UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

OFFICE OF
THE CHIEF ACCOUNTANT

March 26, 2001

Mr. Zane Blackburn
Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219-0001

Mr. Gerald Edwards
Board of Governors of the Federal Reserve System
20th and Constitution Avenue, N.W.
Washington, DC 20551

Mr. Robert Storch
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Mr. Timothy Stier
Office of Thrift Supervision
1700 G Street, N.W.
Washington, DC 20552

Dear Gentlemen:

Thank you for the opportunity to review your Interagency Guidance on Certain Loans Held for Sale, which you issued on March 26, 2001. The staff believes the Interagency Guidance is timely and will assist in promoting consistent accounting and reporting treatment for the loan sales and transfers of loans to held for sale that are within its scope, especially with regard to the following key points:

- Loans held for sale should be recorded at the lower of cost or fair value. The best evidence of fair value is a quoted market price. However, if no quoted market price is available, an institution should consider other factors, including, but not limited to, recent cash sales of similar loans, market prices of similar loans, valuations received from independent loan pricing experts, and the loan's expected cash flows discounted at an appropriate interest rate.

- Declines in the value of loans before they are in the held for sale account should be recognized as credit losses and not as other noninterest expense. Exceptions should be limited to adjustments to carrying value that are attributable to interest or foreign currency exchange rates and clearly are not attributable, in any respect, to credit risk. That assertion should be supported with objective, verifiable evidence that is properly documented.
- If amounts removed from the allowance for loan losses upon transfer of a loan to the held for sale account are material to the activity in the allowance, those amounts should be separately disclosed and appropriately described in the presentation of the activity in the allowance for loan losses during the period.
- Changes in the valuation allowance for loans in the held for sale account should be reported in the "other noninterest income" or "other noninterest expense" category in the income statement. When these income or expense amounts are material, they should be separately disclosed and appropriately described either on the face of the income statement or in the notes to the financial statements.
- Registrants reporting to the SEC are reminded that disclosures about nonaccrual, past due, restructured, and potential problem loans in their portfolio could be unbalanced and misleading unless similar information also is presented about their loans held for sale that exhibit similar risks of noncollection.

We look forward to continuing to work with you in the future to improve the financial reporting of lending activities to provide more comparable and transparent information to investors and other users of financial reports.

Sincerely yours,

Lynn E. Turner
Chief Accountant