

# Wintrust Financial Corporation

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Financial Accounting Standards Board  
Via email to [director@fasb.org](mailto:director@fasb.org)



LETTER OF COMMENT NO.

28 A

Regarding File Reference: Proposed FSP FAS 157-d

Thank you for the opportunity to address the proposed FASB Staff Position that would amend FASB Statement No. 157 ("FAS 157"), *Fair Value Measurements*, to clarify its application in an inactive market. We submitted a letter to you dated October 8, 2008 and are submitting this additional comment based on recent discussions with others that are concerned about how existing fair value accounting has particularly perverse results when applied in the midst of a market crisis, when markets are not liquid, active or orderly.

It appears to us that the proposed position put forth by the FASB for consideration does nothing more than to clarify and provide an illustrative example of how to apply *existing* accounting under FAS 157. In our opinion, the proposed amendment provides very little, if any, relief to financial institutions in regard to the actual measurement of fair value in an illiquid, inactive and distressed market. Accordingly, it would appear that "fire sale" economics would still need to be applied in determining fair value thereby having a damaging impact on a number of community banks. The impact will cause significant impairment charges resulting in reduced capital at banks, diminished liquidity and less lending. In fact, we believe the continued implications of applying FAS 157, even as recently clarified, will result in increased bank failures.

As we recently talked with others in regard to the problems caused by applying existing fair value standards during a severe downturn in the housing industry, we were advised to review history and look back to how the government dealt with fair value issues related to the housing and financial collapse in the 1930's. The Home Owners' Loan Corporation (HOLC) which began in the early 1930's to deal with housing and mortgage finance collapse can be useful and instructive in reviewing how fair value measurements employed by the HOLC helped to stabilize the markets. The HOLC was a government intervention designed to reduce the burden on borrowers while increasing the liquidity of mortgages—the same goals being pursued by many during this financial crisis. One of the issues apparently raised and addressed by the HOLC was to determine what "appraised value" meant in the middle of the housing and financial crisis. The HOLC program developed its own theory of appraised value. Using the estimated market price, the replacement cost of the house, and the capitalization of an estimated rental value, HOLC arrived at a form of intrinsic value that generally yielded appraisals above prevailing market prices, but intrinsically reasonable values. They understood a more realistic concept of fair value was necessary and more meaningful than the highly distressed prices at a point in time during a market crisis.

We believe the FASB should seriously consider using an intrinsic value concept similar to the approach successfully taken by the government in prior times. We believe this because mark-to-market accounting is distinctly pro-cyclical, building market excesses of both optimism during good times and pessimism during distressed times. In the midst of a severely illiquid market, where we are now, current mark-to-market accounting reinforces the downward cycle of panic and falling prices. Mark-to-market accounting adds to impairment of property values during crisis cycles.

We know this for a fact because outside market participants have indicated to us that they understand that banks will have to apply the concepts of FAS 157 and record significant losses, and they expect the banks to liquidate the properties thereafter at reduced prices. They are, in essence, waiting for valuations required by FAS 157 to kick in and they will benefit from it. In the mean time, they are bidding at fire sale prices and harming the markets. Fair value accounting should reflect losses that have been incurred but we should all agree that fair value accounting should not be a cause of further losses in a downward cycle. Fair value accounting should not essentially mean "mark-to-distressed market" in these highly distressed times, it should rather reflect reasonable intrinsic value or what we refer to as a "mark-to-value" concept. In other words, in fire-sale price environments, market value does not seem to represent value, especially in regard to highly illiquid real estate.

Again, we believe the FASB should consider amending FAS 157 in a manner that would allow reporting entities to determine the intrinsic value of an asset similar to tried and true methods used by the HOLC. For those entities that have the capacity to hold the assets for an extended period of time, potential alternative approaches could include the methods noted above that the HOLC utilized or methods that would allow the use of historical averages spanning business cycles for market inputs reflecting reasonable levels of return and other significant assumptions, as opposed to current depressed levels. Additionally, banks that have the ability to hold the assets could be allowed to use implied rates of returns applicable to their own businesses rather than implied rates of returns of outside market participants (as currently required by FAS 157).

As you know, FAS 157 became effective in 2008 and interpretation and implications of this accounting rule is just beginning to be understood by many banks and even the banking regulators. In this economic cycle where market values seem to be set by investors looking for fire sale values, a rule allowing the use of an intrinsic value approach would seem to help financial institutions while implementing this accounting standard and aid the public interests.

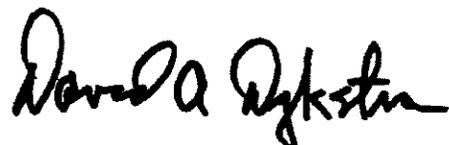
In addition, we have talked with many different bankers and implementation of the existing standard for collateral dependent impaired loans seems to vary widely in practice. Accordingly, at a minimum, we believe the amendment should provide additional and more illustrative guidance to banks on how to value impaired collateral dependent loans specifically those impaired loans whereby the underlying collateral consists of land and other real estate development properties. This additional guidance seems extremely necessary.

Thank you for listening and we are pleased we can have input into the process.

Respectively,



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President and Chief Executive Officer



David A. Dykstra  
Senior Executive Vice President