



February 18, 2009

Mr. Russ Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856



LETTER OF COMMENT NO.

Dear Mr. Golden:

Freddie Mac and Fannie Mae (hereinafter collectively referred to as the "GSEs") would like to make the Board aware of an accounting issue that we each recently encountered regarding the assessment of our deferred tax assets ("DTAs") for a potential valuation allowance and more specifically, the facts and circumstances regarding the realization of deferred tax asset amounts that arise from recording losses on available-for-sale ("AFS") debt securities.

We believe, and have confirmed with the Staff in the Office of the Chief Accountant at the U.S. Securities and Exchange Commission (the "SEC Staff"), that different conclusions can be reasonably reached based on the current guidance in FASB Statement 109. Accounting for Income Taxes ("Statement 109"). Because of the diversity in views and the difference in the accounting that may result from these views, we respectfully request that the Board consider providing clarification through issuance of a FASB Staff Position ("FSP") or by referring the issue to the Emerging Issues Task Force ("EITF"), as appropriate. We believe that clarification of the accounting in this area will be beneficial to users of financial statements as the accounting conclusions under the different views may result in a significantly different valuation allowance and therefore impact to the income statement.

Background

The GSEs each have recorded significant DTAs in their financial statements related to AFS debt securities that they intend to hold until recovery and have been deemed temporarily impaired. In practice, a temporary decline in the fair value of a debt security below its tax basis results in the recognition of a DTA because the temporary decline is presumed to result in a future tax deduction at the reporting date. However, in the event of a temporary decline

in the fair value of an AFS debt security, a loss has not been, nor is expected to be, realized for either book or tax purposes.

We recently considered whether the DTAs related to the tax effect of the unrealized losses on AFS debt securities, which management has the intent and ability to hold until recovery (which may be maturity) and are deemed temporarily impaired, should be evaluated discretely from other DTAs when evaluating whether a valuation analysis is necessary.

In evaluating this question, we looked to the guidance provided in Statement 109 and FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities ("Statement 115") and their respective interpretations and did not identify any relevant guidance responsive to this issue. As a result, we believe that two views can be reasonably formed given the current accounting guidance in place. View A would permit analyzing the components of the DTAs resulting from unrealized losses on AFS debt securities discretely from other components of the DTAs, while View B would require an aggregate analysis of the DTAs. These views are detailed further in the following paragraphs.

View A – Discrete Analysis

Proponents of this view would state that a separate analysis of the components of the DTAs resulting from unrealized losses on AFS debt securities is appropriate. This separate analysis would be appropriate assuming that:

- The entity has concluded that the unrealized losses are temporary (i.e., the ability and
 intent to hold the securities to recovery or maturity will result in the recovery of all
 contractual cash flows because the securities are not credit impaired and the decline
 in value is due to changes in interest rates and market liquidity); and
- The unrealized losses recorded in accumulated other comprehensive income ("AOCI") have not resulted in losses in the income statement or the tax return in any past period. If the securities are held to recovery, which may be maturity, the unrealized losses will not be recognized in the entity's income statement or the income tax return in any period, and accordingly will never require any source of future taxable income to demonstrate realization of the related DTAs.

Unrealized losses on AFS securities are recorded in accordance with Statement 115. If unrealized losses are deemed other-than-temporary, they are recognized in earnings. If unrealized losses are deemed temporary, they are recorded in AOCI. As cash flows from securities deemed temporarily impaired are received, the fair values of the securities recover, ultimately reaching par (or zero for amortizing mortgage-related securities) at maturity. As the fair values increase, the corresponding unrealized loss amounts in AOCI and the associated DTAs reverse, cycling only within the balance sheet and AOCI. At the reporting date, temporary unrealized losses are not expected to affect the GAAP Income Statement or future income tax returns.

Under this view, the DTA associated with the unrealized losses on AFS debt securities is not expected to produce a realized loss (assuming there are no other-than-temporary impairments on these securities) as this component of the DTA is directly attributable to an identified source of future other comprehensive income (not book or taxable income). In this respect, proponents of this view believe that the temporary differences associated with unrealized losses on AFS debt securities are unlike other types of temporary differences in that they impact only comprehensive income and not income from continuing operations or the tax return as they reverse over the contractual life of the securities. The mark-to-market changes that give rise to unrealized losses recognized in AOCI do not reflect the economic return on an investment that will be held until recovery, which may be maturity, and do not produce DTAs that depend on future taxable income for realization.

Additionally, an ability to hold these securities until they recover could be viewed as a taxplanning strategy as described in paragraph 22 of Statement 109. If the debt securities were held until they recover rather than sold for a realized loss, it would provide positive evidence that a valuation allowance related to the component of the DTA related to unrealized losses on AFS securities that are recorded in AOCI (assuming no credit deterioration of the securities) is not needed.

View B – Aggregate Analysis

Proponents of this view believe that the component of the DTA related to the tax effect of unrealized losses on AFS debt securities should not be discretely considered; rather these DTAs are similar to all others in that the valuation allowance generally cannot be avoided unless there is evidence that the benefit of the DTA will be realized as a result of future taxable income or other potential sources. Under this view, it is not sufficient to project that the deductible temporary differences related to unrealized losses on AFS debt securities will reverse; rather, the tax benefits must be realizable.

Proponents of this view note that Statement 109 sets out a process that necessitates identifying temporary differences, recognizing and measuring DTAs and liabilities and assessing the need for a valuation allowance against DTAs—on an overall basis and reflecting all sources of income—to determine the total tax provision. Only then is that total provision allocated within the financial statement display of either net income or AOCI. Proponents note that paragraph 71 of FASB Statement No. 130, Reporting Comprehensive Income, states that "comprehensive income is income" and, consistent with that conclusion, they do not support a distinction between DTAs that may appear to be recoverable in isolation when those DTAs are not recoverable on a comprehensive basis.

While proponents of this view agree that the ability and intent to hold the securities to maturity rather than selling them at a loss implies a source of future taxable income, they do not believe it can be considered in isolation. Rather, they believe that this source of future taxable income must be considered in the context of all sources of taxable income and would need to provide an incremental source of income for the realization of a DTA. For example, if the effect of holding the security would be to simply reduce future operating losses, it

would not result in the realization of the DTA and therefore would not provide sufficient evidence that a valuation allowance is not necessary.

Conclusion

Based on the analysis above, the GSEs believe that two reasonable views can be constructed for the realization assessment of DTAs recorded for temporary losses on AFS debt securities. We have discussed these views with the SEC Staff in connection with the preparation of each GSE's third quarter financial statements. The SEC Staff concluded that they would not object to the application of either view. The GSEs committed to raise this issue with the FASB in connection with obtaining the Staff's advice. In the third quarter 2009 financial statements, neither GSE established a valuation allowance against the DTAs associated with unrealized losses on AFS securities that were not other than temporarily impaired.

In light of current economic conditions, most entities that hold temporarily impaired securities in an AFS portfolio will be faced with making a determination regarding the appropriate accounting regarding DTAs. As a result, we respectfully request that the Board either provide additional guidance in the form of an FSP, or refer the issue to the EITF for their consideration, to help reduce the possibility for significantly different accounting results for similar fact patterns.

If you have any questions regarding this submission, please contact Denny Fox, Freddie Mac Vice President-Accounting Policy and External Reporting and Interim Principal Accounting Officer at 703-714-3160 or Gregory Ramsey, Fannie Mac Vice President-Accounting Policy at 202-752-6549.

Sincerely,

Denny R. Fox Freddie Mac

Vice President Accounting Policy and External Reporting and Interim Principal

Accounting Officer

Gregory Ramsey

Fannie Mae

Vice President, Accounting Policy

cc: Mr. David B. Kellermann, Senior Vice President and Acting Chief Financial Officer

Mr. David Hisey, Executive Vice President and Deputy Chief Financial Officer

Ms. Wanda DeLeo, Federal Housing Finance Agency

Mr. William J. Lewis, PricewaterhouseCoopers LLP

Mr. Albert W. Hazard, Deloitte & Touche LLP

Mr. Paul Beswick, S.E.C. Office of the Chief Accountant

Mr. Brian Fields, S.E.C. Office of the Chief Accountant