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**To:** [Director - FASB](#)  
**Subject:** Exposure Draft of a proposed Accounting Standards Update of Topic 825 and Topic  
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To Whom it may concern,

The following commentary concerns the Exposure Draft of a proposed Accounting Standards Update of Topic 825 and Topic 815 is issued by the Board for public comment.

Most banks already assess the fluctuations in fair value of their balance sheets via reports they submit to their prudential regulators. For example, institutions regulated by the Office of Thrift Supervision (OTS) are required to submit data on schedule CMR or their quarterly Thrift Financial Report which generates a measure of the institution's Net Portfolio Value (NPV). At best, this model is very imperfect. Institutions may choose not to submit data on schedule CMR. However, those institutions must develop and maintain a model that is similar in its intent to the OTS model. Why the should an institution be subject to the additional requirement of your mark to market proposal?

Ignoring the duplication of effort for a moment, consider the unworkable impact of your proposal. It has long been understood that, in the real estate markets, location is the most important factor in assessing real estate values. Real estate markets have very different characteristics with even small changes in location. How do you assess "fair value" for a real estate loan which is backed by different real estate in vastly different markets? Loans with exactly the same cash flows, credit ratios etc are vastly different loans with vastly different "fair values" depending on the underlying real estate markets. This is why there has never been any viable national market to trade real estate loans.

It is also widely understood by most that financial institutions who focus on real estate lending in their domiciled markets have an innate understanding of the markets they serve. They also have first hand contact with borrowers. How do you assess the "fair value" of this knowledge? The question is rhetorical. There is no way to reflect this knowledge in the value of the loan. By definition, the very characteristics that provide most of the value on a community bank's books (ie knowledge of the market and the borrowers) must be ignored in your assessment of "fair value." By definition, reducing a bank's balance sheet to a "fair value" measure will never accurately reflect a loan's full value. In other words, I would automatically discount the value of any loan for which I have no knowledge of the underlying real estate market or the underlying borrower. As a New York banker, I wouldn't pay 50 cents on the dollar for a farm loan. Likewise, an Iowa banker might not pay 50 cents for my mixed use commercial / residential loan.

Let's now apply this idea to the core liabilities of a bank. If real estate markets differ vastly from neighborhood to neighborhood, deposit liabilities do too....even more so. Once again, such deposits are defined by their particular markets. Your proposal implies that a \$2,500 deposit in a blue collar bedroom community will be worth the same as a similarly structured deposit in an upscale community. The idea is literally laughable.

I would suggest the FASB expand its proposal by explaining exactly how we would arrive at these "fair values." With the lack of markets for most of the assets and liabilities you propose to "value," we are left to assume that this fair value will somehow be based on some type of model. Another valuation model is not what our financial system needs.

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