ASTORIA FINANCIAL CORPORATION

One Astoria Federal Plaza
Lake Success, NY 11042-1085
(516) 327-3000

Letter of Comment No: 112
File Reference: EITF03-1A

October 28, 2004

Mr. Lawrence W. Smith
Director - Technical Application and Implementation Activities and EITF Chair
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Reference: Proposed FASB Staff Position No. EITF Issue 03-1-a

Dear Mr. Smith:

Astoria Financial Corporation appreciates the opportunity to comment on the proposed FASB Staff Position No. EITF Issue 03-1-a, "Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, 'The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.'" Astoria Financial Corporation is a unitary savings and loan association holding company for Astoria Federal Savings and Loan Association. We are a publicly traded thrift institution with assets of approximately $23 billion and operate 86 banking offices in New York.

As a financial institution, our investment portfolio comprises a significant portion of our assets (39% as of September 30, 2004). We have concerns about the potential ramifications of the overzealous application of the pending guidance related to accounting for other-than-temporary impairments. EITF No. 03-1 was intended to clarify existing accounting literature related to impaired investments, not change it. In addition, it was not intended to reduce the flexibility provided by the available-for-sale (AFS) classification as dictated by SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The AFS classification (1) permits entities to hold securities for an indefinite period of time (including to maturity if desired); (2) maintains the flexibility to sell those securities in response to changes in economic and market conditions such as interest rates, prepayment risk, currency risk, liquidity needs and the availability of alternative investment yields; and (3) provides the users of the financial statements fair value accounting (gains and losses) for their interpretation and analysis.

We believe further clarification is required from the Board regarding the correct application of EITF No. 03-1 relating to the sale of AFS securities prior to recovery (at losses) and what constitutes "tainting" the entire AFS portfolio. EITF Issue No. 03-1-a addresses circumstances under which the sale of a security prior to recovery would not necessarily call into question the investor's ability or intent to hold other securities to recovery. There are two problems with this guidance. The first is that according to EITF Issue No. 03-1-a, the sale must be the result of unexpected and significant changes in liquidity needs, unexpected and significant increases in interest rates and/or sector spreads that significantly extend the period that a security would need to be held by the investor, or a de minimis volume of sales of securities. SFAS No. 115 does not limit the circumstances nor require justification for the sale of an AFS security. It merely indicates that securities designated as AFS may be held for an indefinite period of time and may be sold due to changes in market interest rate, prepayment risk, liquidity needs, etc. Additionally, SFAS No. 115 does not address the concept of "unexpected and significant" changes or increases in relation to sale of AFS securities. The second problem is that this sale guidance relates only to debt securities which fall under paragraph 16 of EITF Issue No. 03-1. This guidance needs to be expanded to cover the sale of any AFS security which a company previously asserted it intended to hold until recovery. Requiring companies to permanently write down all of their AFS securities in an unrealized loss position as a result of "tainting" due to a "pattern of selling investments prior to recovery" translates to lower of cost or market (LOCOM) accounting, which the Board considered in its deliberations of SFAS No. 115 to be "unevenhanded" as it recognized the "net diminution" in the value of securities but not the "net appreciation." Very strict interpretations of EITF No. 03-1 will likely result in limitations on the flexibility of the available-for-sale portfolio, and ultimately may eliminate the use of the available-for-sale designation.

The following comments address the specific questions in the request for comment:

Issue 1: Minor Impairments

We believe that financial statement preparers and their auditors should be able to apply the definition of "minor impairment" without any additional guidance from the FASB. Throughout existing accounting literature reference is made to thresholds considered minor, significant, material and immaterial, without reference to specific dollars or percentages. The determination of "minor impairment" should be left to the judgment of management based on its historical experience and analysis and the evaluation of that determination by their auditors. In addition, the underlying reasons for a security impairment must be evaluated in conjunction with the internally determined quantitative threshold for "minor impairment." It is possible to have an "other-than-temporary impairment" which falls below a predetermined threshold of "minor impairment." For example, an impairment of 5 percent caused by a decline in credit quality is less likely to be recovered before an impairment of 5 percent caused by fluctuations in interest rates. In this case, a write down may be necessary due to a decline in credit quality, even though the impairment would be considered "minor" from a quantitative standpoint.

Issue 2: Limiting the Notion of Minor Impairments to Debt Securities Evaluated for Impairment Pursuant to Paragraph 16 of Issue 03-1

We generally support the Board's conclusion to limit the notion of "minor impairment" to debt securities analyzed for impairment under paragraph 16 that are impaired because of interest rate and/or sector spread increases, with one exception. We believe that paragraph 16 should address all debt securities, including those purchased at a premium. An investor who purchases a premium security which can be contractually prepaid (e.g. a mortgage-backed security) will generally not recover the full value of its investment until the premium is completely written off. Premiums are amortized over the life of a security as a yield adjustment. Changes in the estimated life of a security will result in corresponding changes in the speed at which the remaining premium is amortized. Premium, par and discount securities are all impacted by changes in interest rates. The fact that a debt security carries a premium should not preclude the application of the concept of "minor impairment" in assessing an interest rate related impairment on that security.

We appreciate the opportunity to comment on the proposed FASB Staff Position. If you have any questions, please contact the undersigned at 516-327-7754.

Sincerely,

Katherine A. O'Brien
First Vice President and Director of Financial Reporting

cc: Monte Redman - Executive Vice President and Chief Financial Officer