

From: Citizens Bank of Winfield [mailto:cbw@cbwinfield.com]
Sent: Friday, May 24, 2013 6:03 PM
To: Director - FASB
Subject: Proposed Accounting Standards Reference No. 2013-220

May 15, 2013

Ms. Leslie F. Seidman
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Via email: director@fasb.org

Re: Proposed Accounting Standards
Update: Financial Instruments- Overall (Subtopic 825-10)
Recognition and Measurement of Financial Assets and Financial Liabilities; File Reference No. 2013-220.

Dear Ladies and Gentleman of the Board,

Our Bank, a Two Hundred Million Bank in rural Northwest Alabama appreciates the opportunity to respond to the proposed rule changes and for our concerns to be heard. It seems that FASB proposed rule changes, as well as Basal III changes are written with Global Standardizations in mind, for large financial institutions. The same could be said for Dodd-Frank regulations written by the Regulators including Consumer Financial Protection Agency. Are the proposed changes written with the Community Banks Business models in mind?

The Community Bank Business model in America is structured and functions different than the Large Financial Business Model or the Global Financial Model. As a matter of fact no two Community Bank models are exactly the same varying with the local, the economy, the customer base etc. Community Bank Business Models fluctuate with the economy, interest rates, the market demand, etc. Community Banks need flexibility to adjust their loans up or down based on the availability in their market which then requires flexibility to adjust the investment portfolio accordingly. Do the proposed changes allow the Community Bank Business Model to still function or will it force more and more Community Banks out of business? It appears to put Community Banks in with the six largest banks, all under the same rules rather than recognizing the Community Bank model that my shareholders and customers understand.

No one foresaw Volker taking interest rates to 21 ½ %. No one foresaw Certificate of Deposit rates going to 16%. These drastic changes in rates broke a number of S&L Banks who were holding 30 year mortgages at 6%-8% rates. No one foresaw interest rates at current levels

with Treasury rates reaching 0.03, 1 yr. 0.125, 2 yr at 0.20, 5 yr at 0.59, 7 yr at 1.00, 10 yr at 1.38 and 30 yr at 2.40.

Some Community Banks have been short for two years or longer with loan demand steadily dropping along with their earnings, others to maintain profitable levels and capital have gone out on the curve depending on investment income to boost earnings in low rate environment but then as rates rise need flexibility to move back to loans and/or higher rate investments. That is called prudently managing you bank in both loans and investments. So what happens as the economy changes? When will it change significantly? How will rates react? How fast or slow will they move?

So, flexibility is the key for Community Banks ability to stay alive and viable. They have been important to our economy reaching the level we have reached, taking care of rural America, low to moderate income, small business lending, and 1-4 family housing needs. They will be important in the future particularly in the areas mentioned.

Thoughts on the mark-to-market proposal:

1. It is very important that bank management have the flexibility to restructure the bond portfolio when the economy experiences major changes such as interest rate movements and anticipated interest rate movements, increased loan demand which would necessitate selling investments to provide liquidity to the bank and changes in the customer base of the bank.
2. Bank regulators assess the qualification of each bank's management team. An assessment without the ability to react to changing conditions would leave bank management without the tools to satisfy current regulatory scrutiny.
3. The majority of Community Banks are privately held not publicly traded more service oriented and dividend driven. Shareholders of long established community banks view their investment in local banks from a generational perspective. Interest rate changes in a 3 – 5 year cycle with the resulting change in market value is of very little or no interest to them. When they start receiving financial statements which show wide fluctuation in reported income, the nature of this long held investment changes dramatically. For bank management to get the flexibility to restructure the portfolio, it must take on mark-to-market thru the earnings statement. Thus, this new proposal presents a dilemma to our community banks which could very well put into question their long-term viability. It will inject volatility that we haven't had to deal with or haven't known before.
4. FASB purports to want more transparency in financial statements. Injecting meaningless volatility in earnings will cloud the ability of the local investor to understand the true earning power of his bank's investments. Thus, the very people FASB should be concerned about will be harmed by this theoretical exercise.
5. Available for sale has worked well for the Community Bank Business model. We recommend keeping that intact. The proposed rules that have been put forward appear to do away with investment flexibility for Community Banks.

6. If you retain Mark to Market accounting, it should go both ways. Up and down. Otherwise it is not mark to market.
7. Companies should be able to make risk management decisions in response to changing economic environments that necessitate investment sales that were not reasonably anticipated at inception, and the accounting should accommodate those uncertainties. Limiting Investment sales to infrequent circumstances and eliminating sales due to changes in interest rates could inhibit sound business and risk management decisions for investment activities of financial institutions that today's accounting accommodates.

Again, thank you for the opportunity to comment!
Please give consideration to our concerns.

Sincerely,
Russell Carothers
Chairman & CEO
The Citizens Bank of Winfield
Winfield, Alabama, 35594