



Excellence in Community Banking

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LETTER OF COMMENT NO. 11



LETTER OF COMMENT NO. 80

Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
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Norwalk, CT 06856-5116

Via email: director@fasb.org

File Reference: Proposed FASB Staff Position No. FAS 115-a, FAS 124-a, and EITF 99-20-b
Proposed FASB Staff Position 157-e

Dear Mr. Golden

We appreciate the opportunity to comment on the proposed FASB Staff Position No. FAS 115-a, FAS 124-a, and EITF 99-20-b, *Recognition and Presentation of Other-Than-Temporary Impairments* (hereinafter referred to as the proposed OTTI FSP) and the proposed FASB Staff Position 157-e, *Determining Whether a Market is not Active and a Transaction is not Distressed* (hereinafter referred to as proposed Fair Value FSP). We are encouraged by the Financial Accounting Standards Board's ("FASB") expedited action in reassessing current impairment and fair value accounting guidance. We also welcome FASB's proposed OTTI FSP as an important first step in improving current accounting policy. Our comments focus on important clarifications and modifications to the proposed FSPs that we believe would more fully address flaws in the application of current principles. We respectfully request that the FASB consider these ideas during its deliberations.

Proposed OTTI FSP

We believe that the FASB should revise the proposed OTTI FSP to require the non-credit impairment of held-to-maturity investment securities to be recorded in the financial statement footnotes rather than in accumulated other-comprehensive-income (AOCI) as proposed. We agree with recording the non-credit impairment of available-for-sale securities to other-comprehensive income, as such securities are always carried at fair value. In the case of held-to-maturity securities that can continue to be held, reductions in value related to liquidity or interest-rate risk have less relevance to financial condition, and those aspects of the fair value can more appropriately be shown in the footnotes to the financial statements.

Additionally, the FASB should allow retrospective application of the proposed OTTI FSP. We believe that retrospective application is appropriate because during 2007 and 2008, a number of financial institutions have recorded significant OTTI charges on debt securities. These financial institutions have amortized and will continue to amortize significant non-credit impairment to interest income, which will distort net interest margin. In addition, the retained earnings of these

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financial institutions may include a significant amount of non-credit impairment. The impact of the current accounting model for OTTI securities may continue to make it difficult for investors to compare key financial metrics (Net Interest Margin and Tangible Common Equity). We believe that this will be especially troublesome in comparing the financial statements of institutions who have recorded significant OTTI charges with those that have not.

The current accounting standards require an impairment loss to be recognized if it is probable that an entity will not receive all contractual cash flows. In certain circumstances, the phrase "all contractual cash flows" has been interpreted to include insignificant losses. While each FSP contains a statement that the provisions of the FSP need not be applied to immaterial items, we recommend that the FASB highlight this provision so that there is no question that a loss should be recognized only when there is a significant loss of contractual cash flows.

Finally, the FASB should consider removing the gross presentation in the income statement of impairment losses offset by non-credit impairment in the proposed OTTI FSP. We believe the proposed presentation is inconsistent with the loan accounting presentation for loans held for investment. Also, we believe that this presentation confuses and complicates the face of the financial statements with information that is more appropriate for inclusion in footnote disclosures.

Proposed Fair Value FSP

We request that the FASB provide more explicit practical guidance on how to implement the proposed Fair Value FSP. We are concerned that the proposed Fair Value FSP, as written, will not meet its intended objectives. We believe that the guidance to determine if a market is not active appears to be sufficient. However, the proposed Fair Value FSP appears to be lacking sufficient details and practical guidance to determine fair value based in such an inactive market. It may be difficult for independent public accountants and regulators to agree with management's assumptions without more practical and specific guidance.

Additionally, the FASB should provide additional guidance in the proposed Fair Value FSP regarding what is a quoted price. Financial institutions often obtain values for their investment securities from third party sources including, but not limited to: market transactions, broker quotes, and pricing services. It would be helpful if FASB specifically provided a definition of what constitutes a quoted price, and how those third party pricing sources fit into that definition.

Our comments are meant to help clarify and improve upon certain aspects of the proposed FSPs and are not intended to be viewed as opposition to the direction and action taken by these proposals. Thank you for considering our concerns and comments as the FASB continues to work on these important matters.

Sincerely,


Gary M. Adams
SVP & CFO