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December 13, 2010

Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Via email to director@fasb.org

Reference: File Reference No. 1880-100, Proposed Accounting Standards Update, Clarifications to Accounting for Troubled Debt Restructurings by Creditors

Dear Sir or Madame:

Freddie Mac appreciates the opportunity to comment on the Exposure Draft for the proposed Accounting Standards Update of Topic 310, Clarifications to Accounting for Troubled Debt Restructurings by Creditors (the "proposed Update").

Freddie Mac was chartered by Congress in 1970 to increase the availability of funds for home ownership by developing and maintaining a secondary market for residential mortgages. We participate in the secondary mortgage market principally by providing our credit guarantee on the mortgage-related securities we issue, and investing in mortgages and mortgage-related securities. As of September 30, 2010, our consolidated balance sheet reflects approximately \$1.9 trillion of mortgage loans. For the nine months ended September 30, 2010, we completed approximately \$9 billion of loss mitigation activities¹ and approximately \$29 billion of loan modifications¹, of which approximately \$25 billion were accounted for as troubled debt restructurings ("TDRs").

We do not believe that the guidance in the proposed Update will achieve the stated objective of reducing diversity in practice related to a creditor's identification of TDRs. We believe that application of the guidance in the proposed Update will result in the following undesirable outcomes:

The guidance in the proposed Update will increase diversity in practice;

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¹ See Appendix B for a description of our loss mitigation activities and the various types of loan modifications that we perform.

- The guidance will introduce significant operational complexity that will result in significant cost and effort to apply and in some cases will be impractical. We do not believe the results of the guidance in the proposed Update will yield benefits to financial statement users that will justify the costs;
- The guidance may significantly increase the amount of loans considered to be TDRs, but it may not result in a significant change in the amount of impairment recorded for this expanded population; and
- The guidance will not provide information that is useful to users of financial statements.

For these reasons, we do not support issuance of the proposed Update in its current form. Instead, we recommend that the Board undertake a fundamental reconsideration of TDR accounting and its objectives as part of the Board's re-deliberation of the exposure draft on Accounting for Financial Instruments and convergence agenda with the International Accounting Standards Board ("IASB").

Observations

Appendix A contains Freddie Mac's responses to each of the individual questions posed by the Board in the proposed Update. Those responses provide additional discussion and context for the observations expressed in this letter. Appendix B contains supplemental information about the types of loan workout activities that Freddie Mac conducts, how these activities are accounted for currently, and how we believe these activities will be accounted for under the proposed Update.

We believe that the potential expansion of the scope of loans that could be considered to be TDRs combined with the application of the clarifying guidance to determine when a TDR exists poses a number of conceptual, practical and operational issues. Our specific observations related to these issues are summarized below:

Increase in Diversity in Practice

The proposed Update precludes a creditor from applying the guidance in paragraph ASC 470-60-55-10 (*Debt> Troubled Debt Restructurings by Debtors*) (hereinafter referred to as "the debtor's concession test"), and does not replace it with clear guidance on how a creditor would determine whether a concession has been granted.

The proposed Update would require creditors to determine a theoretical "market rate" for assessing whether a TDR exists; however, the clarifications provided in the proposed Update introduce different concepts of what constitutes a TDR. These different concepts include:

• A debtor that can obtain funds at "a market interest rate at or near those for nontroubled debt" is not involved in a TDR (paragraph 310-40-15-8);

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- A debtor is involved in a TDR if the debtor does not have access to funds at "a market rate for debt with similar risk characteristics as the restructured debt" (paragraph 310-40-15-8A); and
- A debtor could be involved in a TDR if a temporary or permanent increase in the contractual interest rate on the restructured debt is still below "market interest rates for new debt with similar terms" (paragraph 310-40-15-8B).

We believe these concepts for determining a market rate differ, and could be interpreted and applied inconsistently in practice.

Further, the guidance in the proposed Update to determine whether a creditor has granted a concession (and whether a TDR exists) is predicated upon the determination of a theoretical "market rate". As such, it appears to be founded upon a creditor's opportunity cost (i.e., whether a creditor would make a new loan today at the rate offered to the debtor in the restructuring), rather than whether the creditor has sacrificed economic benefits they were entitled to under the terms of the original loan agreement. This shift in focus to foregone opportunity cost, and, accordingly, determining a theoretical "market rate", introduces a significant amount of subjectivity, which we believe will result in diversity in practice.

Additionally, the proposed Update indicates that insignificant delay in contractual cash flows is a factor that should be considered to determine whether a TDR exists. We believe that entities could reach different conclusions about whether an insignificant delay results in a TDR.

Significant Operational and Practicality Issues

To derive a market rate for "debt with similar risk characteristics as the restructured debt", a creditor would need to identify an appropriate benchmark rate and then develop an appropriate credit spread to account for characteristics that are unique to the debtor and/or the loan, as applicable. Market rates for defaulted loans (including loans where default is probable in the foreseeable future) or loans to debtors experiencing financial difficulty (e.g., forecasted to be unable to service their current debt, etc.) are not published and are not easily determinable (i.e., credit spreads are not available and loan pricing is not transparent). As a result, it may be extremely difficult to determine whether a restructuring is at a market rate, and different entities may arrive at different conclusions as to what the appropriate market rate is for a given restructuring.

Additionally, to determine the characteristics that are unique to the debtor and/or the loan, as applicable, creditors would need to fully re-underwrite the loan, which is typically not performed for loss mitigation activities or loan modifications. Instituting a full re-underwriting process for all such activities would result in significant cost and effort, while also extending timelines for completing loan modifications. Further, we do not service our loans, and use of a third party servicer is a common practice in the residential mortgage market.

Freddie Mac Page 3 File Reference No. 1880-100 The introduction of full re-underwriting on all restructurings and the establishment of processes to derive market-based credit spreads to determine whether restructurings are at a market rate will increase the operational burden, complexity and cost for servicers and/or the entities that engage those servicers.

Further, many loss mitigation activities involve agreements between the borrower and the servicer that result in temporary, insignificant delays in contractual cash flows, and do not involve any permanent changes to the contractual terms of the loan agreement (i.e., forbearance arrangements and repayment plans). While our servicers report when loans are placed on forbearance or repayment plans, the specific terms of such arrangements are not communicated to us. The operational burden associated with the identification, data tracking and processing for all loss mitigation activities and the implementation of related controls could be significant. Also, when coupled with performing the related accounting and disclosure requirements for TDRs, the increase in costs and effort would be magnified.

Increase in the Amount of Loans Considered to be TDRs

In the absence of determining a market rate (e.g., due to the operational challenges noted above), we believe that the guidance in the proposed Update would create a presumption that a restructuring is below market and therefore would be considered a TDR. As noted above, we believe that it will be operationally complex to derive a market rate for loan modifications, and virtually impossible for loss mitigation activities. As a result, we believe that all loan modifications and loss mitigation activities that we (and our servicers) perform would result in a TDR due to the presumption that the rate is below market. This would substantially increase the amount of loans considered to be TDRs.

For loan modifications that did not meet the debtor's concession test, we do not believe that the application of ASC 310-10-35 (*Receivables* > *Overall* > *Subsequent Measurement*) would result in a significant change in the measurement of impairment (i.e., the expected cash flows under the modified loan terms discounted at the loan's original effective rate would not result in a significant change to the loans carrying amount at the time of the modification).

Usefulness of Information for Investors

Once a restructuring is determined to be a TDR, the loan generally continues to be accounted for as a TDR until a payoff or a derecognition event. If the population of loans considered to be TDRs increases significantly as discussed above, but the measurement of impairment is not significantly changed, we do not believe the resulting disclosures will be useful to investors.

Recommendations

In Appendix B we have provided several alternatives to the proposed Update that the Board may wish to consider. Our primary recommendation is to converge with IFRS and eliminate the notion of a TDR, and enhance the disclosure requirements contained in ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit

Freddie Mac Page 4 File Reference No. 1880-100 Losses ("ASU 2010-20"). We believe that the TDR disclosures contained in ASU 2010-20 should be replaced with quantitative disclosures about all loan modification activities an entity undertakes, as well as information about how these activities are considered in the measurement of the allowance for credit losses. We believe that disclosures about all loan modification activities, as opposed to just TDRs, provides users of financial statements with a more complete view of the activities an entity is engaged in to collect amounts due under loan agreements, as well as the potential impacts of those activities to the financial statements. Additionally, we believe this information could be supplemented with disclosure about the amount of modified loans that re-default within 12 months, to provide users with an understanding about the success of these activities.

* * * * * * *

The views expressed in this comment letter are solely those of Freddie Mac, and do not purport to represent the views of the Federal Housing Finance Agency, as Conservator.

Freddie Mac appreciates the opportunity to provide our comments on the proposed Update. If you have any questions about our comments, please contact Timothy Kviz (703-714-3800).

Sincerely,

Timothy Kviz

Vice President – Accounting Policy

Timothy KNZ

cc: Mr. Ross J. Kari, Executive Vice President - Chief Financial Officer

Mr. Robert D. Mailloux, Senior Vice President - Corporate Controller and Principal Accounting Officer

Ms. Wanda I. DeLeo, Senior Associate Director and Chief Accountant, Federal Housing Finance Agency

Appendix A

This Appendix includes our responses and comments to the specific questions that were raised by the Board in the proposed Update.

Question 1: Would precluding creditors from applying the guidance in paragraph 470-60-55-10, create any operational challenges for determining whether a troubled debt restructuring exists? If yes, please explain why.

Response: Yes, we believe that the proposed Update would introduce operational complexity into the troubled debt restructuring ("TDR") assessment process.

A modification is considered a TDR when (i) a borrower is experiencing financial difficulty, and (ii) the lender grants a concession to the borrower. The proposed Update precludes creditors from applying the debtor's concession test, and does not replace it with clear guidance on how a creditor would determine whether a concession has been granted. Instead, the proposed Update provides additional guidance to the paragraphs that address whether a borrower is experiencing financial difficulty. The guidance in the proposed Update focuses on whether a debtor has access to funds at a market rate, or whether the restructuring is at a market rate. We do not believe the guidance on determining whether the restructuring was at a market rate is operational. Further, the proposed Update requires insignificant delays be considered in the evaluation for a TDR, which significantly expands the scope of potential loans that may be accounted for as TDRs without any changes to the contractual terms of the loan agreement. We believe that the proposed Update's clarification to the existing guidance in ASC 310-40 (paragraph 310-40-15-8) for determining whether a debtor is involved in a TDR is not clear and is subject to interpretation.

Determining a "Market Rate"

The primary clarification in the proposed Update is predicated on the determination of a "market rate" for "debt with similar risk characteristics," which is to be used in determining whether a TDR exists. We believe there are a number of operational challenges that may be encountered in determining a theoretical "market rate," despite the clarifying language contained in the proposed Update.

To derive a market rate for "debt with similar risk characteristics as the restructured debt", a creditor would need to identify an appropriate benchmark rate and then develop an appropriate credit spread to account for characteristics that are unique to the debtor and/or the loan, as applicable. Market rates for defaulted loans (including loans where default is probable in the foreseeable future) or loans to debtors experiencing financial difficulty (e.g., forecasted to be unable to service debt, etc) are not published and are not easily determinable (i.e., credit spreads are not available and loan pricing is not transparent). For example, if a debtor's financial position has deteriorated, we might expect that subprime credit spreads might be an appropriate benchmark for determining whether a restructuring is at a market rate. However, the subprime loan origination market is not currently active, and there is very little pricing transparency. For

Freddie Mac Page 6 File Reference No. 1880-100 commercial mortgage loans, there is minimal market activity from which to derive market pricing, and a significant portion of the commercial mortgage lending market is operating in privately negotiated transactions, as opposed to public transactions where pricing information is more readily available.

Additionally, to determine the characteristics that are unique to the debtor and/or the loan, as applicable, creditors would need to fully re-underwrite the loan, which is typically not performed for loss mitigation activities or loan modifications. Full re-underwriting is not currently performed in the residential mortgage market for the majority of restructurings due to the potential number of loans involved and the presence of widely accepted modification and loss mitigation programs. Instituting a full re-underwriting process for all restructurings would result in significant cost and effort, while also extending timelines for completing loan modifications. The majority of the \$1.8 trillion of loans on Freddie Mac's balance sheet are contained in securitization trusts that are consolidated in accordance with ASU 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* ("ASU 2009-17"); however, Freddie Mac does not service these loans. The introduction of full re-underwriting on all restructurings and the establishment of processes to derive market-based credit spreads to determine whether restructurings are at a market rate will increase the operational burden, complexity and cost for servicers and/or the entities that engage those servicers.

In the absence of determining a market rate (e.g., due to the operational challenges noted above), we interpret the proposed Update as creating a presumption that the restructuring is below market and therefore would be considered a TDR. Under this interpretation, almost any restructuring would result in a TDR due to the presumption that the rate is below market. This substantial increase in the number of TDRs would result in an increase in costs and effort in performing the ongoing accounting for those loans and complying with the related disclosure requirements.

Consideration of Insignificant Delays

Paragraph 310-40-55-10C of the proposed Update states, "A restructuring that results in an insignificant delay in contractual cash flows may still be considered a troubled debt restructuring. That is, that factor should be considered along with other terms of a restructuring to determine whether a troubled debt restructuring exists" (emphasis added). When taken together with the guidance for deriving a market rate (or, in the absence of a market rate, the presumption that a restructuring would be considered to be at a below market rate and thus a TDR in absence of a market rate), we believe that substantially all of our loss mitigation activities (described in greater detail in Appendix B) would be accounted for as TDRs.

For example, assume a debtor enters into a 30-year mortgage loan with a \$1,500 monthly payment. After two years of making the scheduled monthly payments, the borrower experiences a short-term financial hardship (e.g., an unexpected medical expense), and misses two monthly payments. Based on the debtor's financial situation, the debtor and the servicer determine that a forbearance arrangement and repayment plan is the best alternative for bringing the loan current.

Freddie Mac Page 7 File Reference No. 1880-100 Under the terms of the forbearance arrangement and repayment plan, the servicer agrees not to take any foreclosure action if the debtor makes four monthly payments of \$2,250 (the \$1,500 regularly scheduled monthly payment plus one fourth of the \$3,000 past due amount, or \$750)².

At the end of this arrangement, the debtor will have repaid all past due amounts, will be considered current, and would resume making monthly payments set out under the original loan terms. Until the end of the arrangement, the borrower would be considered delinquent (i.e., in the evaluation of the allowance for credit losses and for disclosure purposes) and the loan will continue to be reported as a delinquent loan until the mortgage is brought fully current.

Under our current practice, we would not consider this arrangement to be a TDR, since the terms of the original loan have not been restructured, there is an insignificant delay in repayment of past due amounts, and we fully anticipate the mortgage loan to return to a performing status at the end of the short-term arrangement. However, under the proposed Update, we believe the guidance may lead us to the conclusion that this arrangement should be accounted for and disclosed as a TDR. In this situation, we would conclude under the proposed Update that the borrower is experiencing financial difficulty – this assessment would be the same as our current practice. However, in assessing whether a concession was granted, we would likely conclude that a concession had in fact been granted under the proposed Update because, due to the inability to determine a market rate, the loan's interest rate would be presumed to be below a market rate.

We believe that accounting for this arrangement as a TDR would lead to counterintuitive results. Mortgage loans that have been restructured in a TDR are considered impaired and they are required to be accounted for as an individually impaired loan under ASC 310-10-35. Although the loan in our example above does not meet the definition of an impaired loan based on ASC 310-10-35³, the loan must be measured for impairment under ASC 310-10-35 as an impaired loan as all TDRs are required to be measured for impairment under this guidance. Furthermore, this impairment calculation would result in minimal impairment recognition as the borrower is expected to make all future contractual payments. Said another way, the present value of expected future cash flows considering the impact of the repayment plan discounted at the loan's effective interest rate would be substantially the same as the loan's recorded investment. In summary, after the period of insignificant delay, under the proposed Update, the loan in the example above would continue to be classified and disclosed as a TDR for the remaining 27+ years of the loan's life, even though minimal to no impairment would be recognized and the loan would be accruing interest income as a current, performing loan.

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² Note that for purposes of illustration, we have simply allocated the amount of the two missed payments on a prorata basis and excluded any interest or late fees that may be charged to compensate us for the time lag in receiving the contractual cash flows.

³ ASC 310-10-35-16 states that "A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement." Furthermore, ASC 310-10-35-17 states, in part, "An insignificant delay or insignificant shortfall in amount of payments does not require application of this guidance."

As further discussed in Appendix B, many loss mitigation activities involve informal agreements between the borrower and the servicer that result in temporary, insignificant delays in contractual cash flows, and they do not involve any permanent changes to the contractual terms of the loan agreement. These actions are typically short-term repayment plans and forbearance arrangements that bring the debtor's obligation current in less than 12 months. While it is our understanding that the Board did not intend all loss mitigation activities to be considered TDRs, we believe that reasonable interpretation and application of the guidance in the proposed Update could lead to that result.

While our servicers report when loans are placed on forbearance or repayment plans, the specific terms of such arrangements are not communicated to us. The operational burden associated with the identification, data tracking and processing for all loss mitigation activities and the implementation of the related controls could be significant. Also, when coupled with performing the related accounting and disclosure requirements for TDRs, the increase in costs and effort would be magnified.

We do not believe that an insignificant delay should result in a TDR. In such a situation, there has not been a restructuring (i.e., the contractual terms of the loan agreement have not been changed). The proposed Update seems to dramatically expand the scope of restructurings beyond permanent changes to the contractual terms of the loan. Further, this notion is inconsistent with the impairment measurement guidance contained in ASC 310-10-35.

Question 2: Do you believe that the proposed changes to the guidance for determining whether a troubled debt restructuring exists would result in a more consistent application of troubled debt restructuring guidance? If not, please explain why.

Response: No, we do not believe the changes in the Proposed Update would result in more consistent determination of whether a TDR exists. In fact, we believe the guidance in the proposed Update will introduce greater diversity in practice. As indicated in our response to Question 1 above, we believe that the proposed Update does not provide an operational replacement for the debtor's concession test and could introduce an unintended consequence of classifying a broad array of loss mitigation activities as TDRs based on our interpretation of the clarification about consideration of insignificant delays in contractual cash flows. Further, we believe that the clarifications proposed to paragraph 310-40-15-8 regarding a "market rate" appear to introduce different concepts of what constitutes a TDR.

We believe that creditors have analogized to the debtor's concession test due to the absence of clear guidance in ASC 310-40 for creditors. Additionally, a creditor analogy to the debtor's concession test is specifically discussed in the Center for Audit Quality white paper, *Application of Statement 114 to Modifications of Residential Mortgage Loans that Quality as Troubled Debt Restructurings*. In the absence of clear guidance, the debtor's concession test has provided an objective approach that was operational, well understood and achieved reciprocal accounting for the creditor and debtor. In our opinion, while the clarifications offered by the proposed Update expand on what constitutes a TDR, it does not remediate the fundamental issue surrounding what constitutes a concession, as it reintroduces the lack of clarity that contributed to creditor

Freddie Mac Page 9 File Reference No. 1880-100 analogies to the debtor's concession test. Further, the proposed clarifications to paragraph 310-40-15-8 only add an additional perspective to the existing language in that paragraph, which seemingly leaves creditors with the operationally challenging prospect of determining a theoretical "market rate", as discussed in our response to Question 1 above.

We believe that these factors could result in inconsistent application of the TDR guidance and could result in inconsistent financial reporting that will not be useful to users of financial statements.

The proposed changes would require creditors to determine a theoretical "market rate" for assessing whether a TDR exists. We believe the determination of a market rate is highly subjective, which may result in inconsistent application of the guidance in the proposed Update. As discussed in our response to Question 1, the proposed guidance would require a full reunderwriting of each modified loan to derive the "market rate," and ultimate determination of the "market rate" for such a debtor would be inherently subjective since derivation of the market credit spread is not readily available, as loans to troubled borrowers are not actively traded. As there would be no benchmark for pricing, different creditors with modified loans sharing the same risk characteristics could easily reach different conclusions on whether a TDR exists (i.e., whether the restructured loan had a market rate).

Further we believe that the clarifications provided in the proposed Update introduce different concepts of what constitutes a TDR. Paragraph 310-40-15-8 indicates that a debtor that can obtain funds at "a market interest rate at or near those for nontroubled debt" is not involved in a TDR. Proposed paragraph 310-40-15-8A indicates that a debtor is involved in a TDR if the debtor does not have access to funds at "a market rate for debt with similar risk characteristics as the restructured debt." Proposed paragraph 310-40-15-8B indicates that a debtor could be involved in a TDR if the new contractual interest rate on the restructured debt is still below "market interest rates for new debt with similar terms."

These three paragraphs introduce concepts of determining market rates for (i) nontroubled debt, (ii) debt with similar risk characteristics as the restructured debt, and/or (iii) new debt with similar terms. In our opinion, each of these concepts could result in a different "market rate" being used in the application of the guidance. "Nontroubled debt" and "new debt with similar terms" appear to be similar; however, "debt with similar risk characteristics as the restructured debt" introduces a different concept, which could lead to diversity in application. That concept appears to imply that consideration should be given to all factors surrounding the specific loan rather than only focusing on new or nontroubled debt. Incorporating such factors may lead to a different "market rate" than that for new or nontroubled debt. When combined, the interpretation of these different concepts could lead to inconsistent application of the TDR guidance.

We believe that the proposed Update's clarification concerning insignificant delays of contractual cash flows could, as an unintended consequence, expand the scope of restructurings that could be considered TDRs. As further discussed in our response to Question 1 above, many restructuring arrangements are informal arrangements between the borrower and the servicer that involve temporary, insignificant delays in cash flows while bringing the debtor's obligation

Freddie Mac Page 10 File Reference No. 1880-100 current in less than 12 months (as defined in Appendix B, this letter refers to these actions as Loss Mitigation Activities). While it is our understanding that the Board did not intend to include such arrangements within the scope of TDR accounting, we believe that the application of the guidance contained in the proposed Update could lead to that result. Lastly, creditors may interpret the guidance related to insignificant delays differently, which may reach different conclusions regarding whether insignificant delays result in a loan being accounted for as a TDR.

The guidance in the proposed Update introduces different accounting guidance for creditors than for debtors for the same transaction. As a result, a creditor may account for a restructuring as a TDR and provide all of the disclosures required for TDRs, while the debtor may not account for a restructuring as a TDR and will not provide the same disclosures. This introduces complexity in financial reporting for users of financial statements. Similar transactions may not be accounted for in a similar manner, so analysis of financial statements between entities becomes more complicated. We believe the introduction of this type of complexity contradicts the recommendations made by the SEC's Advisory Committee on Improvements to Financial Reporting (CIFiR) in its 2008 report⁴.

The proposed Update does not explain what the issue or perceived abuse is with creditors applying the debtor's concession test in determining whether a restructuring is a TDR. The debtor's concession test is objective, operational, and well understood. Further, the debtor's concession test focuses on whether the lender has given up real economic benefits, as opposed to the guidance in the proposed Update, which focuses on opportunity cost to a creditor. The Basis for Conclusion to the proposed Update illustrates this point in paragraph BC5, which states "In a troubled debt restructuring, the creditor is not being adequately compensated for the increased exposure to credit risk that results from the contractual changes and/or delays in payments arising from the restructuring." Once a creditor extends a loan at a particular interest rate, it is exposed to credit risk. Unless a creditor extends additional funds to a debtor in a restructuring (which is typically not the case), a creditor cannot be exposed to additional credit risk.

Further inconsistency in application of the proposed guidance in identifying TDRs could occur simply due to the economic environment at the time of restructuring. For example, in periods of declining interest rates, creditors could have few or no TDRs because all of their restructured loans may be at rates significantly higher than market rates (even adjusted for credit spreads). Conversely, in stable or increasing interest rate environments, all restructurings may be determined to be TDRs because the restructured loans will not likely be at market rates.

For example, let's assume a creditor holds a 30-year fixed rate loan with a 7% interest rate that was originated in 2006. The debtor has a temporary interruption of cash flows that prevents the debtor from making scheduled payments on the loan. Once this temporary cash flow disruption ceases, the debtor is able to begin making the normally scheduled payments, but lacks the cash to pay the past due amounts. The creditor agrees to restructure this loan by capitalizing the past due principal and interest and re-amortizing the loan (with no changes to the contractual interest rate

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⁴ Final Report of the Advisory Committee on Improvements to Financial Reporting to the United States Securities and Exchange Commission dated August 1, 2008

or maturity date). Assume that current market rates are 4% and that the creditor has determined a 2.5% credit spread is appropriate in the borrower's current financial state. This loan would not be considered a TDR because the debtor's interest rate on the loan (7%) is higher than the theoretical "market rate" (6.5%). Conversely, in periods of stable or rising interest rates, this same restructuring would likely be a TDR. In both of these situations, the debtor would likely conclude that the restructuring is not a TDR, because the effective rate before and after the restructuring remains unchanged. It is not clear to us how the different accounting conclusions for the creditor in these different economic environments produce decision useful information. Further, it is not clear how the different accounting conclusions between the creditor and the debtor produce meaningful information for users of the financial statements.

Question 3: The Board decided that a creditor may consider that a debtor is experiencing financial difficulty when payment default is considered to be "probable in the foreseeable future." Do you believe that this is an appropriate threshold for such an assessment? If not, please explain why.

Response: Yes, we believe that it is appropriate to consider the probability of payment default in the foreseeable future when evaluating whether a borrower is experiencing financial difficulty. However, we believe that there may be circumstances where payment default might be probable in the foreseeable future based on a loans terms, but the borrower is able to refinance into a different type of loan with a market rate of interest and perform under the terms of the new loan. In these circumstances, we do not believe that there should be a presumption that the borrower is experiencing financial difficulty, but rather all available evidence should be considered in making that determination.

Freddie Mac is not the primary servicer of our single-family residential mortgage loans, so we rely upon our servicers in determining whether a borrower is experiencing financial difficulty. Generally, this occurs when a loan becomes delinquent or when a borrower contacts the servicer directly to inform them of an issue. We believe this complicates our ability to determine whether payment default is probable in the foreseeable future for individual debtors, so this factor should not be over-emphasized in the determination of whether a debtor is experiencing financial difficulty.

Question 4: Are the proposed transition and effective date provisions operational? If not, please explain why.

Response: No, the proposed transition provisions are not operational, because (i) the guidance in the proposed Update significantly increases the population of loans that will be accounted for and disclosed as TDRs, (ii) it is not clear which periods the proposed Update will be applied to, and (iii) the interaction of the proposed Update with the transition provision of ASU 2009-17 is not clear.

Increase to the Population of Loans Accounted for as TDRs

As discussed above and in Appendix B, we believe the proposed Update may result in all of our home retention actions being accounted for as TDRs. This would result in a substantial increase to the population of loans considered a TDR and this increase would provide less meaningful information to our financial statement users as the information related to the actual loan modifications would be diluted. Because we are not the servicer of the loans in our single-family business and the servicer does not report the specific terms of forbearance arrangements or repayment plans to us, which would be needed to apply the TDR accounting guidance, we may not have adequate time to properly assess the impact in a controlled manner. We would have to work with thousands of servicers to obtain information about all home retention actions taken with debtors over the past several years (including situations where debtors missed a single payment several years ago, but repaid the past due amount and have made every payment on time ever since). If the final ASU were issued in the first quarter of 2011, we would have only one quarter to identify the population of loans subject to the accounting and disclosure requirements. This would not give us sufficient time to implement the proposed accounting and disclosures, and establish the necessary controls.

Periods to Apply the Guidance

We believe there are different ways to interpret which periods the proposed Update should be applied to, and these different interpretations produce potentially significantly different results. The proposed Update's paragraph 310-40-65-1a states "The pending content that links to this paragraph that affects financial statement disclosures shall be effective for interim and annual reporting periods ending after June 15, 2011. Retrospective application is required for receivables restructured on or after the beginning of the earliest period presented" (emphasis added). For a calendar year-end public company, the proposed Update would be effective for interim period ending June 30, 2011. We believe this paragraph can be interpreted in one of the following two ways for a calendar year-end public company:

- Determine the retrospectively applicable population as of June 30, 2011 and keep the population static prospectively.
 - For public companies, the beginning of the earliest period presented for June 30, 2011 interim financial reporting would be January 1, 2010. As such, paragraph 310-40-65-1a can be interpreted to include all restructuring activities between January 1, 2010 and June 30, 2011 to identify the population to apply the guidance of the proposed Update. This population would stay static for all other future period financial reports (i.e., quarterly financial statements and annual financial statements).
- Determine the retrospectively applicable population as of June 30, 2011 and refresh the retrospectively applicable population to the earliest period presented in each subsequent financial report.

Freddie Mac Page 13 File Reference No. 1880-100 For public companies, the beginning of the earliest period presented for December 31, 2011 annual financial statements reporting would be January 1, 2009. Under this interpretation, when the December 31, 2011 annual financial statements are released, the guidance in the proposed Update would need to be applied to all restructuring activities during the year ended December 31, 2009, and this incremental population of TDRs would need to be added to the disclosures made in the June 30, 2011 interim financial statements, when the proposed Update would be adopted.

Interaction with the Transition Provision of ASU 2009-17

For Freddie Mac, ASU 2009-17 was effective January 1, 2010. The transition provisions of ASU 2009-17 required prospective application. On adoption of ASU 2009-17, Freddie Mac consolidated approximately 275,000 securitization trusts that held approximately \$1.8 trillion of loans. Prior to January 1, 2010, these loans were not on Freddie Mac's balance sheet; however, when the servicer modified loans held by these trusts, Freddie Mac exercised its right to repurchase these loans from the securitization trusts. When these loans were purchased from the securitization trusts, we applied the provisions of ASC 310-30 (*Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality*).

The interaction between the transition provisions of the proposed Update and ASU 2009-17 is not clear. We believe there are two possible interpretations on how the transition provision of the proposed Update should be applied to the loans on our consolidated balance sheet as a result of the adoption of ASU 2009-17:

- Exclude the restructuring activities of loans held by securitization trusts prior to the adoption of ASU 2009-17 on January 1, 2010, since these mortgage loans were not recognized on our consolidated balance sheets prior to that date; or
- Include the restructuring activities of loans held by securitization trusts prior to the adoption of ASU 2009-17 on January 1, 2010, since they were recognized on our balance sheet on the effective date of the proposed Update

If restructuring activities that occurred within securitization trusts prior to January 1, 2010 are to be included in the population of loans for the proposed Update, the historical accounting further complicates the transition provisions of the proposed Update. As noted above, prior to adoption of ASU 2009-17, when loans held by securitization trusts were modified, Freddie Mac exercised its option to purchase these loans, and applied the provisions of ASC 310-30. If these loans are within the scope of the proposed Update, we believe there are two possible ways to apply the guidance to these loans:

• If the application of the proposed update results in a loan modification being determined to be a TDR, the effects of the application of the guidance in ASC 310-30 as of the date of adoption would be reversed, and the TDR accounting provisions would be applied to these loans; or

Freddie Mac Page 14 File Reference No. 1880-100 Loans purchased from securitization trusts and accounted for in accordance with ASC 310-30 prior to the adoption of ASU 2009-17 would be excluded from the scope of the proposed Update and, instead, they would continue to be accounted for in accordance with ASC 310-30

As demonstrated above, we believe there are different ways the transition guidance can be interpreted. We recommend the Board consider clarifying the transition provisions to clearly address which periods the guidance in the proposed Update should be applied to, as well as how the transition provisions of the proposed Update interact with the transition provisions of other guidance (particularly ASU 2009-17).

Question 5: Should the transition and effective date be different for nonpublic entities versus public entities? If so, please explain why.

Response: We do not believe the transition and effective date should be different for nonpublic entities versus public entities.

Question 6: Should early adoption of the proposed amendments in this Update be permitted? If so, please explain why.

Response: We do not believe early adoption should be permitted.

Appendix B

This Appendix includes supplemental information about the types of loan workout activities that Freddie Mac employs with borrowers. We believe that this background information will be useful in understanding how the guidance in the proposed Update may be applied to existing activities used in practice. Additionally, we recommend several alternatives to the guidance in the proposed Update that we believe will help achieve the Board's objective of reducing diversity in practice related to identifying TDRs.

Freddie Mac's Loan Workout Activities

As a part of our efforts to reduce the number of foreclosures, help distressed borrowers stay in their homes and minimize our credit losses, we engage in various loan workout activities. We categorize loan workouts as either (i) foreclosure alternatives, which are either short sales or deeds-in-lieu of foreclosure; or (ii) home retention actions, which are forbearance agreements, repayment plans, or loan modifications. Each of these workout activities are further explained in the paragraphs that follow:

Foreclosure Alternatives

When a borrower does not intend, or is not able to, take actions necessary to retain their home, we would typically pursue foreclosure. In some situations, the borrower is willing to dispose of the property rather than go through a foreclosure action. Actions a borrower might take include short sales and deeds-in-lieu. These actions are described below:

- Short Sale involves sale of the underlying property to a third party for less than the total amount necessary to satisfy the mortgage obligation. The difference between the recorded investment in the mortgage loan and the sales proceeds of the property is recognized as a charge-off against the allowance for credit losses.
- Deed-in-Lieu of Foreclosure involves a debtor's voluntary conveyance of clear title to the property to Freddie Mac in exchange for a discharge of the mortgage debt. The property is recognized at fair value (less estimated costs to sell), and the difference between this amount and the recorded investment in the mortgage loan is recognized as a charge-off against the allowance for credit losses.

We do not anticipate that the foreclosure alternatives discussed above will be impacted by the proposed Update as these options result in derecognition of the associated mortgage loans.

Home Retention Actions

Our home retention actions can be divided into "Loss Mitigation Activities" and "Loan Modifications" as follows:

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Loss Mitigation Activities

For the purposes of this letter, Loss Mitigation Activities refer to activities undertaken with a delinquent borrower to bring the loan current without permanently modifying the mortgage loan. These activities are informal arrangements between the borrower and the servicer that do not involve any permanent changes to the contractual terms of the mortgage loan. Our servicers are required to report the existence of these arrangements to us, but they are not required to provide the detailed terms of the arrangements. These activities may include forbearance arrangements and repayment plans, as discussed in greater detail below:

- Forbearance arrangements an agreement to temporarily suspend or reduce a debtor's monthly mortgage payments for a specific period of time and are typically available to borrowers experiencing a temporary hardship. These agreements are short-term in nature (i.e., generally less than 12 months) and the terms of the mortgage are not legally modified.
 - This option may also be provided on a "blanket" basis to borrowers affected by natural disasters, terrorist attacks, or other catastrophes (e.g., we extended a blanket forbearance period to the particular areas affected by Hurricane Katrina in 2005). In these cases, we do not require the servicers to determine whether the individual borrowers in the affected areas are experiencing financial difficulty before granting forbearance relief. Due to the potential volume of loans in the affected areas, it is not practical to require this determination on a borrower-by-borrower basis, and it may be difficult to contact the borrowers directly, as they may not be living in their home at the time. Additionally, we have experienced minimal losses in these situations, including natural disasters as significant as hurricane Katrina.
- Repayment plans an agreement with the borrower to repay past due amounts over a set timeframe in addition to making the existing mortgage payments. Similar to a forbearance agreement, this option is available for a borrower experiencing a temporary hardship, the plan period is short-term in nature and the terms of the mortgage are not modified. Upon completion of the repayment plan, the mortgage will become current and the borrower must continue to perform under the original mortgage terms. Repayment plans generally do not extend beyond a 12-month period. If more than 12 months is needed to repay the arrearage, the loans are typically legally modified.

While loans are under forbearance arrangements or repayment plans, they are considered delinquent, both for the measurement of the allowance for credit losses and for disclosure purposes. Additionally, our servicers may report the loan as delinquent to credit bureaus. Lastly, if we determined that these short-term arrangements would not result in full reinstatement of the mortgage loan within 12 months, we would proceed with other options such as loan modification, short sale, deed-in-lieu or foreclosure.

Loan Modifications

Loan Modifications involve changes to the contractual terms of the original mortgage loan. This option is available for a borrower experiencing what is expected to be a long-term financial

Freddie Mac Page 17 File Reference No. 1880-100 hardship, and we believe that the borrower has both the intent and ability to make the modified monthly payments. Our loan modification programs generally can be classified into one or more of the following alternatives:

• Cap to reinstate – Delinquent principal and interest is capitalized as part of the outstanding unpaid principal balance of the loan, and the loan is re-amortized over the remaining original contractual life.

This type of modification may be used when a borrower experiences a temporary interruption of cash flow, such as a debtor's temporary loss of employment. Once the debtor's cash flow resumes, they are able to continue to make monthly payments; however, they do not have cash to repay the past due amounts immediately.

• Term extension – Extending the remaining original contractual life of the loan to a longer term and recalculating the payment amount. This is usually performed in conjunction with a cap to reinstate.

This type of modification may be used when a borrower has a permanent reduction in cash flow, but they are committed to paying their obligation and keeping their home. Such a situation might stem from a debtor's loss of a job and the acceptance of a new job that pays less than the old job or loss of a spouses ability to work (or work at a reduced wage).

- Interest rate reduction Reducing the original contractual interest rate to a lower interest rate.
- Principal forbearance Forbear payment of a portion of the principal balance until final payoff of the mortgage. No interest accrues on this portion of the principal. Accordingly, this reduces the amount of interest the borrower will pay and the monthly payment amount.
- Principal forgiveness Reduction of the outstanding principal amount due on the loan to a lower amount (i.e., charge-off of principal).

Interest rate reductions, principal forbearance and principal forgiveness are modification alternatives used when a borrower has a permanent reduction in cash flow, but they are committed to staying in their home and paying their mortgage, even though they lack sufficient cash to pay all amounts due under the original terms of the loan. We may conclude that the reduction in the interest rate, principal forbearance, or principal forgiveness results in a lower loss than foreclosing and selling the property, so one or more of these options may be selected.

• Combinations – To achieve an optimal Loan Modification for a specific borrower, we may combine two or more of these modification alternatives. For instance, we may reduce a borrower's interest rate, capitalize past due amounts, and re-amortize the loan over a longer

Freddie Mac Page 18 File Reference No. 1880-100 contractual life to arrive at a payment that the borrower can afford and an alternative that represents a financial result that we believe is better than foreclosure.

Since the beginning of the most recent credit crisis, our Loan Modification activities generally include interest rate reductions where the post-modification effective interest rate would be lower than the pre-modification effective interest rate. As such, most of our recent loan modifications are accounted for as TDRs. In these cases, we have determined that the borrowers were experiencing financial difficulty, and we granted a concession to the borrower in the form of an interest rate reduction (i.e., the modification met the debtor's concession test as the effective rate after the modification was less than the effective rate prior to the modification).

Prior to the most recent credit crisis, the majority of our modifications involved cap-to-reinstate, term extension or a combination of these two options. We did not account for these modifications as TDRs. While we determined that the borrowers were experiencing financial difficulties, we concluded that we did not grant a concession, since the modification did not meet the debtor's concession test. The effective rate before and after the modification remained unchanged.

As discussed in Appendix A, we believe that all of our loan modifications would be considered TDRs under the guidance in the proposed Update. We do not believe that we would be able to determine a market rate without significant cost and effort. As a result, we would presume that all of these modifications were below a market rate and thus a TDR. Additionally, under the guidance in the proposed Update, we would conclude that all loss mitigation activities, which involve an insignificant delay, were TDRs. Like the loan modifications, we would presume that all of these loss mitigation activities were at a below market rate and thus a TDR because it is not practical to determine a market rate.

Suggested Alternatives

The suggestions presented below are based upon our responses in Appendix A to the specific questions posed by the Board, the above discussion pertaining to how the proposed Update may impact our business, and other considerations such as convergence with International Financial Reporting Standards ("IFRS"). The suggestions below are listed in order of our preference for consideration and deliberation by the Board.

Alternative 1: Converge with IFRS and Enhance Disclosures

We believe that the Board should consider convergence with the International Accounting Standards Board ("IASB") by eliminating the concept of a TDR altogether. We believe that improvements to disclosures about all loan modification activity and how loan modification activity is incorporated into measurement of impairment would provide financial statement users with more useful information than the current TDR disclosures. As the Board is already working with the IASB on convergence as it pertains to amendments to the accounting for financial instruments, eliminating the concept of TDRs would provide a seamless and logical transition for preparers under U.S. GAAP. It would also alleviate any operational challenges associated with

Freddie Mac Page 19 File Reference No. 1880-100 the creation of new processes for identifying TDRs in accordance with the guidance contained in the proposed Update as described in our response to Question 1 in Appendix A. Additionally, it is not clear as to why the Board desires to address the identification of TDRs, while, concurrently, the Board's convergence project with the IASB on the accounting for financial instruments appears to be heading towards a new impairment model that will eliminate the existing "triggers" (such as the identification of a TDR) to recognize a life of loan impairment.

If the Board deems it necessary to require loans with certain characteristics to be individually assessed for impairment, we would recommend that this be addressed in the accounting for financial instruments convergence project with the IASB. If undertaken with an objective of establishing a principle that would essentially capture all loans that would be considered TDRs for individual impairment, we would ask that the Board take into consideration the other alternatives that are discussed below.

Complementary to the elimination of the concept of a TDR, we believe the Board should consider establishing additional disclosure requirements related to all loan modification activities with the same objectives as those contained in ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* ("ASU 2010-20"). We believe it would be useful to provide users of financial statements with additional information about all loan modification activity that a creditor is performing, rather only for the subset, TDRs, required by the new loan modification disclosures in ASU 2010-20. We believe that information about all types of loan modification activity and how these activities are included in the evaluation of the allowance for credit losses would provide far superior information to financial statement users.

Apart from our observations regarding the potential impacts this proposed Update may have (e.g., operational challenges, inconsistent application, misleading results, etc), disclosures limited to TDRs provide only fragmented information pertaining to the credit quality of a creditor's loan portfolio and the adequacy of its related allowance for credit losses. Disclosure of all loan modification activities would provide deeper insight into credit quality as well as the activities that a creditor is performing to mitigate its credit risk. This is especially true if the Board desires to provide further insight into a creditor's loan portfolio and establish a means of comparison amongst entities to distinguish the types of loan modifications that are being performed.

Additionally, we believe that the Board should consider deferring the effective date of the new TDR disclosures required by ASU 2010-20 to align with that of this proposed Update. This would give equal prominence to the new credit quality disclosures as well as the clarifications to the TDR guidance. As the clarifications to the TDR guidance may result in a significant divergence in existing practice causing a substantial increase in the number of loans identified as TDRs, any disconnect in the timing of the two standards could result in additional confusion for users of financial statements.

Alternative 2: Permit Use of Concession Test and Address Potential Scope Issues Caused by the Consideration of Insignificant Delays

As indicated in our responses to Questions 1 and 2 in Appendix A, it is not clear what is fundamentally wrong with the current application of the debtor's concession test or where any perceived abuse lies in its application from a creditor's perspective, especially in the residential mortgage market. It appears to us that an easier way of reducing diversity in practice might be to expressly state that creditors should use the debtor's concession test. It is our understanding that many creditors are already analogizing to the debtor's concession test in evaluating whether a restructuring should be accounted for as a TDR. If there are further concerns about the debtor's concession test, additional factors could be added for creditors to consider in evaluating whether a concession has been granted.

As indicated in our response to Question 1 in Appendix A and in the *Proposed Update's Impacts to Freddie Mac's Workout Activities* section above, it is our understanding that the Board did not intend to include arrangements that result in temporary and/or insignificant delays in contractual cash flows, such as short-term repayment plan and forbearance arrangements that bring the debtor's obligation current in less than 12 months. As such, we would recommend that the Board consider providing additional guidance and/or clarification to proposed paragraph 310-40-55-10C to reduce the likelihood of inconsistent application of this guidance.

Alternative 3: Further Clarify What Constitutes a TDR or Provide an Operational Replacement for the Concession Test

If the Board wants to preclude creditors from using the debtor's concession test, we believe the Board should reconsider the guidance in the proposed Update to (i) provide explicit guidance for creditors to determine whether a concession has been granted, rather than embed the concepts in the paragraphs addressing the evaluation of whether a borrower is experiencing financial difficulty, and (ii) eliminate the inconsistencies in the discussion of the "market rate."

Alternative 4: Eliminate Concept of Once a TDR, Always a TDR

Under both the current accounting guidance and the proposed Update, once a restructuring is determined to be a TDR, the loan generally continues to be accounted for as such until a payoff or derecognition event. Coupled with the potential for a substantial increase in the population of loans accounted for and disclosed as TDRs under the proposed Update, we do not believe the resulting disclosures will be useful for users of our financial statements. Further, we believe that a substantial portion of the increase in the population of loans considered TDRs will involve loss mitigation activities that do not involve restructuring of the terms of the loan, and such loans will likely result in little impairment recognized in accordance with the provisions of ASC 310-10-35. If the Board decides to proceed with the TDR identification criteria contained in the proposed Update, we encourage the Board to consider eliminating the concept that once a loan is identified as a TDR, that it will always be considered a TDR until the loan is derecognized.

Freddie Mac Page 21 File Reference No. 1880-100 Once a TDR has performed for 12 months, we do not believe that continued disclosure as a TDR provides users of the financial statements with useful information. However, it is important to note that even if restructured loans were to be removed from TDR disclosures after some period of reperformance, this change in and of itself would not alleviate the operational burdens of applying the guidance in the proposed Update.