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Financial Accounting Standards Board 401 Merritt 7 Norwalk CT 06856-5116

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

RE: FSP EITF Issue 03-1-a

Ladies & Gentlemen:

Thank you for the opportunity to comment on EITF Issue 03-1-a. South Coastal Bank is a small, \$270 million mutual thrift institution based in Rockland, Massachusetts. We have an \$80 million securities portfolio, which consists of \$30 million of callable Agency debt and \$50 million of Agency mortgage-backed securities. I am writing to provide feedback on how the adoption of EITF 03-1 and its proposed Implementation Guidance in FSP EITF Issue 03-1-a would impact a small community bank.

As drafted, these pronouncements would cause me to fundamentally change the way the Bank's securities portfolio is managed. Specifically, rather than risk the potential income statement charge and decrease in regulatory capital for impairment under EITF 03-1, we would most likely classify the majority (80% to 90%) of securities as Held to Maturity and forego the advantages of Available for Sale classification (such as "rolling down the curve", or selling to fund loan demand or adjust the asset-liability position).

The "safe harbor" price change of 5% or less that was discussed by the Board would not give me any comfort in utilizing the Available for Sale classification. As demonstrated by Morgan Keegan & Company in the chart on page 3 of their September 29, 2004 comment letter, even a rate increase as low as 1.25% would cause a price reduction of over 5% on a 5 year US Treasury security. Since January 1, 1970 there have been 41 months where the 5 year Treasury rate was more than 1.25% higher than it had been six (6) months earlier (source: 5-Year Treasury Constant Maturity Rate; Board of Governors of the Federal Reserve System). Even a 3-year US Treasury loses more than 5% of its value when rates rise by 2.00%, certainly a possibility in today's rate environment.

With a Held to Maturity portfolio we would focus on shorter-term securities (1 to 4 years) in order to provide a steady stream of maturities that can be reinvested. Because cash flow is very important to the Bank, we would probably not buy securities with a maturity date longer than 4 or 5 years. Securities that are subject to extension risk, such as mortgage-backed securities, would have to be re-evaluated.

Again, I appreciate the opportunity to share with you our views on this important issue. If you have any questions regarding this letter feel free to contact me at 781-681-7210.

John M. Sweeney
St Vice President & Chief Financial Officer