December 13, 2010

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

Via email: director@fasb.org

File Reference: No. 1880-100 Clarifications to Accounting for Troubled Debt Restructurings by Creditors

Dear Technical Director:

Capitol Federal Financial appreciates the opportunity to comment on the exposure draft Clarifications to Accounting for Troubled Debt Restructurings by Creditors (ED). Capitol Federal Financial, headquartered in Topeka, Kansas, is an $8.5 billion bank holding company. Capitol Federal Financial provides a full range of retail banking services through its wholly-owned subsidiary, Capitol Federal Savings Bank (the Bank). The Bank primarily serves eastern Kansas and a portion of the metropolitan area of greater Kansas City through 46 branch locations.

Capitol Federal Financial understands the concerns with the identification and reporting of troubled debt restructurings (TDRs). However, we are opposed to the ED, as the ED proposes changes that will make the process to evaluate loan modifications unnecessarily difficult and complex without providing any improvement in credit risk disclosures. Our primary concerns are outlined below.

**Market Based Identification**

The ED emphasizes the current accounting standard’s market-based trigger in identifying a TDR. The market trigger is the biggest problem in the current TDR analysis. Banks do not manage their customer relationships on a market value basis. Rather, a customer relationship is managed to preserve the cash flows that are contractually due. As such, market rate information is often not a primary factor in structuring a loan modification.

Both the current accounting guidance and the proposed ED state that the TDR status can be removed after a period of performance if the loan yields a market rate on the date of the modification. A loan that is considered a TDR would rarely have its status reinstated due to both the difficulty in determining whether a loan modification was done at a market rate and for all the issues associated with the market-rate based accounting in the ED. Although the loan may eventually be performing according to the modified terms based on the original effective
borrowing rate, the loan will continue to be accounted and reported as a TDR until it is repaid. The accumulation of TDRs over a multi-year credit downturn could result in a significant overstatement of TDRs. Continuing to report loans that are performing in accordance with their modified terms misrepresents the credit risk profile of a bank. If the FASB continues to believe TDRs are relevant, TDRs should be limited to modifications that include forgiveness of loan principal and/or past due interest, or a permanent reduction in the stated interest rate to a level below the market rate at the time of the modification.

**Operational Concerns**

The changes proposed will, if implemented, require many changes to our processes to identify TDRs. These processes are based on certain specific guidance issued by our regulators and auditors in the past. For example, taking away past guidance provided by our regulators and the Center for Audit Quality will add considerable complexity to that process. If we do not provide the documentation required to support the evaluation of the loan modification, we will likely be required to, by default, report the modification as a TDR. The amounts reported will then contain many cases of legitimate loan modifications whereby no significant concession has been provided.

**Usefulness of Information**

We do not believe this ED will result in better financial reporting. The amounts reported will contain many cases of legitimate loan modifications whereby no significant concession has been provided. In addition to the TDR disclosures, preparers already provide separate disclosures of impaired loans (which includes TDRs) and loan credit quality information, which will be significantly expanded by the newly issued ASU on credit quality and the allowance for credit losses. Therefore, we believe the separate disclosure of loan modifications designated as TDRs is confusing to financial statement users and is sometimes redundant. We believe the FASB should eliminate the TDR distinction as investors and other users of the financial statements are primarily concerned with the adequacy of the allowance for credit losses and the identification and disclosure of loans that are not performing in accordance with their contractual terms.

Thank you for considering our views. Please feel free to contact me if you would like to discuss our concerns regarding the proposal.

Sincerely,

Tara D. Van Houweling
First Vice President and Reporting Director