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September 20, 2010

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

Re: Mark to Market Accounting, File Reference # 1810-100

Dear Mr. Golden,

Thank you for the opportunity to comment on fair value accounting (MTM). I serve as the President & CEO of a $620 million asset bank with 9 offices in 4 counties in metro Orlando, Florida. We are the second largest community bank in the Orlando market and I have approximately 30 years of banking experience.

We ***strongly oppose*** mark to market accounting in virtually all of its forms, and certainly oppose expanding it even further. In fact, we would submit that many of the existing MTM edicts, such as new FAS 114 and FAS 5 methodologies should be repealed, and banks be allowed to go back to the sliding scale bases for loan impairments that worked fine for decades.

Fair Value Accounting—

It is not a coincidence that as banks had to begin migrating to these new MTM mandates, the financial world fell into a 'death spiral' which MTM creates. Authorities even figured this out in the 1930s and suspended MTM accounting then. We have seen the unintended real-world impacts that MTM has had in real-time on both banks and their borrowers and, respectfully, they have been horrific.

Instead of clarifying financial statements, MTM has led to massive volatility and even less clarity, scaring off capital resources that banks sorely need. Most banks, ours included, do not intend to sell our loans—in fact, there is generally little or no market for many standard bank loans. There are also many factors and much judgment that needs to be weighed in assessing impairment on impaired loans, which the sliding scale methodologies that worked well for decades took into account.

We are strongly opposed to the proposal that requires all financial instruments, especially loans, to be reported at 'fair value' on the balance sheets. This would only further exacerbate the extreme volatility that existing MTM edicts have caused to banks' balance sheets, and make financial reporting less clear while running up our expenses to comply. MTM is also getting in the way of multiple mergers right now, with larger banks having CPAs arguing about reducing marks even on good, performing Pass-graded loans, making the modeling very difficult to acquire smaller banks.

For all of these reasons and many others, we would respectfully request that the fair value proposal be dropped.

Loan Impairments—

As stated before, we believe that loan impairment accounting should be returned to the sliding scale basis that worked fine for decades which allowed management judgment as to degree of impairment, as opposed to mostly just a collateral value which is how regulators and CPAs are currently doing FAS 114 & 5 analyses.

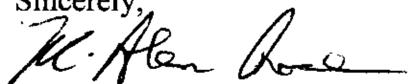
The new methodologies currently in place have served to cause extreme volatility in the market and in banks' capital positions, and has significantly worsened the current economic downturn and credit freeze. This system 'feeds on itself' where, if a bank undertakes to aggressively write down some assets in a given quarter or two with FAS 114, it then punitively feeds the FAS 5 calculations for subsequent quarters, and so on.

When banks have had a system that has worked fine for decades, the question begs—why 'fix' something that isn't broken? Loan impairments should be returned to the sliding scale system that worked fine for many decades. As one small example, if a highly liquid billionaire came to our bank or many others in Florida to undertake a construction loan, we would have to book approximately 5% in loan loss reserves immediately simply due to the loan type (FAS 5)—is it any wonder why credit is seized up?

We are in full agreement with former FDIC Chairman William Isaac (please see enclosed article) that the unintended consequences of applying MTM accounting to bank financial statements is highly ill-advised; has created massive volatility and less clarity; and should immediately be suspended which will help credit and our economy recover much more quickly. We do not question anyone's motives at all, we just want to see the problem corrected immediately.

Thank you for your valuable time and consideration in this very important matter.

Sincerely,



M. Alan Rowe
President & CEO

Enclosure

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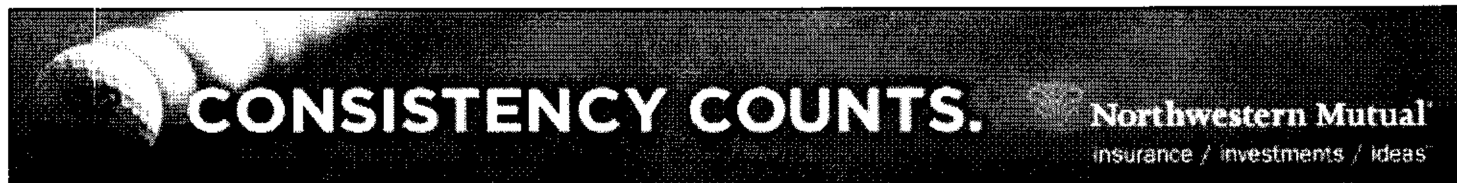

Forbes.com

Commentary

FASB Desperately Needs Oversight

William M. Isaac, 06.14.10, 12:26 PM ET

Just when it seemed that the Financial Accounting Standards Board could not do any more damage to the financial system and economy than it had done during the financial crisis of 2008, it drops another bomb. By a three-to-two vote of its board, the FASB recently issued a proposal to extend mark-to-market accounting to virtually the entire balance sheets of banks, including loans. If adopted, the proposal will create havoc in bank lending to small businesses, which are the engines of job growth.

There is global disagreement with FASB's approach, including from the International Accounting Standards Board (IASB), the Basel Committee (which sets the framework for regulation of international banks), the G-20 nations, U.S. bank regulators and many investors. If FASB's latest irresponsible move does not finally inspire Congress to place FASB under adult supervision, I do not know what it will take.

Bank regulators had imposed mark-to-market accounting on banks prior to 1938. President Franklin Roosevelt and Treasury Secretary Henry Morgenthau concluded that MTM was inhibiting bank lending and prolonging the Great Depression. They worked with regulators to eliminate MTM accounting in favor of historical cost accounting, which served us well for more than a half century.

The FASB proposed in the early 1990s to reinstitute MTM for certain financial investments by banks. The proposal was strongly opposed by the Federal Reserve, the Federal Deposit Insurance Corp. and the Treasury. They argued it would not accurately reflect the bank business model, would create undue volatility in bank earnings and capital, and would create severe credit contractions.

Ignoring the concerns of those responsible for maintaining stability in the financial system, the FASB forged ahead. The worst fears of the opponents of MTM were realized during the crash of 2008 when MTM needlessly destroyed over $500 billion of capital in the financial system and decreased bank lending capacity by $4 trillion.

Without question, MTM accounting exacerbated the crisis of 2008 and contributed greatly to the financial panic and deep recession. Neither chastened by nor wiser for the experience, the FASB now wants to extend MTM to bank loans. The impact on bank lending and the economy will be profound.

Hardest hit will be lending to small businesses. If loans have to be marked to market prices, banks will be forced to limit lending to very short-term loans to only the highest quality borrowers.

A five-year loan to the owner of the local restaurant, drug store, family farm, cabinet maker or clothing store will be a thing of the past. Loans of this nature do not have readily ascertainable market values. Whatever the values, they will fluctuate too wildly to allow banks to take the risk of longer-term commitments.

The zealots of FASB respond to these concerns by saying their mission in life is to achieve accounting purity/transparency, not promote economic growth. But in truth, MTM obscures--not illuminates--economic reality and financial performance.

The true value of a loan to farmer Jack, which his bank intends to hold to maturity, is determined not by the fickle mood of traders in New York City, but by analyzing the likelihood that farmer Jack will be able to repay his loan with interest in accordance with its terms. This requires farmer Jack's banker (and the bank's auditors and regulators) to carefully analyze farmer Jack's income, future

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prospects and collateral values. None of that confidential information is or should be made available to the traders in New York so all they can do is assign an "immediate sale" value without having access to the facts.

The FASB is out of control and desperately requires government oversight, as exists in Europe. The IASB proposes accounting rules, but they must be approved prior to use by the European Commission, and the European Parliament has veto power. Proposed rules are reviewed to determine if they are clear and understandable, will accomplish their intended purpose, and will serve the public interest.

The Securities and Exchange Commission is supposed to provide oversight of the FASB. But this badly broken agency is no more adept at that than it was in shutting down Bernard Madoff's decade-long $50 billion Ponzi scheme despite receiving multiple warnings about it.

If Congress enacts so-called financial reform legislation without subjecting the FASB to meaningful oversight by an independent systemic risk council, it will be a travesty of the first order. The absence of this oversight could spell the end of banking as we know it, with profoundly negative implications for employment and economic growth.

William M. Isaac, chairman of LECG Global Financial Services, was chairman of the Federal Deposit Insurance Corp. during the banking and S&L crises of the 1980s. He is the author of Senseless Panic: How Washington Failed America.

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