A Spicket or Faucet?
New Rules for 157 Fair Value Accounting
April 2, 2009, The Delay That Will Live in Infamy
The Time Has Come for the "Hold-To-Maturity Device" Products to Enhance Lending Capacity, Mortgage Servicing Rights' Valuations & Servicer Advances Lending Facility Capacity
Where can we find those devices anyway?

By Richard Ivar Rydstrom, Chairman
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We knew the day 'should' come. Almost three years passed since then FASB Law Professor Richard Rydstrom, Esq. (Chairman of the Coalition for Mortgage Industry Solutions (CMIS)) called for the revision of 157 Fair Value Accounting rules to ward off or mitigate an economic meltdown. The 110th Congress, House Ways and Means Committee, published Mr. Rydstrom's Solutions to the Mortgage Meltdown and Challenges to the Middle Class with alternative mortgage modification and valuation devices needed to steer the mortgage banking industry from the rocky shores. Today, April 2, 2009, FASB finally relaxed 157 Fair Value Accounting, somewhat. Is it a backdoor 'capital ratio regulatory forbearance' device or a true barometer of market value? Regardless, FASB in addition to calling for 'more disclosure' did at least 2 things that will enhance the balance sheets of banks (and Mortgage Servicers), decrease loss severity, and enhance lending capacity:

1. Banks can now use an 'orderly" rather than a "distressed" or 'fire sale' price to value a security (MBS) that trades in an inactive market other than just the LAST SALE PRICE. Not actually earth shattering news under the recent guidance and other related rules, but an inch closer to an objective safe harbor that should allow use of other factors such as: CASH FLOW (and cash flow projections with considerations of NPV, TIME VALUE OF MONEY (see new FAS release of 3-31-09), DISCOUNTING FUTURE CASH FLOWS, and more interestingly when used in combination with #2 below, a "reduced" EXPECTED LOSS CONTINGENCY (FAS 5/115/133 (114/118), and the 134 type emergency concept of reclassification of assets based on the intent to HOLD-TO-MATURITY). This should allow for new concepts or devices that management and its auditors can and must use to support a more 'objective safe harbor' when using the Hold-To-Maturity and OTTI rules to its advantage; or suffer the litigation attack for failed (subjective) business judgment. Such devices that support this safe harbor are now ripe for consideration in the mortgage banking industry, such as QBieSam™ Quarantined Built In Equity Shared Appreciation Modification™ (See www.procouncil.com), and

2. OTTI – Decreases Loss Severity & Raises Asset Values: The new FASB guidance allows banks to take 'smaller losses' on OTHER-THAN-TEMPORARILY-IMPAIRED or permanently impaired assets - BUT ONLY on assets that the banks INTEND TO HOLD-TO-MATURITY or until value is recovered. Hence the longer the intended hold, the lesser the expected contingency loss, and the higher the current valuation. **This should result in a higher valuation of balance sheet assets on the books of banks and mortgage servicers (MSR), with stronger regulatory Tier 1 ratios and Tangible Common Equity (TCE). Higher valuations for lenders will increase lending capacity, and higher valuation for mortgage servicers will take pressure off of its lending facilities for servicer ADVANCES (www.tiipadvances.com) that are at record highs and failing.** This will enhance lending capacity and open the spicket of liquidity for lending on all fronts. It might only be the outside spicket that requires a 'pump' unlike the pressure based inside faucet, but inch by painful inch, we are getting closer. Now, it's time for principal reduction mortgage modification devices (that are true **Hold-To-Maturity** devices) that reach true borrower affordability without immediate capital ratio loss write-offs? Where can we find those things anyway? The AFN has long introduced the solutions to effective mortgage modification devices that also comply with the Hold-To-Maturity FASB rules in its AFN Webinar series, and distinguish the modification

devices being used today that do NOT comply with the hold-to-maturity FASB rules (e.g. IndyMac/FDIC Modification).

For more specific examples, see the AFN SPECIAL BROADCAST entitled *"Hidden Gems: Reconciling New Laws, Rules & Best Practices Guidance"* on October 22, 2008, as Richard Ivar Rydstrom delivers his 2nd update of the current changes in law, rules, regulations, and best practices guidance including new principal forgiveness solutions such as **QBieSam™ Modifications**, which is receiving widespread industry support. [http://www.procouncil.com/AFN_Rydstrom_10-22_1_.pdf]

For a history of the FASB journey to date go to: http://www.procouncil.com/html/fasb_ifrs.html **or use the links below:**

THE FABULOUS FASB FAIR VALUE JOURNEY

April 2 2009 FASB Updating:e 157 Fair Value Account

4-2-09 FASB BOARD/STAFF HANDOUT FSP FAS 157e
Determining Whether A Market is not Active and a Transaction is Not Distressed -
FSP FAS 115a, FAS 124a, and EITF 99-20-b; Recognition and Presentation of
Other-Than-Temporary Impairments; Redeliberation of Proposed FSP FAS 107-B and APB 28-A
Interim Disclosures About Fair Value of Financial Instruments; Insurance Contracts;
Redeliberations of the Objective of Financial Reporting

3-16-09 FASB BOARD/STAFF HANDOUT

Determining whether a market is not active and a transaction is not distressed *(estimated 1-hour discussion).* The Board will redeliberate proposed FSP FAS 157-e, *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed,* in light of the comments it has received.

Recognition and presentation of other-than-temporary impairments *(estimated 1-hour discussion).* The Board will redeliberate proposed FSP 115-a, FAS 124-a, and EITF 99-20-b, *Recognition and Presentation of Other-Than-Temporary Impairments,* in light of comments it has received.

Interim disclosures about fair value of financial instruments *(estimated 1-hour discussion).* The Board will redeliberate whether an entity should be required to provide disclosures about the fair value of financial instruments in interim period financial information, as proposed in FSP FAS 107-b and APB 28-a, *Interim Disclosures about Fair Value of Financial Instruments*

March 31 2009 FASB Updates 157 Fair Value and Time Value of Money - (sound like a cash accounting primer for valuation of mortgage portfolios, MSR, and NOV for modifications)

Summary FASB Meetings with Links

January 23, 2009 - Proposed FSP FAS 107-a: Disclosures about Certain Financial Assets -
Click Here

Mark-to-Market Fair Value Accounting - FAS 157 - Jan 2 2009 SEC Study per Section 133

Report and Recommendations Pursuant to Section 133 of the Emergency Economic Stabilization Act of 2008: Study on Mark-To-Market Accounting

FASB RULES FAS 157 FAIR VALUE MARK TO MARKET ACCOUNTING

SPECIAL BROADCAST entitled "Hidden Gems: Reconciling New Laws, Rules & Best Practices Guidance" on October 22, 2008, as Richard Ivar Rydstrom delivers his 2nd update of the current changes in law, rules, regulations, and best practices guidance including new principal forgiveness solutions such as QBieSam™ Modifications, which is receiving widespread industry support.

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