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Letter of Comment No: 99
File Reference: EITF03-1A

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:

Penns Woods Bancorp, Inc. and its subsidiary, Jersey Shore State Bank, appreciate the opportunity to comment on the proposed Staff Position, issued on September 15, 2004 by the Financial Accounting Standards Board (FSP 03-1-a). Consolidated, our company's total assets are \$559,000,000 with shareholders' equity of \$72,400,000 and an investment portfolio with available for sale securities of \$194,000,000. Presently we have over 1,200 shareholders and are publicly traded on NASDAQ's national market.

At this time we must thank you for delaying the effective date on 03-1 to permit additional comment and to consider the views of the banking industry. From our perspective as active portfolio managers, we must recommend considerable further study of the significant potential impact of the impairment issue on our company and our industry.

Mr. Lawrence Smith Page two October 28, 2004

The ability to actively manage a bank portfolio has a considerable impact on overall Liquidity and Interest Rate Risk management. Quite frankly, debt securities held in our available for sale portfolio should not be written down for changes in market values attributed solely to increases in interest rates. If we've learned anything from our study of interest rate cycles, it is that rapid moves result in considerable value adjustments occurring in the short term. Between March and May, 2004, the FNMA 15 year 4% MBS moved down 600 points in two months. The 03-1 5% recommendation would require our auditors to determine if the price decline was "other than temporary". As of today, that security has recovered 400 points and is selling at \$98.00 versus its low in May of \$93.50. I strongly recommend that a 5% benchmark is too tight and, looking to individual pieces of a portfolio, is not as significant as looking at a portfolio in the whole.

Given our strong level of capital, Penns Woods has an <u>ability</u> to hold securities and, therefore, a capacity to manage the portfolio. Ability is far more meaningful in managing interest rate over a cycle than intent. We measure our performance and strength on financial ability, not on any contrived intent.

In our opinion, to effectively manage our portfolio for income and liquidity and to eliminate volatility in our stock price, greater FAS 03-1 latitude is required.

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, please contact me at the above-listed number.

Sincerely,

Ronald A. Walko President

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