

October 29,2004

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

Via e-mail(director@FASB.org)

Reference: proposed FASB Staff Position EITF Issue 03-1-a

Dear Mr. Smith:

Charter Financial Corporation (Charter") appreciates the opportunity to comment on the proposed FASB staff Position("FSP") EITF Issue 03-1-a. I have several general comments and have then provided responses to your specific questions.

1. EITF 2003-1, as with certain other recent guidance such as FAS 133, is creating a patchwork framework of historical cost accounting compromised by a few components of market value accounting. This time and effort would be better spent on the Fair Value project to create a consistent, theoretically sound framework rather than further compromising the existing framework.

The mark to market of a security that has a current market price that is less than its cost without a corresponding mark to market of related liabilities creates a material distortion in the company's reported operating results and equity. This significantly reduces the value of the financial statements to the users of the financial statements.

2. Financial institutions use their security portfolios to manage liquidity, manage interest rate risk, deploy excess funds, and provide earnings through leverage. Strict implementation of this standard has ramifications including (1) reducing the capacity and/or desire of financial institutions to hold mortgage securities thus reducing availability of, or increasing the price of home loans, (2) increasing the cost of capital for financial institutions due to more volatile earnings, and (3) increased cost of risk management for financial institutions due to reduced flexibility in their investment portfolios.

- 3. Recognition of an other than temporary impairment and the subsequent amortization of the "impairment discount" into income over the remaining life of the security appears to conceptually contradict the revenue recognition concepts that provide the basis for level yield accounting as applied to loans under FAS 91.
- 4. To the extent that minor impairment is very limited, as in the five percent test, this pronouncement effectively modifies FAS 115 classifications (1) held to maturity, (2) trading, (3) held for recovery and (4) available for sale if it is at a gain. This is dramatically different from the original pronouncement.
- Tainting versus a pattern of sales within an available for sale portfolio are different concepts. Tainting with a single sale essentially puts the holder of the security in a similar position as if it were classified as held to maturity. The test should be a pattern of sales that gives consideration to the need to occasionally sell a security due to changes in liquidity, interest rates, prepayments and other relevant factors.
- 6. Implementation of this standard will create a pattern of transactions that previously would have been considered abusive gains trading. It would eliminate sales for losses so the only sales would be for gains.

Question 1: At what unit of account should an investor assert its ability and intent to hold to forecasted recovery?

As discussed in question 2 the investor should be able at the portfolio level based on the investor's balance sheet structure.

Question 2: Although Issue 03-1 states that an investment is impaired if the fair value of the security is less than its cost, paragraph 16 does not refer to the severity of the impairment. Is there a level of impairment that can be considered temporary that would not create the need for an assertion about the ability and intent to hold an investment until a forecasted recovery?

A five percent bright line test of minor impairment is inappropriate because it is too restrictive. Many financial institutions hold securities that have a price volatility greater than five percent due to interest rates. Financial institutions and their regulators have a significant focus on managing interest rate risk at the portfolio level as well as the total balance sheet level. For example, In the early 1990's the FFIEC implemented a test that labeled collateralized mortgage securities with greater than 17% price volatility as high risk securities with those with lower volatility not being considered high risk. These securities are then

generally held in an overall asset/liability or total balance sheet framework that provides for a stable net interest margin and net portfolio equity. The institution has the ability, and generally the intent, to hold these securities since it has liabilities that fund the security. For the institution's purpose, the security is not impaired since it is generating the yield and spread that was anticipated and the institution will receive full value at maturity. So while it meets the technical definition of "impairment" as defined in EITF 03-1 because of the change in market price, it clearly should be considered temporary impairment versus other than temporary impairment. The matching of interest risk characteristics of the security and the liability with which it is funded may be done at the individual security level or within the overall balance sheet. To the extent interest rate risk is managed at the balance sheet level, declaring our intent and ability to hold an individual security becomes very burdensome (we hold approximately 125 securities classified as available for sale) and possibly difficult to demonstrate at the individual security level and much easier at a higher level. Therefore, determining minor impairment should be permitted at the portfolio level within the balance sheet structure and not done on a per security basis. Developing reasonable guidelines for determining minor impairment at the portfolio level is difficult if not impossible. Price volatility due to interest rates should be considered temporary impairment and only impairment created by credit, not interest rates, should be considered other than temporary.

Question 3: If an interest-rate-impaired and/or a sector-spread-impaired security for which the investor previously had asserted its ability and intent to hold to a forecasted recovery is expected to be sold prior to recovery:

- a. When is the impairment considered other than temporary? For financial institutions which use securities for a variety of purposes including liquidity, interest rate risk and providing additional leverage an occasional sale should be anticipated. The impairment should be considered other than temporary when the investor determines that the security should sold.
- b. Are there circumstances for such a change in ability or intent that would not necessarily call into question the investor's ability or intent to hold other securities to recovery? Yes. See Response to Question 2.

Thank you for the opportunity to comment on this important matter. Please contact the undersigned at 706-645-3237 or via e-mail at ckollar@charterbank.net if you have any questions about this letter.

Sincerely,

Curt Kollar, Chief Financial Officer Charter Financial Corporation