



30 Broad Street, 28th floor, New York, NY 10004
Tel: 212.509.1844 Fax: 212.509.1895
www.cmbs.org

September 30, 2008

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

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

Gentlemen:

As Congress and the Administration continue efforts to enact legislation aimed at quelling the recent turmoil in our nation's financial markets, the Commercial Mortgage Securities Association ("CMSA") urges accounting policymakers to address one of the root causes of the illiquidity that has contributed to this credit crisis. Fair Value Accounting ("FVA"), which may provide useful information to investors when markets are functioning properly, has the very negative unintended consequence of exacerbating the same liquidity problems that policymakers are now trying to address when markets are disrupted. Thus, given the current state of our credit and capital markets, and regardless of how Congress decides to address the financial market issues, we believe it is critical that the SEC and FASB immediately reconsider temporarily suspending or amending the current FVA standard.

CMSA is the international trade organization that represents the entire commercial real estate capital market finance industry (from lender to investor) with more than 470 member companies worldwide in market space in the U.S. that represents close to \$1 trillion. As such, our members have experienced and observed first-hand the difficulty that arises when assets must be valued on a FVA basis when there is virtually no active market trading.

In the particular case of the commercial mortgage-backed securities (“CMBS”) industry, the fundamentals of CMBS are strong: in contrast with the residential market and construction lending components of commercial real estate, CMBS delinquencies are at historic lows (still less than ½ of 1%), vacancy rates are lower now than during past economic downturns, and the vast majority of these mortgages are performing (i.e. paying principal and interest). However, because many CMBS investors are required to use FVA, in an environment where illiquidity (caused by the contagion effect from the subprime market) has pushed “buy bid” rates to an artificial low, these assets end up being de-valued. This pricing presents an inaccurate reflection of the assets performance and its underlying fundamentals. The reporting of artificial “losses” on well-performing assets in turn drains investors’ capital resources, thus exacerbating the illiquidity problem. The end result of FVA in a non-functioning market is a self-fulfilling prophecy that causes a spiral of both downward pricing and illiquidity that ultimately, and adversely, impacts borrowers’ access to credit.

Given that FVA is now contributing to, rather than helping alleviate, the current crisis, we urge you to temporarily suspend or amend the FVA standard so that it will not require artificial devaluation of assets during market disruptions. We recognize that the details of any changes must be carefully considered and implemented, and we would welcome the opportunity to assist you to ensure that any valuation methods used are based on real economic values and reflect the perspective of all market industry constituents. However, time is of the essence in making such changes. Failure to address the unintended harm caused by FVA in an illiquid market could worsen the difficulty we all are now experiencing, and could even defeat the initiative the government is working so hard to implement to return liquidity to the financial markets.

Sincerely,



Dottie Cunningham
Chief Executive Officer
Commercial Mortgage Securities Association

cc: The Honorable Christopher Dodd, Chairman of the Senate Banking Committee
The Honorable Richard Shelby, Ranking Member of the Senate Banking Committee
The Honorable Barney Frank, Chairman of the House Financial Services Committee
The Honorable Spencer Bachus, Ranking Member of the House Financial Services Committee