

August 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 am writing you to express my views on the exposure draft Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities.

As a CPA working in the banking industry, it's apparent to me that many of the issues identified in the exposure draft are not practical or workable. As the recent banking crisis has shown, I think conclusively, that for banks the most important metric's for investors are earning power and capital\reserves. If a bank has earning power it can "out earn" most problems that arise from asset losses due to asset defaults. If your earning power is insufficient, it does not matter how much capital you have. Capital effectively serves as a buffer for situations where earning power is only slightly overwhelmed by losses. Recent experience shows that large losses to banks are generally catastrophic to the business regardless of capital.

My objection to the exposure draft is that in most situations, the fair market value of banking enterprises assets is irrelevant to its earning power. Many assets owned by banks, especially community banks, have no visible marketplace into which they can be sold at other than distressed prices on a regular basis. Practically speaking, banks have a virtually unlimited ability to obtain funding given the FDIC guarantee. Funding is limited only by capital ratio requirements. In that environment, where the ability to carry an asset is virtually without limit, selling other than commodity assets originated especially for resale (home mortgages, auto paper, SBA paper, etc.) is viewed most times as selling an asset that has a problem, and is priced accordingly.

Banking is the business of leverage, services, and interest rate spreads. Banks are more or less profitable based primarily on how low a capital ratio they can accomplish; lower is more profitable along with a stable fee base. Banks today have to provide high quality services to encourage customers to provide low cost funding in the form of deposits. Interest rate spread is also of primary importance in a banking environment. All banks must manage interest rate risks. That is the expected spread between earning assets returns and cost of funds over varying interest rate horizons. The goal is maximize the spread on interest rates, not to maximize the value of the assets.

The earnings model described above is not one where assets values really matter. Only in cases of asset defaults are values meaningful to the operational results of a bank. Banking that I am discussing is the business of accepting deposits and making loans from those deposits. It is not Investment Banking where the goal is making money off asset valuation changes and asset

sales. Investment Bankers make money differently than traditional banks. Mark to market, fair value accounting would be relevant to their business model; it's not to traditional banking.

if the FASB were to proceed with its proposal, it would create practical problems for all traditional banks. First, pricing would be of necessity in most cases based upon level 3 type processes. These educated estimates would vary significantly between banks, as the underlying factors are in many cases matters of opinion. Next, given the fact that interest rates would cause value volatility, changes in rates would lead income statement volatility. Consider a bank with consumer loans with fixed rates and funded with checking accounts. In today's world they would earn about 7 percent on the loans and pay about 1 percent on the funding for a spread of 6 percent. If rates increased, obviously the rate on loans would not increase, and the cost of the funding would only change marginally if at all. The earning power has not changed. If you accept the theory that stock values are multiples of earnings, the value of the business did not change either. However, under the FASB proposal the income and value would change, due to the market to market loss the bank would record as rates rose. When the loan pays off at par, they would have effectively a gain. This is not reality, nor is it the economics of the business transaction the accounting is attempting to report. Finally, I believe the law of unintended consequences will raise its head. If banks are forced to deal with mark to market, they will most likely change their model to eliminate\restrict fixed rate lending, require borrowers to have asset maintenance agreements for collateral values based upon fair value and similar devices that cause the loan value to remain stable in a variety of economic situations. Imagine the problems consumers will have if required to maintain collateral values on consumer loans. Nearly all consumer loans originated by community banks are "underwater" value wise the day they are made. We should not be doing things that restrict consumer access to credit.

While I understand the FASB's drive to have balance sheets reflect reality. But in banking, fair value is not in most cases meaningful any more meaningful than the fair value of equipment in the case of a manufacturer. What's important to a manufacturer is the earning power of the asset used in the production cycle not what it can be sold for. A similar situation exists for banking, but the equipment in our case is deposits and earning assets. The FASB should study this situation further for more meaningful reforms.

For the reasons stated herein, I respectfully request the FASB to reconsider their proposal.

G. David Brewer, CPA

Senior Vice President\Chief Financial Officer