

September 10, 2010

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

Via email: director@fasb.org

File Reference #1810-100: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

Dear Mr. Golden:

Thank you for giving us the opportunity to comment on the Financial Accounting Standards Board item No. 1810-100: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities.

I am Chief Financial Officer at Middleburg Financial Corporation ('MFC'), a bank holding company in Virginia, with \$1:06 billion in assets as of June 30, 2010. Middleburg Financial Corporation is an SEC filer. I am writing to express our opinions on specific provisions of the exposure draft (ED) referenced above. Middleburg Bank's principal earning asset is its commercial loan portfolio. The bulk of this portfolio comprises loans secured by commercial real estate collateral, which is quite typical for most community banks. The loans are originated and held for purposes of investment and have never been sold. There is no active market for these loans. Determining an exit price or fair value for the collateral-dependent loans would be quite imprecise, and likely extremely costly, in our opinion. For example, we would probably need to obtain appraisals for each commercial real estate ('CRE') loan in the portfolio. At a cost of roughly \$2,000 per appraisal and approximately 4,000 CRE loans, we would incur a cost of at least \$8 million each time we estimated the fair values for the CRE loans. After-tax income for MFC in 2009 was \$3.5 million. If community banks in our market area were to obtain appraisals for all of their CRE loans each quarter, we would quickly run into a traffic-jam and backlog of appraisals as the number of appraisers is finite and the appraisal process for CRE loans is time consuming. Most banks will endure a costly and time consuming process in estimating the fair value of their loan portfolio.

It is also not clear whether investors would obtain any additional value from the end-result of this reporting of fair value. Rather, the process would cause fluctuations in GAAP equity that may also affect regulatory capital. If one of the Board's goals for the Fair Value project is to provide investors greater transparency into balance sheets of banks, we think that investors would obtain valuable and more meaningful insight if banks were to provide information on the interest rate and credit risks inherent in their balance sheets. As to credit risk disclosures, Accounting Standards Update No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. would require banks to provide enhanced disclosure related to the allowance for loan losses (ALLL) and credit quality of loans for periods after December 15, 2010. We believe that this information will provide investors a great deal of information on credit risk and reserving of loan losses, as is in all likelihood the intent of the accounting standard. Banks have probably expended a lot of effort already in collecting data in order to be able to generate the disclosures that are required on an ongoing basis. As to interest rate risk disclosures, banking regulators have long required all banks to shock the cash flows of balance sheet

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assets and liabilities using standard increments of the US Treasury yield curve (typically 100, 200 and 300 basis points in parallel). Banks are required to calculate net interest income sensitivity and sensitivity of the economic value of equity under these standard interest rate scenarios. These sensitivity calculations are made available to bank examiners and provide valuable information on inherent interest rate risk in a bank's balance sheet. Equally important, since banks are performing these calculations for regulatory purposes, there would be no additional cost in making the information available to investors. *Credit Impairment* 

Generally, we support the Board's goal of improving the loss reserving methodology. The current 'incurred loss' standard prevents banks from building loan loss reserves in good economic times to provide a buffer in bad economic times. While we favor an improved loss reserving model, we have some concerns about the Board's proposed methodology for impairment. Specifically, the Board is proposing that, in their estimation of impairment, banks should assume that future conditions are unchanged. This runs counter to the credit management process at banks. Credit conditions are dynamic and therefore, by definition, the magnitude of credit risk inherent in a loan fluctuates depending upon the credit of the borrower as well as on economic conditions. To preclude banks from adjusting expectations over the life of the loan is to ignore the credit cycle. Another concern that we have with the impairment methodology in the Exposure Draft has to do with the proposal that any estimated future impairment must be taken into earnings immediately. Not only will this result in banks booking substantial charges to earnings for remote losses in the future, this once again ignores the credit cycle and timing of losses. A better approach may be to allow banks to build reserves over the life of a loan, similar to the IASB; however, the IASB's proposal, as we understand it, would also require banks to take charges for any adjustments to reserves. We think that any reserve adjustment needs to follow the credit cycle of the loan. Hedge Accounting

We support changing the requirement that a hedge is "reasonably effective" (as opposed to being "highly effective"). This should make it easier for banks like Middleburg to implement hedge accounting. We do believe that 'reasonably effective' needs to be better defined. We would also like the Board to address the hedging of commercial loans. Banks routinely hedge the interest rate risk of commercial loans; yet, we feel that the proposed hedge accounting guidance does not adequately address this.

Thank you for considering our comments on the Exposure Draft. We hope you find the feedback to be useful and illustrative of the concerns that banks have with the proposal.

Sincerely,

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Executive Vice President & Chief Financial Officer

Middleburg Financial Corporation