

**From:** [rvachon@northmarkbank.com](mailto:rvachon@northmarkbank.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:** Wednesday, September 29, 2010 1:58:21 PM

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Robert Vachon  
Northmark Bank - 89 Turnpike Street, P.O. Box 825  
North Andover, MA 01845-0825

September 29, 2010

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

Dear Mr. Golden:

I would like to take this opportunity to convey Northmark Bank's concerns regarding the Fair Value proposal in the FASB's exposure draft, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities."

Northmark Bank is a \$300 million commercial bank located in North Andover, Massachusetts. Our core business includes originating a variety of loans to consumers and small businesses. Loan terms range from 30 days to 30 years.

As you are aware, the management of a financial institution's balance sheet involves a complex set of considerations that include interest rate risk, credit risk, operations risk and a variety of other exposures. As part of our management of interest rate risk, the Bank makes a determination, at the time of origination, whether we will hold a certain loan in our portfolio (with the intent of it being held to maturity) or sell the loan into a secondary market. These decisions mirror the Bank's decisions with respect to the acquisition of investment securities (Codification 320-10-25-1). Current accounting standards require distinct initial recognition and subsequent measurement calculations for these two types of loans.

In our opinion, there are several problems with respect to the proposal to require financial institutions to report all financial instruments, including loans, at fair value on the balance sheet. Among our concerns are:

1. Fair value accounting ignores the entity's history with respect to originating and holding loans to maturity.
2. Fair value accounting ignores management's intent, and the entity's ability, to hold a financial asset until maturity.
3. Under the FASB's Fair Value Hierarchy (Codification 820-10-35-37) there are no Level 1 or Level 2 inputs available for determining the fair value of most loans originated by community banks. The use of unobservable

Level 3 inputs adds a high degree of uncertainty to the fair values that would now be used to prepare primary financial statements.

4. There is the potential for dramatic fluctuations in capital levels based on interest rate movements. Starting with today's historic low interest rate environment, the natural progression through an upward rate cycle will have devastating effects upon a community Bank's capital adequacy.

We believe that the current Fair Value footnote disclosures required by section 820:10 of the Codification provide information that is relevant to investors and others, without incurring a dramatic increase in costs associated with estimating, accounting for, and auditing fair value measurements in the primary financial statements.

For the reasons stated above, Northmark Bank respectfully requests that the fair value section of the exposure draft be dropped.

Thank you for the opportunity to comment on this proposal.

Sincerely,

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Chief Financial Officer  
Northmark Bank