September 9, 2010

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
Post Office Box 5116
Norwalk, CT 06856-5116

File Reference Number 1810-100

Dear Mr. Golden:

The Financial Accounting Standards Board seeks comments on the Exposure Draft (ED) of a proposed Accounting Standards Update (ASU) which would require the application of full fair value or mark-to-market accounting to the balance sheets of community banks. The Community Bankers Association of Illinois (CBAI), which represents 430 Illinois community banks, welcomes this opportunity to provide you with our views on this important issue.

By way of background, community banks are in the business of lending money and using local deposits as their primary funding source. The average loan-to-deposit ratio for community banks with less than $1 billion in assets (as of June 30, 2010) was 93.4%. The loans are to small businesses for buildings, equipment and working capital; to consumers for residential mortgages, home equity, and for automobiles; and to farmers for a variety of agricultural purposes. These are loans with unique risk profiles and are not readily marketable, thus making it difficult if not impossible to determine the realistic fair or mark-to-market values required by this proposal.

If the fair values cannot be realistically determined, the default value will certainly tend to be the below-par fire-sale or liquidation value. In fact, a below-par value will be the case from the very day these loans are made. The impact of the aggressively discounted loan values on the capital of community banks will be devastating, and will surely jeopardize the very existence of many of community banks.

This proposal also runs contrary to the community bank business model which is to make loans and hold them to maturity. If a bank were to be in the business of actively buying and selling loans it may be appropriate to mark the loans to market. But this is not what community banks routinely do and thus the proposal is not appropriate for community banks.

This proposal may even unintentionally change the community bank business model and negatively impact borrowers. The loans most subject to volatility, as a result of changes in interest rates, will be fixed-rate loans. Banks will be less likely to offer this type of financing because of the potential impact on asset values and earnings volatility. Not offering fixed-rate loans runs contrary to what customers typically desire for loans to finance long-term assets.

Community banks already risk rate and perform impairment analyses on their entire loan portfolios and impaired loans. A banks' Allowance for Loan and Lease Losses (ALLL) is the result of this required and detailed analysis which serves to adjust the value of the loan portfolio downward by the amount of the ALLL. Thus, the additional fair or mark-to-market valuation is not necessary because it has already been done.

The ED would require a present value measurement for core deposits and that they be remeasured each period using a present value method that reflects the economic benefit (intangible) that the bank receives from this lower cost, stable source of funding. We oppose this. While this may work for larger financial institutions that are active in the capital markets for various funding alternatives, many smaller community banks have limited alternative funding sources, particularly if they are located in small rural communities. The fair values created will be meaningless, yet will be very costly to determine.

The implementation of this proposal cannot possibly lead to a better understanding of a community banks' assets, liabilities, financial condition, or the bank itself. More likely, the presentation of the financial statement with the application of fair value or mark to market accounting treatment will misrepresent and mislead those very users this proposal is meant to benefit.

The implementation of this proposal will place an additional cost and compliance burden on community banks. Community banks are already straining under the existing regulatory compliance burden. This burden will be significantly increased over the next several years, as a result complying with the Dodd-Frank Wall Street Reform Act. This proposal will only add to an already significant and increasing burden on community banks.

Also, we rightly fear the implementation of this proposal will have a significant and negative impact on small business lending. Small businesses are the very backbone of our economy and the number one source of job creation in our Nation. Community bank lending is the engine that drives small businesses. The valuation of commercial loans "on the margin" (i.e. start-up loans, borrowers with shallow or less than perfect credit histories, loans with minimal or hard to value collateral, and loans to struggling firms) will be those most negatively impacted by fair or mark-to-market valuation. If this proposal is implemented, community banks will rightfully be reluctant to make new, or continue in existing marginal, commercial loans. The impact will undoubtedly be a further drag on an already sluggish economic recovery. It could also possibly tip the economy into a double-dip recession.

We join with our national association, the Independent Community Bankers of America (ICBA) in strong opposition to the accounting changes in the Exposure Draft and urge FASB not to go forward with it.

Thank you very much for considering our position on this important issue.

Sincerely,

/s/

David G. Schroeder
Vice President Federal Governmental Relations