1810-100 Comment Letter No. 2704

From: <u>stewartfitzgibbon@waynesavings.com</u>

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

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

Derivative Instruments and Hedging Activities" Exposure Draft

Date: Tuesday, September 28, 2010 3:53:15 PM

H. Stewart Fitz Gibbon III 151 N. Market St. Wooster, OH 44691-4809

September 28, 2010

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

Dear Mr. Golden:

Thank you for the opportunity to comment on FASB's Exposure Draft: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities.

I am writing to urge FASB to not go forward with the proposal.

I am the Chief Financial Officer of Wayne Savings Community Bank, a \$400 million community bank located in Wooster, Ohio that serves five mainly rural counties in north eastern Ohio. Founded in 1899, Wayne Savings has served the needs of its communities for over 110 years of economic cycles.

The accounting that would result from this proposal would greatly misrepresent the financial condition of our bank and other community banks by focusing on a current liquidation value and not on the value of the bank as a going concern over a long period of time. While liquidation value is a useful concept for measuring exposure to interest rate or credit risk, such calculations are assumption laden and best left in their current places in footnote or narrative disclosures as a supplement to current accounting guidance. Financial accounting should continue to focus on the business as a going concern and allow for comparability between institutions without being clouded by the varying assumptions required for fair value accounting across a diverse array of institutions.

The timing of the proposal, similar to the adoption of FAS 115 in 1993 at the bottom of an interest rate cycle, could have potentially negative consequences in terms of mark to market losses on large volumes of instrucments such as refinanced mortgage loans that are being originated in the current environment. While consistent with current business models and risk management methods, the proposed accounting guidance will likely force changes to these current models and methods without allowing for any transition period to absorb the accounting shock and probable change of business model.

A community bank such as Wayne Savings funds its operations by taking deposits from our local community and holding loans made to borrowers in

our mainly rural communities, many of which are non-conforming to secondary market standards, for the long term. These types of instruments are not readily marketable and thus extremely hard to value. Valuation of non-standardized instrucments such as rural small business loans, non-conforming residential properties and non-maturity deposits would be prohibitively costly and not practical on a recurring basis for financial statement preparation by a small staff. These costs impose burdens on our shareholders, depositors and borrowers that are not offset by any new measurable benefit. Therefore, we oppose the implementation of fair value accounting requirements.

On a related matter, conservative community bankers such as ourselves (and our bank regulators) see the need for more flexibility in setting the allowance for loan and lease losses, to serve as a counter cyclical buffer to inevitable economic and credit cycles, as opposed to the current pro-cyclical incurred loss model of provisioning.

Similarly, pro-cyclical fair value accounting standards and guidance should not be adopted. Even in allegedly "active" markets, recent market conditions have demonstrated the pro-cyclical nature of mark-to-market accounting as declining values of financial instruments necessitated write-downs and sales, causing further write-downs and sales.

In summary, the proposed accounting changes will increase the volatility of bank income statements and balance sheets and uncertainty facing our shareholders, forcing us to face higher capital requirements or decrease lending at a time when regulators are calling for more capital, our shareholders are seeking reasonable stability of income and our economy needs more, not less, credit availability.

Again, I thank you for the opportunity to comment on this proposal.

Sincerely,

H. Stewart Fitz Gibbon III 330-264-5767