

**From:** [Mike Webb](#)  
**To:** [Director - FASB](#)  
**Subject:** Fair Value is not Fair Value -  
**Date:** Wednesday, September 08, 2010 1:41:49 PM

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September 8, 2010

Mr. Russell Golden  
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 Accounting for Derivative Instruments and Hedging Activities*

Dear Mr. Golden:

As a person whose largest single holding is in privately held bank stock, it is critical that I know but more importantly that I understand a bank's financial position. I am writing to express my concerns and opposition to the mark to market accounting proposal for financial instruments. I recently read William Isaac's book, *Senseless Panic*, and it even more solidified my strong belief that this destructive form of accounting will only cause small, unsophisticated, simply-run banks to appear volatile, maybe even undercapitalized in severe economic recessions. These banks don't trade. They do not issue stock. They make loans and maintain them on their books. I am also an accountant by educational discipline. I have spoken to other accountants who cannot fathom why the persistence to potentially destroy equity of banks simply because FASB "can."

As I understand it, banks are to record loans on the balance sheet at their "fair value". Other than for the reasons that currently exist for banks to do so now, I would ask, why should it be expanded? Since when do small banks discuss the market values of loans? These bankers discuss performance – loans either perform, or they do not. If a bank is required to keep its books on the *value* of its loan portfolio for a specific moment in time – first who decides what that value is? Secondly, would a third party, outside the bank have to validate the value? Thirdly, what would the value really tell an investor? In other words, what would you really have if and when you have it?

Loan loss provisions provide the discounting impact on loans rather than mark to market. The focus on mark to market is not relevant for loans that are not being sold. Additionally, with individualized payment terms, collateralization, and guarantee structures, the vast majority of commercial bank loans have no reliable market in which they could be sold, further calling into question the reliability of using fair value as the basis for financial statements. Even if there were active markets, fair value is not the appropriate measurement for these loans since it does not represent the cash the bank will receive. Finally --- some things aren't for sale. That alone does not mean that it is illiquid. A market exists when an informed buyer and a motivated seller agree.

Loan loss provision accounting can and should be improved. Banks were disallowed to provision during good times, yet were forced to provision much more during bad ones. I would ask is there any wonder as to why we are getting exactly what we have asked for: less lending; more cash hoarding; more capital preserving and more shrinking of banks' balance sheets, all while banks could be an effective treatment to an anemic and uncertain economy. A fairer question is why would banks be motivated to make loans if mark to market rules immediately discounted the value of the asset as soon as a loan is booked?

Another item of concern is that deposits would be potentially undervalued. I have heard arguments that FASB has considered requiring that deposits be valued at par. Small banks consider deposits their franchise driver. Deposits are harder to obtain than loans – yet they would be valued at par? The FASB's proposal permits deposits to be based on present value, but that value does not approximate fair value. When branch sales occur, the price is usually at a deposit premium and all other assets, except loans, are priced within the premium. Loans may be chosen at the discretion of the buyer. I think the value lies in the deposits.

We have learned from the recent financial crisis that markets are sometimes illiquid and sometimes irrational. Because banks do not use fair values in managing their cash flows, I anticipate that this could require banks to hire more staff and/or consultants to assist with estimating fair values and to pay significantly higher audit fees. In the end, investors will be paying consultants and auditors significant sums to make estimates that my fellow shareholders and I will do nothing with.

With this in mind, I request you drop the proposal to mark loans to market, as from my perspective as an accountant, an investor and as well as a community bank CEO, it does not improve financial reporting.

Thank you for considering my views

Sincerely,

**Michael A. Webb**  
CEO



**Corporate Office**  
**1251 First American Drive**  
**Iuka, MS 38852**  
**662-423-3656**  
**662-423-1039 Fax**  
**[www.fanb.net](http://www.fanb.net)**

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