



**First National Bank**  
The First National Bank in Sioux Falls

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Sioux Falls, SD 57104  
605-335-5200

WESTERN MALL  
2505 West 41st Street  
Sioux Falls, SD 57105  
605-782-5900

INDUSTRIAL  
1600 West Russell Street  
Sioux Falls, SD 57104  
605-335-5270

EMPIRE  
The Empire Mall  
Sioux Falls, SD 57116  
605-782-5740

57TH STREET  
401 West 57th Street  
Sioux Falls, SD 57108  
605-782-5700

SYCAMORE  
500 North Sycamore Avenue  
Sioux Falls, SD 57110  
605-782-5760

BENSON ROAD  
1901 East Benson Road  
Sioux Falls, SD 57104  
605-782-5800

SERTOMA  
7109 West 26th Street  
Sioux Falls, SD 57106  
605-782-5780

WESTPORT  
4000 South Westport Avenue  
Sioux Falls, SD 57106  
605-335-2910

PRINCE OF PEACE  
4500 Prince of Peace Place  
Sioux Falls, SD 57103  
605-335-2911

WATERFORD  
111 West 17th Street  
Sioux Falls, SD 57104  
605-335-2916

BALTIC  
202 St. Olaf Avenue  
Baltic, SD 57003  
605-782-5940

DELL RAPIDS  
312 4th Street  
Dell Rapids, SD 57022  
605-782-5980

BRANDON-VALLEY  
300 Splitrock Blvd.  
Brandon, SD 57005  
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October 20, 2004

Letter of Comment No: 50  
File Reference: EITF03-1A

Mr. Robert Herz, Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, Connecticut 06856-5166

Mr. Lawrence Smith, Chairman  
Emerging Issues Task Force  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, Connecticut 06856-5166

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

Dear Messrs. Herz and Smith:

I am writing to comment on your recently issued EITF Issue 03-1 "The Meaning of Other Than Temporary Impairment and Its Application to Certain Investments" ("EITF 03-1"). I am the President and Chief Executive Officer of The First National Bank in Sioux Falls. We are an \$800 million bank that is privately held.

We are very apprehensive about the potential negative ramifications of EITF 03-1. For example:

- Reported financial statements that do not accurately reflect the results of our business activities (earnings volatility, asset carrying values, capital levels, risk profile, etc.);
- As a result of above, very real Sarbanes-Oxley related concerns associated with required signatures by senior Bank officers on financial statements that might be "technically correct" from an accounting perspective, yet materially misleading as to the true financial performance and risk profile of our Bank;
- Ability to prudently manage risks, such as liquidity and interest rate sensitivity, at the enterprise level;
- A systemic lowering of banking industry earnings;
- Inappropriately reduced regulatory capital levels that constrains the banking industry's ability to support economic growth (especially for community Banks); and
- Decreased availability and/or higher cost of raising capital.

**Recommendations**

Our recommendation is to clarify FAS115 by excluding other than temporary impairment accounting from situations where there have been market value declines due solely to interest rate related changes, unless an entity's actions speak clearly to exception treatment.

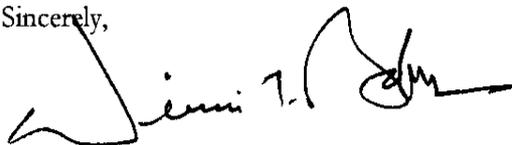
For example, in situations where there is a definitive plan for sale (voluntary or otherwise), banks should record a charge at the time of determination of the plan and not wait for the transaction to occur. Similarly, if there was an "egregious" pattern of selling that would seem to indicate that a portion or all of a portfolio was misclassified as available for sale rather than trading.

If FASB moves forward with EITF 03-1, then at the very least it should address clearly with pertinent examples the following issues:

- Enable sales to be conducted for documented strategies related to prudent risk management such as interest rate sensitivity and liquidity management.
- Provide a "bright-line" test for minor impairment (at least 5%, and preferably more) whereby impairment would be assumed to be temporary without requiring further analysis/documentation. Requiring formal analysis/documentation for every security with an unrealized loss would be an extreme burden.
- For pre-payable/callable premium securities with book prices above the "bright-line" test, provide concrete examples of typical securities and how they would be accounted for under the "new rule." For example, premium mortgage-backed securities (MBS) and collateralized mortgage obligations (CMO), callable bonds priced at premiums and amortized to call date, long-term municipal bonds, premium commercial MBS and other types of premium bonds with yield maintenance agreements and/or prepayment penalties.
- Allow rate related impairments to be recovered up to amortized cost as is done for mortgage servicing rights. Why create a new "permanent" cost basis that implies a low probability of recovery for a financial instrument whose value changes daily and is expected to increase with business cycles (when rates decline) and/or as time passes (the security moves closer to maturity)?
- Provide tangible guidance on what constitutes a pattern of selling (e.g. relative level of sales either in the number of transactions or \$ volume; time period over which activity analyzed, etc.). Interpretations from the accounting profession have varied greatly.

Thank you for taking the time to consider First National Bank's comments regarding the very critical issues associated with EITF 03-1 and the related ramifications for my Bank specifically and for the banking industry in general.

Sincerely,



William L. Baker  
President & CEO

WLB/ab