

September 14, 2010

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 Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

Dear Mr. Golden:

As Vice President and Director of Accounting Policy and Shareholder Reporting of Franklin Federal Savings Bank ("Franklin Federal" or the "Bank"), I am writing on behalf of the Bank to comment on the exposure draft mentioned above. We are strongly opposed to the portion of the exposure draft that requires all financial instruments – including loans – to be reported at fair value (market value) on the balance sheet.

Franklin Federal is a community bank with approximately \$1 billion in assets, including approximately \$500 million in primarily real estate loans, headquartered just outside Richmond, VA. Franklin Federal was founded as a savings and loan institution in 1933 during the Great Depression and has served the Richmond community for over 77 years.

Franklin Federal's primary business is the origination of real estate loans, including single-family residential loans as well as commercial real estate, construction, and land development loans, to be held in our portfolio and reported on our balance sheet. We also have a small pipeline of single-family residential loans that are originated and sold to third-party investors, from which the Bank makes a small profit from the origination fee. However, due to lack of scale, this is not a significant portion of our business, and we continue to originate these loans primarily to "stay in the game" with respect to conforming residential mortgages so that when interest rates rise and it once again becomes profitable to hold residential mortgages, we will be in a position to do so.

We strongly believe that the goal of financial accounting is to provide accurate, comparable, and understandable information to investors and other stakeholders in order to facilitate an efficient market. We also believe that a cost/benefit consideration must be made regarding the complexity of financial accounting standards. That is, will the added cost of analyzing and applying a more complex financial accounting standard result in a proportional increase to the accuracy, comparability, and understandability of financial information? In this instance we do not believe so.

The first issue is the relevance and usefulness to investors of the fair value of loans a financial institution intends to hold to maturity. In this regard, requiring loans held to maturity to be recorded in financial statements at fair market value rather than at amortized cost ignores a bank's business model and the way it manages assets and liabilities. As a result, accounting would not appropriately reflect the economic intent and reality of these loans. The most relevant information regarding a portfolio that will be held to maturity is the anticipated level of credit losses existing within the portfolio. Estimation of these credit losses is already addressed in existing guidance regarding the allowance for loan and lease losses. Any fair value adjustments made to loans that were not reflective of anticipated credit losses would simply accrete or amortize as loans approached maturity. Fair value information for held to maturity loans is most relevant in consideration of a company's value in an acquisition or liquidation. If an investor is interested in knowing the fair value of loans held to maturity for either of these purposes, this information is already disclosed in the notes to the financial statements.

The second issue, and likely the biggest issue, is the comparability of financial statements between institutions. Fair value accounting is highly complex, particularly the farther down the fair value hierarchy a financial instrument moves from Level 1 to Level 3. While there is a relatively active market for conforming residential mortgages, for most nonhomogeneous loans, such as small commercial real estate loans, there is no "active" market from which banks can gather inputs to be used in determining fair value. Each period, management would be required to assess a variety of factors in pricing such loans, including, for example, debt service coverage, guarantor strength, and LTV, among other factors. These inputs are not routinely captured through a financial institution's accounting systems and must be gathered from various parties (who often do not have the information updated until requested, if then) and analyzed. As a result, fair value calculations for many loans will be classified as Level 3 and will be highly subjective. It will be difficult for investors to determine whether methods and assumptions used by management of one company in determining fair values are reasonable and comparable to methods and assumptions used by management of another company. Additionally, these extra layers of complexity will increase the time, effort, and expense of not only management, but also of auditors and examiners.

The third issue, regarding understandability, is that a topic as supposedly simple as loans receivable will now be subject to such complex accounting that it will be difficult for the average investor or reader of the financial statements, who may not have a thorough understanding of accounting guidance, to truly understand the financial condition of a bank. As a result, many users will be more likely to ignore the fair value amounts and disclosures and rely on more understandable non-GAAP measures such as free cash flow and core earnings to make investing decisions.

In addition to these issues, the adoption of fair value accounting on loan balances would unnecessarily increase volatility in banks' balance sheets and capital. This would decrease year-over-year comparability of balance sheets; it would increase confusion for both investors and regulators; and it would not improve the availability of information needed to truly assess the health and operations of a bank.

Finally, the cost to implement this standard at a community bank like Franklin Federal, whose lending operations are basic, would certainly outweigh the benefits. Franklin Federal has a small accounting and reporting staff that already is struggling to keep up with the increasingly complex and time-consuming standards issued by the FASB. Further complexity without obvious improvements to financial reporting are a significant concern of ours, and we feel certain that other community banks like Franklin Federal share our concern.

We appreciate the opportunity to comment on this proposal.

Sincerely,

P. Barrett Wheeler

Vice President, Director of Accounting Policy and Shareholder Reporting