



Bank of Tennessee
PO Box 4980
Johnson City, TN 37602

Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116
File Reference No. 1810-100

Dear Financial Accounting Standards Board:

The subject of fair value was a hot topic in my upper level accounting classes in the mid 1970's. Lively discussions were held about balance sheet valuations, net present value, etc. LIFO, FIFO and other attempts to bring historical cost measurements to current value were all hot topics. All were great academic discussions and thought provoking exercises. Reality set in when I went to work in the Big Eight world. Judgments, materiality, estimates, assumptions all clouded the creation of a set of financial statements. Once I became the CFO of a community bank in 1980, I learned first hand about accruals, cushions, loan loss reserves and other necessary elements that attempted to place numbers on items not easily quantified. The impact of future events on current income is always subject to interpretation, especially by the regulatory authorities.

Today, even with the sophisticated technology that we have at our disposal, fair value accounting for banks calls for the creation of a set of assumptions that make measurement and comparison impossible. How will the assumptions for future interest rates be handled? What are the discount rates to be applied? What happens when rapid increases in interest rates create capital ratios below regulatory minimums and conversely, when they fall creating meaningless return on equity ratios? Do you propose to expand footnote disclosure to explain all this, when the notes to the financial statements already contain pages of explanations that shareholders don't understand or even read?

Our bank is a \$650 million, Subchapter S Corporation. We have a limited number of shareholders. They are all financially astute. There is not the first call from them for any form of fair value measurements. Our income can be calculated and reconciled to the taxable amounts in ways that are clearly understood. Fair value accounting will take financial statements and concepts to unnecessary levels of complexity and render them useless for them.

The mandatory use of Fair Value Accounting will also be a costly burden on our customers. It will create a lot of confusion and cost in the evaluation and analysis of our borrowers financial statements for the purposes of granting credit. Loan policies will become even more complex. Loan Reviewers and Regulatory authorities will have to adjust their thinking and evaluation processes. The requirements have already become so burdensome as to have severe negative impacts on the granting of credit. We are not in the classroom engaging in thoughtful debate.

The creation of one world accounting standards might be worthwhile for those enormous corporations that operate around the globe with publicly traded stock. For us, it will create unnecessary costs and a need for sophisticated accounting services that our current providers scarcely understand. Fair value accounting concepts have limited to no value to our shareholders and management.

Sincerely,

Roy L. Harmon, Jr.
President and CEO

