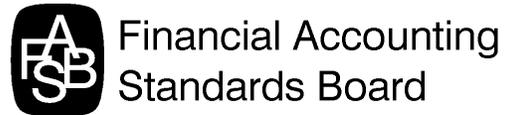


MINUTES



To: Board Members
From: Prince, ext. 229
Subject: Minutes of the January 30, 2008 Board Meeting **Date:** February 26, 2008
cc: Golden, MacDonald, Bielstein, Cospers, Barker, Roberge, Leisenring, Intranet

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.

Topic: Agenda Request—Statement 114 Relief
Basis for Discussion: Board Memorandum dated January 18, 2008
Length of Discussion: 10:50 a.m. to 11:15 a.m. (EST)
Attendance:

Board members present: FASB: Herz, Batavick, Crooch, Linsmeier, Seidman, Smith, and Young
Board Members Absent: None
Other Participants: Leisenring (IASB)
Staff in charge of topic: Roberge
Other staff at Board table: Golden, Cospers, and Prince

Summary of Decisions Reached:

The Board discussed a request by the Mortgage Bankers Association (MBA) for relief from the impairment testing requirements specific to troubled debt restructurings of residential mortgage loans as prescribed in FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*. The MBA requested in their communications with the FASB to be allowed to continue to assess impairment for the aforementioned loans under FASB Statement No. 5, *Accounting for Contingencies*, even when such loans were modified in a troubled debt restructuring. The Board was asked whether they would like to add a project to its technical agenda to address the MBA's petition for relief. The staff and Board members expressed their views and the Board unanimously reached a decision to not add a project to its technical agenda for this issue.

Objectives of Meeting:

The objective of the meeting was for the Board to decide whether or not to add a project to its agenda addressing the MBA's recent request for relief from the impairment testing requirements specific to troubled debt restructurings of residential mortgage loans as prescribed in Statement 114.

The objective was met.

Matters Discussed and Decisions Reached:

1. Mr. Roberge began the meeting by stating that the Board recently received two letters from the MBA seeking relief from the requirements of Statement 114 for residential mortgage loans that are to be restructured and will represent troubled debt restructurings (TDR). The MBA's letters indicated tens, and perhaps hundreds, of thousands of residential mortgage loans will be restructured in the near term.
2. Mr. Roberge noted that under Statement 114, a loan is impaired when it is probable, based on current information and events, that a creditor will not collect all contractual interest payments and principal payments pursuant to the terms of the original loan agreement. For a TDR, the contractual terms refer to the terms specified in the original agreement, not those stipulated in the restructured agreement. Mr. Roberge mentioned that, based on correspondence with the MBA, if relief is not provided,

lenders will likely use a discounted cash flow approach to measure impairment, which is one prescribed treatment provided under Statement 114.

3. Mr. Roberge then highlighted the following as a few of the concerns the MBA raised in the letters sent to the FASB:
 - a. The MBA asserts that the guidance in Statement 114 was never intended to be applied to smaller-balance, homogenous loans as referred to in paragraph 6(a) of Statement 114.
 - b. The MBA asserts that the lender's sacrifice of the potential future interest may not have a direct bearing on the amount of a loan's carrying value that will not be recovered. (Mr. Roberge mentioned that the MBA would expect that most of the restructurings would be interest rate concessions.)
 - c. The MBA asserts that their members do not have the systems capability to project estimated future cash flows, as potentially required under Statement 114, for high volumes of modified residential loans at the time of restructuring and in future reporting periods.
4. Mr. Roberge stated that the staff's recommendation is that the Board should not add a project to its agenda to provide relief from Statement 114 for TDRs that relate to the loans mentioned by the MBA in their request. The staff's reasoning for this conclusion includes:
 - a. Statement 114's guidance is clear regarding the required accounting treatment for TDRs for all loans, including smaller-balance loans (refer to Statement 114, paragraph 9).
 - b. The staff expects the most pervasive type of modification to be interest rate concessions, which may not necessarily be captured under Statement 5 as applied in practice. The staff understands that typically in practice, a Statement 5 analysis is performed using an undiscounted approach. The staff is concerned that by permitting a Statement 5 approach, no losses would be recognized, even though the creditor granted a concession to a borrower as a result of an interest rate concession.
5. Mr. Roberge then asked the Board whether it wanted to add a project to its technical agenda to address the MBA's petition for relief.
6. Mr. Batavick commented that Statement 114 seems to appropriately address the types of loan restructurings that the staff has described in its memo. He further stated that if

one were to take both the recognition and disclosure requirements that are contained in Statement 114 and apply them to the loans being considered, which possibly could be applied on an aggregated level, the users of financial statements would receive the most useful information. Mr. Batavick then stated that he did not agree with adding a new project to the Board agenda.

7. Mr. Smith stated that Statement 114 was originally provided to address a perceived problem that people had been restructuring loans and were avoiding the impacts (for example, losses) of those restructurings. Mr. Smith then emphasized that the Board is not telling constituents how to apply the requirements of Statement 114. Mr. Smith voted against adding a new project to the Board agenda.
8. Mr. Young started by stating that he would be in favor of adding the project to the Board's agenda if the objective were revised to address what the proper measurement attribute of the underlying loans should be—an objective he feels is important; however, he would be opposed to adding the project to the agenda if the objective were to allow lenders to use the impairment criteria provided in Statement 5.
9. Mr. Crooch stated that he agreed with the comments made by Mr. Batavick. He further stated that Statement 114 has existed for a long time and that he feels that it is the *right answer* and that Statement 5 is the *wrong answer* for the situation being considered. He opposed adding the project to the Board's agenda.
10. Ms. Seidman stated that she agrees with the staff recommendation and that she does not feel adding a project to the Board agenda is appropriate. She commented further that when a lender grants a concession, a loss recognition threshold has clearly been triggered. Ms. Seidman also stated that Statement 114 is applicable when any individual loan is modified in a TDR. The only loans exempted from the requirements of Statement 114 are loans that, in one way or another, are carried at fair value. Although we are not telling people how to apply Statement 114, we do note Statement 114 allows for permissible grouping, which may provide simplification or address some of the operational issues raised by the MBA.

11. Ms. Seidman stated that some people think it is counterintuitive to take a loss on initial troubled debt restructuring and then to accrete the discount over time at a higher interest rate. She pointed out that it is not clear to her that accretion should always occur. Accretion should occur only when the loan is on accrual status and the lender expects to collect the payments. In other words, it is not a foregone conclusion that you would be accreting to the contractual amount over the life of the loan.
12. Mr. Linsmeier stated that the economics of the circumstances being considered suggest losses have occurred. Investors should be able to understand what the magnitude of those losses is and Statement 114 provides the methodology to be able to measure those losses and Statement 5 does not. Mr. Linsmeier commented that the industry under consideration has already received certain exemptions. Mr. Linsmeier then stated he did not support adding an item to the Board's agenda to consider providing relief from—or an exemption to—the requirements of Statement 114.
13. Mr. Herz stated he also did not support adding an item to the Board's agenda for all the reasons stated by the other Board members. He feels it is not the place of the Board to create specific exemptions from the basic requirements of the standards in place. He stated he had sympathy for some of the issues related to systems troubles for the subsequent accounting of the loans being addressed. He commented that he thought the industry should have the systems for initial accounting because at the inception of the loan one is aware of the loan's terms. He also commented that there may be opportunities for aggregation. However, he feels it is not the place of the Board to provide exemptions. If specific public enterprises have difficulties, they should address their concerns to the SEC, bank regulators, or whoever else might rely on financial statements.
14. Mr. Leisenring stated that it is his belief that the application of Statement 5 in practice may be incorrect if it is being applied in a manner consistent with the description in the staff memo. In his opinion, if Statement 5 were applied correctly, he wouldn't be surprised if the systems troubles under Statement 114 and Statement 5 were identical.

Follow-Up Items:

15. None.

General Announcements:

16. None.