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727 North Bank Lane, Lake Forest, Illinois 60045

October 8, 2008

Financial Accounting Standards Board
Via email to director@fasb.org



LETTER OF COMMENT NO.

28

Regarding File Reference: Proposed FSP FAS 157-d

Thank you for the opportunity to address the proposed FASB Staff Position that would amend FASB Statement No. 157 ("FAS 157"), *Fair Value Measurements*, to clarify its application in an inactive market.

It appears to us that the proposed position put forth by the FASB for consideration does nothing more than to clarify and provide an illustrative example of how to apply *existing* accounting under FAS 157. In our opinion, the proposed amendment provides very little, if any, relief to financial institutions in regard to the actual measurement of fair value in an illiquid and distressed market. Accordingly, it would appear that "fire sale" economics would still need to be applied in determining fair value thereby having a damaging impact on a number of community banks. The impact will cause significant impairment charges resulting in reduced capital at banks, diminished liquidity and less lending. In fact, we believe the continued implications of applying FAS 157, even as recently clarified, will result in increased bank failures.

It is our understanding that the Emergency Economic Stabilization Act of 2008 authorized the Securities and Exchange Commission ("SEC") to suspend, by rule, regulation, or order the application of the provisions of FAS 157 if it was necessary or appropriate in the public interest and is consistent with the protection of investors. It is also our understanding that this was an important issue for members of Congress in order to provide relief from the overly damaging impact of using fire sale pricing or fire sale economics under the existing guidance of FAS 157. We believe the proposed amendment does nothing to provide relief from those damaging impacts.

We concur with the concerns expressed by certain members of Congress. In order to address such concerns, we would suggest that amendments to FAS 157 provide substantive relief by issuing a rule that allows entities to not be required to use fire sale prices and not be required to use market place assumptions that are driven by market participants seeking fire sale prices. In his testimony to Congress, even Federal Reserve Chairman Bernanke seemed to indicate that he did not believe fire sale pricing was an appropriate measure of fair value. We concur with Chairman Bernanke and believe the Federal Reserve Bank is taking a reasonable view of value. If the Chairman of the Federal Reserve does not believe that fire sale economics are appropriate, it seems inappropriate for banks to have to use those values and impair their balance sheets.

Our primary concerns relate to the valuation of impaired loans that are dependent on real estate related collateral in this highly depressed market. For these types of assets, we believe the FASB should use a "mark-to-value" principal rather than a "mark-to-market" approach. Guidance should recognize that specific residential real estate markets (including real estate development) are currently distressed, with little activity occurring at extremely low, fire sale

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prices. Financial statement preparers should not be required to prove via persuasive evidence that these sales are in fact distressed sales under FAS 157, and therefore should be not be required to consider such fire sale prices under Level 2 valuation methodology. Instead, reporting entities should be allowed to make reasonable adjustments to their fair value calculations under Level 3 valuation methodology. The adjustments under the Level 3 valuation methodology should not require use of only outside market participants' economics; this simply results in a calculation that brings the value back to the fire sale prices that outside market participants are offering. For those entities that have the capacity to hold the assets for an extended period of time, potential alternative approaches could include allowing the use of historical averages spanning business cycles for market inputs reflecting reasonable levels of return and other significant assumptions, as opposed to current depressed levels. Alternatively, banks that have the ability to hold the assets could be allowed to use implied rates of returns applicable to their own businesses rather than implied rates of returns of outside market participants (as currently required by FAS 157).

As you know, FAS 157 became effective in 2008 and interpretation and implications of this accounting rule is just beginning to be understood by many banks and even the banking regulators. In this economic cycle where market values seem to be set by investors looking for fire sale values, a "*mark-to-value*" approach would seem to help financial institutions while implementing this accounting standard and aid the public interests.

In addition, we have talked with many different bankers and implementation of the existing standard for collateral dependent impaired loans seems to vary widely in practice. Accordingly, in any event, we believe the amendment should provide additional and more illustrative guidance to banks on how to value impaired collateral dependent loans specifically those impaired loans whereby the underlying collateral consists of land and other real estate development properties. This additional guidance seems extremely necessary.

Thank you for listening and we are pleased we can have input into the process.

Respectively,



Edward J. Wehmer
President and Chief Executive Officer



David A. Dykstra
Senior Executive Vice President