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EITF-13E  
Comment Letter No. 12  
330 North Wabash, Suite 3200  
Chicago, IL 60611

September 17, 2013

Via email to [director@fasb.org](mailto:director@fasb.org)

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

Re: Proposed Accounting Standards Update, *Reclassification of Collateralized Mortgage Loans upon a Troubled Debt Restructuring* (File Reference No. EITF-13E) ("the ED")

Dear Ms. Cospers:

We are pleased to provide comments on the ED. The importance of the question as to when a creditor should transfer a residential real estate loan to foreclosed real estate has been exacerbated by the economic conditions in the housing markets in recent years. This has highlighted the diversity in practice between financial institutions. We support clarifying the guidance in this regard. Our responses to specific questions are provided in the appendix to this letter.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Lee Graul, National Director of Accounting at (312) 616-4667 or Adam Brown, Partner in the National Accounting Department at (214) 665-0673.

Very truly yours,

A handwritten signature in black ink that reads "BDO USA, LLP". The letters are written in a cursive, slightly slanted style.

BDO USA, LLP

## Appendix - Questions for Respondents

**Question 1:** Should the scope of the proposed amendments about the timing of the 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.

We agree that extending the scope to explicitly include commercial real estate mortgage loans is unnecessary. The length of the foreclosure period for residential real estate loans is typically longer (sometimes significantly) than commercial properties due to the unique legal environment in the United States and specific safeguards that exist in local jurisdictions relative to foreclosure of residential properties. Considering this and the other factors mentioned in the Background Information of the ED, we agree with the scope of the proposed amendments.

Separately, we note that the proposed guidance does not prohibit an analogy for commercial loan reclassifications. As such, we recommend adding language in the basis for conclusions that interests in a legal entity would initially need to be evaluated under the VIE consolidation guidance. This may be particularly relevant for commercial loans. For instance, before analogizing to the final amendments, there may be similar situations to the scope of this issue in which a creditor's collateral may be the equity in a holding entity that owns commercial real estate.

**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.

For reasons similar to those enumerated in response to Question 1, we do not believe the scope of the amendments should be extended to loans collateralized by nonfinancial assets other than real estate (for example, auto loans).

**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 the loan, even though legal title may not yet have passed? If not, please explain why.

Yes, we agree that a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan upon (a) or (b). We note that judgment may be required to determine whether arrangements such as "quitclaim" deeds, wherein the borrower/transferor generally offers no guarantee that the title to the transferred property is free and clear, is within the scope of the proposed amendments and recommend clarifying whether this is the case. Similarly, we understand that regulatory interpretations support recognizing the collateral upon obtaining legal title even if a "redemption period" exists.

Technical Director  
Financial Accounting Standards Board  
Page 3 of 4

In the final amendments, we suggest clarifying that redemption periods do not impede reclassifying the loan to foreclosed real estate properties.

**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 agree with the proposed disclosures in paragraph 310-10-50-35 related to the end of period balance of the recorded investment in consumer mortgage loans secured by residential real estate properties which are in the process of foreclosure.

The proposed disclosure in paragraph 310-10-50-11 relating to the roll-forward of foreclosed real estate properties may not necessarily provide decision-useful information. This information may only reflect a portion of "Foreclosed Real Estate" because it would not capture other elements such as commercial real estate and thus may not tie to the amount included on the balance sheet.

If retained, we believe that a more useful disclosure would be to provide this roll-forward for the entire balance of the Foreclosed Real Estate account, including commercial properties.

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

As mentioned in our responses to Questions 1 and 2, we do not believe the scope of the proposed amendments should be extended to commercial real estate mortgage loans or loans collateralized by nonfinancial assets.

**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 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 at the beginning of the annual reporting period for which the guidance is effective.

**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

Technical Director  
Financial Accounting Standards Board  
Page 4 of 4

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 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 do not believe it necessary to specify whether consumer mortgage loans should be recognized gross, with a separate valuation allowance, or at the net amount upon transition. Instead, we suggest indicating that such consumer mortgage loans should be recognized at the amount that would have been recorded as if the earlier reclassification to foreclosed residential real estate property had not occurred. However, whether recognized gross or net, that amount should not exceed the balance existing upon the date of adoption.

**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 agree the proposed amendments should apply to both public and nonpublic entities. However, if the disclosure in paragraph 310-10-50-11 relating to the roll-forward of foreclosed real estate properties is retained, we do not believe it should be applicable to nonpublic entities.

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

Yes, we agree that an entity should be permitted to early adopt the proposed amendments.

**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 do not expect the implementation of the proposed amendments would require a significant amount of time or effort. However, this question is probably better answered by preparers.