



September 30, 2010

Sent via electronic mail to [director@fasb.org](mailto:director@fasb.org)

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

File Reference: No. 1810-100 *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*

Dear Mr. Golden:

On behalf of the 175,000 members of the National Association of Home Builders (NAHB), I would like to submit comments on the Financial Accounting Standards Board's (FASB) exposure draft *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* ("Proposal").

NAHB is a national trade association representing individuals and companies involved in building single family and multifamily housing (including participants in the Low Income Housing Tax Credit program), remodeling, and other aspects of residential and light commercial construction. Each year, NAHB's builder members construct about 80 percent of all new housing in America. NAHB's builder members are mostly small businesses with limited capital of their own. These small businesses depend almost entirely upon banks and thrifts for housing production credit. Our surveys show that 90 percent of all loans for residential land acquisition, development and construction (AD&C) come from commercial banks and thrifts. Therefore, of utmost importance to NAHB is continued availability of AD&C financing from banks and thrifts. NAHB also has a strong interest in preserving the capacity of banking institutions to provide multifamily and single family mortgage loans. NAHB is concerned that the Proposal will have an adverse impact on financial institutions' ability and willingness to make and hold AD&C, multifamily and other housing loans.

With this in mind, NAHB is writing to express concerns and opposition to the portion of the Proposal that requires all financial instruments to be marked to market. From the home builders' perspective, this Proposal will cloud transparency rather than improve it. Therefore, NAHB respectfully requests that the Proposal be withdrawn.

Under FASB's Proposal, banks would be required to record loans on the balance sheet at market value. NAHB believes the focus on market values is not relevant for loans that are not being sold. Given the individualized payment terms, collateralization, and guarantee structures, the vast majority of commercial bank loans have no reliable market in which they could be sold, calling into question the reliability of using fair value as the basis for bank financial statements. This is particularly true for AD&C loans which, unlike mortgage loans, have no secondary market outlet. In addition, loans for multifamily properties and other types of housing loans also have only limited secondary market outlets. Even if there were active markets, fair value is not the appropriate measurement for these loans since it does not represent the cash the bank will receive.

When financial institutions calculate their ability to make AD&C, multifamily or other housing loans they concentrate on the financial results that their investors would look to when deciding whether to invest in an institution. Market values of loans are not discussed when reviewing these results. These investors are interested in loan performance, and not how the market views loan performance. Thus, market values are of little interest to financial institution investors.

NAHB understands that a loan's intrinsic value may change because of current interest rates or because of problems the borrower may have. But if there is a problem in repayment, the banks' typical process is to work out the problem with the borrower rather than to sell the loan. So, even if market values were easily available, the determined market value is irrelevant, since the bank would not sell the loan. The FASB Proposal will unnecessarily impact loan values by incorporating market swings in fair value measurements that cannot reasonably be expected to be realized by the bank.

The desire of investors to hold equity securities in financial institutions generally declines as volatility increases. Because of increased volatility due to the proposed mark-to-market accounting method, investors will be in a quandary about the true reported financial position of financial institutions under the Proposal. The result could be unnecessary investor pressure on these institutions to reduce this "booked" volatility which, in many cases, may result in limiting products to those that are sheltered from market volatility. This seems to be an illogical and unintended result that will unnecessarily restrict AD&C, multifamily and other housing lending to NAHB's members and their customers.

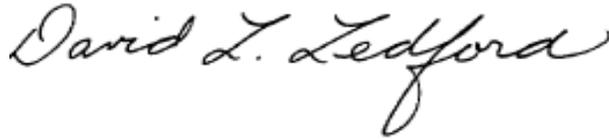
Over the past several years, NAHB members have reported excessive credit restriction, where lenders are cutting off loans for viable new housing projects and producing unnecessary foreclosures and losses on outstanding AD&C and multifamily loans, which generally have been performing loans prior to lenders' actions. If the spigot for housing production loans is cut off, there can be no housing recovery, which has major implications for the economy as a whole. With lenders already refusing to extend new AD&C and multifamily credit or to modify outstanding loans to provide builders more time to complete their projects and pay off these loans, care needs to be taken not to reduce credit availability even further. Requiring unnecessary accounting measures, such as the market valuation proposal, could result in even greater needless reduction in AD&C and

other housing credit and further prolong the housing and economic recovery.

As stated earlier, NAHB recommends that FASB drop the Proposal to mark loans to market. From a perspective of borrowers of AD&C, multifamily and other housing loans, the proposed accounting method not only does not improve financial reporting but, in many cases, will most likely frustrate the already constricted availability of housing production funds for single family and multifamily projects.

NAHB appreciates the opportunity to provide these comments. Please contact Kim Moore, NAHB Director for Financial Institutions and Capital Markets, at (202) 266-8529 or [kmoore@nahb.org](mailto:kmoore@nahb.org), if there are questions concerning our letter.

Sincerely,

A handwritten signature in cursive script that reads "David L. Ledford". The signature is written in black ink and is positioned above the typed name and title.

David L. Ledford  
Senior Vice President  
Housing Finance and Land Development