

Letter of Comment No: *2*
File Reference: FSPSOP946A

November 11, 2005

Mr. Lawrence W. Smith
Director – Technical Application and Implementation Activities
Financial Accounting Standards Board
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Sent via post and email to director@fasb.org

Re: Proposed FASB Staff Position No. SOP 94-6-a *Nontraditional Loan Products*

Credit Suisse Group appreciates the opportunity to comment on the Proposed FASB Staff Position No. SOP 94-6-a, *Nontraditional Loan Products* (the proposed FSP). Credit Suisse Group is listed as a foreign private issuer with the Securities and Exchange Commission and prepares US GAAP financial statements.

While we are supportive of the FASB Staff's effort to provide timely guidance for emerging situations, we do not believe that the proposed FSP establishes any new GAAP or interpretation and is therefore unwarranted. Should the Board decide to proceed with the issuance of the proposed FSP, we have concerns about the definition of nontraditional loan products and the characterization of certain products as nontraditional. We also have concerns about the risks that the FASB suggests are associated with such loan products.

Definition of nontraditional loan products

The proposed FSP defines nontraditional loan products as "those that expose the originator, holder, investor, guarantor, or servicer to higher risk than traditional products" and suggests that the features of nontraditional loan products that create the higher risk may include "interest and/or principal repayments that are less than the repayments for fully amortizing mortgages of an equivalent term or high loan-to-value ratios." The proposed FSP states that the following products meet this definition: loans with the contractual ability to negatively amortize, loan products with a high loan-to-value ratio, other loan products that result in a high loan-to-value ratio when combined with other mortgages on the same collateral, option ARMS, loans with below market interest rates, and interest-only loans.

We do not believe that the proposed FSP provides a clear or reasonable definition for nontraditional loan products. The FASB staff suggests that a traditional loan is a 30-year fully amortizing mortgage loan. This may be the case for a mortgage banking entity in the United States of America, but it is not necessarily the case for other lending institutions such as investment banks, finance companies, etc. or for banking entities outside the United States of America. Additionally, it is not clear whether the definition for nontraditional loan products is meant to apply to only mortgage loans.

We understand the loan products that the proposed FSP refers to are nontraditional when compared to a 30-year amortizing mortgage loan that has traditionally been offered in the United States of America. However, such loan products are not nontraditional in other geographic regions. For instance, a common mortgage loan product in Switzerland is an interest-only loan up to 60% of a property's appraised value combined with a 10-year amortizing loan on 20% of the appraised value. The combined loan product has a loan-to-value ratio of 80%.

Should the Board decide to proceed with the issuance of the FSP, we encourage the FASB staff to consider the traditional lending products of non-mortgage banking entities and entities operating outside of the United States of America when defining nontraditional loan products. Furthermore, we recommend that the FASB Staff provide a clear and reasonable definition for nontraditional loan products.

Risks associated with nontraditional loan products

Overall, for mortgage lending, credit risk is assessed by considering the borrower's ability to pay and the collateral. We do not generally consider a loan product to be riskier by evaluating the expected repayment and the collateral irrespective of one another. We do not believe that a loan is higher risk solely based on the repayment characteristics of a loan. Additionally, we do not deem a loan to be riskier based on only the collateral value. The loan products suggested by the proposed FSP as nontraditional would only be viewed as riskier when they are both granted to a riskier borrower and are secured by insufficient collateral.

Loans susceptible to payment shocks

The proposed FSP suggests that nontraditional loan products can result in significant payment shocks, which "could affect the borrower's ability to repay the loan and lead to increased defaults and losses and hence result in a concentration of credit risk." We agree that in certain circumstances these loans *could* lead to situations where a borrower may not be able to meet the contractually higher payments when the payments increase. However, we believe that these significant payment shocks would generally lead to defaults only when these lending products are granted to borrowers that are unable to cope with such shocks and lead to losses only when the defaults are combined with insufficient collateral. These situations are considered in the credit risk assessment of a customer and hence result in appropriate credit risk ratings. Furthermore, we do not necessarily believe that all of the loans listed individually contain the risks suggested. For instance:

- Interest-only loans with a low loan-to-value ratio (e.g. 66%) would not experience defaults caused by payment shocks because there are no contractually required payment increases related to principal amortization, and if defaults did occur, the loans are well-collateralized to absorb any losses.
- Loans with introductory rates would not necessarily lead to significant payment shocks if the introductory rate is only marginally lower and the borrower's capacity to pay is anticipated to be adequate when the introductory rate period ends.

We agree that loans with initial payments that are less than the contractual interest amount can cause increasing loan-to-value ratios, thus reducing the borrower's equity. However, this

increasing loan-to-value ratio would not necessarily increase losses if the payment shock occurred while the loan is still well-collateralized.

We understand that certain nontraditional loan products may delay defaults in situations where a borrower may not be able to meet the contractually higher payments when those payments increase. However, we do not believe that these delayed defaults would necessarily delay the establishment of an allowance for loan losses. We would assume that these loans are evaluated for impairment considering the risks associated with them, and an allowance is established accordingly based on the entity's best estimate given the current economic environment, irrespective as to whether the loan has defaulted.

Loans with high loan-to-value ratios

The proposed FSP refers to "lending that is done with high loan-to-value ratios, based on anticipated appreciation of the collateral's value, increasing the risk of loss if that appreciation does not materialize and the borrower defaults." We agree that such lending practices may result in losses when the borrower defaults and the collateral value has not appreciated. This would be the situation if the loan-to-value ratio is greater than 100% (assuming no costs to liquidate the collateral). We recommend that the FASB Staff provide a definition for high loan-to-value ratio.

Consequently we do not believe that nontraditional loan products, as defined in the proposed FSP, represent a concentration of credit risk as that term is used in FASB Statement No. 107, expose an entity to risks and uncertainties as described in AICPA Statement of Position 94-6, or warrant separate disclosure under AICPA Statement of Position 01-6 or SEC Regulation S-X, Rule 9-03. We do not think that it is appropriate to give nontraditional loan products, as defined in the proposed FSP, higher prominence with regard to potential risk concentration than other loans.

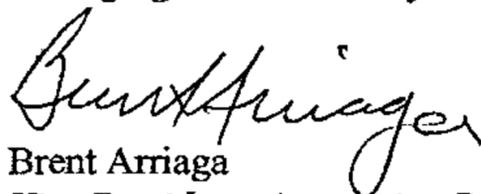
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We thank the Board for their attention to our comments/concerns. We are available to further discuss these points. Please do not hesitate to contact Brent Arriaga at brent.arriaga@credit-suisse.com or +41 1 333 4384.

Sincerely,



Rudolf Bless
Managing Director, Chief Accounting Officer



Brent Arriaga
Vice President, Accounting Policy Group