August 7, 2006



LETTER OF COMMENT NO. 36 B

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:

As an executive officer of Peoples Bank (a wholly-owned subsidiary of Peoples Bancorp of North Carolina, Inc.) in Newton, North Carolina, I am aware that the EITF has proposed a major change to accounting for split-dollar life insurance benefits under endorsement-style arrangements. Our Company participates in Bank-Owned Life Insurance (BOLI) arrangements and, specifically, split-dollar arrangements. We are concerned about the impact this proposal will have on our Company and its benefit plans. If we choose to retain such plans as a part of our retirement benefits, the associated reduction in retained earnings is of major concern. Therefore, we wish to provide the following comment for your consideration.

Comment

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

"The Task Force believes 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 Company's interpretation of FAS 106 differs with this conclusion. 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 been informed by our BOLI vendor that our policies are participating, but that the death benefits are guaranteed even beyond the mortality age of our participants. Therefore, even if the carrier had "unfavorable experience," the policy guarantees still support the death benefits.

Also, our plan documents reflect that our employees' beneficiaries would only receive a death benefit if there was an insurance policy in place at the time of death. Obviously, if there is no policy, there is no death benefit. Conversely, if there is a policy, there is a death benefit. Therefore, it would appear that our Company should not be required to accrue for a benefit that it would never be required to pay.