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November 10, 2008

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OFFICE OF THE SECRETARY

The Honorable Christopher Cox, Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: *Comments on* SEC Study of Mark-to-Market Accounting

Dear Chairman Cox:

I have worked at six financial institutions since the mid 1980s, when I began my career in investments and asset liability management. I grew up in the mortgage markets and saw the rise of mortgage backed securities, "MBSs" and collateralized mortgage obligations, "CMOs." There was a time that I could sit and price most mortgage securities or tranches through reasoning and using market indicators. Now, sadly, I have witnessed the fall of these once proud markets. Rational pricing, bid ask pricing, and market indicators are a thing of the past. I have witnessed the writedowns of over $686 billion in credit losses and mark to markets worldwide since the beginning of 2007 through the end of October, 2008 (as reported on Bloomberg). The US portion of these totals is an astounding $431 billion.

It is my belief that the loss of capital at financial institutions is a direct result of being forced, by accounting rules, most specifically FAS 157 and FAS 159, to mark to market assets when there is no market. I have watched as rolling "panics" have decimated municipal bonds, agency senior debt, money market instruments, and especially mortgages, both agency MBSs and CMOs and private label non-agency MBSs and CMOs, forcing the prices of these instruments, tainted or not, to unbelievably low levels. Distressed selling has forced spreads to Treasuries to rise dramatically, sending prices plunging. Bid ask spreads have widened to levels previously unseen. The continual downward spiral in prices has worsened the credit and financial crisis as large institutions have marked to market assets, reporting large losses in the process. Trust between institutions has reached a new low, as evidenced by wide TED and other credit spreads. The problem continues to be that, especially in the mortgage markets, there is no functioning efficient "market," but fear ridden, dysfunctional "markets" with few market makers providing prices near "fair value."

I applaud the recent guidance from the SEC and FASB acknowledging the difficulty in the markets. Being forced to incorporate observable inputs from dysfunctional markets makes no sense. But I believe that this guidance is not enough to avert further crisis. I believe that the immediate suspension of FAS 157 and all mark to market accounting rules must occur on securities and loans that are held on balance sheets and are not being sold. There is no transparency to be gained by attempting to price bonds where there is a wide range of pricing discrepancy. If four different institutions provide four different "fair values" for the same bond, is that helpful? Obviously, the institution providing the lowest prices will see their stock price hurt the worst. We see evidence of market fear each quarter as earnings are released and writedowns acçelerate.

I do not believe that fair value should be forever abandoned, only suspended while the markets are not functioning properly and while such large deleveraging and distressed selling continues to occur. We would not be rolling the clock back decades on market value accounting, only to 2007, when FAS 157 and FAS 159 began. Coincidence or not, this is when most of the troubling market distress began. I believe that a suspension for 12 to 18 months would help us to get past this unfortunate time in the markets and begin to restore order by removing the focus of the markets on the size of writedowns as earnings are reported each quarter. Some of that order can only begin to be restored if and when US housing prices stabilize; this may take 12 to 18 months.

What began as a subprime mortgage crisis rapidly became a crisis in all markets- bonds, stocks, and derivatives. The fear and general misunderstanding of market and fair value demands that action be taken now. Allow time for capital at financial institutions to be rebuilt and for trust to return to the marketplace. Clearly the Treasury "TARP" program was a dramatic step toward this goal but has not fully restored market confidence. Europe is already ahead of the US in this regard as they recently allowed their financial institutions to reclassify assets out of trading or fair value and into balance sheet categories that do not have to be marked to market.

I have watched over the past decade as FASB has forced upon companies in our country certain accounting rules that I believe have contributed to the crisis we are seeing today, including changes to loan loss reserving at banks that created high volatility in provision expenses, derivatives accounting rules so complex that no one can use them, and forcing goodwill and purchase accounting onto all companies that make acquisitions, resulting in huge goodwill writeoffs in market downturns.

This year, we have witnessed the demise of a great many national stalwart companies- Bear Stearns, Lehman Brothers, Wachovia, Washington Mutual, AIG, and the mortgage industry titans, FNMA and FHLMC. I believe that fear and panic destroyed these institutions, fear and panic driven partly by their assets facing merciless mark to markets that forced some into distressed selling and caused many counterparties to not accept many securities for financing that might have allowed these institutions to raise the cash they needed when they needed it most.

Extraordinary times and crises require extraordinary measures. Congress has provided the SEC with the ability to immediately suspend fair value accounting rules. I urge the SEC to do so without delay to allow the financial markets to recover.

Thank you very much for the opportunity to provide my views on this very important subject.

Sincerely,

Dorothy L. Jaworski
Senior Vice President & Chief Financial Officer

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