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September 20, 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 Accounting for Derivative Instruments and Hedging Activities

Dear Mr. Golden:

QCR Holdings, Inc. is a multi bank holding company headquartered in Moline, Illinois. We have three wholly owned bank charters as follows:

Name	Charter Location	Size	Year Chartered
Quad City Bank & Trust	Bettendorf, IA	$1 billion	1994
Cedar Rapids Bank & Trust	Cedar Rapids, IA	$500 million	2001
Rockford Bank & Trust	Rockford, IL	$300 million	2005

In addition in 2005 we acquired a leasing company, m2 Lease Funds, Inc; which is located in Milwaukee, WI. We have been a publicly traded company since October 13, 1993 and trade under the symbol QCRH on the NASDAQ Global Market System.

I have taken particular interest in this issue as I was a partner in the accounting firms of KPMG and McGladrey prior to co-founding QCRH.

There has been much written on this issue. I found two letters to you that were extremely well written. The first is from Darling Consulting Group, our valued advisor for asset liability management. The second is from the American Bankers Association, our industry trade association. Those two letters are attached for your review. It is not my intent to duplicate these two thoughtful documents, however I will pull some relevant topics into this letter.

The amount of work and subjectivity that your proposal would create is mind boggling. I cannot imagine how many additional staff we will need to employ to, every quarter, compute the "new market value" for:

1. Our crop and livestock loans to local farmers
2. Our loan to a specialty doctor group
3. Our loan to a large insurance company
4. Our loan to an electrical contractor
5. Our loans to other banks
6. Our loan to a large road builder
7. Our loan to a trucking firm
8. Our loan to a consumer for a house remodel

The amount of time, energy, and resources that we would spend with employees and consultants and auditors would be enormous. Now imagine another bank in the state of Washington or the city of Las Vegas needing to do the same in an entirely different geography and totally different local economy. Again, this introduces another level of subjectivity and judgment which accounting should attempt to minimize vs. maximize. This opens up increased opportunities for fraud and misstatement.

We buy and sell a large number of loan participations from/to other banks. An incredible amount of communication and consensus building would be required every quarter by all the banks. For us, this would require us to communicate with approximately 100 banks every quarter.

Most importantly I believe this FASB proposal will confuse as oppose to enlighten the reader. Quarterly earnings swings due to marking to market illiquid assets and liabilities will be dramatic. Banking will become regarded as a highly volatile industry, by nature the majority of our assets are held to maturity and are not for sale, thus not allowing them to be readily and authentically valued. Investors and advisors will stay away from the banking industry permanently depressing values for bank stocks.

The new disclosures for allowance for loan and lease losses will require enhanced disclosure of various information disaggregated by loan type, risk rating, etc. This will provide valuable information to investors/readers.

Back in the 1970's, my accounting professors taught me that accounting principles are based on historical cost as this principle relies on objectivity and verifiability. This current FASB proposal flies in the face of that time honored principle.

We would also be required to value unfunded commitments for loans we may never make.

If there are issues with a borrower's ability to repay a loan, we work through the collection process with the borrower rather than sell the loan.

There is no active market for many of our loans, and estimating a market value makes no real sense.

Marking all loans to market would cause our bank's capital to sway with fluctuations in the markets – even if the entire loan portfolio is performing. Instead of providing better information about our bank's health or its ability to pay dividends, the proposal would add confusion.

Our investors have expressed no interest in receiving this information. We believe our investors would not view these costs, which must come out of bank earnings, as being either reasonable or worthwhile.

For the reasons stated above, our bank respectfully requests that the fair value section of the exposure draft be dropped.

To repeat an earlier comment – this will provide dramatic motivation for stockholders and potential investors to retreat from our sector, lowering bank stock prices.

The earnings fluctuation will cause a long term decrease in franchise values.

We run our business for the long term with a huge emphasis on long term and mutually beneficial relationships with our clients. We do not run our business to maximize the value of each and every loan each and every quarter.

What if manufacturers had to value their property, plant and equipment every quarter?

We make loans to help our clients run their businesses and provide a return to our shareholders as opposed to making loans to see what we can sell them for each quarter.

This proposal clouds transparency vs. improves it.

We would be forced to write down many loans immediately as it is quite possible nobody else would pay us 100¢ on the dollar for that loan.

What if the borrower is a large depositor or client of our trust department? Where does character of the borrower or guarantor weigh in? How do you then value the full relationship?

Below are some of the most poignant comments from the Darling letter:

"To impose a market value concept, that by definition presumes the existence of liquid markets, on business entities that operate primarily in a world of illiquid markets, is suspect at best and dangerous at worst. The operating results of the community bank business model, based on managing spreads as opposed to price changes, is not captured accurately by a fair value accounting model."

"To provide a frame of reference, a 1% shift in rates could drive at least a 5 point swing in the value of a 30 year mortgage. Banks would need to "reserve" (keep capital idle) against such risks, even though rates could change the very next month, reversing the "write down" and even producing "a gain". This yo-yo effect would have been prevalent throughout the past year; thereby providing continually changing and mixed signals to the marketplace despite the fact that cash flow earnings of spread-driven banks were impacted negligibly during the roller coaster ride of "fair values"."

"Again, to force an accounting model that presumes the existence of liquid markets on businesses that conduct their business primarily in illiquid markets has little, if any, upside; and a tremendous amount of downside."

"The upfront and ongoing operational costs required to comply with the proposed guidance are mind numbing. These costs transcend the obvious direct costs of implementation and include material opportunity costs to the industry."

Below are significant items from the ABA letter:

- "Fair value accounting is not relevant to the commercial banking business model."
- "Fair value accounting will undermine the reliability in bank capital levels and decrease comparability between banks."
- "Fair value accounting introduces complexity where complexity is neither needed nor desired."
- "Fair value accounting will require significant costs to banks with little benefit to users."
- "Fair value accounting changes the concept of "comprehensive income" within FASB's Conceptual Framework."
- "Fair value accounting complicates efforts to converge GAAP with IFRS and creates a competitive disadvantage to U.S. banks."
- "Fair value accounting will add unnecessary procyclicality to the financial system.

This proposal also puts the community bank model at risk. Community banks have suffered mightily through the recession; a recession not caused by the community bank model. Most community banks are still working through problem loans and some get closed every Friday night by the FDIC (125 this year.) In addition, the <u>cost of being</u> a community bank has recently gone up dramatically as the result of the Dodd Frank Bill. All of this combined with this proposal will continue to reduce bank earnings and bank stock prices. The community bank model will be threatened as bigger banks will be better able to cope with the complications and costs of your new rule, forcing small and medium sized community banks to sell out. Community banks support Main Street USA; and that is a good thing.

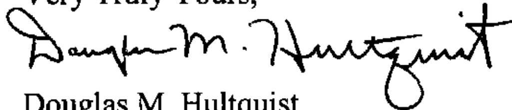
In addition, I asked two accounting professors, John Delaney and Rob Faulkner, from my alma mater, Augustana College to comment on your proposal. Their thoughts are produced below:

> "The first level of the conceptual framework includes the objectives of accounting—most importantly, providing information that is useful to those making investment and credit decisions—including information that allows users to assess amounts, timing, and uncertainty of future cash flows. If fair value accounting is implemented for commercial banks it would appear these objectives would not be met as the valuation of loan portfolios from month to month would be much more volatile on paper than in reality. We take it that more often than not your assets are held to maturity. Consequently, cash flows are predictable without FVA, and loan losses are adequately reserved for under current bank regulations.
>
> The second level of the conceptual framework includes the qualitative characteristics of accounting information—namely the relevance, reliability, comparability, and consistency of this information. We have two concerns. First, FVA will not result in relevant information as volatility of illiquid asset values based on somewhat subjective criteria reduces the predictive value of this information. That is, the difficulty of obtaining an objective fair value for assets with no ready market essentially negates the ability to effectively use this "fair value" for any predictive purpose. Second, FVA will not result in reliable information because, as you point out, determining a market value introduces subjectivity and judgment. It would be extremely difficult to verify market values leading to opportunities for manipulation of accounting information (see also cost/benefit concerns below).
>
> The third level of the conceptual framework includes the assumptions, principles, and constraints of accounting information. Here we have perhaps the greatest argument against FVA for commercial banks. First, historical cost should be used to value assets and liabilities on the basis of acquisition cost. This fundamental principle has in fact stood the test of time due to the reliability of historical cost information. FASB established a fair value hierarchy consisting of three levels with decreasing reliability. At level one, fair value is obtained via quoted prices for identical assets and liabilities in active markets (most reliable but not applicable in this case), at level two fair value is obtained via corroboration with observable data (not applicable), at level three fair value is obtained via a company's own data or assumptions (applicable but not reliable). Since subjective data would be used to establish fair value for commercial loans, the information provided to users would be less reliable than historical cost. Second, the cost-benefit relationship is a constraint recognized by FASB in the conceptual framework. The cost of providing accounting information should not exceed the benefit to the users of this information. As you mention, your investors have expressed no interest in receiving fair value information for your loan portfolio. Plus, your investors would likely oppose the generation of this information if it reduces their returns due to the higher compliance costs associated with FVA (due diligence, record-keeping, audit costs). Third, industry practice allows departure from basic theory due to the peculiar

nature of some industries and business concerns. As DCG points out, commercial banks generate earnings from the spread they earn between the income on assets and the costs of their liabilities; the preponderance of which are held to maturity/withdrawal. Very little earnings for these intermediaries results from the sale of assets and liabilities. Consequently, in the case of commercial banks, FVA measurements neither reflect how earnings are created nor capture the true going concern value of this type of financial institution. FVA therefore is not appropriate for this industry (commercial banking)."

So, in summary, I respectfully request that the proposal be dropped and the exposure draft abandoned.

Very Truly Yours,



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