Letter of Comment No: 97
File Reference: EITF03-1A



October 25, 2004

Mr. Lawrence Smith
Director and Chairman of the Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856

Re: Proposed FASB Staff Position, 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"

Dear Mr. Smith:

First Federal Savings Bank of Virginia appreciates the opportunity to comment on the proposed Staff Position, issued on September 15, 2004 by the Financial Accounting Standards Board (FSP 03-1-a). First Federal is a federally chartered savings bank with assets of \$ 286 million with branches throughout southeastern Virginia.

Upon review of the Staff Position, there are a number of concerns regarding effective application of the proposed rule.

First, changes in interest rates are by definition temporary as the business cycle advances over time. Interest rate changes result in continually changing market value adjustments which flow through equity, thereby allowing the user of the financial statements the opportunity to assess the institution's ability to hold such AFS debt securities on the balance sheet. Changes in interest rates have a minor impact on credit quality as it relates to impairment of debt securities that maintain their investment grade status. This provides further evidence that the effect of interest rate changes on the impairment of such investments is indeed temporary. As a result, investment grade debt securities held in AFS should not be written down for changes in market values that are due solely to increases in interest rates.

Secondly, FAS 115 effectively addresses the management intent issue by segregating investment activity into either trading, available for sale or held to maturity categories and provides ample criteria for allocating securities appropriately. Further AFS securities may be sold at a loss to accomplish balance sheet realignments for a number of strategic purposes over an accounting period, none of which may have anything to do with the institution's ability to hold such securities. As an example, suppose an institution sold a series of securities at a loss during the quarter ended June 30, 2004 in order to realign its balance sheet to fund increased lending cash flows which would provide additional yield opportunities and an improved interest rate risk profile. During that quarter, the ten year treasury rose by 75 basis points and debt security market values dropped markedly. Since that quarter however, almost all of those market losses have been erased as the ten year bond has dropped to below 4%. Under the staff proposal, an institution would have reflected a significant loss in one quarter only to be followed by recorded gains in interest income the following quarter resulting from discount accretion created by the earlier write-down. Therefore, applying a standardized treatment to the portfolio as suggested by the staff proposal would give an incorrect signal to users of financial statements as to an institution's intent as well as its ability to hold and would simply result in variability in reported earnings that is not indicative of performance. Since the focus is ultimately based upon measuring an institution's financial ability to hold a debt security, it is clear that FAS 115 already accomplishes this task.

In our opinion, the proposed staff position should be withdrawn as it will likely result in institutions simply adopting mark-to-market avoidance strategies rather than strategies designed to enhance shareholder value as well as introduce variation in earnings that are not indicative of management performance.

Again, we appreciate the opportunity to comment on this proposal. Thank you for considering our views. If you would like to discuss this letter in more detail, do not hesitate to contact us.

Sincerely,

James A. Wilson, Jr., CPA Senior Vice President

First Federal Savings Bank of Virginia