

HERITAGE BANK OF COMMERCE

July 31, 2006

Director
Financial Accounting Standards Board
Emerging Issues Task Force
VIA EMAIL (director@fasb.org)



LETTER OF COMMENT NO. 53

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

Dear Director:

Heritage Bank of Commerce (“Heritage”) is submitting this comment in response to the request for comment on the exposed Draft Abstract for EITF Issue No. 06-04, relating to split-dollar accounting.

It has come to our attention that the EITF proposes to require an accrual during an employee’s service period for any post-retirement benefit promised under a split-dollar arrangement. Heritage objects to this proposal for the following reasons:

1. FAS 106 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. Heritage incorporated accounting guidance and in 2005 booked a related liability for only the postretirement mortality costs for the individuals that were provided a post retirement death benefit (relating to split-dollar arrangements). We believe this settles the obligation.
2. Each month our Bank Owned Life Insurance (“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 – relative to our BOLI assets. As we understand it, the interest and expense portions of these reports reflect the insurance carriers 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, adopting this new accounting change would result in more expenses for the same items.
3. As a result of this proposed rule change, it would not be attractive for Heritage to continue to award directors and executives this benefit. This could have two negative side-effects: (1) loss of benefits to key employees could result in those employees looking for better benefits at other financial institutions. In other

words, this change could affect how Heritage attracts and retains highly qualified employees; and (2) the proposed rule change could undermine employees' estate planning by reducing life insurance benefits used to pay taxes, etc. What is more, these employees may not be able to replace the lost insurance benefits due to lack of insurability or other factors beyond their control.

4. Lastly, another undesirable result of this proposed rule change is that, if Heritage decides to keep its split-dollar arrangements in place, in order to accrue for these benefits, Heritage may very well have to cut back on benefits it provides to other employees.

Our suggestion is that the FASB not adopt this proposed change in accounting treatment. Rather, we suggest they adopt View B, and we endorse the reasoning of the View B proponents. If View A is still considered, we recommend it is limited to the related liability for only the postretirement mortality costs for the individuals that were provided a post retirement death benefit. We would appreciate you taking into account our comments in your final decision.

Sincerely,

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