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Technical Director
File Reference No. 1880-100
Financial Accounting Standards Board
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## Re: Exposure Draft, Clarifications to Accounting for Troubled Debt Restructurings by Creditors

CIGNA Corporation appreciates the opportunity to comment on the Financial Accounting Standard Board's (FASB) Exposure Draft (ED), "Clarifications to Accounting for Troubled Debt Restructurings by Creditors." CIGNA and its subsidiaries constitute one of the largest investor-owned health service organizations in the United States, and have operations in selected international markets. As of September 30, 2010, CIGNA held \$38 billion in assets (excluding separate accounts). As investors in approximately \$15 billion of primarily investment grade public and private debt securities and \$3 billion of commercial mortgage loans, CIGNA's management team is both a preparer and user of financial information on a daily basis. Our comments represent the joint perspectives of our accountants/preparers and investment professionals/users.

CIGNA supports the FASB's goal to promote clear and comparable disclosures about loan modification activity and their resultant impact on the financial statements. However, the proposed amendments increase the level of reliance placed upon subjective criteria such as identifying a market interest rate in lieu of lending greater consideration to objective criteria such as the economic substance or contractual cash flows of the modification and therefore does not clarify the criteria for identifying troubled debt restructurings (TDRs). In fact, we believe the changes will add complexity and confusion to the creditor's assessment of whether a modification is a TDR, and will overstate the number of TDRs as more fully described below.

We believe financial statement users are most concerned about the nature and extent of loan modification activity, their resultant impact on the financial statements, and the creditor's planned activities to mitigate any potential losses. We believe that the additional information required by ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, will fill this need and additional changes are not warranted.

We are greatly concerned that, if finalized as proposed, the ED will result in overstating the risk characteristics of certain modified loans and present a distorted view of the overall quality of commercial mortgage loan portfolios. Due to the private nature of commercial real estate

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lending, interest rates for individual loans are not readily observable in the market and the determination of a "market rate" involves judgment. If implemented as proposed, any loan modification would be considered a TDR if the creditor could not demonstrate that the terms could be replicated in the current marketplace. This is not practical as it does not consider the uniqueness of each mortgage loan, the low volume of market activity, lender preferences and periods of recession when credit is virtually unavailable as was the case during 1990-1991 and 2008-2009.

In addition, we disagree with the limitation that creditors consider only the debtor's "entity-specific" cash flows in determining whether a debtor is experiencing financial difficulty. Oftentimes the borrower is a special-purpose entity that holds only the mortgaged asset; it is common for the borrower's parent or sponsor to contribute additional cash to protect the equity it expects to recover over the holding period. The evaluation of financial difficulty must allow for borrower-specific factors, including current and expected future financial support provided by a related entity.

These concerns and related recommendations are detailed below.

## Determining Whether a Concession Has Been Granted

The ED classifies any loan modification as a "concession" if the resulting interest rate and debt structure could not be replicated in the marketplace. We believe this will dramatically limit a creditor's ability to complete an ordinary market rate refinance where it is typical for the loan-to-value ratio to be higher than that being contemplated in the market due to temporary conditions. It is common practice for a creditor to extend the maturity date of a loan for a short period in return for a principal pay down from a borrower who sees equity to protect. Typically the modification also requires that the borrower pay an interest rate premium over the then-current market interest rate the creditor would charge. We would not view this as granting a concession since the economic substance of the transaction has not materially changed because the creditor is not waiving principal or interest payments.

We disagree with a rule that focuses solely on whether the debtor could obtain similar financing from another lender. Determining the "market rate" for a private asset class such as commercial mortgage loans requires a principles-based approach with reliance placed on the real estate investment professional's judgment considering various factors as each transaction is unique; there is no active market with readily observable interest rates. Also, creditors have unique lending strategies, including property-type and market-specific preferences. For example, if a lender chooses to have a high concentration of hotel loans but few other lenders target this property type, the creditor may be forced to use dissimilar lending transactions to substantiate their underwriting decisions. In addition, the financial markets are volatile and there have been periods when lenders are simply not making new loans as was the case during 1990-1991 and 2008-2009. Any loan modification during such a period would be considered a troubled debt restructure under the proposal regardless of management's view of the underlying risk characteristics and whether a concession was granted that resulted in a financial statement impact.

We also believe the proposal will force lenders to make decisions that impact their earnings to avoid potential repercussions associated with an increasing number of TDRs, such as negative perceptions by rating agencies and stock analysts. An example may include selling a loan at a loss even though full loan repayment is expected if a modification was granted. We believe the proposal will prompt lenders to introduce loan provisions that will allow various

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modifications and/or waivers to avoid classification as a TDR, such as provisions in original loan documents that permit the lender to waive future amortization payments or allow for maturity extensions at any time.

We recommend removing the rules-based criterion requiring that the creditor demonstrate that the debtor has access to funds at a market rate to avoid troubled debt restructure classification as it is not practicable given market rates are not readily observable for this asset class. We believe identification of TDRs should be limited to modifications with adverse economic impacts, such as forgiveness of principal, forgiveness of interest receivable or a reduction in the stated interest rate for the remaining life of the loan. Comparing the modified cash flows to the original contractual cash flows should provide the primary evidence as to whether or not a modification is a TDR. If a market interest rate is considered when assessing whether a modification meets the criteria of a TDR that determination should be based on the creditor's judgment, considering the specific terms of the transaction, including whether the new interest rate reflects a market rate given the particular risks and other factors such as principal pay downs or guarantees from the debtor.

## Determining Whether the Borrower is Having Financial Difficulty

We disagree with the limitation that creditors consider only the debtor's "entity-specific" cash flows in determining whether a debtor is experiencing financial difficulty. Oftentimes the borrower is a special-purpose entity that holds only the mortgaged asset. It is common practice for the parent company or sponsor of that entity to contribute additional cash to protect long-term equity in the asset. The evaluation of financial difficulty must allow for borrower-specific factors, including current and expected future financial support from a related entity.

In addition, the guidance does not currently address borrower guarantees in the evaluation of whether a debtor is having financial difficulty. For example, assume that the market rate for a loan with a 65% loan to value (LTV) is 5.5%, and the market rate for a comparable loan at 80% LTV is 7%. If a borrower provides a guarantee on an 80% LTV loan to effectively reduce the LTV to 65%, we believe 5.5% would be considered a market rate of interest for that loan. However, it appears such a modification would be considered a TDR because a debtor would likely not be able to obtain similar terms in the open market. Borrower support including guarantees should be considered in evaluating whether the rate charged is a "market rate".

We do not believe the proposed changes will result in consistent identification of TDRs by creditors. In fact, we believe the proposal will sweep in many loan modifications that we do not consider TDRs due to application of rules rather than relying on management's assessment of all the pertinent factors, most importantly whether the creditor believes it will recover all of its principal and interest. Therefore, we do not support the proposal.

We understand that financial statement users want more information about the nature and extent of loan modification activity, their resultant impact on the financial statements and the creditor's planned activities to mitigate any potential losses. We believe that the additional information required by ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, will fill this need and additional changes are not warranted. As a result of ASU 2010-20, companies will provide increased disclosures about their loan portfolios, including their methods for monitoring and assessing credit risk and associated accounting policies for determining impairments. In addition, in the spirit of Securities and Exchange Commission (SEC) rules regarding critical accounting

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estimates, public companies provide an analysis of uncertainties when material estimates or assumptions are used in the preparation of the financial statements under the existing Management Discussion and Analysis (MD&A) disclosure requirements.

If we can provide further information or clarification of our comments, please call me (215-761-1170) or Nancy Ruffino (860-226-4632).

Sincerely,

Trang T. Hoeltzel