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September 28, 2004

Letter of Comment No: 54  
File Reference: EITF03-1  
Date Received:

Mr. Robert Herz  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5166

Mr. Lawrence W. Smith  
Chairman of Emerging Issues Task Force  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5166

**Re: Emerging Issues Task Force Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Instruments"**

Dear Mr. Herz and Mr. Smith:

Midwest Banc Holdings, Inc. (MBHI) urges the Financial Accounting Standards Board to reconsider EITF Issue No. 03-1, "The Meaning of Other Than Temporary Impairment and Its Application to Certain Investments," due to the potential adverse impact to our banks and to other financial institutions and financial services companies. We believe that this EITF is inconsistent with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan."

SFAS 114 amended SFAS 5, "Accounting for Contingencies" to clarify that a creditor should evaluate the collectibility of both contractual interest and contractual principal of all receivables when assessing the need for a loss accrual. Impairment of a loan has a distinct set of guidelines to measure impairment targeted at the contractual terms of the underlying asset. EITF 03-1 proposal creates an inconsistent accounting approach for earning assets, such as loan and investments.

SFAS 115 provides for the classification of securities into three categories: (1)Held-to-Maturity (HTM), (2) Trading and (3)Available-for-Sale (AFS). The standard states in paragraph 82:

“additionally, the available-for-sale category will include debt securities that are being held for an unspecified period of time, such as those that the enterprise would consider selling to meet liquidity needs or as part of an enterprise’s risk management program.” The fair value of a security is not the primary basis to sell investments from the AFS portfolio. An investor might decide to hold on to a security with a fair market value below its cost because the yield is still better than other alternatives at the time. An investor who has limited sources of liquidity while a better investment alternative has arisen, might be willing to take the loss so that the funds can be reinvested in higher yielding assets.

MBHI currently carries its AFS securities at fair value with the appropriate adjustment flowing through the Other Comprehensive Income Account. Risk Based Capital is unaffected by this accounting adjustment, however with the potential implementation of EITF 03-1 Risk Based Capital and earnings would be adversely impacted. In addition, the Lower of Cost or Market Treatment proposed would have an inconsistent treatment from SFAS 115 for AFS securities. The potential negative impact to earnings and Risk Based Capital could be severe.

Banks have been able to satisfactorily manage, in most cases, its asset/liability strategies and interest rate risk and meet financial objectives by appropriately managing its securities through the three classifications prescribed under SFAS 115. It appears that one accounting firm believes that any sale out of the AFS portfolio of a below market security implies that management intends to sell similar securities in the AFS portfolio. Under this view, management would be unable to demonstrate its intent and ability to hold securities that it is not selling until the securities recover its original cost and therefore would have to write down those securities through earnings as impaired.

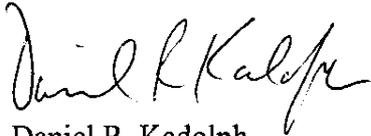
Many variables including volatile interest rates can impact the fair value of securities. The purchasing and holding of AFS securities provides management with the flexibility in operating its enterprise. EITF 03-1 appears to create unintentional conflicts for holders of AFS securities. This interpretation of EITF 03-1 is in direct contradiction with SFAS 115. Paragraph 114 of the standard in part reads, “although the Board believes that other-than-temporary impairment exists if it is probable that the investor will be unable to collect all amounts due according to the contractual terms of the security, the Board believes that providing comprehensive guidance on other-than-temporary impairment involves issues beyond the scope of this Statement.”

We strongly urge the FASB and EITF to take immediate action to reconsider the ratification of the EITF consensus and delay the effective date of EITF 03-1. MBHI feels that additional time is needed to more fully evaluate all aspects of this EITF, guidance for its implementation and

potential severe impact on financial statements of our company and all financial service companies.

Please feel free at your convenience to contact me directly at (708) 450-6759 if you would like to discuss this matter further.

Sincerely,

A handwritten signature in black ink, appearing to read "Daniel R. Kadolph". The signature is fluid and cursive, with the first name being the most prominent.

Daniel R. Kadolph  
Senior Vice President and  
Chief Financial Officer

cc: Mr. James J. Giancola, President and CEO  
Mr. Donald T. Nicolaisen, Chief Accountant, Security and Exchange Commission  
Governor Susan S. Bies, Federal Reserve Board  
Mr. Dan Trigg, Partner, McGladrey & Pullen, LLP