From: <u>Mickey Thomas</u>
To: <u>Director - FASB</u>

**Subject:** File Reference No. 1810-100

**Date:** Thursday, August 19, 2010 9:49:06 AM

## Memorandum

To: director@fasb.org

From: Mickey Thomas, Executive Vice President and Chief Financial Officer

South Louisiana Bank Houma, Louisiana 70360

Date: 8-18-1010

Re: File Reference No. 1810-100

I urge the FASB <u>not</u> to move forward with its plans to apply full fair value accounting to the balance sheets of banks.

While banks must hold some readily marketable securities for liquidity, we are not generally in the business of creating or purchasing assets or liabilities for quick resale. We are in the business of creating and holding illiquid assets for the purpose of generating earnings and cash flows. Accounting measures should describe the business of banking and therefore describe the way in which financial instruments generate earnings and cash flows, regardless of whether active markets exist for these financial instruments.

Bank managers do not manage their illiquid loan portfolios on a fair value basis. Forcing banks to produce fair value estimates is costly and without benefit.

Fair value accounting will most certainly alter the business of banking as bank managers consider "accounting risk" in their decision processes. Fair value accounting increases the volatility of balance sheet measures, creating optimistic measures during economic peaks and pessimistic measures during economic downturns. This increase in the volatility of banks' balance sheets creates uncertainty and will increase the cost of capital. Therefore, fair value measures will restrict or drive out those products with the greatest fair value risk.

The business of banking depends upon public confidence. Accounting measures that distort the value of assets and liabilities rather than relating these values to earnings and cash flows will confuse financial statement users. This confusion puts at risk banks' access to credit markets, capital markets, and even depositors. Subjective and inconsistent determinations of fair value will amplify this confusion.

Fair value accounting is an automatic economic de-stabilizer. The U.S. financial crisis and resulting recession have demonstrated that market value accounting is pro-cyclical. Accounting standards that ignore how banks operate and pessimistically value assets regardless of their contribution to earnings will serve to contract lending, injuring the entire economy and banks even further.

Current standards and guidance on allowance for loan and lease losses, directed at limiting the management of earnings, gives banks little ability to set aside reserves in good times to prepare for economic downturns. This is absolutely contrary to prudent banking. We all know that economic cycles will occur. Yet the Securities and Exchange Commission, in their zeal to eliminate earnings management, led our industry to historic low reserves as a percent of loans just prior to the U.S.

financial crisis. A volatile banking sector only serves to exacerbate an economic downturn. The financial stability of the banking sector is absolutely a primary goal of our prudential regulators, our investors and our customers.

Fair value accounting creates balance sheet volatility beyond the operating characteristics of banks, a form of artificial volatility that is contrary to the interests of the parties that most need accurate financial information.

In anticipation of your thoughtful consideration of this topic, I thank you.

Respectfully,

Mickey Thomas
Exec. Vice Pres. & CFO
South Louisiana Bank
P.O. Box 1718
Houma, La 70360-1718
985-851-3434
mickey@ayeee.com

\_\_\_\_\_ Information from ESET NOD32 Antivirus, version of virus signature database 5379 (20100819)

The message was checked by ESET NOD32 Antivirus.

http://www.eset.com