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March 26, 2007

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Washington, D.C. 20219
Via email: regs.comments@occ.treas.gov

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551
Via email: regs.comments@federalreserve.gov

RE: Risk-Based Capital Guidelines; Capital Adequacy Guidelines; Capital Maintenance: Domestic Capital Modifications – 71 Federal Register 77446; December 26, 2006

OCC: Docket No. 06-15
FRB: Docket No. R-1238

Ladies and Gentlemen:

First Horizon National Corporation (FHN) appreciates the opportunity to comment on the joint Notice of Proposed Rulemaking (NPR) published in the Federal Register on December 26, 2006. We support the continuing efforts of the Agencies in their attempt to improve the quality of risk-based capital standards.

Proposed Changes

In general, FHN believes that the NPR proposes certain changes that could improve risk sensitivity compared to the current the Basel I risk-based capital standards. However, the primary impact from the proposed changes seems focused on first and second lien mortgage loans, as most mid-sized and smaller banking organizations would have little, if any, externally rated exposures on their banking books. The proposed changes appear to require data that should be available as part of an organization's credit approval and portfolio management process.

A. Opt-In Proposal

The NPR proposes that a non-Basel II banking organization may choose to adopt the revisions in the proposal or remain under Basel I. However, if an organization chooses to adopt Basel IA, it would have to notify its primary regulator and it would be required to adopt it in its entirety. Further, once a banking organization adopts Basel IA, it would have to obtain approval from its primary regulator if it wished to switch back to the Basel I standards.

FHN feels that the concept of requiring banking organizations to opt-in or out of the proposed rules would add an unnecessary level of complication to the risk-based capital process. There should be a default risk-weight for the various balance sheet categories as is available in the current Basel I standards. Banking organizations should be allowed, as they are today, to use these default risk-weighting for the various balance sheet categories or to further stratify their balance sheets to take advantage of more risk-sensitive risk-weights where, applicable and practicable.

B. Increase the Number of Risk-Weight Categories

The NPR suggests adding three new risk-weight categories: 35, 75, and 150 percent. FHN believes that, in general, additional risk weight categories would improve the risk sensitivity of the current capital framework; however, we do have comments later in this letter regarding the specific assets to which they would be assigned.

FHN agrees with the agencies that a risk category above the current 200 percent category is not warranted for prudently underwritten banking assets. On the other hand, an additional risk-weight category below the current 20 percent category, such as a 10 percent category, may be appropriate for assets that have very low historical default rates such as US government-sponsored agencies, federal funds sold, municipal obligations, low LTV residential mortgages, and debt secured by CDs or cash.

C. Use of External Credit Ratings

i. Direct Exposures

The NPR proposes expanding the use of ratings by nationally recognized statistical rating organizations (NRSROs) in the determination of the risk-based capital charge to include NRSRO-rated sovereign debt and debt securities and debt securities issued by and rated loans to non-sovereign entities.

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, this has no practical value and would not add any benefit for the majority of banking organizations which have predominately unrated exposures either because of their size, geographic market or lending mix.

ii. Recognized Financial Collateral, iii. Eligible Guarantors and iv. Government Sponsored Agencies

The NPR 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 NPR 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 could prove prohibitive to small and mid-sized financial institutions. Also, as stated before, the use of external ratings 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. Also, FHN believes the Agencies should allow non-sovereign exposures to be risk-weighted based on the external rating of the non-sovereign, if available, and not require the exposure and/or collateral itself to be externally rated.

FHN agrees with the proposed plan to retain current 0 percent risk-weights for cash, exposures backed by the U.S. government and its agencies and the 20 percent risk-weight for securities firms. However, we recommend adding a 10 percent risk-weight category to be used for exposures backed by the US government-sponsored agencies, federal funds sold and municipal obligations. We do not think there is any need to incorporate S&P and Moody's financial strength ratings into the risk-weighting processes.

D. Mortgage Loans Secured by a Lien on One-to-Four Family Residential Property Liens

i. First Lien Risk Weights

The NPR proposes replacing the current 50 percent risk-weight for first lien one-to-four family residential mortgages with ranges of risk-weights from 20 to 150 percent based on LTV.

FNH agrees that the current capital treatment is not appropriately risk sensitive, however, the proposed range of risk-weights by LTV appear to be high (after consideration of insurance and other guarantees) compared to those proposed in Basel II and do not reflect their low probability of loss given default. First lien mortgages with an LTV of 60 percent or less should be risk-weighted at 10 percent due to the very low probability of loss given default. The maximum risk-weight should be no more than 100%. Assigning a risk-weight greater than 100% for a secured first mortgage loan is not warranted.

As to the potential use of the creditworthiness of the borrower combine with LTV to risk-weight first mortgages, while it could be burdensome for some, this could provide for greater risk sensitivity for those institutions which use this data as part of their risk management process. Therefore, the use of creditworthiness of the borrower should not be required, but it should be allowed as an option for those institutions which choose to utilize it.

ii. Calculation of LTV

The NPR proposes that LTV should be calculated based on the value at origination and only adjusted quarterly for decrease in principal.

FHN believes updates should be allowed annually in the LTV calculation for the value of the collateral to allow for property appreciation, but this should be at the institution's discretion due to cost constraints.

The NPR 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 provided there is no pool level cap. However, it also states that portfolio or pool-level PMI that absorb losses based on a portfolio basis would not be recognized.

FHN strongly believes that all PMI that absorbs losses at a loan level it should be recognized in calculating LTV regardless of any pool level cap. Further, FHN believes that pool level insurance should also be recognized as an acceptable risk mitigator.

iii. Non-Traditional Mortgage Products

The NPR does not propose a different risk-weight treatment for non-traditional mortgages. FHN agrees with the proposal to risk-weight non-traditional first lien mortgages consistent with the treatment for all other first lien mortgages.

iv. Junior Liens One-to-Four Family Residential Mortgages

The Agencies propose to continue to permit banks that hold both a first and second lien, where there is no intervening lien, to combine them to determine the LTV and the appropriate risk weight as if it were a first lien mortgage. For stand-alone second lien mortgages the NPR proposes using risk-weights of 75% to 150% based on LTV. The LTV for HELOCs would be calculated based on the funded portion. The unfunded portion of the HELOC would be treated as an unfunded commitment as in the current rules.

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 does not believe that the risk weights for stand-alone seconds should differ from that for seconds where the institution also holds the first. In either case, the LTV is a combined LTV calculation and therefore the risk-weighting should be consistent. As stated in reference to first lien mortgages, FHN strongly believes the proposed risk-weight of 150 percent for second lien mortgages with LTVs greater than 90 percent is excessive when compared to the treatment of unsecured consumer loans.

E. Short-Term Commitments

Current risk-based capital standards do not require banking institutions to hold capital against short-term commitments with an <u>original</u> maturity of one year or less. However, long-term commitments, those with an <u>original</u> maturity greater than one year, are converted to on-balance sheet equivalents using a 50 percent credit conversion factor (CCF). The NPR 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 PNR 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 <u>"original"</u> 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.

F. Early Amortization

The NPR proposes a capital charge on all revolving securitizations of credits with early amortization features which would be based on excess spread.

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. Under the low level recourse rules, banking organizations already have to hold capital on a dollar for dollar basis for the maximum contractual loss. Given the protective measures provided in transaction structures, 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.

G. Removal of 50 Percent Limit on the Risk Weight for Derivatives

The NPR proposes eliminating the 50 percent risk weight limit that currently applies to derivative contracts. Instead derivative contracts would be risk-weighted based on the counterparty after consideration of any collateral or guarantees.

FHN believes that if this change is made that in determining the risk-weight the external rating of the counterparty, if available, should be able to be considered in addition to any collateral or guarantees.

H. Small Business Loans

While no specific proposal is made, the NPR suggests improving the risk sensitivity to small business loans by lowering the risk-weight for these assets to 75 percent if the loans meet certain requirements such as being personally guaranteed by the owner(s), fully collateralized by the assets of the business and amortization over period of seven years or less.

FHN believes that a provision for a lower risk-weight on small business loans provided that they meet the specific criteria would allow for some greater risk-sensitivity in these assets.

Possible Alternatives for Basel II Banking Organizations

The proposal asks several questions regarding the possible application of this NPR to Basel II banks or a U.S. version of the standardized approach. FHN believes that if the Basel II banks are allowed an alternative to the advanced approach, it should be consistent with the approach required or allowed for all other banks. That is, if a U.S. version of the standardized approach is developed, its application should not be limited to only Basel II banks but rather all banks should have the option to adopt it if they so choose.

In conclusion, FHN believes that while the proposed revisions to risk-based capital contained in the NPR could provide for a more risk-sensitive treatment for certain assets, there is limited applicability of these proposed revisions to the majority of non-Basel II U.S. banks. In addition, the proposed risk-weights for one-to-four family mortgage loans by LTV ranges are too high to provide much, if any, capital relief for these relatively low risk assets. Therefore, FHN does not believe that there is a substantial incentive for banks to choose to opt-in to Basel IA as it is currently written.

Once again, FHN appreciates the opportunity to comment on the NPR and supports the Agencies' continued efforts to provide for a more risk-sensitive capital framework 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