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Financial Accounting Standards Board
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Proposed FASB Staff Position No. FAS 140-c, "Clarification of the Application of Paragraphs 40(b) and 40(c) of FASB Statement No. 140"

Countrywide Financial Corporation is pleased to comment on the proposed FASB Staff Position No. FAS 140-C, "Clarification of the Application of Paragraphs 40(b) and 40(c) of FASB Statement No. 140" ("FSP").

We agree that the requirements of paragraphs 40(b) and 40(c) must be met when the beneficial interests are issued by the qualifying SPE and that unexpected subsequent events not contemplated when the beneficial interests were issued should not impair the qualified status of the SPE. However, we do not support finalizing the FSP in its current form because:

- The term "comprehensive analysis," as used in paragraphs 9 and 10 of the FSP, is subject to a broad range of interpretation when evaluating whether the notional amount of the derivatives are not expected to exceed the amount of beneficial interests outside the control of the transferor, its affiliates, or agents subsequently. We believe that additional guidance on the factors to consider when making a "comprehensive analysis" would result in greater consistency in applying the FSP. We believe that the FSP should state that once a "comprehensive analysis" is performed, further analysis subsequent to the issuance of the beneficial interests is not required.
- The requirement that the comprehensive analysis anticipate the "level of purchases of beneficial interests by the transferor, its affiliates, or its agents in connection with market-making or trading activity" is not feasible since the level of purchases that must be anticipated can vary significantly among securitizations. This requirement could have negative consequences on the ratings of the third-party beneficial interests as the rating agencies usually expect the notional amount of the derivative to equal the balance of the senior beneficial interests that require such protection. We recommend the staff revise the current language to not require the reduction of the scheduled notional for short-term purchases through market-making or trading activities. Market-making is not at odds with the requirements of paragraph 187 of FASB Statement No. 140 because the security, including the derivative, is marked-to-market through current period earnings. Further market-making activities imply a short holding period.

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Each of our points is discussed in further detail below,

Comprehensive Analysis

Paragraph 9 of the FSP infers that a comprehensive analysis must be performed when the beneficial interests of the qualifying SPE were issued. The term "comprehensive analysis" is subject to a broad range of interpretation and therefore requires further definition. We believe that providing further guidance on what is a "comprehensive analysis" will provide greater consistency in applying this FSP and eliminate the excessive and burdensome requirements that are likely to be conjured up in the absence of specific guidance. We believe that once a "comprehensive analysis" is performed, further analysis subsequent to the issuance of the beneficial interests should not be required. Ongoing analysis would result in continuous evaluation of the derivative's notional balance which is not consistent with the intent of paragraph 40(b) of FAS 140, which is a test only at the time the beneficial interests are issued.

Market-Making or Trading Activities

Paragraph 10 infers that the notional amount of the derivative must be reduced for expected purchases of beneficial interests through market-making or trading activities. This would cause the notional amount of the derivatives to be less that the bond balances once any short-term holdings are sold to third parties, which could have negative consequences to the ratings of the third-party beneficial interests. The enhancement of the bonds by a derivative is generally required by the rating agencies and at the request from third party investors. Additionally, the level of purchases of beneficial interests due to market-making or trading activity can vary significantly depending on circumstances that cannot be foreseen. This makes it unrealistic to reasonably estimate the level of purchases for a specific transaction. We recommend that FASB revise the language so that the notional amount of the derivative does not need to be reduced for short-term purchases through market-making or trading activities, as the intent of the holding period is solely to create a market for the bonds, not to benefit from the derivative. In addition, all such securities are marked-to-market through current period earnings.

We appreciate the opportunity to comment on this FSP. If you have any questions concerning our comment letter, please contact me at (818) 871-4269.

Sincerely,

Laura K. Milleman

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