

September 8, 2010

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

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

Dear Mr. Golden:

I write to comment on the FASB proposed *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* ("proposal"). Being both a banker and bank investor, I oppose the portion of the proposal that requires all financial instruments to be marked to market.

From a banker's perspective, the human resources and cost that will be required to produce and audit such data will be enormous, especially for the community bank industry. The recent financial crisis has taught us that markets are sometimes illiquid and sometimes irrational. We have personally experienced the mark-to-market reality on equity investments we held in start-up bank stocks. Though long-term investments with no intent to sell in the short-term, and no active markets for liquidity, the mark to market rules obligated substantial losses with dire effects on bank capital.

That example - the lack of liquid marketability of an asset and the direct effects on bank capital due to FASB rules - will similarly come home to roost with a requirement of marking loans to market.

The extremely frustrating part of that real example to bank investors is most of these investments we were required to mark to market will succeed, and we will in time recognize gains on those investments, but marking them to "market" when there really is none has not provided transparency - it has clouded transparency - and wrongfully shrunk their bank capital with no opportunity to mark it up under US rules until the asset is sold.

In your proposal, banks must record loans on the balance sheet at their market value. In my meetings with bank management regarding financial results, market values of loans are never discussed. We discuss how loans perform, not how the market views loan performance. Although I understand the rationale for providing banks with the ability to provide more robust loan loss reserves, mark to market is not relevant for loans that are not being sold. Additionally, with individualized payment terms, collateralization, and guarantee structures, the vast majority of commercial bank loans have no reliable market in which they could be sold, further calling into question the reliability of using fair value as the basis for financial statements. Even if there were active markets, fair value is not the appropriate measurement for these loans since it does not represent the cash the bank will receive.

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Yes, a loan's intrinsic value may change because of current interest rates or because of problems the borrower may have. But if there is a problem in repayment, the banks' typical process is to work the problem out with the borrower rather than sell the loan. So, even if it were easy to find a market value, that market value is irrelevant, since the bank would not sell the loan. As a result of your proposal, bank capital will be affected by market swings that will never be realized by the bank, just as we experienced on the equity investments in bank stocks.

The proposal to mark loans to market does not reflect a bank's business model, and requiring could result in a need for banks to change their business models due to volatility caused by the same. Investors would likely put pressure on banks to reduce the volatility, and in many cases this may result in shifting toward an investment banking model rather than a traditional banking model, or result in limiting products to those that are sheltered from market volatility. This seems to be an unintended consequence, and a situation where accounting rules are driving the business model of banking credit risk, when our economy needs providers of that credit risk more than ever.

Due to these various factors, I ask FASB to drop the proposal to mark loans to market, as from my perspective as an investor it does not improve financial reporting, and as a banker it will cause more harm to business credit options and bank capital levels.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Ted T. Averkamp". The signature is fluid and cursive, with a large initial "T" and "A".

Ted T. Averkamp  
President & CEO

TTA/svc