



LETTER OF COMMENT NO. 27

Sent: Tuesday, March 24, 2009 10:05 AM
To: Adrian Mills; Diane Inzano; Joseph Vernuccio; Kevin Stoklosa; Kristofer Anderson; Mark Trench; Meghan Clark; Peter Proestakes; Russell Golden; Vita Martin; Wade Fanning
Subject: FW: response to the proposed changes for FASB 157 and 115

From: Brian Hughes [mailto:Brian.Hughes@sunfcu.org]
Sent: Tuesday, March 24, 2009 9:57 AM
To: Director - FASB
Subject: FW: response to the proposed changes for FASB 157 and 115

From: Brian Hughes
Sent: Tuesday, March 24, 2009 9:55 AM
To: mdunn@cuna.coop
Cc: Brian Hughes; Gary C. Moritz; Cathy Eldridge; Sarah Widmer
Subject: response to the proposed changes for FASB 157 and 115

I want to lend my strong support for the changes that were proposed for determining a stressed or no market for bonds (FASB 157) and changing mark to market rules (FASB 115). Although the accounting rules as they presently stand error on the side of caution, in these extraordinary times accounting theory is truly tested. The current accounting rules assume a static over cautious situation where a bond is subjectively determined to have no market and therefore is undervalued without opportunity to recover value until the last principal payment is made or the market recovers sufficiently to sell the bond at nearer its true value. Rather than serve as a warning to a serious situation developing, which these rules did not do, they instead mandate an immediate recognition of inflated unrealized loss that results in an undervaluing of capital. This in turn can cascade into a variety of reactions some appropriate perhaps but most, as we are seeing, are over reactionary. The result is assets sold at pennies on the dollar (Merrill Lynch), firms broken up or merged and thousands added to the unemployment rolls.

The changes proposed will allow distressed portfolios to be valued more closely to their true value focusing on the credit default portion of the devaluation that poses a true principal loss risk (assuming adequate liquidity that does not force a fire sale). The other favorable change involves additional market conditions in determining whether a bond has no market. This change will more realistically recognize the marketplace as dynamic. A lot can change over the life of a bond including market/economic conditions, new interested buyers and an opportunity to measure and adjust value up or down as unrealized loss estimates become true losses (net principal losses resulting from default loans less proceeds from collateral sold). In this regard, I do not think the proposed changes, at least as I understand them, go far enough. There should be more opportunity to periodically revalue the bond over time and add back to or subtract from capital as market conditions change.

I buy and sell mortgage backed securities for Sun Federal Credit Union and have done so for many years. We currently manage a portfolio of 80 to 90 million dollars. Although we, as a natural person credit union, are not under the same mark to market rules as corporate credit unions and banks we are required to recognize unrealized losses and gains on our balance sheet. As you know, we are not required to use the unrealized gain or loss as a factor in determining net worth. However, we do use market pricing at a point in time to determine the portfolio value that is reported on the balance sheet. When I actually buy or sell an investment the reality is that it never correlates to the theoretical price. In the real marketplace I would never gain or loss as much as is reported on our subsidiary investment report to the balance sheet. These disparities exist in a normal marketplace and expand in an abnormal one. I urge everyone to support these accounting rule changes that will go a long way to

correct the current situation.

Brian W Hughes
Vice President of Finance
Sun Federal Credit Union

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