1810-100 Comment Letter No. 1234

From: wcarraway@fmbbank.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: Sunday, September 19, 2010 4:42:53 PM

Wilson Carraway 3320 Thomasville Road Tallahassee, FL 32308-7971

September 19, 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 Chairman of Farmer & Merchants Bank, a banking institution with branches in Tallahassee, Monticello and Greenville, Florida and Thomasville, Georgia with total asset of \$450 million, 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. With the recent fluctuation in real estate values, it is impossible to determine what property is actually worth. It would be devastating to banks to write down their assets to fair market value.

First and foremost, who is to say what the loan or property securing the loan is worth. In our area there is no active market for the real estate securing the loans.

If a customer can repay the loan, why is there a need to revalue it. That practice is not only devastating to our bank, but to our customers who are asked to put up additional collateral every time the real estate has to be revalued in a declining economic environment.

If the customer can not put up additional collateral as required by the revaluation, the bank has to fund increased loan loss reserves even though the customer is repaying the loan. Talk about stilfling an already ailing economy!

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 ability to pay dividends, the proposal would mask it.

Even if the banking regulators' Tier 1 capital excludes fair value fluctuations, we still will have to explain it to our investors, customers and depositors.

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 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. I would really like to know the thought process behind this. It seems as though you are isolated from the real impact of your actions.

It is my opinion, and that of most of my colleagues, that the Financial Accounting Standards Board with their rulings have negatively impacted the banking industry and the economy as a whole.

Please reconsider any further action on revaluing the assets banks hold as collateral on loans.

III. COMMENTS ON HEDGE ACCOUNTING

I support the change of the requirement that a hedge is "reasonably effective" (as opposed to being "highly effective"). This should make it easier for banks like mine to implement hedge accounting.

Thank you for considering my comments.

Sincerely,

850-893-5100 Chairman Farmers & Merchants Bank