WELLS FARGO

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Via email

Letter of Comment No: 5
File Reference: FSPSOP946A

Technical Director
File Reference No. FSPSOP946A
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. FSPSOP946A – Invitation to Comment
Proposed FASB Staff Position No. SOP 94-6-a, *Nontraditional Loan Products*

Wells Fargo & Company (Wells Fargo) is a diversified financial services company with over $453 billion in assets providing banking, insurance, investments, mortgage, and consumer finance services. We appreciate the opportunity to comment on the Board's proposal to issue guidance related to nontraditional loan products.

Wells Fargo shares the FASB's and regulator's concerns about the increase in nontraditional loan products and that they may create credit risk concentrations if not properly underwritten and monitored. In addition, we support the Staff's efforts to clarify questions received from constituents and regulators around the definition of nontraditional loan products. However, there are certain aspects of the proposed FASB Staff Position (FSP) that we believe should be addressed by the Staff before the FSP is finalized. These aspects are as follows:

- Whether all of the products listed in the Staff's proposed definition of nontraditional loan products necessarily represent a concentration of credit risk,
- Whether more clarity should be added to the definition of certain of the nontraditional loan products, and
- Whether issuing the FSP is the most effective process for addressing this topic.

Nontraditional Loan Products as Concentration of Credit Risk

Under the proposed FSP, it appears that the Staff believes that the loan products listed in the definition of nontraditional loan products inherently create a concentration of credit risk. Financial institutions have become more creative with their lending products in order to meet the credit needs of low and moderate income customers. Many of the products listed as nontraditional loan products; such as, loans with high loan-to-values and home equity lines of credit, have been offered for more than 20 years. Many financial institutions believe that, based on their charge-off experience for these products, these nontraditional loan products do not create any higher credit risk concentrations than traditional products.

Furthermore, strong underwriting procedures mitigate the potential for credit risk concentrations on many of the products listed. We understand that the Staff believes that financial institutions should disclose their nontraditional loan products and also "disclose how underwriting procedures are designed to control the credit risk in relation to future payment shocks experienced by borrowers". However, disclosing these products as concentrations of credit risk and then stating that underwriting procedures control the credit risk may add little to no value to financial statement disclosures and could easily confuse the readers as to whether credit risk concentrations do in fact exist.

Clarity in the Definition of Certain Nontraditional Loan Products

As previously addressed, all of the examples in the definition of nontraditional loan products do not necessarily create a concentration of credit risk. However, if the Staff chooses to keep the list of products in the definition as currently proposed, we believe the Staff should consider adding more clarity and specificity to the list of products in the definition. For example, institutions are apt to have different definitions as to what constitutes a high loan-to-value ratio loan. Greater specificity in defining high loan-to-value ratio loans will create more consistency in credit concentration disclosures.

Similarly, greater clarity in defining the term 'teaser interest rate loans' would assist financial institutions in identifying and disclosing these types of loan products. We understand that a teaser interest rate is an initial rate that is less than the rate normally charged and is later reset to the market rate. However, institutions offer many different programs to attract customers to their products that do not necessarily meet this definition of a teaser interest rate. For example, do "buy now, pay later" loan programs for unsecured lines of credit meet the definition of loans with teaser interest rates?

FSP as an Effective Process for Addressing this Topic

FSP 94-6-a, *Nontraditional Loan Products*, defines nontraditional loan products as those products that expose the originator, holder, investor, guarantor, or servicer to higher risk than traditional loan products. There is no effective date or transition guidance for the FSP because no new guidance is included in the FSP. This appears to be the first time, to our knowledge, that an FSP has been issued with the sole purpose of defining a term not currently a part of GAAP and referring to existing GAAP disclosure requirements. The FASB Staff may wish to consider if there are other equally effective ways to accomplish the same purpose, such as a speech or an article in the FASB Status Report.

Conclusion

We share the FASB's concern that those nontraditional loan products, where no credible analysis has been conducted of the borrower's payment capacity, represent a concentration of credit risk and should be disclosed in accordance with FASB Statement No.107, *Disclosures about Fair Value of Financial Instruments.* However, when properly underwritten, we do not believe that nontraditional loan products offer greater credit risk than traditional loan products.

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We appreciate the opportunity to comment on the issues contained in the Board's invitation. We have worked with the Staff on the development of this FSP and offer our continued support to assist the Staff with this topic. If you have any questions, please contact me at (415) 222-3119.

Sincerely,

/s/ Richard D. Levy

Richard D. Levy
Senior Vice President & Controller

CC: Mr. Zane D. Blackburn, Office of the Comptroller of the Currency
Ms. Donna Fisher, American Bankers Association
Ms. Gail Haas, The Clearing House Association, L.L.C.
Mr. Charles H. Holm, Federal Reserve Bank
Mr. Robert F. Storch, Federal Deposit Insurance Corporation