



Shaun D. Kennedy  
President

September 22, 2010

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
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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 Members of the Financial Accounting Standards Board:

I am writing today to express my concern with and opposition to FASB's proposed changes to the way banks mark their financial instruments; namely, the expansion of fair value accounting to all financial instruments. While my letter will not address all the concerns expressed by the community banking industry, I think it is very important to specifically address some of the more egregious parts of the proposed changes. Our industry has consistently opposed a fair value accounting model for the core banking activities used in our industry. I shudder when I think what the impact to our industry would have been in 2007/2008 if this model you are proposing had been in effect.

The changes proposed in No. 1810-100 expand current mark-to-market accounting by requiring banks to record all financial assets and liabilities at fair value on their balance sheets. **However, these changes fail to take into consideration the fact that commercial banks hold financial instruments like loans for long-term investment purposes—not for trading purposes.** In fact, the vast majority of community banks keep the loans they make on their balance sheets and hold them for the life of the loans. Forcing community banks to begin accounting for long-term investments at fair value will result in a significant change to our capital because these assets most often have no active markets. It will also put a tremendous amount of pressure on the lending equation, leading to decreased lending at exactly the time the country needs to have lenders willing to make loans to small businesses—which are the “engine” of our economy.

Furthermore, **community banks will incur significant costs in order to provide these fair value estimates at what appears to be of no benefit to the customer, the shareholder or the bank.** Without implying that our customers and shareholders are not savvy, I am very concerned that few people will understand the nuanced change of fair value results. Rather, I fear customers and shareholders will see significant drops in their bank's capital – both because of the move from amortized accounting for long-term investments and because of the higher costs associated with providing these fair value estimates – and mistakenly believe the bank's capital reporting is unreliable.

Broadway National Bank

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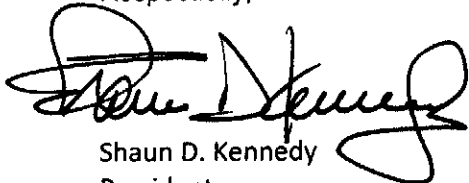
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For larger institutions, that are more sophisticated in their investment portfolios, I **understand the standards proposed are inconsistent with the standards utilized by the international financial reporting standards.** It is my understanding the industry is undertaking a move to bring into alignment accounting practices worldwide and eliminate pro-cyclical problems. In my opinion, this accounting rule would exacerbate the problem of pro-cyclicality and cause further unwarranted stress for our industry.

Our national trade association (the American Bankers Association) has filed a lengthy and very comprehensive response to the proposal being offered, and I support their position.

Thank you in advance for your time and careful consideration of the above. It is our request that FASB would withdraw this proposal.

Respectfully,



Shaun D. Kennedy  
President  
Broadway National Bank  
*Texas Bankers Association*  
*Vice Chairman-Government Relations Council*