

March 24, 2009

\* FSPFAS115A\*

LETTER OF COMMENT NO. 186

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



LETTER OF COMMENT NO. 234

Reference: Proposed FSP FAS 157-e and Proposed FSP FAS 115a, FAS 124-a, and EITF 99-20-b

Dear Mr. Golden:

On March 17, 2009, the Financial Accounting Standards Board (FASB) issued two proposals on mark-to-market accounting guidance with comments due by April 1. On behalf of Bethpage Federal Credit Union, we would like to provide the following comments for the record on these proposals.

In general, both the proposed modifications to securities pricing (FAS 157) and other-than-temporary impairment (OTTI) recognition (credit losses only) represent significant improvements to current practice and we support both of these proposals.

## FSP FAS 157-e

This is a significant improvement to current practice, previously clarified in October 2008 with the issuance of FSP- FAS 157-3. We believe that the October guidance merely reinforced the use of excessive liquidity risk premiums (as viewed from a hypothetical buyer's perspective), which drove down prices to distressed levels. The current exposure draft is more reflective of the willing buyer/willing seller concept, and provides more guidance on determining whether a market is not active and whether a transaction is not distressed.

With this proposal, the FASB reflects the SEC's suggestions from its study on mark-to-market accounting delivered December 30 to Congress. The greater focus on orderly transactions results in more "normal" rates of return used for

pricing. We certainly support this approach. The example provided in the proposal demonstrates a midpoint level of an 11% rate of return (the midpoint between the buyer and seller viewpoints), compared with October's example showing a 22% rate of return required by a buyer. In this example, using the lower 11% rate to discount the underlying cash flows in mortgage-backed securities effectively increases the valuation of such securities. This is more appropriate to the reality of today's marketplace and the liquidity risk factors that are crucial to determining proper value.

We believe that guidance which would come from this proposal must allow application to 2008 financial statements. This is more than a change in an accounting estimate that would be accounted for only prospectively (such as a change in the estimated useful life of a depreciable asset). This would be more appropriately considered a clarification of the original FAS 157 and a correction to October's guidance. It does not make sense to have a materially different outcome for first-quarter 2009 valuations compared with 2008 year-end valuations because of the a well considered accounting clarification.

## FSP FAS 115-1, FAS 124-a, and EITF 99-20-b

This also is a significant improvement to current practice and involves recording expected credit losses through net income of securities that an institution has neither intent nor expectation to sell before recovery, with all other components of mark-to-market losses recorded in accumulated other comprehensive income. This proposal incorporates the recommendations of the many credit unions, numerous banks and insurance companies and even the Center for Audit Quality, a trade association of 800 audit firms. This approach was also recommended by the SEC in its December 30 report to Congress on mark-to-market accounting as a solution to the issue of conflicting impairment models for various types of securities and loans.

We are in absolute agreement that the focus of this proposal, which reflects actual credit losses through the income statement and market losses as a balance sheet issue primarily, better reflects the economic reality of a financial institution in today's economy and marketplace. This is more accurate than the current practice, in our view, because the current guidance results in earnings charges in excess of actual projected losses, it needlessly reduces capital in the near term, only to reverse the excess charges in future accounting periods as the securities pay their expected cash flows, thereby misstating financial results for many years.

It is important in this proposal, as in the FSP FAS 157-e proposal referenced above, that the guidance must allow application to 2008 financial statements. In this proposal, the FASB does not call it a change in estimate, instead simply stating that it shall be effective for periods ending after March 15, 2009. This appears to reflect that it should be applied prospectively only. We encourage the

FASB to make it clear in the final guidance that this interpretation may be allowed to be applied to the 2008 financial statements.

On a related issue, current OTTI interpretations are not subject to being changed or reversed when market conditions improve. This is a significant difference from loan loss accounting, which allows changes in facts and estimates to be considered. FASB has indicated its interest in addressing this issue at some point in the future. As there are FASB public documents which indicate that some constituents had recommended consideration of language similar to that included in loan-loss accounting to the effect that "an insignificant delay or insignificant shortfall in amount of payments does not require application of this Statement," we are uncertain why the FASB would have accepted staff's recommendation to exclude this language without addressing the matter. We encourage the FASB to either include such a crucial provision in this guidance or address it in the near future.

## **Summary**

In conclusion, we want to state for the official record that we support both of these proposals, with the exception of the need to clarify that the effective date on both can be allowed to be applied to 2008 financial statements, and appreciate the wisdom of the FASB for considering this important issue at this time. We appreciate the opportunity to comment on behalf of Bethpage Federal Credit Union.

Sincerely,

Kirk Kordeleski President and CEO

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