



April 30, 2007

Attention: Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
Via email: director@fasb.org

Re: Business Combinations: Bargain Purchase Accounting Methodology

Dear Director:

America's Community Bankers (ACB)¹ commends the Financial Accounting Standards Board (FASB) on their efforts to revise Statement of Financial Accounting Standards No. 141, Business Combinations (FAS 141). We appreciate the Board's willingness to receive feedback and discuss concerns related to the proposed amendments even after the close of the comment period for the Business Combinations Exposure Draft. As the date for finalizing the amended FAS 141 draws near, ACB would like to take this opportunity to address one lingering issue that will potentially affect our member banks.

Acquisition Accounting for Mutual Combinations

On December 19, 2006, FASB addressed several issues concerning the Business Combinations Exposure Draft, including how to account for combinations between mutual entities. At that time, the Board reaffirmed its proposed treatment for such transactions by requiring application of the acquisition accounting methodology to all business combinations, including mutual combinations.

Throughout the deliberations on the Business Combinations project, ACB has repeatedly urged FASB to reconsider its initial position on mutual combinations, and the results of the December 19th Board meeting were disappointing. As FASB continues down the path towards requiring acquisition accounting for all business combinations, our concerns remain over the actual implementation for combinations involving mutual entities. However, we are aware of the Board's desire to require consistency in approach for all entity types. ACB will work to educate our member community banks on how to account for these transactions as accurately as possible in the future in order to comply with the final amended FAS 141.

¹ America's Community Bankers is the national trade association committed to shaping the future of banking by being the innovative industry leader strengthening the competitive position of community banks. To learn more about ACB, visit www.AmericasCommunityBankers.com.

Accounting for Bargain Purchases

With that said, we would request that FASB revisit one particular issue prior to finalizing the Business Combinations project as we believe it relates to mutual combinations. In the Exposure Draft, paragraphs 59 through 61, there is a discussion regarding what constitutes a business combination that is not an exchange of equal value as well as the appropriate accounting methodology for these so-called "bargain purchases." A bargain purchase, as defined in the Exposure Draft and affirmed by the Board during its deliberations, exists in situations where the fair value of the acquirer's interest in the identifiable net assets of the acquired institution exceeds the fair value of the consideration transferred for that interest. If a bargain purchase can exist for non-mutual entities and receive the accounting treatment that reflects the nature and economic impact of the transaction, then we believe mutual entities should also be able to appropriately recognize and record a bargain purchase transaction as well.

As noted in ACB's past comment letters to FASB on the Business Combinations project, combinations between mutual entities do not involve an exchange of cash, stock, or any other identifiable and measurable consideration by either institution – member interests are therefore determined to be the consideration given. The acquisition accounting method will require mutual entities to assign a fair value to the acquired institution, which we would argue should not be presumed to be equal to the consideration given in the form of member interest as noted in the Exposure Draft paragraphs A24 to A26.

We believe that as a result of the very nature of certain mutual combination transactions, the fair value of consideration transferred for the acquirer's interest will not be equal, but instead will be less than the net asset value of the acquired institution in certain circumstances. The nature of member interests to be exchanged could well be different based on the charter types of the mutual institutions involved. For example, a number of court cases involving mutual savings banks have determined that depositors have no real financial ownership interest that can be assigned an economic value, unless certain events occur including liquidation or conversion to stock form. In some situations, the depositors do not even vote on the combination of the institutions. Therefore, the exchange of interests in a mutual savings bank is not relevant to the transaction. In reality, the acquirer exchanges no consideration and acquires the assets and liabilities of the acquiree. Thus, the nature of the interests being exchanged needs to be evaluated to determine if the interest given by the acquirer has any value or relevance to the transaction. If so, then the combination should be accounted for as described in the Exposure Draft. If not, then no consideration was given by the acquirer, and a bargain purchase may have occurred.

Currently, the Exposure Draft excludes all mutual combinations from bargain purchase treatment due to the specific accounting for mutual combinations in paragraph 53. ACB strongly believes that the accounting methodology outlined in the Exposure Draft for bargain purchases would result in a closer representation of many mutual combinations. A mutual entity that combines or acquires another mutual entity as described above experiences a true positive economic event and should therefore account for the economic benefit as a gain on their financial statements. The gain that is recognized with a bargain purchase would more accurately depict the outcome of

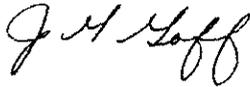
a typical mutual combination. In addition, bargain purchase accounting for mutuals promotes the comparability of financial statements across all entities.

Recommendation

The proposed treatment for bargain purchases, as outlined in the Exposure Draft, will provide mutual entities the same accounting treatment as all other entities. We believe mutual combinations should be allowed to be accounted for using the bargain purchase accounting methodology if the fair value of the acquired entity exceeds the mutual interest exchanged. We recommend FASB allow mutual combinations to be accounted for using this treatment as this will produce a much clearer picture of the actual economic value of the transaction and is more representationally faithful to the economics of most mutual combinations. In addition, this accounting treatment provides mutual entities more consistency with all other non-mutual entities and provides financial statement users better decision-useful information, both of which are goals for this business combination project.

Thank you again for the opportunity to express our concerns. We hope to discuss this issue with FASB Staff in the very near future. Please do not hesitate to contact the undersigned at (202) 857-3158 or via email at jgoff@acbankers.org.

Sincerely,



Jodie G. Goff
Manager – Accounting and Financial Management Policy