September 16, 2010

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
File Reference Number 1810-100

Commenting for The Citizens Bank of Winfield
Winfield, AL Rtg#062204938
P.O. Box 550
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RE: Proposed Mark to Market Accounting Changes

The Citizens Bank of Winfield is a 204 million dollar bank located in rural Northwest Alabama within a county with 15% unemployment. Competition consists of four banks and a county-wide credit union with one of the banks being Wells Fargo. The economy is based on light manufacturing, coal mining, hospital and medical clinics, school system and Wal-Mart Super Center. The bank is closely held with less than 50 total stockholders and was chartered in 1921.

Our Board and Management team want to register our strongest opposition to the proposed FASB changes. The Mark to Market or so called Fair Market Accounting rules as they now stand are reaking havoc on the banking system, depleting retained earnings and reducing capital. Regulators are requiring higher capital levels. Instead of 6%-8% it is more like 9%-12%. When you couple this with the pressure from FASB's fair value proposal, it just force-feeds institutions making irrational decisions. Asset-related problems require rational strategies that last several years that are not solvable in 90 day snippets. We have problem assets on our hands-to be held accountable on a quarterly basis which forces irrational decisions.

If the proposal is implemented it will result in sharp asset-valuation declines due to market fluctuation, and a lack of clarity about how institutions must perform valuations. A process antithetical to the business model of holding on to loans. Less accounting transparency since significant interpretative judgment is necessary. Reluctance by institutions to make long-term, fixed-rate loans increasing burdens affecting budgets and staff. There is divergence from international standards for bank investors.

If we are to have true Mark to Market or Fair Value accounting FASB rules should allow assets to be marked or reflect increased value as well as decreased value. That would give a more accurate financial picture to an equity holder, investor or regulator. Also, if a financial institution can show the ability hold an asset indefinitely that should be given consideration in how it is accounted for.

Mark to Market rules produce misleading information. For example, in good times they artificially inflate results by assuming losses that have not and may not be realized. History has proven that these rules do not work. For example Mark to Market accounting was put in by President Roosevelt in the early years of the great depression and then were taken out by him in 1937 when he realized the damage it was doing to a recovery. They artificially spurred the bubble and artificially worsened the down turn. Major institutional investors complained about the Market volatility it generates.

The accounting for Financial Instruments proposal is the pro-cyclicality it would introduce into the system. If one lesson is to be learned from the financial crisis it is that we need to change the U.S. financial system so that it is less pro-cyclical.

There is risk with depositors and bank customers withdrawing funds or withholding other business based on media reporting of fair value losses. Commercial loans may be below fair value the first day they are made because of competitive pricing and liquidity discounts. Mark to Market accounting simply doesn't work in the community bank business model of holding onto loans and investments.

We are a small community bank that neither sells or buys loans. We basically take deposits from the community and make loans back into the community we serve. This proposal would create burdensome work for us and would mislead the regulators and public as to the value of bank assets. We would spend more time working on anticipating cash flows future value and the impact that will have on capital instead of spending that time on our customer and community needs.

The volatility of the change and approach to fair value accounting would only further erode the community bank mode. Add to that the regulatory changes decreasing revenue streams and increasing expense with additional personnel, software, audit hours, etc. along with Mark to Market accounting write downs through retained earnings.

The result of these changes will be to force more and more community banks out of business through failure or merger and acquisition. Some may think that less banks and bigger banks make for better supervision. Hold that thought! Who got the country in this economic down turn anyway? It wasn't Community Banks. It is commonly known that 55% to 60% of job creation comes through small business expansion and hiring. Small business is primarily financed through local community banks. If the economy is resurrected a large part will come on the backs of community banks. Rural communities across the country will have a hard time getting small business expansion without their community bank or banks.

The proposed rule changes will be drastic and costly for community based institutions which make up the majority of the nations banks. If implemented the rule would result in sharp asset valuation declines due to market fluctuations.

The largest banks already have a process in place that may help them to accomplish this major accounting transition. Community banks don't have such a process in place. For these smaller institutions converting to fair value accounting to the extent that the new proposal requires will involve major cost. Examples of these costs will be changing systems to gather the data, hiring people to monitor, track, and decipher the data and revamping financial statements to provide the disclosures that the exposure draft will require. The rule's greatest implementation impact will be on thousands of community based institutions which do not currently "mark to market" trillions of dollars of loans. Smaller institutions don't have the capital. As a result more community banks will disappear!

The banking industry is strongly opposed to the application of fair value accounting. Critics, including several noted economists, have blamed it for exacerbating sharp losses reported by financial institutions during the market turmoil.

Why would fair market value for a community bank make any sense? Community banks mostly make and keep loans on their books. They don't have any trading assets which is what fair value accounting would really tell you. We will be doing accounting for smaller banks that has no relevance to how they do business or how they make money, and why they are there. Smaller institutions don't have the capital to do what FASB requires.

Fair value accounting for community banks is a terrible idea. It doesn't reflect the true value of a community bank. It makes no sense.

Respectively submitted,

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