January 18, 2006

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Secretary
Board of Governors of the Federal Reserve System
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Washington, D.C. 20551

By email to: regs.comments@federalreserve.gov

RE: Joint Advanced Notice of Proposed Rulemaking – Risk-Based Capital Guidelines: Capital Adequacy Guidelines; Capital Maintenance: Domestic Capital Modifications Docket Number R-1238

Board of Governors:

First Horizon National Corporation (FHN) appreciates the opportunity to comment on the joint Advanced Notice of Proposed Rulemaking (ANPR) published in the Federal Register on October 20, 2005. We support the continuing efforts of the Agencies in their attempt to improve the quality of risk-based capital standards.

I. Summary Comments

In general, FHN believes the ANPR proposes many changes that will significantly improve risk sensitivity compared to the current the Basel 1 risk-based capital standards. However, we have recommended changes to some of the proposals that we feel would further improve their risk sensitivity. FHN's comments and recommendations with respect to the proposals in the ANPR are discussed in further detail in the sections that follow.

II. Domestic Capital Framework Revisions

A. Increase the Number of Risk-Weight Categories

The ANPR suggests adding four new risk-weight categories: 35, 75, 150, and 350 percent. FHN believes that, in general, additional risk weight categories would improve the risk sensitivity of the current capital framework; however, the appropriateness of the suggested new categories is difficult to assess without details on the specific assets to which they would be assigned.

FHN believes that a risk category above the current 200 percent category is inappropriate for prudently underwritten banking assets. If a particular asset type is perceived to pose some level of risk above acceptability by the Agencies, FHN suggests that it would be best addressed through supervisory guidance and/or the bank's risk management techniques instead of through the risk-based capital standards. On the other hand, an additional risk-weight category below the suggested 35 percent, such as a 10 percent category, may be appropriate for assets that have very low historical default rates.

FHN does not believe that the addition of four new risk-weight categories alone causes unnecessary burden. However, the definitions and criteria used to place assets into those new categories would need to be workable for bank of all sizes and complexities to be practical and able to be implemented.

B. Use of External Credit Ratings

The APNR suggests expanding the use of ratings by nationally recognized statistical rating organizations (NRSROs) in the determination of the risk-based capital charge to include most NRSRO-rated exposures such as corporate debt.

FHN believes that imposing risk-weightings of 200 percent or more on investment grade exposures is inappropriate. This could have the effect of discouraging companies from obtaining an external rating. FHN recommends modifying the proposed risk-weight tables as follows to make them more appropriately risk sensitive:

Table 1: Illustrative Risk Weights Based on External Ratings

Long-term rating category	Examples	Risk Weights
Highest two investment grade ratings	AAA /AA	10 ~~20~~ percent
Third-highest investment grade rating	A	20 ~~35~~ percent
Third-lowest investment grade rating	BBB +	35 ~~50~~ percent
Second-lowest investment grade rating	BBB	50 ~~75~~ percent
Lowest-investment grade rating	BBB -	75 ~~100~~ percent
One category below investment grade	BB +, BB, BB-	100 ~~200~~ percent
Two or more categories below investment grade	B and lower	150 ~~350~~ percent

Table 2: Illustrative Risk Weights Based on Short-Term External Ratings

Short-term rating category	Examples	Risk Weights
Highest investment grade ratings	A-1	10 ~~20~~ percent
Second-highest investment grade rating	A-2	20 ~~35~~ percent
Lowest investment grade rating	A-3	50 ~~75~~ percent

While FHN agrees that the use of NRSRO credit ratings would increase the risk sensitivity for institutions which have a significant amount of externally-rated exposures, it does not add any value for those institutions which have predominately unrated exposures either because of their size, geographic market or lending mix. These institutions would be unfairly disadvantaged. FHN recommends allowing the use of implied credit ratings from a service such as Moody's Risk Calc to determine the appropriate risk-weight for unrated positions which may dominate a portfolio. Otherwise, adding this new level of complexity will not be that meaningful for the vast majority of institutions, as their commercial loans will be primarily to companies which have no external rating from a NRSRO.

FHN agrees with the proposed plan to retain current risk-weights for exposures backed by the U.S. government and its agencies. However, if a risk-weight category is added in between the 0 percent and 20 percent (i.e. the 10 percent category we recommended in II.A.), exposures backed by the US government-sponsored agencies, federal funds sold and municipal obligations should be assigned to this lower category.

C. Expand Recognized Financial Collateral and Guarantors

The ANPR proposes to expand the list of recognized collateral for capital purposes to include externally-rated debt and asset-backed securities and non-OECD Government obligations that have an investment grade rating. The APNR also proposes expanding the scope of recognized guarantors to include any entity whose long-term senior debt has at least an investment grade rating.

FHN agrees with expanding the recognized financial collateral and guarantors but the requirement related to collateral management systems may be a challenge to small to mid-sized financial institutions. As with the proposal in Section B, this would likely have little impact on institutions which do not have a significant amount of exposures secured by externally-rated collateral or guarantors. Alternative considerations should be made to consider other commonly used collateral and guarantees found in non-money center organizations.

D. One-to-Four Family Mortgages: First and Second Liens

1. First Lien One-to-Four Family Residential Mortgages

The APNR proposes some options for changing the current "one size fits all" risk-based capital requirements for first lien one-to-four family residential mortgages, including ranges of risk-weights from 20 to 100 percent based on either loan-to-value (LTV) ratios or a combination of both the LTV and the creditworthiness of the borrower as determined by credit scores or some other parameter such as debt-to-income ratio.

FNH agrees that the current capital treatment is not appropriately risk sensitive, however, the proposed risk-weights by LTV appear to be high (after consideration of insurance and other guarantees) compared to those proposed in Basel II. FHN suggests that prudently underwritten first lien mortgages should be assigned to the 20 risk-weight category. These loans would have either private mortgage insurance to bring the LTV to 80% or some U.S. government-sponsored agency guarantee, and therefore have a low probability of loss given default. First lien mortgages with an LTV of 70% or less should be risk-weighted at 10% due to the even lower probability of loss given default. Updates should be allowed annually in the LTV calculation for the collateral to allow for property appreciation, but this should be at the institution's discretion due to cost.

2. Private Mortgage Insurance

The ANPR states that LTV ratios would be determined after the consideration of loan-level private mortgage insurance (PMI) provided by an insurance company with an NRSRO-issued long-term debt rating of single A or higher. However, it also states that portfolio or pool-level PMI would not be recognized. In addition, arrangements that required a banking organization to absorb any amount of loss before the PMI provider would not be recognized.

FHN believes that the failure to recognize portfolio or pool-level PMI provided by an insurer with an acceptable rating by a NRSRO is wrong and should be re-considered. The process of assigning capital is to protect the financial institution from experiencing an unexpected financial loss due to unpredicted credit quality events. The use of credit insurance off-loads the risk to a publicly traded, highly rated third party (the insurance company). This risk mitigation effort provides even more protection than assigning capital, regardless as to whether written on an individual loan basis or on a pool-level basis. Also, an arrangement providing insurance coverage that requires a banking organization to absorb an amount of loss before the PMI provider should be recognized to the level of LTV coverage as long as the banking organization holds appropriate capital against their first loss position.

3. Non-Traditional Mortgage Products

The ANPR solicits comments on whether non-traditional mortgages, such as interest-only loans, loans with an LTV in excess of 100 percent, or loans with a negative amortization feature, should be treated in the same manner as traditional mortgages or if they warrant a higher capital requirement.

FHN believes that there should not be a higher capital requirement for non-traditional mortgages such as interest-only loans or loans with a negative amortization feature because, as long as they are prudently underwritten, there is no increased risk with these loans. Non-traditional mortgage products should be risk-weighted in the same manner as traditional mortgages. Negative incentives should not be made through regulatory capital requirements. Also, LTV ratio calculations should always include the impact of insurance, guarantees or other risk mitigating factors

4. Stand-Alone Second Liens and HELOCs

If banking organizations hold both a first and second lien, including a home equity line of credit (HELOC), and no other party holds an intervening lien, the Agencies' existing capital rules permit these loans to be combined to determine the LTV and the appropriate risk weight as if it were a first lien mortgage. The Agencies intend to continue to permit this approach for determining LTVs. For stand alone second lien mortgages and HELOCs, where the institution holds a second lien mortgage but does not hold the first lien mortgage and the LTV at origination for the combined loans does not exceed 90%, the Agencies are considering retaining the current 100% risk weight. For stand alone second liens, where the original LTV of the combined liens exceeds 90%, the Agencies suggest that a risk-weight higher the 100% may be appropriate.

FHN agrees with the Agencies' intent to continue to allow the combination of first and second lien mortgages with a single institution, where no other institution holds an intervening lien, to determine the LTV and appropriate risk-weights as if it were a first lien mortgage. However, FHN believes the maximum risk-weighting for stand alone second lien mortgages and HELOCs should never be higher than 100% when based on LTV alone. Instead, to allow for the variations in the risk of stand alone seconds and HELOCs, they should be risk-weighted using a matrix based on LTV and credit score. The matrix could be scaled to reflect higher risk-weights for stand alone seconds and HELOCS with high LTVs and low credit scores to provide for the increased risk associated with these exposures. However, the matrix should also provide for risk-weights much lower than 100% for those with low LTVs and high credit scores. For example, a HELOC with a combined LTV of less than 70% and a credit score above 700 should be risk-weighted at 10 percent because of the lower risk. LTV calculations should always include the impact of insurance, guarantees or other risk mitigating factors. Updates should be allowed quarterly for the credit scores to determine early risk related issues and annually in the LTV calculation for the collateral to allow for property appreciation, but this should be at the institution's discretion due to cost.

FHN believes the use of credit scores would have minimal impact on lower income borrowers because these methods are used today across the industry to price loans to consumers. However, due to the inconsistency across the industry in the methods of debt to income calculation (i.e. use of gross versus net income, defining generically what qualifies as income, calculation of non traditional income sources, etc), including that metric would be extremely problematic.

E. Multifamily Residential Mortgages

The APNR proposes expanding the criteria that would allow multifamily residential loans to qualify for a lower risk-weight category to include small size, history of performance or low LTV ratio.

Under the current risk-based capital requirements, the criteria which must be met for multifamily residential mortgages to qualify for a lower risk-weight category are very restrictive. FHN agrees that some additional criteria such as those suggested by the Agencies, especially low LTV ratios, should be added that would allow multifamily residential mortgages to qualify for a lower risk-weight category.

F. Other Retail Exposures

The APNR requests comments on alternatives for structuring a risk-sensitive approach for the capital requirement for other retail exposures, such as consumer loans, credit cards, and automobile loans.

For secured non-real estate (other consumer loans and vehicle loans-auto, boat, motor home, etc), FHN suggests the use of a LTV/credit score matrix would be an appropriate basis on which to structure a risk-sensitive capital requirement. For unsecured consumer loans (credit cards, lines of credit, etc), a matrix based on the loan amount and credit score could be used to determine the appropriate risk-weight. FHN does not believe that using the suggested approaches would disadvantage lower income borrowers given that this is the method currently used in the industry to price consumer loans. Simplicity of approach is critical to any meaningful change in the process for these loans.

G. Short-Term Commitments

Current risk-based capital standards do not require banking institutions to hold capital against short-term commitments with an original maturity of one year or less. However, long-term commitments, those with an original maturity greater than one year, are converted to on-balance sheet equivalents using a 50 percent credit conversion factor (CCF). The ANPR proposes applying a 10 percent CCF on short-term commitments and maintaining the current 50 percent CCF on long-term commitments. As an alternative, the APNR proposes applying a single 20 percent CCF for both short-term and long-term commitments.

FHN agrees with the Agencies decision to maintain the 0 percent CCF for all commitments that are unconditionally cancelable at any time by the banking organization or that provide for automatic cancellation due to deterioration in the borrower's credit assessment. FHN also agrees that there is some degree of credit risk with all commitments whether, short-term or long-term, however, we do not believe that the "original" maturity of the commitment is the determining factor of that risk. FHN supports a single 20 percent CCF on all commitments, both short-term and long-term, with the risk-weighting of the resulting credit equivalent amount determined as is proposed for on balance sheet exposures based on the underlying assets or the obligor, after considering any collateral, guarantees or external (or implied external) ratings. At a minimum, if a two tier approach is maintained, the definition of short-term commitments should be revised to be based on a remaining maturity of one year or less as opposed to an original maturity of one year or less.

H. Loans 90 Days or More Past Due or in Nonaccrual

The APNR proposes assigning exposures that are 90 days or more past due and those that are in nonaccrual status to a higher than 100 percent risk-weight category. The amount of any specific exposure to be assigned to the higher risk-weight category would be reduced by any reserves directly allocated to cover the potential losses on that exposure.

FHN disagrees with the proposed increased capital requirement for loans 90 days or more past due or on nonaccrual. Applying an additional capital factor for loans which are 90 days or more past due and nonaccruals would be redundant. As long as a banking organization has appropriate reserves for their level of these loans, then no additional capital should be required. Only allowing directly allocated reserves to reduce the capital required would not be fair. Reserves for consumer loans and other smaller exposures are typically calculated at a portfolio level. Specifically allocated reserves would only be calculated for very large exposures. FHN suggests that any concerns that the Agencies have regarding the level of 90 days past due and nonaccrual loans should be addressed outside of the risk-based capital framework.

I. Commercial Real Estate (CRE) Exposures

The APNR proposes assigning a higher than 100 percent risk-weight to certain commercial real estate exposures such as acquisition, development, and construction (ADC) loans, unless they meet the requirements in the Interagency Real Estate Lending Standards regulations and the loan is supported by a substantial amount of borrower equity, such as 15 percent of the completion value.

FHN does not agree with proposal to assign ADC loans to a higher than 100 percent risk-weight category. We acknowledge that there can be some higher risk in commercial real estate lending, however, the risk is correlated with economic cycles and geographic concentrations which would be difficult to tie to capital requirements. FHN recommends that the Agencies address any concerns they have regarding commercial real estate loans such as ADC loans through supervisory guidance instead of through the risk-based capital standards.

J. Small Business Loans

The ANPR proposes improving the risk sensitivity to small business loans by lowering the risk-weight for these assets if the loans meet certain requirements such as full amortization over period of seven years or less, performance according to the contractual provisions and full protection by collateral.

FHN does not agree with reducing the risk-weight for small business loans on an isolated basis. The current provision for a lower risk-weight based on acceptable guarantee or collateral is sufficient and does not impose an undue burden on banks in order to comply.

K. Early Amortization

The APNR suggests the assessment of a risk-based capital charge against personal and business credit card securitizations. It also suggests applying an early amortization capital charge to securitizations of other revolving credit exposures.

FHN opposes any additional capital charge on securitizations. A securitization generally requires two levels of protection for the investor and the selling institution: over collateralization and a third party bond wrap. This provides protection against unexpected credit losses and earlier than anticipated pre-payment. Banking organizations already have to hold capital on a dollar for dollar basis for the maximum contractual loss through the low level recourse rules. Given the protective measures provided in the transaction structure, and the fact that early amortization events are infrequent, the Agencies should not impose a new incremental capital requirement for these off balance sheet securitizations.

III. Application of Proposed Revisions

The ANPR seeks comment on whether there should be an asset size threshold below which banking organizations will be permitted to use the existing Basel I framework without revision. The ANPR also asks if banking organizations should be allowed to choose among alternative approaches for some of the modifications to the existing capital rules that may be proposed.

FHN believes that the Agencies should allow some alternative approaches for smaller institutions with regard to the revised capital standards. Depending on which of the proposed revisions in the ANPR are adopted, an alternative approach could be as simple as allowing institutions to use the existing Basel I standards without revision or with only minor revisions to include modified standardized risk-weights for specific asset classes as necessary. FHN suggests that the Agencies leave it to the discretion of the individual institution as to whether they adopt the proposed more risk sensitive approaches as a whole or only in part and use more standardized approaches for some asset classes.

IV. Reporting Requirements

FHN agrees that, if there are revisions to the segmentation of assets for purposes of risk-based capital requirements, that this would require some changes to the detail reported in the quarterly regulatory reports to allow for greater transparency of the risk-based capital calculations. We feel this could be achieved by simply expanding the balance sheet schedules of the regulatory capital sections to include the new risk weight categories and where necessary break out additional asset categories.

V. Regulatory Analysis

Until a more definitive proposal is available it will be difficult to assess the direct/indirect cost of compliance. If designed appropriately (from a true risk perspective) this proposal would be a positive change that appropriately linked the true risk of a product category to the assigned capital which should provide a more competitive landscape, however, it seems apparent that some small institutions may be disadvantaged financially in order to be compliant.

Once again, FHN appreciates the opportunity to comment on the ANPR and supports the Agencies' efforts to provide for a more risk-sensitive capital framework and a reduced regulatory and paperwork burden for financial institutions. If you have any questions regarding the comments in this letter please contact Ms. Janet Denkler, Assistant Treasurer, First Horizon National Corporation at (901) 523-4478 or jedenkler@firsthorizon.com.

Sincerely,

/s/ Janet E. Denkler

Janet E. Denkler
VP and Assistant Treasurer
First Horizon National Corporation