1810-100
Comment Letter No. 2190

PEAPACK-GLADSTONE BANK

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September 21, 2010

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
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File Reference: No. 1810-100 Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

Mr. Golden:

I write as the General Counsel of Peapack-Gladstone Bank, a community bank doing business in northern New Jersey. We have 23 full-service banking offices and 281 full time employees.

We are very concerned about your proposed full fair value accounting model. Our reasons are four:

1. The proposed fair value model will bring volatility to our otherwise steady income and capital metrics and thereby give some false fright to our depositors, on whom we rely to fund our loan portfolio;

2. The proposed model will distort our lending decision-making and alter our loan portfolio mix by introducing an entirely new and non-credit risk (mark-to-market accounting) into our lending culture;

3. The proposed model will present us to our shareholders as something that we are not; instead of steady earnings that reflect the steady, conservative, long-term oriented community bank that we are, our reported financial statements will become volatile and present the Bank to our shareholders as a "risky company"; and

4. The proposed model will be very costly for us to implement and maintain, requiring us to engage a sophisticated third party each quarter to provide expensive valuation services.

Damaging our core deposit franchise. As a country community bank that values its conservative reputation above all else, we are very concerned about the damage that your proposed fair value model will do to our reputation and our core deposit franchise. Today, we enjoy among the lowest cost of funding in the State of New Jersey. This is directly a result of the trust our customers put in our Bank, a trust that has taken decades of conservative and steady performance to earn. By implementing your fair value model, you will introduce a high level of volatility into our financial reporting which may have the effect of scaring our depositors away.

Distorting our lending decision-making and altering our loan mix. For decades we have set about building a long-term lending franchise by forming customer relationships and maintaining a strong credit culture. Your proposed model will now introduce a non-credit factor into our lending decision-making and into our product mix: mark-to-market accounting. Knowing that changes in interest rates will flow through loan values into our income and capital metrics will distort the criteria by which we make loans and by which we determine loan mix. This will injure our customers and our stockholders.

It is very important to understand that we make most of our loans as long-term investments to hold until maturity (not as assets to be sold into the marketplace)[1] and our institution is focused on originating good credit and managing interest rate risk. This is the basis of our community bank business model—book good credit (so we get paid back) and manage the interest rate risk along the way (so we protect our margin until maturity).

Your fair value accounting model would materially alter this business model in a way that we are not comfortable with: by causing us to mark our loan portfolio on a quarterly basis, we will now be forced to add "fair value risk" to the lists of risks we manage (along with interest rate risk and credit risk). Just as managing credit risk and interest rate risk have the real-world effect of influencing our product mix, managing "fair value risk" likewise will cause us to shift our loan portfolio. Why? Because our management team, like most others, does not like volatility, and will naturally shape our loan mix to reduce, to the extent possible, the volatility associated with fair value accounting.

This will have a negative impact on our customers, and ultimately our shareholders. Please think carefully about the unintended consequences of your proposed rule.

Painting us as a risky company. As a community bank operating in a country setting, we have a shareholder base that values long-term, conservative and steady performance. The Bank, from our board of directors, to our management team, to our employees, to our policies and procedures, to the very heart of our culture reflects our focus on long-term, steady value creation. Your proposed fair value accounting model would ignore all of this, and add a level of volatility to our financials which investors will associate with "risky companies."

[1] The only loans we sell are mortgages which we originate for the purpose of selling, and the sale is transacted immediately following the origination. Aside from these originate-to-sell mortgages, we originate all of our loans with the intent of holding them to maturity.

Material new expense. In the winter of 2008-2009 we paid a third party a great deal of money to value a portfolio of Trust Preferred securities. It only stands to reason that a valuation of substantially all of our assets and liabilities will cost a great deal more, and the fact that this cost will recur each quarter is of great concern. The fact that this great and ongoing expense will be expended on a service with which we do not agree, and which we feel will injure our customers and stockholders, makes it even worse.

I have several questions:

1. Have you considered that your proposal will distort our otherwise steady financials into a data series unintelligible to all but the most sophisticated and dedicated financial analysts?

2. Do you understand how important our deposit customers are to us? Have you considered that our depositors stick with us because of our conservative reputation? Have you thought through the notion that distorting our financial results into a volatile series of data will give some fright to our depositors?

3. Have you considered the distortion the fair value model will introduce to our lending program? Have you thought about whether this distortion will be helpful or hurtful to the interests of our shareholders?

4. Have you considered the very material and recurring cost this change would impose on small community banks like ours?

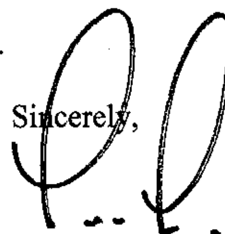
We and the chain of management teams going back to 1921, the year of our founding, have spent decades building our reputation as a conservatively managed, trusted partner, and this reputation is our very lifeblood.

But now this fair value proposal has put our reputation in jeopardy. Fair value accounting will shift our otherwise steady financials into a volatile stream of numbers. This will injure our reputation as a conservative community bank.

For some businesses, volatile financials may not be a big deal. But for a community bank, built upon a local deposit base which in turn is built upon a conservative reputation, it is a very big deal indeed.

Please do not implement the fair value proposal.

Sincerely,



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