From: Vernon, Hutch
To: Director - FASB
Subject: Comment Letter on FASB Proposal to "Fair Value" Loans
Date: Thursday, May 27, 2010 9:47:26 AM

Dear Sirs,

As an investor, I do not see how the FASB proposal to "fair value" is going to help society as a whole or investors or users to better understand the financial statements of banking companies.

It strikes me that FASB is confusing value with price. Price is determined in the market under the great influence of human psychology (fear, greed and the herding instinct) and the immediate concerns and pressures of the marginal buyers and sellers. Price can be and frequently is far removed from values which are appraised considering longer-term factors and future norms and uncertainties. Price can be *known* with greater precision (just look to the last trade) than value which will incorporate the expected future cash flows and other factors which the marginal seller is less likely to stop and contemplate. Sellers and buyers are frequently not in balance.

Please don't use "value" to describe what you would be doing with this change, because it is not value but price you are describing. Oscar Wilde's description of the cynic as *knowing* the price of everything and the value of nothing also applies to the preparers and users of financial statements as well. Price is easy to know but value always has its uncertainties. Every asset will have a "price" at which it can quickly be turned to cash and that price for almost all assets is likely less than its value to the user of the asset in the business. We don't "price" physical plant used in a business but depreciate it over its useable life and write it off when it is no longer used in the business (sometimes at a gain and sometimes at a loss). Loans of a banking institution are similar in my view.

The market will not understand the distinction between price and value so your proposed accounting change will introduce greater short-term focus and less long-term consideration into both lending practices and the value of banking institutions. As an investor I could take advantage of the volatility that is likely to occur as a result and could perhaps benefit, but whatever opportunity I might personally gain is likely to be swamped by the change in lending practices resulting from the accounting change (restricted credit) and the confusion of others as to the worth, viability and values of lending institutions.

Most loans are made to be retained and if so should not be treated as securities which are securitized for the purpose of selling them. Thus there is a difference between the two. Loans which are retained and funded by long-term funding sources should not be treated as securities and thus I think this accounting approach is flawed. It should not be introduced into the accounting statements. It should remain as a footnote which it currently is. As a footnote, it provides information without the confusion and misunderstanding that would result from incorporating this into the reported financial statements.

I don't envy the job the FASB has in determining appropriate accounting in an ever more complex and faster changing world, but I do hope you will consider this viewpoint that price and value are not the same and should not be confused in our accounting statements to introduce more short-term volatility and less long-term thinking.

Sincerely,

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