

From: ario@littlehornstatebank.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: Tuesday, September 28, 2010 12:08:15 PM

E. Andrew Rio
P. O. Box 530
Hardin, MT 59034-0530

September 28, 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."

I am President and CEO of Little Horn State Bank in Hardin, Montana, with \$68 million in total assets. I am writing to you because the owners and I have concerns about specific provisions of the exposure draft.

I. COMMENTS ON FAIR VALUE

We strongly oppose that portion of the proposal requiring all financial instruments, especially loans, to be reported at fair market value on the balance sheet.

We do not sell our commercial loans; therefore, basing our balance sheet on fair values could cause readers of our financial statements to infer that we sell those loans, which is not true.

When there are issues with a borrower's repayment ability, we work through the collection process with the borrower, since there is no active market for any of our loans. Therefore, estimating a market value is a futile process. The fact is that once word gets out that a bank our size has a problem loan, the value drops to about 30 cents on a dollar.

Marking all loans to market would cause serious fluctuations in our Tier 1 Capital ratio, creating undue concern for regulators and investors alike.

The costs and resources that we will need to comply with this new requirement would be significant. Since we do not have the staff to perform these calculations, this will require us to pay consultants and auditors to estimate market value. We have experience in this area, since we have had to have Other Than Temporary Impairment (OTTI) calculations done at great expense and time consumption. We currently have \$1.4 million in private mortgage backed securities at below investment grade; although, they are paying as agreed (we are in the top tranche) and the OTTI calculations show an adjustment of less than \$2,000.00.

For the reasons stated above, we respectfully request that the fair value section of the exposure draft be dropped.

II. COMMENTS ON LOAN IMPAIRMENT

While we support the Board's efforts to revise the methodology to estimate loan loss provisions, we have serious concerns about how such changes can be implemented by banks our size.

We cannot over-emphasize the importance of any final model being tested by banks our size to ensure that the model is solid, workable, and accepted and understood by regulators, auditors, and bankers prior to issuance of the final rule. We can tell you from experience that was not the case with OTTI -- there was vast confusion amongst regulators and bankers about what was required.

We fully oppose the proposal for recording interest income; it should continue to be calculated based on contractual terms and not on an after-impairment basis. We recommend retaining the current method.

III. COMMENTS ON HEDGE ACCOUNTING

We support changing the requirement for depicting a hedge as "reasonably effective" vs "highly effective," provided the term "reasonably effective" is fully defined. This should make it easier for banks our size to implement hedge accounting.

The "shortcut" and the "critical terms match" methods should be maintained. This should help small banks like ours reduce the cost of compliance with the hedge accounting rules.

I thank you in advance for considering my comments.

Sincerely,

406-869-6701
President and CEO
Little Horn State Bank