

RON RODGERS CHIEF EXECUTIVE OFFICER Letter of Comment No: // File Reference: EITF03-1A Locally Owned Since 1932 Member F.D.I.C.

JACKSBORO HWY. VICHITA FALLS LOCATION

October 19, 2004

Mr. Lawrence W. Smith, Chairman EITF FASB
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 (MV) changes due to changes in interest rates as other than temporary impairment (OTTI) would force financial institutions to recognize the lower value change by lowering income and capital. Because the change is an OTTI, the financial institutions cannot increase income and capital if in the future rates decline and MV increases. As few as 2 or 3 sales at losses could indicate the financial institutions 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 OTTI definitions. Other financial institutions may have 90% L-T-D and only 8% in investments subject to the

new OTTI definitions. Issue 03-1 would, by accounting standards, determine the low-loan financial institution is considerably more risky than the high-loan financial institution by forcing the low-loan financial institution to mark 50% of its assets to lower of cost or market, while the high-loan financial institution would mark only 8% of its assets to market. (The low-loan financial institution would have all investments in Treasury Notes and still be forced to recognize all losses as OTTI if certain trigger points are met.)

How can this be interpreted as anything but biased against a specific kind of asset class (investments)? All other assets 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 institution. It could also force an operationally profitable financial institution out of business for lack of capital caused by marking investments to market.

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 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.

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,

Ron Rodgers

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