



Two Court Square, 15th Floor
Long Island City, NY 11101

April 30, 2014
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. EITF-13F, Proposed Accounting Standards Update, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Residential Mortgage Loans upon Foreclosure*

Dear Ms. Cosper:

Citigroup appreciates the opportunity to provide comments on the Exposure Draft for the proposed Accounting Standards Update, *Classification of Certain Government-Guaranteed Residential Mortgage Loans upon Foreclosure* (“the proposed ASU”, “the Update”).

We support the efforts of the Board to address issues surrounding the classification of certain government guaranteed loans. We agree with the Board that diversity in practice exists regarding the accounting for such loans and consider the topic to be of particular relevance for financial statement users. Overall, while we are supportive of the Update, we believe that the limited scope of the Update does not address a significant amount of guaranteed residential mortgage loans where diversity in practice may continue to persist. We recommend that the Board consider the classification of similar loans not in the scope of this Update in a separate project.

Our responses to the specific questions presented in the proposed ASU are provided below.

We would be pleased to discuss any of our comments at your convenience. Please feel free to call me at +1 (347) 648-7721.

Sincerely,

A handwritten signature in blue ink that reads "Robert Traficanti".

Robert Traficanti
Deputy Controller
Global Head of Accounting Policy

***Question 1:** Do you agree with limiting the scope of the guidance in the proposed ASU 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.*

We are supportive of the proposed ASU, and would recommend that the Board continue with the current limited-scope. As described below, we believe that in many instances the role of the creditor following the foreclosure of a government-guaranteed loan will be equivalent regardless of the full or partial nature of the guarantee. In our view, all government-guaranteed instruments should follow the same principles for purposes of classification and we believe that diversity in practice will continue to exist for those instruments outside the scope of the proposed ASU. We recognize that such an effort may require additional deliberation and may be most effectively addressed through a separate project. As a result, we support the scope as proposed in the Update but recommend that the Board consider the classification of similar loans not in the scope of this Update in a separate project.

As drafted, the Update is likely to apply only to those loans that are guaranteed by the Federal Housing Administration (FHA). Other programs, such as those sponsored by the U.S. Department of Veterans Affairs (VA) would ultimately not be addressed by the Update, given the partial nature of the guarantee provided. Although government guarantees provided by the VA may not cover the full unpaid principal amount of the loan, the process to collect under such guarantees in many instances is similar to those provided by the FHA. In both cases, the creditor will convey the property to the guarantor and make a claim based on the specific terms of the guarantee program.

Additionally, in certain instances the value of the collateral and the proceeds of the partial guarantee are sufficient to cover the unpaid principal balance of the loan, and as a result the creditor may ultimately not incur any loss. While the creditor of a partial-government guaranteed loan is exposed to changes in the value of the underlying real estate prior to foreclosure, such exposure is generally not of much significance once the foreclosure process is completed. As a result, upon foreclosure, we do not believe a substantive difference exists between those claims related to partially and fully-government-guaranteed loans, particularly when the creditor expects to collect the full unpaid principal balance, despite the partial guarantee.

We do not believe it was the Board's intent to require a creditor to assess each residential mortgage loan individually at the time of foreclosure for purposes of classification. However, we note that the limited scope of the proposed ASU could result in an outcome where creditors classify foreclosed assets differently, depending on the partial or full nature of the guarantee, even though the position of the creditor (i.e. acting in a manner similar to an agent) is substantively equivalent. In our view, financial statement users would benefit from consistency in practice as it applies to all government-guaranteed residential mortgage loans, including those guarantees that do not cover the full unpaid principal balance of the loan.

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

For those loans within the proposed scope of the update, we agree that at the time of foreclosure the creditor should reflect the asset as an ‘other receivable’, as opposed to reclassifying the loan to other real estate owned. Despite the foreclosure action and the receipt of title, the creditor intends to seek collection of the unpaid principal balance through a claim on the guarantee and not through the sale of the property. As such, the nature of the asset is more appropriately recognized within other receivables.

We note that current instructions for Schedule RC-M of the Consolidated Reports of Condition of Income as issued by the FFIEC (FFIEC 031 and 041, “Call Report Instructions”) specifically includes within “Other Real Estate Owned”, those foreclosed real estate backing mortgage loans insured by certain government entities, including the FHA. As such, absent an amendment the instructions of Schedule RC-M, the classification of certain government guaranteed loans in regulatory filings, as required by Call Report Instructions, will differ from the Board’s proposal once the Update becomes effective.

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 ASU. 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.

We do not believe that disclosure of the fair value less cost to sell of the foreclosed residential real estate should be required. Given the scope of the proposed ASU, as limited to only those loans where the full unpaid principal balance is guaranteed where the creditor intends to collect through a claim on such guarantee, we do not consider the value of the real estate property to be relevant for a financial statement user.

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.

Yes, we agree that the method of transition applied for the proposed ASU should be the same that will be used in applying Update 2014-04.

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

Yes.

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

We agree that early adoption should be permitted for this amendment. We do note, similar in our response to Question #4 above, that the application of the proposed amendments should be consistent with how an entity elected to apply the guidance of Update 2014-04. Therefore, we believe early adoption should be limited to those parties that have elected to early adopt Update 2014-04.

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.*

Yes. We do not see any specific reason from deviating from the general practice of providing nonpublic entities an additional year for implementation.