From:
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 To:
 Director - FASB

 Subject:
 Banks: Mark to Market

**Date:** Tuesday, August 17, 2010 3:41:32 PM

Mr. Russell Golden Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

File Reference: No. 1810-100 Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

I am an investor who owns bank stocks and a retired CPA, as noted in closing below. I believe that mark to market is dangerous because it will give an erroneous valuation to a bank's loan portfolio (always too low) and will be just a "guess" under any standards that are adopted.

To illustrate, I look back on my career in public accounting and in private industry. In virtually every instance, clients had to approach many banks before finding one that offered an acceptable loan, with the norm being that most banks failed to even offer terms. So, by definition, the "market" (being the other banks) would impair the loan immediately because they would not have made the loan, or if they had, the terms would have been more restrictive/expensive to the borrower.

In an auction, the winning bid sets the market. But, nullify that bid, and the next best bid is by definition, a lower bid, and therefore, a lower market. This is what would happen to all bank loans.

If a bank loans to a start-up business, the loan may be severely impaired prior to opening. For example, a new restaurant with 50% equity from the borrower. The day before opening, all of the pre-opening expenses have been incurred (such as advertising, employee training, etc.), which are worthless to a bank. No one "knows" whether the restaurant will succeed. Maybe the public will not patronize it — there has been zero revenue. Huge mark to market discount is appropriate in most cases, because if it fails, it is a problem, and at that point no one can guarantee success.

Finally, stock investors, in effect, mark to market every

publically traded bank's loan portfolio every day in the stock market trading. Recession coming - and the banks stocks are decimated. Clear sailing ahead - the bank stocks go up. So, now you want some loan appraisers to get "ahead" of this stock market process and be right more often than the investors? In your dreams.

Sincerely,

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Feel free to contact me

CPA and former Tax Partner with Arthur Young & Co.
Retired as CFO of a small business with about \$250 million in annual sales
Masters degree in accounting from University of Texas at Arlington
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