



Penny Buchanan
Executive Vice President and
Chief Operating Officer

September 30, 2010

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

Re: File Reference: No. 1810-100, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*

Dear Mr. Golden:

Thank you for the opportunity to comment on the exposure draft *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*.

I am Executive Vice President and Chief Operating Officer of a \$300 million bank (First American Bank) in Norman, Oklahoma. We have nine banking locations scattered throughout central and western Oklahoma. I am also a certified public accountant and a board member of the Oklahoma Society of CPA's. I have been involved in banking since 1982 as an external auditor and internally as an operations officer and as a finance officer. Over these 28 years, I have been involved and/or responsible for determining the loan loss reserves for several banks. Most of these banks were less than \$500 million in assets.

The current portion of the exposure draft that requires all financial instruments – including loans – to be reported at fair value (market value) concerns me very much; and I am strongly opposed to that portion of the exposure draft.

I believe the current analysis of a bank's loan loss reserves required by FAS 5 and FAS 114 actually requires a bank to mark their needed loans to market. Our analysis of the loan loss reserve is subjective (FAS 5) except for the specific amounts allocated for impaired loans (FAS 114). To comply with FAS 5, a determination is made of inherent losses in the loan portfolio that remains after allocating for impaired loans. This determination is based on charge-offs of loans with similar risk characteristics and on charge-offs of previously criticized loans. Also, consideration is given to qualitative or environmental factors that are likely to cause estimated credit losses to differ from historical loss experiences. Therefore, the loan loss reserve provides an allowance for potential losses to loans that have been identified with repayment deficiencies and an amount allocated to the performing portion of the portfolio based upon historical loss experience.

*Mr. Russell Golden, Technical Director, Financial Accounting Standards Board
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To continue my concern, the exposure draft related to fair value for all financial instruments is moving the evaluation of the asset value from loan performance to a valuation based upon current market conditions. The loans in our portfolio are neither held for sale nor considered a liquid asset. There is no active market for many of our loans. Many are small commercial businesses doing business in our banking communities. Therefore, estimating a market value makes no sense to me; and really impossible to value. Marking all loans to market would cause our bank's capital to sway with fluctuations in the markets – even if the entire portfolio is performing.

Since most of our loans (if not all) have no active secondary market, it appears the required estimate of fair values would be 'level 3', which is considered the 'least reliable estimate' of fair value. The costs and resources that we will need to comply with marking our 4,579 loans to market each quarter, would be significant; and provide no helpful information to depositors, investors, or regulators about the financial strength of our bank. Since our loan portfolio is over 70% of our assets, I believe allocating a properly determined loan loss reserve against our loan portfolio's current balance is far better than determining a market value with the 'least reliable estimate'.

Loans made and held by our bank are long-term assets. If a borrower demonstrates financial difficulty, we do not sell the loan; instead we work with the customer. This work out process may involve modified payments terms, additional collateral provided by the customer, or even significant changes to the customer's operations in order to meet the payment schedules. The value of the loan would never be realized through an immediate sale. I am fearful that reporting our loan portfolio at fair value will undermine the basic community bank business model; thereby, hindering our ability to enhance the quality of life in the communities we serve.

Being a certified public accountant, I have always believed in our accounting standards and their relevance to the banking industry. However, the mark to mark implications of this exposure draft are not necessary, too costly to implement, and not relevant to community banks such as ours.

For the reasons stated above, our bank and I respectfully request that the fair value section of the exposure draft be dropped.

Thank you for considering my comments.

Respectfully,



Penny L. Buchanan, CPA
Executive Vice President
Chief Operating Officer