October 28, 2005

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

Re: Exposure Draft, “Business Combinations”,
a replacement of FASB Statement No. 141

File reference No. 1204-001

Dear Director:

America’s Community Bankers (“ACB”)\textsuperscript{1} is pleased to comment on the Exposure Draft (“ED”) issued by the Financial Accounting Standards Board (“FASB”) containing proposed amendments to the accounting for business combinations. The ED proposes to amend FASB Statement No. 141 and require all business combinations to be accounted for by applying the acquisitions method of accounting (formerly called the purchase method), including combinations involving only mutual entities. The ED contains additional changes to the accounting for business combinations, one of which will disallow the carrying over of a separate valuation allowance for loans that are acquired in a business combination. Our comments in this letter will focus on the concerns that ACB has on the potential impact that the proposed standard would have on mutual combinations and a general disagreement with the proposed prohibition on bringing over a valuation allowance as a component of the net fair value of acquired loans. For your reference, we have attached a letter submitted to FASB in March 2001 that provides detailed information on the mutual combinations issue and a proposed alternative approach.

ACB Position

ACB maintains the position that the use of acquisition accounting, as described in the ED, is inappropriate for mutual combinations and will result in arbitrary and costly revaluations, and financial statements that will not truly reflect the essence of the underlying combination transaction. We are not advocating the maintenance of pooli-
of-interests, rather we believe that FASB should require mutuals to use a net asset value approach, or similar variation of acquisition accounting using estimations of the fair market values of assets and liabilities assumed.

ACB has been very active in dialogue with FASB over the past several years, continuously expressing serious concerns that an acquisition accounting model is not relevant for combinations of mutual banks. Simply put, forcing mutual banks to use the acquisition method when combining interests will result in financial statements containing information that lacks consistency, understandability and usefulness. ACB believes that a mutual combination, for all practical purposes, is not an acquisition or purchase because, among other things, no financial consideration is exchanged between the combining entities. Mutual savings associations and savings banks have a unique capital structure made up entirely of retained earnings and they have no stock or stockholders. The proposed acquisition approach, if adopted in its current form, would require mutuals to identify an acquiring bank, then determine a fair value of the theoretically “acquired” institution based on the value of the exchanged members interests. This fair value would then be recognized as a direct addition to capital or equity, not retained earnings. As ACB has repeatedly stressed, the resulting financial statements will not truly reflect the true essence of the underlying combination transaction.

If FASB moves forward and requires mutuals to use the acquisition method, it is certain to cause strategic and competitive pressures on mutual banks in the US today. The financial health of banks is contingent on their maintaining an ability to merge or combine resources if needed, without incurring inflated fees associated with trying to make an unpractical model work and producing distorted financial statements based on hypothetical valuation data. Mutuals cannot readily obtain a quoted stock price as there is no stock, nor is there a “purchase” price when they decide to enter into a combination with another mutual. ACB believes that with the proposed acquisition model, valuations will be performed inconsistently, and readers of the combined entity’s financial statements will be left with less transparent information, and preparers with less confidence in the reported numbers.

**Alternative Approach**

A more beneficial approach, one that ACB has relayed to FASB in previous letters and verbal communications, would be a net asset value model where assets and liabilities would be valued in an approach similar to the acquisition model prescribed by the ED. The accounting treatment proposed by ACB, which would begin with an estimate of the fair market value of assets acquired and liabilities assumed, is consistent with the provisions of FAS 141. An excess net asset amount would typically result from the estimation, but no portion of the excess would be allocated as a pro rata reduction in asset values. Second, the excess net asset value would be recognized in part or in whole as other income to the amount less than or equal to the pre-existing book value of the equity of the acquired institution. Any remaining value of net assets above the acquired institution’s book value would be treated as a component of other comprehensive income.
that would be amortized into net income over an appropriate time period. Any obligations created by the combination that would not otherwise exist would be recognized as liabilities.

The proposed ED’s theoretical acquisition accounting makes perfect sense for stock-owned organizations, but is unfortunately a model that will not work for mutual entities. ACB is not asking FASB to reconsider the prohibition of pooling of interests, but we urge the Board to reconsider the devastating impact that the proposed acquisition method would have on the ability of mutual banks to merge or combine resources to compete and survive in the 21st century. ACB and its members are ready to assist FASB in reaching a workable alternative that would achieve FASB’s goal of more accurate and transparent financial reporting for all entities.

**Carryover of Valuation Allowance for Acquired Loans**

In addition to the mutual combinations issues, ACB is concerned with the language in paragraph 34 of the ED that reads, “The acquirer shall not recognize a separate valuation allowance as of the acquisition date for assets to be recognized at fair value in accordance with this Statement. For example, an acquirer would recognize receivables (including loans) acquired in a business combination at fair value... and would not recognize a separate valuation allowance for uncollectible receivables at that date. Uncertainty about collections and future cash flows is included in the fair value measure.”

ACB believes that the ability to carryover an allowance for loan and lease losses is an essential component of accurate and clear bank financial statements, and if disallowed, will hinder comparability between financial institutions. ACB recognizes that assets and liabilities acquired should be measured at their fair value, but we do not believe that the carrying over of a separate valuation allowance is inconsistent with a fair value approach. ACB opposes paragraph 34 in the ED, and we believe that the most transparent presentation of uncertainty about collections and future cash payments on acquired loans is achieved when reported as a separate allowance on bank financial statements. Disallowing this presentation forces further complexity on users of these financial statements in understanding the proposed disclosure-based approach.

**Conclusion**

ACB appreciates the continued efforts of FASB to provide high-quality accounting standards and ultimately improve financial reporting. However, ACB believes that the provisions in the ED requiring the imposition of acquisition accounting on mutual combinations and the disallowance of a separate valuation allowance for acquired loans are inconsistent with FASB’s objective of improving the completeness, relevance and comparability of financial information about business combinations being reported in financial statements. If ignored, ACB fears that these provisions will force mutual banks to use an acquisition accounting approach that does not fit their business model, and will result in less transparent data being reported on acquired loans. Each of these end results causes decreased comparability and transparency in bank financial statements.
ACB appreciates the opportunity to comment on this important matter. If you have any questions, please contact the undersigned at (202) 857-3158 or dhild@acbankers.org

Sincerely,

Dennis M. Hild
Vice President – Accounting & Financial Management Policy

Attachment: ACB Letter to FASB dated March 16, 2001
March 16, 2001

Director of Research and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference 201-R

Dear Director:

America’s Community Bankers (ACB)\(^1\) appreciates this opportunity to offer comments on the Board’s February 14\(^{th}\) revision of the Proposed Statement of Financial Accounting Standards for Business Combinations and Intangible Assets—Accounting for Goodwill. ACB is the principal national association representing mutual savings associations and mutual savings banks. ACB’s comments will be focused on the proposed treatment of negative goodwill arising from combinations of mutual savings associations and mutual savings banks. These comments are not just theoretical but reflect the actual experiences of our membership with mutual combinations in the 1980’s and the mutual combinations over the last ten years.

**ACB’s Position**

ACB disagrees with the Board’s proposal on the accounting treatment of the excess of acquired net assets over cost (negative goodwill) and the writedown of certain acquired assets. We believe an approach similar to Financial Accounting Statement 72: Accounting for Certain Acquisitions of Banking or Thrift Institutions (Statement 72) is a better answer to this unique and important issue. Our recommended accounting treatment for the excess of acquired net assets over cost would be applicable only to business combinations of financial institutions as described in Statement 72.

ACB’s position is that any newly created or existing negative goodwill should be treated as an unidentifiable intangible liability. Negative goodwill should not be recognized as an extraordinary gain item. The accretion period for the unidentifiable intangible liability should be based on the estimated years or remaining years the acquirer expects to incur expenses and render the services required to fulfill their obligations and commitments. The unidentifiable intangible liability would be accreted over this period as a separate

---

\(^1\) America’s Community Bankers represents the nation’s community banks of all charter types and sizes. ACB members pursue progressive, entrepreneurial and service-oriented strategies in providing financial services to benefit their customers and communities.
component of noninterest income. Any changes required to be made to the original accretion periods adopted for existing unidentifiable intangible liabilities should be prospective only. The facts and circumstances that created the unidentifiable intangible liability and the rationale for the accretion period should be discussed and disclosed in the notes to the financial statements.

Rationale

ACB believes that the majority of business combinations resulting in an excess of acquired net assets over cost will be mergers between mutual financial institutions – a term that includes savings associations, savings banks, and credit unions. Mutuals savings associations and savings banks have a unique capital structure made up entirely of retained earnings with no stock or stockholders. As stated in Appendix A of Statement 72, the combination of two mutual institutions generally is effected without payment of cash or other assets by either institution. One institution absorbs the other by acquiring its assets and assuming its liabilities. Negative goodwill would result under the new proposed standards when the fair value of acquired assets exceeds the fair value of the liabilities.

In the revised exposure draft, the excess of acquired net assets over cost would be recognized as an extraordinary gain after various assets are written down. In the case of a financial institution, this extraordinary gain would rarely, if ever, occur since securities held to maturity, loans receivable, property and equipment, and other intangibles would be written to zero before any extraordinary gain would be recorded.

ACB believes that a better approach to the treatment of negative goodwill would be similar and symmetrical to Statement 72. Paragraph 5 of Statement 72 states that if the fair value of liabilities assumed exceeds the fair value of tangible and identifiable intangible assets acquired in the acquisition of a financial institution, the unidentifiable intangible asset is recognized and amortized to expense by the interest method over a period no longer than the discount on the long-term interest-bearing assets acquired is to be recognized as interest income.

It is ACB’s view that the excess of acquired net assets over cost should be recognized as an unidentifiable intangible liability for business combinations involving the acquisition of a bank or savings association. We believe this unidentifiable intangible liability represents the commitments and obligations of the acquirer to the acquiree and meets the definition of a liability as discussed in FASB Concept Statement No. 6. This liability should be accreted into noninterest income over the estimated number of years that the acquirer expects to incur the expenses and render the services required to fulfill their obligations and commitments. Should the Board feel a maximum accretion period is necessary, a ten-year period appears reasonable.

Any negative goodwill from previous business combinations existing at the date of adoption of the final statement would become an unidentifiable intangible liability. The accretion period for this existing unidentifiable intangible liability should be based on the
estimated remaining years the acquirer expects to incur the expenses and render the services required to fulfill their remaining obligations and commitments.

ACB believes that this accounting treatment more accurately represents the economics of the combination and provides more representationally faithful and decision-useful financial information for users of the financial statements than the treatment proposed in the revised exposure draft for several reasons:

1. It follows the logic and methodology of Statement 72, which was created for a unique industry during an unusual time that necessitated the mergers of many mutual institutions. Mutuals continue to be a unique industry and, again, are at an unusual time in their history when combinations are likely to increase.

2. For financial institutions, the revised exposure draft would require that negative goodwill be accounted for as a reduction in the amounts assigned to loans receivable and securities held to maturity. The accretion of this "discount" on the interest-earning assets of the institution would grossly distort the net interest margin of the financial institution, arguably one of the most important earnings indicators. On the other hand, amortizing the unidentifiable intangible liability as a separate component of noninterest income would offer a "more transparent display" to facilitate the analyses of the financial statement users which may assess this income differently, as mentioned in paragraph 80 of the revised exposure draft.

3. ACB’s approach results in all of the acquired assets being recorded at their fair value at the time of acquisition. Therefore, the issue of which assets to specifically offset as discussed in paragraph 6 of the revised exposure draft would be eliminated by our approach. Writing down certain assets to below their fair values distorts the balance sheet after the acquisition and both the balance sheet and the net interest income component of the income statement for many years to come.

4. ACB’s approach records the accretion of an unidentifiable intangible liability as a separate line of noninterest income, which makes this item transparent to the users of the financial statements.

5. According to Statement 72, unidentifiable intangible assets are not written off as an extraordinary loss. Thus, unidentifiable intangible liabilities should not be recognized as an extraordinary gain. In addition, revenue or gain recognition should arise from the completion of an earnings cycle. An earnings cycle concludes with the sale of a product or rendering of a service, not with the purchase of net assets.

6. The treatment of the unidentifiable intangible liability created by the combination of two mutuals as an extraordinary gain would not meet the definition of extraordinary gain as defined in APB 30. This definition requires the event to be both unusual in nature and infrequent in occurrence. Because historically some mutual institutions have consummated multiple mergers with other mutuals, the requirement of infrequency would not be met in many cases.
7. Recognizing the unidentifiable intangible liability as an extraordinary gain or as a direct credit to equity understates the significant actual obligations of the acquirer as cautioned in paragraph 40 of FASB Concept Statement No. 6. The result will be an overstatement of income and capital as well as erroneously reported lower operating earnings in subsequent years. The economic realities of the business combination would be substantially misstated as reflected in the financial statements.

8. ACB’s recommended accounting treatment for the unidentifiable intangible liability gives the mutual acquirer the ability to account for the actual facts and circumstances of the combination so that the economic essence of the transaction is reflected in the balance sheet and income statement in the year of combination and in subsequent periods. The Board’s proposed treatment of positive goodwill in the revised exposure draft moves away from a "one size fits all" approach (from 40 years straight-line to potentially a permanent non-amortizing asset). The variability in the amortization period of goodwill from one company to another is now one year to infinity, based on a factual determination. Similarly, it is reasonable that the accretion of the unidentifiable intangible liability could cover a one-year to ten-year period based on the facts and economics of the transaction.

9. ACB’s approach more closely reflects the economic reality that drives mutual combinations. In an arm’s length business combination, the agreed upon consideration exchanged represents the negotiated value (or market value) of the net assets acquired plus (or minus) a value assigned to that portion of the expected future cash flows in excess of (or below) the amount of the cash flows directly identifiable with the net assets acquired. Because an unidentifiable intangible asset is created when the total consideration exchanged exceeds the fair value of the identifiable net assets acquired, it follows that an unidentifiable intangible liability is created when the fair value of the identifiable net assets acquired exceeds the total consideration exchanged. In other words, a negative economic value is assigned to the expected future stream of cash inflows and outflows excluding those cash inflows and outflows directly associated with the identifiable net assets. Based upon this rationale, it is appropriate to accrete the unidentifiable intangible liability into earnings in a manner that attempts to match the accretion with the expected period over which the expected negative cash flows giving rise to the creation of the unidentifiable intangible liability are expected to occur.

**Background Information and Basis for ACB’s Position**

**History of Mutual Institutions**

The savings association charter was developed to provide a unique financial institution whose sole purpose was to provide capital to finance housing for families in America. Mutual savings associations were started by groups of families who combined their savings so one family could get a home loan and as it was paid back, others could then borrow for their homes. Historically, almost all savings associations were mutual until 1980. Conversions to stock ownership became more prevalent in the 1980's due to high
interest rates and the need to increase capital. A high percentage of all the mutual combinations that have occurred took place in the 1980’s and were driven by the attempt to find ways to survive 20 percent interest rates.

The mutual savings institutions that remained after the decade of the 1980’s were only those with stronger capital positions. In the early 1990’s, interest rates decreased to 30-year lows and those remaining institutions became very profitable due to the increased spread between long-term mortgage rates and short-term certificate rates. This profitability added to their already substantial capital causing the average capital to assets ratio of mutual savings institutions to exceed 10 percent by the mid 1990’s. However, these profits from lower rates quickly dwindled as higher rate home loans were refinanced at these new lower rates. During this refinance boom, thousands of new mortgage companies were started offering low fixed rate home loans. Home mortgage loans became a commodity with the lowest price set by Freddie Mac and Fannie Mae.

Historic Business Model of Savings Institutions

Currently, the basic business model of using short-term deposits to fund long-term loans is not effective. Previously savings institutions were the primary source for long-term home loans. Banks typically did not originate home loans because they did not want the interest rate risk and there were a limited number of mortgage companies. Savings institutions were able to price the long-term home loans where they could hold them in portfolio and achieve reasonable returns.

Today, mortgage loans are offered by a host of new bank and non-bank competitors (independent mortgage brokers, AAA, State Farm, ING, Lending Tree, internet banks and mortgage companies, commercial banks, brokerage companies, etc.) with pricing set by the secondary market. Savings institutions can no longer hold these long-term home loans in portfolio and achieve an acceptable risk adjusted return.

Until 1981, savings associations were not allowed to offer checking accounts but were permitted by charter to pay 1/4 percent higher rate on certificate of deposit accounts (CD’s) in order to attract capital to finance housing. As a result, deposits at savings associations are still primarily CD’s from older customers who still expect to get a higher rate than banks and other competitors are paying. Over the last ten years, the competitive landscape for retail deposits has changed radically. Investment assets have moved from insured deposit accounts into mutual funds and securities as common stocks have proven to be a rewarding investment vehicle. In 1980, banks and savings institutions held 60 percent of total financial assets while in 1998 that had dropped to only 42 percent. At the same time, financial assets held by securities and investment firms grew from 5 percent to 23 percent. Competitors for this declining share of retail deposits have increased dramatically (internet banks, insurance company banks, brokerage house banks, AAA, State Farm, Wingspan, E*Trade, startup community banks, etc.). These new competitors as well as existing competitors are competing on rates for these deposits as well as offering new delivery channels and other new comprehensive financial products and services.
The financial service industry has experienced a revolution in the last five years that appears to be accelerating. The traditional savings institution is forced to pay higher rates to retain deposits while struggling to find ways to respond to these changes in the financial services industry. This has caused such a squeeze on the interest margin for mutual institutions that in most cases 80 percent or more of net earnings result from high capital levels. In fact, for many savings institutions, the interest income earned on this free capital in many cases exceeds the net pretax earnings of the savings institutions—which indicates that the earnings derived from the business model are actually negative (see addendum A for an analysis of an actual income statement of a savings institution that shows this reality).

Many mutual institutions today believe that a new business model is required in order to be relevant in the next decade against the increased level of competition in the financial services industry. This new business model will look more like a full service community bank which offers a wide array of insurance and investment products and new innovative delivery channels. Significant investments will be required to achieve this new business model. These include improvements in technology, infrastructure, experienced personnel, and additional products and services. These economic realities are forcing mutual institutions to analyze strategic alternatives for remaining competitive and profitable in the future. Many are seeing the need to combine their resources to create a viable business model for the future.

The Uniqueness of Mutual Institution Combinations

Typically, business combinations are accomplished by the negotiated purchase price (cash, stock, etc.) paid by the acquirer to the acquiree. In determining this consideration, the acquirer includes in its calculations the cost of future commitments agreed upon less the cost savings hoped to be achieved by eliminating jobs, locations, and streamlining the combined operations of the two entities.

Mutual institution combinations are unique because there is no stock and there are no stockholders. A mutual institution cannot offer an attractive price for the stock of another mutual to cause a combination to occur. Instead, there must be other unique motivating factors that cause a mutual institution to agree to be acquired by another mutual.

In the 1980's, when the majority of all mutual combinations occurred, the motivating factor was the fight for survival during a period of high interest rates. These combinations created unidentifiable intangibles (goodwill) that were expensed in the future and resulted in Statement 72 that set forth how the goodwill should be amortized. Since the 1980's, mutual combinations have occurred infrequently.

The majority of mutual institutions converted to stock over the last 20 years. Many of the remaining mutuals have not converted to stock because they want to maintain their unique culture and historical focus on their customers, community and employees. They believe a conversion to stock changes the focus to the return achieved for stockholders
and ultimately results in an acquisition by a larger out of town bank. The end result is that the unique 75-year-old mutually chartered hometown bank that cares about the customers, the community and its employees is eliminated.

Currently, mutual institutions are choosing to combine with other mutuals instead of converting to stock in order to reinvent their business model as long as they are convinced they will be able to retain their unique culture and historical focus. The expense of creating a new business model is greater and the time required is longer within the context of mutual institutions because of the required commitment to retain the culture, the people, and the focus on serving the customers and the community. The commitment to approach the acquisition in this unique fashion is crucial in accomplishing the business combination. Thus, the negotiated purchase price of cash or stock in the typical business combination is replaced by the negotiated future commitments and obligations of the acquirer to the acquiree to reinvent the business model while maintaining the historical focus of the acquired institution.

The acquirer commits to utilize the unidentifiable intangible liability to realize these goals instead of eliminating jobs and reducing expenses to realize a return on the purchase price, as is the case in non-mutual combinations. These negotiated commitments made by the acquirer meet the definition of a liability as discussed in FASB Concept Statement No. 6. Some of these commitments are legally enforceable obligations while others are equitable or constructive obligations. These commitments will be unique to each transaction and may include:

Potentially legally enforceable obligations:
- Retention of the name and identity of the acquiree as a separate division or subsidiary
- Retention of all employees
- Retention of the local Board of Directors of acquiree
- Executive compensation
- Employment contracts
- Providing the employees vesting rights and credit for past service in retirement and benefit plans

Equitable or constructive obligations/ethical or moral constraints:
- Reinvention of the business model to make the mutual relevant and competitive
- New products and services
- Maintaining the presence in communities served
- Maintaining and increasing support for the local community
- Increased economic development support for the community
- Significant facility and infrastructure improvements
- New and improved technology resources
- New retail banking delivery channels
- Providing significant administrative and operational support (training, marketing, human resources, compliance, investment portfolio management, financial reporting, accounting, etc.)
- Expertise and ability to create new asset portfolios to generate an acceptable interest margin in order to overcome the negative cash flow imbedded in the actual operations of the savings institution
- Retaining the historical culture and focus on their customers, community, and employees (the “kinder, gentler, hometown community bank”)

Not recognizing this negative intangible as a liability that accretes over a reasonable period of time tied to the fulfillment of the equitable and constructive obligations entered into, as discussed above, will exclude the recognition of significant actual obligations of the acquirer as cautioned in paragraph 40 of FASB Concept Statement No. 6. The result will be an overstated income and capital position and erroneously reported lower operating earnings in subsequent years. These inappropriate lower earnings create pressure to reinvent the business too quickly which can result in unsafe and unsound practices of significant concern to banking regulators.

**Accretion of the Unidentifiable Intangible Liability**

The obligations and commitments made by the acquirer result in the classification of the excess of acquired net assets over cost as an unidentifiable intangible liability. Therefore, this liability should be accreted over the estimated number of years that the acquirer expects to incur the expenses and render the services required to fulfill their obligations and commitments. While this time period will vary based on the actual facts and circumstances of each unique combination, we believe setting a maximum period of ten years is reasonable, should the Board decide a limit is necessary.

As discussed, the time required for the acquirer to achieve its obligations to the acquiree is longer within the context of mutual institutions because of the required commitment to retain the unique culture and historical focus of the acquiree. Reinventing the business model includes not only the time required to add the expertise and infrastructure for new products, services and delivery channels, but also the time to create significant portfolios of new loan products that have acceptable credit risk. The remaining mutual institutions know the dangers of growing too fast with new products. Therefore, it could take up to ten years to achieve the goals of the combinations.

ACB believes that the straight-line method of accretion is the most practical based on the circumstances. This accretion should be included as a separate line of noninterest income on the income statement. The facts and circumstances that created the unidentifiable intangible liability and the rationale for the accretion period should be discussed and disclosed in the notes to the financial statements.

A mutual institution combination could occur where the unidentifiable intangible liability exceeds the eventual cost of the commitments and obligations made. We believe this positive economic event should be realized in operating earnings over the time period during which the expenses are incurred to fulfill the obligations and commitments. The more effective the acquirer is in reinventing the business model and fulfilling their commitments, the more economic benefit will be realized. This recognition of revenue is
appropriately tied to the completion of an earnings cycle by the rendering of the service of fulfilling the obligations made at the time of combination.

By the end of the commitment and accretion period the goal would be that the new business model is effectively implemented resulting in the elimination of the negative cash flows from actual operations and the achievement of a market rate of return on assets and equity. Therefore, a higher level of income will have been achieved to substantially replace the accretion of the unidentifiable intangible liability.

When a business combination of two mutual institutions involves an acquiree that has inadequate regulatory capital who is seeking a solution through acquisition, the facts and circumstances will result in a much shorter accretion period (possibly one to three years) for any unidentifiable intangible liability. This is because the acquirer does not have to make the same level of commitments and obligations in this situation. This would also be true in the case of regulatory assisted or negotiated transactions.

Accounting Treatment for Existing Unidentifiable Intangible Liability

Based on the discussion above, any existing negative goodwill should become an unidentifiable intangible liability and not be recognized immediately as an extraordinary gain. The accretion period for this existing unidentifiable intangible liability should be based on the estimated remaining years the acquirer expects to incur expenses and render the services required to fulfill their remaining obligations and commitments. The unidentifiable intangible liability would be accreted into noninterest income as described above, with any change to the accretion period adopted prospectively. The facts and circumstances that created the unidentifiable intangible liability and the rationale for the accretion period should be discussed and disclosed in the notes to the financial statements. This treatment will provide comparability and consistency with prior financial statement periods and eliminate the need for pro forma presentations.

Conclusion

Paragraph 38 of Statement 72 states that "the need for relevant and reliable measures of earnings following the acquisition of a banking or savings institution was a major factor contributing to the Board's decision." We believe that should be a major factor for this business combination statement as well and feel this proposal regarding the accounting treatment of the excess of acquired net assets over cost as an unidentifiable intangible liability with the appropriated accretion will achieve that goal. This approach more closely represents the economic reality of the business combination and provides the
users of the financial statements more transparent, representationally faithful and
decision-useful financial information. Should you have any questions or need any
additional information, please feel free to contact Jim O’Connor of the ACB staff at (202)
857-3125 or joconnor@acbankers.org.

Sincerely,

D. Russell Taylor
Second Vice Chairman
America’s Community Bankers
President & CEO
The Rahway Savings Institution
Rahway, NJ

Lawrence L Boudreaux, III
Chairman, Mutual Institution Committee
America’s Community Bankers
President & CEO
Fidelity Homestead Association
New Orleans, LA

Diane M. Casey
President & CEO
America’s Community Bankers