
From: Laura Cloherty [lcloherty@wescorp.org]
Sent: Tuesday, December 30, 2008 9:22 PM
To: Director - FASB
Subject: Proposed FSP EITF 99-20-a

December 30, 2008

Via email: director@fasb.org



LETTER OF COMMENT NO. 257

Mr. Russell G. Golden
FASB Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5166

File Reference: Proposed FSP 99-20-a

Dear Mr. Golden:

Western Corporate Federal Credit Union (WesCorp) is a corporate credit union and has a national field of membership serving 1,067 credit unions in 44 states, offering liquidity, balance sheet solutions and payment system services to its member credit unions. As a liquidity provider, marketable securities make up the bulk of our assets, which we use primarily as collateral for liquidity purposes, most of which are backed by residential mortgage assets. Specifically, we have total assets of more than \$24 billion, of which more than \$20 billion, or more than 80% of all assets, are held in marketable securities classified as either available-for-sale or held-to-maturity. Regardless of the securities classification, we are a buy and hold institution and rarely sell securities in our portfolio. As a federally-chartered credit union, WesCorp is regulated and insured by National Credit Union Administration (NCUA).

The unprecedented market conditions that currently exist highlight the inherent flaws in fair value accounting as a basis for recognizing other-than-temporary impairment. The current guidance requires that other-than-temporary impairment charges be recorded based upon exit prices that are currently significantly lower than net realizable value, even when the ability and intent to hold to maturity exists. This results in volatility in earnings that is not reflective of the true economic impact of the holdings.

We agree that similar instruments should be subject to the same impairment model. However, the Board's proposal does not go far enough in meeting that objective. Amending EITF 99-20 to align with the SFAS 115 impairment model is a start, but the SFAS 115 impairment model is not in alignment with the impairment model contained in SFAS 114. Current guidance under SFAS 115 results in disparate treatment of the underlying loan assets of a mortgage-backed security. When such loans are packaged and structured to provide additional credit enhancement and excess spread into a security, they are subject to much harsher accounting treatment in distressed markets than whole loans, even when the intent to hold until a recovery of value is the same. These rules in effect penalize institutions that hold significant amounts of mortgage-backed securities when compared to institutions whose assets are composed of primarily loans, when the underlying risk of both the mortgage-backed securities and the loans are essentially the same. In today's unprecedented market conditions, the required accounting for these similar assets results in severe distortions in other-than-temporary impairment recognition that

are based on the form rather than the substance of the underlying assets. This does not result in a level playing field or comparability between the financial statements of similar institutions even when the associated risk of loss may be the same. **We support the Center for Audit Quality's proposal of recognizing currently in income only those impairments representing probable losses of contractual cash flows.** This portion of the impairment would be deemed to be attributable to credit. This would align the accounting for unsecuritized loans and debt securities.

WesCorp believes that recording only the credit loss through the income statement actually improves transparency as well as comparability. It allows users of financial statements to distinguish between the valuation based on fair value recorded through other comprehensive income in the statement of financial condition and the impact of credit impairments recorded in the income statement. Most users primarily focus on the statements of financial condition and income statement for conclusions on the health of an institution, and refer to supplemental disclosure for additional information. This change would also result in the regulatory capital of financial institutions to properly reflect actual expected losses and not reflect distortions based on liquidity premiums in an illiquid market.

We respectfully request that in your deliberations on Proposed FSP EITF 99-20-a that you also address the SFAS 115 impairment model and the use of fair values when recording other-than-temporary impairment. The write-down to fair value in the current distressed market does not represent the true economic condition of an entity with has no plans to sell securities. We believe that the changes need to be made to standardize all impairment models which result in different write-down amounts for similar assets. Further, we believe that these changes need to be made for annual reporting periods ending after December 15, 2008.

We appreciate the opportunity to comment on this issue. If you should desire any further clarification on our opinions or wish to discuss any of the points raised herein, please feel free to contact Jim Hayes, Chief Financial Officer or myself at (909) 394-6300.

Regards,



Laura J. Cloherty, CPA
Vice President, Controller

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12/30/2008