

November 29, 2005

Mr. Lawrence W. Smith
Director—Technical Application and Implementation Activities and EITF Chair
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Dear Mr. Smith:

The Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) appreciates the opportunity to comment on the proposed FASB Staff Position, *SOP 94-6-a - Nontraditional Loan Products*.

Overall, AcSEC supports the underlying principle within the proposed FSP of providing disclosures about loan products with payment terms that may delay the identification of impairment, because we believe it will improve financial reporting and allow a reader of financial statements to make a better assessment of an entity's overall risk of loss on certain loan products. However, AcSEC believes the scope of the proposed FSP needs to be better defined in order to achieve consistent application. In addition, AcSEC believes that certain of the FASB staff's interpretations of existing literature within the proposed FSP are not commonly accepted as the only appropriate interpretation. Therefore, we believe transition guidance should be provided in the proposed FSP. These points are further described below.

Scope

AcSEC believes the definition of "nontraditional" loan products is not operational. Part of the issue is that the definition is based on traditional loan products, and that there is no commonly understood definition of traditional loan products. This relative definition creates issues of delineation. For example, does a loan product currently considered to be nontraditional become traditional if it is consistently underwritten by an entity over a period of many years?

AcSEC discussed the following two alternative approaches to scope but was split in its preference:

1. A lender should disclose information about those loans in a portfolio (for example, a consumer loan portfolio) having terms that may indicate a higher credit risk than the overall average credit risk for that portfolio, or
2. A lender should disclose information about those loans in a portfolio having terms or characteristics that may indicate higher credit risk as compared to a benchmark set of characteristics that would be established by the FASB.

AcSEC believes that these approaches would be better understood and attain a more consistent application than the scope proposed in the proposed FSP. AcSEC acknowledges that under the second approach, the terms of certain loans scoped into the requirement for disclosure may not necessarily be indicative of a higher risk than loans with “traditional” terms. For example, a borrower with high net worth and a high credit score may enter into a loan with a teaser rate because it is the most economically advantageous product available, but the risk of default is no greater than another loan with a constant rate of interest. However, disclosures about loan products with terms that may delay the identification of impairment or that have potentially greater risk of default is useful information for readers of financial statements.

Additionally, AcSEC believes that paragraph 6 of the proposed FSP should highlight that the FSP is not limited to residential mortgage loans.

Supporting Literature

AcSEC believes that the proposed FSP should use only SOP 94-6, *Disclosure of Certain Significant Risks and Uncertainties*, as a basis for the disclosures. AcSEC does not believe that SOP 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*, and FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, were intended to be interpreted or applied only as the proposed FSP suggests.

As noted in the proposed FSP, paragraph 15A of FASB Statement No. 107 requires disclosure about the shared activity, region, or economic characteristic that identifies the concentration. Many lenders have viewed the shared characteristics as being characteristics of the borrower or the underlying collateral rather than the payment terms of the loans. The FASB staff’s interpretation of the requirements of Statement 107 was not clear within that Statement and is not generally recognized among the FASB’s constituents as the only acceptable interpretation.

In addition, the proposed FSP indicates that nontraditional loan products would be considered a major category of loans for some entities under SOP 01-6. AcSEC believes that many constituents interpreted SOP 01-6 (and the similar provisions in AICPA Audit and Accounting Guides) to require disclosure of

categories (such as commercial, consumer, commercial real estate, and residential mortgage) and not types of loans within those categories.

Therefore, AcSEC disagrees with the premise in paragraph 19 of the proposed FSP, which states that the FSP is reiterating existing generally accepted accounting principles and implies that entities that interpreted FASB Statement No. 107 and SOP 01-6 differently were in error.

Transition

AcSEC believes that FASB should provide explicit transition guidance and supports requiring retrospective application of the disclosures for all periods for which a balance sheet is presented. AcSEC bases its position on its expectation that lenders will have the necessary information readily available and that comparative disclosures will be useful to readers of financial statements.

Representatives of AcSEC are available to discuss our comments with the Board members and staff.

Sincerely,

Ben Neuhausen, Chair
Accounting Standards Executive Committee