

Letter of Comment No: 106
File Reference: EITF03-1A

October 28, 2004

Mr. Lawrence Smith
Director and Chairman of the Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856

RE: Proposed FASB Staff Position, EITF Issue 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"

Dear Mr. Smith:

This letter is for comment on the above referenced proposed issue. We appreciate the postponement of this issue to allow time for additional comments. As with many other financial institutions, implementation of this issue will affect the manner in which we manage our investment portfolios. Please consider the following:

1. One concern is the "intent-to-hold" provision for all AFS securities in our portfolio. More appropriate wording may be "ability to hold" the AFS security.
2. Losses on AFS securities should be recognized when management makes a decision to sell the security. This removes management's ability to oversee the balance sheet and investment portfolio.
3. The proposal states that selling a security at a loss demonstrates a pattern and sets precedence for all securities in the portfolio. This will stop banks from making appropriate decisions to manage interest rate risk in their portfolios due to the consequences of tainting the rest of the portfolio.
4. Implementation of this proposal at the end of the year will be too soon for banks to make the necessary changes to their asset/liability management processes.

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5. The proposed 5% threshold for fluctuation in interest rates is too low. In recent history interest rates have fluctuated much more than 5%. The proposal could cause the market values to drop significantly and this could show that portions of the portfolio is impaired. We would suggest that AFS securities not be written down for market values that are due to increases in interest rates. Other factors that should be considered in analyzing a security are credit ratings, interest payment history, and the ability to repay.
6. Impairment of a security should not be focused solely on events and circumstances surrounding the security, but also on the bank's intentions and ability to hold for a period of time.
7. More guidelines should be given to define the term "other-than-temporary" with respect to losses as a result of events, rather than being limited to changes in interest rates.
8. As long as the institution has been marking the AFS securities to market in the equity section of the balance sheet, the regulators should be able to determine whether or not the institution's capital could withstand selling this security at a loss. The capital should remain above the regulatory requirement even with the adjustment for unrealized gains/losses. With this in mind the institution would not be required to affect income due to an unrealized loss.

We appreciate the opportunity to comment on this proposal and would like to thank you for considering our suggestions. If you have any questions or concerns, please do not hesitate to contact me at (505) 887-6686.

Sincerely,

Don Kidd
President & C.E.O.
Western Commerce Bank
Carlsbad, New Mexico