



VIA Electronic Mail (director@fasb.org)

January 15, 2008

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

File Reference: Proposed FSP FAS 107-a

Dear Board Members and FASB Staff:

The Mortgage Bankers Association¹ (MBA) appreciates the opportunity to comment on the proposed FASB Staff Position (FSP), *Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107* (the proposed FSP). The purpose of the proposed FSP is to increase the comparability of information about certain financial assets that have related economic characteristics but different reporting measurement attributes.

For debt securities classified as held-to-maturity, debt securities classified as available-for-sale, and for loans and long-term receivables (except those measured at fair value with changes in fair value recognized through earnings), the proposed FSP would require entities to provide a comparison of measurement attributes in a tabular format under the following column headings:

- a. As reported in the statement of financial position
- b. At fair value
- c. At the incurred loss amount

The proposed FSP would require other disclosures including the pro forma income from continuing operations as if those financial assets were carried at fair

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 370,000 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.

value with the changes in fair value recognized through earnings and at incurred loss amount with changes recognized through earnings.

The proposed FSP would be effective for interim and annual reporting periods ending after December 15, 2008.

MBA's Comments

General Comments:

Proposed FSP Is Not Operational, as Drafted: MBA does not believe that the proposed FSP is operational as written, and the practical issues of implementation have not been sufficiently considered in order to include these disclosures in the December 31, 2008 reporting cycle.

- Few companies, if any, have maintained records of the original effective yield of securities available-for-sale or held-to-maturity suitable for this purpose. In order to perform the incurred loss calculations under FAS 114 guidance, enterprises would be required to conduct research into archived records and perform time-consuming, detailed historic cash flow work. Most of MBA's members that participated in this comment letter believe that such a task would be absolutely impossible for the December 31, 2008 reporting cycle.
- The FSP appears to be implying that the incurred loss amount is intended to isolate to the impact of credit risk. However, many debt instruments, especially agency mortgage-backed securities, are subject to prepayment risk, generally not credit risk. Prepayments can have a material impact on future cash flow projections and impact the calculation of the present value of estimated future cash flows at the original yield (i.e. the "incurred loss" amount). FASB should consider what role prepayment risk has in the calculation of incurred loss, if any.
- From a practical standpoint, most in the industry will not be prepared to implement the proposed FSP at December 31, 2008. A large bank holding a variety of debt securities like MBS would be required to perform FAS 114 present value calculations on thousands of different MBS positions. Also, many enterprises, both small and large, rely on third party valuation companies to value their debt securities based in part on models. MBA believes that such third party valuation providers are not geared up to assist their customers with the information necessary to do the FAS 114 calculations on such short notice.

- For loans held-for-sale, not reported at fair value, FASB has not provided guidance on the calculation of incurred loss amount, nor does MBA believe such assets should be included within the scope of the proposed FSP. (See response to specific question 2 for further discussion).

In summary, the shortened time frame does not allow enterprises sufficient time to adapt incurred loss models to securities, access and/or accumulate the credit data for the underlying assets in each pool, calculate the disclosures, allow for internal review and due diligence, and allow for outside auditors to fulfill their responsibilities with respect to the new disclosures under the FSP.

Need for Strategic Re-evaluation of the Fair Value Project: MBA understands that there has been much discussion recently about the contribution of certain accounting standards to the current economic crisis. We support a holistic and deliberately paced re-evaluation of the current accounting valuation model. However, we do not support a last minute fix or reactionary disclosure requirements. As the Board has indicated in the past, disclosure is not a substitute for poor accounting.

MBA has generally been supportive of fair value accounting over the years. However, the path to fair value accounting has not been straight, and the existing hybrid accounting model may well represent too many compromises and inconsistencies to be considered ideal. However, the proposed FSP would require enterprises to keep and report on the equivalent of three sets of books for certain financial instruments, essentially allowing financial statement users to develop their own versions of the truth in assessing companies' financial position and results of operations. Not only does this appear to be at odds with basic principles of financial reporting that have served financial statement users well over the years, but this would also be an onerous task to place on financial statement preparers.

For these reasons and those detailed below, MBA recommends that FASB postpone the issuance of the proposed FSP and focus on a strategic re-evaluation of the entire fair value project and OTTI guidance. While such a change will delay the production of information that some have been pressing for, it will ultimately benefit financial statement users with standards and reporting that are developed in a more deliberate manner allowing sufficient time for due process.

Length of Exposure Period and Accelerated Effective Date: MBA does not believe that a twenty two day comment period (which includes several religious, ethnic, and national holidays as well as year-end closing) constitutes a robust or diligent public due process for a relatively pervasive and time-consuming

reporting requirement. We, therefore, oppose the issuance of the proposed FSP until it can be more fully vetted. MBA also notes that previously when the FASB finalized a project near the end of the year which was immediately effective, preparers generally had more advance notice of the proposed requirement or accounting change. The first notice of the proposed FSP was in mid-December 2008.

Further, issuance of a major disclosure document during January 2009 that is effective for the period ended December 31, 2008 is entirely inappropriate. Many of MBA's members are publicly-traded, and the internal control requirements under Sarbanes-Oxley Section 404 require registrants to fully document and test controls over reporting standards. The implementation time frame provided in the proposed FSP will make it difficult, if not impossible, for MBA's members to make the proposed disclosure changes in a deliberate and controlled fashion. Further, the last minute changes in reporting requirements in the proposed FSP come on the heels of onerous last minute reporting required by FSP FAS 140-4 and FIN 46(R)-8, *Disclosures about Transfers of Financial Assets*, which was issued on December 11, 2008. Likewise, the proposed changes in the proposed FSP are operationally more intensive and onerous than the changes required for FSP EITF 99-20, *Amendments to the Impairment and Interest Income Measurement Guidance of EITF 99-20*, which had a limited scope that affected only a limited number of securities.

Specific Responses:

The following is MBA's response to FASB's specific questions in the exposure draft notice.

1. Do you believe that requiring disclosure of different reporting measurement attributes (that is, as reported in the statement of financial position, at fair value, and at the incurred loss amount) for certain financial assets within the scope of this proposed FSP would (a) improve the quality of information provided to users of financial statements and (b) increase the comparability of financial statements under U.S. generally accepted accounting principles (GAAP) and IFRS? Why or why not?

MBA Response: MBA believes that disclosure of incurred losses may be useful to users of financial statements because it segregates credit losses from other changes in fair value that are market oriented like changes in fair value from liquidity risk and interest rate risk. However, the disclosures would only be useful if the guidance for the underlying calculations is well thought-out and if enterprises have sufficient time to implement the standards. For example, the

proposed FSP appears to result in the calculation of different incurred loss amounts for the same security based upon the date of acquisition. A security purchased at par at the time of issuance will have a much lower original effective yield than the same or similar security purchased at 50% of par years later. This discrepancy in original effective yield will result in drastically different incurred loss amount calculations from enterprise to enterprise. Further, without more time for due process and implementation, MBA questions whether the quality of information will be improved for users of financial statements as we expect the incurred loss amount will lack consistency from enterprise to enterprise.

2. Do you agree that the proposed disclosures should not include financial assets measured at fair value in the statement of financial position with changes in fair value recognized through earnings? If not, would you propose including such financial assets within the scope of this proposed FSP? Should financial assets measured at the lower of cost or fair value (such as mortgage loans) be included within the scope of this proposed FSP? Why or why not?

MBA Response: MBA believes that mortgage loans held for sale that are carried at the lower of cost or market (LOCOM) should be excluded from the disclosures under this proposed FSP. First, the concept of an incurred loss amount for these assets is not relevant to users of financial statements, because an enterprise typically has no intention of holding the loan for the long-term. Second, it is not clear why the disclosure of an incurred loss amount for loans at LOCOM is more relevant than a loan carried at fair value. Third, the proposed FSP does not provide any guidance for calculating the incurred loss amount for loans held for sale. It appears reasonable that a company may default to a FAS 114 calculation, which could create some unusual results for a newly originated loan held for sale. For example, assume a loan is originated at par with a 10% contractual interest rate. The loan would have some expectation of default. Using a 10% discount rate for the expected future cash flows will always result in an incurred loss amount that is less, sometimes significantly, than both fair value and carrying value.

3. Do you believe that requiring disclosures of the pro forma income from continuing operations (before taxes) for financial assets within the scope of this proposed FSP as if those financial assets were carried (a) at fair value with changes in fair value recognized through earnings and (b) at the incurred loss amount with changes recognized through earnings would improve financial reporting? Why or why not? Should the disclosure requirements described in the preceding sentence also be required for net income and shareholders' equity? Why or why not?

MBA Response: As previously mentioned, MBA believes the proposed FSP is not operational in its current form and recommends the FASB postpone its issuance. If the final pronouncement is issued for December 31, 2008 implementation, MBA members believe that the disclosures resulting from the proposed FSP should be limited to the balance sheet disclosures required in paragraph 10 and the qualitative disclosures in paragraph 13. MBA believes that calculation of pro forma income amounts would require maintaining three sets of books and thus would be unduly burdensome and potentially confusing, and the proposed FSP is not clear on how to calculate the pro forma amounts at adoption.

MBA assumes that the calculation of the pro forma income based on the incurred loss amount and fair value would require a comparison of the accumulated change in incurred loss amount and fair value from one balance sheet date to the next, adjusted for realized gains and losses on sale and accretion and amortization already included in reported income. As a result, the proposed FSP, as drafted, would require enterprises to calculate incurred loss amounts as of both December 31, 2008 and 2007. This would indeed be a formidable task at such late date. Likewise, performing pro forma income based on fair value and related reconciliations would be extremely time consuming, especially in the year of adoption. Therefore, if the final pronouncement requires pro forma income amounts under paragraph 14, MBA recommends that such requirement should be waived for the year of adoption.

4. Would including separate reconciliations of reported income from continuing operations (before taxes) to the proposed pro forma adjusted income from continuing operations (before taxes) under both a fair value basis and an incurred loss basis for financial assets within the scope of this proposed FSP be useful? Why or why not?

MBA Response: See response to specific question 3 above.

5. Do you believe that the provisions of this proposed FSP should be effective for interim and annual reporting periods ending after December 15, 2008? Why or why not? Do you believe that the disclosures in this proposed FSP should be provided on a comparative basis for subsequent periods after initial application of the proposed FSP? Why or why not?

MBA Response: As mentioned in MBA's general comments and the response to specific questions, MBA believes:

- FASB should postpone the issuance of the proposed FSP and focus on a strategic re-evaluation of the entire fair value project and OTTI guidance.
 - MBA does not believe that a twenty two day comment period is significantly robust due process for an accounting requirement as pervasive and time-consuming as the proposed FSP.
 - The implementation time frame provided in the proposed FSP will make it difficult, if not impossible, for MBA's members to make the proposed disclosure changes in a deliberate and controlled fashion.
 - There are significant concerns with the operationality of the proposed FSP that need to be resolved.
6. Are all of the disclosures in this proposed FSP operational based on the proposed effective date? Why or why not? Please be specific in your response

MBA Response: For the reasons cited in MBA's first general comment above, MBA believes that the disclosures in the proposed FSP are not operational for a proposed effective date of December 31, 2008.

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.

Most sincerely,



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Mortgage Bankers Association