

September 17, 2010

Technical Director and Board Members Financial Accounting Standards Board 401 Merritt 7, PO Box 5116 Norwark, CT 06856-5116

Via email: <u>director@fasb.org</u>

File Reference No. 1810-100

Dear Director and Board Members:

For over 100 years, our community bank has maintained an outstanding record of safety and soundness so as to benefit our investors and customers. We take great pride in providing accurate, timely and comprehendible financial statements. These financial statements have always been in conformity with generally accepted accounting principles (GAAP) and any regulatory requirements. Likewise, informed investment decisions are made by our stockholders based on the information presented in our financial reporting.

Although we commend the FASB for their desire for financial reporting to be accurate and useful to the end user, we are deeply concerned about the direction being taken with regard to the expansion of mark to market accounting and related requirements. We have strong disagreement with many parts of the exposure draft on Accounting for Financial Instruments. They are as follows:

- We feel that management of long-term loan portfolios on a fair value basis will result in investors and bank management receiving less relevant information than on an amortized cost basis. Additionally, the complexity in the exposure draft for valuation of deposits is confusing and more difficult to interpret. To obtain this fair value information, significantly higher costs will be incurred internally and externally as well as increased fees to audit this information. This accounting will not take into account how the bank is managed, resulting in investors misunderstanding the results of management action.
- Our bank, like most community banks, holds its commercial loan portfolio. Determining
 the fair value of these loans will be difficult and expensive for our institution. If this
 proposal is approved, banks will be forced to develop their own models to determine
 market credit and liquidity spreads on these loans that will confuse investors.
 Comparability and reliability of financial reporting for these assets among banks will be
 diminished. We do not sell commercial loans in our course of business and this would
 mislead investors in understanding our business model.

- Fair market valuation and adjustments presented through the balance sheet will distort a bank's capital position as well as operating earnings. As you know, bank investors and regulators view capital as a very important measure of a bank's financial strength. If accounting rules negatively impact capital, this will impact our ability to make loans that will assist in reviving the economy.
- We do not favor impairment values based on the economic conditions existing as of the reporting date. Valuation of loan loss allowances due to economic conditions would create potentially unhealthy comparisons between reporting periods.
- Most average bank investors are not expected to fully understand fair value reporting. Fluctuations in fair value financial reporting from year to year will cause more confusion when reading and trying to interpret financial condition and operational results.

In closing, we do not believe that small financial institutions have the financial or human resources to do what the FASB is requiring. Marking loans to fair value and changing the accounting for core deposits will be difficult for the bank's investors and for its customers to interpret. All of these proposed exposure draft changes combined will require significant infrastructure changes. We strongly suggest a financial reporting model that accounts for the economic substance of the business model being used, not a fair value model that forces banks to fit its business model into it. For these reasons, we strongly encourage you to withdraw or modify your proposal to avoid wholesale confusion in our investor and customer base.

Sincerely,

J. Peter Clements
President and CEO