

1st State Bank of Purdy

Purdy – Monett – Pierce City – Cassville
Monett Supercenter – Cassville Supercenter
www.FSB-Purdy.com

417-235-6100

Fax: 417-235-4359

September 8, 2010

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
Via E-mail: Director@FASB.org

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

Dear Mr. Golden:

As the Chairman, CEO and primary shareholder of First State Bank of Purdy, Purdy, Missouri, and a principal shareholder of Oakstar Bank, Springfield, Missouri, I appreciate the opportunity to provide commentary on the above referenced exposure draft. As a longtime community bank investor, I have always relied on having complete financial disclosure available not only for my investment decisions but also for both the investing public and for marketing our banking products to our target communities. After due consideration of the proposed FASB changes, I am presenting this response to convey my absolute opposition to the section that requires all financial instruments to be “marked to market value”.

Wikipedia, the free online encyclopedia defines **Community Banks** as “typically locally owned and operated. They tend to focus on the needs of the businesses and families where the bank holds branches and offices. Lending decisions are made by people who understand the local needs of families, businesses and farmers. Employees often reside within the communities they serve. Community Banks are defined as independent banks and savings institutions and bank and savings institution holding companies with aggregate assets less than \$1 billion. **Community Banks** comprise 94% of the banking industry.”

Creditorweb.com defines **Community Bank** as follows: “Unlike huge multi-state and multi-national banks, **Community Banks** are locally owned and operated banking institutions. These **Community Banks** offer all of the standard banking services including checking, savings, loans and mortgages, safe deposit boxes, etc., for both consumers and business customers. Most **Community Banks DO NOT** offer some of the services that larger banks offer such as brokerage services and multi-million dollar financing. The advantage of banking with a **Community Bank** over larger banks is that **Community Banks** are locally owned and operated. This means that **all of the lending decisions are made locally by people who understand the unique challenges and financial needs of the business people and residents who live and work in the**

community that the bank serves. This fact often makes it easier to obtain a loan that might not be written by a bigger bank for any number of reasons. **But don't assume that your money is not safe in a Community Bank** just because it is small. **Community Banks** are governed by the same laws that govern the big banks and your money is insured by the FDIC just like it would be if you banked with one of the giants.”

S A Peters Marketing & Consulting adds the following definition: “We used to consider any bank under \$1 billion in assets a “**Community Bank**”. But I think the true definition of a “**Community Bank**” today is any bank “headquartered in our local communities. **These are the banks that are truly supporting our communities. These are the banks that employ our neighbors, friends and families. These are the banks that provide loans for our small businesses, entrepreneurs and new home owners. These are the banks that call us by name when we walk into a lobby and are glad we are there! These are the banks that offer all the electronic products and services that we want today, yet offer the good old-fashioned service that says “YOUR FINANCIAL SUCCESS IS IMPORTANT TO ME”.** How do you define a **Community Bank**? I say it's the people in our community who live, work, pray and play in our community and the proof is in the address!”

I also went to Investorwords.com for a definition of **Community Bank** and received the following response: “Sorry no match is found for your query on Investorwords.com”. Likewise, Investopedia.com is not familiar with the term **Community Bank**!

I am concluding my comments regarding **Community Banks** with an excerpt from a speech given by Federal Reserve Bank Chairman Ben S. Bernanke to the Independent Community Bankers Association on March 8, 2006: “In closing, I want to return to where I began, in my judgment, well-managed and innovative **Community Banks** will continue to play a critical role in the U. S. economy. **Community Banks** provide vital services for their customers and are key contributors to sustained economic growth, both locally and nationally. Indeed, the performance of **Community Banks** over the past decade has been very impressive. But neither bankers nor their constituents should become complacent. Doubtless the future will continue to require both of us to **evaluate** and **respond** to changes that are often complex and difficult to understand, much less predict.”

Contrary to public opinion, bank accounting is complex and often misunderstood because it cannot follow prescribed business accounting models. Several years ago, as well as at different decade intervals, FASB has attempted to define, to no avail, a precise methodology for calculating banks' Allowance for Loan and Lease Loss Reserve. FASB 5 and 114 have provided excellent guidance procedures but in the final analysis, the final result and bottom line effect to the income statement continues to depend on the analysis, expertise and compromise of each bank's staff, auditors and regulators. It now appears that through the banking industries complicated accounting system, sophisticated investors are attempting to create a “one-size fits all” form of reporting structure that will enhance the disclosure of “too big to fail” banks' performance ratios while severely damaging the integrity of **Community Banks'** income statements

Consider: In general, the banking definition for “financial instrument” is any legal agreement between two or more parties, expressing a contractual right to the payment of money. Practically

all documents used in the banking process (deposits and loans) are financial instruments, including cash, checks, promissory notes, lease agreements and bonds. Of course Investopedia states: "Financial instruments can be thought of as easily **tradable** packages of capital, each having their own characteristics and structure. The wide array of financial instruments in today's marketplace allows for the efficient flow of capital amongst the world's investors."

Community Banks have no desire to adjust their financial statements to meet the needs of big-time Wall Street investors. Big box banks like HSBC, Citibank and Bank of America often package credit card portfolios, mortgage portfolios and other loan and/or lease packages for sale on the open market to enhance their bottom line and to hedge against unprofitable product lines. **Community Banks**, motivated by community loyalty as well as by regulation, are concerned about their bottom lines because of their obligation to meet the banking needs of their communities.

Let's get down to basics: There is a distinct difference between **Commercial Banks** and **Investment Banks**; likewise, hybrid **Commercial Banks** that have crossed into **Investment Banking** (ala Citicorp, Bank of America, HSBC, etc.) are vastly different than **Community Banks** that primarily offer only traditional banking services. One size FASB does not fit all sizes of banks! Each banking industry is as different as a bank's balance sheet is to a restaurant's.

Last week I made a loan of \$100.00 to Aunt Mae (a social security pensioner) to buy feed, medicine and shelter for her two granddaughters' "show pig" project at school. (Her income is limited but she has been a bank customer for over 40 years.) The week before that, I loaned the two young granddaughters \$50.00 each to purchase their show pigs. They signed bank promissory notes but I personally provided the funds. In signing the promissory notes, they also became

lifelong customers of First State Bank (just like Aunt Mae did when I made her the same loan some 40 years ago!). Her daughter also banks with us (Yes, she signed a "show pig" note too!) and is in her final year of nursing school. Her daughter's husband is a production worker at the local window manufacturing plant and is also in the National Guard. He currently is on active duty and stationed in Afghanistan. Besides their checking account, they have a home loan with us as well as a car loan. Recently, because of a mix-up caused by his extra withdrawal of funds at his military base, it caused them to be overdrawn on their checking account. When she called to apologize and explained the problem, we gladly waived the overdraft fee. Also because of their reduced military income, we are allowing them to make only interest payments on their car loan until he returns from the war. With this scenario in mind, here is the effect of this family on "mark to market" accounting at our bank. Aunt Mae's checking account balance will be marked to zero because she draws out about 50% of the balance on payday to pay her bills and the rest of it is gone in the next several weeks for living expenses. Bank asset value is ZERO. Daughter's checking account also has short term balances and would also be marked down to ZERO value. The home loan is well secured, in the normal course of payment performance and would be valued at par. The car loan would have to be considered impaired because of their temporarily reduced income. We would need to mark the value down to some calculated market value as well as set aside a loss reserve. Imagine the overall effect this family's banking relationship will have on our balance sheet! And when you magnify this by the number of senior citizens who have checking accounts with us, our balance sheet will not come close to showing a "financial instru-

ment” fair market value for deposits. Of course Aunt Mae’s personal loan would also have no “market value” because it was approved based on the quality of her character and long time customer loyalty rather than by big bank computer analyzed logic.

How much do the big box commercial and investment banks spend on advertising their products in their markets? Do you realize that Aunt Mae, her daughter, son-in-law and two granddaughters are walking billboards for our **Community Bank**? How much is that worth? Can you imagine how many barbers, teachers, doctors, lawyers, ministers, productions workers and senior citizens are walking billboards for our bank? And all we had to do was to make “off-balance sheet” loans for them to buy show pigs! Where do you mark that value on a “fair market value” income statement?

How do you establish a “fair market value accounting” methodology for customer loyalty on an income statement? Is it income or expense? Asset or Liability? Do you think that we would EVER attempt to sell a package of loyal customer loans into an investor’s portfolio to be traded like GM stock on the open market? Sometimes, fair market value cannot be established in the “ivory tower” investment market for small business loans. What is the fair market value of the jobs they create in our community? What is the fair market value of their payroll expense in the local community’s economy? What is the fair market value of the community service these businesses provide to our community? Only an investor from our community really knows the answers to these questions and “mark to market” accounting is not a measurement approach that they want to use to make local investment decisions.

Community Banks are not here to serve the demands of Ivory Tower Wall Street Investors. A **Community Bank**’s mission is to serve the needs of its communities by providing a safe haven for community deposits and to loan those same funds for the betterment of its communities. Proper and timely bank regulation is a must to protect consumer interest. As FRB Chairman Bernanke stated in his March 8, 2006, statement to the ICBA, “the future will continue to require both of us to **evaluate** and **respond** to changes that are often complex and difficult to understand, much less predict”. There can be no doubt that the competency of our accounting systems must be improved in this multifaceted economic environment. “Mark-to-Market” accounting has a place for Investment Bankers and for hybrid Commercial Banks who combine their services with Investment Banking practices as a management tool in their financial services production line structure. It is not yet a mechanism that would provide disclosure relevance or financial instrument transparency to a **Community Bank**’s financial statements.

Hillary Clinton created the cliché that it takes a village to raise a child. I wonder if she understood that it takes a “show pig” loan for a child to raise a village bank! Only if FASB drops this proposed change!

Sincerely,



Glen Garrett

Chairman of the Board and CEO
First State Bank of Purdy.