

MBA's National Secondary Marketing Conference & Expo

Session: "Accounting Standards Development in the Secondary Marketing"

Presenter: Steve Robertson, Managing Director

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Background

- Unprecedented market volatility and instability in the capital markets (e.g., residential mortgage crisis) contributed to FASB fast tracking modifications to FAS 140 and FIN 46R
- Increased complexity of structured transactions and the diversity of deal types resulted in unintended applications of existing guidance
- Market and political pressures to make changes to rules
 - President's Working Group on Financial Markets
 - Senator Jack Reed's letter to FASB
 - User concerns over transparency
- Key milestones for FAS 140 and FIN 46R amendments
 - Exposure draft issued - September 15, 2008
 - Roundtable discussions with stakeholders – November 8, 2008
 - Comment period ended – November 14, 2008
 - FASB redeliberations in March – April 2009
- Effective dates and transition
 - For fiscal years beginning after November 15, 2009 (January 1, 2010 for a calendar year entity)
 - Transition disclosures effective in 2009 – separate FASB Staff Position
- The FASB has been working with International Accounting Standards Board (IASB)
 - IASB has proposed a new consolidation standard that includes many similar concepts to those in the proposed FIN 46R amendment

Background

- FASB received push-back on proposals
 - Convergence
 - Effective date
 - Market and capital impact
- Potential impact of proposed changes
 - More entities could be consolidated
 - Certain entities may be consolidated by different financial institutions
 - Less sale accounting for transfers of portions of financial assets
 - More sale accounting for transfers of entire financial assets or groups of financial assets

Key FAS 140 Amendments (Proposed)

- Elimination of Qualified Special Purpose Entity (QSPE) requirement
- Elimination of guaranteed mortgage securitization exception
- Revised derecognition criteria
- Unit of account definition (participating interests)
- Measurement of beneficial interest retained
- Other modifications
- Enhanced disclosures

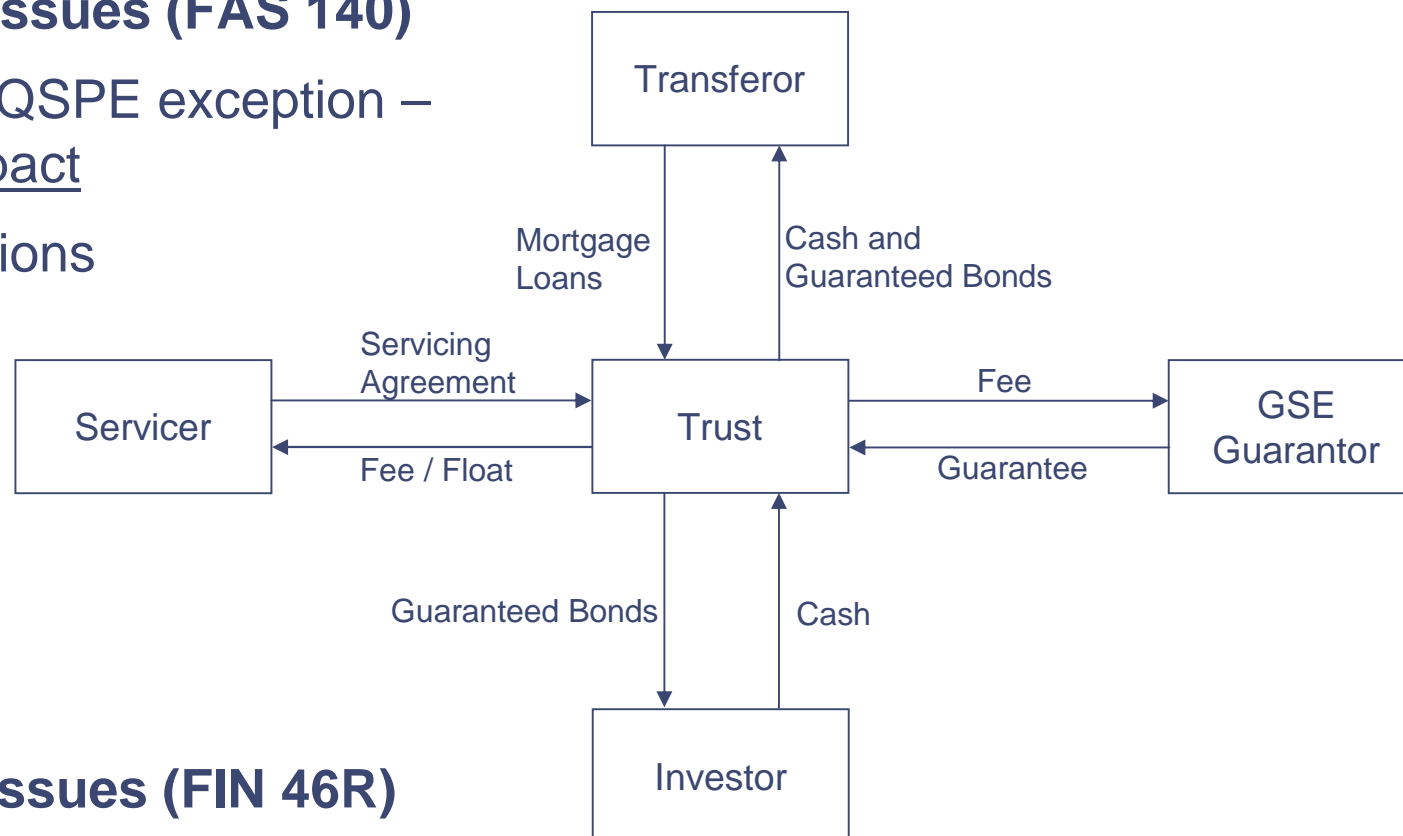
Key FIN 46R Amendments (Proposed)

- What is not changing?
 - Criteria for determining whether an entity is a variable interest entity (VIE)
 - What is variable interest
 - Some amendments to these areas being discussed, but generally consistent with original guidance
- What is changing?
 - Removal of QSPE exception
 - Qualitative analysis to determine primary beneficiary
 - Reconsideration events
 - Disclosures

Application to Guaranteed Mortgage Securitizations

Derecognition Issues (FAS 140)

- Elimination of QSPE exception – Significant Impact
- True sale opinions



Consolidation Issues (FIN 46R)

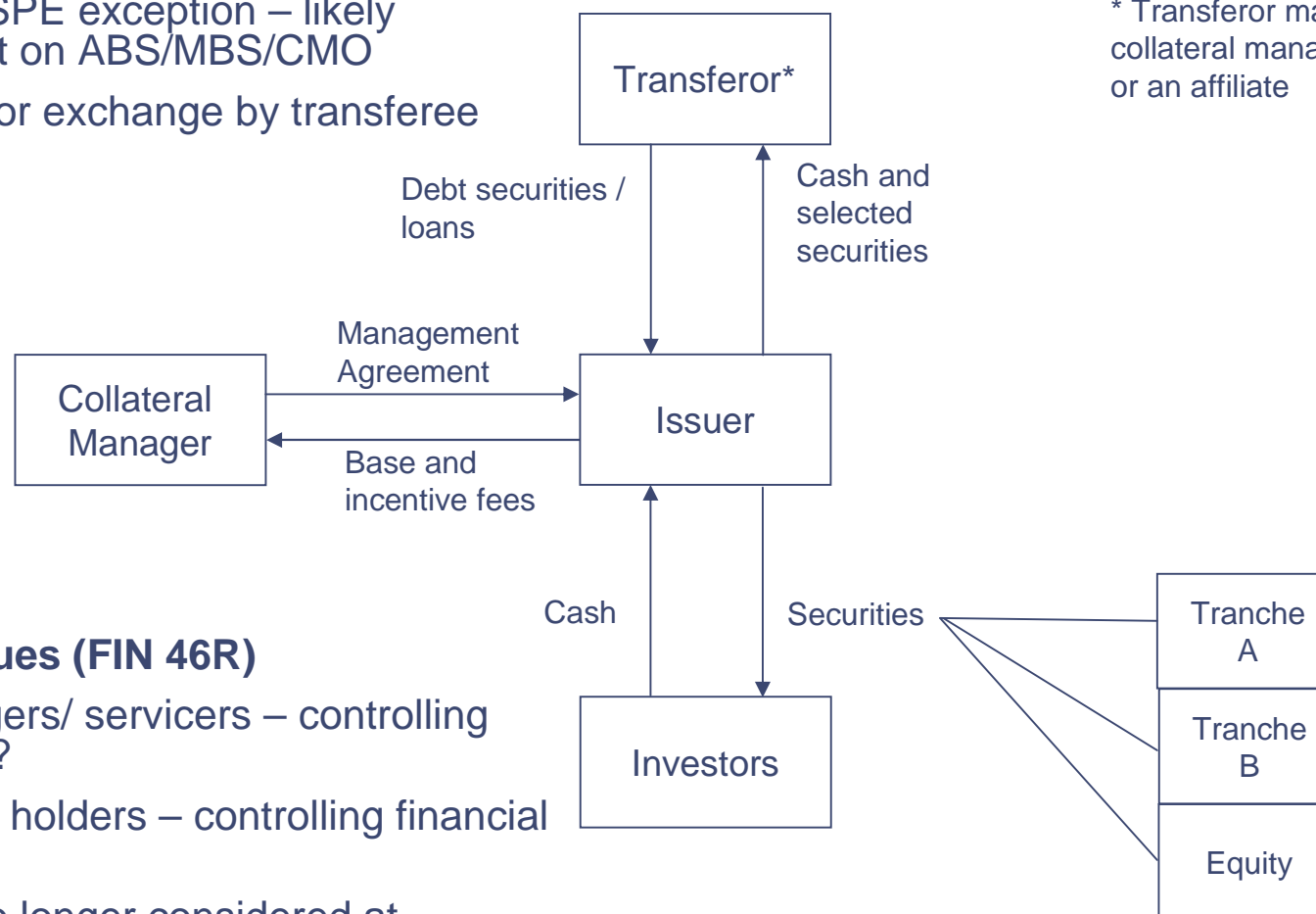
- Controlling financial interest – guarantor or servicer?

Application to Other Types of Mortgage Securitizations

Derecognition Issues (FAS 140)

- Elimination of QSPE exception – likely significant impact on ABS/MBS/CMO
- Ability to pledge or exchange by transferee

CDO Structure



* Transferor may be collateral manager or an affiliate

Consolidation Issues (FIN 46R)

- Collateral managers/ servicers – controlling financial interest?
- Residual interest holders – controlling financial interest?
- Kick out rights no longer considered at inception – a reconsideration event
- Recognition of cash and a secured borrowing

Summary of FASB Redeliberations in March – April 2009

- FASB indicated their intention is to issue the final standard end of May / early June 2009 with same effective as Exposure Draft (i.e., 2010)
- Many issues being discussed by FASB staff and Board
- Transferor should not account for the transfer of the financial asset as a sale if the transferor retains effective control over all or a portion of the transferred asset or group of financial assets being evaluated for derecognition as a single unit
- Paragraphs 9(b) and 9(c) should consider the transferor's relationship with the transferred financial asset and any involvement with beneficial interest holders
- Transferor must record a portion of the transferred financial asset as a purchase in certain cases in which a subsequent change to the portion causes the transferred portion to no longer meet the criteria for a participating interest
- A transferor should include in sale proceeds its beneficial interest in the transferred financial assets at fair value as of the transfer date when a transfer in its entirety meets the criteria for sale accounting
- When accounting for a transfer that does not qualify for sale accounting, the transferor should not reclassify or re-measure the interests it receives in the transferred financial assets
- Clarification of power principle and shared power
- Disclosure about the nature of beneficial interests received as proceeds from the sale

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