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**To:** [Director - FASB](#)  
**Cc:** [Donna Fisher](#); [mgullette@aba.com](mailto:mgullette@aba.com)  
**Subject:** File Reference No. 1810-100  
**Date:** Wednesday, June 30, 2010 3:57:40 PM

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June 30, 2010

Mr. Russell Golden  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. 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 (“proposal”). First Hope Bank is pleased to comment on this exposure draft, as not only are we a bank taking loans and deposits, but also a user of financial information on other banks, in order to analyze the safety and soundness of investing in their certificates of deposit.

First Hope Bank is a six branch bank with \$415.4 million in total assets, as of May 31, 2010. Our market consists primarily of several communities in northwestern New Jersey, which have been served by this institution since 1912. As of May 31, 2010, this bank held \$278.9 million in loans, \$353.9 million in deposits, and \$12.5 million in CDs from other institutions.

This proposal, if enacted, will actually distort the financial statements of many community bank institutions, as many do not sell their loans into the secondary market and hold them till maturity. This proposal will hold them to a standard that is counter to their business models. As a result of this change in business models, credit for many consumers and businesses will be altered to the point of being unaffordable, as longer-term loans are priced dramatically higher to offset the change in accounting principles.

Community banks are in the business model of pursuing and holding the deposits and loans of customers in their service area. This relationship is mutually beneficial, as the customer develops a relationship with a local banker and the bank receives a profitable investment. Wall Street and derivative investments generally do not factor into that relationship. The underlying assumption of the proposal is that this is not the case. The proposal assumes the bank will sell the deposits or loans to the secondary market or hedge the interest-rate risk with some form of a derivative, either swaps, floors, or something else. Instead, more often the bank offsets the interest-rate risk through adjustments to its balance sheet by the products it offers. Accounting rules should provide

some explanation of how a business runs.

If the proposal were to come to pass banks will be forced to shift the interest-rate risk on to the customer, as capital ratios will have to be maintained. This shift in interest-rate risk will in the end either make financial products more risky for the average consumer, difficult to receive, or much more expensive and complicated. As a result of this proposal, community banks will be forced to do one of several things. The simplest option will be to eliminate long-term, fixed-rate products, as the interest-rate risk volatility will be too great. This will cause the elimination of one of the most conservative forms of borrowing and deposits for customers. The next option will be to institute products with a balloon or a resetting interest rate. This will cause numerous customers to default on loans, since numerous customers do have shifting credit histories during the life of a loan, while still being able to make payments. The final option to banks would be to sell derivatives to customers in order to reduce the assumed interest-rate risk. These derivatives will be sold to customers that may or may not fully understand what they are accepting and lead us into a similar financial crisis as we are currently experiencing. Whatever happens as a result of this proposal, the net effect will be either less choice or more risk being assumed by consumers.

As a user of financial statements of banks, the addition of some measure of interest-rate risk only compounds the confusing nature of financial statements. It does not make them simpler. There are too many assumptions that would have to be explained. Information such as the average life, average maturity, cash flow structure, and other aspects of their portfolio would have to be explained in great detail for any number passed through the income statement to make any sense. Additionally, if the plan of management is to hold on to the investments, whether loans or deposits, until maturity, the addition or subtraction of income due to changes in the interest-rate risk in the intervening years only alters what should be a steady stream of income. It does not shed any additional light, as the interest-rate risk eventually dwindles to zero. The proper place for any discussion of interest-rate risk is in the financial notes, if the investor is curious, which as an investor in the short term bank certificates of deposit, the bank generally is not.

If the Financial Accounting Standards Board decides that some measure of interest-rate risk needs to be passed through the income statement, please follow the guidelines currently used for marking investments to market. Allow management to designate loans and deposits as either held to maturity, available for sale, or trading, with similar impacts to the income statement and balance sheet. This would allow banks with dramatically different business models to be impacted appropriately, based on whatever risk they are assuming.

Thank you again for the opportunity to comment on the proposal.

Sincerely,  
Lewis R. Beatty  
Chief Financial Officer and  
Executive Assistant to the Chief Executive Officer  
First Hope Bank

Cc: Donna Fisher, American Bankers Association;

Mike Gullette, American Bankers Association