Jeffrey P. Fritz, CPA
63 Hillrise
Trabuco Canyon, CA 92679

jeff@jpfritz.com
949-201-8505

Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Attention Technical Director:
Regarding: File Reference No. 2012-260

Ok, let me get this straight. If I'm operating a consumer finance company, the proposed standard on estimating credit losses would require that I establish an allowance equal to my estimate of contractual cash flows not expected to be collected on my portfolio of finance receivables. I am to make this estimate and establish the allowance with a provision for credit loss at the time I originate a loan.

Let's assume that during the last month of the first quarter that this new standard goes into effect I originate $10 million of consumer loans with terms of 60 months. Assume further that my operating history, knowledge of past events and current market conditions suggests to me that over the 60 month life of this $10 million portfolio, borrower defaults will result in losses of principal of approximately 10%, or $1 million. My knowledge of past events indicates that such losses can be expected to begin 18 months or so after origination and thereafter be spread over the remaining 42 months of the contractual lives.

So, in order to comply with the new standard, at the time I originate the $10 million portfolio, I am to record a provision for credit losses of $1 million to establish the required allowance - a $1 million loss on brand new loans. None of them are even delinquent. In the extreme example, for the loans I originated on the last day of the month, I am recording a loss to cover their entire 60 month term, and I would have recognized only one day of interest revenue. Moreover, in every subsequent period, I record interest revenue on the portfolio, but with the lifetime allowance for losses in place, there is never any subsequent provision for losses. Will the financial statements really reflect what's going on in the portfolio? The interest revenue is earned and reported over the life of the portfolio. My interest expense to finance the portfolio is paid and reported over the life of the portfolio. My expenses to originate the loans, and the fees I charge, are deferred and recognized over the life of the portfolio. Why am I recognizing losses that may occur over the next five years on day one?

Here's a partial list of what's wrong with this proposed standard:

1. It requires recognizing credit losses on financial assets that are not impaired.

2. It completely disconnects the recognition of the credit loss expense from the actual performance of the underlying assets.

3. It disconnects the recognition of the credit loss expense from the other financial statement activities of the portfolio. For any static portfolio, once the allowance is established on day one, interest revenues will be continue to be recognized over the remaining life. Yet it will seem that, in all reporting periods after the first, there are no credit losses on the portfolio.

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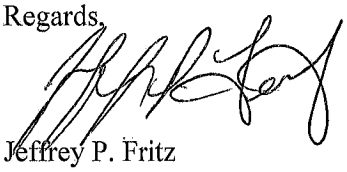
4. The Exposure Draft suggest that the new standard is necessary because, *". . . the existing incurred loss model delays recognition until a credit loss is probable . . . ."* Maybe it's just me, but I keep reading that and it just doesn't sound that bad. It sounds logical.

5. The Exposure Draft seems to suggest that the new standard will somehow make financial statements among different entities more comparable as a result of this *"consistent measurement approach."* That's a dubious expectation. Companies will still rely on their own historical experience, their view of current conditions and what they believe are reasonable and supportable forecasts. There's no reason to believe the standard will create any more uniformity in approach than the current standard.

Finally, the proposed standard seems to be a knee-jerk reaction to the fallout from the global economic crisis. The Exposure Draft states, *"In the aftermath of the global economic crisis, the overstatement of assets caused by a delayed recognition of credit losses associated with loans was identified as a weakness in the application of existing accounting standards."* Even if the proposed standard had been in place prior to the crisis, I doubt that financial statement preparers would have factored in the unforeseen global economic crisis when they established lifetime allowances on their loan portfolios. So, when the crisis occurred, allowances would still have been understated. As the crisis unfolded, companies would have had to assess the impact on their portfolios and recognize additional losses accordingly. I do not see how this standard would have improved financial reporting during that time. Moreover, I think it's dangerous to revamp an entire area of financial reporting, that more or less functions just fine, to try to accommodate a once in a lifetime global economic crisis.

Come on guys. You're better than this.

Regards,



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