

From: john@sunfirstbank.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 12:33:08 PM

JOHN ALLEN
120 East St. George Blvd
St. George, UT 84770-2855

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."

My name is John Allen, I am President of SunFirst Bank, a small commercial bank, in St. George, Utah.

I am writing to express my opinions on specific provisions of the draft.

I. 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.

Most of our loans are not sold, but are held on our balance sheet. We do sell some participations in loans, primarily to accommodate the need for loans larger than our legal lending limits. However, we do not sell whole commercial loans. Basing the balance sheet on fair value accounting would probably lead people reviewing our financial statements to assume that we sell the loans, which is not the case.

In addition, I am not aware of any real market for the sale of our loans, therefore it would be very difficult to come up with a market value. Even if there was a way to value a loan, that loan by itself, does not show the total value of the customer relationship.

The costs of compliance with this rule would be very high and very unnecessary.

Capital is a big issue with community banks. Marking of loans to market value, or some estimation of market value, would have our capital ratios ranging all over the board, giving investors, customers and depositors concerns as to what the real story is. This does not give better information about the true condition or value of the bank.

We request that the fair value section of the draft be eliminated.

II. LOAN IMPAIRMENT

I support the Board's efforts to revise the methodology to estimate loan loss provisions. The current system is very difficult for small banks, however, I have concerns about that the changes may be worse and very difficult to implement for small banks.

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 makes the accounting more confusing and adds volatility to the system. I recommend maintaining the current method.

The current process is not well understood by auditors and regulators, and therefore is difficult for bankers to comply with. Any changes must be fully understood by all parties.

III. 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.

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 the opportunity to share our comments.

Sincerely,

435 673-9610
PRESIDENT
SUNFIRST BANK

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