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Letter of Comment No: 48
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Mr. Lawrence W. Smith, Chairman EITF
Financial Accounting Standards Board
P. O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed FSP EITF Issue 03-1-a, which provides guidance for the application of paragraph 16 of EITF Issue 03-1 to debt securities that are impaired because of interest rate and/or sector spread increases.

Dear Mr. Smith,

Implementing 03-1 as currently interpreted will certainly cause increased income and capital volatility, reduce or severely discourage sound long-term asset management and will directly impact financial institutions disproportionately based on individual investment asset concentrations.

The new consideration of treating negative market value (MV) changes due to changes in interest rates as other than temporary impairment (OTTI) would force financial institutions to recognize the lower value change by lowering income and capital. Because the change is an OTTI, a financial institution cannot increase income and capital if in the future rates decline and MV increases. As few as 2 or 3 sales at losses could indicate a financial institution did not have the "intent and ability" to hold the investments to their respective maturities, regardless of the reasons for the sales. In this event, all AFS investments valued at less than book value would be subject to the mark to market rate described above.

Most regulations or standards are equitable and each financial institution is treated fairly, but not in this case. Consider financial institutions that have low loan demand and perhaps a 40% loan-to-deposit ratio. Approximately 50% to 55% of their assets are in investments and subject to the above OTTI definitions. Another institution may have 90% L-T-D and only 8% in investments subject to the new OTTI definitions. Issue 03-1 would, by accounting standards, determine the low-loan-to-deposit institution is considerably more risky than the high-loan-to-deposit institution by forcing the low-loan institution to mark 50% of its assets to lower of cost or market, while the high-loan institution would mark only 8% of its assets to market. (The low-loan institution could

have all investments in Treasury Notes and still be forced to recognize all losses as OTTI if certain trigger points are met.)

How can this be interpreted as anything but biased against a specific kind of asset class (investments)? All other assets and liabilities are excluded from mark-to-market, but investments are not. This standard could easily force financial institutions to make decisions based on an accounting treatment, but not necessarily on their best long-term interest. It could also force an operationally profitable institution out of business for lack of capital caused by marking investments to market.

For instance, our bank has several very small blocks of mortgage-backed securities, held as available for sale, where the cost of collecting the payments is not economical. In the past, we have periodically sold off these small blocks in order to reinvest the proceeds in a larger block and reduce the cost of carrying the securities (safekeeping, collecting payments, etc.). If 03-1 as currently interpreted were in effect, we would not have this alternative without marking our entire AFS portfolio to market. If we understand the intent of 03-1 correctly, it will basically eliminate the AFS classification of securities and, in effect force banks to classify their securities as Held to Maturity or Held for Trading.

If these restrictive applications stand, it will completely change how banks manage their investment securities, depriving them of the ability to use this component of their balance sheet to manage their asset/liability and liquidity positions. If this draconian application had existed in 2000, banks would have faced two equally unacceptable alternatives – sell a few securities to fund loan growth and face other-than-temporary impairment of the entire investment portfolio or turn down a quality loan. Both alternatives would have been contrary to good business practices.

We request an immediate postponement of the application of EITF 03-1, and also request that a conference be convened including representatives of the banking industry, banking regulators, FASB, the SEC, and others to discuss guidance which may accomplish the aim of EITF 03-1 without problems which are now evident.

Thank you,

West Texas National Bank



Richard Watts
Executive Vice President