

Bob Siravo
President/Chief Executive Officer



October 9, 2008

LETTER OF COMMENT NO.

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VIA EMAIL: director@fasb.org

Russell G. Golden, FASB Technical Director
FASB
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed FSP FAS 157-d

Dear Mr. Golden:

Western Corporate Federal Credit Union (WesCorp) appreciates the opportunity to comment on *Proposed FSP FAS 157-d*. WesCorp is a corporate credit union and has a national field of membership serving 1,065 credit unions in 44 states, offering liquidity, balance sheet solutions and payment systems services to its member credit unions. As a liquidity provider, the largest assets on WesCorp's balance sheet are marketable securities which we use as collateral for liquidity purposes, most of which are backed by residential mortgage assets. As a federally-chartered credit union, WesCorp is regulated and insured by National Credit Union Association (NCUA).

The examples in the proposed FSP are helpful in understanding how the Board views the application of FAS 157 in an inactive market. However, we believe that the concept of using a fair value based upon an exit price is inherently flawed in an inactive market when an entity has no intention of selling securities at distressed prices.

We do not agree that fair value as defined by FAS 157, particularly when applied in distressed and inactive markets, is the appropriate method of determining values of assets when the entity intends to hold the securities to a recovery in value or maturity and when it demonstrates the ability and a history of being able to do so, regardless of whether or not such securities are classified as held-to-maturity (HTM) or available-for-sale (AFS). Rational investors do not sell securities in distressed market conditions unless they have no other options. Implicit in the current guidance for AFS and HTM classifications of securities is the assumption that an entity has the ability and intent to hold securities until a recovery of fair value in distressed markets, or until maturity, if appropriate. Therefore, under current guidance, the lack of ability of an entity to hold securities until a recovery of value would already require that those securities be

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classified as trading, and gains or losses based upon fair values would be recognized through earnings immediately. The recognition of distressed values in financial statements that will never be realized by an entity does not accurately depict the true economic condition of an entity and, as we have already seen, results in misleading information being reported to its investors, creditors and customers.

In addition, since other assets such as loans are subject to different measurements of value, we believe that applying a fair value measurement to securities in effect bifurcates the balance sheet by treating assets disparately. Why are securities with underlying assets that are loans subject to harsher accounting treatment in an inactive market than if the whole loans were owned outright, even when the entity's intent to hold until maturity may be the same? Securitized loans should not be treated differently from unsecuritized loans. Such disparate treatment of assets does not lend transparency to the financial statements. Instead, it results in extreme distortions in financial reporting.

We are particularly concerned with the use of fair values based upon exit values in an inactive market when an impairment exists that is deemed to be other-than-temporary. Here is a hypothetical example:

Example 1 – Determining OTTI in a market that is not active

Say that Entity X owns a security with a par value of \$100 million. Assume further that the security's fair value (using an exit price methodology) in a stressed and dislocated market environment is \$93 million. If the entity performs best-practice, sophisticated analyses, taking into account the structure of the bond, including credit enhancements and excess spread, as well as the deteriorating economic environment, and assumes future stressed conditions, say further that probable losses are identified as being \$500 thousand. Current guidance says that Entity X must recognize a loss through the income statement of \$7 million rather than the true economic potential losses of \$500 thousand.

In the example above, recording a loss of \$7 million severely distorts the true financial picture of Entity X. Further, we do not believe recording a value based upon an exit price methodology is even remotely meaningful if Entity X has no intent to sell the security in a distressed market environment and has the ability to continue to hold it. One of the more basic tenets of reporting financial information, as set forth in *Statement of Financial Concepts No. 1, Objectives of Financial Reporting by Business Enterprises*, is that "financial reporting should provide information about the economic resources of an enterprise" and that "the primary focus of financial reporting is information about earnings and its components". We believe that adhering

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to current fair value guidance when recording an other-than-temporary impairment using an exit price methodology in a distressed market significantly distorts earnings, eliminates transparency to the investors and creditors as to what the true economic position of an entity is, and violates the overall objective of financial reporting as set forth in *Statement of Financial Concepts No. 1*. **We believe a net realizable value measurement is a preferable fair value definition to use when recording losses that are deemed other-than-temporary in AFS or HTM securities, similar to loans, as it better represents the true economic condition of and risks to the entity, thus lending transparency to the financial statements.**

Current fair value guidance is particularly alarming for financial institutions that operate in a regulatory environment. In Example 1 above, recording an impairment amount through earnings far in excess of expected real losses could cause the institution to fail to meet its regulatory capital standards, and in extreme cases could result in a loss of investor and customer confidence and cause a run on the institution, thus keeping the institution from a viable opportunity to survive the impairment created by unrealistic and distorted values being recognized through current earnings. When accounting guidance creates distortions to the financial statements that have the potential to confuse and mislead readers regarding the economic condition of an entity and potentially cause business failure, then we believe there is something terribly wrong with the standards in place.

Proposed FSP FAS 157-d suggests that expected cash flows should include appropriate risk-adjusted discount rates to reflect credit risk and liquidity risk. In an inactive and dislocated market, when such premiums may be significant, we believe the only sellers that would accept pricing at these levels would be sellers with no other options (i.e., forced liquidations or distressed sales). The injection of severe credit and liquidity premiums in the determination of fair values contradicts guidance in paragraph 7, which states that orderly transactions are those which are "*not forced transactions (for example, a forced liquidation or distress sale)*". We believe incorporating severe credit and liquidity risk assumptions into the determination of fair values results in a price that is representative of a distressed sale, by definition, and thus does not comply with Paragraph 7 of FAS No. 157.

Summary

The use of a fair value measurement based upon an exit price is meaningless and potentially harmful in distressed and inactive markets. Using such a measurement when an entity has the ability to hold securities to a recovery in value directly contradicts the basic objective of financial reporting established by *FASB Statement of Concepts No. 1, Objectives of Financial Reporting by Business Enterprises*, particularly when it is used to record amounts through

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earnings when an other-than-temporary impairment is deemed to exist. Net realizable value as the basis of recognizing losses provides a better definition of fair value and a more meaningful measurement of the true economic condition of an entity for its AFS and HTM securities.

Current guidance results in disparate treatment of the underlying loan assets of a security. When such loans are packaged with credit enhancements 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.

While it may be unintended, the use of fair values as defined by FAS 157, is particularly onerous to regulated financial institutions that rely on creditor and customer confidence to maintain liquidity. In today's unprecedented economic times, the requirement to record other-than-temporary losses at fair values that are far in excess of any real economic losses runs the significant risk of contributing to further financial institution failures by unfairly undermining confidence in an institution's true financial condition as a result of distorting expected losses.

Perhaps William M. Isaac, former Chairman of the Federal Deposit Insurance Corp., articulated the issue best in his article in the Wall Street Journal when he said, "If we do not halt the insanity of forcing financial firms to mark assets to a nonexistent market rather than their realistic economic value, the cancer will keep spreading and will plunge the world into very difficult economic times for years to come."

If you should desire any further clarification on our opinions or to discuss any of the points raised herein, please feel free to contact Jim Hayes or Laura Cloherty at (909) 394-6300.

Regards,


Bob Siravo