

October 26, 2004

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

Letter of Comment No: 204
File Reference: EITF03-1A

Mr. Lawrence Smith
Chairman
Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5166

Re: EITF 03-1 "The Meaning of Other Than Temporary Impairment and its Application to Certain Investments"

Dear Messrs. Herz and Smith:

I am writing to comment on your recently issued EITF Issue 03-1 "The Meaning of Other Than Temporary Impairment and Its Application to Certain Investments" ("EITF 03-1"). I am the President and CEO of Dubuque Bank and Trust Company, located in Dubuque, Iowa. We are a \$781 million bank and one of the member banks of Heartland Financial USA, Inc., which is publicly-traded on NASDAQ under the symbol HTLF. Heartland Financial is a \$2.6 billion multi-bank holding company with operations in Iowa, Illinois, Wisconsin, Arizona, Montana, and New Mexico.

We are very apprehensive about the potential negative ramifications of EITF 03-1. For example:

- Reported financial statements that do not accurately reflect the results of our business activities (earnings volatility, asset carrying values, capital levels, risk profile, etc.);
- As a result of above, very real Sarbanes-Oxley related concerns associated with required signatures by senior bank officers on financial statements that might be "technically correct" from an accounting perspective, yet materially misleading as to the true financial performance and risk profile of our bank;
- Ability to prudently manage risks, such as liquidity and interest rate sensitivity, at the enterprise level;
- A systemic lowering of banking industry earnings;
- Inappropriately reduced regulatory capital levels that constrains the banking industry's ability to support economic growth (especially for community banks);
- Decreased availability and/or higher cost of raising capital; and
- Negative impact on the ability of local communities to issue longer-term bonds.

Recommendations

Our recommendation is to clarify FAS115 by excluding other than temporary impairment accounting from situations where there have been market value declines due solely to interest rate related changes, unless an entity's actions speak clearly to exception treatment. For example, in situations where there is a definitive plan for sale (voluntary or otherwise), banks should record a charge at the time of determination of the plan and not wait for the transaction to occur. Similarly, if there was an "egregious" pattern of selling that would seem to indicate that a portion or all of a portfolio was misclassified as available for sale rather than trading.

If FASB moves forward with EITF 03-1, then at the very least it should address clearly with pertinent examples the following issues:

- Enable sales to be conducted for documented strategies related to prudent risk management, such as interest rate sensitivity and liquidity management.
- Provide a "bright-line" test for minor impairment (at least 5% and preferably more), whereby impairment would be assumed to be temporary without requiring further analysis/documentation. Requiring formal analysis/documentation for every security with an unrealized loss would be an extreme burden.
- For pre-payable/callable premium securities with book prices above the "bright-line" test, provide concrete examples of typical securities and how they would be accounted for under the "new rule." For example, premium mortgage-backed securities (MBS) and collateralized mortgage obligations (CMO), callable bonds priced at premiums and amortized to call date, long-term municipal bonds, premium commercial MBS and other types of premium bonds with yield maintenance agreements and/or prepayment penalties.
- Allow rate related impairments to be recovered up to amortized cost as is done for mortgage servicing rights. Why create a new "permanent" cost basis that implies a low probability of recovery for a financial instrument whose value changes daily and is expected to increase with business cycles (when rates decline) and/or as time passes (the security moves closer to maturity)?
- Provide tangible guidance on what constitutes a pattern of selling (e.g., relative level of sales either in number of transactions or dollar volume, time period over which activity analyzed, etc.). Interpretations from the accounting profession have varied greatly.

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Thank you for taking the time to consider Dubuque Bank and Trust Company's comments regarding the very critical issues associated with EITF 03-1 and the related ramifications for my bank specifically and for the banking industry in general.

Sincerely,

A handwritten signature in cursive script, appearing to read "Douglas J. Horstmann".

Douglas J. Horstmann
President and CEO

dmg