



Union First Market Bankshares Corporation
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Via email: director@fasb.org

September 30, 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:

Union First Market Bankshares Corporation (“Our” or “We”), one of the largest community banks headquartered in the Commonwealth of Virginia, with assets of \$3.9 billion appreciates the opportunity to comment on the Financial Accounting Standards Board’s (“FASB” or “Board”) Proposed Accounting Standards Update, “*Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*” (the “Exposure Draft” or “ED”).

Our primary customers are individuals and small businesses with dissimilar circumstances, creating lending relationships that are not easily converted to a fair value. The loan portfolio consists principally of loans secured by residential and commercial real estate. Total real estate loans are approximately 82% of our loan portfolio. Our loans are made on the basis of collecting future contractual cash flows intended to be held through maturity date and they are loan by loan decisions with unique borrower circumstances.

One of the most critical components of our business model is to effectively manage the credit risk of our customers, without regard for a fair value estimate assumption of those loans based on contractual cash flows. While we support the Board’s efforts to improve financial accounting and reporting for financial instruments we believe the FASB should focus its efforts on a common (global) standard for credit impairment, not in trying to establish fair value as the universal common measurement objective.

We are not only a preparer of bank financial statements and footnote disclosures but we also analyze other banks and use their financial statements and footnotes in analysis. Inherent in that process is that the balance sheet of today is one of a “going concern” and does not represent a liquidation value. Footnote disclosure and related credit

metrics are reviewed for additional insight as to performance. We believe the current mixed attribute approach properly reflects financial instruments using fair values, historical cost or lower of cost or market where applicable. Knowing the business purpose for each of the financial instruments guides the accounting and reporting treatment, is in line with a “going concern” balance sheet and is well understood by analysts and the investment community. The use of fair value as the common measurement objective for financial instruments held for the collection of contractual cash flows will mask the true underlying performance of the instrument and entity. This is a view that our peers in the industry, our shareholders, stock analysts and our regulators share.

Fair Value

- In trying to account for the differences that exist between transaction price and fair value, the initial measurement as described in paragraphs 14-17 seem to overly complicate what should simply be recorded at transaction price, consistent with current practice without multiple elements. Obtaining reliable evidence to support the difference between transaction price and fair value will be a burdensome requirement with significant implementation issues that will lead to increased operational and audit costs. We believe the value to the end user will be negligible, at best. In addition, it will result in the use of inconsistent fair values among banks, making comparison of information difficult.
- We feel the subsequent measurement principal is flawed, particularly as it relates to loans held for investment, whereby loans are held for the collection of contractual cash flows.
 - Our bank’s practice is to hold loans until maturity and work with troubled borrowers on a relationship basis, not to sell troubled loans. Fair value presentation assumes that all banks are in the business to sell all loans using an exit price each reporting period and their balance sheets are not presented as a “going concerns” but at liquidation values. This presentation would be confusing and potentially misleading to readers of financial statements and inconsistent with how the bank is managed.
 - Fair value measurement is appropriate for short-term trading (held for sale or derivative) instruments, but not loans held until maturity with inactive markets. Without active markets in which to sell long-term held for investment loans, the reliability of financial statements is significantly called into question, as is comparability between and among financial institutions
 - Presenting fair value (i.e. marking loans to market) and amortized cost on the face of financial statements would mix two very different business purposes and would result in the accounting driving the business model, not the other way around.
 - Fluctuating markets create volatility. After using significant judgments to obtain a fair value estimate, the income statement and capital level will mask the true performance of the bank.
 - Reporting fair values applicable to interest rate and liquidity risk for loans held to maturity are not relevant and better described as an ancillary footnote disclosure (i.e. Accounting Standards Codification (“ASC”) ASC 825-10-25 formerly FASB 107) or in management’s discussion and analysis. Moreover, interest rate risk and liquidity risk are not managed in a loan portfolio, but are instead managed as part of an overall strategy in a treasury capacity.
 - Our investors have expressed no interest in such disclosures and, in fact, have indicated that such changes would result in confusion and less reliable information in the financials. One of their more accurate descriptions of the ED referred to it as “theoretical elegance”.

- Estimating the market value for many of our loans would be a laborious and inexact process, adding little value to the financial statements. The process necessary to produce these results and the resources to implement and report will create unnecessary burdens on the credit administration, accounting and reporting functions of the bank. Additionally, since we lack such expertise in-house, outside consultants would likely be needed as well as additional oversight from auditors, all of which will increase costs and negatively impact our shareholders. In short, the costs significantly outweigh any perceived benefits of this proposal.
- We believe that loans and financial instruments should continue to be accounted for at amortized cost under the current rules and respectfully request the fair value portion of the Exposure Draft be dropped.
- The concept in the Exposure Draft of using fair value for certain of the financial statement assets but core deposits only remeasured (i.e. under the core deposit liabilities remeasurement approach) or recorded according to match asset characteristics seems displaced and could significantly affect equity in volatile markets. Core deposit valuations are typically performed in connection with an acquisition, are typically complex and usually required the use of an outside expert. A quarterly core deposit remeasurement approach using an entities own internal assumptions as a basis is likely to create more confusion and inconsistency than transparency. The ED creates a new accounting model for internally generated intangibles related to core deposits and is not consistent with the spirit of the ED to address financial instruments. Additional work (i.e. another project) should be pursued and the Board can address the accounting principles for all internally generated intangibles.

Loan Impairment

- We support the FASB's intentions in the Exposure Draft to consider changes in the current impairment model for loans held at amortized cost.
- There is conflicting guidance in the ED in determining whether credit impairment exists. The ED requires expectations about the collectability of cash flows include all available information relating to past events and existing conditions, but not consider potential future events beyond the reporting date. The conditions existing at reporting date are assumed to be unchanged for the remaining life of the financial asset. But paragraphs 43 and 44 refer to factors that do consider future events beyond reporting date, such as rating agency changes, fair value of collateral, and other published data – analyst's reports.
- The assumption that economic conditions will remain constant, without change, for the life of the loan or portfolio is not realistic. It is effectively saying that when times are good, they will continue and when times are bad, they too will continue and for provisions for loan losses to incorporate that logic would be dangerous. This could create unnecessary swings (i.e. volatility) in the allowance for loan losses on the balance sheet and related provisions for loan losses in the income statement.
 - We support a life of loan concept that is clearly defined with future expectations of conditions that are reasonably expected to occur, based on past experience.
- The income recognition portion of the ED poses significant issues as it relates to analyzing profitability of the bank as well as operational implementation. Recording the effective interest rate net of any related allowance for loan losses may seem academically logical but in practice blurs the common metrics historically used in analysis.

- Traditionally, credit analysis and interest income recognition have been separately recorded and evaluated. Comingling these two metrics, net interest income and credit losses will cause the reader of our financial statements considerable confusion as portions of what was previously interest income will become provision for loan losses.
 - We support interest income recognition separate from the process of credit impairment. Interest income should be calculated on contractual terms without regard for credit factors.
- The ED would cease the accrual of interest only when the expectations about the cash flows expected to be collected indicate that the overall yield on the financial asset will be negative. We believe this revision to current generally accepted accounting principles (“GAAP”) is not necessary. Additionally, there is no distinction in the ED between total expected cash flows or remaining cash flows. The regulatory guidance for placing loans on nonaccrual status is well grounded, well understood by the investor/analyst/regulatory community and currently without controversy. If the Board retains this concept, significant differences between regulatory guidance and GAAP will exist and cause additional complexities for tracking and reporting interest on nonaccrual loans.

We thank the Board for its consideration of our comments and would be pleased to discuss any of this in more detail with the Board or its staff.

Sincerely,



D. Anthony Peay
EVP and Chief Financial Officer
Union First Market Bankshares Corporation



Bill Davis
VP and Director of Financial Reporting
Union First Market Bankshares Corporation