

TFB The Fauquier Bank
Making your financial life easier

Letter of Comment No: 202
File Reference: EITF03-1A

October 28, 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.

Dear Mr. Smith:

Thank you for the opportunity to comment on the proposed Staff Position issued on September 15, 2004 by the Financial Accounting Standards Board regarding implementation guidance for the application of paragraph 16 of EITF Issue No. 03-1. The Fauquier Bank (TFB) appreciates your delaying the effective date of this position and taking additional time to consider the views of those affected, including those of community banks like TFB.

TFB is an eight branch community bank with \$425 million in assets located approximately 50 miles west of Washington, DC. TFB's investment portfolio is currently \$52 million, all of which is carried on our books at fair value and is considered available for sale (AFS). We rarely sell from this portfolio, in fact, only once over the last three years. The primary purpose of the portfolio is as an asset/liability management tool. It provides one possible means of liquidity if and when our loan demand exceeds our retail deposit growth. It can be sold to provide additional funding or it can serve as potential collateral for additional borrowings. As such, we manage the portfolio in ways that provide regular cash flow and preserve market value, primarily by keeping weighted average maturities to three years and less and investing in AAA credits.

We believe community banks such as TFB will be limited in their flexibility to manage the assets and liabilities of the bank in the combined best interests of their shareholders, their loan customers, and the communities they serve if the EITF guidance includes an "intent-to-hold" provision rather than an "ability-to-hold" provision. The AFS portfolio is one of the more controllable tools for a bank to manage interest rate risk, particularly a community banks without the systems, processes, or experienced personnel required to hedge such risk by alternative, and mostly derivative, methods.

Another issue to be considered: How will "intent" be defined, and what happens if "intent" changes over time? Will that create some reversal of a prior write-down?

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The forced write-down of securities deemed to be "other-than-temporarily" impaired simply as the result of movement in market interest rates would cause the need for banks to adjust the effective yield on the "other-than-temporarily" impaired security in order to accrete the amount of the write-down over the remaining life of the instrument. It doesn't take long before the more duplicitous of us realize this "slippery slope" creates another potential method to manage earnings and result in the inappropriate recognition of earnings.

We believe more focus should be placed on better defining "other-than-temporary" with respect to losses as result of events, rather than changes in interest rates such as the downgrading of a credit rating, repayment interruptions, and other factors that may put into question the ultimate repayment of principal at maturity.

Thank you for allowing us the opportunity to express our views for your consideration. If you would like to discuss this letter in more detail, please contact Eric Graap at 540-349-0212 at your convenience.

Yours truly,



Randy K. Ferrell
President and CEO