

From: jdodds@firstfd.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: Sunday, September 26, 2010 3:28:11 AM

Jay Dodds
383 Shoshone St. North
Twin Falls, ID 83301-6152

September 26, 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 Chief Financial Officer of First Federal Savings Bank, a banking institution in Twin Falls, Idaho with \$454 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 (market value) on the balance sheet.

First Federal is a mutual institution, so we do not have the same level of focus on our financial statements that a stock-held bank has. However, our financials may be accessed by customers, regulators and the media.

Attempting to mark loans to market, including commercial, mortgage, home equity and consumer would take a great amount of time and/or expense to accomplish, and for questionable benefit.

As a community bank in southern Idaho, if we have issues with a borrower's ability to repay a loan, we work through the collection process with the borrower rather than sell the loan. What is the value of being able to help a borrower keep a loan current, or to at least have payments coming? What is the value of knowing your customer and seeing him/her on a daily basis on the streets of your small city?

There is no active market for many of our loans, and estimating a market value makes no real sense when the value will vary based on relationships, particular market areas, and our particular collection process and success.

One of the higher-level concerns I have is that 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, the proposal would mask it. Will the media, customers and regulators have better information about the viability and the health of First Federal because we would now write our loans to some market value, which may or may not have anything to do with First Federal's true strength and stability moving forward as a going concern?

As an example, if we look at the valuation highs and lows associated with mortgage loan servicing and the resulting fluctuations in capital and net income, even when there is a market for the purchase and sale of this asset, how difficult and volatile are the market value numbers for multiple loan portfolios going to be?

The costs and 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 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 banks like mine.

I recommend that any final model be tested by banks my size 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. 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 mine to implement hedge accounting.

We considered hedging many years ago as a way to book loans, and to effectively use liquidity without incurring substantial interest rate risk, but found the hedge accounting process to be very cumbersome.

I would also say that it is very important that the term "reasonably effective" be better defined.

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

Thank you for considering my comments.

Sincerely,

208-733-4222
EVP/CFO
First Federal Savings Bank of Twin Falls