

September 17, 2010

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

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 the Chief Financial Officer of Palmetto Bancshares, Inc., a banking institution in Greenville, South Carolina with \$1.4 billion in total assets, I am writing to express my opinions on specific provisions of the exposure draft.

I am strongly opposed to the portion of the proposal that requires all financial instruments – including loans – to be reported at fair value on the balance sheet. As a community bank, we serve our communities through lending to customers who live and work in the geographic markets in which we operate. As a result, other than residential mortgage loans, we normally hold our loans to maturity and therefore do not sell our loans. Accordingly, requiring us to account for our loans based on fair value 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 normally work through the collection process with the borrower rather than sell the loan, which in most cases results in foreclosure of the underlying collateral which is then sold. Therefore, until a loan is probable of foreclosure, accounting for the loan at fair value would not be representative of the business purpose or the economics of the transaction. This is particularly true since we are a relationship-based bank for which the loan is just one part of the financial relationship that we have with the customer (multiple loans, deposit accounts, and other services).

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. This would be particularly troubling in the current economic environment in which "capital is king" and we are feeling pressure to stabilize our capital level and to maintain such capital at a level that is predictable to regulators, investors, and the general public. 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, and the volatility of capital could raise concerns with those constituencies.

The costs and resources that we will need to comply with this new requirement would be significant. This will require us to hire additional resources, pay consultants, and expand the scope of our external auditor.

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

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. We currently receive conflicting points of view on the allowance for loan losses from the Securities and Exchange Commission and the banking regulators. It is very important that any new standard is 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 known data to the volatility that comes naturally from the provisioning process. I recommend maintaining the current method.

As an overall comment, we a reeling from the additional costs and investment of time and energy required to address the continued promulgation of new regulatory rules and accounting standards. As a for profit business, such costs must be passed on to our customers which results in further negative feedback from those targeting the banking industry. In addition, a larger portion of our day to day time is being focused on compliance with rules and standards rather than serving our customers and communities.

Thank you for your consideration.

Sincerely,

Lee S. Dixon

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