Financial Solutions For Life

DUANE J. BROBST
EXECUTIVE VICE PRESIDENT

June 29, 2010

Mr. Russell Golden
Technical Director FASB
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Golden:

Re: No. 1810-100 *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*

Thank you for the opportunity to comment on the draft proposal referenced above. As a commercial banker in a $2 billion community bank, I am writing to express my deep concerns and state my strongest opposition to the portion of the proposal that requires all loans to be **marked to market**. Unquestionably, this proposal would greatly damage most banks' capital position in an era of economic uncertainty and where capital is limited, scarce and very expensive.

I understand that a loan's intrinsic value may differ because of changing interest rates or fluctuations in a borrower's cash streams. The intrinsic value of the loan however, is really only relevant in those situations where the loans are to be sold into the secondary market. Realistically, how do you value a working capital line of credit to a small machine shop, or to a HVAC contractor, or to a CAD designer? The list goes on.

The answer to mark to market is quite simple. Perhaps mark to market should be limited to those loans large enough to have a credit rating assigned to them or those loans that have a mature, established secondary trading market already in place. Most commercial loans have individualized payment terms, collateralization, and guarantee structures; therefore there is no reliable secondary market in which they could be sold, thereby calling into question the reliability of using fair value as the basis for financial statements.

In your proposal, banks must record loans on the balance sheet at their market value. In all my years as an executive in bank management; I've never seen a loan approved and booked that intentionally would not repay in full all principal, interest and fees. All new loans are good loans and fully expected to repay according to terms. Consequently, this new performing loan would show no impairment under FAS 114 and would be booked at 100% of fair value. So what have we gained?

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Transparency? I think not; and I don't think it matters. The key issue that concerns investors is how the loans perform, not how the market views loan payment performance of a disparate group of community-based companies.

Loans that don't perform up to expectations are handled under current FASB guidelines and are 'exposed or are transparent' to the public through standard financial reporting of non-performing assets and further disclosed through charge-off or TDR disclosures.

Additionally, I am very concerned about the costs and resources that will need to be dedicated to produce and audit such data. Because banks do not use fair values in managing their cash flows or bank liquidity, I anticipate that this could require banks to hire more staff or consultants to assist with estimating fair values and to pay significantly higher audit fees.

At the end of the day I'm left asking these following questions, what do investors gain with this proposal? What does bank management gain? What is the net benefit?

I recognize no clear benefit to the proposed changes. Quite contrary, I believe the opposite is true; where the costs (intended and unintended) are quite severe. With my commentary as a back drop; I recommend you to drop your proposal to mark loans to current market.

Thank you for considering my views. Please feel free to contact me if you would like to discuss my concerns.

Sincerely,

Duane J. Brobst
Executive Vice President
Chief Risk Officer