From: bwatson@ckbonline.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 27, 2010 7:08:12 PM

Ben Watson
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September 27, 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.

My name is Ben Watson, and I am the CFO and EVP of Cross Keys Bank, a $290,000,000 privately-held, community bank headquartered in St Joseph, LA. We have offices in very rural areas, and also in the suburban area around Monroe, LA. I am writing to urge FASB to not go forward with the proposal.

The primary business of community banks is to hold financial instruments to collect contractual cash flows, not to trade them on a regular basis.

Community banks fund their operations by taking deposits and holding loans for the long term. Most financial instruments this bank holds are not readily marketable.

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. Each loan we make has its own unique characteristics such as rate (and whether fixed or variable), term, loan re-pricing opportunity, collateral LTV, certainty of collateral value, financial strength of borrower, certainty of future condition of borrower, etc, that all could play a factor in a loan's value. In many cases, an institution's location or simply its customer loyalty also are factors in the pricing of a loan. In other words, the ability to measure the fair value of a specific loan accurately is simply not possible, when very few loans in the bank have really similar characteristics.

As a result, establishing fair values for the types of loans held by many community banks like our bank would be costly and result in data of questionable reliability. While we have no way of knowing the actual cost of implementing the above referenced proposal, I can only imagine that it would be in the tens of thousands of dollars for a bank like ours.

Community banks such as this bank create and hold small business loans for which there is no active market; it would be very difficult and costly to mark them to market. Establishing fair values for the types of loans held by many community banks like our bank 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 cyclicality in financial results due to the greater reliance on fair value measurements, valuations that will be less accurate than current accounting requirements.

These accounting changes will increase the volatility of bank balance sheets, forcing them 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.

Again, we thank your for the opportunity to comment on this proposal.

Sincerely,

Ben Watson
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