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Mr. Russell Golden, Technical Director
Financial Accounting Standards Board
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Thank you for this opportunity to add my voice to the over 1,000 comment letters previously submitted regarding this Exposure Draft. I am the Treasurer and Chief Financial Officer of Citizens & Northern Corporation, a community banking organization with 26 branches located in northern Pennsylvania and southern New York State. Like most of the others who have submitted comment letters thus far, I have an unfavorable view of the Exposure Draft, particularly as it relates to application of fair value to financial instruments not held for sale, and as it relates to accounting for credit impairment.

Based on my experience, most investors are not clamoring for the broader application of fair value accounting prescribed in the Exposure Draft. In fact, I believe most investors in banks would find the volatility in the valuation of equity that would be created to be most unhelpful, in that it would undermine the reliability of bank capital levels and decrease comparability between banks. The FASB Board seems to be biased in favor of fair value, with very little concern for the practical limitations associated with calculating fair value. Currently, banks typically use calculations of fair value for footnote disclosure purposes using interest rate risk models that attempt to estimate the impact of interest rate changes on loans, deposits and other instruments; however, those valuations are fraught with assumptions and (because there is no market) do not take into consideration the price a hypothetical investor might actually pay for the instruments at any point in time. Some of the other major problems with the fair value portion of the Exposure Draft are as follows: (1) the accounting system would not be relevant to the way most banks manage their businesses (in fact, I suspect that would be true for most other industries, as well); (2) implementation costs and management time requirements would be significant; (3) it would create unnecessary complexity, especially as "Level 3" processes would be required for most loans and for valuation of core deposit intangibles; and (4) it would add unnecessary procyclicality to the financial system.

As it relates to credit impairment, the major problems are as follows: (1) it is unrealistic to assume economic conditions will never change, and (in addition to being an inherently strange premise) this feature would further contribute to procyclicality as all banks would be forced to take earnings hits when economic conditions worsen and recognize improvements when conditions improve, regardless of individual circumstances; and (2) calculation of interest income, after applying the allowance for loan losses, would both confuse investors (who are typically very focused on yields, cost of funds and net interest income) and create a tremendously costly burden for banks attempting to address the loan system changes that would be required.

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