

September 12, 2013

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

Via email to director@fasb.org

Reference: 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

Dear Ms. Cosper:

Freddie Mac appreciates the opportunity to comment on the Financial Accounting Standards Board's ("FASB" or the "Board") Exposure Draft for the proposed Accounting Standards Update ("ASU") of Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40) (the "proposed Update").

Freddie Mac was chartered by Congress in 1970 with a public mission to provide liquidity, stability, and affordability to the United States' housing market. We increase the availability of funds for home ownership through our participation in the secondary mortgage market, principally by providing our credit guarantee on the mortgage-related securities we issue and investing in mortgages and mortgage-related securities. We are one of the largest investors in mortgages in the United States, collectively, with Fannie Mae and Ginnie Mae, guaranteeing more than 90% of the single-family conforming mortgage loans originated during the first half of 2013. As of June 30, 2013, we had total assets of approximately \$2 trillion, consisting primarily of mortgages and mortgage-related securities. Additionally, as of June 30, 2013, we had real estate assets of more than \$4 billion recognized on our consolidated balance sheet.

We support the Board's efforts to clarify when a creditor should reclassify a mortgage loan as real estate property and support its conclusion that reclassification should occur when the creditor has acquired title to the real estate property by foreclosure, deed in lieu of foreclosure or similar process. However, we would like to highlight an inconsistency between the language in the proposed Update and the rationale articulated in the Basis for Conclusions.

The guidance (ASC 310-40-55-10A) states that reclassification to real estate property should occur upon the creditor obtaining legal title to the real estate property or the completion of a deed-in-lieu of foreclosure (or similar legal agreement). The Basis for Conclusions (BC8) indicates that the most important rights associated with ownership include having the ability to sell or otherwise transfer the real estate property. Possession of the title to the real estate property may not provide the creditor with the practical ability to sell that property due to federal and state tenant protection laws as well as certain state and local laws related to a borrower's right to redeem a foreclosed property.

A borrower's interest in real estate property, unlike some other forms of property that traditionally collateralize debt obligations, can be split different into component parts. The most common and significant type of separation for purposes of the proposed Update is the right to own the legal title to real estate property and the right to possess and enjoy the real estate property. This separation may occur when a borrower (who holds legal title) leases real estate to a third party. During the tenancy the tenant has the legal right of possession against other persons, including the legal title holder, but does not have the right to sell or encumber the real estate property. When a foreclosure occurs, the tenant may have the continued right to physically possess the property to the exclusion of the creditor for some period of time. Another such instance occurs when a real estate property has been foreclosed in a state that recognizes a right of the borrower to "redeem" the real estate property after the foreclosure sale. In many of these states the borrower may occupy and possess the real estate property to the exclusion of the creditor until the redemption period has expired.

In both of the above examples, the creditor has legal title to the real estate property but may not have physical possession of the real estate property. Without physical possession of the real estate property, the creditor generally lacks the practical ability to sell or otherwise transfer the real estate property.

Due to this inconsistency, we believe the Board should consider clarifying its intent as to when a mortgage loan should be reclassified to real estate property (i.e., upon obtaining legal title to the real estate property or upon having the ability to sell the real estate property).

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The views expressed in this comment letter are solely those of Freddie Mac, and do not purport to represent the views of the Federal Housing Finance Agency, as Conservator.

Freddie Mac appreciates the opportunity to comment on the proposed Updates. If you have any questions about our comments, please contact Timothy Kviz (703-714-3800).

Sincerely,

Timothy Kviz

Vice President – Accounting Policy

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cc: Mr. Ross J. Kari, Executive Vice President - Chief Financial Officer Mr. Robert D. Mailloux, Senior Vice President - Corporate Controller and Principal Accounting Officer

Mr. Nicholas Satriano, Chief Accountant, Federal Housing Finance Agency