

From: [Dennis Guthrie](#)
To: [Director - FASB](#)
Subject: File Reference No. 1810-100
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September 15, 2010

Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

BY EMAIL: director@fasb.org
RE: File Reference No. 1810-100

Members of the Board:

On behalf of Illini Corporation, I am commenting on Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*. This letter comments on accounting for financial instruments.

By way of background, Illini Corporation (Illini) is a \$300 million, two bank holding company located in Springfield, Illinois, the state capital. The lead bank, Illini Bank (Bank), represents the end result of the merger of 18 small community banks located throughout central Illinois. As such, investors in Illini are represented primarily by local businessmen and farmers and their descendants, individuals who took pride in working with their friends and neighbors to bring banking services to their local communities.

In this regard, Illini is not unlike a vast majority of the approximately 6,000 community banks across the nation. These small and, in most cases, locally owned institutions have been the backbone of the banking community. They have been there to help individuals start, develop and expand their businesses, through sound, prudent lending practices. They have been there as customers (partners and investors) bought their first car, or their first home. Those customer and investors, in turn, have helped their local banks to grow and prosper and continue to serve their communities.

Illini has been in the position of being both a publicly traded institution for over a decade, and more recently as a private company. While private, we still have some institutional investors among our small stockholder base. In my position as Chief Financial Officer of Illini for the last seven (7) years (and with other Illinois community banks for the previous twenty-eight (28) years) I have had the opportunity for frequent discussions with investors, both individual and institutional, in both the broad venue of annual meetings as well as through investor conference calls.

Not once during those thirty-five (35) combined years of experience in dealing with the

investing community have I been asked about the fair value of the institution's loan portfolio or its deposit base. If they have had any concerns, they have been adequately addressed through the Fair Value Measurements footnote contained in annual reports. Our investors have asked questions concerning our loan performance, but have always been able to evaluate that performance through a review of the trends in the provisions for loan losses, the charge-off activity, the cash flows and the probability of principal repayment of loans (both performing and non-performing), the level (and change) of non-performing loans, and the balance (and trend) in other real estate owned.

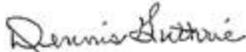
As we have reviewed the FASB proposal and read articles by various banking and accounting organizations addressing the proposal, we have several concerns about the impact implementation of this proposal could have on the future of community banking. I will attempt to outline those concerns below.

1. Volatility in financial reporting. How does a small bank in central Illinois arrive at a fair value for a loan to the local dry cleaner, or small farmer for his farm operation? There are no ready markets for these types of loans; consequently, is the fair value of these credits zero? Trying to determine a fair value on any loan will be extremely difficult and will result in potentially wide swings in value from one reporting period to the next. These swings will be reflected in increased earnings volatility for the institution.
2. These earnings volatilities will be a cause of concern for investors and will make them more reluctant to invest in smaller institutions, reducing the availability of a prime capital source for community banks, who are already at a disadvantage relative to the largest U.S. banks.
3. Small, community banks, in order to determine "fair value" on their loan and deposit portfolios to satisfy regulatory bodies and the accounting firms that provide their opinion audit, will either have to hire additional staff and acquire software to perform the evaluations, or be forced to outsource this pricing procedure to companies that will arise just to provide this service. This will increase the overall expenses for banks, further reducing their contributions to the capital base, thereby further restricting their ability to fund loan growth.
4. How will an investor, and bankers, be able to compare different banks' performance? With each loan having different characteristics (repayment term, payment frequency, collateral levels and quality, etc) and each bank using different methods to determine a "fair value" of each loan in their portfolio, and the varying earnings volatility that will be reflected in balance sheets, comparability will be extremely difficult.
5. To try to retain investor interest, banks will revise their lending policies to try to minimize this exposure to volatility. This will result in ever stricter guidelines for evaluating loan proposals, and a shortening of the final maturities of new loans, possibly to no more than one year, to try to shorten the overall duration of the loan portfolio and hence reduce its volatility.
6. By further tightening of lending standards and shortening of maturities, community banks in turn could see a lessening in loan growth or even a reduction in loans, as borrowers seek out the largest banks that can offer more favorable terms.

The bottom line to all of this is that banking is not an exact science and “one size fits all” does not apply. Lending and investing are activities that are subject to many cyclical forces. Accounting rules should not exacerbate those forces. Community banks need rules that will work to dampen volatility in the marketplace, not increase it. If 1810-100 were to pass, I fear that community banks will suffer as a result, and that will in turn result in reduced lending to small businesses across the country, and thereby decrease job creation.

It is my hope that the Board will consider the ramifications this rule change could have on community banking, and not just the goal of numeric precision. Thank you for considering my comments.

Sincerely,



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