December 10, 2010

Technical Director
Financial Accounting Standards Board
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Norwalk, CT 06856-5116

Via email: director@fasb.org

File Reference No. 1880-100: Proposed Accounting Standards Update – *Clarifications to Accounting for Troubled Debt Restructurings by Creditors*

Dear Technical Director:

SunTrust Banks, Inc. (“SunTrust” or the “Company”) appreciates the opportunity to comment on the Proposed Accounting Standards Update – *Clarifications to Accounting for Troubled Debt Restructurings by Creditors* (the “Exposure Draft” or “ED”) issued by the Financial Accounting Standards Board (“FASB”).

SunTrust, headquartered in Atlanta, Georgia, is one of the nation’s largest banking organizations with assets of approximately $175 billion as of September 30, 2010. SunTrust offers a full line of financial services for consumers and businesses through an extensive distribution network, located primarily in the Southeast and Mid-Atlantic states and also serves customers in selected markets nationally.

The Company understands the desire for consistency in practice in identification and reporting of troubled debt restructurings (“TDRs”) and agrees that certain inconsistencies exist regarding the application of current U.S. GAAP. We understand the intent of the ED was to clarify existing guidance around the determination of a TDR; however, as discussed further below, we think the ED expands the definition of a TDR and would result in an over reporting of TDRs. Rather than expanding the definition of a TDR under U.S. GAAP, we believe greater value would be achieved from aligning the U.S. GAAP and IFRS guidance on the definition of an impaired loan and the appropriate credit impairment model. The FASB Board should consider if there are aspects of the ED that conflict with the IASB’s definition of an impaired loan. Considering that FASB and IASB are currently working towards a converged model for credit impairment accounting, we do not believe it is appropriate to introduce new concepts that are not currently considered in the credit impairment models being considered by both Boards.

If FASB proceeds with providing certain clarifications to identifying TDRs, the Company recommends that the following guiding principles be incorporated into the clarifications.
• Creditors should focus on borrower specific criteria in order to determine if a modified loan qualifies as a TDR. Economic factors such as a loan to value ratio and credit availability should only be secondary considerations if the borrower is nonperforming. If it is probable that the borrower is not experiencing financial difficulty, then the modification should not be classified as a TDR.
• A creditor that performs a modification for a performing borrower that improves the current credit and/or financial position of the institution should not be viewed as a concession.
• In evaluating whether a concession was granted, the creditor should consider all elements of the transaction, including additional cash, collateral, guarantees, or other features that reduce credit risk. The evaluation of the interest rate relative to market should not be a sole determinant in whether a modified loan qualifies as a TDR.

As discussed below, there are aspects of the ED that should be reconsidered by the Board in order to achieve the desired objective of improved financial reporting.

Access to available funds

The inability to charge a market rate and/or refinance a deal, in and of itself, should not be the sole determinant as to whether a modified loan qualifies as a TDR.

The ED includes a clarification in ASC 310-40-15-8A which states, “If a debtor does not otherwise have access to funds at a market rate for debt with similar risk characteristics as the restructured debt, the restructuring would be considered to be a below market rate and therefore should be considered a troubled debt restructuring.”

The clarification proposed in ASC 310-40-15-8A, inappropriately overrides aspects of the current definition of a TDR in ASC 310-40-15-5 which states, “A restructuring of debt constitutes a troubled debt restructuring for purposes of this Subtopic if the creditor for economic or legal reasons related to the debtor’s financial difficulties grants a concession to the debtor that it would not otherwise consider.” Current accounting guidance and industry practice has been to apply two criteria for purposes of determining whether a restructured loan is a TDR, which includes evaluating whether the borrower is experiencing financial difficulty and determining whether a concession was granted.

The clarification proposed in ASC 310-40-15-8A automatically assumes that if the borrower could not receive comparable terms from another financial institution then the modified terms are below market and the loan is a TDR. Access to alternative funds should not be a determinative criterion for determining if the loan is a TDR because the factors influencing the availability of alternative funds may be more indicative of market conditions. We believe TDR classification should be based on borrower specific criteria. Market pricing can be completely disconnected from traditional methods of loan pricing (cost of funds + credit spread + profit); thus illiquid markets, regardless of how temporary, can lead to unrealistic or unobservable definitions of market pricing. Many factors go into determining loan pricing, including the level of interest rates, the amount of credit spread, the risk profile of borrowers, the structure of the loan and the supply and demand for credit. Because of these inherently volatile factors, there are reasons other than financial difficulty which may cause a restructuring to be considered below market. While access to funds may be one indication of financial difficulty, we do not believe that market rates should be considered determinative in classifying TDRs. Rather, the Company proposes that FASB focus the determination of TDR classification on borrower specific considerations.
Additionally, in determining whether a concession is made, the creditor should be able to evaluate all terms and conditions associated with the restructuring. For example, if the creditor secures additional collateral, increases the interest rate, and obtains additional guarantees, we do not believe the modified loan should be automatically classified as a TDR, based solely on the fact that the borrower may have an interest rate that he otherwise may not be able to receive based on the current risk characteristics.

Specifically, we believe the ED should indicate that loan to value alone should not be a determinative criterion in causing a loan to be a TDR. In fact, this would appear to contradict joint regulatory Policy Statement on Prudent Commercial Real Estate Loan Workouts (October 30, 2009) which states, “Examiners should not adversely classify or require the recognition of a partial charge-off on a performing commercial loan solely because the value of the underlying collateral has declined to an amount that is less than the loan balance.” The Policy Statement also states, “Loans that are adequately protected by the current sound worth and debt service capacity of the borrower, guarantor, or the underlying collateral generally are not adversely classified. Similarly, loans to sound borrowers that are renewed or restructured in accordance with prudent underwriting standards should not be adversely classified or criticized unless well-defined weaknesses exist that jeopardize repayment. Further, loans should not be adversely classified solely because the borrower is associated with a particular industry that is experiencing financial difficulties.”

The current real estate market causes refinancing of many borrowers’ debt to be at terms that are outside of typical underwriting guidelines. However, prudent risk management may warrant an institution to modify the loans of a performing borrower. An institution may be willing to forego some economics in order to lower its risk profile. Pre and post modification the creditor expects to receive full principal and interest repayment; however, the borrower may not have access to alternative funds at these modified terms. We do not believe merely increasing the probability of receipt of cash flows by modifying certain terms, as referenced in ASC 310-40-15-7, should trigger TDR if the borrower is performing and the creditor expected to receive full repayment of principal and interest prior to the modification. The process of refinancing a loan is a negotiation between banks and their borrowers and the bank should not automatically be viewed as having granted a concession if the bank is ending up in an improved credit position.

In order to illustrate these points, we have provided representative examples of Mortgage and Commercial Real Estate loan modifications that would likely result in TDR classification under the ED that we do not think is representative of a TDR.

**Mortgage Loan**

**Current Terms:**
- 7-1 Adjustable Rate Mortgage, currently 6%
- Borrower FICO score - 700
- Current on loan payments
- $200,000 unpaid principal balance
- 120% loan to value

**Modified Terms:**
- 5% additional cash down, refinance to an interest rate of 4.875%
- **At the time of the modification, 4.375% is considered the market rate for a qualifying borrower with an 80% loan to value and 700 FICO score. Considering the additional risk associated with the elevated loan to value, the Company offers a 4.875% interest rate.**
This loan has a loan to value ratio that exceeds typical underwriting standards. Normally, the Company and other creditors would not refinance a loan with this risk profile. However, the Company offers this type of program to existing performing borrowers in order to reduce the risk profile of its portfolio by reducing the borrowers’ payment requirements, inducing the borrowers to pay down their loans and reinforcing the borrowers’ commitment to continue making payments. In such a program, a borrower with a 700 FICO, current on loan payments and cash reserves sufficient to pay down their mortgage by 5% is not experiencing financial difficulty; however, under the proposed guidance, this loan would be considered a TDR because the borrower may not otherwise have access to funds at a 4.875% interest rate. While this loan otherwise has a low probability of default and is not impaired prior to the modification, it is being forced into a TDR/impaired loan classification because of a modification that further enhances the probability of repayment and reduces the Company’s risk profile.

Commercial Real Estate Loan

Current terms:
$2,150,000 unpaid principal balance
Interest rate - 1 month LIBOR + 190 bps
Amortization - Interest only
Loan is maturing

Modified terms:
$2,150,000 unpaid principal balance
Interest rate - 1 month LIBOR + 580 bps
Maturity - 3 years
Amortization - 20 years
Loan to Value - 70%
Debt Service Coverage - 1.75x

The current and modified loan is 100% guaranteed by 3 individuals. The loan was originated in 2007 to fund the acquisition of 2 acres of land and provide funds for the construction of a retail center. 10% of the retail space is currently vacant. This is a special mention-rated credit, but the Company was not planning to refinance the loan, in an effort to reduce its real estate exposure. Due to current market conditions, financial institutions are not adding this type of real estate exposure to their portfolios; therefore, there were no other lenders willing to refinance this loan. As a result, the Company refinanced the debt, and in order to compensate for the additional risk, the interest rate was increased. In this example, the borrower is not experiencing financial difficulty; however, due to the lack of market demand and liquidity for commercial real estate, there is not currently a market for this type of loan. Based on an interpretation of the ED in ASC 310-40-15-8A, this modification would be considered a TDR. We do not believe this classification would be appropriate in this example, and a more appropriate analysis would consider the wording in 310-40-15-8B which states, “Such an increase in the debtor’s contractual interest rate should be considered together with all other modifications that result from the restructuring in determining if a troubled debt restructuring exists.” Additionally, it should not be viewed that a concession has been granted if the modified terms improve the creditor’s credit position related to a performing borrower.

The availability of credit varies based on numerous economic and institution specific factors. Many borrowers with excellent credit history cannot currently obtain a loan because credit availability has been restricted due to economic or market conditions. Lenders make lending decisions based on numerous factors (e.g., avoidance of concentrations, etc.). The FASB’s proposal will cause certain modified loans, such as those
illustrated above, where there is a lack of market demand or depressed real estate values, to be classified as troubled debt restructurings. We believe that overstating TDRs, and thus the amount of impaired loans, does not provide the proper perspective of credit quality to financial statement users. Financial institutions are taking actions in the economic environment to reduce risk and strengthen credit quality; however, by taking these actions, the FASB’s proposed clarifications would cause many of these loans to be classified as impaired TDR loans which is misleading and could deter prudent business practices.

Relevance of expanding the TDR criteria

*Increased TDR classifications may have unintended consequences.*

If every loan that contains pricing below the perceived market, as determined by the availability of financing, is designated as a TDR, the consequences for banks and potentially the economy would be negative. TDRs are generally viewed by the investment community as loans with increased potential loss content, regardless of accruing status or risk rating. Banks that have concerns with being subject to unnecessary TDR classifications will be reluctant to modify certain loans.

In evaluating the clarifications that are necessary, FASB should consider the relevance of increased TDR classifications. If the concern is from a financial statement impact, then the risk-rating process employed by financial institutions already captures the estimated loss content through the allowance for loan loss reserving process. Additionally, the economic impact of the modification is also reflected in the financial statements (i.e. margin impact of an interest rate reduction). If the concern is from a disclosure standpoint, the implementation of the recently issued Accounting Standards Update 2010-20 Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASU 2010-20), will provide additional granularity about TDRs, types of TDR modifications, and re-defaults. In addition to TDR activity, there will also be more detailed disclosures on impaired loans, nonaccrual loans, past due loans, and other relevant credit quality data. Overall, we do not view a specific TDR designation as relevant. We believe disclosure surrounding a common definition of impaired loans is more useful and integral to current risk management and accounting evaluations.

Removal from TDR status

*The existing and proposed guidance causes TDRs to be permanently classified as TDR.*

The guidance that ties the removal from TDR status to market terms at the time of modification effectively results in most TDRs always being recorded as a TDR until the loan is repaid. The accumulation of TDRs over a multi-year credit downturn could result in a significant overstatement of TDRs. TDRs that have been performing for 6-9 months should be able to no longer be classified as TDRs. Continuing to report loans that are performing in accordance with their modified terms misrepresents the risk profile of an organization.

Operational concerns

*Companies will not be able to produce accurate disclosures that comply with the transition guidance.*

Paragraph 310-40-65-1 of the ED states that retrospective application for the disclosures is required for receivables restructured on or after the beginning of the earliest period presented. We believe it would be extremely difficult and in some cases, impossible, to go back to a prior period and determine whether certain loan modifications would have been TDRs based on the clarifications provided in the ED. Judgment is applied
in determining whether a modification is a TDR and there are many borrower and/or market specific considerations that factor into the decision. Therefore, it will be difficult, if not impossible, that a creditor could go back and work through each scenario to determine if the TDR classification would change based on the ED’s clarifications. Specifically, banks will not have the historical data available to practically apply the concept of whether the debtor did/did not have access to funds at a market rate with similar risk characteristics as the restructured debt, which would need to be evaluated on a case by case basis. ASC 310-40-55-10A was added to assist in determining whether a debtor is experiencing financial difficulties and states, “In addition, a creditor may conclude that a debtor is experiencing financial difficulties, even though the debtor is not currently in default, if a creditor determines that payment default is probable in the foreseeable future.” Professional judgment would have been used at the time the loan was modified in assessing financial difficulty and those decisions should not be reconsidered for prior period TDR classification based on events that occurred subsequent to the modification. In some cases, banks would be required to analyze loans related to prior periods which may no longer be outstanding. While we understand the desire to improve comparability across reporting periods, we do not believe the benefits outweigh the costs that would be incurred in the attempt to gather the required data. We recommend that the transition guidance be applied prospectively for both disclosure and impairment calculation purposes.

We appreciate the opportunity to comment on this ED. Thank you for considering our views.

Sincerely,

Tom Panther
Controller and Chief Accounting Officer