Arbor
INVESTMENT ADVISORS

August 30, 2010

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 1810-100 Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

Dear Mr. Golden:

Thank you for the opportunity to respond to the proposed accounting changes outlined in the exposure draft referenced above.

I am Chairman of the Audit Committee of Piedmont Federal Savings Bank, a $900 million federally chartered mutual savings bank based in Winston-Salem, North Carolina. I am also Chief Investment Officer of Arbor Investment Advisors, a Registered Investment Advisor with $275 million in assets under management. I hold the Chartered Financial Analyst designation. My entire twenty year career has been in the financial services industry.

I am deeply concerned about FASB's proposal of marking to market loans, especially mortgage loans. Mark to market accounting is indeed valid when the asset is available for sale or part of the trading book. However, for portfolio lenders like Piedmont Federal Savings Bank that hold all loans to maturity, mark to market accounting is invalid and will breed confusion and invite grave, unintended consequences.

It is critical that financial statements provide a fair picture of the financial standing, profitability and cash flow profile of the business. If loans are marked to market, arbitrary changes in asset values will lead to dramatic swings in net worth and net income, even if there were no changes in the asset quality and payment history of the loan book. We can expect even greater volatility in the valuation of loans for which there is no liquid secondary market. Consequently, financial statements would cease to fairly represent the true health of the business and would no longer be a reliable resource for management, board directors, auditors and regulators.

100 North Cherry Street, Suite 500, Winston-Salem, North Carolina 27101
tel 336 777-1677 ▪ fax 336 397-1513 ▪ arborinvest.com

Unfortunately, we can expect additional unintended consequences beyond confusion for financial statement users. Perhaps more important, this artificial volatility will undermine the confidence of depositors and borrowers alike. The length and depth of the current recession is a daily reminder of the adverse and pervasive impact of weak consumer/investor confidence.

Moreover, the proposed accounting change will have a "pro-cyclical" effect on financial institutions and broad credit markets. As investor enthusiasm for a given asset becomes more exuberant, assets are valued more richly. Such marks for the loan portfolio will in turn *overstate* the profitability and balance sheet strength of the financial institution. Buoyed with misplaced confidence, lenders and borrowers alike will be prone to reach beyond their grasp. However, we know that as assets move higher in price, they take on more risk. Inevitably, the laws of gravity (economic fundamentals) exert their force with often catastrophic results.

The pro-cyclical effect is equally strong when operating in reverse. As investor demand for a given asset wanes, asset values cascade lower. Such marks for the loan portfolio will in turn *understate* the profitability and balance sheet soundness of the financial institution. As a prisoner of mark to mark accounting, financial institutions will predictably reduce the availability of credit and demand more punitive terms from qualified borrowers.

Accordingly, the pro-cyclical effect of mark to market accounting will exacerbate the boom/bust cycle via an on again/off again provision of credit to the economy. In such an environment, consumers and corporations will rationally "self-insure" and avoid taking any risk, dragging the economy to a lower activity level, inviting the next round of job cuts. The process is self feeding. Introduction of mark to market accounting would be especially toxic in the current environment as we are only in the early stages of a multi-year deleveraging process in which unemployment may remain stubbornly high and self sustaining economic growth frustratingly tepid.

Lastly, mark to market accounting of loans will surely result in higher interest rates. Financial institutions will rationally build more spread into the borrowing rate to insure against the vagaries of subsequent marks of this illiquid asset. This artificial and unnecessary "liquidity premium" will pressure asset values anew and reduce each consumer's standard of living. Perversely, the result will be a higher incidence of credit defaults and broader economic weakness. All of us lose in this scenario.

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In closing, I respectfully request that you eliminate the proposal to mark loans to market. The unintended consequences of diminished utility of financial statements, reduced confidence of depositors/borrowers, pro-cyclical effects and higher interest rates have far reaching and damaging impacts. The existing classification and treatment of loans with supporting footnotes are useful, appropriate and prudent. Thank you in advance for your thoughtful consideration.

Sincerely,

Scott E. Cawood, CFA, CFP
Principal