



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:

Thank you for the opportunity to comment on the exposure draft *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (the "Proposed Standard"). Users of financial statements need to know the information being reviewed is a true reflection of the financial condition and results of operation of a bank. The Proposed Standard will make bank financial statements significantly less transparent and more difficult to analyze and understand, and I am writing to express my sincere opposition to the Proposed Standard.

In the Proposed Standard, banks must record loans on the balance sheet at their fair value, which will create significant volatility in almost any market environment. Fair value for a loan is very difficult to determine without a true sale. Almost all loans that community and regional banks make are originated to hold and will likely never be sold in a market transaction. Additionally, the standards for determining fair value of a loan attribute no value to the bank's relationship with its customer or the bank's unique collection abilities. Modeled fair values are not an indication of the cash flows a bank can expect from a loan. Also, the result of these models is not a valid indication of the financial condition of a financial institution.

From an investor's viewpoint, the black box used to determine a loan portfolio's fair value would add uncertainty and opaqueness to the financial statements under review. Although the framework for developing a fair value exists, individual preparers and issuers will always interpret and apply that guidance differently. Assumptions used to determine the reported fair value of loans will vary widely from issuer to issuer, and will lead to marked inconsistencies between issuers. A recent Wall Street Journal article that outlined the variances in the fair values of loans by several banks and their auditors clearly support this point. Under the Proposed Standard, these types of inconsistencies would be on the face of the balance sheet as if the fair values were factual and would be realized in a sale. This hardly moves accounting standards toward the stated goal of FASB to increase consistency.

It will also be difficult to understand and model the net interest margin a bank reports. The underlying assets in the loan portfolio will constantly be changing depending on the interest rate environment, market liquidity, and many other factors. The daily changes in market rates will create large swings in reported net interest margin as we will report the fair value of a loan portfolio as of a

Technical Director
September 30, 2010
Page 2

particular day, but then must compare that to an entire period's net interest income. Analysts and investors will ask that the current reporting be continued in addition to any new standards so that a more meaningful analysis of yields and margin can be conducted.

Additionally, it is very difficult to analyze and comprehensively understand the strategies employed by a financial institution where the majority of its assets and liabilities are marked-to-market under conventions that do not give any credit to its long-term business model. Current techniques that are allowed to be used for determining the fair value of a loan portfolio resemble a liquidation scenario. This recent financial crisis has certainly placed significant stress on many financial institutions, but relatively few banks will actually be forced out of business in a bankruptcy or a conservatorship. By the FDIC's own count, 10 out of every 11 banks in the country are not at any real risk of failing. Furthermore, the FDIC believes that the true value of a bank, even one in bankruptcy, is maximized by pursuing a long-term hold strategy as evidenced by their loss share agreements prevalently used in bank failures.

Financial institutions large and small are long-term investors in local people and businesses and generally receive their investments back at par, regardless of current market conditions. Under the Proposed Standard, banks will modify their lending practices so as not to be affected by the whim of the market on a particular period-end date. The extreme variation in fair value of a long-term, fixed rate loan in a moving interest rate environment will force banks to lend for shorter terms and use floating interest rates. Financial institutions will be very quick to protect their capital positions. Lending will likely be curtailed and fixed-rate, long-term loans will come with complicated structures and provisions that will be very unappealing to customers. This is clearly a case where accounting rules may drive business decisions.

I feel the amortized cost method of accounting for portfolio loans is the most appropriate method. It is a clear standard that all preparers and users of financial statements can understand and upon which investment decisions can be based. Any fair value model introduces far too much variability and clouds the financial statements with needless assumptions and modeling, and risks meaningful curtailment of lending by financial institutions. The current disclosures of fair value should be sufficient for a user to ascertain the potential fair value of loans and equity of the organization.

I respectfully recommend that FASB drop its Proposed Standard to mark loans to market. The Proposed Standard will decrease transparency and understandability of bank financial statements and lead to lower levels of lending and increased costs to borrowers.

Thank you for considering my views. Please feel free to contact me if you would like to discuss my concerns.

Sincerely,



David D. Brown
Chief Financial Officer