

**From:** [jmeyer@fbks.com](mailto:jmeyer@fbks.com)  
**To:** [Director - FASB](#)  
**Subject:** File Reference: No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities"  
**Date:** Thursday, September 16, 2010 12:23:05 PM

---

James M Meyer  
3225 SW Skyline DR. W  
Topeka, KS 66614-3923

September 16, 2010

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

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."

As President/CEO of The Farmers State Bank, a banking institution in Holton, Kansas with \$54,000,000.00 in total assets, I am writing to express my opinions on specific provisions of the exposure draft.

#### I. COMMENTS ON FAIR VALUE

I am strongly opposed to the portion of the proposal that requires all financial instruments - including loans - to be reported at fair value (market value) on the balance sheet.

Our bank does not sell our commercial loans. Basing our balance sheet on fair values leads readers of our financial statements to assume that we will sell the loans, which is not the case.

If there are issues with a borrower's ability to repay a loan, we work through the collection process with the borrower rather than sell the loan.

There is no active market for many of our loans, and estimating a market value makes no real sense.

Even if we could easily obtain a market price, since the loan is just one part of the financial relationship that we have with the customer (multiple loans, investment and trust services, etc.), there is no financial incentive to sell.

Marking all loans to market would cause our bank's capital to sway with fluctuations in the markets - even if the entire loan portfolio is performing. Instead of providing better information about our bank's health or its ability to pay dividends, the proposal would mask it.

Even if the banking regulators' Tier 1 capital excludes fair value fluctuations, we still will have to explain it to our investors, customers

and depositors.

The costs and resources that we will need to comply with this new requirement would be significant. This will require us to pay consultants and auditors to estimate market value.

Our investors have expressed no interest in receiving this information. We believe our investors would not view these costs, which must come out of bank earnings, as being either reasonable or worthwhile.

Although all of the points previously mentioned are true the real points are these: 1. We make loans on homes and 80 acres of land. We get an appraisal on the land and home, book the loan, and accept payments as required in the loan docs. How would I mark that loan to market, what other bank is selling that loan for a profit or a loss? Where are these markets to mark to? 2: What about cattle loans; 3. What about crop loans? How would we value them? Where's the market where banker's stand around all day buying and selling these loans? Frankly, when I think of this proposal I think who will benefit from this rule; the investors who don't care, "we're privately owned". No it has nothing to do with the investors so who really profits from this change? Could it be accountants? Financial Accounting Standards Board - accountants; I think there's a connection there. I'm beginning to believe that FASB is creating additional work for it's members. I think that this proposal is self serving and will cause the community bank to either go out of business due to the fees that have to be paid to accountants and auditors in order to mark the lending portfolio to market or create a selling frenzy where larger banks with bigger pockets who can afford to pay bigger fees will grow exponentially and thus eliminate the community bank or deplete the number of community banks to such a small number that their voices will no longer be heard by our representatives in Congress.

For the reasons stated above, our bank respectfully requests that the fair value section of the exposure draft be dropped.

## II. COMMENTS ON LOAN IMPAIRMENT

I support the Board's efforts to revise the methodology to estimate loan loss provisions. However, I have serious concerns about how such changes can be implemented by banks like mine.

I recommend that any final model be tested by banks my size in order to ensure that the model is solid and workable.

It is very important that any new processes are agreed upon and well understood by regulators, auditors, and bankers prior to finalizing the rules.

I do not support the proposal for recording interest income. Interest income should continue to be calculated based on contractual terms and not on an after-impairment basis.

Changing the way interest income is recorded to the proposed method makes the accounting more confusing and subjects otherwise firm data to the volatility that comes naturally from the provisioning process. I recommend maintaining the current method.

## III. COMMENTS ON HEDGE ACCOUNTING

I support the change of the requirement that a hedge is "reasonably

effective" (as opposed to being "highly effective"). This should make it easier for banks like mine to implement hedge accounting.

It is very important that the term "reasonably effective" be better defined.

The "shortcut" and the "critical terms match" methods should be maintained. This greatly helps medium and smaller banks like mine to reduce the cost of compliance with the hedge accounting rules.

Thank you for considering my comments.

Sincerely,

785-383-2925  
President/CEO  
The Farmers State Bank

This message has been verified by CapwizXC as authentic and sent by this individual. Authentication ID: [tqdiVFS0]