## Missouri Bankers Association P.O. Box 57 Jefferson City, Mo 65101

September 30, 2010

director@fasb.org

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

Re: File Reference No. 1810-100

Exposure Draft: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

Dear Mr. Golden:

The Missouri Bankers Association and about 360 FDIC Missouri insured commercial banks and savings institutions are very concerned about this proposal. We appreciate this opportunity to comment on the above-referenced Exposure Draft.

The Exposure Draft's proposal that requires financial institutions to recalculate in the future all of the loans on their balance sheets at the loans' "market value" creates many issues for our banks. For the future, this "fair value" method of accounting creates serious risks to Missouri community banks and would have many harmful unintended consequences.

A community bank is not in the business of creating or purchasing assets for resale. This is the business of an investment bank. A community bank's business is taking deposits and making loans that will be held to maturity. Fair value accounting – which marks the value of loans to the changing market place and their current market price – has no meaning for loans that will not be sold. Bank shareholders, regulators and the public receive little information that impacts their judgment from the secondary market value of a loan that will be held to maturity.

Most community bank loans are not readily marketable. Community bank loans may be customized to the particular borrower; this means taking into consideration the borrowers objectives, collateral, the need for personal guarantees and arranging the terms of the loan to meet the borrowers expected cash flow. There is not a developed secondary market for such loans; consequently, there are little or no comparable loans. Adding together these uncertainties, marking the loans to market would entail little more than guesswork. Fair value accounting appears to undermine the accuracy of the bank's valuation for financial statements, and this in turn undermines investor confidence in such statements.

The mark-to-market proposal is questionable because of the structure of the market that exists for such loans. Unlike investment banks, a community bank's core business does not involve creating or purchasing assets for resale. A community bank's business is taking deposits and making loans that will be held for the life of the loans. In addition, to the extent that a market may exist for such loans, the

market is volatile and pro-cyclical. These economic cycles exaggerate the value of the asset when there is inflation and exaggerate the reduction in value with deflation, recession and depression. Recent cycles suggest the market may also be highly illiquid and even irrational. Such a calculation may provide misinformation in financial statements to reliant parties, such as investors, regulators and the public. Notably, small businesses in particular would suffer from the fair value accounting of loans. In the current recession, there is little demand to invest in small business loans. With the marketability less, these loans have basically less value under a fair value accounting system. Logic follows that the lower values will be reflected on financial statements and banks will slow down or stop making such small business loans at the very moment when these loans are most necessary to spur the economy.

The MBA submits that the above reasons make an important statement to the bank investor that mark-to-market is not in their best interest. Equally important, MBA is concerned that FASB should look beyond "generally accepted accounting principles", since mark-to-market analysis impacts bank employees, officers and the bank's community.

HR 5297 creates a \$30 billion fund to provide capital for banks with assets of under \$10 billion to increase their small business lending, to be signed September 27, 2010. The MBA welcomes this law, but it may not make up for the changes in "fair value" accounting. The federal government provides additional capital for community banks on one hand, and FASB takes it away on the other hand. We think many banks believe they are running in place or falling behind. Combined with all the other current and proposed changes in bank consumer regulation, some community banks question whether they will be able to continue in business.

We understand that the federal bank regulatory agencies have indicated on several occasion that the "fair value" accounting method for loans held to maturity are highly inappropriate for financial institutions. Rather than following FASB Rules, including mark-to-market, we understand some state bank regulators are, in fact, requiring more appraisals because of the possible impairment of loans that are not otherwise supported by cash flow or collateral, and then this discounted value, may require additional loan loss reserves and bank capital.

For all of these reasons, we respectfully urge the FASB to withdraw its proposal to apply the fair value method of accounting to loans held on the books of financial institutions. Elevating this accounting method to the rank of GAAP in these circumstances would have severe unintended consequences.

Thank your for this opportunity to comment on this very important and timely issue for the banking community. Should you believe additional comments are helpful, please feel free to contact me.

Sincerely

Max Cook President & CEO Missouri Bankers Assocaition