

Mr. Lawrence W. Smith  
Chairman of Emerging Issues Task Force  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, Connecticut 06856-5116

Letter of Comment No: 7  
File Reference: EITF03-1  
Date Received: 9/22/04

Dear Mr. Smith:

First Hope Bank is pleased to provide comment on Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." Based on information coming out of the Task Force's deliberations, we have several concerns in regard to Issue 03-1. A summary of the concerns with this Issue are detailed as follows:

- Issue 03-1 raises the level of risk for owning any bonds;
- The methods of limiting loss recognition are too strict;
- The purpose of Issue 03-1 is unclear.

First Hope Bank is a national bank with six branches serving various communities in northwestern New Jersey. Since opening our doors in 1912, the bank has been family owned and operated. Through prudent management, the bank has been able to grow to approximately \$280 million in assets, largely composed of real estate secured loans and the investment portfolio. Having reached \$70 million, the investment portfolio is comprised largely of agency backed securities, municipals, and mortgage-backed securities or collateralized mortgage obligations.

### **Issue 03-1 raises the level of risk for owning any bonds**

Decreasing the value of a bond, without providing a means to recover that value, provides a disincentive to purchase bonds. The Task Force has discussed mandating that companies take an income loss on investments with a market value less than 95% to 85% of book value. Very few bonds do not show a change in value of less than five percent, when interest rates change by 300 basis points. Even Treasuries and short-term paper, examples of the safest securities, can experience shifts of this amount. By providing no safe haven, many portfolio managers will seek other sources of income, in order to avoid this decrease in income, especially considering once a bond turns negative there is little means of recovery, short of holding the bond to maturity, even as the bond naturally accretes as it approaches maturity. Then, if some means of accounting for this natural increase in value as a bond marches toward maturity is created, artificial income would be created outside the actions of the management of a company. By withholding the carrot of increasing income, once a write off occurs, many managers will decide the risk of investing in bonds is too high and look elsewhere for funding. By creating a carrot of some sort to increase income as a bond approaches maturity, the true performance of a bond manager who does not actively trade becomes hidden.

Of the portfolio managers that do decide to own bonds after implementation of Issue 03-1, the securities will suffer greater volatility. As bonds begin to approach whatever threshold is decided upon, those managers in the market will be forced to cut the losses, before a much larger loss may have to be booked. Sales activity will increase whenever rumors of interest rate fluctuations occur, causing bond prices to snowball lower. This increased volatility will push even more portfolio managers out of the market. Minor impairment rules should not be set in place for any securities.

**The methods of avoiding limiting loss recognition are too strict.**

The Task Force has suggested a safe haven of declaring investments as having the intent to hold to maturity. However, if a security that was intended to be held to maturity is sold, entire pools of investments in the portfolio would have the safe haven removed. Bonds are bought and sold to accomplish certain cash flow objectives. By limiting the ability to sell any securities in entire pools of the portfolio, due to the risk of booking other losses on separate securities, the hands of a portfolio manager become tied. A company should not be punished exorbitantly for a single purchase that no longer makes sense. This portion of the Issue does that.

**The purpose of Issue 03-1 is unclear.**

This Issue only seems to act as a punishment to companies. It does not provide greater transparency to investors or the public. No additional information is required in this Issue that might help people outside management understand a company better. If greater transparency was the intent, implement a note concerning unrealized losses. The Issue does not reduce risk to the company, the investors, or the public. If reducing risk was the intent, leave that decision with the investing public, as long as transparency is available.

Overall, First Hope Bank believes the current system of funneling changes in market value on the available for sale securities through the capital section of the balance sheet is adequate. As a bank, that section is closely monitored by all stakeholders in a company's success. As has been stated above, there is no additional benefit to changing the current set up.

Thank you for your attention to this matter. This communication will be delivered via e-mail and postal service, so that you may have a copy on bank letterhead.

Sincerely,  
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