

Resolution No: 2

Date: January 12, 2005

City: Orlando, FL

### NAHB Resolution

Title: Addressing the Adverse Impact of Accounting Standards on  
the Housing Finance System  
Original Sponsor: Task Force on Housing Finance Reform

WHEREAS, the Financial Accounting Standards Board (FASB) is officially recognized by the Securities and Exchange Commission as the designated organization in the private sector for establishing standards of financial accounting and reporting;

WHEREAS, some accounting and reporting standards issued by FASB have had adverse consequences when applied to financial institutions engaged in risk management transactions such as loan hedge instruments and loan participation agreements;

WHEREAS, loan hedge instruments are important risk and asset management tools for financial institutions holding housing loans and mortgage-backed securities;

WHEREAS, FASB requires some hedge instruments to be characterized as derivatives for accounting purposes, which means that their value is calculated using the mark-to-market approach rather than amortizing the instrument's historical cost;

WHEREAS, FASB's accounting standards introduce accounting income volatility by requiring a one-sided mark-to-market in which only the fair value changes of the derivative are reflected in the institution's financial statements, while the fair value changes of the hedged item are ignored; and

WHEREAS, banks, regulatory agencies and other housing finance system participants have objected to these FASB accounting standards because they produce volatility in financial earnings reports resulting in unnecessary confusion for investors and stakeholders that may deter institutions from maintaining important credit-risk management practices, limiting the capacity of institutions to provide housing credit;

NOW, THEREFORE, BE IT RESOLVED that the National Association of Home Builders join with other industry trade associations and individual entities to develop, advocate and implement reforms to clarify accounting standards and take all other steps necessary to remove adverse consequences in current financial accounting standards and reporting requirements.

Board of Directors Action:	<b>Approved</b>
Joint Executive/Resolutions Committee Action:	Recommends Approval
Resolutions Committee Action:	Recommends Approval
Federal Government Affairs Committee Action:	Recommends Approval
Housing Finance Committee Action:	Recommends Approval
Financial Institutions and Capital Markets Subcommittee Of the Housing Finance Committee Action:	Recommends Approval