From: jguttau@tsbank.com
To: Director - FASB
Subject: File Reference: No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities"
Date: Saturday, September 18, 2010 1:52:41 AM

Joshua Guttau
15 E Main St
Treynor, IA 51575-9502

September 18, 2010

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

Dear Mr. Golden:

Our bank appreciates that FASB has provided the opportunity to comment on the fair value accounting issues on the exposure draft, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities."

As President, CFO, Board Member, and Trustee of our Family Trust that is the majority owner of Treynor State Bank in Treynor, IA with $185 million in total assets and $225 million in Trust Assets, and was named the top performing bank in the nation in 2009 by ABA and ICBA for the $250 million and less category; I am writing to express my opinions on specific provisions of the exposure draft. Based upon the various hats I wear, I believe I am able to look at the issues from multiple perspectives.

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.

Our bank does not sell our commercial loans. 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.

Another reason we do not sell the loans is the loan is just one part of the financial relationship that we have with the client.

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.

As a President, I am not concerned about having to explain it to shareholders and clients, because we are closely held and the owners are around the board room table. Clients are fairly oblivious to bank's financials, and I dont think this change would impact that.

As a CFO, the costs and resources that we will need to comply with this new requirement would be felt on the bottom line. At our bank's size we would need to contract this service out.

As a bank investor, I have no interest in receiving this information. I am an extreme capital markets focused banker, examiners and consultants know this and have expressed that our bank runs more like a billion dollar bank from that standpoint, as we utilize investments and non core funding much more than your traditional community bank. Because of this, i have a pretty good handle on how quickly "market value" can change. In the last two years i have seen our $100,000,000 investment portfolio 'unrecognized gain/loss' swing $2 million in a quarter of year time period. In a normal earnings year, that would be our total income. Because we are not forced to sell those assets, i know that as rates, spreads, and market liquidity changes, this value can change prior to my need to hold them. If i was forced to recognize through income all of the swing, I would choose not to invest in some of the longer assets. This would negatively impact the ability of municipalities and the housing sector to get long term financing.

We are a small player, but I believe many other investors and banks would move the same direction. So by the proposal's theory, maybe transperancy and risk has been improved at the financial institutions level, but now the municipality or consumer/housing market is going to recognize potentially more risk, becuase they can not get long term financing of fixed rates.

Due to some changes by FASB, for the last 3 years, we have been required to mark some of our bonds (inverse floaters, because you can not bifurcate the value of the derivative, as it is not a "derivative" that is purchased) market value changes through our income statement each month.

I think this has been a very good excercise in anticipation of these proposed changes, because it has showed me how volatile it can be, and this is a very small part of our balance sheet. It skews income from true performance, and every so often we get live market bids to compare to matrix based market valuation given by the bond accounting firm. These prices are often much different. Given this fact, it makes me wonder if the implementation of fair value would provide a false sense of security to investors because they would be led to believe that the valuation used is correct, when anyone that has been in the market of fixed income knows that the 'fair value' is very subjective...what a real person is willing to pay in real money at that real point in time.

Their are three variables in that equation, and all three can have many variations, in which provides many variations of "fair value" of the same asset.

Because we have these 'fair value' bonds on our books today, we hold more capital in case the market goes against us for a period of time. This is capital that could be used to make loans and continue to provide credit to the markets, instead it is sitting there as protection against a bond that if held to maturity we will get all invested dollars back, as it is a government guaranteed bond.

On second thought, under current accounting standards we would expect to get all of the invested dollars back because the government guarantee has value. If accounting changes occur, I see it very likely that it will play a big part in causing or inflating the next financial and economic crisis, in which I am not sure I will believe that our government guarantee will be good at that point in time.

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 and workable.

It is very important that any new processes are agreed upon and well understood by regulators, auditors, and bankers prior to finalizing the rules.

III. COMMENTS ON HEDGE ACCOUNTING

Our bank does not use hedge accounting for anything at this point, so I do not feel I am in a posiiton that i can comment on this topic.

Thank you for considering my comments.

Sincerely,

712.487.0331
President & CFO
Treynor State Bank