

From: jduvall@losb.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: Thursday, September 23, 2010 7:53:09 AM

John Duvall
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September 23, 2010

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

Dear Mr. Golden:

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.

Lake-Osceola State Bank is a \$165MM bank located mostly in rural communities in Northern (Lower Peninsula) Michigan. Lake County is our primary county. This is one of the poorest counties in the State.

The accounting that would result from this proposal would greatly misrepresent the financial condition of our bank and other community banks. This would obviously lead to only more stringent regulatory requirements on our bank and make it very difficult to meet the lending needs of our communities. Most other banks will not lend in our area, making us the primary lender.

The primary business of community banks such as Lake-Osceola State Bank is to hold financial instruments to collect contractual cash flows, not to trade them on a regular basis. The majority of our loans are not even eligible for secondary market sales and thus MUST be held by our institution. The unmarketability of these instruments greatly reduce their fair market value and thus accounting for them as such would have grave consequences for our bank.

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. Our bank, like many others, have had to trim staff over the past several years to reduce costs during these turbulent times. Increasing expenses (by hiring new staff) would lead to only further economic difficulties.

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 agricultural loans held by small banks in rural areas such as this bank.

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 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,

John M. Duvall
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