



LETTER OF COMMENT NO.

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From: Stephen Lange Ranzini [mailto:ranzini@university-bank.com]
Sent: Friday, October 03, 2008 9:39 PM
To: Director - FASB
Cc: Cam Fine; eyinglin@aba.com
Subject: Fair Value Accounting

Dear Sir:

I've been of the opinion for years that mark to market valuation accounting is at its core, intellectually dishonest.

There is no such thing as a True Value for something. The market, as Warren Buffett enjoys pointing out, swings ever wildly between optimism and pessimism and if it is at True Value for even a minute during these swings it is by accident. In fact there is no True Value for something and since markets come and go, the only anchor of reality is cost.

By having banks and other firms mark to market assets, we just unhinge value from cost and when the crowd is optimistic, the prices are too high and when the crowd is pessimistic the prices of things are too low. Now that the bankers and other investors who have to publish SEC financial statements have learned the truth of this by experiencing the first really big down cycle, they will avoid risk until the bargains are so great that there is no risk and the cycle will begin again because as markets rise, investors will get ever more optimistic. Previously, everything was great because firms only accrued gains from mark to market during the bubble phase. Until mark to market accounting is abolished, no sane banker (especially banks who are leveraged 12-1 on their equity) will buy any even slightly risky assets and will stay in T-Bills or other safe government debt and the downward spiral of prices and the economy will not abate. Thanks for your role in this highly destabilizing pro-cyclical intellectually dishonest construct. Your latest tweak to the intellectually dishonest construct is also by definition intellectually dishonest. As a result today, all financial statements tell investors is that investors are pessimistic or optimistic. They don't inform us if the business makes a profit or not. So, through your machinations you have rendered financial statements to be quite useless.

Finally, your example is ridiculous. The True Value of the CMO based on future cash flows means it ought to be priced on a 20% yield yet because the market is pessimistic, the bank is to mark it closer to the "market price" which is just a throw-away bid that some scared of failing later today investment bank threw out there of 25% yield, so the CMO should be marked to market lower than the True Value, or 22% yield somewhat between the two. Ridiculous! Or, maybe the True Value based on the cost of funds, a decent return on equity and the actual risk of loss in the instrument is an 8% yield but because everyone is so scared they demand 15% or 20% or 25% yield, and if they bought it would have to mark it down immediately to 20% or 22%. Ridiculous! If the investor was correct and they made 8% for five years and then got all their money back, if their cost of funds was lower than that they would have a profit. What's the point of all the mark to market giant profits and giant losses in the interim period other than to generate stock speculation based on waves of pessimism and optimism? They inform us not at all and

don't tell us anything useful with respect to the fundamental question of: does the company have a good business model that makes profits. I close my remarks with an appropriate quote:

“The things that will destroy America are prosperity at any price, peace at any price, safety first instead of duty first, the love of soft living and the get rich quick theory of life.”

- Theodore Roosevelt

We've drifted a long way away from this sound advice. Let's remove the get rich quick theory of life from our financial statements and revert to cost accounting immediately.

Regards,

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