

September 24, 2010

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

RE:

Proposed Accounting Standards Update, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities" (File Reference NO. 1810-100)

Dear Mr. Golden:

Thank you for the opportunity to comment on the Financial Accounting Standards Board's (FASB) Proposed Accounting Standards Update, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities" (Exposure Draft). Lone Star State Bank of West Texas is a Texas chartered, Federal Reserve member community bank serving the West Texas area. We began our banking activities in December 2007 and currently have total assets approximating \$360 million with an emphasis on agricultural, energy and other small business commercial customers. We are writing to communicate our concerns and opposition of this Exposure Draft. At the date of this writing, we noted that there were over 900 responses filed with the FASB concerning this Exposure Draft. While we have not reviewed all of them, we have had an opportunity to review a number. Consequently, we note that there are many responses that express the same views that we share. Specifically, we reference the three responses by the American Bankers Association (Comment Letters No. 229, 229A and 229B). We also reference the response filed by the Texas Bankers Association (Comment Letter No. 616). These responses clearly reflect our views and we share the same opinions and beliefs expressed by these entities.

However, we did want to take this opportunity to express in our own words, some of our concerns with the expansion of fair value accounting to financial instruments. Our comments are included below.

Background:

Lone Star State Bank of West Texas received its bank charter authorization in December 2007. This was the beginning of a very difficult time period for this nation's economy and for the banking industry. It is safe to say that our shareholders had more than ample opportunities to invest their funds into investment philosophies that incorporate an emphasis of fair value. They could have opted for any number of stock or bond investment funds. Rather, they elected to invest in a business philosophy that incorporated a long-term investment approach where loans and deposits are originated and priced based upon the management of credit risk. In our case, they were not investing in an organization whose business was the management of market risk. Rather, as a community bank, our business model includes the origination of commercial loans to small businesses. Terms for individual loans were not based upon the return expectations of a specific financial instrument. Rather, the terms were based upon the total customer relationship. These loans are held to maturity or until paid off by the borrower. They are not packaged and sold to third parties. In fact, there are no established secondary markets for pools of our agriculture, energy, and other small business loans. When these loans experience difficulties, our experienced bank management team work with these borrowers to determine the need for additional collateral, modifications of loan terms or changes to customers operations in order to help the borrower meet their contractual obligations. There is not a fire sale approach of dumping these loans to third parties.

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The current accounting of these loans utilizes amortized cost. This accounting is consistent with our business model and the performance expectations of both our shareholders and our regulators. As further discussed below, any requirement to report these types of loans that are held for collection of contractual cash flows using a fair value approach is inconsistent with a community bank's business model and with shareholders' investment expectations. We believe that this Exposure Draft does not adequately recognize the importance of the entity's business model nor does it consider how this business approach manages capital and how performance is measured.

Increased Complexity, Lack of Consistency and Comparability and Increased Costs:

Financial footnote disclosure of fair values to readers may be considered beneficial. However, incorporating this information in the financial statements (i.e. balance sheet, income statement, etc.) may very well mislead these readers. It will confuse the entity's intent to hold these financial instruments for collection or payment. As indicated above, there are no established secondary markets for most bank loans. Consequently, a modeling process to estimate fair value using the Level 3 Inputs (FASB Statement No. 157) will be required. This is a requirement that most community banks do not possess. It will be costly to implement these procedures. In addition, the numerous assumptions and operations of such models will be difficult to understand by most shareholders and readers of financial statements. They will, in our opinion, equate the resulting fair values to an exit cost established by a ready market.

Complicating things further to these financial statement users will be the complexities and inconsistencies of the valuation procedures for deposit liabilities. Core deposits may be valued using a present value method which differs from the fair value measurement. The related complexities and inconsistencies of measuring these core deposits may require costly system modifications. The requirement to recognize a core deposit intangible asset for internally generated deposits will be a significant change for some readers as this is only present under current GAAP following a business combination.

However, a big comparability and consistency problem will be conveying the concept to financial statement users that core deposits and certain time deposit products may have financial statement carrying value amounts different than the amount that can be demanded at any point in time. Like loans, these deposit products do not have a secondary market and are seldom transferred and almost always settle with the payment in accordance to the contractual terms. Amortized cost should be used for these liabilities.

Comprehensive Income:

The historical importance of the income statement cannot be overemphasized. Changing the presentation and incorporating other comprehensive income in this statement and showing it below net income (and changes in fair value that impact comprehensive income) will be very confusing to financial statement readers. The Exposure Draft proposes that both cost and fair value be presented. A serious potential argument could be made that there is a new "bottom line" and the importance and relevance of net income may become confused because of the presentation method. In the past, impairment charges were incorporated but comprehensive income did not include changes in fair value of loans. Now, because of the fair value Level 3 methodology, it may contain an element.

An even more relevant concern for a community bank is the requirement that loan interest income be recognized by applying an effective interest rate to its amortized cost less any allowance for credit loss. Such a methodology would not report the contractual interest due. Readers would not be provided with contractual interest information. Historically, the net interest margin of a bank has been an important metric. Users want to see the "gross" contractual interest income and interest expense and then see the credit risk component (i.e. provision expense element for credit risk) separately. Gross interest expense should be presented in the same manner.

Negative Benefit to Shareholders:

The likelihood of significant financial volatility that may not be "market" driven but only a result of assumptions used in the discounting of future cash flows may occur. This may require a change in our shareholders' expectations with respect to their investment as the bank's capital is subject to significant changes caused by changes in fair values between accounting periods. It is not unreasonable that such shareholders may reconsider their investment philosophy and require community banks to manage the investment market risks.

Unintended Consequences:

Changes in a community bank's philosophy and business model to fit with the changing expectations of shareholders may very well require a change in the types of financial instruments offered. By changing to loans and deposits that have shorter durations, the market value volatility may be reduced. Of course, this type of change would come at the worst of times to our borrowers and depositors creating even more uncertainty in the economy and further delaying the economic recovery.

For these reasons, we respectfully suggest that FASB reconsider their proposal and not implement fair value accounting for financial instruments.

Again, thank you for the opportunity to share our concerns.

Sincerely,

Alan Lackey

Chairman, President and CEO

Edmund W. McGee, CPA

Executive Vice President - Chief Financial Officer