

**From:** [alv@peoples-ebank.com](mailto:alv@peoples-ebank.com)  
**To:** [Director - FASB](#)  
**Subject:** File Reference: No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for Derivatives Instruments and Hedging Activities"  
**Date:** Saturday, September 11, 2010 10:42:52 AM

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Al Vermeer  
P.O. Box 158  
Rock Valley, IA 51247-0158

September 11, 2010

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

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."

As President/COO of Peoples Bank, a banking institution in Rock Valley, Iowa with \$340 million in total assets, I am writing to express my opinions on specific provisions of the exposure draft.

#### I. COMMENTS ON FAIR VALUE

I am strongly opposed to the portion of the proposal that requires all financial instruments - including loans - to be reported at fair value (market value) on the balance sheet. Being a locally owned community bank, we hold the vast majority of our commercial loans on our own books. Basing our balance sheet on fair values leads readers of our financial statements to assume that we will sell the loans, which is not the case. If there are issues with a borrower's ability to repay a loan, we work through the collection process with the borrower rather than sell the loan. There is no active market for many of our loans, and estimating a market value makes no real sense. In fact, being a predominantly agricultural bank, it would be harmful for our borrowers to try value their loans based on volatile agricultural commodity markets under which they operate. Doing so would hamper our ability to make loans, thereby hurting our borrowers access to the credit that supports their businesses.

Even if we could easily obtain a market price, since the loan is just one part of the financial relationship that we have with the customer (multiple loans, investment and trust services, etc.), there is no financial incentive to sell. Marking all loans to market would cause our bank's capital to sway with fluctuations in the markets - even if the entire loan portfolio is performing. Instead of providing better information about our bank's health or its ability to pay dividends, the proposal would mask it.

The costs and resources that we will need to comply with this new requirement would be significant. This will require us to pay consultants

and auditors to estimate market value. Besides, our investors have expressed no interest in receiving this information. We believe our investors would not view these costs, which must come out of bank earnings, as being either reasonable or worthwhile.

For the reasons stated above, our bank respectfully requests that the fair value section of the exposure draft be dropped.

## II. COMMENTS ON LOAN IMPAIRMENT

I support the Board's efforts to revise the methodology to estimate loan loss provisions. However, I have serious concerns about how such changes can be implemented by banks like mine. I recommend that any final model be tested by banks my size in order to ensure that the model is solid, workable and relevant for community banks.

I do not support the proposal for recording interest income. Interest income should continue to be calculated based on contractual terms and not on an after-impairment basis. Changing the way interest income is recorded to the proposed method makes the accounting more confusing and subjects otherwise firm data to the volatility that comes naturally from the provisioning process. I recommend maintaining the current method.

## III. COMMENTS ON HEDGE ACCOUNTING

I support the change of the requirement that a hedge is "reasonably effective" (as opposed to being "highly effective"). This should make it easier for banks like mine to implement hedge accounting. It is very important that the term "reasonably effective" be better defined. The "shortcut" and the "critical terms match" methods should be maintained. This greatly helps medium and smaller banks like mine to reduce the cost of compliance with the hedge accounting rules.

Thank you for considering my comments.

Sincerely,

Al Vermeer  
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