August 22, 2013

Ms. Susan M. Cosper, Technical Director
Chairman, Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. PCC-13-03

Dear Ms. Cosper:

The Strength Matters CFO Working Group appreciates the opportunity to provide its views to the Financial Accounting Standards Board on the Proposed Account Standards Update Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps. As discussed below in more detail, the Strength Matters CFO Working Group supports the proposal to eliminate the requirement to record certain swaps at fair value. This will remove a needlessly complex disclosure requirement and should remove a deterrent that investors may consider before agreeing to support the construction of more affordable housing. Two proposed modifications are discussed on page two of this letter.

The Strength Matters collaborative brings together three national networks of nonprofit owners and developers in the affordable housing field – Housing Partnership Network (“HPN”), NeighborWorks America (“NWA”) and Stewards of Affordable Housing for the Future (“SAHF”). The CFO Working Group brings together chief financial officers of member organizations from each of the networks to develop best practices in financial reporting and financial management of nonprofit affordable housing developers. Additional information about Strength Matters and the CFO Working Group can be found at www.strengthmatters.net.

Our members are the sponsors and developers of affordable housing properties throughout the United States. Generally for-profit companies seeking tax credits and deductions are the investors in these properties. The properties are most often held by a limited partnership and investors obtain a limited partner’s interest, often exceeding 99% of the total partnership equity.

Frequently affordable housing properties are financed by a combination of financing sources, which are used to build or renovate the properties. The financing sources generally carry a variable rate of interest, but other lenders and equity investors require a fixed-rate swap to be in place so that there is no interest-rate risk involved during the term of their investment. In the case of the Low-Income Housing Tax Credit, investors generally ask for a swap that will cover the 15-year compliance period that Section 42 of
the Internal Revenue Code mandates. Further the variable rate debt instruments usually have maturities greater than the 15-year swap agreements. In this manner the investor eliminates interest-rate risk during its planned period of investment, a mechanism that facilitates efficient and competitive investment of affordable housing.

Under current GAAP, the fair value of the swap is recognized on the balance sheet. In today's economy, the swap usually has a negative value since we've been in a long period of declining interest rates. Recognition of the fair value of the swaps has created significant reductions in the carrying value of the investments in these projects on the investors' financial statements.

For example, a limited partnership built a 98-unit multi-family affordable housing property in San Francisco, California for approximately $24 million in 2005. Financing for this development includes a variable-rate multifamily housing revenue bond issued in 2002 by the City and County of San Francisco containing a construction tranche maturing in 2006 and a permanent tranche maturing in 2036. The permanent tranche was $4.3 million and the fixed-rate swap associated with this tranche bears interest at 4.2% and expires in 2020. The fair value of the swap was negative $800,000 on December 31, 2012. The swap creates significant volatility on the income statement for the partnership and the investor is concerned about the impact of the swap on its financial statements, since the noncontrolling investor (a limited partner) uses the equity method of accounting.

It is also difficult to obtain the significant assumptions made by the swap counterparty in arriving at a fair value estimate for either a Level 2 or Level 3 fair value disclosure. Generally the valuation assumptions and financial models employed by the financial institutions are proprietary. Thus management must create its own models for valuing the swaps and disclosing the significant assumptions in that valuation in an attempt to mirror the counterparty's estimate of fair value. Auditors must also test the valuation calculations to test the accuracy of the assumptions disclosed by management.

Therefore, we support the proposal to eliminate the requirement to record certain swaps at fair value. This will remove a needlessly complex disclosure requirement and should remove a deterrent to additional investment in affordable housing.

In addition, we request consideration of two modifications to the existing proposed standard:

- Not-for-profit organizations also participate in swaps and often housing is held in a not-for-profit structure, rather than a limited partnership. We would like to see the not-for-profit treatment mirror the nonpublic company treatment.

- Swap terms may be shorter than the borrowing term. We see no reason to limit the applicability of the proposed standard to swaps whose term is substantially the same as the underlying loan term. Under current GAAP, a loan bearing a fixed rate of interest for an initial period and variable rate thereafter reflects adequate disclosure of this fact in the borrower's financial statements. A swap of shorter duration than the entire loan term would have the same effect and adequate disclosure can be made of
the swap's term, so that users of financial statements will be informed of the timing of the potential future change in interest expense.

Please direct any questions or comments on our position to the Strength Matters CFO Working Group, c/o Mary White Vasys, Vasys Consulting Ltd. She can be reached at 312-641-5109 or by email at mwvasys@vasysconsulting.com.

Very truly yours,

The Strength Matters CFO Working Group

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