From: <u>mharmon@yourfriendlybank.com</u>

To: <u>Director - FASB</u>

Subject: FASB Mark-to-Market Exposure Draft

Date: Monday, September 20, 2010 6:22:53 PM

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September 20, 2010

Director Financial Accounting Standards Board Director

Dear Director Financial Accounting Standards Board:

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

Thank you for this opportunity to comment on the exposure draft, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities" ("proposal"). I am a bank shareholder, a Director and the Chief Operating Officer for a bank that is approximately \$200mm in assets. I am writing to express my deep concerns and opposition to the portion of the proposal that requires all financial instruments to be marked to market. From a Chief Operating Officer perspective, the disadvantage of requiring such a burden on small community banks far outweighs any transparency you believe you will be obtaining by requiring this. The clarity you believe you are gaining is not an accurate picture of how a bank operates and values its assets.

We have been lending money to individuals and businesses in our communities since 1944. We do not view these loans as commodities and do not discuss its market value. We lend money with every intention of collecting the principal and interest on the loan as stated in the agreement with our customers. We care about the cash flow of the loan, the credit quality of the borrower and we give consideration to the collateral value. But we do not make a loan with our eyes on the market. Although I understand the rationale for providing banks with the ability to provide more robust loan loss reserves, I believe the focus on mark to market is not relevant for loans that are not being sold. There are more accurate ways to build this reserve than to require the burden of marking all loans to market; loans we have no intention of selling.

When conditions change such as interest rates or a borrower's capacity to repay, we do have to evaluate our credits and determine if there may be a loss in a loan. But if there is a problem in repayment, the bank doesn't try to sell the loan, it works the problem out with the borrower. Even if it were easy to find a market value, that market value is irrelevant, since the bank would not sell its loans.

This seems to be an illogical fit on where we are trying to steer community banks. We are on the ground with our borrowers and can identify

the potential losses of a loan better than any mark to market model could predict as we know our customers and our collateral and repayment capacities. Knowing what we could sell the loan for and pursuing that method means we have given up on our borrower and plan to rid ourselves of them. This is not the community banking model. We work through our problem loans and identify our potential losses and reserve for them.

But more than anything, what concerns me are the costs and resources that will need to be dedicated to this effort. With every change that our bank endures, be it regulatory or FASB changes, we have to find a way to get that information. This magnitude of a requirement would mean that banks similar to our bank's size would have to hire a consultant to assist with this task. We use consultants for many things, but in the end, this would result in us giving money to consultants to make estimates with which my fellow bankers and I will do nothing of value with. Please allow us to spend our money on things that help us make wise banking decisions, rather than setting us up to "look" like an investment bank.

I strongly urge you to drop your proposal to mark loans to market as it will do nothing to improve the strength of bank reporting and will cost the bank's precious resources at a time when they are needed to work through our loans and reserve for potential losses.

Thank you for taking the time to listen to my perspective.

Sincerely,

Megan L Harmon 719-955-0633