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P.O. BOX 5, LOUISE, TEXAS 77455
(979) 648-2691
ONLINE WEB BRANCH:
www.teblouise.com

September 22, 2010

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

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

Dear Members of the Financial Accounting Standards Board:

On behalf of the Future Bank Leaders Council (FBLC) of the Texas Bankers Association (TBA) and as an executive of The First State Bank, Louise, Texas, I am writing today to express the concerns with and the opposition to FASB's proposed changes to the way our institution and those that TBA represents mark their financial instruments; namely, the expansion of fair value accounting to all financial instruments. The industry as well as our individual Bank has consistently opposed a fair value account model for the core banking activities used in our industry. We shutter when we think what the impact to our industry would have been in 2007-2008 if this model which is now being proposed had been in effect then.

The changes proposed in No. 1810-100 expand current mark-to-market accounting by requiring institutions such as ours and those that TBA represents to record all financial assets and liabilities at fair value on their balance sheets. However, these changes fail to take into consideration the fact that commercial banks, like The First State Bank and those that TBA represent, hold financial instruments like loans for long-term investment purposes – NOT for trading purposes. Eighty-five percent of TBA's membership is composed of community banks just like The First State Bank and the vast majority keep the loans they make on their balance sheets and hold them for the life of the loans. Forcing us to begin accounting for these long-term investments at fair value will result in a significant change to capital because these assets most often have no active markets. It will also put a tremendous amount of pressure on the lending equation, leading to decreased lending at exactly the time the country needs to have lenders like us willing to make loans to small businesses and the like which are the backbone of our economy. The First State Bank, specifically, holds about \$260 million in assets, \$170

million in loans, and services eight communities along the Texas Gulf Coast — in many of those communities, we are one of a few if not the only financial institution available to the members of that community. Without the Bank's support and continued lending to all sectors within these small communities, their local economies will undoubtedly suffer.

Furthermore, The First State Bank as well as all of TBA's members will have to incur significant costs in order to provide these fair value estimates at what appears to be of no benefit to the customer, the shareholder, or the Bank. Without implying that our Bank's customers and shareholders are not savvy, we are very concerned that few people will understand the nuanced change of fair value results. Rather, we fear customers and shareholders will see significant drops in the Bank's capital — both because of the move from amortized accounting for long-term investments and because of the higher costs associated with providing these fair value estimates — and mistakenly believe the Bank's capital reporting is unreliable.

For larger institutions that are more sophisticated in their investment portfolios, we understand the standards proposed are inconsistent with the standards utilized by the international financial reporting standards. It is our understanding the industry is undertaking a move to bring into alignment account practices worldwide and eliminate pro-cyclical problems. In our opinion, this accounting rule would exacerbate the problem and cause further unwarranted stress for our industry as a whole.

TBA's national trade association affiliate (the American Banker's Association – ABA – of which The First State Bank also supports) has filed a lengthy and very comprehensive response to the proposal being offered. We have read and reviewed their very thoughtful remarks and support their positions.

Thank you in advance for your time and careful consideration of the above. It is our request that FASB would withdraw this proposal.

Best regards,

Brandon Zabodyn

Senior Vice President/Advisory Director

The First State Bank, Louise

P.O. Box 967

El Campo, TX 77437

(979) 543-2274

bzabodyn@fsblouise.com