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Via Email: [director@fasb.org](mailto:director@fasb.org)

LETTER OF COMMENT NO. 20

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

File Reference: Proposed FSP EITF 99-20-a

Dear Mr. Golden:

U.S. Central Federal Credit Union (“U.S. Central”) appreciates the opportunity to comment on the proposed FASB Staff Position EITF 99-20-a, *Amendments to the Impairment and Interest Income Measurement Guidelines of EITF 99-20* (the “FSP”).

U.S. Central is a wholesale corporate credit union providing investment and financial products and services to its 26 member corporate credit unions. U.S. Central and its corporate credit union members comprise the Corporate Credit Union Network, which provides investments and financial products and services to the nation’s more than 8,000 natural person credit unions. U.S. Central, as a primary liquidity provider to the Corporate Credit Union Network, manages a balance sheet of approximately \$40 billion, with a higher proportion of assets invested in marketable debt securities than most financial institutions of a similar size. As a result, we are very interested an impairment model that addresses securities and loans in a consistent and logical way. We have addressed below the three questions specifically posed by the Board in the FSP.

1. *Do you agree with the Board’s decision to apply the same impairment model to similar instruments? Does the presence of prepayment risk warrant a different impairment model?*

We agree with the Board’s decision to apply consistency in impairment models. However, the Board’s proposal falls short of a comprehensive solution. The focus of any impairment analysis for a debt instrument should be on the probable collection of all contractual principal and interest payments. The existence of prepayment risk does not represent a reason for maintaining different impairment

models. Many instruments, such as AAA-rated RMBS, are subject to prepayment risk, but are currently evaluated for impairment under the FAS 115 model, not EITF 99-20. Full collection of principal and interest should be the determining factor when evaluating any debt instrument for impairment, provided that the holder possesses the intent and ability to hold the asset to maturity or recovery.

But this question must be taken further than a comparison of impairment models applicable to different types of securities. Specifically, why are impairment losses on loans recorded differently than impairment losses on debt securities, when the intent and ability to hold is present in both cases? Structured securities are simply loans or other receivables that have been grouped in a securitization. The fundamental principles underlying ownership of loans and securities are the same: an up-front investment in exchange for the right to receive defined principal and interest cash flows over time.

In both cases, there is some risk to the investor that full repayment will not be made. For loans, Statement 114 requires that a reserve be established for amounts deemed uncollectible. But for securities, Statement 115 and EITF 99-20 require impairment to be recorded down to fair value, which currently results in a larger earnings charge due to FAS 157 exit value pricing. Because earnings charges in excess of actual projected losses are recorded on securities, the investor needlessly impairs capital in the near term, only to reverse the excess charges in future accounting periods, thereby misstating financial results for several periods.

- 2. Is the Statement 115 impairment model operational for beneficial interests that were previously within the scope of Issue 99-20?*

Yes. Evaluation of a security previously within the scope of EITF 99-20 under the FAS 115 impairment model will require holders of such securities to model projected future principal and interest payments using current, forward-looking market assumptions. This type of projection is already performed for many structured securities not within the scope of EITF 99-20 (due to high credit ratings at acquisition) and could easily be extended to additional holdings.

- 3. Do you agree with the proposed effective date of the FSP?*

Yes. The changes outlined in the FSP are a positive, albeit small, step in addressing the problems with the current impairment framework and should be made effective as soon as possible.

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*Proposed Solution*

Simply put, if an investor has both the intent and ability to hold securities to maturity or recovery, recording impairment losses beyond actual projected losses does not make sense. The FAS 115 and EITF 99-20 impairment models for securities should be amended immediately to allow for the write-down of securities determined to be other-than-temporarily impaired to net realizable value – consistent with the impairment model for loans. Such a change would provide investors, rating agencies, regulatory bodies and the general public with consistent and comparable views of operating results and financial condition.

If you would like to discuss any of the points raised in this letter, please feel free to contact either of us at (913) 227-6000.

Sincerely,



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