

**From:** [gschmidt@franklinsavings.com](mailto:gschmidt@franklinsavings.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:** Tuesday, September 21, 2010 12:07:56 PM

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Gretchen Schmidt  
4750 Ashwood Drive  
Cincinnati, OH 45241-2446

September 21, 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 of Franklin Savings, a banking institution in Cincinnati, Ohio with approximately \$280 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.

The costs and resources that we will need to comply with this new requirement would be significant. There is no active market for many of our loans, and estimating a market value makes no real sense. This requirement will require us to pay consultants and auditors to estimate market value. Also, we will have to place undue hardships on our current employees or hire additional employees to comply with these new requirements which will increase our compensation expense. Due to economies of scale, larger "mega banks" have greater resources to comply and implement these new requirements. This will in essence punish the community bank with limited resources to comply with the new requirements.

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. We also record impaired loans at fair value based on expected cash flows or collateral values in accordance with accounting for Impaired Loans.

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 or its ability to pay dividends, the proposal would mask it.

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.

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. We do not have the resources that are available to the "Mega Banks" in order to effectively and efficiently implement some of the changes. This again will place undue hardships on our staff in order to comply with this new requirement and punishes the community bank with limited resources.

It is very important that any new processes are agreed upon and well understood by regulators, auditors, and bankers prior to finalizing the rules. Commonly in the past, the regulators and the auditors have had conflicting advice and guidance relating to the allowance for loan losses.

We have been placed in a pickle of complying with regulators and accounting for items in accordance with generally accepted accounting principles.

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. Again this will place an undue hardship on our staff to comply with this new requirement.

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,

President  
Franklin Savings and Loan