**From:** bankguy
**To:** Director - FASB
**Subject:** File Reference: No. 1810-100 Accounting for Financial Instruments, public investor comment

Sept. 24, 2010

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. 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 ("proposal").

I am a private investor and analyst covering community banks and thrifts and their associated holding companies. I am not employed by any bank or brokerage firm, or any lobbying organization.

I have reviewed your proposal and have some very serious reservations about it. The proposal fails to take into account the consequences of changes in behavior that will come about as a result of it being enacted.

Presently, when a bank makes a loan, it must add to its loan loss reserve an amount based on the type of loan made. Most loans made by community banks are collateralized by real estate. Even when making commercial loans to small, privately held businesses, the principal owners often must have to put up their own house as collateral. Generally, the bank knows the borrower well, and reserves 1% to 1.25% of the amount of the loan initially. Some of this is earned back immediately in origination fees, and even with today's abnormally low interest rates, the amount of the reserve can be earned back in a month or two.

Under your proposal, everything changes. And not for the better.

If a bank is now required to mark that loan to market, they will have to do one or more of three things:

1. Take a much larger reserve, knowing that loans are not readily marketable at par.
2. Charge a larger origination fee to cover the increased reserve or discount.
3. Charge a significantly higher rate of interest on the loan, higher than the "market rate."

This will make credit to the average borrower (for both personal and business loans) more expensive. Loans to large, blue-chip corporations will not be affected as much, but community banks do not participate in this market segment to a significant degree.

One of the great strengths of community banks is their knowledge of their local customers and local markets. So they are able to underwrite many "non-traditional" loans. With different kinds of security and collateral. With more flexible payment terms. And to customers whose personal finances or business models do not fit into the traditional lending and "credit scoring" categories.

What is going to happen to these types of loans? The mark-to-market discount will have to be significantly larger. 5%, 10%, or maybe even 20%. No lender is going to want to take that kind of hit to their balance sheet! Credit to nontraditional borrowers will become nearly impossible to get, and extremely expensive when it is available.

This is contrary to many of the Government's stated goals and public policies encouraging greater availability of credit, especially to small businesses.

Thank you again for the opportunity to comment on the proposal.

Sincerely,

Tom Allen