From:
 Don Coker

 To:
 Director - FASB

 Cc:
 dfisher@aba.com

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Dear FASB Director:

To include in your comments on proposed rule changes, here is the text of an article I published on HG.org this week, and that may be found at the following URL:

http://www.hg.org/article.asp?id=19644

Mark to Market Considerations in Banking Asset and Liability Valuation and Bank Accounting

August 31, 2010 By Don Coker, Banking Consultant and Expert Witness

The banking financial asset Mark to Market discussion has been around for a long time, but it has grown to a new higher level of prominence due to the meltdown of the subprime mortgage loan market that started in 2007 and continues into 2010 as this article is being written.

No one would state that the result of the subprime mortgage loan market of the last four years has been anything other than disastrous; and everyone would agree that some systemic changes need to be made in order to lessen the chances of a recurrence. However, it is my professional opinion to a reasonable degree of professional certainty that enacting Mark to Market accounting and valuation principles would be a mistake, would not achieve the overarching goal of preventing another calamity like the subprime mortgage debacle, and would in fact produce some very negative unintended consequences.

Here are my reasons:

• One of my key complaints against Mark to Market accounting is that it forces liquidation

value on an asset where no liquidation of the asset is contemplated. Liquidation value assumes that an asset must be sold within a certain short time frame. However, that typically is not the case with financial assets; yet their value is unfairly penalized by having liquidation value forced upon them even

though they are not being liquidated and never were intended to be liquidated in the time frame that Mark to Market accounting and valuation assume.

- The fluctuating valuation figures that result from Mark to Market accounting and valuation create unnecessary budgeting problems. The budget process already fraught with speculation would have an even wider range of asset values and performance measurements with which to deal.
- Arbitrarily reducing the value of financial assets by requiring Mark to Market accounting and valuation also reduces the value of core deposits that are used to support those assets. Under Mark to Market principles, core deposits would be valued based primarily on a net present value, and would not reflect intangible values that typically are an integral factor considered by banks when they set a premium on deposits that will be acquired through an acquisition.
- Financial markets always operate in cycles, and Mark to Market accounting for financial assets would exaggerate this cyclicality. Furthermore, it exaggerates the cyclicality as the markets go down and also as they go up. For example, Mark to Market accounting and valuation theory for mortgage loan assets would mean that a performing fixed-rate mortgage loan would have a different value day-by-day even though the principal and interest payments are fixed and are being made on time each month.
- While I have never been a big fan of commercial banks keeping many fixed-rate long-term mortgage loans on their balance sheet, there is a place for some of that business, especially in larger banks. Enacting Mark to Market accounting and valuation for mortgage loan assets would necessitate many banks selling off some of their mortgage loan holdings at a time when it is questionable whether or not Fannie Mae and Freddie Mac will be there to facilitate these sales. As one who worked in the mortgage banking industry making one-off deals before the marketwide pervasiveness of Fannie and Freddie, I can tell you that it was a different ballgame then, and one that you do not want to play, much less be forced to play in order to avoid the negative treatments by Mark to Market accounting and valuation principles.
- Mark to Market accounting and valuation could create a problem where one does

not and never will exist. For example, a long-term mortgage that stays on the books for a reasonable period of time, makes all of its payments reasonably on time, and pays off in a reasonable manner will not show the loss on payoff that is assumed by Mark to Market accounting and asset valuation. The fact that Mark to Market accounting says that a financial asset is worth a certain amount has absolutely no bearing on the amount that will be received by the lender when the financial asset is repaid.

Summary

The Financial Accounting Standards Board and banking regulators should look elsewhere in seeking a fix that will avoid a recurrence of the subprime mortgage disaster. Enacting Mark to Market accounting and valuation principles will have many unintended negative consequences that will certainly render the system "different" but not necessarily "better."

ABOUT THE AUTHOR: Banking Consultant and Expert Witness Don Coker

Expert witness and consulting services. Over 449 cases for plaintiffs & defendants nationwide from Hawaii to the Virgin Islands, 107 testimonies, 12 courthouse settlements, all areas of banking and finance. Listed in the databases of recommended expert witnesses of both DRI and AAJ.

Clients have included numerous individuals, 60 banks, and governmental clients such as the IRS, FDIC. Employment experience includes Citicorp, Ford Credit, and entities that are now JPMorgan Chase Bank, BofA, Regions Financial, and a two-year term as a high-level governmental banking regulator.

BA degree from the University of Alabama. Completed postgraduate and executive education work at Alabama, the University of Houston, SMU, Spring Hill College, and the Harvard Business School.

Extensive non-litigation consulting in areas such as business valuation, professional practice valuation, IP valuation, business plans, feasibility studies, commercial real estate market studies, product marketing studies, policy and procedure manuals, anti-money laundering manuals, and advice to hedge funds, investment management funds, and private equity funds.

Called on by clients in 28 countries for work involving 57 countries. Widely published, often called on by the media. Don Coker serves clients worldwide from his Atlanta metro area office.

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Best regards,

Don Coker Banking Consultant (also offering Expert Witness Services) 423 Latimer Street Woodstock, GA 30188-5052

E-mail: Bankexpert@cs.com

Telephone: 770-852-2286 - Eastern Time Zone - UTC/GMT - 4

Fax: (509) 678-7756 or (206) 260-0280

Global BlackBerry Cell: (251) 716-3200

Banking and Mortgage Banking Consulting: http://expertwitness.lawinfo.com/expert/Bankexpert/