

March 30, 2009

LETTER OF COMMENT NO. 226

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

Via email: director@fasb.org

File Reference: Proposed FSP FAS 157-e

Dear Mr. Golden:

Thank you for the opportunity to comment on your recent release of FSP FAS157-e. I am presently the Chief Financial Officer of First Federal of Bucks County, a small community bank located in Bristol, PA.

This additional guidance apparently is needed to stress the issue that "significant judgment" is already permitted in the FAS 157 guidelines, because public accountants are enforcing the use of prices that are published, or "observable inputs," despite the fact that many of these published prices are low, distressed, or fire sale prices. Your guidance released last fall did little to stem the tide of writedowns, despite the fact that you stressed that "fair value" assumes an "orderly transaction, not a forced transaction." Despite your assurances, most financial statement preparers have not stopped using published prices or "observable inputs," which are based mainly on distressed asset prices. I do agree with your guidance that management should be allowed to use "significant judgment" in valuing and disclosing its balance sheet.

Your two step process to determine whether a market is not active and a transaction is not distressed falls short of workable, practical guidance. Your list of seven factors in determining whether a market is not active contains information that small institutions such as ours are unable to access. With a fixed income security that we own, how can we possibly know how many transactions have occurred? How can we possibly know what brokers are basing their price quotations on? How can we have the time to perform correlation analyses with all of our securities to market indices? For two of the factors, "abnormal" liquidity risk premiums and "abnormally wide" bid ask spreads, we can observe these. It is often difficult, or even impossible, to separate the amount related to credit risk, the amount related to other factors such as liquidity, and the amount related to lack of dealer support. Your FSP provides for separating credit related premiums from liquidity risk premiums, but provides no practical guidance or solution to implementing this, so we will find it costly and burdensome to attempt to comply, and, in the end, uncertainty will still prevail as to the "fair value."

The second step of the process "guides" us to assume that a quoted price is associated with a distressed transaction unless we have evidence of time to allow for usual and customary marketing activities for an asset and that there were multiple bidders for an asset. Once again, what access to the markets do you believe that small institutions such as ours have to dealer markets to obtain such evidence? Operationally, how do we obtain this evidence? And this evidence proves what? That several dealers will throw out low prices without analysis? What if they are prices that may vary by wide amounts? If there are multiple bidders, your guidance would not assume a quoted price is distressed. This seems unworkable in practice to most investment security holders who do not have access to this information.

And to add to the complication, your guidance now says that, if not distressed, a quoted price may be a relevant observable input and we should consider what other factors warrant making an adjustment to quoted price. Exactly how are we supposed to come up with and document price adjustments from other factors, when no guidance is provided? Public accountants will continue to take their stand regarding the use of observable inputs if we cannot substantiate adjustments. If we consider that a price is associated with a distressed transaction, after finding no evidence of marketing time and multiple bidders, the FSP states we are to use a valuation technique, an income approach such as present value with "inputs that reflect an orderly transaction between market participants at the measurement date" with "reasonable risk premiums for bearing uncertainty that would be considered by willing buyers and sellers in pricing the asset in a non-distressed transaction." If there are not prices available for certain assets, how are we to obtain and document yields? Once again, I believe that your guidance falls short of providing any practical, workable solutions and could be a burden to institutions who will expend countless hours and produce pages of documentation to simply be able to produce a discount rate in a present value formula that will pass the scrutiny of public accountants.

For some reason, we continue to produce "fair value" numbers for the sake of having "fair value" numbers that may have less of a basis in reality than the prices that come across from nationally recognized pricing services. The process of producing "fair value" numbers continues to become exponentially more complex as we comply with "fair value" accounting for securities. We now have FAS 115, FAS 107, FAS 157, FAS 159, FSP 157-3, EITF 03-01, EITF 99-20, EITF 99-20-1, and, if the new FSPs are approved, FAS 157-e, FAS 115-a, FAS 124-a, and EITF 99-20-b. The burden continues to grow, especially for smaller institutions such as ours, and the benefits are increasingly unclear.

The larger issue is that, at times, "fair value" is simply not workable when there is no functioning market for an asset. When there is no market, there is no fair price. The price yield relationship also tells us that there is no yield. FASB's "fair value" goals have not been achieved; the same investors who crave "transparency" do not realize the extent to which the "fair value" numbers have little meaning. They have been led to believe that the numbers have meaning. The markets have provided proof in the past year of the fatal flaw in mark-to-market accounting, that the disproportionate attack on two parts of the balance sheet during the financial crisis- investment securities and equity capital- which have been written down, whether or not there may ever be a loss. According to Bloomberg, worldwide writedowns and credit losses as of last week were \$1.26 trillion, with the American portion of this total at \$848 billion. Capital has been raised

privately and governments have supplied capital, only to see it written down again and again by accounting rules. The needless destruction of capital has led to trillions of dollars in lost lending capacity, assuming banks maintain their traditional leverage ratios. Banks are not lending because of the fierce guarding of their remaining capital and the related fear of further writedowns. We find ourselves in a real financial crisis. Relaxing "fair value" during this period is a stronger solution than the guidance offered here. If you truly believed in "fair value," you would accept disclosure of it. Forcing institutions to mark-to-market through earnings and capital is compounding the crisis.

Thank you for the consideration of my ideas on this very important subject. If you have any questions, please contact me at 215-788-3344 x 160.

Sincerely,

Dorothy Laworski

SVP/Chief Financial Officer

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