



November 14, 2007

Russell Golden, Chairman
Emerging Issues Task Force
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*

Dear Mr. Golden:

The impact of EITF 06-4 on community banks that utilize single premium bank owned life insurance ("BOLI") is material, adverse, and flawed. The EITF results in accounting for a single side of a transaction with disregard to the substance of the entire transaction.

I do not argue against recording liability for post retirement benefits during the working years of the employee. The problem rests in the disregard for how those benefits are funded in single premium BOLI.

Conceptually, single premium BOLI is an investment in a pool of corporate securities. The income stream from this pool is first applied within the policy to expenses and management. The remainder is then distributed in the form of an increase in cash surrender value that is recognized as income by the bank. One of the expenses covered before distribution is the mortality cost, which may be thought of as the premium to carry the ongoing insurance coverage. The income used to pay the premium expense is never distributed to the bank and is never recognized. Now, EITF 06-4 requires recognition of the expense but disregards the income source of the payment.

The *substance* of the transaction is the same as if the increase in cash surrender, plus the mortality cost (premium), were distributed to the bank and the bank then paid back the premium to the carrier. In this case, the bank's income would be increased and its expense would also be increased by an identical amount which would be the mortality cost.

The application of EITF 06-4 to single premium BOLI results in inaccurate and misleading financial statements that are detrimental to the survival of community banks. Its application to this specific situation should be delayed until the problem is further studied.

I am sending this letter to influential persons in banking, insurance, and the accounting profession in the hope of preventing serious damage to our community banks.

Sincerely yours,

Edwin G. Silver, Chief Executive Officer

40 Central Street, Wellesley, MA 02482 Tel: **781-235-2550** Fax: 781-237-9549 www.wellesleybank.com

Member FDIC  Member SIF