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September 16, 2010

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

Re: File Reference #1810-100

Comment on the exposure draft, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities."

Dear Mr. Golden:

I am President and 20% owner of Cambridge State Bank, a 95-year old community bank in Cambridge, Minnesota with \$90 million of total assets. We are one of seven banks in the United States certified in the US Treasury's Department's Women and Minority Owned Bank Program as being owned and led by Caucasian women.

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.

If there are issues with a borrower's ability to repay a loan, we work through the collection process with the borrower. Any individual financial assets of a customer (home loan, business loan, deposit relationship) is part of a larger picture of profitability and marking a single portion of that relationship to a supposed market value simply does not make sense.

We do not sell loans. The loans we make to support our local community do not have measurable or obtainable market value. Attempting to mark the loans to market value would be misleading, and not enlightening, to the readers of our financial statements.

Even if the banking regulators' Tier 1 capital excludes fair value fluctuations, we still will have to explain it to our customers and depositors. And frankly, I do not understand the point of doing the mark-to-market exercise if the impact to the balance sheet is essentially ignored in one of our key ratios.

II. COMMENTS ON LOAN IMPAIRMENT

I generally 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. It is very important that any new processes are agreed upon and well understood by regulators, auditors, and bankers prior to finalizing the rules. The FAS 114 and FAS 5 changes of the past several years are still confusing and misunderstood by regulators and other readers of the financial statements.

As an example, as I read FAS 114, the first question to ask is "is the loan impaired" – i.e. is it likely that principal and interest will not be paid back as contractually agreed?" Amazingly to me, our lead examiner at the last FDIC exam, believes that impairment is strictly a measurement of what the collateral value, net of selling costs is, relative to the size of the loan.

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

The proposed change to the way interest income is recorded appears confusing, adds unneeded volatility and does not contribute to the understanding of the institution's financial condition. Interest income should continue to be calculated based on contractual terms and not on an after-impairment basis.

III. COMMENTS ON HEDGE ACCOUNTING

Our bank has not been involved in hedging and therefore hedge accounting, so I have no comment at this time.

Thank you for considering my comments.

Sincerely,

Kim M. Erickson

President and Chief Executive Officer

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