Letter of Comment No: 208 File Reference: EITF03-1A

October 29, 2004

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:

As the Chief Financial Officer of the Security State Bank of North Dakota, I want to first thank you for delaying the effective date of this ruling to allow for more user input. I think it is very appropriate that extra time be taken to consider all viewpoints before jumping into a policy change that seems to me to be ill advised and unnecessary. I would also like to thank you for the opportunity to comment on this proposed issue and I hope that you will consider my comments before moving ahead to implement a bad policy.

The Security State Bank is a \$290,000,000 bank, located in central North Dakota. We serve the communities of Jamestown, Valley City, Carrington, Cooperstown, and New Rockford, along with many smaller communities located within this trade area. We have a \$35-\$40 million security portfolio that is primarily used for pledging for our municipal deposit customers. We currently classify our full portfolio as available-for-sale as we feel this gives us the most flexibility to manage and control one of our most liquid assets.

The biggest concern that I have regarding this FASB proposal is the impact that it will have on my asset/liability management function. I feel that this proposal will result in an infringement on our bank's ability to prudently manage our balance sheet. Being that my BOD is very risk averse, I will be encouraged to only purchase short-term securities as they will have a much lower risk of becoming impaired due to interest rate movements. This will serve to reduce my portfolio returns and discourage longer-term investments in say municipal bonds, which are typically very safe investments which also help build our communities and economic bases. These bonds will be more difficult to place and will cause our municipalities and schools to pay higher rates to acquire the funding they need when long-term infrastructure investments are required.

If we do continue to make long-term investments, the interpretation of the rules regarding what an investor's intent is and whether the impairment is temporary or not will be a nightmare to regulate. What will this proposal really accomplish? Why do we need more rules and regulation?

It appears the sole purpose of this proposal is to confuse and complicate a system that is currently not broken. We currently recognize the potential gains/losses of our security portfolio on our balance sheet, and if interest rates move in such a manner so as to impair our portfolio, our capital position is already affected. I can see no logical reason for carrying this one-step further and being forced to recognize gains or losses on the income statement. Fairly insignificant changes to interest rates could result in large swings in a bank's earnings. This earnings volatility will lead to increased capital costs for banks due to investor's perception of higher risk. Furthermore, earnings volatility will encourage bankers to manage earnings via gains trading in poor years or intentional "tainting" to take losses and offset earnings in an otherwise good year. This bad behavior will increase the risk to investors.

Another reason to avoid the implementation of this proposal is the fact that banks will be forced to recognize losses on debt securities but will not be able to take the gains on the liability side of the balance sheet. This asymmetrical reporting will generate very misleading financial results.

I believe that this issue had already been dealt with in SFAS 115 and that banks should be able to sell AFS securities. Reductions to the value of securities, that are solely the result of increases to interest rates, should be excluded from EIFT 03-1.

This issue is going to cause major disruptions to the financial markets as banks avoid buying or selling assets due to the lack of consistent interpretation from accounting firms. The fact of the matter is, interest rates change, they go up and they go down, and recognizing each change on our income statement will not help anyone, it will just cause unnecessary volatility. The value of securities can recover from an impairment given time and management always has the option of holding the security to maturity. My point is quite simple, why do we need to change something that isn't broken?

Again, I appreciate the opportunity to comment on this proposal. Thanks for listening to my views and for carefully considering the ramifications of this change in policy. If you would like to discuss this letter with me in more detail, you can call me at 701-251-2040.

Sincerely,

Harold M. Hagen Chief Financial Officer Security State Bank of North Dakota