

**From:** [mmahler@first-federal.com](mailto:mmahler@first-federal.com)  
**To:** [Director - FASB](#)  
**Subject:** Comments on No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities" Exposure Draft  
**Date:** Monday, September 20, 2010 9:17:55 AM

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Michael Mahler  
100 So Second Ave  
Alpena, MI 49707-2814

September 20, 2010

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

Dear Mr. Golden:

From:

Michael W. Mahler  
President and CEO  
First Federal of Northern Michigan  
Alpena, Michigan

Asset Size: \$230,000,000

Thank you for the opportunity to comment on FASB's Exposure Draft: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities.

I am writing to urge FASB to not go forward with the proposal.

The accounting that would result from this proposal would greatly misrepresent the financial condition of our bank and other community banks.

We oppose the proposed accounting treatment for core deposits which calls for them to be regularly remeasured using a present value calculation. This would not provide accurate information and the calculations would be expensive and time consuming, particularly for smaller banks like ours that have limited staff resources to conduct the analysis. We have a 3 person accounting department. As an SEC registrant our accounting department is stretched very thin meeting the reporting requirements of a public traded bank. Adding this measure will likely require us to add another position to our organization which we could ill afford in this challenging economic environment. Outsourcing would likely be equally expensive if we decided to look in that direction. The Bank simply cannot absorb more costs with the burden of regulatory reform staring at us over the next couple of years.

The primary business of community banks is to hold financial instruments to collect contractual cash flows, not to trade them on a regular basis. Community banks fund their operations by taking deposits and holding loans for the long term. Most financial instruments this bank holds are not

readily marketable. This Draft proposal may be better suited for the Wall Street banks that are engaged in more sophisticated transactions and activities. They maybe in the business of swapping / selling loans and deposits as they undertake various swap or hedge strategies.

We oppose requiring institutions to record demand deposits at fair value.

We also oppose requiring fair value calculations for loans that are held for the long-term to collect cash flows.

Fair value measurements will not provide a better understanding of the values of illiquid loans held by small banks in rural areas in economically disadvantaged states such as our Bank operating in (headquartered in) Northern Michigan. The impact of the beleaguered auto industry on our states economy has made many investors wary of committing capital to our state / region. It could be argued that more viable states would have Banks operating in them whose loans maybe worth more as there may be more interested investors. This dynamic would not be measured under this flawed proposal.

Community banks such as this bank create and hold small business loans for which there is no active market; it would be very difficult and costly to mark them to market.

Establishing fair values for the types of loans held by many community banks like our bank would be costly and result in data of questionable reliability.

The expanded reporting of comprehensive income is unnecessary, confusing and of little use to most financial statement users.

Conservative community bankers (and bank regulators) see the need for more flexibility in setting the allowance for loan and lease losses. We are all well aware that economic cycles occur and it is very difficult to absorbing losses and raising capital during times of economic difficulties, such as the current environment.

Accounting standards and guidance should not be pro-cyclical. Recent market conditions have demonstrated the pro-cyclical nature of mark-to-market accounting as declining values of financial instruments necessitated write-downs and sales, causing further write-downs and sales.

The impact of these paper entires on Capital could be significant at a time when it is extremely difficult to raise capital for small community banks like First Federal of Northern Michigan. Our asset size is \$230 million.

The proposed accounting changes will exacerbate cyclicity in financial results due to the greater reliance on fair value measurements, valuations that will be less accurate than current accounting requirements.

These accounting changes will increase the volatility of bank balance sheets, forcing them to face higher capital requirements or decrease lending at a time when regulators are calling for more capital and our economy needs more, not less, credit availability.

Again, we thank your for the opportunity to comment on this proposal.

Sincerely,

Michael Mahler  
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