

From: thompson@successbank.net
To: [Director - FASB](#)
Subject: Comments on No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities" Exposure Draft
Date: Friday, September 24, 2010 3:08:11 PM

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September 24, 2010

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

Dear Mr. Golden:

I am writing to urge FASB to not go forward with the proposal. I am President of a very small community bank with \$100 million in assets in a midwest county with a total population of 8600 people. Community banks such as this bank create and hold small business loans for which there is no active market; it would be very difficult and costly to mark them to market.

In the 2008 financial meltdown in the U.S. we learned that in a crisis even the highest quality and most common loans in the financial markets become illiquid. Marking to market only works when markets are functioning with willing buyers in addition to willing sellers.

The community banking system is the provider of cheap capital to the millions of small businesses that are the gears and wheels of the U.S. economy. The natural volatility of our markets and economy, under mark to market accounting of loans that are made and held for the collection of long-term cash flows, will have a devastating affect on the level of capital that must be held on community bank balance sheets; this directly and severely impacts the cost of loans made to small businesses. If our 90/10 banking leverage model (90% borrowed funds and 10% bank equity capital) is forced to become 80/20, loan interest rates must rise drastically just to maintain the same required Return on Equity for the banks. The cost trade-off of one part borrowed funds to one part equity capital is approximately 1:5 (3% cost of funds to 15% required ROE). This would require a 28.5% increase in loan interest rates just to maintain bank ROE (without considering additional costs of complying with mark to market and any additional risk factor costs). The math is: $(.9 \times 3\%) + (.1 \times 15\%) = 4.2$ verses $(.8 \times 3\%) + (.2 \times 15\%) = 5.4$. The difference: $1.2 / 4.2 = 28.57\%$. This is before we even begin to address the unknown cost of compliance with mark to market loans.

Small businesses are the economic growth and employment engines of our national economy. In good times/markets, most small businesses looking for credit are denied by multiple financial institutions before they find one community bank that is willing to accept the risk. Can we really afford to make small business credit more difficult to obtain?

Sincerely,

Dan Thompson