

September 21, 2010

Mr. Russell Golden Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

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:

Capitol Federal Financial appreciates the opportunity to provide comments on the Financial Accounting Standards Board ("FASB") Proposed Accounting Standards Update entitled "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities" (the "proposal").

Capitol Federal Financial, headquartered in Topeka, Kansas, is an \$8.5 billion bank holding company. Capitol Federal Financial provides a full range of retail banking services through its wholly-owned subsidiary, Capitol Federal Savings Bank (the "Bank"). The Bank primarily serves eastern Kansas and a portion of the metropolitan area of greater Kansas City through 45 branch locations. The Bank is one of the largest residential lenders in the state of Kansas. Over 95% of the Bank's loan portfolio is composed of one- to four-family loans, the majority of which are originated to be held to maturity.

Capitol Federal Financial has significant concerns regarding the portions of the proposal that require financial instruments to be accounted for at fair value, specifically loans held to maturity. Other financial instruments including loan commitments, debt and equity securities held for investment, and liabilities, including noncore deposits will be measured and reported at fair value on the balance sheet. Additionally, core deposits would be measured and reported at "remeasurement value" rather than fair value. If this proposal is adopted, it will likely result in unprecedented volatility in the Bank's earnings and capital because the Bank will be required to recognize changes in the fair value of these financial assets and liabilities in net income.

When making loans, the Bank is primarily concerned with the creditworthiness of the borrower and his ability to repay the loan because the Bank retains the loan for the life of the loan. The Bank is not typically concerned with the market for such loans and whether or not the market for the loan is liquid or illiquid. Recording held-to-maturity loans at fair value could easily result in (1) a reduction in loan originations as the Bank will likely have to be more selective in terms of borrowers and loan products offered and (2) the extinction of entire loan product types as the Bank will look to shorter term and variable rate loan types to protect from the possibility of losses over the contractual term of the loan. The 30-year, fixed-rate home loan, which composes

a significant portion of the Bank's loan portfolio as it is a favored loan type of the borrowers in our market areas, will likely be the most endangered loan type due to the long contractual term.

Additionally, the reporting of held-to-maturity loans at fair value will be misleading and confusing for investors and analysts since it will not appropriately present the Bank's business model of making loans to creditworthy borrowers and will bear no relationship to the contractual terms of the underlying loans. The Bank believes that its business model of gathering deposits and making loans is more accurately portrayed if loans are presented at amortized cost. The proposal could have a significant negative impact on our net interest margin which is a critical financial performance measure for bank investors and analysts.

If the proposal is adopted in its current form, the Bank's business strategies and investment decisions will likely have to change. Currently the Bank manages its held-to-maturity loan portfolio to collect the related contractual cash flows. The Bank applies a rigorous credit impairment model to its loan portfolio to account for credit losses. If the proposal is adopted, the Bank would need to focus more on the fair value characteristics of a loan and market liquidity rather than the economic viability of a loan and the borrower's creditworthiness. This is an illogical and unintended consequence of the proposal, and a situation where the accounting should not be driving the business model.

Reliable financial information is crucial to useful financial reporting for Bank management, investors and analysts. Many of the financial instruments, such as loans, which the proposal requires to be measured at fair value, have no readily observable market in which to determine fair value. Accordingly, the fair value for these instruments would be determined based on "Level 3" valuation techniques. Variation in the sophistication of resources and staff available to calculate "Level 3" loan values will differ substantially among banks. Values would be highly dependent on assumptions regarding not only the collectability of the contractual cash flows, the discount rate applied to those cash flows but also the methodologies used to derive the cash flows. These highly subjective valuations could compromise the integrity and comparability of reported results, thereby reducing investor confidence. Additionally, the Bank believes the use of "Level 3" estimates in financial statements could eventually lead to an increase in the cost of capital for the Bank.

The FASB implicitly acknowledged these issues when it issued FSP FAS 157-43 (the "FSP") in April 2009. The FSP was issued to address the difficulties related to the determination of fair value in inactive markets, which at that time, related primarily to debt securities that normally traded in very active markets. There is visible evidence that the implementation of the FSP coincided with the beginning of the recovery of the debt securities markets from the recent credit market disruption, due to the dampening effect that it had on implied market liquidity premiums. Given these concerns about reliability, the practical difficulties associated with determining fair value for "Level 3" financial instruments, as well as the likely adverse impacts to financial institutions, the Bank fails to understand how the proposed fair value guidance improves financial reporting.

Per the proposal, the Bank would be required to measure and report core deposits at what the FASB calls "remeasurement value". The proposal will require the Bank to remeasure its core

deposit liabilities at the present value of the average core deposit amount discounted at the difference between the alternative funds rate and the all-in cost-to-service rate over the implied maturity of the core deposits. Because the "remeasurement value" is neither fair value nor amortized cost, it is unclear what the new measurement attribute attempts to represent. The Bank views core deposits as a primary and permanent source of funding for the held-to-maturity loan portfolio, rather than as an alternative source of funding.

Finally, the Bank is very concerned about the costs and resources that will need to be dedicated to produce and audit such data. Because Bank management does not use fair values in managing its cash flows, it anticipates this proposal will require it to hire more staff and/or consultants to assist with estimating fair values and to enhance information systems capabilities. Additionally, the Bank will have to pay significantly higher audit fees and incur costs to comply with Sarbanes-Oxley and other regulatory requirements.

The Bank believes currently required fair value footnote disclosures are adequate for those investors and analysts who are interested in such data. Fair value disclosures have not been an item of general interest discussed between the Bank and its investors or analysts. Therefore, in the end, the Bank will be paying significant sums to make estimates of fair values that Bank management, Capitol Federal Financial investors, and analysts will not find useful in making business and investment decisions. The Bank supports the continued disclosure of the fair value of financial instruments, including loans, within the notes to the financial statements and would encourage the establishment of guidelines and standards to determine the fair value information disclosed.

Due to the concerns mentioned above, Capitol Federal Financial urges you to withdraw your proposal to expand fair value accounting for financial instruments. Implementing fair value accounting for the Bank's financial instruments makes the financial statements less representative of economic reality, potentially leading to an unnecessary set of negative consequences for the Bank and Capitol Federal Financial's investors.

Thank you for considering our views. Please feel free to contact me if you would like to discuss our concerns regarding the proposal.

Sincerely,

Kent G. Townsend

**Executive Vice President and CFO**