

southwest corporate FEDERAL CREDIT UNION

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December 26, 2008



LETTER OF COMMENT NO. 43

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

Via Email: director@fasb.org

File Reference: Proposed FSP EITF 99-20-a

Dear Mr. Golden:

Southwest Corporate Federal Credit Union ("Southwest Corporate") appreciates this opportunity to comment on the proposed FASB Staff Position No. EITF 99-20a Amendments to the Impairment and Interest Income Measurement Guidance of EITF Issue No. 99-20 (the "Proposed FSP").

Southwest Corporate is a federally chartered corporate credit union whose principal activity is to provide investment, financial and payment products to 1,500 federal and state-chartered natural person credit unions. Southwest Corporate manages a balance sheet of approximately \$10 billion, of which approximately \$4 billion is invested in marketable securities that are classified as available-for-sale. Southwest Corporate is a liquidity provider to natural person credit unions. As such, our investments are generally comprised of marketable securities instead of a portfolio of unsecuritized loans to individuals. Southwest Corporate is a buy and hold institution; however, we historically classify all securities as available-for-sale in order to fulfill our role as a liquidity provider.

The unprecedented market conditions that currently exist highlight the inherent flaws in fair value accounting as a basis for recognizing other-than-temporary impairments. The current guidance requires other-than-temporary impairment charges to be recorded based upon exit prices that are currently materially lower than net realizable value. This results in volatility in earnings that is not reflective of the true economic impact of the holdings.

Southwest Corporate is encouraged that FASB recognizes the need to have one impairment model for financial instruments. There currently exist three impairment models which have different triggers and different economic results upon determination of impairment. These models are as follows:

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SFAS 114 Accounting by Creditors for Impairment of a Loan. Under this statement, a loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. The impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. Under this model, the valuation allowance is allowed to be adjusted up or down based on future changes in expected cash flows. It is important to note in paragraph 51, the Board concluded that a loan impairment measurement should reflect only a deterioration of credit quality, which is evidenced by a decrease in the estimate of expected future cash flows to be received from a loan. The Board, therefore, concluded that the loan impairment measurement should not reflect changes in market rates of interest that may cause a change in the fair value of an impaired loan.

SFAS 115 Accounting for Certain Investments in Debt and Equity Securities. Under this model, an impairment occurs if it is probable that the investor will be unable to collect all amounts due according to the contractual terms of a debt security. The impairment amount recorded is to the current fair value, not the present value of future cash flows. Under this model, the impairment can not be reversed based on future changes in cash flows. The difference in valuing unsecuritized loans and securitized loans was discussed by the Board during SFAS 115 deliberations. At that time, the Board recognized that a principle difference between securities and unsecuritized loans is the relatively greater and easier availability of reliable market prices for securities.

EITF 99-20 Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets. Under this model, impairment is based on evaluating whether there are any adverse changes in the estimated cash flows that a market participate would use in determining the current fair value. Impairment can occur even though it is probable that all of the cash flows will be collected. The impairment amount recorded is to the current fair value, not the present value of expected future cash flows. Under this model, the impairment can not be reversed based on future changes in cash flows.

Southwest Corporate is encouraged that the Board understands the importance of having one impairment model for financial instruments. Southwest Corporate, however, believes that it is imperative to address this issue of multiple models for the 2008 year-end reporting instead of addressing only one of the models. We understand the path toward international convergence of accounting standards that FASB and the IASB is moving toward. We also understand that the IASB treats impairment for held-to-maturity securities similarly to loan impairment (e.g. only the credit portion is recognized). We believe that changing to one impairment model actually moves FASB closer to this goal.

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We support the Center for Audit Quality's proposal of recognizing currently in income only those impairments representing probable losses of contractual cash flows. This portion of the impairment would be deemed to be attributable to credit. This would align the accounting for unsecuritized loans and debt securities.

In a normal active market, the impairment recognition would not be dissimilar for unsecuritized loans and securitized loans. The current credit market has highlighted that such reliable market prices do not always exist. As such, holders of securitized loans which have additional credit enhancements and excess spread inherent in the structure are subject to much harsher valuation requirements and other-than-temporary impairment results. Securitized loans should not be treated differently than unsecuritized loans when there exists the intent and ability to hold securities to recovery or maturity.

The FASB Board seems concerned that preparers can not distinguish between the liquidity component and the credit component of the market price received on a debt security. Financial institutions have models to project cash flows for both unsecuritized and securitized loans. For securitized loans, models can look at the underlying collateral performance (voluntary and involuntary prepayments), and make assumptions on severity of loss given default of the underlying collateral. These models can be used to project the potential principal loss on a security. The probability of a loss can be calculated by utilizing tools such as Monte Carlo to generate multiple scenarios to determine the probability of a loss distribution and associated statistics.

Recognizing the impairment based on the anticipated credit losses only would better reflect the economic reality of an institution that has the intent and the ability to hold the securities to recovery or maturity. Recognition through income of the impairment based on fair value distorts the earnings of the institution in the year the impairment is recorded as well as future years when the impairment is reversed through accretion income. Under all impairment models, there is a responsibility to continue to monitor the performance of the security and determine if any additional impairment is required.

Southwest Corporate believes that recording only the credit loss actually improves transparency. It allows users of financial statements to distinguish between the valuation based on fair value recorded on the statement of financial condition and the impact of credit impairments recorded in the income statement. Even though this information can be communicated in management discussion and analysis or disclosure, most users primarily focus on the statements of financial condition and income statement for conclusions on the health of an institution. This change would also allow the regulatory capital calculations to be properly impacted by expected losses, not changes based on liquidity premiums in an illiquid market. Additionally, regulatory call reports include only the monthly financial results reported on the balance sheet and income statement.

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We respectfully request that in your deliberations on EITF 99-20-a that you also address the SFAS 115 impairment model and come to one standard whereby the impairment is recorded to expected credit losses instead of fair value. The write-down to fair value in the current distressed market does not represent the true economic condition of an entity which has no plans to sell securities. We believe that the changes to all of the impairment models should be made for annual reporting periods ending after December 15, 2008.

I appreciate your attention to this matter and to the points raised in this letter. I welcome a discussion at your convenience. Please feel free to contact me at 214-703-7890.

Sincerely,

Melissa Wardell

**SVP-Chief Financial Officer** 

Southwest Corporate Federal Credit Union

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