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September 15, 2010

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

File Reference No. 1810-100

Dear Mr. Golden:

Thank you for this opportunity to comment on FASB's exposure draft, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities. On behalf of the North Carolina Bankers Association (NCBA), I am writing to express strong opposition to the proposed requirement that all financial instruments be marked to market. The NCBA is a trade association formed in 1897 that serves all banks and savings institutions which are headquartered or have branches in North Carolina. The membership also includes a number of trust companies and hundreds of businesses that work closely with the banking industry.

Under the proposal, banks would be required to record loans on the balance sheet at their market value. However, due to customized payment terms, collateralization, and guarantee structures, many commercial bank loans have no reliable market in which they could be sold, which undercuts the reliability of using fair value as the basis for financial statements. Even if there were active markets, fair value does not represent the amount the bank will actually receive.

Granted a loan's intrinsic value may change because of current interest rates or because of the borrower's financial condition, but, if there is a problem in repayment, the typical process is to pursue a workout arrangement with the borrower rather than sell the loan. So, even if it were straightforward to find a market value, that market value is largely irrelevant because the bank has not sold the loan. As a result of the proposal, bank capital will be affected by market swings that cannot reasonably be expected to ever be realized by the bank.

Another concern is whether the proposal to mark loans to market would force banks to change their business models. Banks will likely be placed under pressure by investors to shift to products that are sheltered from market volatility and away from the core business of lending.

An additional concern is the cost associated with reallocating bank resources to produce and audit fair value data. Because banks do not use fair values in managing their cash flows, the proposal could require banks to hire more staff or consultants to assist with estimating fair values and to pay significantly higher audit fees.

Given these concerns, I ask that you withdraw the exposure draft and reevaluate the implications of using a mark-to-market standard.

Thank you for considering these comments. Please contact me if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "Thad Woodard".

Thad Woodard
President & CEO