



April 17, 2014

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
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Norwalk, Connecticut 06856-5116
director@fasb.org

File Reference No. EITF-13F

Dear Ms. Cospers:

The Mortgage Bankers Association¹ (MBA) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB) Exposure Draft (ED), *Classification of Certain Government-Guaranteed Residential Mortgage Loans Upon Foreclosure* (Proposed Update).

Background

Under certain government-sponsored loan guarantee programs, creditors extend mortgage loans to borrowers that carry a full faith and credit guarantee of the U.S. government if the borrower defaults. For example, loans insured by the Federal Housing Administration (FHA) provide for a full guarantee of principal repayment.

In its ED the FASB notes that there is currently diversity in practice by creditors of such government-guaranteed loans upon foreclosure. Some creditors reclassify such loans to real estate owned while others reclassify the loan to other receivables. The purpose of the ED is to eliminate this diversity in practice by calling for such government-

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,200 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

guaranteed loans to be reclassified to other receivables if the loan has the following characteristics²:

- 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.
- 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 unpaid principal balance of the loan through the guarantee.

General Comments

MBA Agrees with the Proposed Classification as Other Receivables

MBA surveyed its members and agrees that there is inconsistency in practice. MBA believes that the proposed classification as a receivable and not as real estate owned better characterizes the nature of the asset and the risk associated with the asset than real estate owned. This classification as a receivable will provide users of financial statements with more decision-useful information about a creditor's foreclosed residential mortgages. The guarantee entitles the creditor to make a claim for cash rather than selling the real estate.

Need to Specifically Include FHA Multifamily and Healthcare Facility Loans

The ED appears to be specific to residential mortgage loans. Frequently in the mortgage banking industry the term "residential" refers to loans on 1-4 family housing units. MBA notes that there are other residential mortgage loans insured by FHA with the full faith and credit of the United States. These include FHA loans on multifamily housing units like apartments as well as insured loans on healthcare facilities like assisted living facilities and nursing homes. MBA points out that these too are guaranteed loans on residential facilities. MBA notes that the Basis for Conclusions section of the ED appears to include these multifamily loans in the definition of "residential." Page 8, paragraph BC8 states, "The most common government-sponsored program in the United States that provides a full guarantee of certain residential mortgage loans is the guarantee offered by the FHA of the U.S. Department of HUD, which guarantees the mortgages on single-family and multifamily homes of low-income and first-time home buyers." MBA recommends that FASB change the language in the final rule to ensure consistent treatment for guaranteed loans on 1-4 family housing units as well as multifamily and healthcare facilities.

² Financial Accounting Standards Board, Proposed Accounting Standards Update, *Classification of Certain Government-Guaranteed Residential Mortgage Loans Upon Foreclosure*, January 17, 2014, page 2.

Responses to FASB's Specific Questions

Question 1: Do you agree with limiting the scope of the guidance in the proposed Update to government-guaranteed residential mortgage loans for which the government guarantee is not separable from the loan and the creditor has the intent and ability to recover the full unpaid principal balance of the loan upon foreclosure? If not, please explain why and discuss the types of guaranteed mortgage loans that also should be addressed.

MBA's Response: MBA generally agrees with the scope but wants FASB to make it clear in the final rule that FHA guaranteed multifamily and healthcare facility loans are included in the definition of "residential." See general comment above titled *Need to Specifically Include FHA Multifamily and Healthcare Facility Loans*.

Question 2: Do you agree that a guaranteed residential mortgage loan within the scope of this proposed Update should be reclassified from loans to other receivables upon foreclosure (foreclosure as determined by paragraph 310-40-40-6)? If not, please explain why.

MBA's Response: MBA agrees. See general comment above titled *MBA Agrees with the Proposed Classification as Other Receivables*.

Question 3: The proposed amendments require a single unit of account to be recognized as other receivables upon foreclosure of loans within the scope of the proposed Update. The Task Force decided not to require disclosure of the amount expected to be recovered under the guarantee and the fair value less cost to sell of the real estate for such foreclosed loans. Would it be decision-useful for an entity to provide recurring disclosure of both the amount expected to be received under the government guarantee and the fair value less cost to sell of the foreclosed residential real estate? If yes, please explain why.

MBA's Response: MBA believes that a single unit of account is appropriate. Reporting separate assets for net proceeds from sale and net proceeds from the guarantee would not provide decision-useful information, may be confusing to users, and would be cumbersome for preparers of financial statements. The fact is that what the creditor does not receive from net sales proceeds it will receive from insurance proceeds.

Question 4: Do you agree that the proposed amendments should be applied using the same method of transition applied for Update 2014-04, that is, either under the modified retrospective transition method (requiring a cumulative-effect adjustment as of the beginning of the annual reporting period in which the guidance is effective) or under the prospective transition method? If not, please explain why.

MBA's Response: MBA agrees with the modified retrospective transition method.

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Question 5: Do you agree that the proposed amendments should apply to both public entities and nonpublic entities? If not, please explain why.

MBA's Response: MBA agrees that the proposed amendments should apply to both public and nonpublic entities. The application of the rule should be fairly straight-forward so that it would not be burdensome for nonpublic entities.

Question 6: Do you agree that an entity should be permitted to early adopt the proposed amendments?

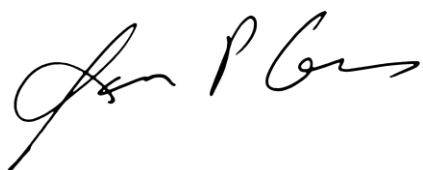
MBA's Response: MBA agrees that entities should be permitted to early adopt the proposed amendments.

Question 7: The Private Company Decision-Making Framework states that, generally, amendments should be effective one year after the first annual period for which public companies are required to adopt them and for interim periods thereafter. Should nonpublic entities have one additional year for implementation? Please explain why or why not.

MBA's Response: As stated above in our response to question 5, the application of the rule should be fairly straight-forward so that it would not be burdensome for nonpublic entities.

MBA appreciates the opportunity to share its observations with you. Any questions about the information provided herein should be directed to me, Vice President Financial Accounting and Public Policy and Staff Representative to MBA's Financial Management Committee, at (202) 557-2860 or jgross@MBA.org.

Sincerely,



James P. Gross
Vice President of Financial Accounting and Public Policy