U.S. CENTRAL

SUITE 100
9701 RENNER BLVD
LENEXA, KANSAS 66219
TEL: (913)227-6000
TOLL FREE: (888)872-0440
FAX: (913)438-1564
WWW.USCENTRAL.COOP

Sent via email

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Members of the Commission:

I was impressed by the quality of the two panels on fair value accounting held October 29 and wish to add my support for several of the views presented. **Aubrey Patterson, Chuck Maimbourg, Randy Ferrell** and **Brad Hunkler** made compelling business arguments regarding the role of fair value accounting in discouraging acquisitions, the difference between a cash flow investor and a total return investor, and FAS 157's illogical focus on exit prices, which contravenes the basic premise that financial statements are prepared as if the entity is a going concern.

U.S. Central Federal Credit Union, a $40 billion wholesale cooperative, shares their business viewpoints. We face similar issues with fair value accounting and, in particular, its impact on other-than-temporary impairments (OTTI). In our previous letters to the SEC and FASB, we have called for using net realizable value for OTTI recognition (in other words, factoring in expected principal losses but not excessive liquidity risk premiums, for example) where the investor has represented intent and demonstrated ability to hold the security. This change would place investors in debt securities on equal footing with entities that hold loan portfolios for investment. Securitized loans should not be treated differently from unsecuritized loans when the intent and ability to hold the investments is present in both cases.

The common sense solution proposed by **Vin Colman** of PriceWaterhouseCoopers is both workable and acceptable, because it limits the unnecessary destruction of capital. Specifically, Mr. Colman proposed separating the changes in fair value into two components—incurred credit losses[*], which would be recognized in net income, and other components of changes in fair value, which would be recognized in other comprehensive income.

Granted, Mr. Colman's proposal does not make other comprehensive income any more meaningful for buy-and-hold investors, but as was pointed out by several panelists, the regulators currently ignore these paper gains and losses in evaluating capital adequacy. However, if OTTI is involved, the ability to bifurcate the principal loss component from other components of fair value would solve the problem of unwarranted capital reductions.

Here is a real-life example from our portfolio: On a $41 million AAA rated mortgage-backed security, U.S. Central projected a $22,796 estimated cash flow shortfall. This relatively insignificant economic loss translated to a $1,275,000 accounting loss that we recorded as OTTI in 2007. A year later, this security is still paying timely principal and interest, and is still rated AAA by all three

[*] *In response to the unanswered question posed by **Damon Silvers**, we believe that mortgage rate resets should be considered in assessing probable cash flow shortfalls on currently performing loans to determine "incurred" credit losses.*

rating agencies. But in our view, the OTTI framework based on “fair value” caused us to misrepresent our financial health by recording a loss larger than we believe is real.

Under Mr. Colman’s proposal, we would have recognized the projected credit loss of $22,796 through earnings. The accounting loss would have equaled the economic loss which, certainly, would have been a fairer representation of our financial condition.

Cindy Ma of Houlihan Lokey said it would be difficult to separate credit from the other components driving fair values. We agree—it is not easy—but it is not impossible. We are currently using three external valuation consultants, in addition to our own experienced staff, to assess whether our mortgage-backed securities are “money good.” Their views vary in some cases, and there is still significant judgment involved. But this process is made more difficult because the stakes are so high—we can’t *afford* to continue realizing inflated accounting losses that factor in data such as a hypothetical buyer’s required rate of return, which is irrelevant to the asset’s fundamental value to a buy-and-hold investor.

Mr. Colman’s proposal puts the issue in the proper perspective. Everyone agrees that probable credit losses should be recognized immediately.

Ms. Ma’s use of the term “auditing nightmare” gives insight into why many accounting firms are still attempting to use *bright lines* in place of judgment. Those firms seem to be operating with the fear that they are being held accountable for determining the *one right answer*. Auditors are responsible for assessing the reasonableness of management’s assumptions in the context of *fairly presented* financial statements. In our case, management’s assumptions are supported by volumes of data from rating agencies, research units of investment banks, and discussions with a variety of market participants including investors, expert third-party advisors and asset originators. If auditors of insurance companies can figure out how to assess the reasonableness of claim loss reserves, surely auditors of financial institutions can apply similar logic to credit losses on mortgage-backed securities.

The beauty of Mr. Colman’s proposal is that it removes the “noise” that is plaguing the application of fair value in today’s dislocated market environment—without destroying the basic concept of fair value. It also puts us in closer alignment with international standards. Please give this pragmatic solution the serious consideration it deserves.

Sincerely,

Senior Vice President and Chief Financial Officer
U.S. Central Federal Credit Union
kbrick@uscentral.coop
913-227-6159