February 5, 2009

Mr. Robert H. Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Reference: Proposed Changes to FASB Accounting Standards on Securitization

Dear Mr. Herz:

In our role as their conservator, FHFA is writing in support of the two housing enterprises, Fannie Mae and Freddie Mac, requests to delay the proposed effective date of amendments to FIN 46(R), Consolidation of Variable Interest Entities - An Interpretation of ARB No. 51, and FAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, that are now being considered by FASB. We understand that both companies have met with you individually to discuss the enormity of system changes needed to comply with the proposed accounting change and prospects for successful implementation. We have made our own inquiries and investigation regarding what are fundamental changes in their accounting systems. We find the assertions to us regarding the complexity of the project credible.

As the proposed amendments would fundamentally alter the financial reporting model of the GSEs to that of portfolio lenders from one of insurers of mortgage loans, each company's information systems would require radical and far-reaching changes. FASB has targeted an effective date of 2010 for the proposed amendments. The systems changes required in order to comply with the proposed amendments are of such magnitude that it appears to us unlikely that either company will be able to implement the amendments in a controlled fashion by the effective date. Key challenges to timely implementation of the proposed amendments are twofold: (i) scaling up information systems to accommodate the large volume of loans that would be consolidated, and (ii) collecting and validating detailed information that is necessary in order to accurately represent the carryover bases of assets and liabilities for trusts that will be consolidated. The operational risk of the Enterprises could be substantially increased in the interim due to the size and complexity of the undertaking, and compressed time frame for implementation. At a minimum, the companies will consume scarce resources that are now devoted to competing initiatives that are intended to improve the risk management infrastructure within the companies.
Fannie Mae and Freddie Mac are lynchpins to the mortgage market and have significant influence in credit markets more broadly, with over $5 trillion of securities outstanding. We are concerned that there is risk that either company might not be able to produce timely financial statements because it could not adequately implement the necessary accounting changes within the proposed amendments' timeframe. From our perspective, the potential cost to market participants of one or both of the housing enterprises not providing timely financial reports outweighs the benefit of a prompt revision to financial reporting requirements. Consequently, we request that FASB consider moving the effective date of the proposed amendments from 2010 to 2011.

Alternatively, we support comments that have been made by others to FASB suggesting it work with the IASB to produce a harmonized set of standards governing securitization by the time convergence is scheduled to take place under the SEC roadmap. From an efficiency standpoint, we think it preferable to have one pending accounting transition rather than two.

Lastly, an interim solution could be to make significant progress in terms of disclosure. At the present time, it is difficult if not impossible for investors and other stakeholders to ascertain either expected loss or the fair value of obligations of companies that have involvement with off-balance-sheet entities. Clear disclosure requirements for the loss "pipeline" before risk manifests as incurred losses would be a major step forward in transparency.

We appreciate FASB considering the views of FHFA. If we can provide additional information or you wish to discuss particulars in more detail, please contact me at (202) 414-3801 or Ms. Wanda DeLeo at (202) 343-1830.

Sincerely,

James B. Lockhart III
Director, Federal Housing Finance Agency
Chairman, FHFA Oversight Board

cc: Ms. Mary Schapiro, Chairman, U.S. Securities and Exchange Commission
    Mr. Timothy Geithner, Secretary, U.S. Department of the Treasury