

# Bryn Mawr Bank Corporation

March 26, 2009

VIA EMAIL TO: [director@fasb.org](mailto:director@fasb.org)



LETTER OF COMMENT NO. 81

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

RE: Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b: *Recognition and Presentation of Other-Than-Temporary Impairments*

Dear Mr. Golden:

The Bryn Mawr Bank Corporation (“BMBC”)<sup>1</sup> appreciates the opportunity to comment on the Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b, *Recognition and Presentation of Other-Than-Temporary Impairments* (“Proposed OTTI FSP”). We commend the FASB’s efforts to improve guidance relating to other than temporary impairment (“OTTI”) and have provided our comments on the Proposed OTTI FSP. These comments are greatly summarized, but they address some of the most critical points.

Overall, BMBC supports the Proposed OTTI FSP. Specifically, we believe that the threshold to recognize market-related OTTI based on the lack of intent to sell (management asserts that it does not have the intent to sell the security, and it is more likely than not that it will not have to sell the security before its recovery) is certainly more operational than the current requirement. BMBC also strongly agrees with the proposal to recognize only credit losses through earnings.

Although BMBC supports the Proposed OTTI FSP, we strongly encourage the FASB to take this opportunity to make additional repairs to the OTTI guidance, which is currently extremely problematic and has been for years. We believe the following recommendations will materially improve transparency, reliability, and clarity.

---

<sup>1</sup> Bryn Mawr Bank Corporation is a \$1.1 billion community bank established in 1889 that operates in the western suburbs of Philadelphia, PA.

### **Major Points**

- **OTTI should be based on credit losses rather than mark to market losses.**
  - We agree that probable credit losses represent actual economic losses of a security and should be recorded in earnings. However, market-related losses on debt securities should not be a part of OTTI at all (unless there is the intent to sell or it is more likely than not the company will be required to sell prior to recovery). Debt securities are different from equity securities because of the contractual cash flows and maturities that exist. Discounts within market quotes will, absent further credit losses, necessarily disappear over time.
  - Estimates of fair values in the current market environment are likely to be unreliable, no matter how diligent the effort is for accuracy. Recording estimated market values (and, thus, declines to equity) where bid prices are often significantly greater than the ask prices misleads users, who assume reliability in financial statements. With this in mind, market-related losses should not be recorded in OTTI for available-for-sale securities, unless the intent to sell exists. In practice, AFS securities do not meet the definition of trading and should not have the presumption of intent to sell.
  - Recording market losses as OTTI on held-to-maturity securities contradicts the contention that such investments are held to maturity and will not be subject to any market-related loss. This confuses the reader of the financial statements and adds unnecessarily complicated operational challenges to the preparers. It is also illogical to reduce the book value of a debt security as a loss to OCI, only to accrete the amount over time back to the value of the security. This helps demonstrate that non-credit market losses should not be a part of OTTI if there is no current intent to sell.
  
- **The Proposed OTTI FSP should apply to securities with OTTI at the effective date.** The FSP should include a “true-up” for securities with OTTI by recording a one-time beginning balance adjustment between retained earnings and other comprehensive income. This will help avoid confusion about the measurement basis for securities subject to OTTI before the Proposed OTTI FSP compared to OTTI measured afterward and will increase consistency and comparability on these securities.

### **Additional Points of Concern**

- **Recoveries of OTTI should be reversed.** OTTI should not be permanent if, in fact, the impairment is not permanent. Recoveries of OTTI should be immediately reversed through earnings in order to more accurately reflect performance of the borrower of the underlying assets and to provide consistency with other impairment accounting.

- **The discussion of the meaning of “credit losses” should be expanded.** While an SFAS 114 measurement methodology is used as an example in the Proposed OTTI FSP, in order to avoid confusion with other references in GAAP to the fair value of “credit risk”, an expanded description would be useful. In other words, the amount recorded to earnings should be based on an estimate of the actual credit losses, rather than an extraction of the portion of the fair value affected by a change in the credit risk.
- **Equity securities that hold asset-backed securities should be addressed.**
  - Preparers should be able to bifurcate the credit loss portion of OTTI in certain mutual funds investing solely in asset-backed securities (debt securities). Investors should also be able to “look through” to the underlying securities’ cash flows for funds that are closed to new investors and have “in-kind” redemption policies in effect.
  - Other guidance on evaluating credit losses for common and preferred stocks will be useful.
- **The FASB should consider the following:** Removing the gross presentation in the income statement of impairment losses offset by non-credit impairment in the Proposed OTTI FSP. We believe the proposed presentation is inconsistent with the loan accounting presentation for loans held for investment. Also, we believe that this presentation confuses and complicates the face of the financial statements with information that is more appropriate for inclusion in footnote disclosures.

Note 1: BMBC supports FASB’s efforts as reflected in the Proposed OTTI FSP. **However, it is our opinion** that the Public Company Accounting Oversight Board (“PCAOB”), in their oversight role over the major accounting firms, also needs to get on board with these proposed changes and not indirectly influence the accounting firms into extreme conservative interpretations of current Fair Value and OTTI Standards.

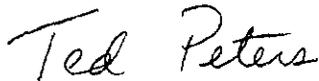
Note 2: It should be noted that while BMBC has not yet been directly impacted by the application of OTTI to its investment portfolio, it has significantly impacted the Federal Home Loan Bank of Pittsburgh (“FHLB-P) who we rely on as our primary funding source (after considering our deposit base). OTTI issues have impacted the FHLB-P’s financial position and have forced them to eliminate their dividend and freeze capital stock redemptions. BMBC has an \$8 million investment in the FHLB-P that no longer pays a dividend, effectively increasing our cost of borrowing. We are concerned that any further damage to the reported financial condition of the FHLB-P, due to the current misapplication of OTTI, and could potentially cause BMBC to write-down its \$8 million investment which would negatively impact our regulatory capital ratios and might impact the FHLB-P’s ability to provide funding/liquidity to community banks like BMBC. While the impact to BMBC is significant, it would not affect BMBC’s ability to carry out its mission and would not take us below the “well capitalized” limits. However, it would significantly impact the capital levels of many FHLB-P members, and in some cases,

Mr. Russell Golden  
March 26, 2009  
Page 4

causing member banks to drop below the "well capitalized" capital level which would impact their ability to function. This is a potential unfortunate chain of events that can and should be corrected/prevented. Therefore, we believe it is very important that the Proposed OTTI FSP apply to securities at the effective date. There are similar issues at the 11 other FHLB's throughout the country. The magnitude of the OTTI issue relative to the FHLB system, its members and their customers throughout this country, and the economy as a whole, is massive and should not be ignored.

Thank you for your attention to these matters and for considering our views.

Sincerely,



Frederick C. Peters, II  
President and CEO  
[fpeters@bmtc.com](mailto:fpeters@bmtc.com)  
610-581-4800



J. Duncan Smith  
Executive Vice President, Treasurer & CFO  
[jdsmith@bmtc.com](mailto:jdsmith@bmtc.com)  
610-526-2466

/jem