

December 30, 2008

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LETTER OF COMMENT NO. 256

Technical Director Financial Accounting Standards Board 301 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

File Reference: Proposed FSP EITF 99-20-a (Amendments to the Impairment and Interest Income

Measurement Guidance of EITF Issue No. 99-20)

Dear Technical Director:

The Colonial BancGroup, Inc (Colonial) is a \$26 billion bank holding company operating 340 branch offices in Alabama, Florida, Georgia, Nevada and Texas. Colonial maintains a securities portfolio comprised of various debt securities, including mortgage backed securities and municipal obligations.

Colonial supports the efforts of the Financial Accounting Standards Board (FASB) to address the application problems relating to current accounting guidance included in Emerging Issues Task Force Issue No. 99-20 for "other than temporary impairment" (OTTI). Colonial agrees that recording impairment losses provides users of financial statements with meaningful information. However, the application of OTTI guidance, along with certain parties' views of the new definition of fair value, is resulting in an overstatement of impairment losses. We strongly encourage that the OTTI guidance be refined, provide for reasoned judgment, and be applicable for December 31, 2008 reporting.

FSP EITF 99-20-a

We strongly support the Proposed FASB FSP EITF 99-20-a, Amendments to the Impairment and Interest Income Measurement Guidance of EITF Issue No. 99-20 (the proposal), which would amend EITF Issue No. 99-20 (Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets). We agree that it will achieve more consistent determination of whether OTTI of available-for-sale (AFS) or held-to-maturity (HTM) debt securities has occurred. We believe it is imperative that this proposal be finalized and applicable for December 31, 2008 reporting.

While the proposal addresses certain problems with EITF 99-20, it resolves only a portion of the problems with the broader topic of accounting for OTTI. We request that the FASB take additional steps so that December 31, 2008 financial reporting will provide more meaningful information to users of financial statements. We concur with former FASB Chairman Dennis R. Beresford who is currently the Ernst & Young Executive Professor of Accounting at The University of Georgia in his following view: "... the proposal fails to deal with the much larger and important issue of how other than temporary impairment (OTTI) is being applied in

practice to debt securities... I urge you to use the very limited window of opportunity in the next few weeks to deal with OTTI more broadly."

The International Accounting Standards Board (IASB) has acknowledged the problems with U.S. GAAP, as the IASB's accounting model for investment securities is based on U.S. GAAP, but with improvements relating to OTTI. The differences between the IASB's model and U.S. GAAP are likely to reflect materially different results for U.S. companies compared to their foreign competitors in the area of OTTI for 2008 reporting. We believe that additional steps should be taken to converge U.S. GAAP for OTTI towards that of the IASB.

The current OTTI rules are misleading, and have been problematic for many years. GAAP that applies to the recognition and measurement of impairment losses is different for loans versus debt securities, even though the underlying cash flows for both asset classes might be exactly the same. We believe that OTII measurement would most appropriately be based upon expected cash flows. The current dysfunctional markets for any debt securities have resulted in a substantial disconnection between expected cash flows and "quoted" prices as represented through indicative prices, broker quotes and sales prices. Even though the markets are not functioning normally, institutions are being required to base their accounting on "exit" prices, information based on market participants' views, indicative prices, and screen prices that can not be transacted upon. In some cases, large losses are being required to be reported, even though there is a minimal or no amount of credit loss related to an investment. For Colonial, we report a substantial portion of our securities portfolio as available for sale and therefore we already reflect unrealized losses in our balance sheet, thereby providing any user of our financial statements with mark to market data about this portfolio.

Again, we concur with the following view from the letter of former FASB Chairman Beresford: "The SEC and EITF have each issued documents that provide factors that should be considered but the final determination of whether a security is other than temporarily impaired often remains a judgment call by companies and their auditors. In today's somewhat dysfunctional markets for debt securities, auditors are naturally cautious about how OTTI should be applied and probably lean toward impairment write downs when there is a close call. I am aware of one situation where a company's projections of future cash flows from mortgage backed securities fell well less than 1% short of full collection of principal and interest based on models that showed questions about full collection of underlying mortgage loans many years in the future. In this case, the accounting firm insisted that OTTI had occurred and required a write down through earnings of over 40% of the carrying amount of the security based on very limited market information. Recognizing what seems to be a major liquidity discount in current income doesn't seem to represent a true measure of the event that triggered the OTTI."

We believe it is very important that the accounting for OTTI be repaired for public reporting purposes under U.S. GAAP for December 31, 2008 financial statements and that public reporting more closely reflects financial performance. Reasoned judgment is needed in order to ensure that financial reporting results in the appropriate level of losses and does not significantly overstate impairment. For example, if it is probable that all amounts will not be received, then the amount of impairment should be based on the estimated deficiency in cash flows. We believe the model used by the IASB, which is based on credit impairment rather than fair value, represents a superior approach to U.S. GAAP.

We recommend that the loss recognition model for impaired debt securities be revised by recognizing currently in income only those impairments representing probable loss of contractual cash flow. Thus, the trigger for OTTI would be based on credit impairment, similar to that of the IASB, rather than fair value. We also recommend that U.S. GAAP allow for the

reversal of any recoveries of OTTI through current period earnings. Further, we request that the FASB clarify that liquidity risk referred to in FAS 157-3 is not based on distressed sales.

We appreciate the FASB's recent decision to work with the IASB on a joint project relating to these matters. Although we believe the IASB's model for OTTI is superior to that in U.S. GAAP, improvements to their model are needed (that is, measuring AFS impairment losses based on credit impairment rather than on market value impairment). If this is not possible to complete for 2008 reporting, we recommend at a minimum that U.S. GAAP be converged with the IASB's standards for OTTI for December 31, 2008 financial reporting.

We would be happy to discuss these topics in further detail. Please feel free to contact me via phone, 334.676.5100 or email brent hicks@colonialbank.com.

Respectfully,

T. Brent Hicks

Chief Accounting Officer