



COMMENT LETTER

LETTER OF COMMENT NO.

58

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67

Technical Director, FASB

File Ref: Proposed FSP FAS 157-e, FAS 115-a, FAS12-a, EITF 99-20-b

Thank you for the opportunity to comment on these important proposals. Paducah Bank is a \$500 million community bank in Western Kentucky. In an attempt to diversify our securities holdings and structure our cash flows we invested in \$20 million in private-label CMOs in late 2007 and early 2008 with a very careful criteria of only senior fixed rate, seasoned pools with low LTVs and high FICOs with low concentrations of mortgages in the "hot" states of California, Arizona and Florida. We purchased these securities by leveraging up fixed rate liabilities as it was our intention to hold these securities as a core holding in our portfolio. We classify ALL investments as AFS without regard to intent and ability to hold to maturity.

Despite our best efforts to be careful, the liquidity crunch starting in summer 2008 has caused the "fair value" of these holding to fall month after month as fewer and fewer investors are willing to buy private label CMOs. The government's move to change the implicit guarantee to Fannie and Freddie CMOs to an explicit guarantee drove even more buyers from the private-label market. So our core holdings of private label CMOs are now considered "impaired". We have cash flow analysis done monthly documenting that even under extreme testing, we expect to collect 100% of our principal yet the average price is 80 cents on the dollar for mortgage pools with coupons that should trade at over 100 based on 2007 pricing and today's rate environment. Our Board of Directors has agonized over the holding of these securities as they are not used to seeing such an aberration of valuations.

We this brief introduction, here are our comments. First and foremost, we believe the proposals are a vital step in restoring some confidence in the fair value reporting in this country. The liquidation value approach to fair value is damaging companies big and small (like our bank). We would like to be confident that our capital will not be impaired because there are not enough buyers willing to pay for the cash flows that private label CMOs will produce. So, in general, we agree with the proposals for all three FAS and for the EITF.

In particular, let us comment on your questions:

FAS 157-e questions:

1. The effective date of March 15<sup>th</sup> is welcomed and operational
2. Yes, financial reporting will be improved and the proposal is necessary
3. The 2-step model is understandable and operational
4. The factors are appropriate
5. The costs of complying are much less than the costs to capital if we were forced to write down securities because of the problems with the existing guidance which is subject to so much interpretation.

FAS 115-a, FAS12-a, EITF 99-20-b questions:

1. The two components of credit losses and noncredit components make all the sense in the world.
2. The guidance is clear and we agree with the separation of the credit component in earnings and remaining in OCI. Under no circumstances should the non-credit portion be recognized against earnings.
3. The proposed 2-step assertion on management's intention not to sell and that it is more likely than not that it will not have to sell makes sense for debt securities. We believe the same test could be applied to equity securities.
4. This section on HTM securities is the least clear of the proposals. We believe a bit more clarity on the language is in order.
5. The proposed date of March 15, 2009 is welcomed.

Thank you again for the opportunity to comment.

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