September 17, 2013

Mr. Russell Golden
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116


Dear FASB Board Members and Staff:

The PNC Financial Services Group, Inc. (“PNC” or “we”) appreciates the opportunity to comment on the Proposed Accounting Standards Update, Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40), Reclassification of Collateralized Mortgage Loans upon a Troubled Debt Restructuring – a consensus of the FASB Emerging Issues Task Force (the “Proposed ASU”), which solicits feedback on the Financial Accounting Standards Board’s (“FASB’s”, “the Board’s”) proposal to clarify when an “in substance repossession or foreclosure” occurs.

PNC also appreciates the Board’s timely efforts to clarify when an in substance repossession or foreclosure occurs given the differing interpretations amongst banks and regulators. PNC generally agrees with the Board’s definition of in substance repossession or foreclosure and its application to collateralized mortgage loans. The paragraphs below detail PNC’s suggestions and concerns surrounding the details of the definition, additional disclosures, and transition that will be required by the Proposed ASU.

Clarification of “In Substance Repossession or Foreclosure”

PNC supports the Board’s clarification of in substance repossession or foreclosure and application of that clarification to collateralized mortgage loans, but requests further clarification regarding completion of a deed in lieu of foreclosure or similar legal agreement and what constitutes physical possession. Additionally, we recommend the Board pursue further clarification of in substance repossession or foreclosure with regards to commercial and other secured loans (e.g., automobile) within separate projects as law and legal procedures surrounding the foreclosure and repossession process related to commercial and other secured loans differ from collateralized mortgage loans.
Redemption Period
We believe clarification on the "completion of a deed in lieu of foreclosure or similar legal agreement under which the borrower conveys all interest in the residential real estate property to the creditor to satisfy that loan, even though legal title might not yet have passed" is necessary given the limitations of "redemption periods" enforced in some states. For example, PNC may obtain a title or deed in lieu of foreclosure indicating ownership of the property, but because of the redemption period enforced by the state, our ownership interest is subject to the redemption rights of the mortgagor or other creditors. During this period, we could technically market and sell the ownership interest we have, subject to these redemption rights. However, frequently during this period, the bank will not have received physical possession of the property as it may be occupied by the mortgagor during the redemption period.

We believe that it is appropriate to report Other Real Estate Owned within the Statement of Financial Position upon transfer of ownership, albeit subject to these redemption rights. Although the bank may not have physical possession of the property, Other Real Estate Owned reporting is appropriate since the bank has received the title/deed in lieu in the residential real estate property to satisfy that loan during the redemption period.

Foreclosure Sale
We believe further clarification of what demonstrates that the Bank has "obtained" legal title or "completed" a deed in lieu of foreclosure or similar legal agreement would also be helpful to provide consistent presentation of Loans and Other Real Estate Owned within the Statement of Financial Position. For example, in the event that the underlying property is at a foreclosure sale and the Bank is declared to be the highest bidder on the property, but the deed is not recorded at that time, at what point is it appropriate to remove the Loan and report Other Real Estate Owned? Should it be reported at the time the deed has been recorded or when the foreclosure sale occurs because it qualifies as a completion of a deed in lieu of foreclosure or similar legal agreement under which the borrower conveys all interest in the residential real estate? We believe that upon the foreclosure sale it would be appropriate to report Other Real Estate Owned. In contrast, prior to the foreclosure sale, a Bank may secure physical possession of an abandoned and vacant property to protect the integrity of the asset. However, the bank has no ownership interest in the property during that time, could not market and sell the property, and therefore we do not believe it would be appropriate to report Other Real Estate Owned.

Disclosures
We do not believe that the new disclosures will significantly enhance publicly available information, which is already provided in the footnotes to the financial statements and/or the Call Report. While not providing an enhancement, the new disclosures would require additional process controls over their preparation. As such, we oppose the proposed additional disclosures.

The Proposed ASU also raises some disclosure questions that are not addressed within the proposal. Since the guidance surrounding in substance foreclosures and repossessions will be included within ASC 310-40 – Troubled Debt Restructurings by Creditors, it is unclear at what point within the foreclosure

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1 Proposed ASU, Pages 1 and 2
2 This is not typically done in practice since the redemption rights would likely have a negative impact on the sale price of the asset.
process, if at all, a Bank may be deemed to have granted a concession to the troubled borrower and, at what point, a troubled debt restructuring ("TDR") designation should be made. Would these loans be considered TDRs when reported as Other Real Estate Owned? If so, despite the fact that the loan is not reported as a TDR at the balance sheet date (Other Real Estate Owned is reported on the Statement of Financial Position), would it be necessary to include a TDR within the modification of financing receivable activity disclosures required by ASC 310-10-50-33-and 50-34 in the period of the foreclosure? Alternatively, if the foreclosure activities prior to meeting the definition of in substance foreclosure or repossession is a concession, guidance as to when the concession is deemed to have occurred and clarification as to whether the loan would be deemed to be collateral dependent under ASC 310-10-35 would be helpful to ensure consistency in the aforementioned disclosures. We do not believe it would be appropriate to include loans that are not reported at the end of the period within the activity disclosures given the operational burden of such reporting, as well as that Other Real Estate Owned is reported as of the end of the period.

Transition

We agree with the modified retrospective approach illustrated within the Proposed ASU. We believe that the amount that should be reclassified from Other Real Estate Owned to Loans is the value of the Other Real Estate Owned on the Statement of Financial Position at the date of adoption.

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We appreciate the Board’s request for feedback on this matter and appreciate the opportunity to share our views with the Board and staff. We welcome any questions or comments you may have. Please contact me with any questions about PNC’s comments at 412-762-7546.

Sincerely,

John J. Matthews
Director of Accounting Policy
The PNC Financial Services Group, Inc.

cc: Mr. Robert Q. Reilly
Executive Vice President and Chief Financial Officer
The PNC Financial Services Group, Inc.

Mr. Gregory H. Kozich
Senior Vice President and Controller
The PNC Financial Services Group, Inc.