1810-100 Comment Letter No. 1895

From: g.miller@houstonbusinessbank.com

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

Subject: File Reference: No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for

Derivative Instruments and Hedging Activities"

Date: Monday, September 20, 2010 11:58:53 AM

Guy Miller 1535 West Loop South, Suite 120 Houston, TX 77027-9516

September 20, 2010

Russell Golden Technical Director Financial Accounting Standards Board 401 Merritt 7, PO Box 5116 Norwalk, CT 06856-5116

Dear Mr. Golden:

As Executive Vice President & Chief Credit Officer of Houston Business Bank, a banking institution in Houston Texas with \$24,000,000.00 in total assets, I am writing to express my opinions on specific provisions of the exposure draft. I. COMMENTS ON FAIR VALUE

Our institution is strongly opposed to the portion of the proposal that requires all financial instruments - including loans - to be reported at fair value (market value) on the balance sheet. The basis for this decision

Our bank does not sell our commercial loans. Basing our balance sheet on fair values leads readers of our financial statements to assume that we will sell the loans, which is not the case. We are a relationship driven type organization, as such are a provider of the capital for various type commercial loans whereby we act as the primary servicer and manager.

If there are issues with a borrower's ability to repay a loan, we work through the collection process with the borrower rather than sell the loan. Further our standard would not be to sell the loan, but rather collection of collateralized assets of which we would market for sale.

There is no active market for many of our loans, and estimating a market value makes no real sense. Our loans are commercial in nature with no SBA / government guarantee component, which are more readily marketable. Also, the market in which we compete is highly competitive with originators and services alike competing for the same clientele.

Even if we could easily obtain a market price, since the loan is just one part of the financial relationship that we have with the customer (multiple loans, investment and trust services, etc.), there is no financial incentive to sell. Interest income from loans is an integral part of Houston Business Bank's profitability strategy. We would be hard pressed to sell a portfolio of loans only to have to replace, redeploy liquidity obtained from portfolio sale to obtain similar type yields.

Marking all loans to market would cause our bank's capital to sway with

fluctuations in the markets - even if the entire loan portfolio is performing. Instead of providing better information about our bank's health or its ability to pay dividends, the proposal would mask it.

Even if the banking regulators' Tier 1 capital excludes fair value fluctuations, we still will have to explain it to our investors, customers and depositors; cause for too much manipulation as it pertains to ratios which could lead to further distrust in a fragile banking industry.

The costs and resources that we will need to comply with this new requirement would be significant. This will require us to pay consultants and auditors to estimate market value. Compliance burden for banks is already one of the highest costs of doing business this will only serve to increase it, putting further pressure on earnings.

Our investors have expressed no interest in receiving this information. We believe our investors would not view these costs, which must come out of bank earnings, as being either reasonable or worthwhile. Additionally, our investors / shareholders are part of the bank's relationship strategy, whereby viewing this type of activity more in line with transactional lending.

For the reasons stated above, our bank respectfully requests that the fair value section of the exposure draft be dropped.

Thank you for considering my comments.

Sincerely,

713-629-2800 EVP, Chief Credit Officer Houston Business Bank