

From: elawson@amrb.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 27, 2010 4:04:27 PM

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September 27, 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 Controller of American River Bank, a financial institution in Sacramento, California with \$580 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.

Our bank does not traditionally sell our commercial loans. Basing our balance sheet on fair values would lead readers of our financial statements to assume that we will sell the loans, which is not the case.

We are a relationship-oriented commercial bank and as such, if there are issues with a client's ability to repay a loan, we work through the collection process with our client rather than sell the loan.

Furthermore, there is a dearth of opportunities to sell our loans in an "active market", and estimating a market value makes no real sense.

Even if we could easily obtain a market price, since the loan is just one part of the financial relationship that we have with our client (multiple loans, deposit relationship, etc.), there is no financial incentive to sell.

Marking all loans to market would cause our bank's capital to sway with fluctuations in the perceived "market" - 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 mask it.

Even if the banking regulators' Tier 1 capital excludes fair value

fluctuations, we still will have to explain it to our investors, clients and depositors.

The costs associated and resources that we would need to employ in order to comply with this new requirement would be significant. This would require us to pay consultants and auditors to estimate market value.

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.

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 within financial institutions the size of American River Bank or smaller.

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.

Thank you for considering my comments.

Sincerely,

916-231-6733
Vice President & Controller
American River Bankshares