

From: [Quentin Leighty](#)
To: [Director - FASB](#)
Subject: File Reference: No. 1810-100 Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities
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I am writing as a community bank investor to express my concerns about and opposition to the exposure draft, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities" ("proposal").

Although nonpublic entities, including community banks, with less than \$1 billion in total consolidated assets would be given a delayed effective date for certain requirements of the proposal of an additional four years from the estimated 2013 effective date, the fair value of loans would be required to be disclosed in the notes to the financial statements.

I am an investor in a community bank located in Colorado that has total assets of \$230 million. While transparent financial reporting is of utmost importance to me, I am strongly opposed to the proposal to require all financial instruments to be marked to market. In my opinion as a community bank investor, this will cloud transparency, rather than improve it. This proposal will also harm community bank borrowers and delay our country's economic recovery.

As an investor in a community bank, my interests in its financial results do not include a loan's market value. Rather, I am interested in how the loan is performing, not how the market performs. While I understand the market value of a loan can change because of current interest rates or borrower problems, even if the market value of a community bank loan were easy to determine, that market value is irrelevant if the community bank is not selling its loans. Loans that are funded by long-term funding sources and retained should not be treated as securities. If there is a problem in repayment, my community bank does not try to sell the loan, it works the problem out with the borrower.

While a community bank should maintain an adequate reserve against problem loans and potentially problem loans, there is no logic to essentially requiring a reserve for loans that are performing and collateralized adequately. The actual cost method along with the reserve has worked well since inception.

Moreover, measuring the fair value of loans that a community bank has no intention of selling is contrary to its business model. This proposal will require my community bank to change its business models due to a new accounting standard. As a community bank investor, my desire to hold my community bank's stocks generally declines as volatility increases. The subjective assumptions that this proposal introduces into the process of fair valuing loans will necessarily vary from community bank to community bank. I would not view this as "true" volatility. Consequently, the proposal will create a dilemma about the true reported financial position of my community bank. As investors like me are forced into pressuring our community banks to reduce their volatility, this may likewise result in many community banks shifting more toward an investment banking model, rather than a traditional community-banking model. One likely result is that community banks will avoid making long-term loans secured by real estate or equipment because of the inherent market

risk. This is not only an illogical result, the proposal will harm the borrowers and local communities the community banking industry serves, thereby worsening an already fragile economy. Accounting standards should neither drive business models, nor harm the customers and economies supported by those businesses. Yet, these will be precisely the outcome of this proposal.

For community banks, the accounting burden created by this proposal will far outweigh its questionable benefits. The costs and resources needed by my community bank to comply with this proposal, especially in the face of our current financial crisis and its illiquid and irrational aspects, are unjustified. Since community banks like mine do not use fair values in managing their cash flows, this proposal will both require community banks to hire more staff or consultants to assist with estimating fair values and result in significantly higher audit fees. For what? Estimates for which my fellow community bank shareholders and I in our community bank and in community banks across the county will have no use. Indeed, these costs will be passed on to our borrowers, along with new loan underwriting standards that bear no relevance to the actual qualifications of the borrower. Community bank credit availability and accessibility for small businesses will continue to shrink.

I strongly urge you to drop the proposal to require community banks to mark loans to market. From my perspective as a community bank investor, it will not improve financial reporting. Our borrowers will be harmed, as will our local communities.

Thank you for considering my views. Please contact me at 719-481-0008 if you would like to discuss my concerns.

Sincerely,

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