1810-100 Comment Letter No. 2706

From: <u>hudak@somersettrust.com</u>

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

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

Derivative Instruments and Hedging Activities"

Date: Tuesday, September 28, 2010 4:43:17 PM

David Hudak 550 Main Street Somerset, PA 15501

September 28, 2010

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

Dear Mr. Golden:

September 28, 2010

Dear Sir:

Somerset Trust Company (STC) appreciates the opportunity to comment on the Exposure Draft: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities (ED). Somerset Trust is a \$588 million financial institution established in Southwest Pennsylvania in 1889.

We at STC regret that we cannot support this proposed change in accounting standards as we have many serious concerns and reservation with regards to it. As a community bank we believe that the move to mark to market loans does not reflect the business model of banks such as ours and would require a change in the products we offer our customers. Our ability to offer fixed rate loans to meet our customers' needs will be severely limited by this proposal. The unintended consequence of this proposal will be tighter credit standards, higher interest rates and more scrutiny on any new loan application, further tightening the already tight credit markets.

As a typical community bank, we originate loans and hold them to maturity or prepayment, collecting all contractual cash flows. In community banks, these loans are originated in connection with a new or existing customer relationship, whereby each loan originated is underwritten based on the needs of the customer as an individual whose economic circumstances may differ from the next customer. In our experience, there are no two loans that are exactly the same. These loans are typically funded by deposits gathered from customers in our market areas where we maintain a physical branch presence.

If the proposal were to be adopted, the result would be to diminish rather than improve the transparency and in no way improve the financial reporting for financial instruments in community banks. The ED would require banks to utilize "Level 3" inputs as described in ASC 820, Fair Value Measurements and Disclosures. This requires financial institutions

to use subjective judgments when estimating discount rates, average lives, effective durations and other items in order to quantify the inherent risks of each loan. These valuation methodologies will lead to inconsistent and disparate assumptions being utilized in determining fair value between similar institutions. The ED contains no provision that provides that each financial institution will employ consistent and comparable valuation techniques and methodologies throughout the industry.

The only conclusion is that the transparency that this ED is supposed to provide to financial statements and their related footnotes disclosures will cause them to become less comparable as each institution will utilize differing assumptions. The statements will become less consistent and less reliable for investors and creditors should this ED be adopted.

The addition of this proposal will also tax small community banks that do not have sufficient staff or staff knowledgeable enough to prepare the required Level 3 inputs needed to generate the information required for FV accounting. This may require the institution to incur significant expenses in order to comply. This in turn would lead to both lower capital and lessen an institution's ability to extend credit, further tightening the current credit markets.

If adopted, this ED would lead to undesirable consequences for all financial institutions, the economy and communities that Banks similar to ours serve. At this time, we would urge the Board to reconsider this matter and withdraw the exposure draft.

Thank you

David J Hudak SVP & CFO

Sincerely,

814-443-9349 Sr VP and CFO Somerset Trust Company