August 24, 2009

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

File Reference No. 1700-100
Exposure Draft about the Credit Quality of Financing Receivables and the Allowance for Credit Losses

Dear Mr. Golden:

MBIA Inc. appreciates the opportunity to comment on the Exposure Draft about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (“Exposure Draft”). MBIA provides financial guarantee insurance and other forms of credit protection, as well as investment management services to public finance and structured finance issuers, investors and capital markets participants on a global basis.

MBIA is interested in clarifying the scope of the proposed Exposure Draft with respect to receivables for financial guarantee insurance contracts that meet the scope of FASB Accounting Standards Codification 944-20-15-67, previously referred to as FASB Statement No. 163, Accounting for Financial Guarantee Insurance Contracts (“SFAS 163”).

According to SFAS 163, at initial recognition of a financial guarantee insurance contract, an insurance enterprise is required to recognize a liability for unearned premium revenue. Measurement of unearned premium revenue at inception of a financial guarantee insurance contract depends on whether a single premium is collected upfront at inception of the policy or premiums are collected over the period of risk of the policy. When premiums are collected over the period of risk of the financial guarantee insurance contract, initial measurement of unearned premium revenue is equal to the present value of the premiums due, or expected to be collected, over the period discounted using a risk-free interest rate. A corresponding receivable for future premiums is also recognized in an amount equal to unearned premium revenue recognized at inception of the policy. A receivable for future premiums is written-off to earnings when deemed uncollectible. Disclosures pertaining to premium receivable require a rollforward for the period including adjustments for changes such as uncollectible amounts.
Based on certain attributes, a financial guarantee insurance contract meets the scope requirements and applies the accounting and disclosure in SFAS 163 as described above. The attributes require a contract to be issued by an insurance enterprise and to provide protection to the holder of an insured obligation from financial loss in the event of a default. These attributes are not consistent with a creditor-borrower or lessor-leasee arrangement and do not meet the scope of a financing receivable or lease. MBIA is concerned the Exposure Draft will scope in financial guarantee insurance contracts resulting in disclosure requirements that do not provide decision-useful information to users of our financial statements.

In addition to the comments above, we are responding to certain issues identified in the Exposure Draft in the Appendix that follows.

Thank you for the opportunity to contribute to the standard-setting process. Should you have any questions about our letter, please do not hesitate to contact Greg Wilson, Director of Accounting Policy at (914) 765-3381 or me at (914) 765-3557.

Sincerely,

Huy Tran
Managing Director
Deputy Controller and Head of Accounting Policy
MBIA Inc.
APPENDIX

Issue 1: This proposed Statement defines a financing receivable as both loans as defined by FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan, and lessors’ investment in leases other than operating leases that have been recorded as assets in accordance with FASB Statement No. 13, Accounting for Leases. Do you agree with the definition used to identify a financing receivable subject to the provisions of this proposed Statement? If not, why not?

MBIA does not believe premium receivable related to financial guarantee insurance contracts should be included in the definition of a financing receivable in paragraph 3 of the Exposure Draft.

MBIA believes paragraph 3 of the Exposure Draft should be amended to provide a scope exception for financial guarantee insurance contracts as defined by SFAS 163. The Board should clarify that financial guarantee insurance contracts are not financing receivables and are not considered the equivalent of loans or leases.

In order to apply financial guarantee insurance contract accounting and disclosure according to SFAS 163, a contract is required to be issued by an insurance enterprise to provide protection to the holder of an insured obligation from financial loss in the event of default. Financial guarantee insurance contracts where premiums are collected as payments over the period of the policy generally include contractual terms that allow the policy to be cancelled in the event of nonpayment of the premium due. The attributes of a financial guarantee insurance contract are not consistent with the definition of a financing receivable.

Issue 2: This proposed Statement would apply to all creditors, including all public and nonpublic entities that prepare financial statements in accordance with generally accepted accounting principles. Do you agree with the scope of this proposed Statement? If not, why not?

MBIA insurance subsidiaries are insurance enterprises that provide financial guarantee insurance contracts that include policies where premium is collected over the period of risk of the insured obligation. By definition, our insurance enterprises are the insurer with respect to these types of transaction. MBIA insurance enterprises are not considered a creditor.

MBIA believes paragraph 3 of the Exposure Draft should be amended to provide a scope exception for financial guarantee insurance contracts as defined by SFAS 163. The Board should clarify that financial guarantee insurance contracts are not financing receivables and are not considered the equivalent of loans or leases. In further evaluation of paragraph 3 of the Exposure Draft, a financial guarantee insurance contract is not the “right to receive money on demand or on fixed or
determinable dates” associated with a creditor in a lending or leasing arrangement, but rather a contract to provide protection to the holder of an insured obligation from financial loss in the event of a default in exchange for the payment of an insurance premium.

Disclosure requirements of SFAS 163 provide users of financial statements with adequate and decision-useful information related to financial guarantee insurance contracts including policies that result in premium receivable. An uncollectible insurance premium is disclosed as an adjustment to the premium receivable in the rollforward schedule as currently required by SFAS 163.