Padgett Stratemann & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

September 17, 2010

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

Re: Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (File Reference 1810-100)

Dear Mr. Golden:

We appreciate this opportunity to comment on the proposed Accounting Standards Update on accounting for financial instruments, derivative instruments, and hedging activities (the "Proposed Update").

Padgett, Stratemann & Co., L.L.P. is a certified public accounting firm with offices in San Antonio and Austin, Texas. Within our firm, our Financial Services industry niche provides audit, accounting, and other professional services to over 70 financial institutions throughout Texas, including commercial banks, mutual savings and loans institutions, and member-owned credit unions. In the course of working for these businesses over many years, we have gained insight into the informational needs of the various users of the financial statements of our financial institution clients, including stockholders, creditors, regulators, and the general public.

For the reasons summarized below, we do not support the proposed changes in accounting for financial instruments, interest income, or the credit impairment model included in the Proposed Update. We believe these changes would only confuse users of financial statements issued by our firm and cause undue burden on the reporting entities to gather and report under the proposed accounting framework. We do, however, support the Proposed Update with regards to changes in hedge accounting.

Financial Assets

The Proposed Update would expand the use of fair value accounting to include all financial instruments, including loans, securities, and other receivables. While we believe fair value accounting is appropriate for some financial instruments, depending on the entity's business strategy, we do not believe it is the proper measurement model in all cases.

Specifically, we do not support requiring financial institutions to report loans at fair value when those loans are held for the collection of contractual cash flows. Such loans should continue to be reported at amortized cost. In addition to adding significant costs and system changes to the entity to gather and maintain a fair value measurement and reporting model, this change would distort performance, cause needless volatility on the financial position of the entity, and not provide users with useful additional information.

We also believe a financial institution should continue to have the option of reporting at amortized cost investment securities purchased and held for the collection of contractual cash flows (i.e., current held-to-maturity accounting). Many of our current clients follow consistent buy-and-hold strategies for significant classes and types of securities, and to require fair value accounting on such investments would introduce undue volatility into the balance sheet of the entity during the holding period.

Core Deposits

We do not support the Proposed Update as it relates to the remeasurement of core deposits for interest rate changes. Since we do not support measuring loans at fair value when those loans are held for the collection of contractual cash flows, we do not believe there is a need to measure the interest-rate effects of the primary funding source for loans which are core deposits. Calculating the remeasurement amount of core deposits on an ongoing basis will be a complex undertaking and cause undue volatility in assets and capital.

Financial Liabilities

We do not support the Proposed Update as it relates to the expanded use of fair value accounting for financial liabilities. Amortized cost is the best and most representative measurement attribute for most financial liabilities, particularly for those entities not engaged in trading or significant securitization of financial assets. For those entities whose business model relies on financial liabilities to fund financial assets which are measured at fair value (such as those entities that engage in trading activities), such an entity already has the option for measuring the liability at fair value under existing accounting standards to properly match measurement bases for assets and liabilities.

Credit Impairment

The Proposed Update would implement a credit impairment model in which an entity would immediately recognize in net income an expense equal to the amount the entity does not expect to collect for originated financial assets. This approach could require an entity to immediately recognize a credit loss on a newly originated loan, rather than when such losses are supportable and verifiable through evidence of nonperformance or the deteriorated financial condition of the borrower.

We do not support this approach to recognition of credit impairment in the financial statements. We would be supportive of a more forward-looking credit impairment model that results in the timely recording of loan loss reserves based on current levels of nonperforming assets rather than undue reliance on historical charge-off rates. Specifically, we support a credit impairment model that allows entities to apply a loss migration analysis to the current portfolio of loans. We believe loss migration models have the advantage over strictly historical loss-rate models in that reserves are built quicker when asset quality is deteriorating and at the same time, allow for a quicker release of reserves when asset quality is improving.

Interest Income

The Proposed Update would require interest income to be recognized by applying an effective interest rate, less allowance for credit losses, to an entity's financial assets.

We do not support this proposed methodology and reporting of interest income because it results in reduced transparency in the reporting of non accrual interest and the allowance for loan losses, concepts which are already well-understood and accepted by users of financial statements.

Hedge Accounting

We support the efforts of the Board in the Proposed Update to simplify hedge accounting requirements, by moving from a "highly effective" standard to a "reasonably effective" standard. This standard would result in a more qualitative approach for assessing hedge effectiveness, and

reduce if not eliminate the need for entities to devote significant time and cost in performing ongoing quantitative analysis of hedge effectiveness after an investment decision has been made, while not reducing the fairness of reported results.

Respectfully,

Padgett, Stratemann & Co., LLP

Padgett, Stratemann & Co., L.L.P.

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