



DAVIS TRUST COMPANY

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August 3, 2006

Director
Financial Accounting Standards Board
Emerging Issues Task Force



LETTER OF COMMENT NO. 106A

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

To Whom It May Concern:

It has been brought to our attention that the EITF is proposing a drastic change in accounting for split-dollar life insurance benefits under endorsement-style arrangements. Our small community bank has purchased Bank-Owned Life Insurance (BOLI) with endorsement split-dollar arrangements as a means to retain our key management staff and we are very concerned about the impact this proposal will have on our bank and its benefit plans, not to mention the major adjustment to retained earnings if we choose to retain these plans.

It appears the relevant portion of the EITF's conclusion is stated as follows:

"The Task Force believed that the purchase of an endorsement type policy (sic) does not constitute a settlement since the policy does not qualify as non-participating because the policyholders are subject to the favorable and unfavorable experience of the insurance company."

Our interpretation of FAS 106 does not support this conclusion. In fact, FAS 106 **clearly** states that a participating insurance policy may also effectively settle a post-retirement benefit obligation, provided certain requirements are met. We have researched this important matter with our BOLI vendor and have been informed that our policies are participating, but that the death benefits are guaranteed even beyond the mortality age of our participants. So, even if the insurance company had "unfavorable experience," the policy guarantees still support the death benefits. It is our opinion that with these policies in place the post-retirement benefit obligations will be properly settled.

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In addition, on a monthly basis our BOLI vendor supplies us with asset accounting reports that show the interest income credited, as well as the costs of insurance both of which are recognized by us through monthly income statement entries relative to our BOLI assets. As we understand it, the interest and expense portions of these reports reflect the insurance company costs to provide the promised death benefit to the insured's expected mortality age. Because we recognize both the income and expense on these assets currently; must we also recognize these expenses a **second time** to accommodate this new accounting change?

When we implemented our BOLI plan, it was our understanding (and our plan agreements reflect this understanding) that our employees' beneficiaries would only receive a death benefit if there were an insurance policy in place at the time of death. If there is no policy, there is no death benefit. If there is a policy, there is a death benefit. Why would Davis Trust Company, under these proposed accounting changes, essentially be required to accrue for a benefit that it never, under any circumstances, would be required to pay?

In conclusion, we strongly recommend the FASB not adopt this proposed change in accounting treatment of post-retirement split-dollar life insurance arrangements, and instead adopt the treatment endorsed by the proponents of View B, which is current practice.

Sincerely,



Hugh G. Hitchcock
Assistant CEO & Assistant Secretary