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From: david60@citcom.net [mailto:david60@citcom.net]

Sent: Tuesday, January 13, 2009 1:13 PM

To: Director - FASB Cc: bs@capitalbanksc.com

Subject: mark to market rules in FASB 115

Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 08156-5116



LETTER OF COMMENT NO. 294

Dear Sir:

I am writing to respond in favor of the Board's initiative to modify the "mark to market" rules on institutions' accounting for investments held for sale. I write not as a certified public accountant but as a former chairman of a community bank holding company and its subsidiary bank as well as a former chairman of its Asset Liability committee.

Our holding company was charged with investing \$130 million in funds that could not be immediately converted to loans in 2001. At that time a number of banks were purchasing collateralized mortgage obligations as loan surrogates without really understanding them well and without being able to evaluate them fully through the then available inadequate "stress tests." We stayed out of that market for the above reasons and invested in municipal bonds instead. Now, it is my feeling that a good bit of our current credit crunch may be related to the number of banks and insurance companies, large and small, that took advantage of that market and other asset backed securities, some with high yields but with corresponding low credit ratings. The current financial environment requires that regulators enforce the marking of those securities, some of which are thought to be sound in the long term, down with its consequent effect on capital when they are judged "other than temporarily

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mpaired."

Some would say that those institutions that took that gamble should be allowed to fail, and I happen to be in that camp. However, our political powers that be have judged that we can not have that happen as it would be a threat to the whole financial system in the US as well as around the world. This has led to the TARP plan to shore up those institutions with taxpayer money.

It is my feeling that there would be a much larger infusion of capital into these institutions if their own capital were released by suspending that part of FASB 115 that relates to marking those securities down, particularly since we still don't have good methods of evaluating their current value. If this segment were suspended for at least 2 years while being studied more fully, banks would relax the extremely tight credit standards and credit would begin to flow more freely until we could get past the current crisis.

I realize that I haven't answered all of your questions required to submit a reply, but I leave that for the professionals. I think that it should be

valuable to receive comment from those who have been "on the ground" dealing with this standard and its effects on lending decisions in bank loan committees and boards.

David P. Allred, M.D. Former Chairman, Community Capital Corporation, Inc. CapitalBank 95. Many respondents, particularly bankers and insurers, emphasized that reporting the unrealized holding gains and losses for available-for-sale securities in a separate component of equity would create volatility in reported capital. The Board acknowledges that reporting those securities at fair value will cause greater volatility in total shareholders' equity than use of the amortized cost method would, but believes that the greater relevance of fair value for those securities significantly outweighs the disadvantages of that potential volatility in equity. Furthermore, the Board believes those disadvantages are mitigated by the supplemental disclosures of fair value for other financial assets and liabilities pursuant to Statement 107.

## **Benefits and Costs**

- 96. In accomplishing its mission, the Board follows certain precepts, including the precept to promulgate standards only when the expected benefits of the information exceed the perceived costs. The Board endeavors to determine that a proposed standard will fill a significant need and that the costs imposed to meet that standard, as compared to other alternatives, are justified in relation to the overall benefits of the resulting information.
- 97. The benefits of reporting debt and equity securities at fair value are discussed in paragraphs 39-43 of this Statement. Furthermore, in eliminating the inconsistencies in the existing authoritative literature, this Statement is beneficial in avoiding the diversity and confusion resulting from the current accounting guidance. It also eliminates the unevenhandedness of LOCOM, which recognizes the net diminution in value of securities but not the net appreciation in value.
- 98. The incremental costs of the accounting and disclosure requirements of this Statement have been minimized in several ways. The Board has been informed that many enterprises already have systems in place to manage the market risk of their portfolios and that those systems provide much of the information that is necessary to comply with this Statement. Additionally, the required disclosures in Statement 107 provide much of the information required in this Statement. For financial institutions, the incremental burden is further minimized by the existing disclosure requirements of SOP 90-11 and regulatory reporting requirements. Furthermore, because the LOCOM method is not used, enterprises will not be required to combine portfolios of investments of various subsidiaries.
- 99. The Board is sensitive to the economic consequences that may result from the new information. For example, many respondents commented that enterprises may no longer invest in long-term instruments, such as long-term U.S. Treasury securities and corporate bonds, to reduce the potential for volatility in reported capital. They further suggested that such discontinued investment could jeopardize the market for those long-term securities. Some respondents also predicted that this Statement would exacerbate the credit crunch by causing financial institutions to make fewer loans, particularly long-term loans.