



June 17, 2013

Technical Director File Reference No. EITF 13-B, **FASB** 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

## Dear Technical Director:

National Equity Fund, Inc. (NEF) is a nonprofit Chicago-based affiliate of the Local Initiatives Support Corporation (LISC) and one of the nation's leading syndicators of Low Income Housing Tax Credits (LIHTC). For more than 25 years, NEF has played an integral role in creating affordable housing options, revitalizing communities and strengthening local economies. It has invested \$10.2 billion in close to 2,200 LIHTC developments, creating more than 131,000 affordable rental homes for low-income families and individuals.

NEF appreciates the opportunity to comment on the Exposure Draft related to Accounting for Investments in Qualified Affordable Housing Projects. We strongly support the efforts behind the proposed accounting change and feel that the timing is right to update the current standard, given that the industry has matured significantly since the EITF first addressed this issue in 1994. We are responding to certain questions posed in the Exposure Draft based on our experience as a leading syndicator of LIHTC.

Question: Do you agree that an entity should meet the conditions in this proposed Update in order to elect to account for the investment in a qualified affordable housing project using the effective yield method? If not, please explain why.

We agree with the conditions in the Exposure Draft, but believe that there may be need for clarification with regards to the entities for which the proposed update would apply. The majority of LIHTC investments are made through LIHTC Funds

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(Funds), which are typically limited liability flow-through entities for tax purposes that invest in multiple LIHTC project partnerships (which are also flow-through entities for tax purposes). The Exposure Draft would indicate that these Funds are a reporting entity affected by the amendments in the proposed update. Given that the investors in these Funds would look to apply this guidance in recording the investments on their books, it would follow that the Funds themselves would also apply this literature, as the investors rely on the Fund financial statements to help record their investments. As such, we believe that the Exposure Draft would apply to such Funds, but clarification would be beneficial.

Question: Do you agree that the effective yield method is an appropriate method to account for investments in qualified affordable housing projects? If not, what method of accounting should be used? Please explain.

We believe that the most important aspect of any method of accounting for these LIHTC investments is to record the amortization of costs on the same line item that the benefits are realized. With that said, we believe that the effective yield method is a more appropriate method than the equity method, but that a proportional amortization method would be preferable to the effective yield method based on the inherent nature of the investment. Clearly, investors are motivated to invest in LIHTC projects primarily because of the tax credits for which the program was designed. Given this fact, we believe that the investment should be amortized over the tax credit period in proportion to the tax credits anticipated to be received. Proportional amortization over the tax credit period is a preferable methodology given that 1) the tax credits are the primary driver of the investment, 2) the annual tax credits earned generally do not fluctuate significantly from year-to-year, so a predictable and relatively even annual amortization would better reflect the inherent characteristics of the investment vs. an amortization expense that increases over time, and 3) this methodology would be more transparent and straight-forward for the financial statement user, especially in analyzing the current and future investment balance on the balance sheet.

Question: Do you believe that removal of the requirement for guaranteed tax credits should change the method used to account for such investments from an effective yield method to an approach where the cost of investment is amortized in proportion to tax credits and other tax benefits received and recognized as a component of income taxes attributable to continuing operations?

We believe that if the conditions in the Update are met, it would be appropriate to use the proportional amortization method discussed above.

Question: Do you agree that early adoption of the proposed amendments should be permitted? If not, please explain why.

Yes, we believe early adoption should be permitted.

**Question:** The amendments in this proposed Update would apply to public and nonpublic entities. Should the proposed amendments be different for nonpublic entities? If so, please describe how and why you think they should be different.

We believe that the amendments in the proposed Update should apply to both public and private entities.

Question: For preparers, how much effort would be needed to implement the proposed amendments?

We believe that the effort to implement the proposed amendments would not be overbearing, and would be reduced if a proportional amortization method is adopted rather than the effective yield method of accounting.

NEF appreciates your consideration of its comments regarding the proposed accounting change, and we support your efforts to properly align the accounting for investments in qualified affordable housing projects with the nature of these investments.

Sincerely,

Alex Denja

Senior Vice President and CFO National Equity Fund, Inc.

Kevin Boes

Senior Vice President

National Equity Fund, Inc. and Local Initiatives Support Corporation