

From: bbrown@cnbanktx.com
To: [Director - FASB](#)
Subject: Comments on No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities" Exposure Draft
Date: Monday, September 20, 2010 11:02:58 AM

Beverly Brown
P O Box 130
Hondo, TX 78861-0130

September 20, 2010

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

Dear Mr. Golden:

Thank you for the opportunity to comment on FASB's Exposure Draft: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities.

The bank I work for is a locally owned bank which funds its operations by accepting deposits for the area residents and making and holding loans for the long term. Most financial instruments this bank holds are not readily marketable. The majority of loans made by Community National Bank are to area residents whose financial needs cannot be put in a cookie cutter mold used by large financial institutions. Community National Bank has never accepted brokered funds nor does it plan to in the future. This bank was formed because the needs of the local residents were not being served by the other banks in town.

We oppose the proposed accounting treatment for core deposits which calls for them to be regularly remeasured using a present value calculation. This would not provide accurate information and the calculations would be expensive and time consuming, particularly for smaller banks like ours that have limited staff resources to conduct the analysis. We oppose requiring institutions to record demand deposits at fair value.

Community National Bank is located in a rural area and fair value measurements will not provide a better understanding of the values of illiquid agricultural loans which are a necessity in rural farming, ranching areas. Agricultural loans are cyclical by nature and establishing fair values for these types of loans would be costly and result in data of questionable reliability.

Accounting standards and guidance should not be pro-cyclical. Recent market conditions have demonstrated the pro-cyclical nature of mark-to-market accounting as declining values of financial instruments necessitated write-downs and sales, causing further write-downs and sales.

The proposed accounting changes will exacerbate cyclicity in financial results due to the greater reliance on fair value measurements, valuations that will be less accurate than current accounting requirements.

Community National Bank has always been a conservative community bank, and we feel there is a definite need for more flexibility in setting the allowance for loan and lease losses. Responsible, conservative community bankers are all well aware that economic cycles occur and it is very difficult to absorb losses and raise capital during times of economic difficulties, such as the current environment. We believe that bank regulators also support more flexibility in setting the allowance for loan and lease loss.

In addition to agricultural loans, this bank also assists small businesses in the area with business loans for which there is no active market; it would be very difficult and costly to mark them to market. Such a requirement might force many community banks to abandon this type of lending altogether, further hindering an economic recovery.

The accounting that would result from this proposal would greatly misrepresent the financial condition of our bank and other community banks. These accounting changes will increase the volatility of bank balance sheets, forcing many community banks to face higher capital requirements or decrease lending at a time when regulators are calling for more capital and our economy needs more, not less, credit availability.

I am writing to urge FASB to not go forward with the proposal. Again, I thank you for the opportunity to comment on this proposal.

Sincerely,

Beverly Brown, Sr. VP, Cashier & CFO
830 426 3066