

Letter of Comment No: 25 A
File Reference: EITF03-1A

October 18, 2004

Mr. Lawrence W. Smith, Chairman EITF
Financial Accounting Standards Board
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Proposed FSP EITF Issue 03-1-a, which provides guidance for the application of paragraph 16 of EITF Issue 03-1 to debt securities that are impaired because of interest rate and/or sector spread increases.

Dear Mr. Smith,

Implementing 3-1 as currently interpreted will certainly cause increased income and capital volatility, reduce or severely discourage sound long-term asset management and will directly impact financial institutions disproportionately based on individual investment asset concentrations.

The new consideration of treating negative market value changes due to changes in interest rates as "other than temporary impairment" would force financial institutions to recognize the lower value change by lowering income and capital. Because the change is an "other than temporary impairment," the financial institution cannot increase income and capital if in the future rates decline and market value increases. As few as 2 or 3 sales at losses could indicate the financial institution did not have the "intent and ability" to hold the investments to their respective maturities. All AFS investments valued at less than book value would be subject to the mark to market rate described above. Most regulations or standards are equitable and each financial institution is treated fairly, but not in this case. Consider financial institutions which have low loan demand of perhaps 40% loan-to-deposit ratio. Approximately 50% to 55% of these financial institutions assets are in investments and subject to the above "other than temporary impairment" definitions. Other financial institutions may have 90% L-T-D and only 8% in investments subject to the new "other than temporary impairment" definitions. Issue 03-1 would, by accounting standards, determine the low-loan financial institutions are considerably more risky than the high-loan financial institutions by forcing the low-loan financial institutions to mark 50% of its assets to lower of cost or market, while the high-loan financial institutions would mark only 8% of its assets to market. (The low-loan

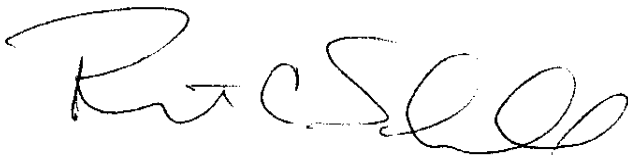
financial institutions could have all investments in Treasury Notes and still be forced to recognize all losses as "other than temporary impairment" if certain trigger points are met.)

How can this be interpreted as anything but biased against a specific kind of asset class (investments)? Loans are just as impaired. All other assets, such as loans, and liabilities are excluded from mark to market, but investments are not. This standard could easily force financial institutions to make decisions based on an accounting treatment, but not necessarily on the best long-term interest of the financial institutions. It could also force an operationally profitable financial institution out of business for lack of capital caused by marking investments to market. The only logical fair way to implement this proposal would be to mark to market all assets and liabilities so that losses in the investment area would be offset by gains in the liability (deposit) area.

If these restrictive applications stand, it will completely change how banks manage their investment securities, depriving them of the ability to use this component of their balance sheet to manage their asset/liability and liquidity positions. If this draconian application had existed in 2000, banks would have faced two equally unacceptable alternatives – sell a few securities to fund loan growth and face "other-than-temporary impairment" of the entire investment portfolio or turn down a quality loan. Both alternatives would have been contrary to good business practices. An institution such as ours, which is \$65 million in assets with 40% of those in loans, could routinely have annual income fluctuations from \$0 to \$1,750,000 if we make financial decisions that are in the best long term interests of the investors. Our capital level can support the fluctuations; but, income could be wild. In addition, banks would still pay taxes on the higher income levels.

I request an immediate postponement of the application of EITF 03-1, and we request that a conference be convened including representatives of the banking industry, banking regulators, FASB, the SEC, and others to discuss guidance which may accomplish the aim of EITF 03-1 without problems which are now evident.

Thank you,

A handwritten signature in black ink, appearing to read "RCS", with a large, stylized flourish extending from the end of the signature.

Robert C. Schnell
Executive Vice President

RCS/cdh