LETTER OF COMMENT NO. 35

October 8, 2008

By E-Mail

Mr. Robert Herz
Chairman, Financial Accounting Standards Board
401 Merritt 7 P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Herz:

Thank you for the opportunity to comment on the proposed FASB Staff Position (FSP) FAS 157-d intended to amend FASB Statement No. 157, *Fair Value Measurements*. We appreciate the staff's efforts to clarify the accounting for fair value under today's extremely illiquid and distressed credit markets. We believe the spirit of the clarification in FAS 157-d is to allow for a Level 3 valuation on the most highly illiquid and distressed mortgage related securities, where pricing sources have become virtually non existent or inaccurate due to a lack of market participants (inactive market), resulting from the huge de-leveraging of balance sheets and the exit from trading by most financial institution and fund market participants.

We agree generally with the descriptions in FAS 157-d for the characteristics of markets that are inactive and thus the need for the application of a Level 3 valuation. However, the application of a Level 3 valuation and the examples in paragraphs A32A to A32F do not meet the spirit of the intended clarification of FAS 157. By the sheer nature of an inactive market, observable price inputs for Level 3 present value analysis become almost non-existent and inaccurate, as proxy prices rarely exist. Using observable prices and the implied inputs for arbitrary like-securities (as the FAS 157 example shows) is, therefore, not a practical solution for many securities. For the most part, the largely sub-prime and Alt-A mortgage loans underlying the securities under question have widely varying delinquency performance, loss factors on foreclosure liquidations, and prepayment rates due to wide differences in the underwriting procedures/policies of the originators and geographic distribution of the loans. Furthermore, if one uses the very few observable prices for the inputs in deriving a Level 3 fair value, by virtue of the distressed and inactive market, one will calculate a price that reflects the inactivity and not the fair value of the cash flows, exactly in opposition to the spirit of the FSP's clarification.

Therefore, given the fact that like-securities (and related prices) do not exist on many of the securities in question, we suggest a slightly modified method for determining a Level 3 fair value. That is, one would project the expected cash flows based on the specific securitization's underlying loan performance, such as the amount of loan delinquencies,

migration of delinquencies to foreclosure, loss factors on liquidations of foreclosed real estate, prepayment rates of the underlying loans, the ability to hold the security to maturity, and the application of these resulting loan cash flows to the subject security by its indenture. These expected cash flows of the security then should be discounted at a fair long term premium to Treasury or LIBOR rates that reflect the risk and uncertainty of the cash flows. If the cash flows have been adjusted to the expected levels but have uncertainty due to the nature of the housing markets and economy, the cash flows should be discounted at a rate that reflects this uncertainty.

We encourage the Staff to modify and clarify their position and examples in calculating Level 3 fair value pricing to include the present value of a security's expected cash flows, using observable inputs from the performance of the underlying loans in terms of delinquencies, foreclosure migration, loss experience, and prepayment rates, and then to discount these expected cash flows at a risk adjusted spread to LIBOR/swap rates based on observable long term average credit spreads. We strongly believe that the values derived from this process will reflect more accurate fair values of the underlying cash flows and thus, an appropriate Level 3 fair value of the security.

Respectfully,

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