

From: tsavery@scottvalleybank.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: Friday, September 17, 2010 11:42:59 AM

Timothy S. Avery
1500 No. California
Walnut Creek, CA 94596-7489

September 17, 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 and CEO of Scott Valley Bank, the oldest independent bank in California with \$450 million 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, the proposal would mask it.

Managing interest rate risk is an embedded part of our existing balance sheet management and introducing a "synthetic" valuation element into the

equation would only challenge banks to remain fully aware of the balance of risk on their balance sheets, in favor of that same synthetic, moment-in-time valuation process.

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.

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.

Thank you for considering my comments.

Sincerely,

925-934-1601
President & CEO
Scott Valley Bank