

October 10, 2005

Technical Director—File Reference 1225-001  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Via E-mail: [director@fasb.org](mailto:director@fasb.org)

**Re.: Accounting for Transfers of Financial Assets Exposure Draft (Revised)**

Dear Sir or Madam:

Corporate One Federal Credit Union (CORPONE) is pleased to provide comments in response to the Financial Accounting Standards Board (FASB)'s revised Exposure Draft (proposed Statement or proposal) – Accounting for Transfers of Financial Assets (amendment of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities).

CORPONE represents approximately 763 of the nation's nearly 8,900 state and federal credit unions and many of our members currently conduct loan participations; therefore, this accounting rule is of great importance to them. Sales accounting treatment is advantageous for originating institutions because it allows the institution to deduct the transferred portion of the loan from its balance sheet.

A typical loan participation transaction that credit unions enter into is where the originating credit union sells a 90% participation in its loans and retains the servicing rights as well as a 10% interest in the loans. All the rights to the underlying loans are conveyed consistent with the ownership percentages of 90% and 10%. However, the originating credit union may retain a small subordinated interest, generally 5%, in the pool of loans against which losses are initially allocated and will provide reserves for the expected losses, which is usually significantly less than the limited subordination.

Under the proposed Statement, the transferred portion (or portions) and any portion retained by the transferor must meet the definition of participating interests. A participating interest, among other things, must involve no recourse or subordination provisions. In addition, the transferred portion (or portions) must meet the conditions for surrender of control. Those conditions are the following: (1) the transferred financial assets have been "isolated" - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy; (2) the transferee has the right under the loan participation agreement to pledge or exchanged the transferred financial assets it received; and (3) the transferor does not maintain control through an agreement that entitles and obligates the transferor to repurchase or redeem the assets before their maturity or the ability to unilaterally cause the holder to return specific assets. If the transfer does not meet those

conditions, sales accounting can be achieved only by transferring the entire original financial asset or group (pool) of assets to a “qualifying special purpose entity” (QSPE). In that case, the entire transferred financial asset(s) must meet the conditions for surrender of control.

Loan participations are an important tool for credit unions to control interest rate risk, credit risk, balance sheet growth, and maintain net worth. In addition, participations also enable credit unions to redeploy assets (cash) to make more credit available to membership than they otherwise would be able to do. The following comments summarize our position regarding the proposal.

### **SUMMARY OF CORPONE’S POSITION**

- CORPONE is concerned with the restrictive definition of participating interest in the Exposure Draft. To employ sales accounting treatment, a participation interest may have absolutely no recourse or subordination to the originator. This proposed Statement would effectively eliminate loan participations with recourse as a credit union business tool. For the credit unions that conduct loan participations with recourse, they would be forced to either restructure the deal so there is no recourse to the originator, or else run the transaction through a QSPE. CORPONE is not aware of any QSPEs in use in the credit union industry. Therefore, new entities would need to be created by the credit unions to facilitate loan participations. The establishment of a QSPE is an expensive prospect for small organizations that do not have a large book of loan participation business. The establishment of a QSPE and the added costs will virtually eliminate use of participations and will also limit the use of this valuable liquidity tool in credit unions and in other small financial institutions. CORPONE requests FASB to consider revising the definition of participation interest to enable loans with limited recourse to achieve sales accounting treatment. This would help many of those institutions avoid the costly and time-consuming process of setting up and running a QSPE.
- CORPONE is also concerned with the effective date and transition provisions in the Exposure Draft. Under the proposal, if a credit union has an ongoing obligation in connection with a loan participation which does not meet the surrender of control criterion dealing with isolation (for example, a limited recourse obligation), then when the final Statement is issued the credit union would be required to re-characterize these transactions as secured borrowings rather than sales. The credit unions that entered into loan participation agreements with recourse certainly did so with the expectation that they could show the transaction on their balance sheets as sales. Retroactively changing the accounting treatment on the books could cause the credit union’s balance sheet to suddenly be inflated; and the credit union maybe impacted regarding PCA requirements. Consequently, we encourage FASB to amend this provision so that the rule is effective prospectively and not retrospectively.

Thank you for the opportunity to share our comments. If you have questions about this letter, please feel free to contact me at (614) 825-9300.

Sincerely,

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President, CEO  
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