

ROBERT LEE STATE BANK
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LETTER OF COMMENT NO. 42

August 1, 2006

VIA EMAIL (director@fasb.org)

Director
Financial Accounting Standards Board
Emerging Issues Task Force

RE: EITF0604 – Comment Regarding Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements

To Whom It May Concern:

Robert Lee State Bank is submitting this comment in response to the request for comment on the exposed Draft Abstract for EITF Issue No. 06-04, relating to split-dollar accounting.

It has come to our attention that the EITF proposes to require an accrual during an employee's service period for any post-retirement benefit promised under a split-dollar arrangement. Robert Lee State Bank objects strenuously to this proposal for the following reasons:

1. We understand that the proposed change would require [bank name] to lower its retained earnings to account for its existing split-dollar arrangements. As you may already know, bank regulations generally permit a bank to hold Bank-Owned Life Insurance (BOLI) in amounts not to exceed 25% of its capital. Lowering retained earnings could cause a bank to exceed that percentage through an immediate drop in total capital, which in turn could invite regulatory criticism. Such a result seems unfair to Robert Lee State Bank, its shareholders, and its depositors, when prior accounting practice was working just fine.
2. The second undesirable result of the proposed rule change is that Robert Lee State Bank may not be able to accrue for the split-dollar benefit and would have to completely terminate the plan. This could have two negative side-effects: (1) loss of benefits to key employees could result in those employees looking for better benefits at other financial institutions. In other words, this change could affect how Robert Lee State Bank attracts and retains highly qualified employees; and (2) the proposed rule change could undermine employees' estate planning by reducing life insurance benefits used to pay taxes, etc. What is more, these

employees may not be able to replace the lost insurance benefits due to lack of insurability or other factors beyond their control.

3. The third undesirable result of this proposed rule change is that, if Robert Lee State Bank decides to keep its split-dollar arrangements in place, in order to accrue for these benefits, Robert Lee State Bank may very well have to cut back on benefits it provides to other employees.
4. Finally, our accountants, in all the years we've had these plans, have never suggested that we accrue for the present value of the death benefit.

Our suggestion is that the FASB not adopt this proposed change in accounting treatment. Rather, we suggest they adopt View B, and we endorse the reasoning of the View B proponents. We are at a loss to understand how an insurance policy with guaranteed death benefit coverage past mortality age should require an accrual, especially if the split-dollar agreement does not promise a benefit if the policy goes away? If you should adopt the EITF's proposal, we would appreciate a response to this question.

Sincerely,

Stephen J. Myers
President

SJM/daw