

September 20, 2010

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

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." As CEO of Equity Bank, a banking institution with offices in Kansas City, Wichita, Ellis and Hays, Kansas and Lee's Summit, Missouri with \$454 million in total assets, I am writing to express my opinions on specific provisions of the exposure draft. Equity Bank is a community bank that provides commercial and retail products and services to the communities in which we have branches.

## **FAIR VALUE**

It is my belief that the purpose of external financial reporting is to provide our shareholders, customers, employees and the public, timely and understandable reports on the actual financial position of our business.

Although I believe that the Board's overall desire to provide financial statement users a more timely and representative depiction of an entity's involvement in financial instruments, while reducing the complexity in accounting for these instruments is a step in the right direction, I am strongly opposed to the portion of the proposal that requires all financial instruments, including loans, to be reported at fair value on the balance sheet.

While I understand that a loan's intrinsic value may change because of current interest rates or because of internal problems the individual borrower may be experiencing, the typical process is to work through the collection process with the borrower rather than sell the loan. Our bank does not sell our commercial loans. Basing our balance sheet on fair values leads readers of our financial statements to assume that we will sell the loans, which is not the case.

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For most loans, there is not a viable marketplace from which to derive benchmark prices for various categories of loans. Loans do not have the ability to be priced as quickly, efficiently or as reliably as other financial instruments, such as bonds, that are held for sale on our balance sheet. Loan fair value amounts are considered ambiguous at best, almost to the degree of being considered misleading. And even if a process was developed to make the fair market valuation process simpler for commercial loans, that market value is irrelevant, as the bank would not sell the loan.

The current proposal from FASB also does not take into consideration that a loan, even if we could easily obtain a market price, is just one part of the financial relationship that we have with the customer, that may involve multiple loans, deposit relationships, etc. and there is no financial incentive to sell. This is fundamentally different from other financial instruments, in which there is no overall customer relationship, that must be taken into consideration.

Along with this argument, I believe that core deposit liabilities should also be exempt from the Fair Market Value approach.

As a result of the proposal, bank capital will be affected by market swings that cannot reasonably be explained to ever be realized by the bank.

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

## LOAN IMPAIRMENT

Again, I support the Board's efforts to revise the overall methodology to estimate loan loss provisions. However, I have serious concerns about how such changes can be implemented by banks like mine. At the very least, I recommend that any final model be tested by banks my size in order to ensure that the model is solid, workable, and applicable to community banks. It is also extremely important that any new processes are fully agreed upon and well understood by regulators, auditors, and bankers prior to finalizing the rules.

I object to interest income being computed based on historical cost less allowance of credit losses. Internal income should continue to be calculated based on contractual terms and not on an after-impairment basis. Calculating interest income in the way being proposed will make it very difficult for us to evaluate yields on different generic categories of loans and will add to the complexity of our financial reporting.

Thank you for considering my comments.

Brad Elliott
President/CEO