



LETTER OF COMMENT NO. 56

March 16, 2007

Mr. Lawrence W. Smith
Director—Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Re: File Reference No. 1510-100

Dear Mr. Smith:

Countrywide Financial Corporation (Countrywide) is a diversified financial services company that is involved in mortgage lending, banking, capital markets, and insurance activities with approximately \$200 billion in total assets. It is one of the largest residential mortgage loan originators and servicers and financial institutions in the nation. We would like to comment on the Exposure Draft of the Proposed Statement of Financial Accounting Standards, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* ("ED").

We generally support the Board's endeavor to expand disclosures related to derivative instruments and hedging activities. However, as they pertain to certain complex and dynamic hedging activities, the proposed disclosures would be extremely difficult to prepare and would not provide meaningful information to readers of financial statements.

Background

We are exposed to price risk (i.e., the risk that changes in market interest rates will result in changes in value) from the time an interest rate lock commitment is made to the time the resulting mortgage is sold. Managing the price risk related to our interest rate lock commitments and funded loans that will be securitized and sold is complicated by the fact that the number and types of loans ultimately originated from the interest rate lock commitments is beyond our control and is driven primarily by changes in mortgage rates. As such, the number and types of loans originated in a given period can vary significantly. To manage this price risk, we employ a complex and dynamic hedge strategy.

Because of the dynamic market environment, the risk profiles of Countrywide's mortgage loan inventory are managed on a daily basis. The large numbers of assorted derivative instruments used to hedge our loans generally are designated and qualify as fair value hedges and the designated hedge period usually is one day.

Under this complex and dynamic hedging process, large volumes of various derivative instruments are combined and designated and de-designated as fair value hedges within a given reporting period. In addition, the hedged items, which are defined as groups of similar loans (i.e., portfolios of similar assets), will change daily, as certain loans are sold and new loans are added. As such, the derivative instruments that are designated as fair value hedges at the end of a given reporting period may not necessarily be the same derivative instruments that were used to hedge the designated loans throughout the reporting period.

Furthermore, because hedging of the risk profiles for the different groups of (similar) loans being hedged can be achieved through various combinations of derivative instruments, some of the individual derivative instruments in those designated hedge combinations can be in an asset position while others are in a liability position under certain conditions. Nevertheless, hedge effectiveness is evaluated based on how well the combination of derivative instruments offsets the changes in value of the designated group of hedged loans.

Required Disclosures

Because of the dynamic nature of the hedging activities related to those loans, it would be an extreme and costly operational burden to report hedging gains and losses segregated between open and closed positions for each reporting period. We believe that the benefits of such segregation would be minimal at best and would not provide readers of financial statements with any meaningful insights into the effectiveness of the hedging activities, as hedge effectiveness for the period would be assessed best based on the results from both closed and open positions. Instead, we believe that readers should focus primarily on the total amount of hedge ineffectiveness being reported for the period. Presumably, based on the requirements to qualify for hedge accounting under FASB Statement No. 133 (FAS 133), *Accounting for Derivative Instruments and Hedging Activities*, as amended, all qualifying hedging activities must be highly effective. Therefore, the distinction between gains and losses arising from open versus closed positions would not provide any value-added insights into those hedging activities. As noted above, the derivative instruments designated as fair value hedges of a large inventory of mortgage loans at the end of a period would not necessarily reflect or be indicative of all of the hedging activity related to those hedged loans that took place throughout the period. Consequently, reporting hedge results on that basis would be misleading to readers of the financial statements.

For similar reasons, we also believe that segregating the disclosures between derivatives that happen to be assets versus those that happen to be liabilities at the end of a given reporting period would not be meaningful or cost beneficial as it pertains to mortgage hedging activities. When you have multiple dynamic hedges in which large combinations of derivative instruments are used to hedge a large portfolio of different types of loans (which are grouped into similar assets), the distinction between derivative instruments that are assets versus those that are liabilities at any given point in time would not provide any meaningful insights into the results of those hedging activities. In dynamic hedges, individual derivative instruments often move between asset and liability positions over the course of a reporting period. Reporting hedge results for the entire period based on a snapshot of where those derivatives happen to be positioned at the end of the reporting period would be more misleading rather than meaningful, as readers would misinterpret that position as being reflective of the entire reporting period. Consequently, we believe that the cost of segregating the related gains and losses for the period into such categories would significantly outweigh any benefits.

Effective Date

We believe that the effective date of the disclosures should be delayed for one year to fiscal years ending after December 15, 2008 (or December 31, 2008 for calendar year-end entities). The proposed additional disclosures are extensive and will require a significant amount of time and effort to establish processes to properly capture and report that information on a timely basis. Many of those same resources will be busy with the implementation of FASB Statement No. 157 (FAS 157), *Fair Value Measurement*, and FASB Statement No. 159 (FAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities*. Consequently, preparing for the implementation of the ED would be overly burdensome in 2007.

We also expect that once FAS 157 is adopted, there could be significant changes to the results of hedging activities as new or significantly modified measures of fair value likely will be used for both hedging instruments and hedged items. Furthermore, the adoption of FAS 159 is likely to significantly reduce the application of fair value hedge accounting and result in a greater focus on the overall results of hedging activities that includes both economic hedging activities and hedges designated under FAS 133. Rather than implement elaborate processes to capture data that only will be disclosed for one year, we believe that it would be prudent to delay the effective date until after FAS 159 has been adopted.

As we are preparing for the implementation of FAS 157 and FAS 159, a number of implementation issues have arisen that must be considered and resolved. We anticipate that many of those questions will require further guidance or interpretation from the FASB, the Big Four, or industry groups. Because the resolution of those issues is likely to impact fair value measurement related to hedging activities, we think that it would be better let those issues be resolved before disclosing the additional information required by the ED. We also believe that a delay in the effective date of the ED would permit

companies to develop better integrated disclosures with those required by other Statements.

Summary

While we believe that additional disclosures related to hedging activities generally would provide greater transparency, we are concerned that some of the detail required by the ED (e.g., *separate information for open and closed positions and derivative assets and liabilities*) would not provide useful or meaningful information for complex and dynamic hedging activities. That level of detail also would be operationally burdensome to provide and would outweigh the benefits. We also believe that it would be beneficial and prudent to delay the effective date of the disclosures by one year to permit companies to focus on the implementation of FAS 157 and FAS 159, as both of those Statements are likely to have a significant impact on the results reported from hedging activities under FAS 133.

Thank you for the opportunity to comment on the proposed guidance. We would be glad to discuss any of our comments in more detail. If you have any questions, please contact me at 818/225-3536 or “anne_mccallion@countrywide.com” or Larry Gee, Managing Director—Technical Accounting at 818/871-4211 or “larry_gee@countrywide.com.”

Very truly yours,

Anne McCallion
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Countrywide Financial Corporation