LEBA

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April 1, 2009

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LETTER OF COMMENT NO.

File Reference:

Proposed FSP FAS 115-a, FAS 124-a, E11F 99-20-0

Proposed FSP FAS 157-e

Dear Mr. Golden:

The Independent Community Bankers of America¹ (ICBA) welcomes the opportunity to comment on two proposals to improve accounting guidance. Proposed FSP FAS 115-a, FAS 124-a, EITF 99-20-b would amend Statement No. 115, to make other-than-temporary impairment (OTTI) guidance more operational and to improve the presentation of OTTIs in the financial statements. Proposed FSP FAS 157-e would provide additional guidance on determining whether a market for a financial asset is not active and a transaction is not distressed for fair value measurements.

ICBA strongly support the changes proposed in FSP FAS 115-a, FAS 124-a, EITF 99-20-b that would amend Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities to make other-than-temporary impairment guidance more operational and to improve the presentation of other-than-temporary impairments in the financial statements and offers several enhancements. We also support the proposed FSP FAS 157-e. ICBA supports transparency of financial statements and believes that the proposed changes will improve transparency particularly in the case of the OTTI guidance.

¹ The Independent Community Bankers of America represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers we serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.

With nearly 5,000 members, representing more than 20,000 locations nationwide and employing over 300,000 Americans, ICBA members hold \$1 trillion in assets, \$800 billion in deposits, and \$700 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

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While we understand that FASB would prefer to delay action on the OTTI issue until it can do so as part of its joint work with the IASB, we believe it far more important for FASB to address this problem immediately due to our country's economic problems and the fact that the inaccurate information being provided about OTTI in banks, insurance companies and other institutions is exacerbating them. FASB must not put off this action for months and delay implementation until even later; this problem needs to be corrected now. Investors need an accurate view of securities held by financial institutions (and thus their financial condition) if they are to provide them the capital they need.

We believe that better guidance is particularly needed for OTTI as recording significant impairments on securities that continue to pay contractual cash flows to investors does not foster transparency and actually misleads investors. Many community bankers that have had to take such write-downs in their banks have expressed concerns to ICBA that current guidance OTTI does not truly reflect the value of their securities in certain situations and therefore may not reflect the banks true financial condition. Community bank support better OTTI guidance both as preparers and users of financial statements. Recently, some Federal Home Loan Banks have been forced by current OTTI guidance to take significant impairments on private label mortgage back securities where credit losses are relatively small. These institutions have recorded significant losses due to OTTIs while their business is growing and profitable. ICBA members that are also members of and investors in Federal Home Loan Banks depend on the accuracy and transparency of Federal Home Loan Bank financial report filings with the Securities and Exchange Commission as they make membership decisions such as increasing their borrowings and purchasing member stock or paying down borrowings. Recently, community banks have complained to ICBA that current OTTI accounting requirements are painting a picture of the financial condition of their Federal Home Loan Bank that is inconsistent with other aspects of their financial condition displayed in their reports. Changes to OTTI guidance are needed to increase the transparency of financial reports in situations such as this.

The proposed amendments to FAS 115 would change the total amount recognized in earnings when there are credit losses associated with an impaired debt security for which management asserts that it does not have the intent to sell the security and is more likely than not that it will not have to sell the security before recovery of its cost basis. In those situations, the impairment would be separated into (a) the amount of the total impairment related to credit losses and (b) the amount of the total impairment related to all other factors. The amount of the total impairment related to all other factors would be included in other comprehensive income. A reporting entity would be required to present separately the total amount of the impairment in the statement of earnings and the amount recognized in other comprehensive income as a deduction from the total impairment.

ICBA strongly agrees that separating other-than-temporary losses into two components, (a) those due to credit losses and (b) those due to other factors will provide better information to financial statement users. The credit component of other-than-temporary impairment should be recognized in earnings, while the remaining portion should be reflected in other comprehensive income as proposed. This would treat impairments of debt securities due to credit problems in the same manner as loan impairments. The non-

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credit impairment for held-to-maturity securities should be reflected in the footnotes to financial statements to disclose the fair value of the securities.

We strongly support changing the management assertion about the *ability to hold* a security to one focused on the *intent to sell*, i.e., management asserts that it does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis. We believe that this change provides more clarity as to management's intention regarding the holding period for the securities.

ICBA believes that the proposed OTTI guidance should apply to both debt securities and equity securities such as perpetual preferred securities with debt like characteristics and mutual funds that are composed of debt securities. While it may be challenging to apply the guidance to equity securities such as common stock, there are other equity securities that have contractual cash flows where the guidance would be appropriate for displaying valuations.

ICBA agrees that the effective date for changes should be for interim and annual periods after March 15, 2009. Community banks would like to implement the improved guidance as soon as possible. Further, we strongly urge the FASB to allow restatement of financial statements or an opportunity to "true-up" other-than-temporary impairments recorded in prior periods to enable users to more easily compare statements for different periods. Such an opportunity is usually afforded when accounting treatments are changed.

We strongly urge the FASB to permit the recognition or valuation adjustment of subsequent recoveries. If securities must be written down when impairments occur, reversals through earnings must be permitted when it becomes clear that an impairment has decreased or no longer exists. This would more accurately reflect an instrument's true fair value. Otherwise, an institution may be misstating its financial position.

Proposed FSP FAS 157-e

While community banks are less impacted by the issues being address in proposed FSP FAS 157-e than by the proposed OTTI guidance, we support the proposed guidance and offer suggestions for further clarification. The proposed guidance addresses the use of discount rates and offers an example that includes ranges (paragraph A32F). While the proposed amendments are helpful, further clarification is needed to underscore that the discount rates mentioned are only an example and that the use of a midpoint is not a requirement.

In several instances, the guidance would clarify that *relevant* inputs and data be use. Such guidance is useful to narrow the scope of analysis to that which is truly appropriate to the situation, limiting the analytic burden without sacrificing accuracy.

Summary

We greatly appreciate the FASB's efforts to improve OTTI accounting guidance to more accurately reflect the valuations of debt and equity securities and urge the FASB to take quick action and approve the new guidance both for OTTI and for fair value measurements.

Sincerely,

/s/

Ann Grochala Vice President Lending and Accounting Policy