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# PROVIDENT BANKSHARES

C O R P O R A T I O N

November 18, 2008

Mr. Robert H. Herz  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856



LETTER OF COMMENT NO. 8

Dear Chairman Herz:

I am sure that you are sick of hearing what is about to follow. However, as the Chief Financial Officer of a community bank, it is necessary for you to hear the voice of a “boots on the ground”, practicing corporate accountant and a 120 year old community focused organization.

In your very important deliberations around OTTI, I ask that you please consider the points outlined below. Please put yourself in the practitioner’s shoes, use common sense and try to repair what I believe are flaws in the current OTTI model.

1. The single most devastating element within the OTTI model is the recognition of losses based upon prices that have experienced a severe decline due to illiquid and inactive markets or markets where observed transactions have resulted from a few forced liquidations. The required recognition of losses occurs while the underlying securities are performing, and are expected to perform in accordance with its original terms, even when modeled under stress scenarios.
2. We are caught in a once-a-century consequence of our chosen economic system. Markets have been frozen for a year and together with the significant decline in price drives the accounting industry to incorrectly conclude that the security must be impaired and the severity surely indicates a protracted price recovery period.
3. In this frozen market of today and with the OTTI formula, banks could go profitably bankrupt or be forced to sell the franchise utilizing these rules as capital is artificially eroded while fundamental credit performance and community service is solid. The selected laser focus of the OTTI model upon investment securities ignores the mark to market value of the franchise deposit base. An ultimate consequence is that real share price follows the artificial capital erosion downward, providing the opportunity for new investors to exploit (steal) the entity’s value from the existing investors as the entity is forced to replace eroded capital to remain viable.

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4. For every dollar of needless capital erosion, thirteen dollars of loan capacity is wiped out of the economy. Capital is the first decision tree node in the financial decision making logic for all financial institutions. It is, therefore, easy to understand why credit creation and bank expansion is stalled. This is clearly an example of a "temporary" situation being converted by accounting rules into "permanent" destruction.
5. The OTTI accounting formula is driving economic activity and does not reflect reality. This is an absolute reverse logic as accounting should be reflective and not determinative. Accounting rule making is too rigid as discussion about change is focused too much on who is right and who is wrong. The Big Four are too focused on litigation defense leading auditors to develop and insist upon testing that will always yield the worse case results.
6. On September 30, 2008, the SEC instructed the FASB to provide guidelines for financial statement preparers on how to use judgment given illiquid markets with respect to the application of fair value accounting principles. The SEC specifically stated that given today's illiquid and inactive market environment, management judgment should be used to determine value in place of today's inappropriate pricing. In response, the FASB produced FSP FAS 157-d and ultimately FSP FAS 157-3. Both of these documents completely ignored SEC guidance and "changed nothing", to quote our external auditor. To those of us on the outside, there appears to be "a disconnect" to your organization. Mr. Herz, I ask that you please lower your shield and let the outside in.
7. We've tried fair value accounting before. Prior to and during the depression of the 1930's, fair value accounting was in place only to be thrown out because of how it exacerbated the economic decline.

Sincerely,



Dennis A. Starliper  
Executive Vice President  
and Chief Financial Officer

cc: Congressman Elijah Cummings  
Congressman Steny Hoyer  
Mr. Conrad Hewitt