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December 13, 2010

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

**Re: File Reference No. 1880-100, Proposed Accounting Standards Update, Receivables (Topic 310),
*Clarifications to Accounting for Troubled Debt Restructurings by Creditors***

Dear Sir:

Citigroup appreciates the opportunity to comment on the Exposure Draft, *Clarifications to Accounting for Troubled Debt Restructurings by Creditors* (the Exposure Draft or the ED). We understand that the Boards' issuance of the ED was in response to several stakeholders' concerns regarding diversity in practice relating to the identification of troubled debt restructurings (TDRs). However, we do not support the issuance of the ED as currently drafted. We believe that the ED: will inappropriately scope in large numbers of (1) modifications of classified loans that do not involve troubled borrowers and (2) certain short-term modifications of smaller-balance homogeneous loans; is inconsistent with existing industry practice and regulatory guidance; and will be operationally burdensome without providing users with more meaningful information.

GENERAL COMMENTS

Under the ED, "guidance would be clarified to indicate the following:

1. If a debtor does not otherwise have access to funds at a market rate for debt with similar risk characteristics as the restructured debt, the restructuring would be considered to be at a below market rate and therefore should be considered a troubled debt restructuring.
2. A restructuring that results in a temporary or permanent increase in the contractual interest rate cannot be presumed to be at a rate that is at or above market.

3. A borrower that is not currently in default may still be considered to be experiencing financial difficulty when payment default is considered “probable in the foreseeable future.”
4. A restructuring that results in an insignificant delay in contractual cash flows may still be considered a troubled debt restructuring. That is, that factor should be considered along with other terms of a restructuring to determine whether a troubled debt restructuring exists.”

In addition, the ED precludes a creditor from using the borrower’s effective interest rate test in ASC 470-60-55-10 in evaluating whether a restructuring is a TDR.

We have the following significant concerns about the proposals:

Market Rate Determination

The ED (paragraph 310-40-15-8A) provision that “If a debtor does not otherwise have access to funds at a market rate for debt with similar risk characteristics as the restructured debt, the restructuring would be considered to be at a below market rate and therefore should be considered a troubled debt restructuring” fails to take into account market vagaries as well as the complexities involved in pricing a loan. In the current and recent past economic environments, many local credit markets ceased or severely restricted lending. Under the ED, many refinancings completed during these times would be reclassified as TDRs, which in our view would not be appropriate. The fact that a borrower cannot access a particular market does not necessarily mean that he is in financial difficulty, nor that a concession has necessarily been granted, and therefore should not automatically lead to the conclusion, as proposed in the ED, that a modification of a loan to such a borrower “should be considered” a TDR. Therefore, this paragraph in the ED should be revised to state that lack of access to funds is an indicator to be considered in assessing whether a modification is a TDR.

Insignificant Delays and Shortfalls

The classification of a loan modification as a TDR has a significant effect on the accounting for smaller-balance homogeneous consumer loans. These loans are exempt from the requirements of ASC 310-10-35 unless they are modified in a TDR, at which time they become subject to the impairment model in that guidance. In the current economic environment, many individual borrowers are experiencing temporary cash flow shortfalls, for example, due to medical hardships or other personal issues, and may have fallen behind in payment. To accommodate those borrowers who can demonstrate their ability to resume payment but are unable to repay their total arrearages at that time, institutions may grant payment deferrals of those past due amounts. Other consumer modification programs can provide short-term relief, such as through the grant of an interest rate reduction for a short period of time, after which the rate then reverts to the original rate.

Similarly, under the U.S. Treasury’s Home Affordable Modification Program (HAMP), a borrower’s monthly mortgage payment is reduced (first by reducing the interest rate). In order to receive this relief on

a permanent basis, the borrower must complete a three-to-five-month trial period, make the required payments and provide the required documentation. We believe that industry practice is to exclude such short-term modifications from TDR classification.

In order to address the practices and related issues noted above, we believe that the ED should provide a scope exception for short-term loan modifications, generally meaning for modifications of three months or less, but also providing relief for modified loans under government program-mandated trial periods, such as under HAMP. Providing such a scope exception would be consistent with other existing guidance, particularly that in ASC 310-10-35-10, which states, “a creditor need not consider an insignificant delay or insignificant shortfall in amount of payments” as meeting the condition for recording a probable loss on a loan that is individually evaluated for impairment. This exception would also be consistent with the February 2010 Comptroller of the Currency *Policy Interpretation – Supervisory Memorandum 2009-7*, which notes, “Any mortgage modifications greater than three months should be accounted for and disclosed as a Troubled Debt Restructure (TDR).” It would also greatly relieve some of the operational burden and complexity that this ED would introduce. Lastly, it would avoid the misleading and confusing reporting for short-term modifications that would otherwise result from the ED as discussed below.

If the Board decides to continue to require that there should be no such scope exception, then it needs to provide guidance as to how to report such modified loans after the modification period has ended. While the ED would expand the scope of modifications reported as TDRs, it does not appear to consider the ongoing ramifications of this decision. For example, if a loan’s interest rate is reduced for 2 months and is classified as a TDR during the rate reduction period, then when the loan’s interest rate is increased to the original rate, should the loan continue to be classified as a TDR? TDR reporting for the remainder of the lives of these loans would significantly increase the operational burden of this ED without providing relevant information to financial statement users. We believe that this loan should no longer be classified as a TDR if the borrower has successfully completed the modification program and has subsequently demonstrated payment performance at the original effective rate for a reasonable period of time.

Preclusion of ASC 470-60-55-10 in evaluation of whether a restructuring constitutes a TDR

Existing guidance in ASC 470-60-55-10, *Determining Whether the Creditor Granted a Concession*, states, “a creditor is deemed to have granted a concession if the debtor’s effective borrowing rate on the restructured debt is less than the effective borrowing rate of the old debt immediately before the restructuring.” Although the guidance explicitly applies to a debtor’s accounting, it is a useful metric for a creditor in evaluating whether a concession had been granted, particularly given the difficulties at times in determining a market rate. This was emphasized in the December 2008 (as revised October 2009) AICPA Center for Audit Quality guidance, *Application of Statement 114 to Modifications of Residential Mortgage Loans that Qualify as Troubled Debt Restructurings*, which notes, “In performing this assessment, a lender may find the indicators that a borrower is experiencing financial difficulties and the guidance related to whether or not a lender has granted a concession provided in EITF 02-4 beneficial. EITF 02-4, while written in the context of a debtor’s (borrower’s) assessment of whether a modification meets the definition

of a TDR, provides a framework for assessing whether a loan modification is within the scope of Statement 15 that can be analogized to by a creditor (lender).”

As noted above, ascertaining market rates for individual loans, particularly in today’s economic environment, may not be possible. It is especially challenging to determine market rates for smaller-balance homogeneous loans. While we believe that paragraph 310-40-15-8A of the ED should be deleted, as discussed above, we believe that creditors should not be precluded from using the guidance in ASC 470-60-55-10 (as noted in the preceding paragraph) in evaluating whether a concession has been granted and whether a modification should be classified as a TDR. Considering a modification that reduces a loan’s effective yield, absent an observable market interest rate reduction or the receipt of additional collateral, as a concession is a practical approach that provides investors with relevant information without undue operational burden. It would also foster consistency in TDR reporting by financial institutions.

Retrospective application of the guidance for disclosure purposes

The proposal to assess prior year modifications retrospectively and disclose TDRs for all periods presented is illogical, given that the guidance for measuring impairment under the ED is prospective. We believe that retrospective disclosure would require a tremendous operational effort with little or no discernable benefit. Furthermore, it would be completely disconnected from the impairment measurements that are reflected in the related prior period loan loss reserves.

The proposed disclosure requirement to include the dollar amount of all loans whose impairment methodology switched from the guidance in ASC 450-20 to ASC 310-10-35 due to adoption of the ED and the related allowance for credit losses will provide users with the most meaningful information.

SPECIFIC COMMENTS

Question 1: Would precluding creditors from applying the guidance in paragraph 470-60-55-10, create any operational challenges for determining whether a troubled debt restructuring exists? If yes, please explain why.

Yes. Refer to “Preclusion of ASC 470-60-55-10 in evaluation of whether a restructuring constitutes a TDR” under “General Comments” above and to Question 3 below.

Question 2: Do you believe that the proposed changes to the guidance for determining whether a troubled debt restructuring exists would result in a more consistent application of troubled debt restructuring guidance? If not, please explain why.

The changes to current industry practice that would result from the application of the ED, as further described under “General Comments above,” will not result in an increase in consistency. In addition, the

fact that industry practice will change as a result of this ED is evidence that this is not merely a “clarification” of existing generally accepted accounting principles. Furthermore, as discussed above, applying this ED as it is currently written will not result in disclosure that is more meaningful, and may in fact result in disclosure that is confusing and/or misleading to the reader.

Question 3: The Board decided that a creditor may consider that a debtor is experiencing financial difficulty when payment default is considered to be “probable in the foreseeable future.” Do you believe that this is an appropriate threshold for such an assessment? If not, please explain why.

We acknowledge that based on facts and circumstances existing at the time, a creditor may determine that payment default is “probable in the foreseeable future.” However, it should be noted that the nature of such an assessment will often be highly subjective, and this provision will contribute to inconsistent reporting among institutions.

Question 4: Are the proposed transition and effective date provisions operational? If not, please explain why.

We do not believe that the proposed transition provisions are operational. The requirement to reassess all modifications completed since January 1, 2009 (assuming that the ED is effective for periods ending after June 15, 2011) to determine if they should be included in the balance sheet disclosure totals for TDRs would impose tremendous operational challenges – not least of which would be the determination of the market rates for the modified loans. As noted above we do not agree that this would provide particularly useful information.

Question 5: Should the transition and effective date be different for nonpublic entities versus public entities? If so, please explain why.

No.

Question 6: Should early adoption of the proposed amendments in this Update be permitted? If so, please explain why.

While early adoption could be permitted, because this ED would require changes in industry practice and will not result in more meaningful reporting and disclosure, we do not believe that many reporting entities would avail themselves of that election.

We would be pleased to discuss our comments with you at your convenience. Please do not hesitate to contact me at (212) 559-7721.

Very truly yours,

A handwritten signature in blue ink that reads "Robert Traficanti". The signature is written in a cursive, slightly slanted style.

Robert Traficanti

Deputy Controller and Global Head of Accounting Policy