1810-100 Comment Letter No. 1104

From: <u>delucad@pioneersb.com</u>

To: <u>Director - FASB</u>

Subject: File Reference: No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for

Derivative Instruments and Hedging Activities"

Date: Friday, September 17, 2010 12:07:51 PM

David DeLuca 21 Second Street Troy, NY 12180-3948

September 17, 2010

Russell Golden Technical Director Financial Accounting Standards Board 401 Merritt 7, PO 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 Executive Vice President & CFO of Pioneer Savings Bank, a mutual savings bank headquartered in Troy, New York with appromiately \$750 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.

Our Bank does not nor does it plan to sell our commercial loans. Basing our balance sheet on fair values assumes a liquidation value and that we sell the loans, which we don't other than residential mortgages.

If there are issues with a commercial 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 most of our loans, in addition, our borrowers are principally in our community and its in our best interest as well as the borrowers to work through economic cycles. Estimating a market value makes no economic sense, and is non-productive other again determining liquidation value.

Even if we could easily obtain a market price, the loan is just one part of the financial relationship we have with the customer (multiple loans, as well as deposit services, etc.), there is generally no financial incentive to sell, nor does it benefit the local community at large.

Marking all loans to market would introduce more volality to our bank's capital with fluctuations in the pricing - even if the entire loan portfolio is performing. Instead of providing better information about

our Bank's capital strength, the proposal would be confusing and our regulators would ignor anyway since they generally exclude those from capital when we file our call report.

Even if the banking regulators' Tier 1 capital excludes fair value fluctuations, we still have to explain it to our customers and depositors who may se large swings in our capital on a quarterly basis unrealted to our core operations.

The costs and resources to comply with this new requirement would be significant as well as non-productive.

Pioneer Savings respectfully requests that the fair value section of the exposure draft be dropped altogether.

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, especially smaller ones, to determine whether the model is workable.

I do not however, support the proposal to record 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. Furthermore, we would need to keep an additional set of books to reconcile this modified book income to taxable income. I recommend maintaining the current method.

Thank in advance for considering my comments.

Sincerely,

518 274-0060 Executive Vice President & CFO Pioneer Savings Bank