



December 13, 2010

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

Via email: director@fasb.org

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

Dear Technical Director:

Union First Market Bankshares Corporation (“Our” or “We”), one of the largest community banks headquartered in the Commonwealth of Virginia with assets of \$3.9 billion, appreciates the opportunity to comment on the Financial Accounting Standards Board’s (“FASB” or the “Board”) Exposure Draft of a Proposed Accounting Standards Update, *“Clarification to Accounting for Troubled Debt Restructurings by Creditors”* (the “ED”).

Highlights

We appreciate the FASB’s ED clarifying diversity in practice related to identifying troubled debt restructurings (“TDR”) as well as suggesting additional criteria to be considered for recording an impairment and disclosure. Although well intentioned, the ED:

- expands the scope of loans with modifications to be considered a TDR;
- places greater emphasis, as compared to existing guidance, on a market-based rate as a trigger for TDR determination;
- creates ambiguity when indicating restructured loans that experience “insignificant delays” in cash flows may result in a TDR designation;
- is inconsistent with regulatory guidance; and
- requires a retrospective assessment of all loan modifications made on or after the beginning of the earliest period presented in our financial statements in order to identify and disclose TDRs which will present significant burdens and operational challenges.

Specific Comments on the ED

The proposed addition of paragraph 310-40-15-8A is concerning. That paragraph provides, “If the 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 below a market rate and therefore should be considered a troubled debt restructuring.” This provision requires that creditors determine debtor’s access to third-party lending arrangements/terms and considers the loan modification a TDR if this information is not available. Additionally, access to credit markets during economic stresses could force a majority of loans to inadvertently be declared a TDR simply because debtors may “otherwise not hav[e] access to funds at a market rate for debt with similar risk characteristics.” The ED does little in the way of clarifying or providing additional guidance on the determinant of a market-based rate.

The ED places greater weight on a market-based rate as compared to existing accounting guidance. In current practice, the determination of a market-based rate is the largest hurdle in TDR assessment. Each loan modification can vary greatly, frequently containing special and unique terms, circumstances, collateral and guarantees. Market-based rates may differ from creditor to creditor given the debtor relationship and those differences alone should not indicate that a borrower is having financial difficulties. We believe that placing a greater emphasis on a market-based rate trigger for TDR determination and including paragraph 310-40-15-8A will have the inadvertent effect of expanding the number of TDR designations (a subset of loan modifications). We recommend that this paragraph be deleted from its existing location and moved to section 310-40-55-10A to be included as one of the many considerations of whether a debtor is experiencing financial difficulties.

Additionally, our view is that loan modifications should exclude a market-based rate assessment in the TDR definition. We agree with and support the American Bankers Association’s (“ABA”) proposed definition¹ of TDR. The ABA proposes that TDRs be defined in the ED as “a loan modification that either reduces the outstanding principal balance owed, or reduces the effective interest rate of the loan, without being sufficiently compensated with additional cash, collateral, guarantees, or other features that reduce credit risk.” The elimination of a market-based assessment would simplify the TDR analysis and provide a more meaningful link between the credit risk of a TDR and its relationship to the allowance for loan losses.

For consistent application, additional clarification is needed to interpret the meaning of “insignificant delays” in cash flows as it relates to the determination of a restructured loan as a TDR. The proposed language in paragraph 310-40-55-10C² conflicts with existing accounting guidance in ASC 310-10-35-10. The existing accounting guidance provides that “insignificant delays” are not deemed to indicate impairment yet the ED suggests that “insignificant delays” may indicate impairment. Although not meant to be considered in isolation, the proposed language creates unnecessary ambiguity that will be debated and interpreted among practitioners and their accountants, regulators, and other interested users of financial statements. Additionally, previously issued guidance by the Center of Audit Quality and the Office of the Comptroller of the Currency provides that short term modifications do not result in TDR designations. Regulators have historically taken positions on accounting interpretations and

¹ ABA comment letter dated December 8, 2010, File Reference No. 1880-100.

² A restructuring that results in an insignificant delay in contractual cash flows may still be considered a troubled debt restructuring...

provided practical application for select loan circumstances. It is not clear whether the FASB has reached out to banking regulators in drafting this ED. Lastly, if this point is clarified and carried forward in the final version of this ED it should be noted that tracking “insignificant delays” will be operationally burdensome for credit staff and financial statement preparers. Our view is the FASB should clearly define “insignificant delays”, provide examples where “insignificant delays” or shortfalls in payment amounts trigger and do not trigger TDR determination, and coordinate with respective banking regulatory bodies.

Retrospective application for identifying and disclosing TDRs brings many challenges. Arriving at historical market-based rates for each loan modification, to the earliest period presented in the financial statements, is nearly impossible and not part of our credit and reporting systems. This will undoubtedly redirect scarce resources toward prior period disclosures instead of current period borrower relationships. Lastly, reassessment of loan modifications on an historical basis under this existing ED may drive increased numbers of TDRs for disclosure purposes without any perceived benefit to analysts, investors and other parties. A retrospective determination and disclosure may raise more questions for financial statement users than providing meaningful insight into credit risks and their impact on the allowance for loan losses.

We thank you for consideration of our views and would be pleased to discuss any of this in more detail with the Board or its staff.

Sincerely,



Bill Davis
VP and Director of Financial Reporting
Union First Market Bankshares Corporation