

October 9, 2008

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



LETTER OF COMMENT NO. 76

Dear Mr. Golden:

I appreciate the opportunity to comment on FSP FAS 157-d. I believe that this is one of the most important issues facing our industry. I believe my professional experience puts me in a position to understand all the critical elements involved. As a CPA, I have worked in public accounting, I have served as Treasurer and Chief Financial Officer of publicly held financial institutions, and I have managed investment portfolios totaling \$2 billion. I currently serve as the Chief Executive Officer of United Bank. I have analyzed this issue in the following context:

1. As an investor and reader of financial statements
2. As an issuer of financial statements
3. What I believe fairly represents the fair value of my investments

In my opinion, the FASB has a tremendous responsibility to approach fair value accounting on a “principles-based approach” and not get caught up in the actual written rule or more importantly previous interpretations of that rule. If the industry had followed the written rule of SFAS 157 and SFAS 159, many institutions would have early adopted and avoided recognizing investment losses in their earnings. As you recall, the SEC said that this strategy would be violating “the spirit of the rule” and thus not in accordance with generally accepted accounting principles.

Clearly the principle or “spirit” of SFAS 157 was to provide fair values in an orderly market (orderly transactions) and not to provide distressed values (distressed or disorderly sales). Fair value, in an efficient and orderly market, is an appropriate way to value assets as it generally reflects intrinsic or fundamental value to the holder of that instrument. It is also useful to the reader of the financial statements for the same reasons. I believe this concept is also consistent with both the principles of SFAS 157 as well as the written rule. I will limit my comments to a couple of critical points.

1. This first and most important point I would like to address is the concept of liquidity premium. I certainly believe that there should be a liquidity premium in Level III pricing, however that liquidity premium should be consistent with an orderly sale. Using a distressed liquidity premium, results in “distressed” or “fire sale prices” the very thing SFAS 157 was trying to avoid. This is the most important point in any correspondence you will receive. **If you use a liquidity premium derived from a distressed market in the calculation of**

fair value, by definition it will result in a distressed or disorderly sale price. If you are adding a liquidity premium of 400 basis points on an investment grade security, as in your example, you are providing by definition, a value in a distressed market and not a fair value in accordance with the principles established in SFAS 157. Orderly markets or sales simply do not have 400 basis point liquidity premiums. More importantly, you would be requiring an institution to write down an asset far below its intrinsic or fundamental value. This would not be consistent with the spirit of SFAS 157, does not represent the fundamental value of the asset and is not useful to a reader of financial statements. If you would apply this liquidity premium logic to your loan portfolio, every bank in the country would be severely undercapitalized. Generally accepted accounting principles, should reflect a company's true financial condition, it should not be responsible for adverse selection. I think Sam Zell's quote on CNBC hits the nail on the head. "If a mortgage backed security is trading at 20 and the value of it is 50, that's a thirty percent hit. No system can absorb it. The idea of marking all of your assets to fire-sale pricing just challenges credibility."

2. Also, I fail to see the reasoning of using indicative quotes in a market where there have been no trades other than distressed sales. Brokers will not give orderly market indicative pricing for fear that if you want to sell the bond the price will be significantly lower. I have had this conversation with several brokers who refuse to give indicative quotes. Again, this is entirely inconsistent with the spirit of SFAS 157.
3. The final point I will make relates to SFAS 115. SFAS 115 was for equity securities with "readily determinable fair values" and all debt instruments. It was not used for loans and liabilities. The reason it was not used for loans and liabilities was the difficulty in determining values for these assets because there were not "readily determinable fair values". Or in other words they were illiquid. In today's distressed environment there are not "readily determinable fair value" for certain debt instruments. These instruments should not be marked below their intrinsic value while loans with more credit risk and more liquidity risk are carried at par. This does not reflect to the true value of the company's assets. When other assets such as loans are subject to different measurements standards than securities, it results in extreme distortions in financial reporting.

Thank you for your consideration of my letter. I cannot stress how important it is for us to make every attempt to show the true value of public companies. The industry depends on this fundamental fact. In many cases these securities are performing, will continue to perform and represent superior fundamental value to their loan counterparts. It would not be prudent to write them down to an arbitrary level. In conclusion, I think the most important issue would be to clarify that the liquidity premium would be that of a current

orderly market, not in a distressed market. This one clarification would be a huge step in the right direction.

Sincerely,

James J. Consagra, Jr.
President and Chief Executive Officer
United Bank

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