

Letter of Comment No: 110  
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Mr. Lawrence Smith  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856

Re: FSP 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 requesting comments on this pending FSP. I am sure many commentators have provided you with extensive detailed comments which I will not try to repeat. I wish to provide you with my perspective on this issue relative to management of a bank balance sheet position and its corresponding interest rate risk.

Management of interest rate risk for a banking company is a very dynamic process requiring changes in the maturities or repricing characteristics of current and future assets and liabilities. Our shareholders expect management to actively manage the extent to which their returns may be impacted by changes in interest rates.

Bankers and for that matter, economists have shown little consistent accuracy in determining when interest rates will change although there is usually some consensus on the eventual direction of interest rates. At this time, interest rates are moving off of 40 year lows and there is general consensus that interest rates have no way to go but up, although how much and how fast continue to be elusive.

Accordingly, our bank's fixed rate available for sale portfolio will likely produce some unrealized losses in the future which will eventually either go away at maturity or be reduced in a subsequent interest rate environment change. In the meantime, we may hold those securities for multiple reasons. These may include: liquidity and ability to easily pledge secured borrowings; a yield advantage over shorter term and less volatile securities; and to match a similar fixed rate liability or equity position.

It is interesting to note that securities which have short term repricing characteristics can also have unrealized losses. These unrealized losses can occur because

the entire yield curve may have shifted by economic change or influences from government policy. Thus, the issue is not just associated with fixed rate long term securities.

I believe the focus on applying the pending FSP to changes in the available for sale portfolio because of cyclical changes in interest rates will adversely impact management's ability to properly protect the interests of bank shareholders. I would request exclusion of changes in the available for sale portfolio due to changes in interest rate in this pending FSP. It is my opinion SFAS 115 adequately deals with the issues related to bank security portfolios.

Thank you for the opportunity to comment on the pending FSP and would be happy to discuss this issue further if you have any questions.

Sincerely yours,

Frederick E. Schea