

From: poorbanker@gmail.com
To: [Director - FASB](#)
Subject: Comments on No. 1810-100, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities" Exposure Draft
Date: Friday, September 24, 2010 3:43:37 PM

Menzo Case
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September 24, 2010

Russell Golden
Technical Director, Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
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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. We are somewhat amazed at the move toward liquidation accounting and urge FASB to not go forward with the proposal. The financial statements presently issued by our Company are barely discernable by most of the general public, and your new proposal would not fairly represent our Company's financial condition, and dare I say, most community banks' financial condition. It seems to us that there are just a few individuals or organizations that are driving the changes at FASB, and they appear to be focused on the largest of financial institutions, whose financial statements are nearly incomprehensible already. Perhaps, FASB Board members should take a little time off and meet with real banks - the one's located in every small town across the United States - and find out what they are doing and how their financial information is reported. Then, we can all get together and see whether that information is useful and how it could be better presented. I can tell you from my experience of evaluating true community Bank financial statements that the last thing I consider is the entire "fair value" footnote. I can't even imagine trying to decipher financial statements purporting to report "fair values" for all assets, liabilities and equity. I can assure you that the Board would find that we (i.e., community banks) are in the business of holding financial instruments, such as mortgages, consumer loans and commercial loans, through maturity and not for the purpose of trading them on a regular basis. As such, it seems to me that the typical reader of the financial information for those community banks would be more interested and find more useful to know the actual loan balances outstanding rather than some contrived market value for the loan portfolio. This is especially true for our loan portfolios, as a good percentage of our loans are not marketable. For example, as a community bank we have originated loans that were rejected by the larger banks - because that is part of our mission. Who is going to determine the "fair value" of these assets? Will there be whole portions of our loan portfolios discounted significantly and causing further market inequities for the community banks?

To what extent will the income earned on these loans will be affected by

these market value adjustments? My understanding is that we will need to "guesstimate" our interest income by somehow applying these fair value concepts to our interest accrual calculations. While this is not likely to be problematic in theory, in practice FASB would be taking a simple rudimentary calculation and unnecessarily complicating the process - adding the cost of additional time, additional complexity to the internal and external audit, increased cost of training and evaluation and increased costs for systems. In addition, we will undoubtedly be wrong in our interest calculations, but the necessary adjustments will be processed against yet another reserve rather than through interest income. Certainly for us and other community banks, we do not have a significant problem with adjustments to interest accruals. What on earth is driving this level of change? If the amounts presently reported are not retroactively changed and there is no confusion in the amounts reported, why change? Community banks fund their operations by taking deposits and obtaining borrowings for the long term. While our borrowings are generally obtained from Federal Home Loan Banks and can be valued via the market, what of our deposits? Certainly, there is a price offered for deposits from the latest big bank takeover, but are these true values that can be fairly applied to a going concern's funding source? I would suggest that such simplistic approaches would not suffice. As such, I envision yet another significant cost associated with valuing our deposit base and then additional costs for various audits. And, how often will we need to incur these costs? My concerns are especially directed toward the valuing of our core deposits. Essentially, we will be forced to value deposit goodwill every measurement period. Now we are talking about costs! How much more will FASB require us to spend? More importantly, what value will the reader of community banks derive from such a disclosure? What penalty will we be assessed for having the typical asset / liability term mismatch?

The proposed standard will undoubtedly increase the volatility of our balance sheet and by extension, our income statement. Let's look at a model used today by every federal thrift: the Office of Thrift Supervision Net Portfolio Value Model. The model determines values for all loans, deposits and borrowings utilizing a rather complex set of present value calculations. As would be expected, the assumptions used in the model are modified based on changes in market conditions, guesses as to the future of interest rates, supposed anticipated prepayment assumptions, the flow of deposits, etc. The model explanation alone is a book that rivals "War and Peace." The change in many thrifts' net present value of equity between March 31, 2010 and June 30, 2010 was quite significant. There are many other times over the past ten years that we have seen dramatic swings in the supposed net present value of equity. The proposed accounting standard will undoubtedly create similar volatility. Financial statement readers will be relying on the information reported, which results are not driven by the long-term outlook that reporting has historically used. Rather, the reporting will be increasingly dependent upon contrived fair value measures, which are far less dependable than current accounting requirements. Such reliance will feed into the frenzy of cyclical reporting and manipulation which further exacerbated the financial crisis of 2008 (i.e., declining values of financial instruments necessitated write-downs and sales, causing further write-downs and sales). With increased volatility, we will be required to maintain higher capital levels or decrease asset levels (i.e., reduce lending) just when community banks such as ours are relied upon to provide more credit to spur on economic activity.

Our hope is that the FASB will reconsider the lack of value added to community bank reporting, the increased volatility that will undoubtedly

be introduced and the economic impact the implementation of the proposed standard will have. And, as a result, we hope that community banks be exempted from the proposed standard.

Again, we thank your for the opportunity to comment on this proposal.

Sincerely,

Menzo D. Case