From: <u>kurt.gustavel@iibk.net</u>
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: Wednesday, September 22, 2010 5:25:46 PM

Kurt Gustavel 401 W. Front Street, Suite 200 Boise, ID 83702-5122

September 22, 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 President and Chief Operating Officer of Idaho Independent Bank ("IIB" or the "Bank"), a commercial bank operating primarily in the Boise, Idaho and Coeur d'Alene, Idaho markets with approximately \$497 million 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 on the balance sheet based upon the following:

- 1. Basing our balance sheet on fair values does not accurately reflect our banking business. It leads readers of our financial statements to assume that we will sell the loans, which is certainly not the case. If there are issues with a borrower's ability to repay a loan, we work through the collection process with the borrower rather than sell the loan. Furthermore, there is no active market for most of our loans, and estimating a fair value makes no real sense. Even if we could easily obtain a market price, the loan does not reflect the total value of the customer relationship as we typically perform other services for the borrower.
- 2. Marking all loans to fair value would cause increased volatility in the Bank's capital and earnings—even if the entire loan portfolio is performing and decrease comparability between similar banks. This proposal is untenable and would decrease transparency to investors.
- 3. The costs and resources to comply with this new requirement would be significantly prohibitive and the accounting considerations would drive business decisions. The bank would be required to invest significant amounts in new systems to manage the complex processes on a more timely basis. In addition, the Bank may need to hire external consultants to assist in estimating fair values and would certainly incur additional

audit costs related to the fair value estimates. Our shareholders have expressed no interest in receiving this information and we believe our shareholders would not view these additional costs as being either reasonable or worthwhile.

4. We believe that fair value accounting played a major role in the recent financial and banking crisis. Expanding fair value accounting for banks would exacerbate the situation. 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 IIB.

I recommend that any final model be tested by banks our size in order to ensure that the model is solid and workable. 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.

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"). This should make it easier for banks like IIB to implement hedge accounting. However, the term "reasonably effective" needs to be better defined.

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

Thank you for considering my comments.

Sincerely,

208-338-8002 President and COO Idaho Independent Bank