## nebraska state bank & trust company

P.O. BOX 688 • BROKEN BOW, NE 68822

September 15, 2010

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

File Reference No. 1810-100

Dear Mr. Golden:

Thank you for the opportunity to comment on the exposure draft Accounting for Financial Instrument and Revisions to the Accounting for Derivative Instruments and Hedging Activities ("proposal"). As the President of a \$140 million community agricultural bank, I am writing to express my deep concerns and opposition to the portion of the proposal that requires all financial instruments to be marked to market. This proposal would especially hurt community banks which constitute 97% of all banks. Additionally, the proposal would cloud the most critical element of bank financial statements: bank capital, and finally would further increase compliance costs related to adhering to ongoing regulatory changes.

As do most community banks, we fund our operations primarily by deposits and lend those funds to our customers. Our business model is to make loans and hold them to maturity. Like most community banks in our position, we have no intention of selling these loans. Even in the event of a loan with weaknesses, our typical process is to work through the problem with the borrower rather than sell the loan. The proposal would result in irrelevant market values of loans due to the bank not selling the loans. We are solely interested in the cash flow serviceability of our loans and the underlying collateral; not the market value.

Additionally, even in the event that we sold loans, there currently is not a standardized system in place to complete a market valuation for such an asset. The agricultural purpose loans that encompass the majority of our loan portfolio have unique risk profiles and are not readily marketable. Due to this profile, it would make it difficult if not impossible to determine the realistic fair or mark-to-market values required by this proposal.

## nebraska state bank & trust company

P.O. BOX 688 • BROKEN BOW, NE 68822

Due to the fact that there is no active market for these types of assets, there will be diminished reliability and comparability of bank capital through distorted financial statements. The proposal would result in potentially significant swings in the values of assets, when little to nothing would have changed with the credit. Any bank asset volatility based on accounting treatment will be perceived by the average investor as increased risk, which will lead to an increased cost of capital. This in turn would drive out the products with the greatest fair value risk (longer term, fixed interest rate) and hurt consumers in the end.

Finally, the proposal would further increase the resources and costs that will be necessary to comply with such changes that will provide no meaningful value to our institution, our customers, or the way we operate. The costs associated with compliance changes expected to take place over the next several years could push a number of community banks out of business. Overall, the proposal will result in further deterioration of consumer confidence in our banking system.

In summary, we would highly recommend you remove your proposal regarding a mark-to-market due to the impact on community banks, the misrepresentation of bank capital, and the increased compliance costs. Please feel free to contact me if you would like to discuss this further.

Sincerely,

Stuart Fox

President