

October 30, 2008



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

LETTER OF COMMENT NO. 10

Via email to director@fasb.org

Reference: File Reference No. 1620-100, Proposed Statement of Financial Accounting Standards, Amendments to FASB Interpretation No. 46(R)

Dear Mr. Golden:

Freddie Mac appreciates the opportunity to comment on the proposed Statement of Financial Accounting Standards, *Amendments to FASB Interpretation No. 46(R)* (the “Exposure Draft” or “proposed Statement”).

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. We also participate through direct securitization of loans we own, and re-securitization of mortgage-related securities we own. At September 30, 2008, Freddie Mac had participated in securitization transactions that are outstanding involving over \$1.8 trillion of mortgages and mortgage-related securities.

We fully support the Board’s objective to amend FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities* (“Interpretation 46(R)”) to improve financial reporting by enterprises involved with variable interest entities (“VIEs”), primarily as a result of the elimination of qualifying special purpose entities in the proposed Statement of Financial Accounting Standards, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140* (the “Proposed Amendments to Statement 140”). We understand the difficulties faced by attempting

to make these changes in a very complicated area and recognize the effort that the Board, staff, and others put forth significant efforts to try to enhance financial reporting in this area. Given that international convergence is on the horizon, and the consolidation model in the proposed Statement may not be consistent with the consolidation model currently being deliberated by the International Accounting Standards Board (“IASB”), we believe a more prudent approach would be to develop a converged standard with International Financial Reporting Standards (“IFRS”), considering consolidation in its entirety, rather than a piecemeal approach. That being said, we do have significant concerns with the proposed amendments in the Exposure Draft, in particular:

- The proposed guidance contained in the proposed Statement is unlikely to meet the objectives described in paragraph 2 of the Exposure Draft (e.g., to improve financial reporting by enterprises involved with VIEs and to provide more relevant and reliable information to users of financial statements);
- There are inconsistencies in the definitions of control between the proposed Statement and the Proposed Amendments to Statement 140;
- The principles for the evaluation of power and control as currently articulated in the proposed Statement are not operational, as they do not adequately address how power and control should be evaluated in structures that involved shared power, which is common in many structures that would become subject to the consolidation guidance in Interpretation 46(R), as amended by the proposed Statement;
- The implementation guidance provided is insufficient. There are significant implementation issues raised in other areas that are not addressed or acknowledged in the proposed Statement (i.e., accounting for prepayable debt);
- The method of adoption of the proposed Statement will result in financial statements that are not comparable with prior periods, which will significantly impair the relevance, reliability, and usefulness of the financial statements;
- The measurement attributes on consolidation required by the proposed Statement will obfuscate the financial results after consolidation, and significantly decrease transparency of credit risk to the users of the financial statements;
- The proposed Statement will require companies to maintain their books and records on several different bases to accommodate financial reporting, tax reporting, investor reporting, and records with individual borrowers, which require systems capabilities beyond those systems currently in use; and
- There will be a significant reduction in the amount of fair value information contained within the financial statements (i.e., it will remain in the footnotes, but there will be a significant difference in what information is presented and a significant reduction in the relevance of the fair value information).

Given the magnitude of these issues, we do not support the issuance of the proposed Statement as it is currently drafted because we do not believe it will improve financial reporting.

If the Board were to proceed with this project despite the concerns we have raised, we do not believe that we could meet the proposed effective date of January 1, 2010. Based on our preliminary analysis of this proposed Statement, we would be required to consolidate approximately 12 million loans with an aggregate outstanding balance of approximately \$1.8 trillion. We estimate that it will take approximately 18 months and \$55 million to implement the systems, processes, and controls necessary to apply the guidance in the proposed Statement. As a result, the proposed effective date would not allow us sufficient time to effectively adopt the guidance.

The comment period for the proposed Statement is extremely short for proposed changes of this magnitude to an Interpretation that is very significant to the accounting and reporting for an entity such as Freddie Mac. Commenters seeking to participate in the public roundtable meeting on November 6, 2008 have been provided only 45 days to review and submit comments on this Exposure Draft in addition to reviewing and submitting comments on the Proposed Amendments to Statement 140, and the proposed FSP FAS 140-e and FIN 46(R)-e, *Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities* (the "Proposed FSP"), which was due on an even shorter timeframe. Further, the 45-day comment period occurred right at the end of the third quarter financial reporting process, adding to the difficulty of a timely review. Lastly, many of the entities that are likely to be the most affected by the proposed Statement, the Proposed Amendments to Statement 140, and the Proposed FSP are financial services entities that are in the midst of dealing with very significant business issues resulting from the current market turmoil. In view of these factors, we believe that more time is needed to properly assess the overarching impacts of the proposed Statement. With additional time, we believe that we could further analyze the provisions of this guidance and provide you with additional comments.

Our responses to the individual questions raised in the Exposure Draft are included in the attached Appendix, as well as our detailed comments on the concerns raised above.

* * * * *

The views expressed in this comment letter are solely those of Freddie Mac, and do not purport to represent the views of the Federal Housing Finance Agency.

Freddie Mac appreciates the opportunity to provide our comments on the proposed Statement. If you have any questions about our comments, please contact Denny Fox (703-714-3160) or Timothy Kviz (703-714-3800).

Sincerely,

A handwritten signature in black ink, appearing to read "Denny R. Fox". The signature is fluid and cursive, with the first name "Denny" being the most prominent part.

Denny R. Fox
Vice President, Accounting Policy and External Reporting and Interim Principal Accounting Officer

cc: David B. Kellermann
Senior Vice President and Interim Chief Financial Officer

APPENDIX

Included in this Appendix are the specific questions raised in the Exposure Draft with our responses and comments, as well as additional comments and feedback that we offer to the proposed Statement.

1. Will the proposed Statement meet the project's objectives to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements?

We believe that the proposed Statement is unlikely to meet the project's objectives to improve financial reporting by enterprises involved with VIEs, and it is unlikely to provide financial statement users with more relevant or reliable financial information. We believe the proposed Statement will significantly impair the usefulness and relevance of financial reports for entities that participate in the securitization markets in a significant manner, such as we do. We do not believe that introduction of another consolidation model based on a different notion of control meets these objectives, either. Additionally, we do not believe that a new consolidation model should be developed that does not converge with International Financial Reporting Standards ("IFRS").

We believe that the consolidated financial statements prepared in accordance with the proposed Statement will:

- Obscure the results of our credit guarantee business;
- *Eliminate important fair value information from the financial statements;*
- Result in fair values that will be classified lower in the fair value hierarchy;
- Introduce uneconomic volatility related to risks that are not ours and that cannot be hedged;
- Reduce the relevance of our fair value disclosures; and
- Reduce comparability of our financial statements between periods.

Based on the consolidation guidance contained in the proposed Statement, we will be required to consolidate all of the trusts from our single-class securities issuance programs. We do not believe that consolidation of these trusts improves financial reporting and do not believe it would provide the users of the financial statements with relevant and reliable financial information for the reasons discussed below.

Introduction of Another Consolidation Model

The concepts of control that govern consolidation in the proposed Statement are not consistent with control criteria in other consolidation accounting literature, such as AICPA Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*, AICPA Statement of Position No. 78-9, *Accounting for Investments in Real Estate Ventures*, EITF Issue No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interests but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights," EITF Issue No. 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights." These different consolidation models present opportunities for structuring to achieve accounting results, which could result in inconsistent consolidation results depending on the particular consolidation literature that is evaluated and applied. Rather than issue the Proposed Standard with another different consolidation model, we believe that the Board should instead revisit consolidation in its entirety, with an emphasis on convergence with IFRS.

Convergence with IFRS

We believe that the Board should delay the issuance of this proposed Statement and instead work with the IASB to develop a converged consolidation model. The recent credit crisis has demonstrated that the importance of structured finance extends outside our borders, and therefore should be addressed on the global stage. With both the Board and the IASB working on similar projects, we fail to understand why a converged standard is not the immediate desired outcome. Based upon the roadmap to convergence laid out by the Securities and Exchange Commission, we could adopt IFRS as early as 2012. At that point, we may have to adopt an entirely new consolidation accounting model that would be applied retrospectively, giving the proposed Statement a relatively short life (i.e., two years). Given that we understand that the Board and the IASB are both working on amendments to consolidation standards on relatively similar timelines, we believe it is prudent to delay the Board's project and instead work towards convergence on a single standard.

Results of Our Credit Guarantee Business Will be Obscured

The mortgage loans underlying our single-class securities are legally isolated and are beyond the reach of our creditors. We do not have the ability to utilize these assets for our own benefit. The only risk we are exposed to on these mortgage loans is the credit risk, due to our guarantee of the loans underlying the securities. We already account for this credit risk in accordance with FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others* ("Interpretation 45"). Losses are recognized on an incurred loss basis. If the trusts for these single-class securities are consolidated in accordance with the proposed Statement, we will recognize approximately \$1.8 trillion in mortgage loans that we never purchased or owned.

The transition provisions of the proposed Statement require that we consolidate the outstanding trusts on the effective date at fair value. When we consolidate these trusts, we will need to eliminate our reserve for guarantee losses, which is our reserve for losses incurred for the \$1.8 trillion of loans that underlie the single-class security trusts that we guarantee. For the loans that we consolidate, we will be required to individually identify those loans where there has been *evidence of credit deterioration since origination in accordance with AICPA Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer"* ("SOP 03-3"). These loans comprise the population of loans where we have previously recognized a reserve for credit guarantee losses on an incurred loss basis (which would be eliminated, as described above). We will be required to recognize these consolidated loans at fair value, considering market interest rates, spreads, and returns; however, the fair value of the loans contemplates loan losses on an expected loss basis. The net result is that at the transition date, we will no longer have a reserve for losses associated with our credit guarantee business recognized in the financial statements, but rather a non-accretable difference that is disclosed only in the footnotes to the financial statements.

Loans within the scope of SOP 03-3 will then be accounted for in accordance with that Standard. All remaining loans will be accounted for as loans held for investment in accordance with FASB Statement No. 65, Accounting for Certain Mortgage Banking Activities, with the difference between the fair value recognized and par recorded as a premium or discount. Additional loan loss reserves will be established in accordance with existing impairment guidance prospectively.

Consequently, transparency into our credit guarantee business will be significantly obscured. The results of our credit guarantee business in the period prior to adoption of the proposed Statement will not be comparable with the results in the period after adoption of the proposed Statement. The reserve for credit guarantees recognized on an incurred loss basis prior to the adoption of the proposed Statement will not be comparable with the mix of fair value measurements that contemplate expected losses, a non-accretable difference from the application of SOP 03-3, and incurred losses from new losses in the period after adoption of the proposed Statement. If we attempted to provide comparable information before and after adoption of the proposed Statement, we would be required to develop significant systems and processes to maintain the books on two different impairment models, as well as disclose significant non-GAAP measures.

The Board spent a significant amount of time during its deliberations on the proposed Statement discussing how a lack of transparency into the underlying credit risks of securitization structures was one of the main reasons for reconsidering the derecognition accounting model, and thus the consolidation model under Interpretation 46(R); however, the result of applying the proposed Statement is a significant reduction in the transparency of credit risk. As a result, we do not believe the proposed Statement is an improvement to financial reporting.

Important Fair Value Information Will be Eliminated from the Financial Statements

At transition when we consolidate the single-class security trusts, we will be required to eliminate our guarantee asset (“GA”) and guarantee obligation (“GO”). Our GA represents our right to the future management and guarantee fees from the securitization trust that we are entitled to as compensation for undertaking our guarantee. The GA is essentially an interest-only strip that we account for as a trading security, with changes in fair value recognized in earnings. Once we consolidate the loans, the retained interests will be required to be recombined with the loans in accordance with EITF Issue No. 02-9, “Accounting for Changes That Result in a Transferor Regaining Control of Financial Assets Sold.” When we recognize the interest income on the loans each period, we will realize our portion of the interest that represents our management and guarantee fee on an accrual basis. The fair value of the GA (i.e., the right to the strip of the interest representing the management and guarantee fee) would be removed from the financial statements. Further, when we disclose the fair value of financial instruments in the footnotes in accordance with FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments* (“Statement 107”), we will be disclosing the fair value of loans held for investment.

The GO is initially recognized at fair value at the inception of the guarantee, and is essentially our deferred revenue for undertaking our guarantee. We amortize the GO into earnings as we are economically released from risk under our guarantee. Removal of the GO would essentially revert our accounting and reporting for our guarantee back to the accounting model that was in place prior to Interpretation 45, EITF Issue No. 85-20, “Recognition of Fees for Guaranteeing a Loan” (“Issue 85-20”). Because the GO would no longer be recognized on the financial statements, there would be no financial instrument subject to the Statement 107 footnote fair value disclosure requirements. Again, fair value information would be lost.

As a result, in the period prior to consolidation, our financial statements will reflect a GA at fair value with changes in fair value recognized through earnings and a GO initially recognized at fair value and subsequently amortized into earnings. In the period after consolidation, our financial statements will not have the GA or GO. To continue disclosing information about the GA and GO and their fair values would result in non-GAAP measures that would require us to develop systems and processes to maintain our financial statements on a different basis of accounting only to remedy shortfalls created by the new consolidation model in the proposed Statement.

For private label securitization structures, the transferor frequently retains the right to service the transferred assets, as well as a retained interest in the transferred assets (i.e., a residual interest). The retained interests are required to be carried at fair value in the financial statements (i.e., either as available-for-sale or as trading). We believe that the transferor would be required to consolidate the securitization trust under the accounting model in the proposed Statement. On consolidation, the retained interests would be eliminated, and the transferor would show the loans in the securitization trust and the beneficial interests issued by the securitization trust in its consolidated financial statements. The loans and debt are accounted for at amortized cost. As a result, the fair value information regarding retained interests, particularly the residual interests

that include concentrations of credit and interest rate exposure, is lost. As discussed above, the fair values of these instruments will not appear in the Statement 107 footnote disclosures either.

The Board has continuously stated that it believes that fair value is the most relevant measurement attribute for financial instruments, and that fair value is the most relevant information for financial statement users. The model that the Board is proposing would eliminate much of the fair value information that is currently reported for securitization structures, in favor of amortized cost information and loan losses recognized on an incurred loss basis. Consequently, we do not believe the proposed Statement will result in more relevant information for financial statement users.

Fair Values Provided Will be Classified Lower in the Hierarchy (i.e., Level 3)

Government sponsored enterprise (“GSE”) (i.e., Freddie Mac and Fannie Mae) guaranteed mortgage-backed securities (“MBS”) typically are classified as Level 2 financial instruments in the fair value hierarchy laid out in FASB Statement No. 157, *Fair Value Measurements* (“Statement 157”). If we are required to consolidate the securitization trusts we guarantee, we would eliminate any portion of the securities issued by the trust that we retained, and account for the underlying mortgage loans. These mortgage loans would likely be classified as a Level 3 financial instrument in the fair value hierarchy, due to the lack of price transparency for loans and significant unobservable inputs to the valuation. Given the recent market turmoil associated with valuing of these assets, we believe this would be providing less relevant and reliable information to the users of our financial statements.

Our Financial Statements Will Include Uneconomic Volatility

Once we consolidate our single-class securitization structures, we will have premiums and discounts attributable to the loans and the third party debt consolidated in our financial statements. We will be required to amortize the premiums and discounts for the loans in accordance with FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, and, because the loans are prepayable and the timing and amount of prepayments can be reasonably estimated, we would amortize premiums and discounts over the estimated life of the loans. The third party debt of the securitization trust that is consolidated is payable based solely on the payments of the pool of loans that underlie the structure, so the debt, too, is prepayable. However, current accounting guidance would require amortization of debt discounts and premiums over the contractual life of the debt. As a result, the pattern of amortization for debt and MBS premiums and discounts will not be consistent, which will introduce uneconomic volatility into the financial statements. Further, when a loan does prepay, the proceeds from the loan are paid to the debt holder, which would result in a write-off of the premium or discount associated with the loan, creating further uneconomic volatility.

We are not exposed to the interest rate risk of the loans that underlie our securitization trusts, unless we retain interests or purchase securities issued by the trusts. By consolidating all of the loans on our balance sheet, we would effectively overstate our exposure to interest rate risk, both

in the form of interest income on the loans, and in the form of fair values of the loans that we do not own, either in loan or security form. The premiums and discounts recognized at transition do not represent differences between the amounts paid for the assets or received from issuance of the liabilities and the amount of cash we ultimately expect to collect. As a result, the interest income and interest expense recognized for these instruments will not be based on cash flows we expect to receive, which overstates our true exposure to interest rate risk.

The interest rate risks associated with the securitization trusts added to our balance sheet are not risks we can hedge. We are not economically exposed to these risks, so entering into derivatives or other hedging transactions to offset an artificial overstatement of our exposure to interest rate risk resulting from accounting consolidation would not be a sound economic business decision. Further, consolidation in accordance with the proposed Statement would obscure the financial impacts of some current hedging activities relating to risks to which we are economically exposed, eliminating the transparency of those hedging activities in our financial statements. For example, we are exposed to significant interest rate risk relating to our GA, which is carried at fair value with changes in fair value recognized in earnings. We economically manage this risk by purchasing a portfolio of agency principal-only strips, agency adjustable rate mortgage-backed securities, and agency mortgage backed securities that we classify as trading securities. The changes in fair value of the GA and the changes in fair value of these securities are both recognized in earnings, effectively mitigating our risk exposure to interest rates.

Upon adoption of the proposed Statement, the GA will no longer be recognized in our financial statements, yet we will remain exposed to interest rate risk; however, this interest rate risk will emerge in our financial statements as the difference between the interest income from the consolidated loans and the interest expense on the consolidated third party beneficial interests. The portfolio of securities classified as trading will continue to have changes in fair value recognized in earnings, but there will be no offset from changes in the fair value of the GA, as the GA will no longer be recognized, and interest income on the consolidated loans and interest expense on the consolidated beneficial interests will be recognized on an accrual basis. Because the risk we are exposed to relates to net interest margin, we cannot designate net interest margin as the hedged item for hedge accounting purposes in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. As a result, while our current interest rate risk management activities should continue to be effective from an economic perspective, our financial statements will not reflect the effectiveness of this risk management. As a result, the usefulness and relevance of the financial statements will be diminished. Further, we may be unable to adequately explain how effectively we have mitigated our exposure to interest rate risk without introducing non-GAAP disclosures, and adding significant duplicative processes to maintain the financial statements using another measurement attribute.

Relevance of Financial Statement Disclosures Will Be Reduced

As previously mentioned, at the present time we have \$1.8 trillion outstanding in securitization structures. Once we consolidate these securitization trusts, the size of our balance sheet will increase substantially. Several line items that are disclosed on our balance sheet today and are

important to understanding the results of our business will no longer be significant for separate presentation, and will be combined into an “other” category. Further, changes in these now insignificant line items are negligible when compared to the overall size of our consolidated balance sheet, rendering discussion not meaningful.

On our income statement, these consolidated loans and third party beneficial interests will result in recognition of interest income and interest expense. The compensation we receive for providing our guarantee is a strip of the interest income from the loans, so it will be obfuscated in net interest margin. We currently disclose our management and guarantee fees, the changes in fair value of our GA, and amortization of our GO in the income statement. After adoption of the proposed Statement, we will no longer record any of this activity related to our guarantee, but rather will record interest income on the loans and interest expense on the third party beneficial interests from the consolidated securitization trusts. We believe this will obscure our results, reducing their relevance to users of our financial statements.

Comparability of the Financial Statements Between Periods Will be Reduced

As discussed above, our financial statements for periods prior to the adoption of the proposed Statement and the periods after adoption will not be comparable. The economic risks that we are exposed to prior to adoption will be masked after adoption, even though there is no change in our exposure to those risks. The fair value of the financial instruments retained both before and after adoption will not be transparent in periods after adoption, and a significant amount of fair value information will be lost. While comparability is not one of the specific objectives of the proposed Statement, comparative financial statements are useful and relevant to investors.

The Fair Value Option Will Not Address These Issues

The fair value option described in FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* will not be an effective way for us to address the issues created in consolidation under the proposed Statement described above. If we were to elect the fair value option for the consolidated loans and the consolidated third party beneficial interests, the changes in fair value of these instruments will not offset one another, given the differences in how fair value is derived. Additionally, the impact of these changes in fair value can differ significantly depending on the amount of interests we either retain or purchase from the securitization trust. For example, the fair value of the loans would take into account borrower credit risk and interest rate risk, and due to significant unobservable inputs to the valuation of the loans, they would be classified as Level 3 in the fair value hierarchy of *Statement 157*. In contrast, the third party beneficial interests include our own credit risk, due to the underlying guarantee. Furthermore, because the securities representing these beneficial interests are very liquid, there is greater transparency into price discovery, so the beneficial interests would be classified as Level 2 in the fair value hierarchy of *Statement 157*. As a result, the fair value option would introduce further uneconomic volatility into the financial statements based on risks that we are not exposed to, which would further limit the usefulness of the financial statements.

For the numerous reasons articulated above, we believe that the proposed Statement fails to meet the Board's objective of improving financial reporting and providing more relevant and reliable information to financial statement users. Furthermore, we believe that the model contemplated in the proposed Statement obscures information currently available to financial statement users and leads to an overall decrease in financial statement transparency. We encourage the Board to revisit consolidation in its entirety, and to develop a converged consolidation standard with the IASB.

2. What costs do you expect to incur if the Board were to issue this proposed Statement in its current form as a final Statement? How could the Board further reduce the costs of applying these requirements without significantly reducing the benefits to users of financial statements?

Based upon our preliminary assessment of the impacts of the proposed Statement we expect to incur significant costs. Based on the guidance in the proposed Statement, we will need to consolidate all of our outstanding guaranteed single-class securities. This will involve consolidation of the loans in the trust, as well as the beneficial interests issued by the trusts to third parties. We do not currently have the accounting systems needed to implement the proposed Statement for the loans or the third party beneficial interests that will be consolidated under the proposed guidance, and we will need to develop very robust systems with the ability to keep the information on a multitude of different measurement attributes to accommodate the accounting under the proposed Statement, including:

- The unpaid principal balance (“UPB”) of the loans from the borrowers (i.e., the balance owed by the borrower for servicing purposes);
- The GAAP basis in the loans (to accommodate situations where we are the owner of the loan that is carried on the balance sheet (i.e., the purchase price, premiums/discounts, etc.);
- The fair value of the loans from consolidated VIEs;
- Information necessary to account for consolidated loans that fall within the scope of SOP 03-3;
- The UPB of the beneficial interests issued to third parties from consolidated VIEs for investor reporting;
- The amortized cost of the beneficial interests issued to third parties from consolidated VIEs after the effective date of the proposed Statement;
- The fair value of third party beneficial interests from consolidated VIEs at transition, including premiums and discounts for accretion/amortization into interest expense; and
- The basis in the beneficial interests issued and retained by us for income tax reporting purposes (these retained securities will continue to be accounted for as securities for income tax purposes, rather than as the underlying loans).

We have the information about the outstanding balances for the loans and third party beneficial interests outstanding underlying these guaranteed single-class securities; however, most of the

information does not include the variety of measurement attributes needed to consolidate and account for the transactions in accordance with the proposed Statement. Additionally, our systems do not currently have the ability to reconcile this variety of different measurement attributes to ensure accurate reporting. Our preliminary estimates indicate that it may take us 18 months and approximately \$55 million to build, develop, implement, and test the necessary systems.

The Board could reduce the costs of applying these requirements without significantly reducing the benefits to the financial statement users by requiring disclosures only of the UPB of the assets and liabilities of the VIEs in the footnotes, as opposed to presentation on the face of the financial statements. The UPB of the asset and liabilities of the VIE is currently available in monthly investor reports.

3. The Board decided to adopt a more principles-based approach to determine the primary beneficiary of a variable interest entity. Do you believe the principles in paragraphs 14-14B of Interpretation 46(R), as amended by this proposed Statement, are sufficiently clear and operational?

We do not believe that the principles articulated in paragraphs 14A and 14B of the proposed Statement are sufficiently clear or operational. The Board needs to provide more information about how power and control should be evaluated. More guidance is needed to evaluate structures with shared power. Also, we believe it is important to differentiate between powers that are used to establish the transaction versus ongoing powers.

The control criteria for assessing whether the transfer of a financial asset should be accounted for as a sale (i.e., control has been relinquished) articulated in the Proposed Amendments to Statement 140 are very different than the power and control criteria contained in the proposed Statement. Further, the interplay between these two proposed standards could result in a transfer qualifying for sale accounting under the Proposed Amendments to Statement 140 only to be consolidated under the proposed Statement. We do not understand how it would be representationally faithful to state that control over a financial asset had been relinquished, yet power to control the assets had been retained such that the securitization structure should be consolidated. Further, we do not understand why the power and control criteria for consolidation should be more stringent than the control criteria for recognition of a transfer of a financial asset as a sale.

4. The Board concluded that it would be helpful to provide examples of the application of the principles in this proposed Statement. Do you believe that the examples in Appendix A clearly indicate how the principles in paragraphs 14-14B of Interpretation 46(R), as amended by this proposed Statement, would be applied? If not, please articulate what additional information or guidance is necessary, considering the basis for the Board's conclusions.

We do not believe that the examples provided by the Board in the proposed Statement are sufficiently helpful. The conclusions reached in the provided examples are readily determinable based upon the simplified fact patterns that are provided where the conclusion is relatively easy to determine. We believe it would be more helpful to provide realistic examples where the conclusions are not so readily determinable, so that entities can better understand the rationale and thought process that goes into applying the paragraphs 14A and 14B principles, particularly in situations where there is shared power.

Also, we strongly object to the inclusion of example 5 in the proposed Statement. This example misrepresents the facts associated with these transactions, so we believe the conclusions reached are not correct. Consequently, we respectfully request that the example either be removed or the fact pattern and analysis be revised to ensure accuracy.

5. This proposed Statement retains the quantitative analysis for situations in which an enterprise cannot determine whether it is the primary beneficiary through the qualitative analysis in paragraph 14A of Interpretation 46(R), as amended by this proposed Statement. In Appendix A, each example either identifies a primary beneficiary or concludes that no primary beneficiary exists through a qualitative analysis. The Board may consider removing the quantitative analysis for determining whether an enterprise is the primary beneficiary of a variable interest entity. Do you believe that the quantitative analysis is necessary based on the proposed amended guidance for determining the primary beneficiary? Do you believe that the quantitative analysis would be performed in many situations? Why or why not?

We do not believe that the quantitative analysis is necessary based upon the proposed guidance provided in paragraphs 14A and 14B. We believe that including the quantitative fallback is likely to lead to confusion and overuse, since enterprises, and their auditors, may cling to the perceived objectivity of a quantitative test. Additionally, there is not enough guidance to assist an enterprise in preparing a quantitative analysis. This leads to further confusion and diversity in practice. Lastly, as we have explained in our response to question 3, we do not believe that the principles of the qualitative test contained in paragraphs 14A and 14B of the proposed Statement are operational, which will result in greater reliance on the quantitative test contained in paragraph 14C. Therefore, we believe that the analysis should be qualitative only, and would suggest that the Board eliminate the quantitative assessment.

6. For the reasons stated in paragraphs B6-B15 of this proposed Statement, the Board decided to require ongoing assessments to determine whether an entity is a variable interest entity and whether an enterprise is the primary beneficiary of a variable interest entity. Do you agree with the Board's decision to require ongoing assessments? If not, please provide reasons (conceptual or otherwise) as to why you disagree with these requirements considering all of the proposed amendments in this proposed Statement.

We agree with the Board's decision to remove triggering events, but we do not believe that it is operationally feasible to require continuous ongoing assessments. Given that consolidation of a

VIE would result in income statement recognition for the activities of the VIE while consolidated, under the Board's proposal, assessments would need to be done daily. This is not operationally feasible. For example, we have interests in over 70,000 different CUSIPs, of which, we believe we would need to evaluate approximately 1,500 of these VIEs (as well as other VIEs, such as low income housing tax credit partnerships, etc.) for consolidation under the proposed Statement (we believe we would be able to qualitatively assess and conclude we do not need to consolidate the remaining CUSIPs, or would have already consolidated them as the guarantor). Most of these VIEs only provide the information necessary to do the required assessment on a monthly basis. Additionally, the sheer magnitude of the number of assessments required would be untenable.

We believe that the Board should revise this criterion to instead require assessment at the end of each reporting period. If at period end it is determined that a variable interest holder is the primary beneficiary and has to consolidate, the consolidation would be effective from the date that circumstances have changes that would cause consolidation (if determinable, otherwise as of the end of the period), which may be a date different than the assessment date.

7. Do you believe that any exceptions to this proposed Statement should be made for private or not-for-profit entities? If so, please articulate the conceptual basis and reasons for the exceptions.

We believe that there should be a scope exemption provided for the GSEs.

The GSEs were chartered by Congress to stabilize the nation's residential mortgage markets and expand opportunities for homeownership and affordable rental housing. The GSEs' mission is to provide liquidity, stability and affordability to the U.S. housing market. The GSEs fulfill this mission by purchasing residential mortgages and mortgage-related securities in the secondary mortgage market and securitizing them into mortgage-related securities that can be sold to investors. Each GSE's charter also determines the types of mortgage loans that it is permitted to purchase. To facilitate this mission, the charters provide the GSEs with special attributes including: (i) favorable treatment of their securities under various investment laws and other regulations, (ii) discretionary authority of the Secretary of the Treasury to purchase their securities, and (iii) exemption from state and local taxes, except for taxes on real property that they own.

Congress chartered the GSEs with a mission of affordability and liquidity. In connection with its congressionally chartered mission, each GSE has created a Seller/Servicer Guide (the "Guide"). The purpose of the Guide is to add stability and uniformity to the market, not to retain control over the assets. We believe this point is demonstrated by the fact that many private label securitization transactions refer to the GSE's Guides to establish the parameters for servicing of the loans in the transaction.

Additionally, in accordance with their charters, the GSEs are entitled to deposit and issue their securities in book-entry form through the Federal Reserve banks. This ability is unique only to

the GSEs, Ginnie Mae, and the U.S. Treasury. As such, to facilitate the issuance of a security, a separate trust or other legal entity is not required, though Freddie Mac and Fannie Mae do utilize trusts in many of their securitization structures. It is possible for the GSEs to change their issuance process to no longer use trusts, thereby exempting themselves from the application of consolidation under the proposed Statement. This is not something we are contemplating; however, the mere fact that we have the ability to issue securities without trusts emphasizes the fact that our structures are unique.

Further, the roles, responsibilities, and structures of the GSEs' securitizations have developed in response to their Congressional charters, not as a means to retain control over the underlying assets. Therefore, we believe that it is appropriate to provide a scope exemption to the GSEs.

In summary, the GSE structures are the most straightforward MBS transactions in existence, and our investors have consistently informed us that the amount of disclosure and transparency that we provide is among the best they have seen. The most meaningful information to financial statement users about the GSEs is the credit risk that they purchase or assume in their securitization structures. This information is reported and disclosed in accordance with Statement 5 and Interpretation 45. Under the model in the proposed Statement, this information would be obscured. Additionally, as discussed in our response to question 1 above, the remainder of our financial results will be obscured by a significant gross up of the balance sheet, overstatement of interest rate risk that we are not actually exposed to and cannot hedge, uneconomic volatility will flow through our financial statements, and real risks that we are exposed to and manage will not be transparently reflected in our financial results.

8. Financial statement users indicated that the information disclosed in accordance with Interpretation 46(R) about an enterprise's involvement or involvements with variable interest entities and the associated risks are often insufficient and untimely. Do you believe the disclosure requirements in this proposed Statement address those concerns?

No, we do not believe the proposed guidance or disclosure requirements meet these concerns. We do not understand how users are provided meaningful information about the risks an entity is exposed to by consolidating a VIE at fair value, and reflecting assets that may be not available to the entity and its creditors, or liabilities that do not have a claim on the entities resources beyond certain restricted assets. As we have explained in our response to question 1 above, we believe that consolidation results in overstatement of the risks that the entity may not even be exposed to, while obfuscating the risks that it is actually exposed to.

We believe a better way to address many of the concerns of constituents is not to consolidate VIEs from securitization structures that are not currently consolidated, but rather to disclose the assets and liabilities of these VIEs in the footnotes. We do not believe that the measurement attributes of these assets or liabilities should be changed, but rather the disclosure should show the balance due from the transferred assets (i.e., loans) and the amount that is payable for the liabilities issued by the VIE. By changing the measurement attributes of the underlying assets and liabilities, the results of the VIE are obscured.

9. Should the elements of a consolidated variable interest entity be required or permitted to be classified separately from other elements in an enterprise's financial statements?

We believe that the elements of a consolidated VIE should be required to be classified separately from other elements in an enterprise's financial statements. Under consolidation, the assets of the VIE cannot be used by the enterprise (or its creditors) in a manner similar to those it owns and uses in its operations. Similarly, the liabilities of the consolidated VIE are not liabilities that can be satisfied by assets of the enterprise other than those associated with the VIE. As such, we believe it would be misleading to a financial statement user to present these assets and liabilities together with the assets and liabilities of the enterprise that consolidated the VIE.