From:
 Jeff Gerhart

 To:
 Director - FASB

 Cc:
 "Ann Grochala"

Subject: JLG - FASB Mark to Market

**Date:** Thursday, August 26, 2010 12:27:47 PM

August 26, 2010

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

File Reference Number 1810-100

Dear Sir:

I welcome the opportunity to comment on the Financial Accounting Standards Board's Exposure Draft: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities.

I am Chairman/President of The Bank of Newman Grove. Bank of Newman Grove is a \$32 million bank located in Newman Grove, Nebraska. My bank is a locally owned Community Bank with 5 shareholders. Newman Grove is a rural farming community with a population of 800. Our customers are farmers, main street business owners and consumers.

I strongly urge FASB not to go forward with the accounting changes contained in this Exposure Draft. In my view, the accounting that would result if this proposal went forward would greatly misrepresent the operations of my community bank, thousands of community banks across the country and many other institutions that hold financial instruments for the long-term. Any benefits would be far outweighed by the costs to implement it.

Community banks like mine fund their operations by taking deposits and holding loans for the long term. While we must hold some readily marketable securities for liquidity purposes, we are not in the business of creating or purchasing assets or liabilities for quick resale. We fund our operations primarily by deposits and hold small business, agricultural and even residential mortgage loans that are not readily marketable. We question how fair value measurements will provide a better understanding of illiquid agricultural loans held by a small bank like mine in a rural area.

The accounting changes in the Exposure Draft would cause all financial institutions, particularly community banks like mine, to significantly change their accounting policies and practices. This will be costly and burdensome for

all impacted institutions, but particularly burdensome for smaller community banks like mine.

I estimate that our cost could approach \$100,000 per year and this year that would amount to over 50% of my estimated earnings. Margins are tight, FDIC insurance premiums are higher, and health insurance costs are higher – just to mention a few costs that we have to deal with. And for what purpose?

There are 8 of us that run the bank and would have to costly outside consultants to determine valuations.

Financial institutions, like ours, will likely need even more capital to offset the resulting increased volatility in financial instrument values. While my bank has ample capital, many others are struggling to add capital in the current environment. Adding more capital for an accounting change will be difficult and will likely jeopardize the viability of many that are struggling to survive in these difficult economic times.

Under the proposal, core deposit liabilities would be re-measured each period using a present value method that reflects the economic benefit ("intangible") that an entity receives from this lower cost, stable funding source. Deposits would be discounted at the rate differential between the rate charged for the next best alternative source of funding and the all-in-cost-to-service rate over the implied maturity. The intent is to create "current" value information so the effects of changes in market interest rates are transparent on core deposits and other financial liabilities and the financial assets they fund.

We strongly oppose this aspect of the proposal. The calculation would be costly and difficult to perform and the result would be of questionable value because it would not reflect the true value of our deposits if we were forced or wished to liquidate them. The calculation will provided no better information to our shareholders or other users of financial statements than we already have, rather it will more likely confuse and mislead them.

I strongly oppose the proposal to develop fair values for our loans because it will be burdensome and expensive, far outweighing any benefit of displaying such information. Our loans are primarily agricultural loans and loans to small local businesses. There isn't a ready market for these loans, which is why we keep them on the bank's books – this is what a community bank does – we know our local markets & we know them very well. Again, any valuation that we might create in order to comply with the proposed accounting treatment would not improve the information provided to our shareholders or financial statement users but would be costly, confusing and misleading.

Accounting statements should report what happens in a business. I have grave concerns that if this statement goes forward, it will be the driver of bankers, businesses and business owners and managers to start making

business decisions to minimize its impact. Initial and ongoing costs to comply with the accounting treatment will far outweigh any benefits.

Again, I urge the FASB not go forward with this proposed accounting treatment for financial instruments.

Thank you for this opportunity to comment on the proposal.

Sincerely,

Jeffrey L Gerhart

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