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November 14, 2005

Mr. Lawrence W. Smith, Director
Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Proposed FASB Staff Position SOP 94-6-a, “Nontraditional Loan Products”

Dear Mr. Smith:

We appreciate the opportunity to comment on the proposed FASB Staff Position SOP 94-6-a, “Nontraditional Loan Products.” We support the Board’s efforts to communicate its views on whether nontraditional loan products represent a concentration of credit risk as contemplated by FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, and what disclosures and other accounting considerations may be appropriate for entities with interests in or activities relating to nontraditional loan products. We agree that nontraditional loan products generally expose originators, holders, investors, guarantors, and servicers of those products to greater risk than traditional loan products and believe that the Board’s views represent a reasonable interpretation of relevant existing literature.

While we agree with the Board’s conclusions, we believe that certain aspects of the proposed FSP should be clarified. For example, we believe the term “high loan to value ratio” may need to be clarified because there may be different interpretations of that term. Additionally, paragraph 6 indicates that the FSP “focuses on disclosures for nontraditional loan products,” yet paragraphs 12, 16, and 17 and a portion of paragraph 15 address accounting issues rather than disclosure matters. Therefore, we believe that paragraph 6 should be revised to indicate that the FSP addresses disclosures and accounting considerations related to nontraditional loan products so that it is consistent with those paragraphs as well as paragraph 1(b) of the proposed FSP.

We believe that an effective date and transition guidance should be provided because entities may conclude that additional disclosures would be appropriate based on the proposed guidance. For example, some entities may have concluded that paragraph 15A of Statement 107 was not applicable to certain nontraditional loan products because paragraph 15A refers to counterparties with similar economic characteristics rather than



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to instruments with similar characteristics. Therefore, we suggest that the final FSP contain an effective date for periods ending after December 15, 2005.

The Board should also consider the following editorial changes to the proposed FSP:

- The word "Certain" should be struck from the first sentence of paragraph 7 since, according to the discussion in the proposed FSP, all nontraditional loan products expose a reporting entity to greater credit risk than traditional mortgage products.
- Paragraphs 12 and 18 seem misplaced. We suggest that paragraphs 12 and 18 be reversed so that the guidance on disclosure is completed before the guidance on accounting is discussed.

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If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact either Mark Bielstein at (212) 909-5419 or Enrique Tejerina at (212) 909-5530.

Sincerely,

KPMG LLP