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May 27, 2005

FFIEC
Program Coordinator
3501 Fairfax Drive, Room 3086
Arlington, VA 22226

RE: External Audit Engagement Letters
FIL-41-2005

Dear Madam/Sir:

Banks fail, the regulators and sometimes shareholders sue to recover because the auditors missed something and the auditor's insurance companies pay. At that point the insurance companies put new restrictions into their policies and raise their rates causing the auditors to limit audits to lessen recovery from them if they miss something.

Now the FFIEC proposes to remove the limitation of liability provisions, etc. from our outside auditor's audits. Then the circle continues with recoveries against the auditor's mistakes being paid by their insurance carriers who raise their rates to the auditors and it all comes back to the banks in higher audit costs

Having spent a number of years in the insurance industry before getting into banking I can see our audit cost rapidly tripling or more. All this at a time when we are all but buried in regulatory costs.

Why would it not work for the Federal Regulatory Agencies to sit down with representatives from the other members of this shifting circle of responsibility and with representatives of the banking industry attempt to work out a program on audits that is somewhat acceptable to all parties rather than putting the entire onus of cost back to the banking industry?

We would very much appreciate any consideration you could give us on this problem.

Sincerely,

Charles H. Nelson, President
Pine River State Bank

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