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LETTER OF COMMENT NO. 9

Mr. Russell G. Golden
Director of Technical Application & Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Via e-mail to director@fasb.org

Reference: Proposed FASB Staff Position, Accounting for Transfers of Financial Assets and Repurchase Transactions (File Reference: Proposed FSP FAS 140-d)

Dear Mr. Golden:

Freddie Mac appreciates the opportunity to comment on the proposed FASB Staff Position, *Accounting for Transfers of Financial Assets and Repurchase Transactions* (the "proposed FSP").

Freddie Mac is a publicly held company chartered by Congress in 1970 to increase the availability of funds for home ownership by developing and maintaining a secondary market for residential mortgages. We participate in the secondary mortgage market principally by providing our credit guarantee on the mortgage-related securities we issue, and investing in mortgages and mortgage-related securities. At June 30, 2007, Freddie Mac owned or guaranteed approximately \$1.6 trillion of mortgages and mortgage-related securities.

We fully support the efforts of the FASB to clarify the accounting requirements relative to the accounting for transfers of financial assets and repurchase transactions. However, we do not believe that the proposed model, as written, will meet the intended objectives. We do not believe that the proposed FSP is operationally feasible, and a more conceptual approach should be considered. Specifically we have comments on (i) the relevancy of timing between the initial transfer and the repurchase agreement, (ii) the criteria described in paragraph 7 of the proposed FSP, and (iii) the effective date of the proposed FSP.

Timing Between Initial Transfer and the Repurchase Agreement

Paragraph 4 of the proposed FSP states that the lapse of time between the initial transfer and the repurchase agreement is not relevant for determining if a transaction is within the scope of the proposed FSP. We believe that time lapse is a relevant consideration. For example, an entity may enter into a sale today. Two years later the seller may enter into a reverse repurchase agreement with the buyer for those same assets. The transactions were not done in contemplation of one another, but based upon the criteria laid out in the proposed FSP; the two transactions would presume to be linked.

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We believe a more conceptual approach should be taken for determining whether transactions should be linked. To determine if the transactions should be linked, an entity should assess whether the initial transfer and subsequent reverse repurchase agreement were done contemporaneously and in contemplation of one another. If the transactions were done in contemplation of one another, they should be linked. If the analysis reveals that the transactions were not done in contemplation of one another, they should not be linked, regardless of how much (or how little) time may have elapsed between the two transactions.

Paragraph 7 Criteria

The model described in the proposed FSP presumes that all transactions should be linked unless they meet all of the criteria outlined in paragraph 7. We do not agree with this presumption, and instead believe that linkage should be required only for transactions that are done contemporaneously and in contemplation of one another. However, if the Board moves forward with the criteria outlined in paragraph 7, we believe the following issues should be considered:

- Criterion (c) states that the financial asset subject to the initial transfer and repurchase financing has a quoted price in an active market. An active market is described as one meeting the Level 1 inputs as defined in FASB Statement No. 157, *Fair Value Measurements* ("FAS 157"). It is our understanding that this project was originally designed to address accounting issues with Real Estate Investment Trusts ("REITs"). In order for REITs to maintain their tax status, they must invest primarily in mortgage-backed and asset-backed securities ("MBS" and "ABS", respectively). Based on the way criterion (c) was drafted, it does not appear that the Board is aware that MBS and ABS are categorized no higher than Level 2 under the FAS 157 Fair Value Hierarchy. The quoted market prices for MBS and ABS include interest that will be received on the next payment date for the security, and the prices are not adjusted for the portion of the expected interest earned through the date the market price is quoted. As a result, the quoted market prices for MBS and ABS must be adjusted to back out the value of future interest that has not yet been earned by the holder of the security. As a result, we believe no transactions within the scope of this proposed FSP will meet this criterion, and all such transactions would presumed to be linked. We believe that the Board should reconsider whether this criterion is even necessary, or at a minimum, adjust the criterion to reflect the market realities for valuation of the types of assets expected to be covered by this proposed FSP.
- We believe that the staff should reconsider the use of the word "coterminous" in criterion (e). Frequently the accounting literature is criticized for being difficult to understand and is not "user friendly". We believe that it is in the best interest of all users to replace this word with a more "plain English" phrase.

Effective Date

Although we are not directly impacted by this proposed FSP, we do not believe that the effective date of the proposed FSP is operationally feasible, and instead believe that the Board should consider delaying the effective date of this proposed FSP. As we have already stated, the open-ended nature of this proposed FSP may require an entity to review thousands of transactions to determine if they should be presented linked. This may be a monumental exercise that will be very difficult to do in a controlled manner in the proposed timeframe.

Additionally, we believe that the Board needs to provide further guidance on the appropriate accounting for transactions subject to the proposed FSP when an entity determines that a transfer previously accounted for as a sale and reverse repurchase agreement should be linked. For example, if an entity were to sell loans in one period and enter into a reverse purchase agreement in another period that is required to be linked to the original transfer, it is not clear how the original transfer that was accounted for as a sale would be unwound and recorded as a linked transaction with the reverse repurchase agreement. Additionally, such a scenario raises a number of



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questions regarding accounting for the income tax effects (i.e., creating temporary differences that did not previously exist).

Alternatively, we believe that the guidance contained in this proposed FSP should instead be evaluated in conjunction with the other amendments to FAS 140 that we understand will be exposed later this year. Given the potential that the other proposed amendments to FAS 140 may end up superseding this guidance, we believe it may be in the best interest of users of financial statements to discontinue this project altogether

Freddie Mac appreciates the opportunity to provide our comments on the proposed FSP. If you have any questions about our comments, please contact James Egan (703-903-3410) or Timothy Kviz (703-714-3800).

Sincerely,

A handwritten signature in cursive script that reads "James R. Egan".

James R. Egan
Senior Vice President – Corporate Controller

cc: Anthony Pizsel
Executive Vice President and Chief Financial Officer