From: gsophinos@northshore-bank.com

To: <u>Director - FASB</u>

Subject: File Reference: No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for

Derivative Instruments and Hedging Activities"

Date: Thursday, September 30, 2010 3:43:33 PM

George Sophinos 248 Andover Street Peabody, MA 01960-1502

September 30, 2010

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

Dear Mr. Golden:

As The Chief Financial Officer; of North Shore Bank, a banking institution in Peabody, Massachusetts with \$470 million in total assets, I am writing to express my opinions on specific provisions of the exposure draft, File Reference: No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities.

1. 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.

Fair Value Accounting concepts are not appropriate for a majority of commercial banks, savings banks and credit unions. As you know most of these institutions earnings are from the spread between the income on assets and the cost of their liabilities which the majority are held to maturity. Very little of the institution's earnings are created from the sale of the assets or liabilities. A fair value accounting measurement neither reflects how earnings are created nor capture the true going concern value of the institution.

As a community bank, we mainly offer long term consumer and commercial loans which would fluctuate greatly in value with changes in interest rates. This assumes they can be valued accurately which I have my doubts. One of the basic tenets of a community bank is that it invests in the community it serves which is typically made up of small businesses. Loans of this type typically would be very difficult to value and not be accurately priced on a "matrix" type of pricing model. If this proposal is enacted then the banking model as we know it today would disappear and credit availability would be severely diminished which would compound the current economic challenges our country faces.

Marking all loans to market would 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 tangible capital, the proposal would mask it.

The costs and resources that we will need to comply with this new requirement would be significant. This will require us to pay consultants and auditors to estimate market value. This would be a negative to Bank capital which contrary to the Bank's goal. Opportunity costs will also be prevalent, with the most notable being the additional burdens placed on management time. This will take much needed and valuable time away from focusing on nurturing and growing our business when we are already severely distracted by the pressures emanating from the current economic and regulatory environments.

While fair value information may have some value to an investor as they review the financials, this information is currently available in the footnotes where I believe it belongs

Accordingly, I feel the FASB should abandon this exposure draft and scale back the use of fair value measurement when accounting for assets and liabilities generally not held for trading.

Thank you for considering my comments.

Sincerely,

978-538-7023 Chief Financial Officer North Shore Bank