

April 3, 2014

Russell G. Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Via email: director@fasb.org

File Reference: EITF 13F – *Classification of Certain Government-Guaranteed Residential Mortgage Loans upon Foreclosure*

Dear Chairman Golden:

The American Bankers Association¹ (ABA) appreciates the opportunity to comment on the exposure draft *Classification of Certain Government-Guaranteed Residential Mortgage Loans upon Foreclosure* (ED). The ED intends to reduce diversity in practice related to the classification by creditors of government-guaranteed residential mortgage loans that entitle the creditor to the full unpaid principal balance of the loan upon foreclosure. Under the ED, foreclosed property under such programs would be classified as “other receivables” if the loan has both of the following characteristics:

- a. The loan has a government guarantee that is not separable from the loan before foreclosure entitling the creditor to the full unpaid principal balance of the loan (UPB).
- b. At the time of foreclosure, the creditor has the intent to make a claim on the guarantee and the ability to recover the full UPB through the guarantee.

ABA supports the proposed treatment that the asset be recorded as another receivable upon foreclosure. In contrast to presenting such amounts as a real estate asset, this classification is more reflective of how the recorded balance will be realized. With that in mind, the remainder of this letter provides comments related to the remaining aspects of the ED.

The Scope of the ED Should be Reconsidered

It appears that the ED intends to limit the scope of the proposed guidance to those assets foreclosed under housing programs administered through the Federal Housing Administration (FHA). We believe foreclosed assets covered by Federal government guarantees have distinct risk characteristics, and thus

¹ The American Bankers Association represents banks of all sizes and charters and is the voice for the nation’s \$14 trillion banking industry and its two million employees.

Financial Accounting Standards Board
File Reference No. EITF 13F – *Classification of Certain Government-Guaranteed Residential Mortgage Loans upon Foreclosure*
April 3, 2014
Page 2

financial statement users may be better informed if a consistent accounting methodology is used for all government guaranteed foreclosed assets. Government guaranteed assets are assets that are insured or guaranteed through programs administered through not only the FHA, but also the Veterans Administration (VA) and the U.S. Department of Agriculture (USDA). The ED, as currently drafted, would not result in a consistent accounting methodology for all government-guaranteed assets, and thus we believe more research is required to determine whether the scope should also include other government-guaranteed assets.

Although expanding the scope of the ED may initially be appealing, it may create operational issues that could pose a significant challenge in improving financial reporting. By way of background, USDA and VA guaranteed loans differ from those insured by FHA, in that a USDA or VA guarantee may not always cover the full unpaid principal balance (UPB) of a loan. While loan guarantees under USDA and VA programs are significant, they are based on various formulas, none of which definitively guarantee the full UPB in all scenarios. As a result, if these programs are ultimately brought within the scope of a final standard with guidance consistent with that proposed in the ED, we believe that the evaluation as to whether the bank has the ability to recover the full UPB from these other programs may require a detailed loan-by-loan review. This operational process may be sufficiently burdensome so that it would not pass a cost vs. benefits test. As a result, banks may, by policy election for a portfolio, assume that all USDA or VA loans fail the characteristic “b” criterion in the ED and, thus, not classify such foreclosed assets as proposed. As a result, some portion of foreclosed assets would be those guaranteed by the USDA/VA, which could misinform financial statement users, considering government guaranteed loans do have different risk characteristics.

We understand this can be a complex issue. As a result, we recommend further outreach be performed to determine the incremental decision-usefulness of the proposed treatment, based on an expansion or limitation of the scope of the project, as well as the significance to individual bank financial statements.

Fair Values Related to Guaranteed Foreclosed Assets are Irrelevant

ABA supports the Board’s decision to forego requiring disclosure of the fair values of the related foreclosed real estate. The fair values have no relevance to the amounts to be realized. If USDA and VA loans are included within the scope, while there are certain limited circumstances in which the amounts to be reimbursed by the USDA/VA may be less than the full UPB, such amounts will often be insignificant. Since the fair values are irrelevant to their expected reimbursement, banks do not normally implement internal control procedures over the fair values that would be necessary for financial reporting purposes. For these reasons, we believe disclosure of fair values is not relevant.

Transition Should Attempt to Avoid Unintended Consequences

ABA generally agrees with the FASB that the election of either a modified retrospective method or prospective method of transition is appropriate. We also believe that whatever method is selected by a reporting entity, it would be ideal to mirror the method used by the entity to implement Accounting Standards Update (ASU) 2014-04. That said, the difference in the timing of issuance of a final ASU related to this ED and that of 2014-04 may present operational issues. We believe there is a

Financial Accounting Standards Board

File Reference No. EITF 13F – *Classification of Certain Government-Guaranteed Residential Mortgage Loans upon Foreclosure*

April 3, 2014

Page 3

chance that banks that elect to implement the ASU early may already be using a different method under ASU 2014-04 than they would have selected if they knew the same election would be available for this ED. Although our initial reaction is that these instances may be limited, we encourage the FASB staff to do further outreach on this possibility to avoid any unintended consequences.

Thank you for your attention to these matters and for considering our views. Please feel free to contact me (mgullette@aba.com; 202-663-4986) if you would like to discuss our views.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael L. Gullette". The signature is written in a cursive, flowing style.

Michael L. Gullette