



Letter of Comment No: 5
File Reference: EITF03-1A

October 14, 2004

Mr. Robert Herz, Chairman
Financial Accounting Standards Board
401 Merrit 7
Norwalk, CT 06856-5166

RE: EITF 03-1

Dear Mr. Herz:

As Chief Financial Officer for a community bank, I have been following the proposed EITF 03-1 closely. At a meeting of CFOs sponsored by the Federal Reserve Bank of Richmond regarding issues facing community banks, I was amazed to find that there is a general unawareness of the potential ramifications to our industry should this pass. I have taken measures to hopefully get the word out through our various associations; however, I wish my objections to the proposal be recorded nonetheless.

I believe that, from a community bank standpoint, treating interest rate related market value fluctuations as "other than temporary impairments" will basically do away with "Available For Sale" as a category. This being said, we will be forced to either sacrifice liquidity by treating investments as "Held-to-Maturity" or sacrifice earnings by staying in vehicles extremely short. I feel that the security portfolio of a community bank should be managed properly to facilitate both, but this proposal takes away our management ability.

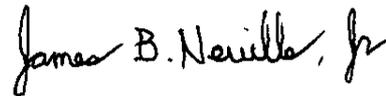
For instance, prudent portfolio management over the past four years would have dictated a move into shorter positions to reduce rate exposure. As rates return to a more normal or neutral Fed policy, prudent management is to extend out on the curve a little longer. Generally, this has little to do with the institution's ability or initial intent to hold issues to maturity as prescribed by the AFS category; however, doing so will often cause a small loss to be recorded. The prudent manager has already calculated that the higher yield will more than offset the loss, and he or she would feel comfortable with having the ability and intent to hold the longer issue until maturity. Regardless of this prudent management, the recordation of a few small losses "taints" the portfolio under EITF 03-1.

Moreover, treating these interest rate changes as other than temporary impairments creates a one-way street, downward. How can FASB propose that rates will only travel in one direction? If there is only a mandate to write down but a prohibition against writing up, is it not the proper assumption that rates will only move adversely. And the arbitrary five percent proposed impairment threshold could easily be exceeded even in shorter average life portfolios with the recent historically low and unprecedented rate environment.

Furthermore, is it not very unfair to potentially penalize an institution with a lower loan-to-deposit ratio at a much higher amount? Obviously such an institution should be in less riskier instruments from a credit standpoint but yet quite likely subject to capital impairments because of it. Community banks will have to exit the market as far as mortgage-backs, municipals, and other longer term vehicles, and I wonder what this does to the secondary markets and municipalities. Finally, I have always been opposed to a market value system when only a segment of the balance sheet is so stated. I think this is very misleading.

In closing, I wish to thank you for your time in reading these thoughts. I implore FASB to re-examine these proposals and the explosive impact they may have on community banks. I have no problem in penalizing those who abuse AFS, but please reconsider penalizing those of us using good business judgment and sound managerial practices.

Respectfully Submitted:



J. Bryant Neville, Jr.
Sr. Vice President & Chief Financial Officer

cc: Mr. Lawrence W. Smith, Chairman EITF
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