

From: mmoderski@msbonline.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 5:53:17 PM

Michael Moderski CFA
5990 Hwy 51
McFarland, WI 53558-9422

September 29, 2010

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

Dear Mr. Golden:

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 the Chief Financial Officer of McFarland State Bank, a banking institution in McFarland, Wisconsin with total assets of \$360,000,000, 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 largest asset class on the Bank's balance sheet is commercial loans, specifically commercial real estate. Currently, there is not an efficient secondary market for commercial loans like there is for the residential mortgage loans. As a result, attempting to estimate a fair market value would be time consuming and costly to our bank due to the fact that we would be required to pay consultants and auditors to estimate these values. In addition, it has been difficult not for just our bank, but for our industry, to sell participations in recent history (evidence of a market). This is not due to yield or the financial capacity of the borrower; it is due to the increased regulatory scrutiny of these types of loans. As a result, liquidity for this type of paper has been greatly reduced and the lack of liquidity will reduce the market value. If the fair value or the "exit price" for these loans were required to be recorded, I believe values would be extremely low. Have we learned nothing from the other-than-temporary impairment accounting fiasco?

Marking all loans to market would also cause our bank's capital to fluctuate with national and local trends in the markets even if our loan portfolio is performing differently. I assume the level of historical loss and the performance of the current portfolio will be factors in determining fair value. As a result, the market value of our Bank's loans could be negatively affected due to the regional trends compared to

our own portfolio. For example, in Wisconsin, the level of nonperforming loans to total loans is 2.53%, our bank's ratio of nonperforming loans to total loans as of the same time period is 0.16%. Auditors and examiners might require our bank to use peer averages rather than the Bank's own experiences to determine market value.

Instead of providing better information about our bank's health or its ability to pay dividends, the proposal would mask it. Our investors have expressed no interest in receiving this information. In addition, we believe our investors would not view the costs associated with the determination of market value, 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. I recommend that any final model be tested by banks my size in order to ensure that the model is solid and workable. Too many times we have seen accounting standard changes having unintended consequences. In addition, it is very important that any new processes are agreed upon and well understood by regulators, auditors, and bankers prior to finalizing the rules. Again, we see it too many times, regulators, auditors and bankers have different opinions on how a new FASB should be implemented.

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 and makes comparing different banks even more difficult. I recommend maintaining the current method.

Sincerely,

CFO
McFarland State Bank