PRICEWATERHOUSECOOPERS

Letter of Comment No: 16
File Reference: 1220-001

PricewaterhouseCoopers LLP
400 Campus Dr.
Florham Park NJ 07932
Telephone (973) 236 7000
Facsimile (973) 236 7200

October 10, 2005

Ms. Suzanne Q. Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 1220-001, *Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140*

Dear Ms. Bielstein:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the Financial Accounting Standards Board's (FASB or the "Board") Exposure Draft, *Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140* (the "proposed Standard"). We commend the Board for issuing this proposed Standard. If finalized, we believe it will allow servicing rights to be recognized using relevant measurement attributes. Additionally, we believe the disclosure requirements of the proposed Standard will provide additional transparency of the risks associated with servicing rights.

The proposed guidance will provide entities the option of accounting for servicing rights at either fair value or "lower of cost or market" (LOCOM). We believe this would be appropriate, as there is an inconsistency in the current accounting model for servicing rights, which requires them to be accounted for at LOCOM while the derivatives used to economically hedge the interest rate and prepayment risk associated with the servicing rights are accounted for at fair value under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This mixed attribute accounting model results in income statement amounts that do not reflect the economics of the arrangement because changes in the fair value of the derivatives are recognized through income, while increases in the fair value of the servicing rights are not. Having the option of recognizing both the servicing asset or liability and the derivative used to hedge it at fair value will produce accounting results that better reflect the economic substance of these arrangements and may mitigate the volatility that arises under the current model, which is not necessarily a reflection of the economics of these arrangements. Additionally, servicing rights are subject to interest rate risk and prepayment risk, which are not represented in the LOCOM value, except when a servicing right is impaired by rising interest rates or prepayment speeds. The fair value of servicing rights will reflect these inherent risks.

Furthermore, we believe the FASB would be lessening the operational burden on companies by allowing them to use the fair value measurement attribute for servicing rights. We understand that companies typically determine fair values during their analyses of hedge positions and whether stratums of servicing rights are impaired. The fair value option would eliminate the need to determine the value of servicing rights based on two different measurement attributes, i.e., LOCOM and fair value.

We also recommend that the three projects amending FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (FAS 140) be issued as a "revision" of FAS 140, rather than as three separate amendments to FAS 140. We believe that our recommended format would be more efficient for users of the guidance because it would only require looking at one document for all of the amendments, implementation guidance, and Basis for Conclusions.

The attachment to this letter describes our views on the guidance in more detail. Our comments also highlight several areas where the Board's underlying principle or thought-process could be clarified.

****

We appreciate the opportunity to express our views on the proposed Standard. If you have any questions regarding our comments, please contact Tom Barbieri (973-236-7227) or Gerard O'Callaghan (973-236-7817).

Sincerely,

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS

Definition of "Class of Servicing"

The amendments to paragraph 13 of FAS 140, state that entities must elect the option of accounting for servicing rights at either fair value or LOCOM by a class of servicing assets and liabilities based on major asset type being serviced. Examples of a class of servicing, as described by paragraph 17(h), are mortgage loans, credit card receivables, and automobile loans. We understand that in practice the economic risks of servicing rights are managed at a level that is lower than the class level as defined by the proposed Standard. For example, mortgage servicing rights are typically managed at a product level, such as sub-prime, single-family, multi-family, etc. We believe that the fair value election should be made based on how the economic risk for servicing rights is being managed, not based on major asset type. We recommend that the Board consider whether the fair value option is more appropriately applied at a lower level.

Sensitivity Analysis Disclosure

Generally, we agree that the proposed disclosure requirements will provide increased transparency regarding the risk associated with servicing rights. However, we believe that the disclosure of a sensitivity analysis is not useful to readers of the financial statements because the analysis may only disclose the changes in fair value based on two adverse changes in each assumption used in the fair value calculation. We believe that such a disclosure provides limited information because the fair value of servicing rights is impacted by changes in many assumptions simultaneously. Further, we understand that in practice the sensitivity analysis currently performed for retained interests required by paragraph 17(g)(3) of FAS 140 is prepared for disclosure purposes only, and has no operational objectives associated with it.

We do, however, believe that disclosure of expected changes of the fair value of the servicing rights based on changes in interest rates or other market conditions may be useful to financial statement users. Therefore, we recommend that the Board further research the disclosure requirements and consider alternatives that will disclose what is expected to happen to the fair value of servicing rights in the future based upon reasonably expected changes in the market conditions, e.g., Value-at-Risk (VAR) analysis or an interest rate "shock analysis." We believe this type of analysis will provide the reader with information regarding what drove the income statement results in the current period, and the risks inherent in the assets going forward.

Transition for Securities Classified as Available-for-Sale

Many companies (even those that apply hedge accounting under FAS 133) use available-for-sale (AFS) securities to economically hedge the interest rate risk associated with servicing rights and we understand that mechanisms exist for monitoring the hedged risk and the coverage provided by the AFS securities that are economically designated against them. We have been informed that Banking regulators focus on the designation and tracking of AFS securities designed as economic hedges of servicing rights during reviews of entities' overall risk management systems. We recommend the Board allow a one-time reclassification of AFS securities to trading without calling into question the classification of other AFS securities. However, we believe that this should be allowed only (1) concurrent with a fair value election for each class of servicing rights and (2) with proper disclosure.

We also believe that by allowing a one-time reclassification, the Board will provide an additional incentive to apply the preferable fair value method for entities that do not use financial derivatives to risk manage servicing rights, thereby increasing transparency and consistency across entities.