



ROCKY MOUNTAIN  
BANK & TRUST

*Good Old-Fashioned Banking with  
21st Century Technology.*

October 9, 2008



LETTER OF COMMENT NO. 61

Director@FASB.org  
Via email

RE: FSP FAS 157-d

Dear FASB,

Rocky Mountain Bank and Trust is a 215 million dollar commercial bank located in Florence, Colorado. We have 38 employees and have been in business since 1891.

I am writing with regard to FSP FAS 157-d. I am quite concerned that the application of this proposed staff position in its current form could have serious negative implications to the banking industry, especially in light of the current crisis our economy is facing. The implementation of this staff position on currently performing securities which are comprised of private label whole loans could trigger an auditor to apply OTTI and, due to the current illiquid market, force financial institutions to take significant charges to income. Again, this could occur on pools of loans that are currently performing as expected at the time of purchase.

For institutions that have both the intent and ability to hold these currently illiquid securities to maturity, taking a charge to income would, in my opinion, significantly distort reported income and could mislead shareholders regarding the economic value of their investment. If the same loans that are held in these pools were instead held on the books of the financial institution as loans there would not be any discussion as to impairment because they are performing.

A better way to calculate if a security is other than temporally impaired would be to calculate fair value using the principals set forth in Appendix B of SFAS 157. This method would present value the estimated cashflows of the security with adjustments for estimated defaults and severities. It would apply current credit spreads, without a liquidity premium, of similar asset types to the risk free rate as of the date of measurement. This is the same analysis that rating agencies and valuation experts commonly apply to these instruments. It is also consistent with the analysis that is currently applied to loans held in a financial institution's loan portfolio. This has the effect of treating loans and securities in a similar fashion which seems fair on its face.

In closing let me give one example of the potential negative effects of the staff proposal. Assume a financial institution purchased a 3 year average life private label AAA rated whole loan CMO tranche six months ago at a purchase price of 95. For purposes of this example assume that the cashflows deteriorate slightly due to increased defaults and severities however the credit support and the senior position of the tranche makes it unlikely that the tranche will ever suffer any principal loss. Assume that the staff proposal is applied to this investment with a “liquidity premium” discount taken into consideration. The fair value calculation results in a value of 80. The institution then writes down the investment from 95 to 80. Current income is reduced by the 15 points resulting in a lower capital number for the institution. In the second case, the present value of the cashflow method is applied resulting in an economic value of the bond of 99.5. No action is taken other than adjusting the institution’s accretion of the discount.

Both cases deal with **exactly the same cashflows**. The first case redirects income recognition to the back end of the investment’s life while the second case provides a more level yield over the life of the investment. The first case has the potential to cause severe harm to the financial health of the institution. The second case more accurately reflects the actual cashflows of the investment and provides a better look into the economic value of the institution.

In the end it is all about the recognition of cashflows. I respectfully submit that the discounted value of the future cashflows more accurately represents the true value of the institution because the shareholders will receive the exact same dollars over the life of the investment.

Sincerely,



Douglas L. McClure  
President/CEO  
Rocky Mountain Bank and Trust