



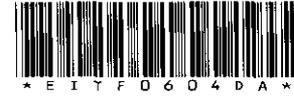
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July 21, 2006

VIA EMAIL (director@fasb.org)



* E I T F 0 6 0 4 D A *

LETTER OF COMMENT NO. 12

Director
Financial Accounting Standards Board
Emerging Issues Task Force

RE: EITF0604 – Comment Regarding Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements

To Whom It May Concern:

We are informed that the EITF is proposing a radical change to accounting for split-dollar life insurance benefits under endorsement-style arrangements. As a bank with Bank-Owned Life Insurance (BOLI) and endorsement split-dollar arrangements, we are concerned about the impact this will have on our bank and its benefit plans, not to mention the reduction in retained earnings if we choose to retain these plans. Accordingly, we submit the following comment for your consideration.

Comment

The relevant portion of the EITF's conclusion is stated as follows:

“The Task Force believed that the purchase of an endorsement type policy (sic) does not constitute a settlement since the policy does not qualify as non-participating because the policyholders are subject to the favorable and unfavorable experience of the insurance company.”

Our own reading of FAS 106 does not support this conclusion. In fact, FAS 106 clearly states that a participating insurance policy may also effectively settle a post-retirement benefit obligation, provided certain requirements are met. Our BOLI vendor informs us that our policies are participating, but that the death benefits are guaranteed even beyond the mortality age of our participants. So, even if the carrier had “unfavorable experience,” the policy guarantees still support the death benefits. We believe this, in fact, settles the obligation.

Moreover, each month our BOLI vendor supplies us with asset accounting information that shows the interest credited as well as the costs of insurance – which is an expense we recognize –



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relative to our BOLI assets. As we understand it, the interest and expense portions of these reports reflect the insurance carrier's costs to provide the promised death benefit to the insured's expected mortality age. Since we are recognizing the income and expense on these assets currently, it seems punitive to recognize these expenses a second time, as the proposed accounting change would seem to require.

Finally, when we first put this plan in place, it was our understanding, and our documents reflect this understanding, that our employees' beneficiaries would only receive a death benefit if there was an insurance policy in place at the time of death. Simply put, if there is no policy, there is no death benefit; if there is a policy, there is a death benefit. The proposed accounting changes would seem to require an accrual for benefits even when such benefits would never, under any circumstances, have to be paid.

Accordingly, we recommend the FASB not adopt the proposed changes in accounting treatment of post-retirement split-dollar, and instead adopt the treatment espoused by the proponents of View B, for the reasons stated in View B, which is the current practice.

Sincerely,

Morgan Federal Bank


Michael M. Berryhill
Chairman, President and CEO