whpc
Wisconsin Housing Preservation Corp.

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May 3, 2017

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

RE: **File Reference No. 2017-200,** Proposed Accounting Standards Update, *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)*

Dear Ms. Cosper:

The Wisconsin Housing Preservation Corp. (WHPC) is writing to share its views on the Financial Accounting Standards Board's (FASB) Exposure Draft (ED) of the Proposed Accounting Standards Update, *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)*.

WHPC is a 501(c)(3) nonprofit organization and a prominent leader in the affordable housing industry. We believe that housing is a basic right and that it is the first step to building a better life for the people we serve. Since inception, WHPC has grown to provide over 7,500 affordable housing units. Today, we are a $400 million private non-profit housing provider with annual revenues of $54 million and net worth more than $100 million. Standard & Poor's issued WHPC a "AA-" rating, and their analysts asserted that WHPC has "strong overall management and a strategic plan that supports the corporation's mission to provide quality low income housing."

Critical to WHPC's success is our ability to conservatively leverage our assets. WHPC has implemented an array of financing arrangements, resulting in a "laddering" of the long-term debt; debt instruments are critically reviewed and implemented to allow for debt to mature on a staggered basis. Debt arrangements have been executed to mitigate interest rate risk to the corporation. These debt arrangements often include prepayment penalties, which curtail WHPC's ability to restructure debt to alleviate the impact on the current ratio if the Exposure Draft (ED) of the Proposed Accounting Standards Update, *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)* is enacted.

In response to "***Question 5:*** *The proposed amendments would require an entity to classify as a current liability a debt arrangement that is short-term (at the balance sheet date) but that is subsequently refinanced as long-term debt (after the balance sheet date but before the financial statements are issued). That would result in more current liabilities and less noncurrent liabilities, as compared with current GAAP. Do you agree that these refinancings are nonrecognized subsequent events?*"

WHPC does not agree with the Board's Proposal to exclude, as a noncurrent liability in a classified balance sheet, long-term financing after the balance sheet date but before the financial statements are issued. The rationale for our position is outlined as follows.

First, Exposure Draft Proposal results in an inconsistent application of similar facts and circumstances. The Proposal allows for the presentation of debt as non-current when there has been a violation of a debt covenant at the balance sheet date and an appropriate waiver has been obtained after the balance sheet date but prior to the issuance of the financial statements. However, the Proposal does not allow for the presentation of debt as non-current if the debt has been refinanced after the balance sheet date but prior to the issuance of the financial statements. We consider the two situations are essentially at their core the same issue: debt arrangements have been changed after the balance sheet date but prior to the issuance of the financial statements. However, the application of the Proposal differs: in one circumstance the debt is stated as current and in the other circumstance the debt is stated as non-current. We believe this inconsistent application of similar facts adversely impairs the usefulness of the financial statements to the end users.

Second, by not recognizing short-term debt that has subsequently been refinanced as long-term debt the financial statements become misleading. We consider the most useful information to readers of the financial statement is the actual debt arrangement at the time of the issuance of the financial statements. Presenting the debt in a classified balance sheet as current, if the debt has subsequently been refinanced as long-term, is misleading. This misleading presentation is more evident when the debt is classified as current but the related asset securing the debt (i.e. security instrument for the mortgaged debt) is classified on the balance sheet as long-term. The presentation results in a mismatching of the debt and underlying asset resulting in an inaccurate current ratio. If short-term debt is subsequently refinanced as long-term debt and not presented as a long-term liability on the balance sheet, it is not a true representation of the actual use of working capital.

Additionally, we think that the definition of "debt arrangement" should be clarified or expanded to explicitly include financing commitment arrangements. Financing commitment arrangements are often entered into in advance of debt maturing; this is particularly true when debt instrument maturities have bullet or balloon payments, including but not limited to construction loans. Management will often enter into a short-term debt arrangement for a construction loan and a financing commitment for the "take-out" permanent financing at the same time as part of the overall financing plan. We believe that if the management has the ability and intent to carry out the financing commitment, the debt should be treated as long-term since the debt maturing will not be retired with a use of working capital.

Finally, we anticipate a significant cost increase to the corporation, if FASB adopts this Proposal. WHPC would be forced to accelerate refinancing of debt arrangements to have the debt in place by the balance sheet date to avoid an adverse impact on the current ratio. The impact on the current ratio may also trigger underlying debt covenants. The cost of the acceleration of debt refinancing may include, but is not limited to, the following: increased legal costs, increased third party costs for loan due diligence, increased costs prepayment penalties and/or SWAP breakage fees, loan commitment fees, and management costs.

We thank you for the opportunity to comment on this matter. WHPC agrees with those Private Company Council members, as stated in BC18, who supported the retention of current GAAP in its entirety, and suggest the Board remove this Proposal from its agenda.

Sincerely,

Mary R. Wright
President
Wisconsin Housing Preservation Corp.