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LETTER OF COMMENT NO. 9

After soliciting extensive input, Statement 157 was issued in September 2006. This statement brought increased consistency and comparability in fair value measurements. Now, primarily due to the collapse in the US housing market, the FASB is being encouraged to abandon or greatly lessen fair value measurements based on observable inputs. Why? Because the inputs do not show enough value. I believe Enron had this problem when the observable price of their stock declined. Based on the reason for issuance of this FSP, this FSP should only apply to US residential home mortgages. Home values historically increase while auto and credit card values usually do not. Implementation of this FSP guidance will only increase the reported value of distressed assets.

Limiting this FSP to US residential mortgages should then require the valuation to be based on the underlying asset, the value of the home. This alternative valuation approach should consider what the holder of the mortgage would receive in a forced liquidation, less transaction costs. This would then remove much of the subjectivity associated with various valuation techniques for fair value, which caused the issuance of FAS 157 in the first place. We need to be very cognizant of not making a bad situation worse by encouraging subjective value. The rationale to get out of this mess then later deal with artificially reported values verges on the threshold of absurd.

Alternatively, Congress could be proactive and actually increase the value of home mortgages by offering a full tax credit to homeowners for mortgage interest paid, rather than the current tax deduction. This dollar for dollar taxpayer incentive would greatly stimulate the US housing market, as well as the world economies. This approach would quickly restore active markets for home mortgages and eliminate any associated distress.

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