December 18, 2009

Mr. Wesley Bricker, Professional Accounting Fellow
Office of the Chief Accountant
Securities and Exchange Commission
100 F Street, N.E.
Washington D.C. 20549

Dear Mr. Bricker:

Members of the AICPA Depository Institutions Expert Panel (DIEP) and representatives of the Accounting Standards Executive Committee (AcSEC) and AICPA staff recently discussed an emerging practice issue with the staff of the Office of the Chief Accountant and the Office of the Chief Accountant - Division of Corporation Finance at the United States Securities and Exchange Commission (SEC). The issue relates to accounting in subsequent periods for discount accretion associated with loan receivables acquired in a business combination or asset purchase. This letter summarizes the issue and our understanding of the SEC Staff's position communicated to us on December 5, 2009.

Issue Presented

At issue is recognition of discount accretion for acquired loan receivables with a fair value (if acquired through a business combination) or relative fair value (if acquired through an asset purchase) that is lower than the contractual amounts due (principal amount) that are not required to be accounted for in accordance with the guidance in FASB Accounting Standards Codification (ASC) 310-30 (originally issued as AICPA Statement of Position No. 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*). The issue arises for loan receivables that:

- are acquired in a business combination or asset purchase;
- result in recognition of a discount attributable, at least in part, to credit quality; and
- are not subsequently accounted for at fair value.

The discount relating to such acquired loan receivables must be accounted for subsequently through accretion. The DIEP has discussed with accounting firms and preparers represented on the DIEP the following accounting policies for such discount accretion.

Accounting Policy Based on Contractual Cash Flows

Some support an accounting policy of recognizing discount accretion based on the acquired loan's contractual cash flows, as described in the guidance for accounting for loan origination fees and costs that is included in FASB ASC 310-20 (originally issued as FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*).

Accounting Policy Based on Expected Cash Flows

Others support an accounting policy of recognizing interest income based on the acquired loan's expected cash flows, as described in the guidance for accounting for loans acquired in a transfer that have deteriorated in credit quality since origination that is included in FASB ASC 310-30. Applying the guidance in FASB ASC 310-30 for interest income would result in recognition of the difference between the initial recorded investment and the loan's expected principal and interest cash flows using the interest method.

SEC Staff Position

In absence of further standard setting, for the acquired loan receivables described above we understand that the SEC Staff would not object to an accounting policy based on contractual cash flows or an accounting policy based on expected cash flows. An entity should disclose its accounting policy election and apply that accounting policy consistently. We further understand that the SEC Staff believes that an entity that has an accounting policy based on expected cash flows should follow all of the accounting and disclosure guidance in FASB ASC 310-30, including, for example, following the guidance on maintaining the integrity of a pool of multiple loans accounted for as a single asset.

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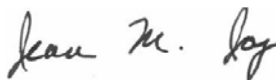
On behalf of the DIEP, I want to thank the Staff for their consideration of this issue.

Sincerely,



Jean M. Joy, Chair
AICPA Depository Institutions Expert Panel

cc: Jay D. Hanson, AcSEC Chairman