From: smichel@hendersonstatebank.net
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 4:23:16 PM

Steven Michel
PO Box 605
Henderson, NE 68371-0605

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 Cashier of Henderson State Bank, a banking institution in Henderson, Nebraska with $143,000,000 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 sell our commercial loans. Basing our balance sheet on fair values leads readers of our financial statements to assume that we will sell the loans, which is not the case.

If there are issues with a borrower's ability to repay a loan, we work through the collection process with the borrower 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, since the loan is just one part of the financial relationship that we have with the customer (multiple loans, checking, savings, merchant capture, 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 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 mask it.
Unlike one treasury bond having the same risk characterisitics as another, each loan is unique and cannot be compared to another in assessing it a market value.

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. This is another nail in the coffin of small ag banks which are providing a significant service to their customers and community, that cannot be replicated by a bigger non local bank that can afford the extra staff.

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

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.

Thank you for considering my comments.

Sincerely,

402-723-4441
Cashier
Henderson State Bank