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LETTER OF COMMENT NO.

April 1, 2009

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
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P.O. Box 5116
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Via email: director@fasb.org

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:

I appreciate 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 FSP"). Certain aspects of current accounting guidance and practices are resulting in financial statements for banks that are not transparent and are misleading to users of financial statements. I believe it is critical to make immediate improvements to financial reporting – in this case, improvements to fair value accounting and Other Than Temporary Impairment (OTTI).

Although I support the proposal, I strongly encourage the FASB to take this opportunity to repair the problems with OTTI as fully as possible. For example:

The final 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 cumulative adjustment between retained earnings and other comprehensive income. This will help avoid confusion and will increase consistency and comparability in the accounting for securities. It is also consistent with the approach taken for many other new accounting standards. OTTI for HTM securities should be based on credit losses rather than mark to market losses. I agree that probable credit losses represent actual economic losses of a security and should be recorded in earnings. However, non-credit losses on HTM debt securities should not be a part of OTTI at all. Recording non-credit losses in other comprehensive income for an HTM debt security, only to accrete that loss back to the security, will confuse users both at the time of the impairment as well as over the holding period. Clarification is needed on the meaning of "credit losses". The final FSP should clarify that the amount of OTTI to be recognized through earnings is credit loss rather than "credit risk".

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The OTTI rules and practices accompanying those rules have been problematic for many years. Although there are many reasons for the problems, the best example is debt securities. In contrast to common stocks, debt securities, absent credit problems, have cash flows that are contractual and certain. In many cases, however, when losses are neither probable nor reasonably estimable, banks and other long-term investors have been required to mark to market (MTM) those debt securities and record losses – even when they do not intend to sell. These MTM losses on fully performing securities are often recorded permanently in earnings as OTTI. In other words, banking institutions must record, permanently in earnings, the market's view of losses, which often has no relationship to losses that are expected to occur.

Traditional banking is not based on buying and selling in the markets; instead, it is based on net interest margins and fee income. Thus, mark to market results in misleading volatility that does not reflect the cash flow business model of banking, and management performance is greatly distorted because banks manage cash flows and credit risk, not short or intermediate term fair values.

As it relates to my bank, Litchfield Bancorp, we currently have \$75 million in our investment portfolio, primarily mortgage backed securities. Our portfolio has a net unrealized gain of \$1.8 million currently but has been down as low as a net unrealized loss of \$1.5 million during the past eighteen months. Had we been forced to recognize those losses as OTTI, our earnings would have been decimated, we would have had to curtail lending and our local community donations would have been slashed. I urge the FASB to implement changes in the proposals that will repair the problems with the current OTTI rules.

Sincerely,

Mark E. Macomber

Mark E. Macomber
President & CEO