

Pendleton Community Bank

"We want to be *yourbank*"

September 20, 2010

www.YourBank.com

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

RE: 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 comment on the exposure draft *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* ("proposal"). As a \$250 million dollar community bank we are concerned about the effects of the above rule and how it will negatively affect our communities. In addition, our bank holding company has invested in the stock of other community banks. So, we are looking at this proposed rule as an entity that may have to comply with its provisions as well as an organization that will evaluate its current and future investments after the application of this rule.

First, as a community bank we have performed traditional deposit taking and lending for almost 100 years. That has served our communities well. Even though we have been on the losing end of the population movement toward urban areas, our services continue to help local farmers, merchants, and other small businesses to the sources of credit that allow them to survive, and in many cases, thrive. We could not tell you at this time the market value of our small business loans. Nor does it matter at this time, because selling our loans is not our business model. It would not help our local businesses survive; in fact, it would be detrimental to our communities. We have the unique ability to understand our borrower's circumstances, and understand how to work with them to survive tough economic challenges.

How would attempting to value these loans at market value change our time proven business model? How many quarters of write-downs in the market value of our loan portfolio would it take until we discontinued lending to these farmers and small businesses? How would this affect our communities? Would the attempt to mark these illiquid loans to their liquidation value somehow provide accounting transparency?

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How would our customers and depositors react to the media's reporting of the fair value losses? Is this "transparency" going to be clear to all involved?

The answers to these questions, we feel, make it clear that trying to establish market values for long term financial assets such as loans held to maturity and deposits held to maturity, not only is detrimental to the business models of community banks, but would not provide transparency to the financial performance of these institutions.

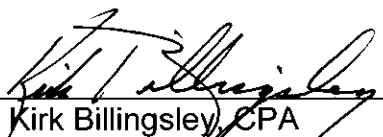
Second, as a bank investor, what is important to us regarding the banks in which we own stock are their financial position, their management of interest margins, and their expense management. By adopting this rule, we will see wild fluctuations in values as interest rates rise and fall. The pro cyclical movement in values will cause more confusion in investors, not provide transparency. In addition, this "market value" in customer's loans and deposits that are long term financial instruments is irrelevant in the community bank business model. So how is this to help us as an investor trying to evaluate investments in these institutions?

The various models that will be utilized in order to determine the market value of the long term assets and liabilities of community banks will differ from bank to bank. This modeling and compliance with the new regulations will divert bank resources from the business of banking in order to produce this data, report this data, and then have this data audited. The funds required to pay for consultants and pay auditors to come up with a market value on an illiquid asset is an exercise in futility. These additional costs will be passed through to us as investors in lower returns, or the cost will be passed on to consumers.


With this in mind, we recommend you to drop your proposal to mark loans and deposits to market, as, from our perspective as a community bank and as an investor in community banks, it does not improve financial reporting.

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

Sincerely,



L. Kirk Billingsley, CPA
Chief Financial Officer
Pendleton Community Bank



William A. "Bill" Loving, Jr., CLBB
President / CEO
Pendleton Community Bank