Investors Technical Advisory Committee

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July 2, 2007

Mr. Robert Herz Chairman Financial Accounting Standards Board P.O. Box 5116 Norwalk, Connecticut 06856-5116



Chairman Herz,

The members of the Investors Technical Advisory Committee (ITAC) understand that the House Financial Services Committee Chairman, Representative Barney Frank, has sent a letter (signed by 10 Members of Congress) to the Securities and Exchange Commission Chairman, Christopher Cox, in which Chairman Frank puts forth the question: "Does FAS 140 clearly address whether a loan held in a trust can be modified when default is reasonably foreseeable or only once a delinquency or default has already occurred? If not, can it be clarified in a way that benefits both borrowers and investors?"

We also understand that the FASB held an educational meeting on June 22 to explore the accounting and legal issues surrounding "workouts" of troubled loans and the effects that such activities might have on the previously completed securitization transactions. Neri Bukspan, the co-chair of ITAC, represented us at the meeting and has apprised us of the issues discussed.

In addition to whatever the Board may have learned from the educational session, we hope that its members keep in mind other lessons learned from the past. When there has been political intervention in accounting standard-setting to benefit the broad objectives of a particular interest group, history has shown that the end result can be unfavorable, and even disastrous for investors' interest - and other parts of the capital markets and the entire economy as well. A specific example that comes to mind is the savings and loan crisis of nearly twenty years ago. Under political pressure, the federal regulatory accounting standards for capital adequacy were loosened, resulting in poor fiscal decision-making, errant management behavior and the decimation of an entire industry, including many of the jobs it contained.

The sense of the ITAC is that the Board should refrain from starting any project to loosen the accounting for completed securitizations that might be affected by current debt workout arrangements. Many of ITAC's members believe that Statement 140 has its shortcomings and would favor a FASB project scrapping Statement 140 in its entirety and replacing it with a principles-based approach that more clearly displays the effects of borrowing via securitizations. We believe, however, that the question put forth by Chairman Frank is not one that is in need of current re-thinking. Efforts to get this kind of treatment exemplify a "having your cake and eating it, too" kind of mentality, which will only result in a different, more unpleasant kind of reckoning later. This clearly would not be beneficial to investors' interests in fostering a transparent financial reporting environment, an environment in dire need of reinforcement following the financial reporting debacles of the early 2000's.

Standard-setters world-wide have repeatedly affirmed that the objective of external financial reports is to provide the information that investors, creditors, and other users require to make sound financial decisions, including the pricing of capital supplied to companies and the evaluation of the risks and returns of their investments. For such information to be useful, it must reflect the underlying economics of companies, and changes in the economics, accurately, completely, understandably, and in a timely fashion. Financial reporting should never be used as a tool to hide or misrepresent the economics or otherwise mislead users of the financial statements. Such efforts will result in the corrosion of the very trust and confidence that markets and their participants require to function effectively and efficiently.

This said, we do not oppose lenders working with borrowers to achieve solutions that work in the best interest of both. We do, however, support the application of proper accounting for any such transactions so that investors will be best informed of management actions and how these may be affecting them. Further, investors need to be assured that accounting changes are made to broadly enhance financial reporting, through a robust and inclusive due process, and not ad-hoc to accommodate a particular economic conditions. We also believe that the principles already incorporated into Statement 140 governing the disassociation of securitization sponsors and their creations and operations of securitization trusts (commonly known as QSPEs) are adequate and do not need more "bright lines" drawn around them.

In closing, we would like to reiterate our support for the Board to stand firm in resisting calls for modifications to Statement 140 for the purpose of merely relaxing accounting standards. We urge the Board's members to keep such tasks away from the FASB agenda, and we also encourage the Board to consider adding a broader project to more comprehensively explore the accounting for securitizations. If you have any questions, please feel free to contact the undersigned or any ITAC member.

Best regards,

Investors Technical Advisory Committee

By: Jack Ciesielski, Member

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cc: The Honorable Barney Frank, Chairman of the Committee on Financial Services, House of Representatives cc: The Honorable Spencer Bachus, Ranking Member of the Committee on Financial Services, House of Representatives

cc: Mr. Christopher Cox, Chairman of the United States Securities and Exchange Commission

cc: Mr. Conrad Hewitt, Chief Accountant of the United States Securities and Exchange Commission