



LETTER OF COMMENT NO. 1



June 23, 2006

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

Re: Continued discussions surrounding "Accounting for Transfers of Financial Assets", an amendment of FAS 140.

Dear Director:

America's Community Bankers ("ACB")¹ would like to take this opportunity to express our continued concern surrounding the Financial Accounting Standards Board's ("FASB") proposed amendments to FAS 140, "Accounting for Transfers of Financial Assets." Specifically, we would like to address the issues of isolation analysis and true legal sale opinions related to loan participations as discussed during the most recent FASB Meeting, held on June 7, 2006.

While ACB appreciates FASB's efforts to clarify the conditions under which a qualifying special purpose entity ("QSPE") is required to achieve sale accounting as well as its continued work on improving the transparency and comparability of financial statements, we remain concerned about some of the proposed criteria for sale accounting treatment and derecognition of portions of financial assets when transferred as loan participations. ACB is particularly alarmed that the amendments proposed for FAS 140 will have significant, adverse affects on loan participation agreements for community banking organizations and strongly urges FASB to scope out loan participations from the FAS 140 amendment project.

FASB discussed the issue of isolation analysis at its June 7, 2006 meeting, details of which are included in the proposed amendments to paragraph 9 of FAS 140. Three alternate views were presented for consideration by the Board regarding application of isolation analysis: 1) retain FAS 140 isolation analysis and provide more clarity, 2) require that isolation analysis depend upon two legal analyses, and 3) require that both a

¹ America's Community Bankers is the member driven national trade association representing community banks that pursue progressive, entrepreneurial and service-oriented strategies to benefit their customers and communities. To learn more about ACB, visit www.AmericasCommunityBankers.com.

legal and accounting analysis be completed for isolation analysis. ACB believes that any additional requirements imposed upon loan participations, such as those presented in views 2 and 3, are extremely unnecessary and would only serve to complicate this straight-forward, widely used risk management tool. ACB strongly urges FASB to consider the cost of implementation when compared to the benefit such requirements will introduce. We believe that with regards to loan participations, the cost would significantly outweigh the intention for increased due diligence.

Also at its June 7, 2006 meeting, FASB discussed the implementation of a true legal sale opinion requirement for transferred financial assets as proposed in paragraph 27A and 27B. As ACB stated in our initial comment letter to FASB regarding FAS 140 on October 10, 2005, we feel that this requirement is particularly troublesome. The process of obtaining a true legal sale opinion is not common practice for community banks, and considering the volume of participations within a community bank's portfolio, this requirement would be extremely costly and difficult to obtain.

Banks of all sizes use loan participations extensively to enhance liquidity, diversify risk and meet statutory and regulatory restrictions. The basic objective of a loan participation is for banks to gain the ability to economically participate in credit opportunities or risk diversification that would not have otherwise been available. This tool has been a critical element of community banks for many years as it allows them to remain competitive with larger banks who have greater lending limits. The requirements imposed within these amendments would introduce unnecessary complexities and costs on a very well-understood transaction.

ACB appreciates the open dialogue encouraged by FASB on all of its initiatives and the opportunity to comment on this important matter. If you have any questions, please contact the undersigned at (202) 857-3158 or jgoff@acbankers.org or Robert Davis at (202) 857-5088 or rdavis@acbankers.org.

Sincerely,



Jodie G. Goff
Manager – Accounting & Financial Management Policy