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September 22, 2010

Russell 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 the Accounting for Derivative Instruments and Hedging Activities

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. Southern Michigan Bank & Trust (SMB) is a community bank with \$470 million of assets located in Coldwater, Michigan. Since 1872 SMB has generated earnings by taking deposits and holding loans for the long term. Since we have no intention of selling these loans, and since they are not readily marketable assets, it does not seem appropriate to apply short term valuations to these illiquid loans.

While the intent of the proposal is to provide better transparency and comparability of financial statements, we do not believe that fair value measurements would provide a better understanding of our portfolio loans. We do believe it would be more difficult to compare banks as differing assumptions would be made by each entity resulting in questionable reliability.

Valuations of our agricultural and small business loans would be difficult to determine with many subjective assumptions being made. We believe we would need to hire consultants to value the loans and to defend the assumptions to both auditors and examiners. In addition to increased costs for consultants, audit costs would likely go up as auditors would need to audit the valuations. We do not believe the investors of SMB would receive value for these increased costs.

We also oppose the proposed accounting treatment for core deposits which calls for them to be regularly remeasured using a present value calculation. Consideration of alternative funding sources to determine our core deposit value does not make sense to us. As a small bank, we have limited funding sources. We do not believe that using an alternative funding source would provide accurate information, not to mention that the calculations would be expensive and time

consuming, particularly for smaller banks like ours that have limited staff resources to conduct the analysis.

Accounting standards and guidance should not be pro-cyclical. Recent market conditions have demonstrated the pro-cyclical nature of mark-to-market accounting as declining values of financial instruments necessitated write-downs and sales, causing further write-downs and sales. The proposed accounting changes will exacerbate cyclicality in financial results due to the greater reliance on fair value measurements, valuations that will be less accurate than current accounting requirements.

Again, we thank you for the opportunity to comment on this proposal and urge you to withdraw the proposal and not go forward with the changes.

Sincerely,

Danice Chartrand

Chief Financial Officer