December 8, 2006

VIA Electronic Mail

Mr. Larry Smith
Director of Technical Application & Implementation Activities
Financial Accounting Standards Board
401 Merritt 7, P. O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed Issue B40

Dear Mr. Smith:

The Mortgage Bankers Association\(^1\) has studied the guidance in the above-referenced proposed Statement 133 Implementation Issue, "Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets" (Issue B40), and believes it appropriately addresses issuer and investor questions about the circumstances in which interests in pass-through mortgage-backed securities and collateralized mortgage obligations must be evaluated for possible bifurcation under paragraph 13(b) of Statement 133, as amended by Statement No. 155.\(^2\) MBA is pleased, therefore, to express support for the guidance in Issue B40. MBA, however, would like to offer two suggestions for improving that guidance.

Specifically, MBA recommends that Issue B40 be revised:

- to replace the phrase "...a servicer receives a market-based servicing fee that is in excess of adequate compensation..." in examples 1 and 5 with the phrase "...a servicer receives benefits of servicing that are expected to be more than adequate compensation..." and to replace the phrase "...excess servicing fees..." in example 6 with "...benefits of servicing are expected to be more than adequate compensation." These wording changes would make the language in Issue B40 consistent with the guidance on accounting for servicing rights in Statement No. 140.\(^3\)

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\(^1\) The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 500,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 3,000 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

\(^2\) "Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140"

\(^3\) "Accounting for Transfers and Servicing of Financial Assets & Extinguishments of Liabilities"
MBA notes that “a market-based servicing fee” is a nondescript term. Also, while the term “excess servicing fees” has a specific meaning under the tax rules for mortgage servicing rights, it is undefined under current accounting literature. In fact, all “excess servicing” receivables in existence on servicing contracts before January 1, 1997, are required to be reclassified pursuant to paragraph 20 of Statement No. 140:

- to remove any suggestion that entities that previously adopted Statement 155 did so incorrectly if they did not identify the prepayment option in the loans underlying their interests in securitized prepayable mortgages as an embedded derivative requiring possible bifurcation under 13.b. of FAS 133. MBA believes part of the first sentence in the second paragraph under the “Effective Date and Transition” section of Issue B40 (i.e. “..., then the entity would not be required to retrospectively apply the guidance in this Issue to prior periods”) suggests that the entity is being granted some type of relief under Issue B40. MBA recommends that the Board consider revising that sentence as follows:

If an entity had previously adopted Statement 155 and, in doing so, had treated derivatives embedded in a securitized interest in prepayable financial assets in a manner consistent with the guidance in this Issue, then that entity would not be required to retrospectively apply the guidance in this Issue to prior periods. An entity that previously adopted Statement 155 and, in doing so, had treated derivatives embedded in a securitized interest in prepayable financial assets in a manner consistent with the guidance in this Issue, shall continue to apply the guidance in this Issue prospectively.

The remainder of that second paragraph (including subparagraphs a. and b.) would remain unchanged.

MBA is very grateful to the FASB members and staff for responding so quickly to industry concerns about the guidance in Statement No. 133, as amended by Statement No. 155, by developing Issue B40. Any questions about our comments or recommendations should be directed to Alison Utermohlen, Senior Director of Government Affairs, at (202) 557-2864 or autermohlen@mortgagebankers.org.

Most sincerely,

Jonathan L. Kempner
President & Chief Executive Officer