April 1, 2011

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

Via Email to: director@fasp.org


Dear Technical Director:

Federal National Mortgage Association\(^1\) (Fannie Mae) appreciates the opportunity to comment on the Supplementary Document, Financial Instruments: Impairment which was issued jointly by the Financial Accounting Standards Board ("FASB") and International Accounting Standards Board ("IASB," collectively, "the Boards"). Fannie Mae continues to support the development of a converged approach to reporting of financial instruments under U.S. generally accepted accounting principles ("GAAP") and International Financial Reporting Standards ("IFRS"), and thus we appreciate the convergence efforts which have led to the issuance of a common proposal for measuring and recognizing impairment losses for financial instruments.

While we believe that the approach provided in the common proposal represents an improvement over the current incurred loss model and support certain aspects of the proposed approach, we have concerns regarding other aspects of the proposal. Our overall comments related to the proposed approach are outlined below and discussed in detail in our responses to the questions asked by the Boards included as Appendix 1.

Overall Comments on the Supplementary Document

I. Use of the Expected Loss Approach as the Basis for Measuring Impairment

We support the proposed use of an expected loss approach for measuring impairment. We believe that measuring impairment using an expected loss approach that permits entities to

\(^1\) Fannie Mae is a government-sponsored enterprise that was chartered by Congress in 1938 to support liquidity, stability, and affordability in the secondary mortgage market. Fannie Mae became a stockholder-owned and privately managed corporation by legislation enacted by Congress in 1968. Since September 6, 2008, Fannie Mae has been under conservatorship, with the Federal Housing Finance Agency ("FHFA") acting as conservator. As of December 31, 2010, we had total assets of $3.2 trillion, which included $2.9 trillion in mortgage loans, net of allowance, and total liabilities of $3.2 trillion, which included $3.0 trillion in long-term debt.
consider reasonable and supportable assumptions and forecasts about future events specifically addresses some of the concerns expressed over the delayed recognition of credit losses. Further, such an approach also aligns the measurement of credit losses with management of the related credit risk.

II. Differentiation in the Recognition Patterns for “Good Book” and “Bad Book” Assets

We support differentiating an entity’s financial assets between a good book and bad book, and using a different pattern for recognizing credit losses in each book. We believe that identifying a bad book of assets and recognizing the full amount of lifetime expected credit losses for that book provides users with information that is useful for decision-making, as it identifies loans which are being actively managed in a loss mitigation process and requires immediate recognition of economic loss for those assets.

We also support the conclusion that it is not appropriate to recognize the entire loss expected for the good book at inception of the portfolio. However, we do not support the proposed requirement to recognize impairment for the good book using the higher of the losses expected over the foreseeable future or the time-proportional method as it adds undue complexity to the process of recognizing impairment. This “greater of” approach diverges from an entity’s credit risk management process and complicates the process of comparing and contrasting impairment results to current period events and trends. As a result, we recommend the Boards consider refining the foreseeable future method and using it exclusively for measuring impairment in the good book, as this approach aligns the recognition of credit losses with the processes used to manage credit risk.

We recommend the Boards refine the definition of the “foreseeable future.” As currently defined, the foreseeable future approach does not provide a conceptual basis for recognizing expected losses that resonates with the professionals that model the losses in our mortgage portfolio for the purpose of managing credit risk. In particular, this definition does not consider the characteristics of the asset under evaluation or the period over which an entity manages that asset’s credit risk, which is inconsistent with the projections of expected losses that are the basis for measuring the impairment. Additionally, this definition presumes that our loss mitigation professionals can identify a single point or general timeframe in which the loss estimate becomes less reliable. Given that this type of bright line does not exist and that the ability to forecast credit losses varies significantly between financial institutions, it is likely that arbitrary foreseeable future time periods will be adopted.

We believe the Boards could limit the diversity in practice that would otherwise develop if the definition of the foreseeable future provided a conceptual basis under which an entity can evaluate the credit losses it should recognize for its portfolios that is consistent with the credit risk it is managing. For a loan portfolio, we believe it would be reasonable to tie recognition of credit losses to the average duration of certain loss mitigation or recovery strategies. As a specific example, for a residential mortgage portfolio, it would not be unreasonable to tie the definition of the foreseeable future to the average period from delinquency to disposition of the foreclosed property. We would recommend the use of an average that is based upon observations in both good and bad economic periods (i.e., a “through-the-cycle” average). The advantage of such an approach would be the linkage of the recognition period to observable historical data, which can be objectively evaluated and audited.
III. Other Matters Addressed in the Common Proposal

Application of the Model to a Portfolio of Securities

In addition, we recommend that the Boards provide further guidance regarding application of the good book/bad book approach to securities. Specifically, it is unclear how the model should be applied in circumstances where factors such as the interest rate environment and its prepayment speeds (e.g., factors other than credit) have the most significant impact on the fair value of the security. As a result, we recommend that the Boards provide incremental guidance and examples illustrating the intended approach for when impairment for securities should be assessed under the good book approach versus the bad book approach.

Discounting

We do not support discounting the losses estimated, as it adds an incremental layer of complexity to the process of measuring and reporting impairment of financial assets without providing a significant incremental benefit. However, should the final guidance provide for discounting of expected losses, we believe that discounting should be implemented consistently by all entities within the scope of the guidance.

IV. Matters Not Yet Exposed for Comment under Joint Proposed Guidance

While we appreciate the opportunity to provide our views on this exposure document related to impairment for pools of financial assets, we note that this proposed guidance does not address the approach to impairment for other related populations of assets. For example, this document does not provide guidance regarding the impairment methodology which will be required for acquired credit-impaired assets, and the guidance related to classification, measurement, and income recognition has not yet been fully discussed and exposed for incremental comment.

We also note that the Boards have not yet determined what guidance will be provided related to identification and impairment of loans which are modified in a troubled debt restructuring ("TDR"), a concept unique to U.S. GAAP. If the good book/bad book concept were retained in the final proposed guidance, we do not believe that it would be necessary for the Boards to also retain the current accounting model for TDRs. As an alternative, we believe that the Boards should consider the following model:

- When a loan is modified for a borrower who is experiencing financial difficulty, the loan should be classified in the bad book (if not already classified as such), and its impairment should be measured in a manner consistent with that classification;

- If discounting is required, it should be based on the loan’s new effective interest rate – this would contrast with the current accounting model which requires creditors to initially measure a concession to the borrower and then subsequently recycle that charge through income; and
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- Once the borrower has demonstrated an adequate period of performance in accordance with the loan's modified terms, the loan should be transferred into the good book, and its impairment should be measured in a manner consistent with that classification.

To ensure adequate transparency related to this loss mitigation activity, robust disclosures should be required in the notes to the financial statements. Such disclosures would include the volume of the activity, subsequent performance of the modified loans, and the change in the corresponding yield. Overall, we believe that such a model would address concerns regarding delayed recognition of credit losses while also ensuring that users have sufficient information to understand changes in the delinquency status of the portfolio, as well as the expected performance incremental modifications.

V. Concerns Related to Due Process

Given the significance of the issues which have not yet been addressed and the broad impact of the joint project on Accounting for Financial Instruments, we are concerned that the Boards are not providing all stakeholders sufficient time to fully assess the proposed approach and consider all of its potential ramifications. Because we believe it is in the best interest of financial statement users and preparers that the Boards issue high-quality, converged standards, we encourage the Boards to take the necessary time and follow the appropriate due process to facilitate that objective. Thus, we encourage the Boards to continue seeking feedback on the various aspects of the proposal during the re-deliberation process and – once complete – re-expose the entire Accounting for Financial Instruments standard so that entities may review it in context of their financial statements taken as a whole.

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Appendix 1 to this letter contains our responses to certain questions asked by the Boards.

The opinions expressed in this letter are solely that of Fannie Mae and do not purport to represent the views of the Federal Housing Finance Agency as our conservator.

We would like to continue to participate in the public discussions of this issue, and would be pleased to discuss any aspect of our letter with you to provide further assistance in your deliberations on the proposed guidance. Thank you for considering our views.

Sincerely,

Kirk C. Silva
Vice President and Accounting Policy Head
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Appendix 1: Responses to specific questions raised in the Supplementary Document

Question 1

Do you believe the proposed approach for recognition of impairment described in this supplementary document deals with this weakness (i.e., delayed recognition of expected credit losses)? If not, how do you believe the proposed model should be revised and why?

We believe that the proposed approach represents an improvement over the current incurred loss model. Specifically, using an expected loss measurement approach aligns the measurement of credit losses with management of credit risk, and addresses some of the concerns over the delayed recognition of credit losses by permitting entities to consider reasonable and supportable assumptions and forecasts about future events when measuring credit losses. Further, in addition to recognizing expected losses earlier, measuring impairment based on expected losses permits entities to incorporate reasonable and supportable forecasts of recoveries earlier, which mitigates some of the procyclicality observed under the current incurred loss approach.

However, we do not believe that all of the loss recognition patterns considered in the various proposals will fully address the delayed recognition of credit losses. Specifically, although the full expected loss approach for the bad book and the recognition of losses for the foreseeable future for the good book addresses concerns of delayed recognition because they recognize losses in a manner consistent with credit risk management processes, the time-proportional method does not. Rather, the time-proportional method has the effect of “smoothing” expected losses over time via its presumption that losses occur in a linear pattern, which may delay recognition of credit losses for asset pools that have earlier loss patterns. We recognize that the foreseeable future “floor” approach partially addresses this concern. However, when the foreseeable future amount is not the higher of the two amounts that would be calculated under the common proposal, the result will be a linear loss recognition pattern that is not consistent with the actual pattern in which we expect losses to occur.

As a result, although the foreseeable future approach requires clarification as discussed further in our responses to Question 9 below, we recommend eliminating the time-proportional approach in favor of the foreseeable future approach. Our specific concerns related to the time-proportional approach are discussed in our responses to Question 3 and Question 5 below.

Question 2

Is the impairment model proposed in the supplementary document at least as operational for closed portfolios and other instruments as it is for open portfolios? Why or why not?

Although the supplementary document seeks views on whether the proposed approach is suitable for open portfolios, the boards welcome any comments on its suitability for single assets and closed portfolios and also comments on how important it is to have a single impairment approach for all relevant financial assets.

We believe the impairment model proposed can generally be applied both to open and closed loan portfolios, as well as other instruments. However, we recommend that the Boards provide further guidance regarding application of the good book/bad book approach to securities.
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Consider as an example that a reporting entity has purchased an interest-only strip security that represents an undivided interest in the cash flows from a pool of loans. Potential triggers for moving the security into the bad book might include when the fair value of the security decreases or when the expected cash flows are less than those initially expected. However, given that the key driver which will trigger a loss for such a security is the acceleration of prepayment speeds on the underlying pool of loans, it is unclear at what point the holder of such a security would move the security into the bad book, if at all. As a result, we recommend that the Boards provide incremental guidance and examples illustrating the intended approach for when impairment for securities should be assessed under the good book approach versus bad book approach.

**Question 3**

Do you agree that for financial assets in the ‘good book’ it is appropriate to recognize the impairment allowance using the proposed approach described above? Why or why not?

The common proposal requires that we recognize impairment in the “good book” as the higher of: (a) the time-proportional amount of remaining lifetime expected losses; and (b) all expected credit losses for the foreseeable future (being a minimum of twelve months). While we support the concepts of identifying a good book of assets and of measuring losses based on an expected loss approach, we do not support this proposed loss recognition pattern for the good book.

The time-proportional recognition method implies that the recognition of expected losses should occur in a linear pattern. The time-proportional amount may result in recognizing losses in a manner that is inconsistent with an entity’s loss experience for a given pool of assets. Although recognizing the foreseeable future amount addresses the potential for delayed loss recognition, the time-proportional method would accelerate the recognition of losses when loss experience patterns indicate that losses primarily occur later in the life of a pool (i.e., potentially recognizing “too much, too soon”). This may, in turn, produce results which are inconsistent with management’s forecasting and credit-risk management process.

We also are concerned that this “greater of” concept complicates and inhibits the ability to provide decision-useful information to management and third parties, because it adds undue complexity to the process of comparing and contrasting impairment results to current period events and trends. To illustrate this concern, consider the following examples:

**Example 1: A Creditor Uses Different Loss Recognition Methodologies in Different Portfolios in the Same Period**

Consider a fact pattern in which a lender has two loan portfolios. Under the common proposal, the lender projects its expected lifetime losses for each portfolio and then recognizes impairment under the time-proportional approach for the first portfolio and the foreseeable future approach for the second portfolio. The lender will thus be required to first educate the financial statement users regarding the two different approaches and compare and contrast the calculations before being able to focus on the economic drivers of the loss forecast which is the basis for recognizing the losses.
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Example 2: A Creditor Uses Different Loss Recognition Methodologies in the Same Portfolio in Different Periods

Consider further that the lender in the above fact pattern has been projecting the expected lifetime losses and recording the foreseeable future amount for the past two years for one of its two portfolios, because that method produces the larger impairment amount. Next year, the lender continues to project expected losses as before, but the time-proportional calculation produces the larger impairment amount, causing the lender to change its methodology for recognizing impairment for the portfolio and explain these changes to financial statement users. This change in methodology will distract from the communication regarding the changes in the portfolio's economics (i.e., expected default and severity).

As illustrated in these examples, the “greater of” concept adds significant complexity to the explanations of results for financial statement users. As a result, we do not support the loss recognition pattern under the common proposal for the good book. Rather, we believe that the FASB’s concept of recognizing expected losses for the foreseeable future for the good book is more appropriate, as this approach would produce results that are consistent with the results of management’s loss forecasting and credit-risk management processes.

Question 4

Would the proposed approach to determining the impairment allowance on a time-proportional basis be operational? Why or why not?

We believe the proposed approach to determining impairment on a time-proportional basis is operational, as it represents a proportion (i.e., the ratio of average portfolio age to average portfolio life) of losses expected over the life of the loan. However, as discussed in our response to Question 3, we believe that the time-proportional approach may result in a loss recognition pattern that is inconsistent with management’s expectations for a given portfolio, and thus are more difficult to explain to financial statement users. In contrast, the foreseeable future approach (if clarified) may better align with management’s loss expectations and credit-risk management process for a given portfolio, and thus is clearer to explain to financial statement users.

Question 5

Would the proposed approach provide information that is useful for decision-making? If not, how would you modify the proposal?

We believe that decision-usefulness of information is maximized when it is prepared and presented in a manner consistent with the approach an entity uses to manage its business. Thus, while we believe that certain aspects of the common proposal will provide information that is useful for decision-making given the consistency of those aspects with management’s credit-risk management and forecasting processes, we are concerned that other aspects diverge from these processes and will not provide decision-useful information.

We believe that requiring entities to base their credit impairment measurement on expected losses that take into consideration reasonable and supportable assumptions and forecasts about future events and conditions is consistent with an entity’s risk-management processes, and thus
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provides decision-useful information to financial statement users. We also believe that identifying a bad book of assets and recognizing the full amount of lifetime expected credit losses for that book provides users with information that is useful for decision-making, as it identifies loans which are no longer providing the benefit initially expected and matches recognition of economic loss with this identification. However, while we agree with the concept of recognizing expected losses in the good book over the expected life of the assets, as described in the common proposal, we do not believe that the proposed “greater of” methodology for the good book provides decision-useful information. Specifically, as discussed in our response to Question 3, we are concerned by the complexity associated with explaining the potential period-to-period and portfolio-to-portfolio differences in the loss recognition pattern using the “greater of” method prescribed. As a result, we recommend the Boards consider revising the approach for recognizing impairment in the good book. Specifically, we propose that the Boards clarify the foreseeable future method and use that approach exclusively for measuring impairment in the good book. Our specific concerns with, and recommendations regarding, this method are provided in our response to Question 9 below.

Question 6

Is the proposed requirement to differentiate between the two groups (ie ‘good book’ and ‘bad book’) for the purpose of determining the impairment allowance clearly described? If not, how could it be described more clearly?

We support differentiating an entity’s financial assets between a good book and bad book for the purpose of measuring and recognizing credit losses. However, we believe that the common proposal should provide incremental guidance on the manner in which an entity should differentiate between the good book and bad book of assets, as the current description provides for interpretation along a wide range of options from early-stage delinquency to foreclosure.

As currently written, the guidance in paragraph 3 of the standard requires that an asset move into the bad book when “the collectability of a financial asset becomes so uncertain that the entity’s credit risk management objective changes from receiving regular payments from the debtor to recovery of all or a portion of the financial asset.” Paragraph B3 of the Application Guidance further specifies that an entity differentiate the two groups “on the basis of its internal risk management” and when “the management of the financial asset typically becomes more active.” A creditor could interpret this guidance stringently and move loans into the bad book if the creditor contacts the borrower to inquire as to the reason for a single missed payment, as this represents the point at which managing the asset becomes more active. Alternatively, a creditor could interpret this guidance much less severely and move a loan into the bad book when the foreclosure process has started or a troubled debt restructuring has occurred, as such actions are more consistent with recovery of the creditor’s investment in the asset.

Further, the illustrative examples provided in paragraph B3 provide somewhat inconsistent guidance for when to move a loan into the bad book. Under our delinquency management and default prevention processes, our servicers contact borrowers by telephone within the first two weeks after the borrower has missed a payment and follow up with a written payment reminder if the amount remains unpaid. The servicer must continue its efforts to resolve the delinquency by continuing to make phone calls and send written correspondence in an effort to assess the borrower’s qualifications for a foreclosure prevention alternative, which include both retention
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options (such as a repayment plan or loan modification) and liquidation options (such as a short sale or deed-in-lieu of foreclosure), as appropriate. If the borrower does not respond or fails to meet the agreed upon conditions of a foreclosure prevention alternative, foreclosure proceedings will advance.

When considered in the context of our loss mitigation process, the examples provided in the proposed guidance for moving a loan into the bad book seem to fall on opposite ends of the spectrum for loss mitigation and recovery. Specifically, the examples in the proposed guidance could be interpreted to require us to move into the bad book as early as the point at which an initial follow-up telephone call is made or as late as the point when foreclosure is initiated. Thus, we recommend that the Boards clarify the intended principle for differentiating between the good and bad books, and provide specific examples which illustrate the intended differentiation for varying asset types (e.g., loans, securities), as well-developed principles and illustrative examples will minimize the potential for diversity in practice.

As a practical matter, we would recommend that the Boards consider providing guidelines for differentiation that can be applied consistently across groups of loans with similar risk characteristics. For example, when considering the impact of the common proposal to our single-family mortgage loan portfolio, we believed that the bad book would likely include seriously delinquent loans (i.e., loans that are 90 days or more past due) and loans modified in a TDR. We believe that the loss mitigation activities that would typically have been initiated for such loans would qualify them for classification in the bad book. If we were required to classify each loan into the good or bad book based on an evaluation of individual facts and circumstances (i.e., other than delinquency status and the requirements of our servicing guidelines), the process would be operationally burdensome given the significant cost and effort required to gather such information.

Question 7

Is the proposed requirement to differentiate between the two groups (i.e. ‘good book’ and ‘bad book’) for the purpose of determining the impairment allowance operational and/or auditable? If not, how could it be made more operational and/or auditable?

Please see combined response to Question 6 and Question 7 above.

Question 8

Do you agree with the proposed requirement to differentiate between the two groups (i.e. ‘good book’ and ‘bad book’) for the purpose of determining the impairment allowance? If not, what requirement would you propose and why?

We agree that entities should be required to differentiate between a “good book” and “bad book” for the purpose of determining the impairment allowance. We are concerned that in the absence of a bad book, which requires entities to recognize losses on a full lifetime expected loss amount, loss mitigation activities may have the effect of pushing the timing of losses to a period beyond the foreseeable future, which could delay recognition of credit losses for troubled assets.

However, the existence of the bad book mitigates this risk by eliminating consideration of the timing of the loss when recognizing impairment on the full lifetime expected loss basis. This
risk is probably greatest with commercial lending, where it is not uncommon to extend the terms of a mortgage loan via modification when a borrower is experiencing temporary financial difficulty.

Question 9

The boards are seeking comment with respect to the minimum allowance amount (floor) that would be required under this proposed model. Specifically, on the following issues:

(a) Do you agree with the proposal to require a floor for the impairment allowance related to the ‘good book’? Why or why not?

In the event the approach proposed under the common proposal is adopted, we believe that a foreseeable future amount (or “floor”) is necessary. Specifically, because recognition of losses using the time-proportional approach may significantly differ from actual losses observed, a foreseeable future floor would ensure that the losses recognized align with the losses that are expected to occur, particularly in portfolios which have earlier loss experience patterns.

As discussed in our response to Question 5, although we believe the concept of the foreseeable future requires further clarification and refinement, we recommend the Boards adopt the foreseeable future approach for measuring impairment in the good book and eliminate the time-proportional approach. We believe that using a well-developed, principles-based foreseeable future approach will address concerns over the delayed recognition of credit losses without introducing the complexity associated with choosing between the greater of the impairment amount determined under multiple approaches.

(b) Alternatively, do you believe that an entity should be required to invoke a floor for the impairment allowance related to the ‘good book’ only in circumstances in which there is evidence of an early loss pattern?

We do not support the “greater of” method under the common proposal. We believe that a foreseeable future methodology would be preferable to the “greater of” method under the common proposal. Further, a well-developed foreseeable future methodology would eliminate the need for the time-proportional approach, as the losses would be recognized over the life of the loan on an appropriate basis using the foreseeable future method.

However, in the event that the “greater of” methodology is retained, we believe that it is necessary to include the concept of a foreseeable future floor related to the good book for all portfolios. If the floor is only required for portfolios with early loss patterns, it will add an incremental layer of complexity and further increase the potential for diversity in practice. Rather, we believe an entity should determine the foreseeable future period as appropriate to its particular loan portfolio(s), which may be greater or less than the 12-month bright-line threshold currently proposed in the guidance.
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(c) If you agree with a proposed minimum allowance amount, do you further agree that it should be determined on the basis of losses expected to occur within the foreseeable future (and no less than twelve months)? Why or why not? If you disagree, how would you prefer the minimum allowance to be determined and why?

We believe that an entity should base its loss recognition for the good book on expected losses over the foreseeable future. However, we also believe the concept of the foreseeable future requires further clarification and refinement in the guidance.

We believe that the definition of the foreseeable future should consider the characteristics of the asset portfolio being evaluated for impairment, the period over which an entity manages that portfolio’s credit risk, and other considerations which impact the expected losses that an entity will recognize. However, Paragraph B11 of the supplemental document defines the foreseeable future as the “future time period for which specific projections of events and conditions are possible and the amount of credit losses can be reasonably estimated based on those specific projections.” We do not support using this definition for the foreseeable future, because it does not provide a conceptual basis for determining the appropriate future time period over which an entity will experience the losses (e.g., through charge-offs) that must be recognized as of the current balance sheet date. In particular, this definition does not consider the characteristics of the asset under evaluation or the period over which an entity manages that asset’s credit risk, which is inconsistent with the projections of expected losses that are the basis for measuring the impairment. Further, this guidance implies that an entity with a sophisticated loss forecasting process should view the foreseeable future differently than other entities with less sophisticated processes, which could lead to inconsistency in measuring impairment for assets with similar risk characteristics.

As a result, we recommend that the Boards redefine the foreseeable future so that it provides a conceptual basis under which an entity can evaluate the losses it should recognize for its portfolios. One specific alternative that we recommend the Boards consider is to define the foreseeable future period as the average period required for a loss in a given portfolio to be resolved. For a residential mortgage loan, this period would begin with the loan’s delinquency and end with the resolution of the loss via foreclosure and disposition of the property collateral. We would recommend the use of an average that is based upon observations in both good and bad economic periods (i.e., a “through-the-cycle” average). This period would be approximately 18 to 24 months for our single-family residential mortgage loan portfolio. Overall, this method is consistent with the economic period over which losses occur and are managed. In addition, using such a period provides a means for entities to base their measurement period on observable historical data, which can be objectively evaluated and audited. Further, such a concept would reduce the potential for inconsistency in the measurement of impairment for assets with similar risk characteristics.

In addition, we believe that once an entity has determined the appropriate foreseeable future period, an appropriate threshold for making changes should be established so that changes are not based solely on changes in economic conditions. In the absence of such a threshold, entities may assert that the foreseeable future period is shorter in periods of economic uncertainty and would change their estimate to forecast losses over a shorter period when there is a downturn in the credit cycle simply because it would be more difficult to estimate losses. In contrast, we believe that changing the foreseeable future period should be subjected to a “preferable”
threshold. An example of a change that might be considered preferable would be to allow an entity to conform to the foreseeable future period used by its primary competitor(s) in order to promote consistency across an industry.

(d) For the foreseeable future, would the period considered in developing the expected loss estimate change on the basis of changes in economic conditions?
Please see combined response to Questions 9(c), Question 9(d), and Question 9(e) above.

(e) Do you believe that the foreseeable future period (for purposes of a credit impairment model) is typically a period greater than twelve months? Why or why not? Please provide data to support your response, including details of particular portfolios for which you believe this will be the case.
Please see combined response to Questions 9(c), Question 9(d), and Question 9(e) above.

(f) If you agree that the foreseeable future is typically a period greater than twelve months, in order to facilitate comparability, do you believe that a ‘ceiling’ should be established for determining the amount of credit impairment to be recognized under the ‘floor’ requirement (for example, no more than three years after an entity’s reporting date)? If so, please provide data and/or reasons to support your response.
We believe that the Boards should develop appropriate principles for determining the foreseeable future amount, which would eliminate any need for a “ceiling” amount to be established. We do not support instituting a ceiling and are concerned that if one were established, preparers would default to the use of this arbitrary maximum amount without evaluating the specific facts and circumstances that exist in their portfolio. Further, we are concerned that financial statement users may view the ceiling amount as preferred, although recording this amount may result in recognizing losses in excess of the foreseeable future amount (i.e., “too much, too soon”).

Question 10
Do you believe that the floor will typically be equal to or higher than the amount calculated in accordance with paragraph 2(a)(i)? Please provide data and/or reasons to support your response, including details of particular portfolios for which you believe this will be the case.
We have observed that both our single-family and multifamily mortgage loan portfolios generally have early loss recognition patterns. As a result, we expect that the impairment amount calculated using the foreseeable future approach would generally be greater than the amount under the time-proportional approach. The time-proportional approach would likely become relevant to such portfolios in periods after the majority of the losses have been recognized.
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Question 11

The boards are seeking comment with respect to the flexibility related to using discounted amounts. Specifically, on the following issues:

(a) Do you agree with the flexibility permitted to use either a discounted or undiscounted estimate when applying the proposed approach described in paragraph B8(a)? Why or why not?

(b) Do you agree with permitting flexibility in the selection of a discount rate when using a discounted expected loss amount? Why or why not?

We do not support discounting the losses estimated, as it adds an incremental layer of complexity to the process of measuring impairment without providing a significant incremental benefit. Specifically, additional operational complexity would be introduced since discounting the expected losses would require implementation of an incremental operational process for accreting of the discount into the impairment measurement. Further, the impact of the discounting would then need to be incorporated into the explanations of results for financial statement users. In addition, when the foreseeable future approach is used to estimate losses in the good book, the period for which losses are recognized would be a short period of time over which discounting would not be expected to have a meaningful impact on the impairment amount.

However, should the final guidance provide for discounting of expected losses, we object to providing entities with the flexibility to choose among various methods and discount rates, as this decreases comparability among entities. Rather, we believe that discounting should be consistently implemented by all entities within the scope of the guidance.