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LETTER OF COMMENT NO. 4

April 3, 2007

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

Re: Business Combinations: Bargain Purchase Accounting Methodology

Dear Director:

HomeTrust Bank commends the Financial Accounting Standards Board (FASB) on their efforts to revise Statement of Financial Accounting Standards No. 141, Business Combinations (FAS 141). HomeTrust Bank is a \$1 billion federally chartered mutual savings bank headquartered in Asheville, North Carolina. We have completed three mutual combinations in the past ten years and have had the opportunity to share our views with you and your staff regarding your proposed accounting treatment for mutual combinations since the release of the exposure draft for FAS 141 in 1999. 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, we would like to take this opportunity to address one lingering issue that will potentially affect mutual savings 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, HomeTrust Bank, along with America's Community Bankers, our trade organization, have repeatedly urged FASB to reconsider its initial position on mutual combinations and the results of the December 19<sup>th</sup> 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.

### **Accounting for Bargain Purchases**

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 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 members 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 members do not even vote on the combination of the institutions. Therefore, the exchange of member 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. We strongly believe 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 would strongly urge FASB to 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 (828) 350-3049 or via email at [tony.vuncannon@hometrustedbanking.com](mailto:tony.vuncannon@hometrustedbanking.com).

Sincerely,

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