

September 16, 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 the Accounting for Derivative Instruments and Hedging Activities

Dear Mr. Golden:

The Indiana Bankers Association appreciates the opportunity to comment on the proposed changes in the accounting proposal, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities." The Indiana Bankers Association is a non-profit trade association representing 160 commercial, savings, mutual and thrift banking institutions in the state of Indiana. It is with these members in mind that The Indiana Bankers Association is writing you to express our strong opposition to the promulgation of fair value (market value) as the primary balance sheet measurement for all financial instruments. In our opinion, marking the balance sheet to market does not provide a clear, long term picture to investors.

The current Draft Proposal requires banks to record loans on their balance sheets at market values. However, a majority of our members do not sell their commercial loans and several retain a sizable residential loan portfolio. By and large, our members keep these loans to maturity. Making loans is a risk the bank evaluates for the life of the loan. Investors are interested in how a loan performs, not how the market views loan values. Furthermore, if there are issues with a borrower's ability to repay a loan, our members work through the collection process with the borrower rather than choosing to sell the loan. Requiring banks to develop values for these illiquid assets will have to be built upon assumptions that are subjective. Plus, there is no active market for many of our member's loans, calling into question the reliability of using such a system to assign value to these loans. In our opinion, estimating the fair value of these loans will be inconsequential to accomplish your intended goal.

More importantly, marking all loans to market would cause our members' capital to be subjected to the drastic fluctuations of the markets whether or not the entire loan portfolio is performing. The volatility of the markets will undoubtedly skew the book value of these assets driving away investors. In an economic downturn, such as the one we are currently experiencing, bank capital will be impacted by these variances in the market. This would certainly have an effect on lending, forcing many institutions to reevaluate their credit criteria

enough where by making it more difficult to obtain loans thus exacerbating recessionary periods.

Finally, the IBA feels it is important to note that the costs and resources needed to comply with this new requirement will be significant. Many of our members simply do not have the tools to comply with this proposed rule. This will require many of them to contract consultants to estimate the required market value of loans. This additional cost of ensuring that sufficient resources are dedicated to compliance with the proposed rule will ultimately fall to the shareholders of our financial institutions. Due to the subjective aspect of assigning market value to a loan portfolio, the benefit to shareholders from this proposed rule is not enough to justify the additional costs.

For the reasons stated above, the Indiana Bankers Association respectfully requests that the fair value section of the exposure draft be dropped. Thank you for your time and attention.

Sincerely,

A handwritten signature in cursive script that reads "S. Joe DeHaven".

S. Joe DeHaven  
President & CEO