



Liberty National
BANK
"Feel the Power"

September 9, 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:

I would like to first 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"). As the President of a small Community bank, I work directly with each of our shareholders. It is my responsibility to ensure the Bank's financial viability and strong financial position. With this in mind, I am writing to express my deep concerns and opposition to the portion of the proposal that requires all financial instruments to be marked to market. I feel this new approach emphasizes focus on short term earnings, which could inherently increase the volatility of the financial statements in the long term. The costs of this proposal as written, seem to far outweigh the benefits.

This new proposal requires banks to record loans on the balance sheet at market value. Our current business strategy is to make long-term investments in the way of securities or loans, based on credit quality, management of risks, net interest margin and cost of funds. The use of the proposed method does not fit into our current business strategy. Shareholders & investors are interested in loan performance and profitability, not how the market views loan performance. Forcing banks to adopt the new principal will require a redirection of focus, on quarterly short-term profits. Because the new accounting method will not reflect how the bank is managed, financial statements may be misunderstood and transparency may be clouded. Introducing further complexity into the financial statements is not something investors typically look favorably upon. Additionally, significant costs will be required to comply with these new regulations. Experts in fair value accounting will be needed on staff, as well as any necessary changes to be made to technological systems required for accommodation of new regulations. For a small Bank such as ours, these additional costs are extremely burdensome and at times difficult to cover.

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Although I understand the rationale for more robust loan loss reserves, I believe the focus on mark to market is not relevant for loans that are not being sold. Additionally, with individualized payment terms, collateralization, and guarantee structures, the vast majority of commercial bank loans have no reliable market in which they could be sold, further calling into question the reliability of using fair value as the basis for financial statements. Even if there were active markets, fair value is not the appropriate measurement for these loans since it does not represent the cash the bank will receive.

I understand that a loan's intrinsic value may change because of current interest rates or because of problems the borrower may have. But if there is a problem in repayment, the banks' typical process is to work the problem out with the borrower rather than sell the loan. So, even if it were easy to find a market value, that market value is irrelevant, since the bank would not sell the loan. As a result of your proposal, bank capital will be affected by market swings that cannot reasonably be expected to ever be realized by the bank.

With this in mind, I recommend dropping the proposal to mark loans to market, as, from my perspective as an investor, it does not improve financial reporting.

Thank you for considering my views. Please feel free to contact me if you would like to discuss my concerns.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Patrick", with a stylized flourish at the end.

Michael Patrick
President / CEO
Liberty National Bank