



**Richard D. Levy**  
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August 22, 2013

Via email

Russell G. Golden, Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, Connecticut 06856-5116

**Re: File Reference No. EITF-13-E: Proposed Accounting Standards Update, *Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40)*, *Reclassification of Collateralized Mortgage Loans upon a Troubled Debt Restructuring*, a consensus of the FASB Emerging Issues Task Force**

Dear Mr. Golden:

Wells Fargo & Company (Wells Fargo) is a diversified financial services company with over \$1.4 trillion in assets providing banking, insurance, trust and investments, mortgage banking, investment banking, retail banking, and consumer finance services. We appreciate the opportunity to comment on the FASB's Proposed Accounting Standards Update, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40)*, *Reclassification of Collateralized Mortgage Loans upon a Troubled Debt Restructuring*, a consensus of the FASB Emerging Issues Task Force ("Proposed ASU").

We have the following comments on the Proposed ASU:

- Timing of reclassification of a loan to foreclosed residential real estate property: Wells Fargo supports the Board's decision to clarify when an in-substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real property collateralizing a consumer mortgage loan. While most of the very largest U.S. banks have consistently accounted for this reclassification, there may have been some diversity among regional and community banks. We agree with the proposal that prior to obtaining legal title or other legal conveyance of the property to the lender in satisfaction of the loan, the lender only exercises rights to protect their lien status in the collateral (e.g. assist with property maintenance; paying insurance or property taxes). Prior to taking legal title, the lender is not able to exercise dominion over the property because it does not have the most fundamental right of ownership, which is the ability to sell the property to a third party in order to recover the loan amount. Thus, the most important benefit of ownership and control is dependent upon possessing title or taking a deed in lieu of

Mr. Russell G. Golden, Chairman  
August 22, 2013  
Page 2

foreclosure. Moreover, if lenders reclassified loans to foreclosed assets prior to receipt of legal title or deed-in-lieu of foreclosure, lenders would not be able reclassify the asset from foreclosed assets if a borrower subsequently started performing in accordance with their loan contract given the restrictive provisions of ASC 360-20<sup>1</sup>. Accordingly, we believe that the FASB has established a workable and conceptually sound principle for determining when lenders have received physical possession of property for consumer mortgage loans.

- Disclosure of consumer mortgage loans in the process of foreclosure: Our regulatory reports already require the disclosure of the *unpaid principal balance* for loans secured by 1-4 family residential properties that are in the process of foreclosure which provide our regulators and other users with timely and complete information regarding the progression of collateral-dependent residential consumer mortgage loans from performing to nonperforming and, ultimately, to foreclosure. The Proposed ASU will require a similar disclosure of the *recorded investment* in consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process. While our regulatory financial reports already provide timely information regarding loans in the process of foreclosure<sup>2</sup>, we support the proposed additional incremental disclosure of *recorded investment* as the term is well defined<sup>3</sup>, well understood and is more representative of the remaining exposure to loss and the ultimate amount to be reclassified into foreclosed residential real estate properties.
- Disclosure of the roll-forward: We believe that a roll-forward of foreclosed properties balances is useful, as evidenced by our inclusion of such a table in our Management Discussion and Analysis section of our SEC reports. However, the specific format of the roll-forward should remain flexible to allow for consistency of presentation with other credit quality disclosures and to allow for the preparer to exercise judgment as to materiality of amounts. For example, some of the proposed requirements may be appropriate to combine with other items. Accordingly, the FASB should update which items are required such as reclassifications from loans and sales from foreclosed properties and which items may be flexible based on the preparers activity. This flexibility will permit preparers to provide more meaningful disclosures to financial statement users based on their specific activity and existing presentation and disclosures.
- Application of guidance to other collateralized loans (e.g. commercial real estate and auto): We believe the foreclosure process for other loan classes are substantially different compared to residential real estate and do not believe an extension is necessary to those areas. If the FASB decides to extend the application of the proposed guidance, we believe additional outreach is necessary to obtain a more comprehensive understanding of those foreclosure processes.

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<sup>1</sup> FASB Topic on Real Estate Sales

<sup>2</sup> Our regulatory reports are filed no later than 30 days after period end.

<sup>3</sup> See FASB ASC 310-10-20

Mr. Russell G. Golden, Chairman  
August 22, 2013  
Page 3

We appreciate the opportunity to comment on the Proposed ASU and are willing to work with the FASB as you proceed with further deliberations on the topic. If you have any questions, please contact me at 415-222-3119.

Sincerely,

/s/ Richard D. Levy

Richard D. Levy  
Executive Vice President & Controller

CC: Kathy Murphy - Office of the Comptroller of the Currency  
Robert Storch - Federal Deposit Insurance Corporation  
Steven Merriett - Federal Reserve Board  
Donna Fisher - American Bankers Association  
David Wagner - The Clearing House Association