date of the proposed Statement until it can be analyzed under the proposed disclosure framework.

Issue 8: The final Statement is expected to be issued in the third quarter of 2009. The Board concluded that this proposed Statement would be effective for financial statements beginning with the first interim or annual reporting period ending after December 15, 2009. Do you agree with the Board's decision on the effective date? If not, what would be a reasonable period of time to implement the provisions of this proposed Statement? If you do not agree, please provide a description of the process changes necessary to implement this proposed Statement that would require additional time.

MBA Response: The proposed effective date would require most preparers to report the new disclosures as of and for the period ending December 31, 2009. As noted in MBA's general and specific responses above, this is too soon for preparers to identify the classes of financing receivables and to put in place and test the systems and infrastructure necessary for the more granular reporting. MBA recommends that the effective date be changed to "as of and for the year ended December 31, 2010." The transition guidance should be changed to request preparers to make best efforts to report the required quarterly information in the earliest quarter possible during 2010.

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The MBA appreciates the opportunity to share these comments with the Board. Any questions about MBA's comments should be directed to Jim Gross, Associate Vice President and Staff Representative to MBA's Financial Management Committee, at (202) 557-2860 or jgross@mortgagebankers.org.

Sincerely,

A handwritten signature in black ink that reads "John A. Courson". The signature is written in a cursive, flowing style.

John A. Courson
President and Chief Executive Officer
Mortgage Bankers Association