

ESTABLISHED 1864

# THE HILL-DODGE BANKING COMPANY

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62379

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

File Reference No. 1810-100

Dear Mr. Golden:

Thank you for the opportunity to share with you my thoughts on the exposure draft, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities."

The Hill-Dodge Banking Company of which I am President is located in Warsaw, Illinois; was established in 1864, is a privately owned institution with assets of 36,000,000 and is the only bank in our town of 1800. Our customer base is largely a very conservative group whose families for generations have been very loyal to our bank for their financial needs. As these borrowers and depositors depend on us for their needs we are very dependent on them for our continued strength and success.

In reviewing the proposal it once again appears that regulations will continually be proposed that send "chills" down the spine of the of the community bankers. Please understand that the community banks are the backbone of our towns and villages. We are already awash in red tape and regulations to the point that it is difficult if not impossible to comply and yet serve the needs of our communities. All banks and lending institutions have not caused the current economic situation. Why treat us such? In many cases we are the victim of those who created the problems. Increased regulatory burden will continue to hinder the lending activities of our community banks at the time when the United States economy "truly" needs our help.

## I. COMMENTS ON FAIR VALUE

I am strongly opposed to the portion of the proposal that requires all financial instruments including loans to be to be reported at fair value.

This proposal has absolutely no relevancy for our bank as we have never originated and sold a single secondary market loan of any type. There is quite simply no market for our loans. We originate, monitor and collect the loans we make. If a collection process is needed we work diligently with the borrower to reach the best solution. As result of our efforts loan losses have been minimal.

The unknown effect on our capital base as well as the added expense of compliance adds to the reasons that our bank respectfully request that the fair value of the draft be dropped.

## II. COMMENTS ON LOAN IMPAIRMENT

We have no objection to the Board's efforts to revise loan loss provision methodology.

I would hope there would be considerable weight given to the historical losses and earnings projections as compared to peer group. Consideration should be given to how a model might fit different sized banks with varying capital and earnings levels.

A highly capitalized bank with strong earnings should not be required to adjust its reserve as result of a model that does not fit all institutions.

For many years the old standby rule of 1% of total loans had proven to be acceptable in most community banks. I realize that this is probably a little simplistic, but the ALLL will surely be overanalyzed and criticized going forward.

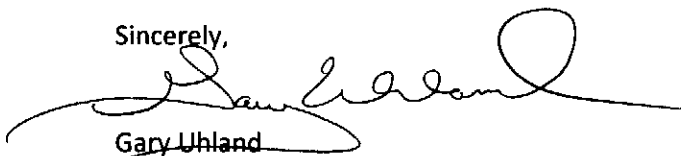
## III. COMMENTS ON HEDGE ACCOUNTING

My bank has no position on the issue of "hedge accounting"

In summary I would like to say there is no substitute for judgment when it comes to lending and investing. Regulations and models will not be effective in eliminating or correcting poor judgment. Twenty Five years ago we had three or four "bank policies". Today we have thirty and are probably missing a few. As this has not been the solution of our perceived problems it is again Washington's theory that we need more policies and regulations. I believe this is a terrible solution.

Thank you again for the opportunity to comment.

Sincerely,



Gary Umland

President

The Hill-Dodge Banking Company