Ms. Suzanne Q. Bielstein  
Director—Major Projects and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT  

Re: File Reference No. 1250-001

Dear Ms. Bielstein:

Countrywide Financial Corporation (Countrywide) is a diversified financial services company that is involved in mortgage lending, banking, and insurance with approximately $175 billion in total assets. For 2005, it was the nation’s largest residential mortgage loan originator and servicer. We appreciate the opportunity to comment on the Exposure Draft of the Proposed Statement of Financial Accounting Standards (ED), The Fair Value Option for Financial Assets and Financial Liabilities.

We support the Board’s proposal to permit fair value accounting to be applied to financial assets and liabilities on an elective basis. Such an approach would reduce the accounting complexities created by the mixed attribute model and permit companies to eliminate the operational burden and complexity associated with hedge accounting under FASB Statement No. 133 (as amended), Accounting for Derivative Instruments and Hedging Activities. Furthermore, it would lead to greater transparency for users of financial statements.

Fair Value Option

The mixed attribute model has created complexity for both accounting and financial reporting purposes. In order to achieve symmetrical accounting for financial assets and liabilities that are hedged, companies must apply hedge accounting under Statement 133. However, Statement 133 is very complex and greatly limits the use of hedge accounting. Many effective economic hedges of risk do not meet the rigorous requirements for hedge accounting, relegating them to the mixed attribute model and asymmetrical accounting results. That situation has made it very difficult for companies to provide transparency to readers of financial statements regarding their risk management strategies. Those limitations even have the adverse effect of altering or limiting the types of risk management strategies applied in practice, as companies often do not want the earnings volatility resulting from economic hedging instruments being recorded at fair value with
no offset. That situation is particularly true for financial assets that are difficult to hedge under Statement 133, such as prime rate based home equity lines of credit.

A fair value option would simplify the accounting for hedges of financial assets and liabilities, permit companies greater freedom in applying risk mitigation strategies, lower operational costs (by eliminating the need to perform regression and other analyses necessary to comply with the requirements for hedge accounting under Statement 133), and improve transparency in the financial statements. At the same time, an elective approach would not force companies to apply fair value accounting to financial assets and liabilities for which the benefits do not significantly outweigh the costs.

Scope

We support the Board’s overall approach to keep the fair value option approach as simple as possible. Consequently, we agree that the number of exceptions should be limited. The exceptions proposed in the ED seem appropriate based on the reasons cited in the proposed Statement and Basis for Conclusions.

Changes in Creditworthiness

We have concerns about the recognition of gains and losses attributable to changes in the fair value of debt associated with changes in the creditworthiness of the issuer. In particular, we believe that it would be misleading and confusing for a company to recognize a gain stemming from a change in the fair value of its debt obligations that is attributable to deterioration in its credit rating. Similar to the alternative view expressed in the Basis for Conclusions, we believe that such results would be difficult to explain to readers of financial statements. Because only portions of the balance sheet would be recognized at fair value under the mixed attribute model, it would be difficult for readers of financial statements to fully comprehend the meaning of those results. Although the recognition of such gains might be a more appropriate answer in theory under full fair value accounting, the benefits of that information in practice would be outweighed by the confusion created. Consequently, we believe that gains and losses from changes in value of issued debt securities attributable to changes in the issuer’s creditworthiness should be excluded from recognition in earnings.

Disclosures

The ED would require companies to disclose whatever information was deemed sufficient to allow users to understand the effect on earnings from application of the fair value method. We would encourage the Board to be more specific with regards to that disclosure requirement to ensure comparability between financial statements of different companies. We believe that the Board should provide guidance that would allow gains and losses from changes in the fair value of economic hedges to be offset against gains and losses from changes in the fair value of the hedged items for which the fair value method has been applied. Permitting such presentations would allow companies to provide better information regarding their operating performance. We also believe that
disclosure of unrealized gains and losses included in assets and liabilities recorded at fair value might be useful information to readers of financial statements.

We believe that disclosures should be required regarding how companies determined or estimated the fair value of financial assets and liabilities reported under the fair value option. If internal models were used to value those assets and liabilities, additional disclosures should be required that describe the methodology used and how those valuations were validated. Similar to those required in FASB Statement No. 156, *Accounting for Servicing of Financial Assets*, such disclosures might include a description of the valuation techniques or other methods used to measure fair value, including the methodology and model validation procedures as well as quantitative and qualitative information about the assumptions.

**Fair Value Accounting**

While we support an elective approach to recording financial assets and liabilities at fair value, we do have concerns that such guidance might be a precursor to mandatory fair value accounting. We would oppose guidance that would mandate fair value accounting for all financial assets and liabilities. In certain cases, we believe that an amortized or other cost basis would provide better information to users of financial statements. For example, loans that are classified as *held for investment* and expect to be held until repayment should be accounted for at amortized cost rather than fair value. In that case, changes in fair value due to changes in market interest rates would be less relevant information than the interest earned and collected from such loans. The same would be true for the interest paid on debt issued by a company. Deposits (which have been scoped out of the ED) would be better reflected at the amount owed to the customer rather than at fair value. Consequently, we hope that the Board does not view the ED as an interim step towards mandating full fair value accounting, as we believe that much more study and discussion with constituents would be necessary before such a proposal could be considered.

**Summary**

We support a fair value option for financial assets and liabilities. We believe that it would simplify the accounting for those assets and liabilities, reduce complexity, reduce the operational burden of hedge accounting, and provide greater transparency. However, our endorsement only applies if this guidance is not viewed as an interim step towards mandating full fair value accounting in the near future.
We would be glad to discuss any of our comments in more detail. If you have any questions, please contact me at 818/225-3536 or “anne_mccallion@countrywide.com” or Larry Gee, Managing Director—Technical Accounting at 818/871-4211 or “larry_gee@countrywide.com.”

Very truly yours,

Anne McCallion
Senior Managing Director—Finance
Countrywide Financial Corporation