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**Office of the Comptroller of the Currency  
Board of Governors of the Federal Reserve System  
Federal Deposit Insurance Corporation  
National Credit Union Administration  
Office of Thrift Supervision**

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February 19, 2010

Mr. Russell G. Golden  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
Post Office Box 5116  
Norwalk, Connecticut 06856-5116

RE: File Reference No. EITF090I

Dear Mr. Golden:

We are pleased to submit comments on behalf of the staffs of the five federal financial institution regulatory agencies on the proposed Accounting Standards Update to Topic 310, *Receivables, Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset* (Update). We welcome the Financial Accounting Standards Board's (the Board) efforts related to the treatment of loan modifications accounted for within a pool under Subtopic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, and believe this guidance will clarify implementation questions that have arisen under existing standards.

We support the Board's proposed amendment to the Accounting Standards Codification (ASC) to require loans accounted for within a pool under Subtopic 310-30 to remain within the pool subsequent to an individual loan modification, even if that modification would otherwise be considered a troubled debt restructuring. This approach is consistent with Subtopic 310-30, which allows a loan pool to be accounted for as a single asset and deemed the unit of account once it has been assembled. The proposed treatment of modified loans also serves as a practical expedient for financial institutions and other creditors that have chosen to aggregate loans with common risk characteristics into a pool because they believe they are better able to estimate cash flows expected to be collected at the pool level than at an individual loan level.

While we agree with the Board on the objective of the proposed guidance, we believe certain disclosures should be required to improve the transparency of efforts by financial institutions to modify acquired loans accounted for within a pool under Subtopic 310-30. Based on our observations of financial institutions that have acquired pools of credit-deteriorated loans, loan modifications can have a material impact on a pool's expected cash flows. Disclosures can provide relevant information about the credit risk arising from such acquired loan pools and the financial institution's management of this risk. We encourage the Board to require as part of this Update a limited set of disclosures that would provide financial statement users with information on the extent to which a financial institution is modifying loans and how these modifications impact pool performance. Without such disclosures, we believe it will be more difficult for users to evaluate

changes in the credit quality of acquired loan pools and the effect modifications are having on pooled loans.

We understand the Board has a separate project to improve disclosures of credit quality and credit loss allowances. Therefore, beyond the limited set of disclosure requirements related to the loan modification activity the agencies are recommending as part of this Update, we believe the Board should consider the feasibility and appropriateness of including additional qualitative and quantitative disclosures about loans accounted for within a pool under Subtopic 310-30 in the broader credit quality and allowance disclosure project.

We have attached answers to the Update's questions for respondents in the appendix to this letter. In our answers, we elaborate on the disclosure requirements recommended for inclusion as part of this Update and offer additional disclosures related to loan modifications and the application of Subtopic 310-30 that the Board could further analyze as it proceeds with its separate disclosure project.

The agencies appreciate your consideration of our comments. We would be pleased to discuss our views with you further.

Sincerely,

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Office of the Comptroller of the Currency

Arthur W. Lindo  
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## Appendix

### Responses to the Board's Specific Questions

**Question 1: Do you agree that entities should not evaluate whether modifications of loans accounted for within pools under Subtopic 310-30 meet the criteria to be accounted for as troubled debt restructuring? If not, why not?**

We support the Board's proposal to require modified loans to remain within pools; however, the agencies consider information related to loan performance and loan modifications relevant to the evaluation of the credit quality and collectibility of pools of acquired loans and a financial institution's credit risk mitigation strategies and collection practices for such pools. Therefore, we suggest drawing from some of the existing disclosure requirements for loans under ASC 310-30-50-2 and ASC 310-10-50-7 as a basis for a limited set of disclosures that would apply to loans within pools under Subtopic 310-30.

We recommend the following disclosures be included in this Update and suggest the Update provide that disclosures about loan pools may be reported in the aggregate for similar pools if separate reporting would not provide more useful information:

- The total outstanding balance of loans within each loan pool that were modified during the period.
- The impact of modifications during the period on each loan pool's accretable yield and recorded impairment, if any.
- The total outstanding balance of loans within each loan pool that are past due 90 days or more at the end of the period.

**Question 2: The Board has a separate project on its agenda relating to improving disclosures on loan losses. Are there specific disclosures that the Board should consider that would be helpful for users about pools of loans accounted for under Subtopic 310-30 or loans modified within those pools?**

We suggest the following additional disclosures specific to loans accounted for within pools under Subtopic 310-30 and modifications of such loans be considered as part of the Board's broader separate project relating to improving disclosures on credit quality and loan losses:

- A description of the nature of modification efforts and any programmatic modification policies.
- A quantitative analysis of the aging of past due loans within each loan pool.
- The outstanding balance at the end of the reporting period of loans within each loan pool that are now considered current but have been modified in the current period subsequent to being past due.

In addition, the agencies note that, according to a published letter dated December 18, 2009, from the American Institute of Certified Public Accountants to the U.S. Securities and Exchange Commission (SEC), the SEC staff would not object to a financial institution electing to recognize discount accretion based on expected cash flows for acquired loan receivables that are *not required* to be accounted for in accordance with Subtopic 310-30. The SEC staff indicated this policy election should be disclosed and applied consistently, and the institution making this election must then follow all of the accounting and disclosure guidance in Subtopic 310-30. The agencies recommend the

Board consider whether additional qualitative and quantitative disclosure requirements for these pooled loans accounted for as a single asset would provide decision-useful information and should be proposed as part of its broader separate disclosure project.

**Question 3: Paragraph 310-30-40-1 requires a loan to be removed from a pool of loans at its carrying value if the investor sells, forecloses, or otherwise receives assets in satisfaction of the loan, or the loan is written off. The Task Force noted that there was diversity in practice regarding the determination of the carrying amount of a loan removed from the pool. While the amendments in this proposed Update do not directly affect and are not affected by this diversity in practice, do you believe that additional guidance is needed to clarify how the carrying value of a loan should be determined upon removal from a pool? If so, do you have suggestions on what those clarifications should be?**

The agencies suggest the Board strive for a consistent general definition of the term “carrying amount” in future proposals and its existing standards. We believe that establishing a consistent definition of this term is a first step in reducing diversity in practice. In this regard, we note that Question 3 refers to both “carrying value” and “carrying amount.” In addition, the Board may wish to consider requiring institutions that treat loan pools as a unit of account to disclose their policy for allocating the carrying amount of a pool to individual loans removed from the pool.

**Question 4: Upon adoption of the amendments in this proposed Update, should entities receive the option to make a one-time election to change the unit of accounting from a pool basis to an individual loan basis? If not, why not? Entities that make this election would then be required to apply the troubled debt restructuring guidance to future modifications on an individual loan basis.**

The agencies would not oppose a one-time election to change the unit of accounting from a pool basis to an individual loan basis upon adoption of this proposed Update. We consider it appropriate to allow those entities that have used the pool approach but are able to allocate the cost of acquired loans and determine the effective yield at an individual loan level to change their accounting policy, begin to account for pooled loans on a disaggregated basis, and apply the troubled debt restructuring standards in ASC 310-40 to individual acquired loans.

**Question 5: Do you agree with the proposed effective date and transition method?**

The agencies support the proposed transition date.