

Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: File Number 4-497; Implementation of Internal Control Reporting Provisions of the Sarbanes-Oxley Act of 2002

Dear Mr. Katz:

Pendleton County Bank appreciates the opportunity to submit comments to the Securities and Exchange Commission concerning the implementation of the internal control provisions of Section 404 of the Sarbanes-Oxley Act of 2002 (“Sarbox”).

While we support the objectives of Sarbox of promoting greater integrity and responsibility in corporate financial reporting and disclosure, we are very concerned about the heavy regulatory burden that Section 404 is imposing on the community banking industry. Section 404 is straining the resources of publicly held community banks, impairing their profitability, weakening their capital, and making it difficult for them to compete with private banks and other providers of credit. In some instances, banks are going private to avoid complying with the requirements of Section 404 and the new Auditing Standard No. 2., *An Audit of Internal Control Over Financial Reporting in Conjunction with an Audit of Financial Statements* released by the Public Company Accounting Oversight Board (PCAOB) in March 2004.

Pendleton County Bank urges the SEC to adopt an exemption from Section 404 for community banks as the banking regulators have done under their internal control requirements. We recommend that community banks with assets of less than \$1 billion should be exempted. We also recommend that the application of Accounting Standard No. 2 be tiered to the size and complexity of the institution, so that community banks are not subject to the type of internal control testing and auditing that may be appropriate for a large bank but unnecessary to achieve the desired ends for a community bank.

The PCAOB also should issue more guidance on what should be considered “material” for an internal control audit. This guidance should be clear enough so that excessive testing would be curtailed and audit firms could be comfortable enough with testing only essential functions that are directly related to financial reporting. We believe that auditors should be able to rely more on work of bank examiners as well as the work of internal auditors and other internal staff. Furthermore, we recommend that the timing of SAS 70 reports be reviewed so that they can be dated prior to the fourth quarter and that further guidance should be issued by the PCAOB concerning communications between auditors and management.

Thank you for the opportunity to comment on the implementation of Section 404.

Respectfully Submitted,

W.A. ("Bill") Loving, Jr., CLBB
Executive Vice President & CEO