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From: Chris and Karen <chris12karen@gmail.com>

Sent: Thursday, June 03, 2010 6:45 AM Subject: mark-to-market for loans

Dear FASB,

Forbes is reporting that you are considering whether to require banks to mark loans to market.

I am dumbstruck that you would even seriously consider such an unconstructive idea. As Forbes correctly points out, a credit panic causes even solid investments (including loans) to drop in market price due to a temporary decline in the availability of money. When money becomes available again, the market price always comes back up. The problem isn't a decline in value; it's a temporary decline in money. But given a combination of (a) mark-to-market rules, (b) leverage and (c) federal capitalization requirements, marking investments to lower values forces banks to sell other investments, which in turn leads to a cascading effect that artificially drops the market price of these other investments. There is nothing complicated about this, so I am sure that you understand it. Mark-to-market worsens credit crises. This hurts the companies that depend on credit, with a cascading effect to their employees and ultimately the nation. Mark-to-market hurts America in credit crises.

The main argument in favor of mark-to-market is intellectual. It sounds nice and tidy. But it is founded on the unwarranted assumption that the market always accurately indicates the value of an investment. Moreover, it fails to recognize the temporal aspects of pricing and value--that is, it fails to recognize that prices go through spikes and dips. Boxcar smoothing and similar approaches are just a bandaid. Fundamentally, mark-to-market fails to reflect the fact that the world is a seesaw place that intellectual niceties fail to adequately model in extreme situations.

A better way to handle these situations is to integrate mathematical modelling with human intelligence and government oversight. In this approach, external ratings agencies would examine the models that banks use for valuing investments, along with historical and contemporaneous data about the accuracy of those models in a particular situation. They would then issue ratings. The government would hold ratings agencies' feet to the fire if they get ratings wrong and investments prove in the long term to be worth less than anticipated. This last piece about oversight is what has been missing in the past.

But this approach is what the government and market seem to be moving toward, anyway, from what I understand of the SEC's new investigation of Moody's. So why should FASB get in the way by proposing something unhelpful like tighter mark-to-market rules? Haven't the past 3 years proven that the market is sometimes irrational?

FASB seems to be missing the key lesson that is so plainly obvious to the rest of us.

Sincerely, Christopher Scaffidi