

From: tdewitt@firstlandmarkonline.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
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September 29, 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.

As Executive Vice President of First Landmark Bank, a banking institution in Marietta, Georgia with approximately \$150 million in total assets, I am writing to express my opinions on specific provisions of the exposure draft. We are located in the metropolitan Atlanta market and have a total of 24 employees. We compete with large national, regional and other small community banks.

I. COMMENTS ON FAIR VALUE

The accounting that would result from this proposal would greatly misrepresent the financial condition of our bank and other community banks.

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

Community banks fund their operations from their local markets 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.

We oppose requiring institutions to record demand deposits at fair value.

We also oppose requiring fair value calculations for loans that are held for the long-term to collect cash flows. 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 cyclicity 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.

II. COMMENTS ON LOAN IMPAIRMENT

We support the Board's efforts to revise the methodology to estimate loan loss provisions. However, we have serious concerns about how such changes can be implemented by banks like mine.

It is very important that any new processes are agreed upon and well understood by regulators, auditors, and bankers prior to finalizing the rules.

We do not support the proposal for recording interest income. Interest income should continue to be calculated based on contractual terms and not on an after-impairment basis. Changing the way interest income is recorded to the proposed method makes the accounting more confusing and subjects otherwise firm data to the volatility that comes naturally from the provisioning process. We recommend maintaining the current method.

III. COMMENTS ON HEDGE ACCOUNTING

One of the major reasons a small community bank does not utilize interest rate derivatives is due to the confusing and time consuming requirements of current hedge accounting rules. It is unfortunate when sound business decisions and good risk management are not utilized simply because of the complexities of the accounting rules.

We support the change of the requirement that a hedge is "reasonably effective" (as opposed to being "highly effective"). This should make it easier for banks like mine to implement hedge accounting.

It is very important that the term "reasonably effective" be better defined.

The "shortcut" and the "critical terms match" methods should be maintained. This greatly helps medium and smaller banks like mine to reduce the cost of compliance with the hedge accounting rules.

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

Respectfully,

Terry DeWitt

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