Letter of Comment No: 85
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Date Received: 12/01/03

December 1, 2003

Mr. Lawrence Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 1082-300

Dear Mr. Smith:

Citigroup is pleased to have the opportunity to provide comments on the Board's Exposure Draft, *Proposed Interpretation, Consolidation of Variable Interest Entities, a modification of FASB Interpretation No. 46* (the Exposure Draft).

Citigroup elected to adopt FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46) on July 1, 2003. We early adopted FIN 46 because we believed we had sufficient understanding of the provisions and spirit of FIN 46. In early adopting, we understood that (1) the Board would propose certain amendments and clarifications to FIN 46 and (2) these amendments would result in only minor changes to the key provisions of FIN 46. We fully support the Board's initiatives to amend FIN 46 where the proposed changes simplify the adoption of FIN 46 and do not make fundamental changes to the key provisions of FIN 46.

Certain provisions of the Exposure Draft satisfy these conditions. For example, the evaluation of the activities of our trust department required us to evaluate many thousands of estate trust accounts for potential consolidation. We support the Exposure Draft's exception for trusts of a bank's trust department, as we agree that consolidation of these types of entities does not improve the transparency of financial statements for financial institutions. Similarly, we support the Exposure Draft's exemption for mutual funds organized as trusts.

However, we believe that a significant number of the amendments proposed in the Exposure Draft do not satisfy these conditions. Instead, they introduce new uncertainties that will increase, rather than decrease, the diversity in views regarding FIN 46. Many of the changes potentially alter fundamental premises of FIN 46 and will require the reevaluation of many legal entities. This is true even for those preparers who have not yet adopted FIN 46 but have spent considerable time and resources in their adoption effort. We believe that these proposed changes will not resolve diversity in practice, will be expensive for preparers, and will increase confusion among financial statement users.

Therefore, we disagree with the proposed changes that represent amendments of the fundamental premises of FIN 46 and have identified those changes below.

It has been over ten months since the issuance of FIN 46 and five months since the scheduled effective date. Substantial progress has been made in identifying implementation issues, and preparers have attempted to resolve those issues by making good-faith judgments. We are troubled by the Board's approach to resolving some of these issues, which seems often to resolve the issues not by narrowing alternatives that have been commonly identified by preparers in adopting FIN 46. Instead, the Board has proposed entirely new concepts, and we have seen a steady drip of "interpretations" of the intent and words of FIN 46 that are far removed from what most constituents have read and understood. Constituents are left attempting to implement a constantly moving target – and often one far removed from what preparers have commonly understood.

We understand that the Board is preparing additional guidance in the form of FASB Staff Positions that could significantly affect the implementation of FIN 46. We encourage the Board to moderate the pace of the amendment and interpretation process to give thoughtful consideration to all of the outstanding implementation issues and incorporate them as much as possible into one cohesive document, rather than continuing the current approach of separate amendment and interpretation processes, given the significance and fundamental natures of the some of the interpretations. The single document should have one single effective date and one comment period so both the Board and its constituents can evaluate how all of the proposals interact and conduct just one additional implementation process upon finalization of these proposals to evaluate existing entities. To do less undermines constituents' confidence in the Board's deliberation process.

We articulate our specific concerns in the remainder of this letter around four major themes:

I. The effective date does not provide reasonable time for implementation
II. The exposure draft proposes major changes to fundamental concepts
III. The exposure draft proposes changes that are not fully developed and need further implementation guidance
IV. Other

I. The Effective Date Does Not Provide Reasonable Time for Implementation

We understand the urgency with which the Board is attempting to resolve the numerous practical and theoretical problems with FIN 46 as currently written. However, we are concerned that such urgency will not lead to a durable standard and urge the Board to slow its deliberation process so it can fully understand the issues and evaluate the implications of the proposed changes. The effective date proposed in the Exposure Draft does not allow sufficient time for adequate deliberation of constituent comments by the Board, nor for the extensive implementation efforts that some portions of the Exposure Draft would require, if finalized by the Board.

We are extremely concerned that the Board is underestimating the ongoing cost to its constituents – both preparers and investors – caused by the Board's piecemeal approach to dealing with FIN 46 issues and mandating changes to the judgments made in good faith by preparers, who have either adopted FIN 46 or made significant progress in their implementation efforts. We strongly disagree with the statement in paragraph A4 of the Exposure Draft, which states, "For an enterprise that has not yet applied the provisions of Interpretation 46, the modifications in this Interpretation are not expected to significantly increase the cost of implementing Interpretation 46. . ." It is important to note that the Board's deferral of the effective date of FIN 46 was announced on October 9, 2003 – just days before many calendar year-end companies, including Citigroup, were scheduled to announce third-quarter financial results. These companies needed to have implementation efforts substantially completed before the Board even announced its deferral. Even those preparers who did not adopt FIN 46 in the third quarter had made substantial progress and incurred substantial costs in implementing FIN 46. As the uncertainty and changes continue, those costs continue to climb.

Our implementation efforts began during the deliberation of FIN 46 in 2002 and extended into the third quarter of 2003. We evaluated tens of thousands of legal entities using a series of carefully reasoned interpretations on how to implement FIN 46. Some of the changes proposed in the Exposure Draft are fundamental changes that would require reevaluation of at least hundreds of these entities. It could require a qualitative reassessment of every vehicle for which the original assessment was based on a quantitative analysis described in paragraph 9(c) of FIN 46. It could also require a reassessment of each quantitative analysis performed, using some concept of long-term return rather than the focus on net income, including changes in fair value of assets, as required by paragraphs 8(a) and 8(b) of FIN 46 as written. While the amendments proposed to paragraphs 9A and 8 appear very simple in words, these are in effect major amendments of fundamental provisions of FIN 46. If adopted in a final Interpretation, they will require significant effort to implement -- over and above the effort that has already been expended by all preparers.

If the changes proposed in the Exposure Draft are finalized by the Board, it is unreasonable to expect that constituents will be able to properly implement the changes in a matter of a few weeks or months, as the Exposure Draft suggests. If the final amendment contains such significant changes to the provisions of FIN 46, preparers will need significant time to evaluate and comply with these changes.

II. The Exposure Draft Proposes Major Changes to Fundamental Concepts

Focus on Long-Term Returns to Variable Interests

The Exposure Draft proposes that interim volatility (or interim changes in the fair value of assets) should not be considered in computing the expected losses and expected

residual returns of a variable interest entity (VIE).[1] The Staff explains this conclusion by stating, "Interim volatility is inherently unpredictable and would be difficult to incorporate into expected loss computations even if it could be known." This statement is simply false with respect to the assets in most VIE transactions in which we are involved (they tend to contain financial assets and liabilities) and is inconsistent with the majority of the FASB's published thinking about fair value in recent years.[2] For example, paragraph 44 of FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, states:

> The Board concluded that information about fair value of financial instruments, combined with information about carrying value, is relevant in part because it reflects the effects of management's decisions to buy a financial asset or incur a financial liability at a specific time, and then to continue to hold an asset or owe a liability...Movements in fair values, and thus in market returns, during the period that a financial asset is held or a financial liability is owed provide a benchmark with which to assess the results of management's decisions and its success in maximizing the profitable use of an entity's economic resources and in minimizing financing costs.

Further, paragraph 217 of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* states that one of the four cornerstones for Statement 133 is that "Fair value is the most relevant measure for financial instruments and the only relevant measure for derivative instruments."

We understand that some preparers have had difficulty in estimating short-term changes in fair value of certain instruments. For assets with a contractually stated terminal value, long-term changes in fair value (or return) would be affected only by credit risk, which some preparers have argued is easier to estimate than considering other types of risk that affect interim changes in fair value. However, we note that for assets without a contractually stated terminal value (such as equity instruments), long-term changes in fair value (or return) are probably *more* difficult to estimate than short-term changes in value. We also believe that many VIEs holding financial assets are capable of marking to market on a daily basis and can use historical returns to estimate future short-term changes in value. We find the Board's support for this focus on long-term returns shocking – it is essentially a "held to maturity" notion that has been rejected by the Board numerous times.

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[1] FSP FIN 46-7 essentially presupposes that the Exposure Draft has been accepted. We believe the long-term return concept in FSP FIN 46-7 is in direct conflict with FIN 46 as written. Finalizing FSP FIN 46-7 with the concept included inappropriately "front-runs" the Board's deliberations on this matter, suggesting that the Board is not interested in constituent views and has already reached a final conclusion on this issue.

[2] More precisely, the desire to require mark-to-market accounting in the FASB's financial instruments project is fundamentally predicated on the idea that interim volatility does matter.

In contrast, we believe that interim volatility is very important in structures where the maturity of the variable interests issued by the VIE and the maturity of the assets of the VIE do not coincide or when the assets of the VIE can be removed from the entity prior to maturity. It is particularly important in structures where the assets are traded on a regular basis. The guidance in sub-paragraphs 8(a) and 8(b) of FIN 46 clearly support this approach. In particular, sub-paragraph 8(b) states that changes in the fair value of assets (interim volatility) do matter in the FIN 46 analysis. We, therefore, believe that the Board's position in the Exposure Draft that interim volatility should not be considered represents a *fundamental* change in the application of FIN 46 and cannot be reconciled with the language in paragraph 8 of FIN 46. The Board's assertion in paragraph A19 of the Exposure Draft that its intention was always to look to the long-term return is simply not supported by the language in FIN 46 as written.

If the Board decides to permit short-term changes in fair value to be ignored, we believe that it should be only a practical accommodation to preparers who lack the modeling expertise required to estimate short-term changes in fair value. We do not believe that this practical accommodation should *prohibit* preparers from using a more sophisticated and complete analysis of the variability by incorporating short-term changes in fair value in the analysis of expected losses.

Emphasis of Qualitative Characteristics for Evaluation of Sufficiency

The changes to paragraphs 5(a) and 9A would emphasize the consideration of qualitative aspects of an entity before applying paragraph 9(c) to estimate expected losses and equity at risk. We are confused about how the Board intends these proposed changes to be implemented.

Perhaps these changes are intended to acknowledge that there may be some situations where one could conclude, *prima facie*, that an equity investment is clearly sufficient or clearly insufficient, and the Board intends to simplify the application of FIN 46 by explicitly acknowledging that quantitative analysis may not be necessary. If that is the case, we wholeheartedly agree and encourage the Board to clarify that intent in the basis for conclusions.

However, if the Board believes that this qualitative approach can be consistently applied and helpful in situations where a quantitative analysis of the sufficiency of equity is likely to be "close," we disagree with this approach. The whole concept of *sufficiency* is inherently quantitative. While there may be some situations where an appropriate conclusion can be reached with a high-level, qualitative analysis of the facts, in many circumstances, a more detailed analysis is necessary to determine the sufficiency of equity. In these cases, the qualitative assessment that Board proposes to require is simply not helpful in practice and is even more troublesome given the lack of clarity around what qualitative factors the Board intends practitioners to consider.

Such an emphasis will impair comparability between financial statements, as different preparers consider different factors and weigh similar factors differently. With the current

void of discussion regarding these qualitative factors and the diversity in practice, we believe practice in this area would quickly fall into chaos and would either require extensive interpretation by standard setters or invite second-guessing of good-faith judgments. Neither alternative seems attractive to us.

Measurement of Expected Losses
We understand that the fundamental premise of FIN 46 is that there are certain enterprises that are designed in such a way that voting rights are not good indicators of which investor controls the enterprise. Rather, the distribution of economic returns is more likely to indicate which investor or variable interest holder effectively controls the enterprise. Paragraph 5(a) of FIN 46 articulates one defining characteristic of such an enterprise: "[the] total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support. . ." Paragraph 9 further clarifies this concept by providing three ways in which the equity investment can be demonstrated to be sufficient. The Exposure Draft notes correctly, in our experience, that this determination often focuses on paragraph 9(c), which is a quantitative measurement.

The reason for this focus is primarily due to the fact that paragraphs 9(a) and 9(b) are simply not helpful in practice to make a determination of sufficiency. Paragraph 9(a) requires an actual demonstration that activities are financed without additional subordinated financial support. If an entity issued only equity and one tranche of highly rated investment grade debt, it may be clear that the entity finances its activities without additional subordinated financial support. In most structured finance transactions, and indeed, in many operating businesses, this is simply not the case. Most entities have multiple tranches of debt, with various credit ratings, that provide at least some support to each other, and if the tranches of lower rated debt instruments were significant, we could not conclude that the entity has demonstrated an ability to finance its activities in accordance with paragraph 9(a).

Paragraph 9(b) requires an entity to first find another entity with similar assets, of similar quality, in similar amounts and also determine that the other entity operates with no additional subordinated financial support. It is often difficult even to find another entity with similar assets, of similar quality, in similar amounts. Businesses – and special purpose entities – are different and often have unique characteristics. Even if a similar entity is found, it is often difficult to conclude that the other entity operates without subordinated financial support for the same reasons articulated above in our concerns regarding paragraph 9(a) – indeed it is even more difficult, due to the lack of available information in many circumstances.

Therefore, in practice, paragraph 9(c) is often the *only* test that can be used to determine the sufficiency of equity. We don't see how the proposed amendment can mitigate these practical issues and doubt that the proposed language in paragraph 9A will be helpful in most situations, except those in which a quantitative analysis would lead to a clear conclusion anyway.

III. The Exposure Draft Proposes Changes That Are Not Fully Developed and Need Further Implementation Guidance

We are concerned that certain proposed changes seem to acknowledge that there is existing diversity in practice but do not attempt to resolve that diversity. These changes imply that the Board intends to either issue guidance at a later date on important issues or simply permit diversity in practice on relatively fundamental questions. Neither choice seems acceptable.

To facilitate implementation of FIN 46, it would be helpful for the Board to answer certain questions, as long as no fundamental changes are made to the key provisions of FIN 46. For example, clarification on what variable interests are and how expected loss scenarios should be evaluated would be helpful. Given the divergence of views on FIN 46, we and two audit firms that reviewed our consolidation decisions needed to make a series of well-reasoned interpretations on how to implement FIN 46. In the end, we all believed that these assumptions produced a transparent and fair presentation of Citigroup's financial position. Instead of providing clarification on these implementation issues, the Exposure Draft proposes to eliminate what little guidance currently exists on these issues, creating a clean slate on which to write future interpretations.

If the Board intends to encourage consistent practice on these issues, it needs to provide conceptual guidance in this amendment and do so in a manner that is consistent with the key provisions of FIN 46 as written. It is not appropriate to expect preparers to spend time and resources making these critical judgments on their own, only to have the Board second-guess and replace those judgments later through detailed interpretive guidance.

Removal of "If They Occur"

We disagree with the removal of the phrase "if they occur" in several places. We understand that if this phrase is deleted or ignored, that some believe FIN 46 allows the distribution of expected losses to be evaluated *after* the summation of probability-weighted scenarios, rather than for each scenario individually. This distinction leads to dramatically different – and counterintuitive – consolidation conclusions.

We have illustrated this distinction in Attachment 1. The fact pattern is a simple modification of the example of Appendix A of FIN 46. The modification is the creation of a first-loss, second-loss structure to illustrate the need to perform "waterfall" calculations under FIN 46 for each probability-weighted scenario.

We encourage the Board to retain the phrase "if they occur" or at a minimum clarify that in transactions involving various tranches of cash-flow priority, how the allocation of expected losses should be performed. Deferring such a key issue is simply not appropriate.

Removal of Appendix B

We disagree with the wholesale removal of Appendix B. Rather than removing all guidance on variable interests, we believe it would be more useful for the Board to specify the parts of Appendix B with which it is now uncomfortable.

The definition of "variable interest" in paragraph 2 references Appendix B. The original inclusion of Appendix B suggests that the definition of variable interests needed further explanation. The Board did so by discussing variable interests further in Appendix B. The removal of Appendix B now suggests that the Board is not comfortable with its own illustrations of variable interests. The removal of Appendix B increases uncertainty, because it implies that there must be some fundamental problem with Appendix B's description of variable interests and, therefore, there may be some fundamental problem in the common understanding of variable interests among constituents. We are particularly troubled by the implication that *all* of the Board's guidance describing variable interests is now considered suspect and is open to new interpretation and amendment.

If there are specific paragraphs or ideas that the Board believes conflict with other aspects of FIN 46, we encourage the Board to propose amendments to Appendix B in a more targeted fashion. This approach would address both the Board's concerns and constituents' need for guidance in identifying instruments and contracts that may be considered variable interests. Because the definition of a variable interest is essential to the application of FIN 46, we simply do not understand how the Board can finalize this amendment prior to resolving this issue.

IV. Other

Troubled Debt Restructurings

We agree with the changes proposed in paragraph 7 of FIN 46 to clarify that the incurrence of operating losses and the renegotiation of debt and other contracts are not reconsideration events in some circumstances. However, we believe that the Board has so limited the applicability of these provisions that, in effect, the Board has created a null set of transactions that would not require reconsideration. In our experience, troubled debt restructurings often require equity owners or others to provide increased subordinated financial support – that increased support is often the very reason that a senior lender agrees to continue its involvement in the entity. It is not clear to us what situation was contemplated in paragraph A25 of the Exposure Draft, where a lender would contractually reduce the outstanding balance of a loan without changing any other terms of the loan or the structure of the entity. In virtually every transaction involving debt forgiveness, there must be some other structural changes to incent a senior lender to do so.

Because the provisions of paragraph 7 apply to very few, if any, transactions in practice, it leads to the unusual conclusion that the infusion of additional equity could be the

triggering event to cause a non-variable interest entity (which was originally judged to have sufficient equity) to become a variable interest entity.

Because of this broad application to troubled debt restructurings, the Exposure Draft is effectively in conflict with higher-level GAAP. FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan - an Amendment of FASB Statements No. 5 and 15,* eliminated the notion of "in substance foreclosure" and requires that:

> A troubled debt restructuring that is in substance a repossession or foreclosure by the creditor, that is, the creditor receives physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place, or in which the creditor otherwise obtains one or more of the debtor's assets in place of all or part of the receivable, shall be accounted for according to paragraphs 28 and 33 and, if appropriate, 39 [of FASB Statement No. 15].

FASB Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*, specifically addresses the issue of the addition of new debtors (which we believe would be considered the addition of subordinated interests to support the existing debt) and concludes that the substance of the transaction is important, and in many cases would result in the continued accounting for the original loan. In paragraph 105, the Board explained this view:

> In some troubled debt restructurings, the substitution or addition may be primarily a matter of form while the underlying debtor-creditor relationship, though modified, essentially continues. For example, to enhance the likelihood that the modified terms of a troubled debt restructuring will be fulfilled, a new legal entity may be created to serve as a custodian or trustee to collect designated revenues and disburse the cash received in accordance with the new debt agreement. The role of that new unit may be similar to that of a sinking fund trustee in an untroubled debt situation. The source of the funds required to fulfill the agreement may be the same, but some or all of those funds may be earmarked to meet specific obligations under the agreement. Similarly, if the new debtor controls, is controlled by, or is under common control with the original debtor, the substance of the relationship is not changed. Each troubled debt restructuring involving a substitution or addition of a debtor should be carefully examined to determine whether the substitution or addition is primarily a matter of form to facilitate compliance with modified terms or primarily a matter of substance.

Because of the broad applicability of FIN 46 to common troubled debt restructurings, we believe that the Exposure Draft may effectively amend Statements 15 and 114 by requiring consolidation of the underlying business and collateral in certain circumstances – effectively resurrecting the use of "in-substance foreclosure" accounting. Therefore, we believe the Board must scope out troubled debt restructurings as a reconsideration event under paragraph 7 to avoid a conflict in the provisions of FIN 46 and Statement 15.

Reconsideration Events

We understand the Board's concerns regarding the narrow "list" approach to reconsideration events in FIN 46. We agree that the changes in the Exposure Draft are necessary to ensure that determinations are reconsidered at appropriate times, without trying to anticipate every possible situation. However, the changes to paragraph 15 reference ownership of interests in the entity and suggest that all variable interest holders need to monitor whenever there is a change in the design of the entity or a change in the ownership of interests in an entity. In certain situations, a variable interest holder may currently hold a majority of the residual returns of an entity. Under FIN 46, this holder's consolidation conclusion is entirely determined by whether another variable interest holder holds a majority of the expected losses. The changes to paragraph 15 would require such a "residual return" holder to constantly monitor the ownership of variable interests to determine if a current majority holder disposes of interests or if another party accumulates interests that represent a majority of the expected losses. We believe that such requirements are simply not operational in practice and would lead to many investors' applying the scope exception of paragraph 4(h). While we understand the Board intends that exception to be infrequent, we are concerned that the proposed changes may inadvertently increase the number of situations where an investor is unable to obtain the appropriate information regarding the holders of variable interests to make an informed consolidation conclusion.

The June 28, 2002 Exposure Draft of FIN 46 proposed a similar situation, in which each investor needed to assess the significance of its investment against the investment made by others. That proposal was widely criticized in comment letters and ultimately rejected by the Board. We are concerned that the problems with that proposal have now resurfaced in this Exposure Draft through the changes to paragraph 15. We recommend that the Board reject this proposed change for the same reasons it rejected the proposal in the June Exposure Draft.

Mutual Fund and Trust Exception

We agree that trusts of a bank's trust department should not be subject to the consolidation guidance of FIN 46.

Paragraph 4(h) provides a scope exception to mutual funds in the form of trusts, but not mutual funds in the form of corporations. While we support this exception, it is not clear to us what the conceptual distinction between these two types of entities is, and why that distinction would merit a difference in accounting treatment under FIN 46.

* * *

We would be pleased to discuss our comments and concerns with you at your convenience. As we have offered previously, we would be happy to assist the FASB staff

understand the fact patterns of common market transactions that are affected by these issues. Please contact me at (212) 559-7721.

Sincerely,

Robert Traficanti
Vice President and Deputy Controller

ALLOCATION APPROACH #1

Conclusion: Investor ABC absorbs 100% of expected losses

Assumptions:

Assume the same facts as those presented in the example provided in Appendix A of FIN 46 with the following exceptions:

- There are two investors (Investor ABC and Investor XYZ) that have variable interests in the VIE.
- Investor ABC is subordinate to Investor XYZ, and it absorbs the first losses up to $28,000
- Investor XYZ absorbs any losses exceeding $28,000.

TABLE 1 - EXPECTED CASH FLOWS
(Amounts in Thousands)

Estimated Cash Flows	Probability	Expected Cash Flows	Fair Value
650,000	5.00%	32,500	30,952
700,000	10.00%	70,000	66,667
750,000	25.00%	187,500	178,571
800,000	25.00%	200,000	190,476
850,000	20.00%	170,000	161,905
900,000	15.00%	135,000	128,571
	100.00%	**795,000**	**757,143**

TABLE 2 - CALCULATION OF EXPECTED LOSSES
(Amounts in Thousands)

Estimated Cash Flows	Expected Cash Flows	Difference	Probability	Expected Losses	Fair Value
650,000	795,000	(145,000)	5.00%	(7,250)	(6,905)
700,000	795,000	(95,000)	10.00%	(9,500)	(9,048)
750,000	795,000	(45,000)	25.00%	(11,250)	(10,714)
800,000	795,000	5,000	25.00%		
850,000	795,000	55,000	20.00%		
900,000	795,000	105,000	15.00%		
			100.00%	**(28,000)**	**(26,667)**

TABLE 3 - ALLOCATION OF EXPECTED LOSSES TO INVESTORS ABC AND XYZ
(Amounts in Thousands)

Expected Losses	(28,000)
Allocation to Investor ABC	(28,000)
Allocation to Investor XYZ	0

ALLOCATION APPROACH #2

Conclusion: Investor XYZ absorbs 60% of expected losses

Assumptions:

Assume the same facts as those presented in the example provided in Appendix A of FIN 46 with the following exceptions:

- There are two investors (Investor ABC and Investor XYZ) that have variable interests in the VIE.
- Investor ABC is subordinate to Investor XYZ, and it absorbs the first losses up to $28,000
- Investor XYZ absorbs any losses exceeding $28,000.

TABLE 1 - EXPECTED CASH FLOWS
(Amounts in Thousands)

Estimated Cash Flows	Probability	Expected Cash Flows	Fair Value
650,000	5.00%	32,500	30,952
700,000	10.00%	70,000	66,667
750,000	25.00%	187,500	178,571
800,000	25.00%	200,000	190,476
850,000	20.00%	170,000	161,905
900,000	15.00%	135,000	128,571
	100.00%	**795,000**	**757,143**

TABLE 2 - CALCULATION OF EXPECTED LOSSES
(Amounts in Thousands)

Estimated Cash Flows	Expected Cash Flows	Difference	Probability	Expected Losses	Fair Value
650,000	795,000	(145,000)	5.00%	(7,250)	(6,905)
700,000	795,000	(95,000)	10.00%	(9,500)	(9,048)
750,000	795,000	(45,000)	25.00%	(11,250)	(10,714)
800,000	795,000	5,000	25.00%		
850,000	795,000	55,000	20.00%		
900,000	795,000	105,000	15.00%		
			100.00%	**(28,000)**	**(26,667)**

ALLOCATION APPROACH #2 (continued)

TABLE 3 - ALLOCATION OF EXPECTED LOSSES TO INVESTOR ABC
(Amounts in Thousands)

Estimated Losses	Probability	Allocation to Investor ABC	Fair Value
(28,000)	5.00%	(1,400)	(1,333)
(28,000)	10.00%	(2,800)	(2,667)
(28,000)	25.00%	(7,000)	(6,667)
		(11,200)	**(10,667)**

TABLE 4 - ALLOCATION OF EXPECTED LOSSES TO INVESTOR XYZ
(Amounts in Thousands)

Estimated Losses	Probability	Allocation to Investor XYZ	Fair Value
(117,000)	5.00%	(5,850)	(5,571)
(67,000)	10.00%	(6,700)	(6,381)
(17,000)	25.00%	(4,250)	(4,048)
		(16,800)	**(16,000)**