February 12, 2010

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

Re: File Reference No. EITF090I

Dear Mr. Golden:

Capital One Financial Corporation ("Capital One") is a diversified financial services company with over $211 billion in assets that offers a broad spectrum of banking products and financial services to consumers, small businesses, and commercial clients. We appreciate the opportunity to provide comments on the Proposed Accounting Standards Update, Receivables (Topic 310), Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset (the "Proposed Update") recently issued by the Financial Accounting Standards Board (the "Board").

Capital One agrees with the main provision of the Proposed Update that a modification of an acquired loan that is accounted for within a pool under Subtopic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, will not result in the removal of such loan from the pool even if the modification would otherwise be considered a troubled debt restructuring ("TDR"). We also support the Board’s decision that there should be no additional disclosures regarding modifications of individual loans that are accounted for within a pool. We believe the current disclosures required under Subtopic 310-30 are sufficient and provide users of financial statements with appropriate information regarding the recognition of impairment on a pool of assets.

Specific responses to the Board’s questions for respondents are provided below.

**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 restructurings? If not, why not?

Capital One agrees that entities should not evaluate whether modifications of acquired loans accounted for within a pool under Subtopic 310-30 meet the TDR criteria. Modified loans would remain in their pool. In accordance with Subtopic 310-30, acquired loans that have been aggregated into pools with common risk characteristics should be treated as a single unit of account and evaluated for impairment at the pool level.

Once a pool is assembled the pool is to be accounted for as a single asset. Paragraph 310-30-40-1 states, "Once a pool is assembled, the integrity of the pool shall be maintained. A loan shall be removed from a pool of loans only if the investor sells, forecloses, or otherwise receives assets in satisfaction of the loan, or if the loan is written off, and it shall be removed at its carrying
amount.” Additionally, the basis for conclusions for the original guidance\footnote{American Institute of Certified Public Accountants Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer.} from which Subtopic 310-30 was primarily codified clarifies this concept by stating, “[T]he pool should be accounted for as a single asset. Therefore, the pool is deemed to be the unit of accounting and should be considered one loan . . .”

It is important to note that maintaining modified loans within a pool does not result in the avoidance of potential impairment. The impacts of loan modifications such as the reduction in contractual interest rate, the change in terms, and the forgiveness of principal are all considered when assessing a pool for impairment as the impacts of the modifications ultimately change the cash flows expected to be collected. Expected cash flows for the pool are updated each reporting period, and impairment is recognized if the new expected cash flows are less than the previous expected cash flows. The impairment would not specifically be attributed to loan modifications but rather would be a more general indication of changes in the performance of the assets from prior expectations. We believe this is appropriate because many different factors impact the determination of expected cash flows and attempting to attribute a discrete amount to one specific credit-related factor is not practicable.

We see no rationale for removing individual loans from a pool unless the loan meets the following criteria identified in Paragraph 310-30-40-1: the investor sells, forecloses, or otherwise receives assets in satisfaction of the loan, or the loan is written off. One might argue that certain modified loans may be considered a new loan received in satisfaction of the original acquired loan and thus would require removal from the pool. However, the guidance for TDRs states that a TDR is not to be accounted for as a new loan because it is part of the ongoing efforts by the creditor to recover its investment in the original loan. Thus, we do not believe removing an individual loan from the pool based on this argument is valid but rather that the modified loan is still part of the initial pool which is to be accounted for as a single asset. Others argue that the pool, as the unit of accounting, should itself be subject to the guidance for TDRs. However, existing guidance is unclear as to how the TDR guidance might be applied to a pool of loans and additional criteria would be required in an attempt to make such an approach operational. It appears that this approach is not viable because it could only be implemented by establishing bright-line tests which would likely be operationally burdensome and would move the guidance toward a rules-based approach.

**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?

Capital One believes that current disclosures required under Subtopic 310-30 are sufficient and that a new requirement to provide information about modifications of individual loans that are within a pool would be burdensome to the reporting company and would not provide users of financial statements with relevant information since the unit of accounting is the pool.

Other than stating that certain loans are accounted for as a single asset and assessed for impairment each reporting period at the pool level, and therefore are not assessed against the TDR criteria, we do not believe there are benefits to additional disclosures regarding modifications of loans within a pool. A pool is accounted for as a single asset under Subtopic 310-30. As previously stated, the impacts of loan modifications such as reduced rates, extended
terms, and forgiven principal are all considered when estimating cash flows expected to be collected as part of the periodic impairment assessment. Subtopic 310-30 already requires sufficient disclosures surrounding the recognition of impairment on a pool of assets. Additionally, the necessary information to provide disclosures about individual modified loans within a pool may not be readily available because systems and processes have been established to capture information and account for the loans within a pool as a single asset. Accordingly, we believe that a requirement to provide additional disclosures on a different basis of accounting will not provide users of financial statements with useful information and will place undue burden on companies to establish dual accounting records and processes to meet disclosure requirements.

**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 a pool. While 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?

Capital One does not believe that additional guidance is needed.

Diversity in practice exists in the application of pool accounting, including whether fair value and expected cash flow information is attributed to individual loans within the pool or only to the pool itself. Additionally, entities that attribute information to individual loans may do so through a detailed approach of determining specific fair values and expected cash flows at the loan level prior to aggregation into pools or through a simplified approach of using reasonable allocation methodologies to push pool-level information down to the loan level.

Regardless of an entity's particular approach to pool accounting, any imprecision in its determination of the carrying amount of a loan upon removal from a pool is resolved through the continuing process of accounting for changes in estimates of the cash flows expected to be collected from the remainder of the pool.

We believe that the diversity in practice discussed above is reasonable and acceptable and that it can be attributed to two primary causes. The first is a principles-based approach to providing guidance on the accounting for loan pools under Subtopic 310-30. The second is the related application of professional judgment by entities to specific facts and circumstances including, but not limited to, differences in operational systems and in approaches to determination of initial fair value and expected cash flows (e.g., pool-level versus loan-level). Strict uniformity seems inconsistent with a principles-based approach to standard setting where professional judgment is required in the application of standards that provide less interpretive and implementation guidance. If the Board believes the diversity in practice may create challenges for users of financial statements, then the Board might consider requiring disclosure of important policies established or interpretations made by companies in the application of pool accounting under Subtopic 310-30.

**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.
Capital One supports the inclusion of a one-time election to change the unit of accounting. We note that making the one-time election would require an entity to determine the carrying amount of each loan within an impacted pool as of the effective date of the election. Diversity in practice would be expected unless detailed implementation guidance is provided.

We believe that the inclusion of this one-time election becomes more important if the Board either changes its position and requires modifications of loans accounted for within a pool to be assessed against the TDR criteria or decides to require any detailed disclosure of loan-level information for modified loans within a pool. Such requirements may force some entities to rely on multiple systems and processes to account for a single loan under two different accounting concepts. Additionally, the election to move from pool basis to individual loan basis might require changes to current systems and processes which could require a significant amount of resources and time to implement.

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

If the Proposed Update is finalized as currently drafted with no significant amendments to the document which would require the removal of modified loans from a pool or require additional disclosures about the modified loans, then we agree with the proposed effective date. Otherwise, we caution the Board against such a quick transition and request that the Board consider the operational complexities and the system changes that might be required to implement the changes before deciding on the effective date. We agree with the proposed transition method that the changes should be applied prospectively.

* * *

In closing, Capital One would like to bring to the Board’s attention that there are several interpretation and implementation issues beyond the scope of this Proposed Update related to the subsequent accounting for acquired loans, whether or not the loans are within the scope of Subtopic 310-30. We believe these issues could be satisfactorily addressed through the issuance of a reasonable level of implementation guidance while maintaining a principles-based approach. Capital One believes that the Board should consider comprehensively addressing these issues as part of its project on accounting for financial instruments or through a separate project. The number and complexity of issues that financial statement preparers, auditors, and regulators are considering warrant an open and orderly process led by the Board to provide clarifying guidance.

If you have any questions about our comments, please contact Pam Koch at (804) 284-0152.

Sincerely,

Susan McFarland
Executive Vice President and Controller