1810-100 Comment Letter No. 2786

From: <u>sstill@hometownbankva.com</u>

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:** Thursday, September 30, 2010 12:18:16 PM

Susan Still 202 South Jefferson Street Roanoke, VA 24011-1702

September 30, 2010

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

Dear Mr. Golden:

September 29, 2010

Mr. Russell Golden Technical Director File Reference No. 1810-100 Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 05856-5116

RE: Comments on No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities" Exposure Draft

Dear Mr. Golden:

Thank you for the opportunity to comment on FASB's Exposure Draft: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities.

I am the President and Chief Executive Officer for HomeTown Bank, a \$350 million commercial bank with 75 employees spread over six offices. We have been open less that five years and serve the Roanoke and New River Valley market areas in mostly rural southwestern Virginia.

I am writing to urge FASB to not go forward with the proposal.

The accounting that would result from this proposal would greatly misrepresent the financial condition of our bank and other community banks.

The primary business of community banks is to hold financial instruments to collect contractual cash flows, not to trade them.

We fund our operations by taking deposits that are mostly shorter in term and holding loans that are long term. Over 90 percent of the financial instruments HomeTown Bank holds are not readily marketable. Attempting to

derive a market price for instruments that are not and never have been regularly traded is an academic exercise at best that could not provide a meaningful financial measurement to users of financial statements.

However, it would create a cottage industry for financial modeling "experts" to sell methodology to us in an attempt to value instruments that again are not now and never have been routinely

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traded in the marketplace. The cost of this modeling and methodology we will either have to pass along to our customers or reduce the profits to our shareholders.

We oppose the proposed accounting treatment for core deposits which calls for them to be regularly remeasured using a present value calculation. This would not provide accurate information and the calculations would be expensive and time consuming, particularly for smaller banks like ours that have limited staff resources to conduct the analysis. We have one accountant and one financial analyst.

We oppose requiring fair value calculations for loans that are held for the long-term to collect cash flows. Fair value measurements will not provide a better understanding of the values of illiquid loans held by small banks in mostly rural areas such as ours.

We create and hold small business loans for which there is no active market; it would be very difficult and costly to mark them to market.

Attempting to establish fair values for the types of loans held by many community banks like our bank would be costly and result in data of questionable reliability due to the inability to accurately assess and price the credit risk associated with our non-uniform loans.

The expanded reporting of comprehensive income is unnecessary, confusing and of little use to most financial statement users.

We community bankers along with our bank regulators see the need for more flexibility in setting the allowance for loan and lease losses. We are all well aware that economic cycles occur and it is very difficult to be absorbing losses and raising capital during times of economic difficulties, such as the current environment.

Accounting standards and guidance should not be pro-cyclical. Recent market conditions have demonstrated the pro-cyclical nature of mark-to-market accounting as declining values of financial instruments necessitated write-downs and sales, causing further write-downs and sales.

Again, I thank you for the opportunity to comment on this proposal.

Sincerely,

Susan K. Still

Sincerely

540-278-1705 President & CEO HomeTown Bank