

From: dfry@flushingsavings.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 28, 2010 5:48:17 PM

David Fry
1979 Marcus Avenue, Suite E140
Lake Success, NY 11042-1003

September 28, 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 Chief Financial Officer of Flushing Savings Bank, FSB, a banking institution with its main office in Flushing, New York, with \$4.3 billion 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.

We do not sell our loans, but rather we hold the loans as part of a total banking relationship with the customer, which includes various deposit products. Requiring each of these products (loans and various deposit accounts) to be valued separately and reported at their individual fair value ignores the total customer relationship value to the bank. While the value of the total customer relationship is difficult to determine, leaving the value of these relationships out of the fair value of the bank understates the value of our bank.

The majority of our loans are on multi-family and mixed-use properties located in our market. We are very familiar with and understand the market for these properties and the benefit of lending on these types of properties in our communities. Given that these loans are not actively bought and sold in the market, we would be estimating a market value instead of obtaining an actual market value, which could result, in spite of our best efforts, in misleading information to the investor. Given the total customer relationship we have established with our customers, we have no incentive to sell our loans, which is just one part of the relationship.

Our loan portfolio provides the vast majority of our income. Carrying

loans at fair value implies we would sell our loans when in fact we hold them as an investment. Marking all loans to market would also 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, marking the loans to market based on changes in interest rates could lead an investor to conclude our loan portfolio has significant problems when the only issue is that rates had increased in the market.

We also have concerns with the methodology for determining the fair value of core deposits. The assumptions that would be required would allow for considerable judgment and significant differences between financial institutions. The differences between financial institutions could lead to more confusion among investors rather than providing useful information.

We meet on a regular basis with our investors. Our discussions with investors have not indicted any desire for additional fair value accounting. Our investors concerns primarily deal with the performance of our loan portfolio and our cost of funds.

There is also a considerable cost we would incur to comply with this new requirement. This will require us to pay consultants and auditors to estimate market value. We believe our investors would not view these costs, which must come out of bank earnings, as being either reasonable or worthwhile.

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. In addition, I believe the proposed methodology would be confusing to investors.

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.

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.

III. COMMENTS ON HEDGE ACCOUNTING

I support the change of the requirement that a hedge is "reasonably effective" (as opposed to being "highly effective"). However, it is very important that the term "reasonably effective" be better defined.

The "shortcut" and the "critical terms match" methods should be maintained. This greatly helps banks our size to reduce the cost of compliance with the hedge accounting rules.

Thank you for considering my comments.

Sincerely,

718-512-2738
Executive Vice President and Chief Financial Officer
Flushing Savings Bank