F.N.B. Corporation

October 22, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

BY MAIL AND E-MAIL

Re: Regulatory Capital Rules:

Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action

Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements

Ladies and Gentlemen:

Thank you for the opportunity to provide comments on the Basel III proposals[1] ("NPR's") that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively "the Agencies").

F.N.B. Corporation ("FNB") is a full-service commercial bank and the fourth largest Pennsylvania-based bank with approximately $12.0 billion in total assets. FNB currently has 2,988 employees across a branch service network of 266 locations serving over 500,000 customers throughout 45 counties in Pennsylvania, Ohio and West Virginia. FNB also offers consumer finance products to customers through 71 consumer finance offices in three states, Pennsylvania, Kentucky and Tennessee. FNB operates a low-risk model grounded in the traditional banking principles of leveraging deposits to make loans. This differentiates FNB from the large European banks and U.S. money center banks who are operating higher-risk models and thus require higher capital levels.

[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

FNB is committed to the communities we serve and proud to have achieved twelve consecutive quarters of total organic loan growth through June 30, 2012. These loans were made to small and mid-sized businesses and consumers across our footprint. Furthermore, since the beginning of 2009 we have originated over $3.5 billion in commercial loans. Our ability to deliver credit during a period of severe economic downturn is a contributing factor to our regions' relative stability and job creation during the cycle. Additionally, this performance throughout the economic downturn is further evidence that our lower risk model and current capital levels reflect an optimal scenario for FNB, allowing us to provide loans to customers while operating efficiently and profitably for our shareholders.

We acknowledge the critical importance of a strong, high-quality capital base for the banking industry and are supportive of goals that would effectively improve and enhance capital standards in light of the recent financial crisis. However, we are concerned that provisions in the proposed rules may create an environment contrary to the Agencies' intentions of improving the resiliency of U.S. banks during periods of stress. We believe that the provisions in the NPR's, when taken collectively, could force banks into higher yielding, higher risk assets and/or increase costs to consumers as a means to generate adequate returns on capital. Bank lending capacity to consumers and businesses would be constricted, inhibiting economic growth across the nation at a critical time. As noted above, FNB originated over $3.5 billion in credit to commercial businesses since 2009, providing capital to small and mid-sized companies during a period economic of uncertainty. Furthermore, provisions included in the NPR's, such as the proposed treatment for unrealized gains and losses on available for sale securities, would create confusion and the loss of confidence by the public and investors in banks given the resulting complexity and volatility in capital levels. As such, we are writing to express our views and concerns with several specific provisions in the NPR's as written. However, it should be noted that our greatest concern lies in the unintended consequences of the complex rules when applied in their entirety.

I. AFS Securities

The NPR's propose to include in common tier 1 equity unrealized gains and losses on all available-for-sale securities ("AFS"). This proposed treatment would be detrimental to FNB, the banking system and the U.S. economy in the following ways:

1. Volatility
    a. It would create unnecessary and potentially substantial volatility to regulatory capital ratios that is inconsistent with a prudent and comprehensive capital plan.
    b. This volatility would most certainly result in investor confusion and possibly lead to reduced exposure on the part of investors in financial institutions. Should financial institutions have less capital sources available, lending capacity would diminish, which would in turn negatively affect business growth in the communities banks serve.
2. Required Capital Buffer
    a. This proposed treatment would also result in financial institutions holding higher capital to protect against this volatility, particularly in a rising interest

rate environment. This additional capital would therefore not be available for lending to bank customers. To quantify this impact, FNB's investment portfolio, which has duration of approximately 2.7, currently comprises 20% of its total assets and 50% of the investment portfolio, or approximately $1.1 billion, is designated as AFS. Over 90% of FNB's AFS portfolio is in investments whose only credit risk is related to the U.S. government. Thus, changes in the value of FNB's AFS investment portfolio are almost entirely a result of interest rate moves. A 200 basis point increase in interest rates would result in an after-tax change in value of about $35 million. Maintaining additional capital of this size would result in a $280 million curtailment of FNB's lending capacity.

   b. Furthermore, since the U.S. is in a historically low interest rate environment, the negative impact of this proposal would correspond and be exacerbated during a time in which the U.S. economy would be starting to show economic improvement and likely higher rates. As noted above, the proposal would thus curtail lending capacity, thereby reducing the upside to U.S. economic growth.

3. Asset Liability Management Implications
   a. This proposed treatment would also result in changes to banks' asset-liability management practices. To mitigate price volatility, banks would likely shorten the duration of the investment portfolio in order to be more asset sensitive, thereby reducing potential negative AFS marks. To achieve this, banks would likely shun longer duration assets, such as municipal bonds and mortgage securities, resulting in less demand for these products and presumably higher debt costs for those municipalities and homeowners due to the lower demand for their securities. This would also potentially negatively affect earnings and long-term capital formation.
4. Competitive Disadvantage
   a. This proposal would also put U.S. banks at a competitive disadvantage against international banks given the disparity created under this provision because of U.S. GAAP accounting treatment.

For the reasons stated above, we encourage the Agencies to revisit these proposed rules in light of the potential systemic negative impact upon the U.S. economy and global competitiveness. In doing so, we urge: a.) the complete elimination of the proposed rule to include unrealized gains and losses from AFS securities in regulatory capital, or b.) an exclusion that interest rate marks do not flow through accumulated other comprehensive income as proposed.

II. Cash Flow Hedges

The NPR's propose that unrealized gains and losses on cash flow hedges that relate to hedging items that are not recognized at fair value on the balance sheet should be excluded from regulatory capital.

Cash flow hedging is an attempt to reduce future earnings volatility. A stable earnings stream is highly desirable by shareholders. Generally, we are in favor of the NPR's position on unrealized gains and losses related to cash flow hedges as it can benefit shareholders by reducing volatility in earnings, equity and share price.

We encourage the agencies to review the proposed AFS treatment collectively with the proposed treatment of cash flow hedges. The unrealized gains and losses on high quality AFS investment securities should be derecognized in the same manner.

III. Trust Preferred Securities

The NPR's propose to phase out trust preferred securities from capital regardless of the asset size of the issuer. While the phase-out for larger institutions is consistent with section 171 of the Dodd-Frank Act, the phase-out for those with less than $15 billion in assets is more aggressively accelerated. In this regard, it is disappointing that the Agencies have opted to side with the Basel III initiatives over those spelled out in the Dodd-Frank Act.

We respectfully request the Agencies to reconsider the more punitive provisions proposed for smaller institutions, taking into consideration the following reasons:

1. Negative Impact to Bank Debt Investors
    a. In all likelihood, banks will continue to redeem their issues during the phase-out period (the next 10 years), breaking the contractual agreement that debt investors who purchased these instruments have with the issuing financial institution. More importantly, banks will find it difficult to secure long-term, fixed-rate debt in the environment created by the NPR's.
2. Interest Rate Risk Management Implications
    a. FNB, like other banks, actively manages its balance sheet's Interest Rate Risk (IRR) position to ensure that our investors are not unduly exposed to Interest Rate Risk. One of the instruments that we have successfully utilized to hedge against significant earnings swings due to interest rate movements has been trust preferred securities. The removal of this instrument will make it more difficult to manage IRR, which could result in higher costs to our customers and/or lower returns to our shareholders.
3. Higher Cost of Capital
    a. Removal of these instruments would result in a higher cost of capital. Removal of the trust preferred securities prior to their contractual maturity dates from smaller financial institution's capital structure will result in higher capital costs for these institutions. These higher costs will have negative impacts across a wide spectrum of constituents, including increased costs to consumers.
    b. Smaller financial institutions have significantly less access to the capital markets than much larger banks.
4. Growth Through M&A Provisions
    a. The NPR's propose that trust preferred securities or other non-qualifying instruments issued by a smaller bank or thrift holding company that passes the $15 billion asset threshold as a result of a merger or acquisition would become subject to the more aggressive three-year phase-out period applicable to larger holding companies. We believe this provision to be punitive to future

consolidation of the banking industry and detrimental to potential shareholder value creation.

Consequently, we encourage the Agencies to: a.) remain consistent with the intent of Dodd-Frank and allow for the grandfathering of the existing trust preferred securities for institutions under $15 billion in total assets and, b.) eliminate the punitive M&A growth provisions.

IV. Residential Mortgage Loans

There are several provisions included in the Agencies' proposals that could potentially result in the unintended consequence of impeding the pace of housing recovery, an important component of economic recovery. Broadly, based on the proposed risk weighting provisions and resulting higher capital requirements, FNB and all banking institutions would re-evaluate viable return thresholds for its mortgage lending business. Consumers would be negatively impacted through increased pricing and costs and reduced access to funding as some banks exit the residential mortgage lending business.

FNB is an active residential mortgage lender. We view this lending as a core component of our business model and an integral part of the diverse products we offer our customers. FNB currently has a $1.1 billion residential mortgage loan portfolio and a $1.6 billion home equity loan portfolio. FNB originates these loans across our footprint, through our branch network in the communities we serve. Credit quality results for these originated portfolios have been very good historically and throughout the recent cycle.

We respectfully request the Agencies to review the following provisions in the NPR's related to residential mortgage risk weighting:

1. Primarily LTV-Based Risk Weighting
    a. It appears reasonable that risk weightings for residential mortgage loans should vary based on credit profile. However, the proposed risk weighting for consumer mortgages heavily weighted on a single criteria such as LTV, would potentially result in unnecessarily high capital requirements that do not align with the risk profile of the underlying borrower. For example, under the proposal, it is possible to have a highly qualified borrower assigned a high risk weighting based solely on the LTV. A borrower with a less desirable credit profile and a lower LTV would be assigned a lower capital requirement.
2. Retroactive Application
    a. The imposition of higher risk weightings on a retroactive basis to all loans outstanding would result in an immediate devaluation of existing residential mortgage portfolios.
    b. As the proposed risk weightings did not exist at origination, many institutions may have to incur significant incremental costs to obtain the necessary documentation to apply an appropriate risk weighting.
    c. The NPR's propose that a residential loan will disqualify as a Category 1 loan if periodic and lifetime caps are not met. Applying these caps to an existing home equity portfolio may result in an excessively punitive

treatment of existing home equity portfolios, as these caps were not in existence at the time of origination.

d. The proposed calculations of combined LTV's and risk weighting for various first and second lien positions is burdensome given that the provisions were not effective when the loan was originated.

In conclusion, we request the Agencies, at a minimum, to grandfather existing residential mortgage and home equity loans to allow the banking industry to adjust structure, pricing and required systems modifications accordingly. Alternatively, the agencies should strongly consider the driving forces behind the recent housing crisis and differentiate between self-originated and broker-originated residential mortgage loans, allowing self-originated mortgage loans to retain the current risk weighting in place today.

V. Non-Significant Investments in Unconsolidated Financial Institutions

The NPR's propose rules relating to non-significant investments, requiring deductions from common tier 1 equity or common equity regulatory capital components.

We request that the Agencies provide clarity, specifically in defining which instruments would be subject to this ruling. If the intent is to include legacy investments in pooled trust preferred securities, we request that the Agencies consider the preceding environment and purpose for which these instruments were purchased. During this time (primarily 2004-2007), the primary intention was to diversify the investment portfolio.

We appreciate and acknowledge the intent of the proposed rule is to discourage direct capital investments with other financial institutions; however, we request the agencies to grandfather legacy instruments given the original investment intent.

VI. Commercial Real Estate

The NPR's propose a 50% increase to the risk weighting of certain acquisition, development and construction commercial real estate loans ("High Volatility Commercial Real Estate"). Higher capital requirements for these loans would most likely reduce credit availability and certainly result in higher costs to borrowers, in turn limiting development activity.

We recommend the Agencies reconsider this proposed treatment in light of the potential detrimental impact to commercial real estate development and related job creation across the nation. We also request additional clarification of the "as completed value" noted in the NPR.

VII. Past Due Exposures

The NPR's propose a 50% increase to the risk weighting of loans (other than 1-4 family residential loans) that are 90 days or more past due.

We recommend the Agencies consider the practical implications surrounding this proposed treatment. Many banks may be less inclined to work with troubled borrowers to resolve the credit in an effort to avoid the higher capital requirement. Additionally, the increased risk related to such credits is addressed through the Allowance for Loan and Lease Losses. We suggest that this proposed rule be eliminated.

In closing, we appreciate the opportunity to provide these comments and welcome the opportunity to discuss our views or respond to any questions. We are cognizant of the Agencies desire to restructure the U.S. banking industry's regulatory framework consistent with Basel III capital standards and certain provisions of the Dodd-Frank Act. However, the NPR's as written would significantly impair banks ability to attract capital, leading to a constriction in lending capacity to businesses and consumers across the nation. In addition, the proposed rules could potentially lead to higher pricing for consumers and businesses and drive banks to seek higher returns through riskier investments and lending decisions, undermining the intent of the proposed rules. The potential negative economic consequencesof the NPR's are broad. We request the agencies to reconsider the collective impact of the swift and complex proposed rules and opt for a safer, sounder approach.

Sincerely,

Vincent J. Delie, Jr.
President and Chief Executive Officer

Vincent J. Calabrese, Jr.
Chief Financial Officer