

Letter of Comment No: 84
File Reference: EITF03-1A



CVB Financial Corp.
701 North Haven Ave., Suite 350
Ontario, CA 91761
(909) 980-1030

October 26, 2004

Mr. Robert Herz, Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Mr. Lawrence Smith, Chairman
Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Re: EITF 03-1 "The Meaning of Other Than Temporary Impairment and its Application to Certain Investments"

Dear Messrs. Herz and Smith:

I am the Chief Financial Officer of CVB Financial Corporation and Citizens Business Bank, headquartered in Ontario, California. We are a \$4.4 billion institution traded on NASDAQ. Our investment portfolio plays a big part in the management of our asset liability strategy.

We are very concerned about the ramifications of EITF 03-1 and some of our concerns are based in what happened to us in the first quarter of 2004. We had a mandated write-down of \$6.3 million or approximately 10% of the value of two issues of Federal Home Loan Mortgage Corporation (Freddie Mac) preferred stock whose interest or dividend rate adjusts with LIBOR. We were told by our accounting firm that they had discussions with other big four firms and staff at the SEC and this was the correct way of handling this security. Subsequently, we found out that, to our knowledge, no other firm has mandated a write-down and at least one office of our accounting firm did not mandate a write-down for their client. I point this out only to serve as the background for some of my comments later on.

Our investment portfolio serves to enhance shareholder value and assist the Company in managing its balance sheet. As the maturities in our loan portfolio begin to lengthen since our customers want fixed rate loans in a rising rate environment, we may shorten the duration of our investment portfolio. The reverse is true in a down-rate environment. Individual securities are selected to enhance this strategy. Institutions must be able to manage their balance sheets.

There also needs to be due consideration for other issues surrounding OTTI. Does materiality play a role in OTTI? For example, when we mark our AFS portfolio to market through Other Comprehensive Income, there is no materiality. Each security is marked up or down regardless of materiality. Will that be the same for OTTI? It appears that some of the accounting firms have not mandated a write-down since the impairment was not “material”. If this can happen for OTTI, why do we mark the securities to market through Other Comprehensive Income if the amount is immaterial? It seems inconsistent to say it is material in one account, but not in another account.

Along the same lines, we write our securities up or down through Other Comprehensive Income. Why can't we do the same for OTTI? Just because one goes through the income statement and the other does not should not mean that we cannot have some type of symmetry of accounting. It appears ludicrous to non-accountants that we handle this one way if it goes through the income statement (impairment) and another way if it does not (Other Comprehensive Income).

Some have said there should be a “bright-line” test of 5%. Others have indicated that there should be no such test, but it should be left to the discretion of the company. The problem with not having a bright-line test is that this is too subjective. Different accounting firms may interpret this in different ways and, as in our case, different offices of the same firm may have a difference in interpretation. If the investing public is looking for symmetry in accounting, we must have some set formula.

Regarding the percentage for the bright-line testing of 5%, this may be too low. Fluctuations in interest rates or the prolonged non-movement in interest rates can cause wide fluctuations in pricing due to interest rate risk and extension risk. These are not associated with credit risk, but reflect a point in time in the changing interest rate cycle. There has to be room for managing these risks. Otherwise, we wind up managing only by accounting convention rather than the economic realities of the market place.

It is my understanding that only FASB can make changes to accounting policies. However, it seems to me that EITF 03-1 is changing some of the basis accounting policies in FAS 115. FAS 115 indicates that impairment should be recorded when “it is probable that the investor will be unable to collect all amounts due according to the contractual terms of a debt security not impaired at acquisition.” (FAS 115, paragraph 16) This does not seem to be consistent with the direction that EITF 03-1 is taking.

It appears that the FASB is moving in the direction of fair value accounting. Of course, the easiest area for an institution and an auditor to deal with is something that has a readily determinable market value. And the FASB continues to issue pronouncements on the marketable securities area of the balance sheet. This is being done in the name of "fair disclosure". Rather than continuing to this onslaught on marketable securities, I feel that the FASB should spend the time trying to determine how we can truly give fair disclosure to the investor by determining methods for disclosing the fair value of the loans and the deposits on the balance sheet. Hiding behind the notion that more pronouncements on marketable securities give better disclosures misleading. One section of the balance sheet may be "fairly disclosed", but what about the other seventy percent (loans and deposits)?

Recommendations

1. Determine how materiality can be consistent for OTTI and Other Comprehensive Income for the securities in AFS.
2. Review FAS 115 and determine what the accounting industry is really trying to accomplish with this and subsequent releases.
3. Establish a bright-line test percentage that is flexible, allowing a company to analyze and manage interest rate risks consistent with the purpose for each area of the balance sheet.
4. Review the differences and similarities between debt securities and equity securities and how they should be treated. I say this due to the preferred stock that is priced more like a bond than an equity security. Identifying them only as equity securities misses the economic reality of the instrument.

Thank you for allowing CVB Financial Corporation to comment regarding this EITF. It is crucial that we take the needed time to determine the correct accounting on this issue.

Sincerely,



Edward J. Biebrich, Jr.
Executive Vice President – Chief Financial Officer