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September 28, 2010

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

File Reference No. 1810-100

Members of Financial Accounting Standards Board:

I am now and have been for over 20 years a substantial investor in a rural community bank holding company classified as a Sub S corporation for income tax purposes (Home State Bank & Trust Co., of McPherson, Kansas, owned by Home State Bancshares, Inc.). I have served as Director and member of several committees of Home State Bank & Trust for over 20 years, and am now serving on the combined Bank/Holding Company Executive Committee and Strategic Planning Committee.

The proposed “marked to market” on all “financial instruments” - including loans - may or may not be appropriate for publically traded banks, a judgment beyond my present scope of knowledge.

However, for banks that are not publically traded, and particularly community banks taxed as a Sub S Corporation, the proposed “marked to market” rule offers very little if any useful information to the investor. For community banks, there is not a “market” for its loans. That “market” information must be obtained at a huge cost of third-party evaluations of loans, which evaluations are of questionable merit due to much subjective judgement, and lack of a cadre of available qualified professionals, particularly in the proximity of community banks in rural locations.

The value of the asset securing the loan and borrower’s ability to repay the loan are enough for traditional bank loan officers to determine the value of the loan when making a loan in the first instance, as well as in the renewing short term loans during the long term relationship with the borrower. And the traditional bank loan officer will have more knowledge of the character of the borrower than most third party professionals would have.

Under current banking regulations and traditional good banking practices, loans are routinely monitored by the bank loan officers and by the board of directors at least annually and more frequently as may be determined. Loan loss reserves are routinely established to cover potential loan losses. That Loan Loss Reserve Account is not included as an asset of the bank for financial reporting purposes. FDIC and state bank examiners also audit bank loans and procedures to identify

loans that may be “bad” loans and to evaluate Loan Loss Reserve Amounts for adequacy. The community bank internally audits assets, and third-party CPA’s perform audits or agreed procedures as the Board of Directors prescribe.

As a current substantial investor, the current banking practices, regulations, examinations and audits provide all of the reliable financial information necessary or me to make investment decisions in relation to my community bank, including the value of loans and the borrower’s ability to repay them. It is the Board of Directors that establishes the amount transferred to Loan Loss Reserve Account upon recommendation of bank staff, and bank examiners. All information is available to the limited number of shareholders.

If the proposed “marked for market” rule is imposed upon non-publically traded banks, then:

The direct consequence would probably be that there would be a double accounting for below face value loans.

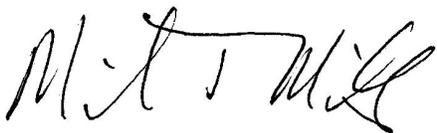
First: The amount established to be transferred to the Loan Loss Reserve Account is already, in effect, a “marked to market” covering the entire loan portfolio of a community bank.

Second: That same loan portfolio would be marked down again as an asset on the financial statement, presumably the exact same amount transferred to the Loan Loss Reserve Account.

The unintended consequences would probably be that community banks would restrict lending and conserve assets until the costs of meeting the “marked to market” loan loss reserve could be reasonably ascertained so as to maintain appropriate capitalization.

In summary, the proposed “marked to market” accounting standard is superfluous and duplicative of the Loan Loss Reserve Accounting insofar as community bank loans are concerned. I suspect proponents of the proposed “marked to market” regulations are either ignorant of the Loan Loss Reserve Accounting now in place; or, have a hidden agenda that is incomprehensible to me. Because of the probably high costs involved to achieve no additional useful information concerning the value of the loan portfolio of a community bank, the “marked to market” proposal makes no sense whatsoever to me.

Very truly,

A handwritten signature in black ink, appearing to read "Michael T. Mills". The signature is fluid and cursive, with the first name "Michael" and last name "Mills" clearly distinguishable.

Michael T. Mills
MTM:mc