

## **1867 WESTERN FINANCIAL CORPORATION**

August 18, 2010

Russell G. Golden, Technical Director Financial Accounting Standards Board PO Box 5116 Norwalk, CT 06856-5116

SUBJECT: File Reference No. 1810-100

Dear Mr. Golden:

1867 Western Financial Corporation is the holding company for Bank of Stockton, a community bank. As of June 30, 2010, the bank had assets of almost \$2 billion. We appreciate the opportunity to comment on the Exposure Draft entitled "Accounting for Financial Instruments and Revision to the Accounting for Derivative Instruments and Hedging Activities." For the reasons set forth below, we believe that the proposal to "fair value" the loans and deposits of community banks such as ours will not provide us or those who use our financial statements with useful information. Instead, the implementation of such a proposal would waste our resources in non-productive or even counterproductive efforts, while at the same time reducing our ability to serve our customers and our communities.

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Bank of Stockton has been serving the small and medium-sized businesses in our communities for more than 143 years. We make loans and fund them with deposits, always with the strategic intention of holding them to maturity. With the exception of an occasional loan participation when the customer's needs exceed our prudential limits, we do not sell our loans or any interest in them. As a matter of history, we do, in fact, hold them to maturity. There is no market for these assets. We do not participate in shared national credits.

For management purposes, we have found the mixed-measurement approach to valuation to be both appropriate and useful. We believe that any effort to mark to market the loans or deposits of a community bank such as ours would be an exercise in futility. At best, such an effort will produce values that will be impossible to validate. Based on our experience, outside audit firms will be unable to provide us with any useful guidance. To the contrary, as part of their own risk management, those firms will naturally require us to mark loans and deposits as conservatively as possible. It will

P.O. Box 1110 Stockton, California 95201-1110 not be possible to compare results among community banks. When the economy is in trouble, such marks will be pro-cyclical, exacerbating the pain in the local markets served by community banks. In a depression, which is the only description which today fits our service area, which is the Central Valley of California, the extent of the marks will potentially require community banks to obtain new capital when it is either not required, not available or available only at a prohibitive cost. We already deal with valuation issues pursuant to current GAAP requirements, taking specific or general reserves as appropriate.

We believe it is important for our bank to remain well capitalized in good times and bad. Because of the uncertainty of valuation in a mark-to-market environment, we would be forced to maintain excessive capital as part of our risk management. The bank regulators have already significantly tightened the capital regulations applicable to us and we can expect further tightening as a result of the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act. The uncertainty factor associated with mark-to-market accounting will force us to further curtail our lending and our commitments, harming the very communities we are trying to serve.

Financial statements should provide useful information to those who use them, not only to the management of the bank but also to our regulators, our investors and our communities. We submit that the effort to apply mark-to-market accounting to our business is based on a lack of understanding of the strategies and operations of community banks. If implemented, the result will be neither cost beneficial nor provide useful information to those who rely on the statements for making decisions.

Sincerely,

Thomas H. Shaffer

President

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CC: Douglass M. Eberhardt, Chairman/CEO, Bank of Stockton Kenneth Binning, Board of Governors of the Federal Reserve System Stan Ivey, Federal Deposit Insurance Corporation William Haraf, California Department of Financial Institutions