From: Michael Coltharp [mailto:mjcoltharp@yahoo.com]

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To: Director - FASB

Subject: FASB Staff Position 157-d Fair Value Measurement



LETTER OF COMMENT NO. 55

After reading the FSP draft and discussing with our auditors (KPMG), I do not think that it adequately addresses the issues currently faced in the mortgage and financial institution industry. Our auditor has taken the position that the FSP has no significant change to their interpretation of how FAS 157 should be applied.

A question to be answered is if the exit value of an asset/security is always the appropriate fair value for assets with markets that do not meet the criteria for inactive classification. When the market becomes dislocated from a fair value based on the present value of cash flows, which value is more appropriate for an entity that is a going concern? The current market values of CDO's and MBS do not necessarily reflect the fair value of the assets future cash flows. Rather, the current market value, and as such the corresponding exit value, has been driven down by market fears, excess demand caused by substantial asset liquidations and distressed sales, reduced demand, as major purchasers will no longer hold the securities, leaving distressed asset purchasers as the only demand for the assets. As such, should an entity hold the securities until the market adjusts and returns normal operations, a current exit price would understate the economic value of the asset to the entity. FAS 157 assumes an efficient market. When market conditions are such that the market value represents a distressed or liquidation value, and therby invalidating the underlying assumption of FAS 157 for using observable inputs as fair value, then FAS 157 should allow for the use of unobservable inputs to calculate fair value.

The issue currently facing our company revolves around the difference between the market value of mortgage backed securities (MBS) and our calculated fair value. For purposes of this email, the fair value is defined as the expected cash flows, which takes into account expected defaults on underlying mortgages, discounted at an appropriate discount rate that reflects default risk, default risk, collateral value risk and liquidity risk (Fair Value).

The current observable market values, which do not meet the definition of inactive, are significantly less than the Fair Value. I believe the dislocation between the market values are due to nonfinancial factors, such as a significantly reduced demand for MBS, an excess supply caused by liquidations of billions of dollars of MBS, and a general market panic.

Following FAS 157 and using the exit price as a given date based on current market values results in a valuation that is closer to a liquidation or distressed value rather than what which would be expected for a going concern entity.

Neither FAS 157 or the FSP provide for the use of judgment when market values become dislocated from the value of future cash flows discounted at an appropriate rate. Using an exit value in such a situation changes the underlying going concern financial statement assumption to one that reflects a liquidation or distressed value of assets.

I believe that providing for the infrequent situations in which observable inputs are not reflective of asset values if held the asset are held and not liquidated would enhance the usefulness of the

financial statements. Disclosure of the market value deemed to be not reflective of the Fair Value and the recorded Fair Value should be required in such circumstances.

Thank you for your consideration,

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