



Letter of Comment No: 216
File Reference: EITF03-1A

October 27, 2004

Financial Accounting Standards Board
Attention: Director, TA&I-FSP
401 Merritt 7
Norwalk, CT 06856-5116

Re: FSP EIFT Issue 031a

Gentlemen,

The purpose of this letter is to comment on the proposed EIFT 031a

First of all the First State Bank of Beardstown is a small community bank that endeavors to carry investment securities to provide both income and necessary liquidity for unexpected deposit and loan demand. Accordingly it is our belief as the proposed EIFT as drafted would have significant impact on our daily operations. Additionally, this proposal could and likely would preclude the bank from engaging in unexpected loan demand in the event the bank had to sell an available for sale security at a loss to meet the loan demand that under the proposal would cause the **entire** investment portfolio to be tainted or impaired. Likewise, unexpected deposit demand could trigger the impairment clause of the **entire** security portfolio. Under these circumstances, prudence may dictate the bank management seek the maximum protection from possible tainting occurrence that in the long run would likely be less than desirable to either the bank's market or the economy as a whole.

Specifically,

- Unrealized losses related to a change in interest rates should not be considered as a possible impairment, due to the every changing interest rate environment. The quality of the investment (AAA and government bonds) does not create a potential impairment (recovery of bank's investment) but the decision by the bank to sell at current fair market value create the actual loss in a changed interest rate environment.
 - Banks, including us routinely take security losses, to (a) reposition the portfolio, such as sell taxable and reinvest in tax frees. (b) change the portfolio average duration due to general economic environment, (c) meet unexpected cash demands (deposit outflow and loan volume), and (d) adjust balance sheet liquidity (shorten the investment/versus loan ratio).
 - SFAS 115 is a well established industry standard and the proposed EIFT 03-1 is a significant departure from the stated mission of "addressing narrow implementation, application or emerging issues".
 - Accounting burden on community banks would be extension and the much quoted "banks will have to do a better job at liquidity" is a gross oversimplification of the problem – present day accounting for completely known future events that could or may not actually occur.

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- FASB should adopt very specific situations of impairment, thereby avoiding a wide range of likely misinterpretations
 - Should not require further comment other than various auditing/accounting firms without very clear guidelines will develop very different approaches to the impairment trigger of the entire portfolio. What is normal/routine and insignificant security sale losses. One may conclude anywhere from a percentage of income down to any loss triggers portfolio impairment
 - Impairment of a financial high grade asset should occur only when the following factors are present
 - Actual valuation of the asset is less than bank and is expected to remain
 - Ability to carry the asset over the long term is questionable, and
 - The organization (bank) anticipates selling the asset at fair market value
- Present accounting through designation of fixed rate securities of Held to Maturity, Available for Sale and Trading Securities is appropriate for a community bank such as ours.
 - Balance sheet accommodations recognizing the fair market value of securities is sufficient notice of possible future impact of unknown security transactions for banks our size.
- Intent or ability to hold should not be the governing formula in determining impairment in the case of a future event that causes the bank to sell a security at a loss. Let the income statement handle such transaction.
- Due to every changing interest rates, high quality (government securities) underlying market value changes both, thereby under one scenario the security is impaired (market value loss if sold), however when interest rates change or in an absence of a general interest rate change as the security nears maturity, it impairment (market loss) dissipates or actually evaporates (market gain).

Therefore, a significant cash management tool now available to bank management would be subject to the ramifications of the impairment provisions. At the very least, this proposal needs further clarification with readily defined guidelines. However, in conclusion I believe the present accounting prevent valuation of the investment portfolio is sufficient to address the possible impact on a community bank such as ourselves without added burden of accounting for an event that may or may not occur in the future.

The proposal needs further development to work as intended to accurately account for impairment (should be only exhibit a permanent impairment or valuation versus a temporary) or should be tabled in its entirety.

Sincerely,

A handwritten signature in black ink, appearing to read 'Joe C. Steiner', written over a circular stamp or seal.

Joe C. Steiner
President & CEO

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