

September 17, 2013

Ms. Susan M. Cospers  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

**File Reference No. EITF-13E**

Dear Ms. Cospers:

McGladrey LLP is pleased to comment on the Proposed Accounting Standards Update, *Reclassification of Collateralized Mortgage Loans upon a Troubled Debt Restructuring, a consensus of the FASB Emerging Issues Task Force* (the "proposed ASU"). There is diversity in practice regarding the timing of recognition of a foreclosure event and as such, we are supportive of this effort to provide clarification. In the discussion that follows, we comment on the specific questions raised in the proposed ASU.

**Question 1:** *Should the scope of the proposed amendments about the timing of reclassification of receivables to foreclosed residential real estate properties be extended to commercial real estate mortgage loans? If yes, please explain why, including a discussion on any special considerations related to reclassifying commercial real estate mortgage loans.*

**Question 2:** *Should the scope of the proposed amendments about the timing of reclassification of receivables to foreclosed assets also be extended to loans collateralized by nonfinancial assets other than real estate (for example, auto loans)? If yes, please explain why, including a discussion on any special considerations related to reclassifying loans that are collateralized by nonfinancial assets other than real estate.*

Regarding whether the scope should be extended to other types of loans, it may be beneficial to provide similar clarifying guidance for when a foreclosure should be recognized when the assets involved relate to loans collateralized by commercial real estate and other nonfinancial assets such as auto loans. As an example, there are divergent viewpoints as to whether vehicles that are in repossession status but within the "right to cure period" should be recognized as foreclosed assets. However, while there appear to be pressing practice issues associated with the application of existing guidance to foreclosed residential real estate properties, the practice issues associated with the application of existing guidance to loans collateralized by commercial real estate or other nonfinancial assets do not appear to be as prevalent or as pressing. Additionally, we believe there may be unique considerations that would need to be vetted in arriving at guidance that would be suitable for loans collateralized by commercial real estate and other assets that could potentially be further complicated by differences in jurisdictional law. As such, if outreach efforts suggest there is merit to extending the scope, we recommend that this be approached as a separate project so the guidance on residential real estate properties can be finalized and released in an expeditious manner.

Financial Accounting Standards Board  
File Reference No. EITF-13E  
Page 2

**Question 3:** *Do you agree that a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan upon (a) the creditor obtaining legal title to the residential real estate property or (b) completion of a deed in lieu of foreclosure or similar legal agreement under which the borrower conveys all interest in the residential real estate property to the creditor to satisfy that loan, even though legal title may not yet have passed? If not, please explain why.*

We are in agreement with the above criteria as proposed.

**Question 4:** *Do you agree that the recurring disclosures of (a) the recorded investment in consumer mortgage loans secured by residential real estate properties that are in the process of foreclosure according to local requirements of the applicable jurisdiction and (b) a roll-forward schedule reconciling the change from the beginning to the ending balance of foreclosed residential real estate properties provide decision-useful information and should be required to be provided in interim and annual financial statements? If not, please explain why and what disclosures, if any, you would propose.*

We would defer to the views of financial statement users on this question. Existing disclosure requirements may be adequate in providing decision-useful information. For example, disclosures of severely delinquent loans provide an indication of what loans will likely move in to foreclosure. Additionally, the activity in foreclosed properties in total is captured in the statement of cash flows and disclosure of non-cash activities. We believe it would be confusing and of limited usefulness to the users of financial statements for this information to be presented for just one type of loans or foreclosed properties.

**Question 5:** *If the scope of the proposed amendments is extended to commercial real estate mortgage loans and/or loans collateralized by nonfinancial assets other than real estate (for example, auto loans), should different disclosures be required for these loans? Please describe how and why you think the disclosures should be different.*

If the scope is extended to other types of loans, we believe the disclosure requirements should be consistent for all types of loans.

**Question 6:** *Do you agree that the proposed amendments should be applied to both collateralized residential mortgage loans and foreclosed residential real estate properties existing at the date of adoption by means of a cumulative-effect adjustment as of the beginning of the annual reporting period for which the guidance is effective? If not, please explain why.*

We believe that consideration should be given to permitting prospective application such that any foreclosures initiated on or after the adoption date are evaluated based on the new guidance rather than requiring modified retrospective application, given the amount of time and effort it may take for reporting entities to apply the guidance retrospectively and given the turnover that occurs in foreclosed properties. Our expectation is that applying the guidance on a modified retrospective basis would primarily entail reviewing the individual properties in foreclosed real estate to identify those properties necessitating transfer back to loans because at the adoption date neither legal title has been obtained nor a deed in lieu of foreclosure or similar legal agreement has been completed. Prospective application would also reduce the amount of time needed for implementation, allowing for a more expedited effective date.

**Question 7:** *If an entity is required to reclassify foreclosed residential real estate property to consumer mortgage loans upon transitioning to the proposed guidance, at what amount should those loans be recorded at the date of adoption? For example, (a) should the recorded investment in such consumer mortgage loans at the date of adoption be the initial recognition basis of the foreclosed residential real estate property and (b) should any difference between the carrying amount of the foreclosed residential*

Financial Accounting Standards Board  
File Reference No. EITF-13E  
Page 3

*real estate property at the date of adoption and its initial recognition basis be recorded as an allowance for loan losses for such consumer mortgage loans? Please explain the reasons for your view.*

We believe that if an entity is required to reclassify foreclosed property to loans upon transition, it should be accomplished by reflecting the recorded investment in each loan and the related allowance balance at the date of adoption as though the loans had not ever been transferred to foreclosed property. We believe this would be the most pure and appropriate method since if the loans start to perform again and/or the collateral values improve, any specific reserves could be reduced as warranted without being limited to reductions to the carrying amount of the foreclosed property that occurred while classified as foreclosed property. We believe the method mentioned above in the question as an example would inappropriately result in a discount to the loans' recorded investments that would be particularly problematic if the loans start performing again since accretion of the discount would distort the yield on the loans. As noted in our response to Question 6, we believe that prospective application should be permitted, which would alleviate the need to recast the carrying amounts at the adoption date attributable to the recorded investment in the loans and the allowance for loan losses.

**Question 8:** *Do you agree that the proposed amendments should apply to both public entities and nonpublic entities? If not, please describe how and why you think they should be different.*

We believe the proposed amendments clarifying the timing of reclassification should be applicable to both public and nonpublic entities. As indicated in our response to Question 4, we believe that feedback from the users of financial statements (of public versus nonpublic entities) should be the driving factor in deciding if the proposed disclosure requirements are retained in the final standard and made applicable to both public and nonpublic entities. With regards to nonpublic entities, we believe there may be less value in the disclosures due to the cost versus benefit analysis, disclosure overload and the fact that generally users of nonpublic entities are more likely to have access to this type of information.

**Question 9:** *Do you agree that an entity should be permitted to early adopt the proposed amendments? If not, please explain why.*

We are in agreement with permitting early adoption for interim or annual periods for which financial statements have not yet been issued.

**Question 10:** *How much time would be needed to implement the proposed amendments, and should the effective date differ for nonpublic entities versus public entities? Please explain why.*

We believe that a one-year time frame would allow sufficient time for implementation for both nonpublic and public entities. As such, if for example the final standard is issued in 2013, we would propose an effective date of fiscal years beginning on or after December 15, 2014, with calendar year entities being able to early adopt as of January 1, 2014.

We appreciate this opportunity to provide feedback on the proposed guidance and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Rick Day (563-888-4017) or Michael Lundberg (612-455-9488).

Sincerely,



McGladrey LLP