CHARLOTTE STATE BANK

Hometown Banking Since 1987

September 28, 2010

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

VIA EMAIL: director@fasb.org

Re: File Reference: No. 1810-100, Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815) – Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

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"). Charlotte State Bank appreciates the opportunity to comment on this exposure draft and as a closely held community bank preparing, maintaining and servicing commercial, mortgage and other consumer loans as well as holding customer deposits, this accounting treatment, with or without the substantial costs to implement and monitor the new process, could result in a negative impact on the Bank's capital and result in considerable confusion and misrepresentation of the related financial information.. We also are the user of financial information on other banks, in order to analyze the safety and soundness of investing in correspondent relationships.

Charlotte State Bank supports the FASB's efforts to develop a comprehensive framework which addresses the accounting for financial instruments. However, we are strongly opposed to the expansion of fair value as the primary balance sheet measurement attribute for virtually all financial instruments. More specifically, we do not believe that the use of fair value for loans of which management intends to hold for long term investment purpose would provide investors and analysts with useful, transparent, and reliable information.

Additional, all banks, including Charlotte State Bank, would be unjustly burdened and possibly penalized by the scope of the proposed change to fair-value accounting. Most loans on a financial institution's balance sheet are held for investment and not held for sale. It seems inherently contradictory that the fair-value accounting be utilized for something that will not be sold and for which there is no active market in order to justify a value. Furthermore, there are no readily observable inputs for these loans, and the determination of fair value would be based on "Level 3" valuation techniques, which are the most subjective and lowest in priority and relative reliability of the inputs in the fair value hierarchy. It also appears running such valuation changes through the income statement, would result in extreme volatility in earnings and capital levels. In our view, this would cause the reliability and usefulness of bank financial statements to be severely damaged.

This proposal, if enacted, will require our bank to adopt a standard that is counter to our business model and strategic plan. Our strategies are based on a long term approach to asset generation and holding periods. A primary concern with the fair-value accounting approach is that when markets become stressed, as they currently are, the Bank would be forced to use asset prices that do not properly reflect actual cash flows and or borrower prospects going forward.

Community banks are in the business model of servicing, pursuing and holding the deposits and loans of customers within their service area. This relationship is mutually beneficial, as the customer develops a relationship with a local banker and the bank receives a profitable investment. Investments as well as derivative options generally do not qualify for a banking relationship and are primarily for the purpose of liquidity. This proposal assumes the bank will sell the deposits and or loans to the secondary market or hedge the interest-rate risk with some form of a derivative, either swaps, floors, or some other investment alternative. Instead, more often the bank offsets the interest-rate risk through adjustments to its balance sheet by the products it offers to its customer base.

As a user of financial statements of banks, the addition of some measure of interest-rate risk only compounds the confusing nature of the financial statements. It does not make them simpler but instead makes them much more complex and intricate. There are too many assumptions that would have to be explained and as a result the reader could and more than likely will be confused. Information such as the average life, average maturity, cash flow structure, and other aspects of their portfolio would have to be explained in great detail for the affect on the income statement to be in a form that would be comparable, consistent and understandable. Additionally, if the plan of management is to hold on to the investments, whether it be in the form of loans or deposits, until maturity, the affect to income due to changes in the interest-rate risk in the subsequent years only alters what should be a steady stream of income. The

proper place for any discussion of interest-rate risk is in the notes to the financial statements and off of the income statement.

If the Financial Accounting Standards Board decides that some measure of interest-rate risk needs to be passed through the income statement, an acceptable alternative would be to follow the guidelines currently used for the accounting of investments to market. Allow management to designate loans and deposits as either held to maturity, available for sale, or trading, with similar impacts to the income statement and balance sheet. This would allow banks with dramatically different business models to be impacted appropriately, based on whatever risk they are assuming.

Thank you again for the opportunity to comment on the proposal.

Bryan Pennybacker, CPA
Executive Vice-President & Chief Financial Officer
Charlotte State Bank