June 7, 2013

Technical Director
File Reference No. EITF 13-B,
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Dear Technical Director:

Enterprise is a family of companies that is owned by Enterprise Community Partners, a publicly supported charitable organization whose mission is to create opportunity for those most in need through fit and affordable housing in strong, diverse and sustainable communities. Since 1984, Enterprise has raised and invested more than $13.9 billion in equity, grants, and loans to help build or preserve 300,000 affordable rental and for-sale homes. As a member of the Enterprise family, Enterprise Community Investment ("ECI") works in partnership with developers and corporate investors to invest and manage equity in affordable housing projects utilizing the Low-Income Housing Tax Credit ("Housing Credit"). ECI has raised and financed over $9 billion in capital for the creation of 1,800 affordable housing developments under this program.

While the private/public partnership to address the crisis in affordable housing has been very successful, capital investment has been negatively impacted due to the existing criteria to qualify for effective yield accounting and the resulting application of the equity method which does not provide the most relevant and reliable information to investors with respect to the investment. The FASB recognizes that Housing Credit investments "have different risks and rewards than traditional equity investments" and the need for reporting entities to apply accounting principles designed to measure and record these investments. Enterprise is supportive of changes that allow for improved accounting for non-guaranteed investments in Housing Credit properties and appreciates the opportunity to provide comments on the Exposure Draft.

**Question 1:** Do you agree that an entity should meet the conditions in this proposed Update in order to elect to account for the investment in a qualified affordable housing project using the effective yield method? If not, please explain why.

Unlike traditional equity investments that provide return through operating and capital cash flows, the substantive nature of Housing Credit investments is to provide return to investors through tax credits and other tax benefits. The FASB has recognized the
the underlying risks and rewards. However, we disagree with the condition requiring the investor to “retain no operational influence over the investment other than protective rights.”

Section 42 of the IRC imposes significant requirements over the 15-year compliance period and non-compliance may result in the recapture of previously taken credits and future lost credits. As such, investors in Housing Credits often have rights designed to ensure compliance in order to protect their ability to receive tax benefits. These rights should not disqualify application of the accounting principles that most effectively measure and record the results of these investments. Therefore, the criteria for applying the effective yield method or other alternative method should be the purpose and design of the investment and the other conditions noted in the Update are sufficient to substantiate the nature of the Housing Credit investment.

**Question 2:** Do you agree that the effective yield method is an appropriate method to account for investments in qualified affordable housing projects? If not, what method of accounting should be used? Please explain.

While the effective yield method provides a more relevant matching of the Housing Credit investment based on both the nature and realization of its economic benefit than the equity method, Enterprise believes a proportional amortization method would be more relevant. This opinion is based on the following:

- The substance of the investment is to purchase tax credits that are received over a 10 year period. While investors also receive the benefit of other tax attributes associated with the investment, the receipt of tax credits is the primary economic motivator for Housing Credit investments. Therefore, the total cost of the investment should be amortized over the same benefit period that Housing Credits are received. We believe recognizing amortization in proportion to the tax credits anticipated to be received would produce more meaningful results to management, investors, and other interested parties than an amortization expense that increases over time.

- Application of the effective yield method in ASC 323-740 and the proposed Update result in an impairment charge on investments performing as designed at inception. Enterprise believes that an impairment charge should not be anticipated at the inception of an investment. Applying a proportional amortization method over the period that tax credits are to be received would not yield impairment on a performing investment. However, changes in tax credits or the tax credit period may result in impairment and/or prospective changes to amortization.

- Enterprise is uncertain as to the benefit of retrospective application for comparative results vs. its cost and effort. We believe a proportional amortization method would be less costly and less time consuming to implement than the effective yield method, under either a retrospective or cumulative effect approach.
In summary, while Enterprise would support the effective yield method over the current practice of applying the equity method for non-guarantee Housing Credit investments, we recommend a proportional amortization method. This method would provide more meaningful financial results and better cost vs. benefits of implementation.

**Question 3:** Do you believe that removal of the requirement for guaranteed tax credits should change the method used to account for such investments from an effective yield method to an approach where the cost of investment is amortized in proportion to tax credits and other tax benefits received and recognized as a component of income taxes attributable to continuing operations?

Enterprise does believe that the removal of the requirement for guaranteed tax credits should change the method used to account for Housing Credit investments to a proportional amortization method as described above. Further, it would be appropriate to recognize the related amortization expense as a component of income taxes attributable to continuing operations.

**Question 4:** Do other types of investments made primarily for the purpose of receiving tax credits meet the conditions in this proposed Update for an entity to elect to account for the investments using the effective yield method? If so, please describe them.

It is Enterprise’s opinion that all investments made in tax credit vehicles that meet the conditions described in the Update should also qualify for an improved accounting method. This may include investments utilizing new markets tax credits ("NMTC"), historic tax credits, and/or the renewable energy tax credit.

In Enterprise’s experience, most investments utilizing the new markets tax credit are structured in a manner so that the investor not only receives tax credits but also real economic cash returns either as a leveraged lender or an equity partner. Enterprise believes that transactions structured in this manner would not meet the “substantially all of the projected benefits are from tax credits and other tax benefits” test and therefore such transactions would not qualify for the accounting method in this Update. However, Enterprise is aware of equity investments in the marketplace that utilize NMTCs for the sole return and such investments should qualify for the proposed accounting.

Historic tax credits are often combined with Housing Credit or NMTC transactions. As a result, the related transaction would have to be evaluated by each investor and compared to the conditions in the Update to determine if the improved accounting method should be used to account for the investment. In Enterprise’s experience, we believe transactions that use historic tax credits along with Housing Credits would qualify for the improved accounting method while transactions that pair NMTC and historic tax credits would not. Again, we are aware of transactions in the marketplace that utilize only historic credits for return and such investments should qualify for the proposed accounting.

We understand that there has been much discussion in the industry with respect to this Update and how it will apply to indirect investments. The majority of Housing Credit investments are made through Housing Credit Funds ("Funds") that are organized and
managed by syndicators. These syndicators often will establish Funds that are limited liability flow-through entities for tax purposes that invest in multiple other limited liability flow-through entities for tax purposes that each qualify for Housing Credits. As such, Enterprise believes that the Update would apply to such Funds. However, due to the level of discussion within the industry on this topic, it is important that the Update clarify that it is applicable to indirect investments, as the flow-through entity for tax purposes to the ultimate investor. This is important as many investors rely on the financial statements of these Funds to record operating results within their financial statements and it would be important that Fund level financial statements are consistent with the accounting applied by the ultimate investor. Since the Fund level financial statements would not have an income tax expense caption as a flow-through entity, the applicable amortization expense could be recognized within the statement of operations and a note be required to disclose the tax credits received. This information would then be sufficient for an investor to apply the effective yield or proportional amortization method of accounting.

**Question 5:** Should the guidance in this proposed Update extend the effective yield method of accounting to other types of investments for which the economic benefits are realized primarily as a result of tax credits and other tax benefits? Please explain.

See response to Question 4.

**Question 6:** Do you agree that the amendments in this proposed Update should prescribe recurring disclosure objectives that would enable users of financial statements to understand the nature of investments in qualified affordable housing projects and the effect of the measurement of that investment and the related tax credits on the financial position and results of operations of the reporting entity? Alternatively, should the proposed amendments include minimum required disclosures?

Enterprise agrees that the amendments in this proposed Update should prescribe recurring disclosure objectives and agrees with all of the recommended disclosures in the Update (subject to application of a proportional amortization period vs. effective-yield for disclosure of the yield) except for the requirement to disclose “whether the qualified affordable housing project is currently subject to any regulatory reviews and the status of such reviews”. Enterprise disagrees with this requirement since all Housing Credit investments are subject to routine compliance reviews on a periodic basis and it is rare that such reviews impact the return potential of such investments. Therefore, requiring this disclosure would be burdensome to syndicators and investors. Further, Enterprise believes that ASC 740 is sufficient to ensure that appropriate disclosures are made with respect to any tax credits that may not be realized by investors due to regulatory reviews or other matters.

**Question 7:** Do you agree that the amendments in this proposed Update should be applied using a retrospective approach? If not, please explain why.
Enterprise would prefer that the amendments in the proposed Update be applied on a prospective basis with a cumulative effect of a change in accounting recorded in the year adoption. We would prefer this method as the cost of a retrospective change outweighs its benefit.

**Question 8:** Do you agree that early adoption of the proposed amendments should be permitted? If not, please explain why.

Yes, Enterprise believes early adoption should be permitted.

**Question 9:** The amendments in this proposed Update would apply to public and nonpublic entities. Should the proposed amendments be different for nonpublic entities? If so, please describe how and why you think they should be different.

Enterprise generally supports consideration to reduce complexity in accounting and potential differences between public and private companies. With respect to this Update, many investments are partnerships between public and private companies, including not-for-profits. Enterprise believes the private companies will need to be subject to the same proposed amendments for this proposed Update.

**Question 10:** For preparers, how much effort would be needed to implement the proposed amendments?

The level of effort needed to implement the proposed amendments is difficult to judge as it would be subject to the availability of paper and electronic records for the time period and the number of investments. Also, as noted above, the effective yield method of accounting would require much more effort and costs than the alternative recommendation, the proportional amortization method.

Enterprise appreciates your consideration of the proposed accounting change and the ability to provide comments to the questions posed. We support your efforts and urge you to implement proposed changes so that the accounting for Housing Credits and other tax credits appropriately reflect the nature of the related investments.

Sincerely,

Craig Mellendick
Senior Vice President and CFO
Enterprise Community Investment, Inc.