1810-100 Comment Letter No. 1882

From: <u>pjjohnson@amfedsb.com</u>

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

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

Derivative Instruments and Hedging Activities" Exposure Draft

**Date:** Monday, September 20, 2010 11:37:58 AM

Pete Johnson American Federal Savings Bank, 1400 Prospect Avenue, P.O. Box 4999 Helena, MT 59604-4999

September 20, 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 FASB's Exposure Draft: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities. I am the President/CEO of Eagle Bancorp Montana, Inc., the publically traded holding company for American Federal Savings Bank in Helena, Montana. The bank has total assets of approximately \$310 million. We have a total of six locations and the total population of our markets is about 100,000. Our holding company was formed 10 years ago and we have been a SEC filer since then.

I am writing to urge FASB to not go forward with the proposal. The accounting that would result from this proposal would greatly misrepresent the financial condition of our bank and other community banks. The primary business of community banks is to hold financial instruments to collect contractual cash flows, not to trade them on a regular basis. I believe that the current accounting guidelines allow for an accurate depiction of how "normal" community banks conduct their business. There already is enough guidance for trading or derivatives activity. This fair value proposal will actually distort the economic value of a community bank and not properly show an investor what is "going on" at the bank.

This fair value proposal would put a burden on our small accounting department, as well as cost thousands of dollars a quarter to prepare the required measurements. Establishing fair values for the types of loans held by community banks like my bank would also result in data of questionable reliability.

The expanded reporting of comprehensive income is unnecessary, confusing and of little use to most financial statement users. I believe it will only serve to make the reader of our financial statements less likely to be able to reasonably analyze our condition, and drive them to do their own separate analysis. The banking sector, even the small bank arena, has a dedicated group of investors, who thoroughly understand the banking model. They have developed models based on currrent accounting practice which has served them well over the years. A change such as FASB has proposed would cause a major upheavel in the bank investor world.

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.

These accounting changes will increase the volatility of bank balance sheets, forcing them to face higher capital requirements or decrease lending at a time when regulators are calling for more capital and our economy needs more, not less, credit availability.

Again, we thank your for the opportunity to comment on this proposal.

Sincerely,

Pete Johnson 406-457-4006