

Housing Action Council

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LETTER OF COMMENT NO.

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March 24, 2009

Mr. Russell G. Golden Technical Director Financial Accounting Standards Board 401 Merritt 7 P. O. Box 5116 Norwalk, CT 06856

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LETTER OF COMMENT NO. 246

File Reference: Proposed FSPs FAS 11.

Dear Mr. Golden:

On behalf of the Housing Action Council, I appreciate the opportunity to comment on the proposed FASB Staff Position No. FAS 115-a, FAS 124-a and EITF 99-20-b, Recognition and Presentation of Other-Than-Temporary Impairments ("proposed FSP #1") and on the proposed FASB Staff Position No. FSP FAS 157-e, Determining Whether a Market is Not Active and a Transaction is Not Distressed ("proposed FSP #2").

The Housing Action Council is a not-for-profit organization that develops housing for low and moderate income households and provides technical assistance to other not-for-profit organizations and for-profit developers to develop affordable housing. We have been advised that a proposed change in accounting standards will negatively impact the availability of funding under the Federal Home Loan Bank's Affordable Housing Program. This source of funding has been crucial to facilitating the development of affordable housing throughout the country.

As you are aware, the current state of the financial markets has resulted in a sharp reduction in liquidity and credit availability, making it challenging to find reasonable financing for affordable housing and community development initiatives. At the same time, the real world effects of these market conditions are increasing the demand for such projects. Mark-to-market accounting rules seem to be exacerbating this situation, with a non-functioning market leading to cyclical write-downs of assets.

In addition, other funding sources for affordable housing are being negatively impacted, such as the FHLBank System which has been the single largest provider of affordable housing grants, contributing 10% of its net income for affordable housing development. Other-than-temporary-impairment (OTTI) accounting rules that require write downs on assets that are far in excess of the probable economic losses are significantly reducing otherwise available affordable housing funds. The FHLBanks' unaudited fourth quarter 2008 financial reports suggest a reduction of greater than \$100 million in Affordable Housing Program (AHP) funding as a direct result of OTTI liquidity losses.



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Thus, in that regard, we support the following comments that have been made by the Federal Home Loan Bank:

Effective Date

As currently drafted, the proposed OTTI FSP would be effective for interim and annual reporting periods ending after March 15, 2009, and would be applied prospectively. Therefore, this guidance would not allow any noncredit losses to be included in OCI, rather than in retained earnings, prior to the first quarter of 2009.

The FASB should require the proposed OTTI FSP to be applied retrospectively, in accordance with SFAS No. 154, Accounting for Changes and Error Corrections, instead of prospectively. We believe that retrospective application is appropriate because during 2007 and 2008, a number of financial institutions have recorded significant OTTI charges on debt securities. These financial institutions have amortized and will continue to amortize significant non-credit impairment to interest income, which will distort net interest margin. Also, these financial institutions' retained earnings may include a significant amount of non-credit impairment. The impact of the current accounting model for OTTI securities may continue to make it difficult for investors to compare key financial metrics (Net Interest Margin and Tangible Common Equity). We believe that this will be especially troublesome relative to comparisons of financial institutions who have recorded significant OTTI charges with those that have not.

Proposed Fair Value FSP

We request that the FASB provide more explicit practical guidance on how to implement the proposed Fair Value FSP. We are concerned that the proposed Fair Value FSP, as written, will not meet its intended objectives. We believe that the guidance to determine if a market is not active appears to be sufficient. However, the proposed Fair Value FSP appears to be lacking sufficient details and practical guidance to determine fair value based on appropriate market-based discount rates as of the measurement date in an orderly market. It may be difficult for independent public accountants and regulators to agree with management's assumptions without more practical and specific guidance.

Sincerely,

Rosemarie Noonan Executive Director

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