PSB HOLDINGS, INC.

September 21, 2010

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

File Reference: No. 1810-100 Accounting for Financial Instruments and Revisions to Accounting for Derivative Instruments and Hedging Activities

Dear Mr. Golden:

PSB Holdings, Inc. ("PSB") is a one bank holding company for its wholly owned subsidiary, Peoples State Bank, Wausau, Wisconsin. PSB is a \$600 million asset community bank who has served the credit and depository needs of customers in northentral Wisconsin for 48 years. PSB is also a public company traded on the OTC Bulletin Board exchange under the stock symbol PSBQ. As a small community bank and a long-time public registrant, we can provide a relevant perspective on the potential impact of the proposed fair value accounting changes on the country's community banks.

In addition to these letter comments, we were also signors of the comprehensive comment letter provided to you by Darling Consulting Group, our long-time asset-liability management consultant. We have also reviewed and support the comment letters provided to you by The Banc Funds Company, LLC (our largest shareholder at 8% of common stock) and Sandler O'Neill + Partners, LP (a valued financial instruments provider and consultant). Our letter does not seek to repeat their comments, but to support their comments with our opinions on key areas of the draft as they will specifically impact PSB. Finally, since we believe the premise behind the proposed fair value accounting changes to be flawed, we did not provide responses to the specific questions outlined in the exposure draft since the higher level impacts of the proposal need turther consideration.

Calculating net income or total equity capital based on financial instrument fair values (valued by active trading indications) assumes that regular trading of financial instruments represents our business model. However, our business model and nearly five decades of operations have nothing to do with regular sale of financial instruments for profit even though most of our balance sheet consists of financial instruments. Instead, we originate and hold our assets (primarily loans) to maturity. During the three years ended December 31, 2009, less than 5% of our gross revenue was originated from sale of financial instruments. If you exclude our plain vanilla mortgage banking operations and sale of third party investment products for commission, that figure drops to approximately 1% of revenue (calculated on an absolute basis). Fair value measurements

neither reflect how our earnings are created nor capture the true going concern value of most community banks.

Complexities of new accounting standard implementation and our risk aversion to income volatility will likely change our business operations under fair value accounting. The new rules would likely cause us to focus on adjustable rate lending to high credit quality borrowers rather than originating various fixed term, fixed rate lending to borrowers of various credit quality (as done now) to minimize reporting and compliance risks under a new fair value standard. We have to look no further than the impact of FAS 133 rules regarding accounting for derivatives and how community banks dropped this effective interest rate hedging tool solely to avoid confusing and low value accounting rules. During that period, small banks like us changed their business model because of that accounting change. For the same reasons why recent accounting standards have sought to avoid "bright line tests" (such as the capital lease tests) in which businesses change their operations to meet an accounting rule, requiring fair value reporting for a hold to maturity bank such as us is not a step forward in reporting.

Existing financial instrument fair value disclosure rules under FAS 107 were intended to provide useful information for investors, and for large bank investors, perhaps they do. However, from our discussion with public company auditors and managers of small community banks, this FAS 107 information for small banks is created and reported to "complete the reporting checklist" with no expectation that any financial statement user will gain additional reporting value from the fair value disclosures. Our conversations with those who audit, manage, or invest in small banks show the FAS 107 disclosures to be the least useful of any in the financial statements. Is this because disclosure of fair value figures is not beneficial? It is more likely the information is not considered useful because it has nothing to do with our business model and is based on vast assumptions of value concerning the most significant components of our balance sheet since no reliable or liquid pricing market exists for such assets and liabilities.

Each commercial related loan originated by our bank is a unique loan in which credit quality and collateral need are evaluated on an individual basis. The only loans we originate based on standardized public credit reporting and underwriting metrics are those long-term fixed rate residential first mortgage loans we sell on the secondary market. There is no reliable, liquid, or standardized market information we can use to appropriately value a loan or deposit held in our portfolio. This makes fair value estimates theoretical in nature and investors, understanding this fact and our business model, disregard them.

Many industries, such as manufacturing or retail sales, may have relatively few individual financial instruments to manage and mark to fair value based on reliable market indications. However, as a bank, nearly all of our activity involves financial instruments, most of which cannot be effectively valued on a pooled basis. Meeting such a fair value requirement as proposed involves an enormous amount of additional manpower and expense. One very relevant example involves the additional cost borne by banks that have purchased problem loans in a standalone purchase or as part of an FDIC assisted takeover transaction. In general, such institutions have to add one full time employee per bank purchase solely to handle the required accounting for purchased problem loans. To meet this accounting standard, oftentimes additional

sets of loan accounting ledgers (besides the historical cost general ledger maintained on the core computer system) need to be maintained <u>by hand on a per loan basis</u>. Community banks, like us, do not have an "army" of newly graduated accountants to handle such work.

As eloquently stated in the August 13, 2010 comment letter provided to you by The Banc Funds Company, LLC, our investors do not believe the new fair value rules to provide decision useful information. Our investors value our bank based on a multiple of predictable earnings based on historical cost accounting methods to be realized in cash in future years. From their own admission, our investors perceive the proposed accounting change as a waste of resources.

Lastly, these sweeping accounting changes seem ill-timed. In an environment when most private capital enterprise leaders agree that recent vast political regulatory reform and its future unknown costs (to industry and taxpayers) are holding back job creation, these changes are simply another drag on the ability of America to compete globally. We encourage you to give further thought to such a sweeping reform of accounting rules and the potential unintended consequences.

Thank you for considering our comments and we appreciate your serious deliberation of this proposed accounting change.

Sincerely,

Scott M. Cattanach

Chief Financial Officer

PSB Holdings, Inc. and Peoples State Bank

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Peter W. Knitt

Chief Executive Officer and President

PSB Holdings, Inc. and Peoples State Bank

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