Letter of Comment No: 134 File Reference: EITF03-1A

October 29, 2004

Mr. Lawrence Smith
Director and Chairman of the Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856

Re: Proposed FASB Staff Position, EITF Issue 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"

Dear Mr. Smith,

Kitsap Bank appreciates the opportunity to comment on the proposed Staff Position, issued on September 15, 2004 by the Financial Accounting Standards Board (FSP 03-1-a). We are a full service community bank with over \$550 million in assets, headquartered in Pt. Orchard, WA, just west of Seattle.

We understand that the FASB has recently received a number of letters from its constituents expressing concerns with regard to the application of EITF Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." Our management shares many of the concerns that have been expressed, as we believe that the way the guidance in EITF 03-01 is currently being interpreted represents a significant variation in the accounting for available-for-sale securities under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (FAS 115) that was not anticipated by the EITF during deliberations. Because we believe that this interpretation is contradictory with FAS 115, we are pleased to see that the FASB has postponed its effective date until the issue has been resolved.

Despite the Board's efforts to improve the consensus in EITF 03-1, we believe that the manner in which the guidance is being interpreted in practice would not apply the concept of other-than temporary impairment fairly. Under these interpretations, sales of AFS securities at a price below cost could quickly establish a "pattern" that would make it very difficult for financial institutions to assert that they have the "intent to hold" other securities in their AFS portfolio to recovery. We challenge the presumption that a few sales of AFS securities below cost demonstrates a "pattern" and that such a pattern would "taint" the remainder of the securities in the AFS portfolio. To suggest that a sale of a single security, or even two, at a price below cost can taint the remaining portfolio

and thereby require an other-than-temporary impairment charge for all other securities below cost is neither rational nor consistent with the guidance in FAS 115.

Available for sale securities are already recorded at fair value and unrealized losses are recognized in Other Comprehensive Income. Consequently, the recognition of other than temporary impairment amounts to little more than a reclassification in equity between Other Comprehensive Income and Retained Earnings on the balance sheet. Existing guidance already provides for proper recognition of other than temporary impairment. Therefore, we believe that the incremental benefits of this approach are minimal at best. If this interpretation stands, it will completely change how banks manage their investment securities, depriving them of the ability to use the risk mitigating component of their balance sheet to manage their asset/liability and liquidity positions.

We seriously question the benefits of the consensus in EITF 03-1 and feel the costs of application will be large. Continually evaluating a security every time it incurs an unrealized loss, evaluating whether a positive assertion can be made regarding the Bank's ability to hold it to recovery, and then monitoring the status of that security can be costly. In addition, there will be additional costs to track and amortize back into income any discount recorded for other-than-temporary impairment.

In conclusion, we feel the ability to sell securities out of the AFS portfolio provides a sound risk management tool in any bank's overall asset liability management arsenal. In accordance with FAS 115, we value the ability to sell a security in response to needs for liquidity, changes in interest rates, changes in funding sources and terms, and changes in the availability and yield on alternative investments. Our bank actively seeks to maximize the total return of our investment portfolio in light of the total return characteristics of our bank as a whole. In our opinion, EITF 03-1 could possibly exacerbate the risk of financial institutions, by forcing institutions to make decisions based on accounting impact rather than risk management considerations.

Thank you for the opportunity to comment on this proposal.

Sincerely,

Anthony M. George
Executive Vice President and CFO