November 22, 2019

Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

RE: Project No. 26-8

Dear Mr. Bean,

On behalf of the state Housing Finance Agencies (HFAs) it represents, the National Council of State Housing Agencies (NCSHA)\(^1\) appreciates the opportunity to respond to the Governmental Accounting Standards Board’s (GASB) September 16 Exposure Draft outlining the financial reporting and accounting implications for government entities when replacing the Interbank Offered Rate (IBOR) used in various financial transactions.

We thank GASB for addressing the lack of clarity on this issue and for developing clear and flexible guidelines that will allow HFAs and other government entities to adjust to the market transition away from the London Interbank Offered Rate (LIBOR) without having to devalue their effective hedges or meet burdensome new reporting requirements. We urge GASB to finalize the Draft as expeditiously as possible to allow government entities to begin amending their financial obligations to prepare for LIBOR’s expiration while still fulfilling their important public missions.

HFAs are state-chartered housing agencies that operate in every state, the District of Columbia, New York City, Puerto Rico, and the U.S. Virgin Islands. Though they vary widely in their characteristics, including their relationship to state government, they share a common goal of providing affordable housing help to those of their constituents who need it.

HFAs, like many government entities, use LIBOR as a reference rate for various financial agreements they enter into, including debt, loans, swaps, and hedges, many of which will have to transfer to new rates. HFAs use swaps and hedges to mitigate risk on the bonds – mostly tax-

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\(^1\) NCSHA is a nonprofit, nonpartisan organization. None of NCSHA’s activities related to federal legislation or regulation are funded by organizations that are prohibited by law from engaging in lobbying or related activities.
exempt Housing Bonds – and mortgage backed securities (MBS) they use to fund their affordable housing activities. HFAs utilize single-family Mortgage Revenue Bonds (MRBs) to help working families purchase their first homes. Through multifamily bonds, HFAs finance the development of affordable rental housing that would otherwise not have been built in the private market.

The guidance offered by the Exposure Draft provides HFAs and other government entities the flexibility to either (a) pro-actively amend LIBOR swaps or fallback language, and/or (b) convert LIBOR exposures once LIBOR ceases to be published, without triggering a termination of a historically effective hedging derivative. This will enable HFAs to continue benefitting from the derivatives they have entered into and to continue to reflect the value of the derivative when accounting for the value of the underlying asset the derivative is attached to in its financial reports, rather than having to adjust for the various fluctuations of value on the underlying asset in each reporting cycle.

Given that HFAs and other government entities are being forced to change reference rates because of a policy change - LIBOR's impending expiration – and not a policy choice on their part, it is simply common sense that such an adjustment should not change the accounting status of an issuer’s hedges, swaps, or other derivatives. We thank GASB for clarifying that this will not be the case. We respectfully request that you finalize this guidance as quickly as possible.

Thank you for your consideration. We would be happy to discuss these issues with you at your convenience.

Sincerely,

Garth Rieman
Director, Housing Advocacy and Strategic Initiatives