

From: johns@myunionstate.com
To: [Director - FASB](#)
Subject: File Reference: No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities"
Date: Monday, September 20, 2010 12:42:55 PM

John Sturd
127 S. Summit
Arkansas City, KS 67005-2624

September 20, 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 of Union State Bank, a community bank located in Arkansas City, Kansas with approximately \$222 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 on the balance sheet at fair market value.

Like many community banks, our bank does not sell the commercial loans we originate. Basing our balance sheet on fair market values leads readers of our financial statements to assume that these loans are available for sale, which is not the case.

In instances where there are issues with a borrower's ability to repay a loan, we work through the collection process with them rather than sell the loan.

There is no active market for many of our loans, and estimating a market value makes no real sense. Even if we could easily obtain a market price, the loan is just one part of the total financial relationship that we have with our customers. Since we wish to maintain and grow those customer relationships, there is no financial incentive to sell.

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 cloud 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. These provisions will make interpretation of financial statements much more difficult.

Our investors have expressed no interest in receiving this information. We believe our investors would not view these costs, which must come out of bank earnings, as being either reasonable or worthwhile.

The 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 fair market value.

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 community banks like mine.

I suggest that any model be tested by community banks like ours in order to ensure that the model is solid and workable.

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. Therefore, I recommend maintaining the current method.

Thank you for giving me the opportunity to express my thoughts. Thank you for your consideration.

Sincerely,

620-442-5200
President
Union State Bank