FTN FINANCIAL

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July 28, 2011

U.S. Department of the Treasury
Office of the Comptroller of the Currency
250 E Street, SE, Mail Stop 2-3
Washington, DC 20219
Docket Number OCC-2011-0002

U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
Attn: Elizabeth M. Murphy, Secretary
File Number S7-14-11

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attn: Jennifer J. Johnson, Secretary
Docket No. R-1411

U.S. Federal Housing Finance Agency
Fourth Floor
1700 G Street, NW
Washington, DC 20552
Attn: Alfred M. Pollard, General Counsel
RIN 2590-AA43

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Attn: Comments, Richard E. Feldman
Executive Secretary
RIN 3064-AD74

U.S. Department of Housing and Urban Development
Regulations Division
Office of General Counsel
51 7th Street, SE, Room 10276
Washington, DC 20410-0500

Re: Proposed Credit Risk Retention Rule

Ladies and Gentlemen:

FTN Financial appreciates the opportunity to comment on the proposed rules regarding credit risk retention as proscribed by section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"). FTN Financial Capital Markets ("FTN") is a bank dealer and a division of First Tennessee Bank National Association. FTN is an industry leader in fixed income sales, trading and strategies for institutional clients in the U.S. and abroad. FTN operates a distribution-focused business model pursuant to which it procures fixed income securities for the purpose of distribution to customers. FTN, through its FTN Financial Capital Assets subsidiary, also has more than 25 years of experience working with depository portfolio lenders that make originate-to-hold loans, and conducts loan portfolio analysis on hundreds of depository loan portfolios annually.

FTN has participated with various industry trade associations preparing comment letters on the totality of the proposed rule; however, there are several issues that we would like to address individually, and respectfully offer the following comments and recommendations.

Qualified Residential Mortgage ("QRM") Definition

The proposed QRM standards will have a significant bearing on the way mortgage loans are originated, documented and potentially sold in the future. In its current form, the QRM focus is on new "originate-to-sell" loans that are typically sold to an investor within 60 – 90 days of closing. There is a key sector of the market being overlooked that requires special consideration. Depositories commonly make "originate-to-hold" mortgages that are retained in their loan portfolios. Although these loans are initially originated with the intent to hold as a long-term investment, depositories sometimes sell, at a later point in time, segments of these loan portfolios in conjunction with necessary and prudent balance sheet management strategies, such as interest rate risk management. These seasoned loans are typically one to five years old, have a clean, demonstrated payment history and low credit risk. The lender clearly has "skin in the game" by virtue of the fact the loan was originally made to hold indefinitely as a long-term portfolio investment and has resided in portfolio for an extended period.

In their current form, the proposed QRM guidelines do not accommodate certain unique differences between seasoned, originate-to-hold loans and new, originate-to-sell loans. The potential consequence is that many prime seasoned loans that clearly meet the intent of the QRM definition, will fail the currently proposed QRM test, thereby unnecessarily restricting depository institutions' ability to manage their balance sheets. Seasoned loans represent a significant portion of most depositories' assets and it is imperative that they maintain the flexibility to securitize these loans in conjunction with the ongoing management of their portfolios. We believe that a distinction must be made between originate-to-hold seasoned loans and originate-to-sell loans. The final QRM requirements should provide a mechanism in which seasoning overcomes certain QRM conditions that are appropriate for new originate-to-sell loans, but not older originate-to-hold loans. Below are a few examples of proposed QRM requirements that would create significant difficulties when applied to a seasoned loan portfolio:

- The requirement that there are no current 30-day delinquencies on any debt obligation and the borrower has not been 60-days delinquent on any debt obligation within the past 24 months. This can easily be determined at the time of origination, however is not feasible in a bulk seasoned loan transaction.
- The proposed regulations prohibit "piggy-back 2nds". Again, this could be determined at the time of origination; however, a lien search would be required on each seasoned home loan to determine subsequent second loans prior to any loan sale for a seasoned loan portfolio transaction.

There is an obvious need to create guidelines for mortgage loans that adhere to a conservative approach to lending and we agree with the importance of new regulation in managing risk and creating transparency in the secondary market. However, we feel it is important that the risk retention rules consider and accommodate the distinct differences between loans originated to sell and loans originated to be held in portfolio. Since loans made to be held in portfolio may be sold in the future as part of a prudent balance sheet management transaction, we believe it is vital that the QRM definition includes provisions recognizing the unique differences in seasoned loans so that the risk management goals of QRM are met without penalizing originate-to-hold institutions that need the ability to conduct transactions utilizing their seasoned loan portfolio to maintain their own good health.

Resecuritization Transactions

Section ______.21(a)(5) of the proposed rules would exempt from the credit risk retention requirements certain resecuritization transactions that meet two conditions. First, the transaction must be collateralized solely by existing ABS issued in a securitization transaction for which credit risk was retained as required under the rule or which was exempted from the credit risk retention requirements of the rule (hereinafter 15G-compliant ABS). Second, the transaction must be structured so that it involves the issuance of only a single class of ABS interests and provides for the pass-through of all principal and interest payments received on the underlying ABS (net of expenses of the issuing entity) to the holders of such class.

We believe that the requirement that resecuritization transactions only involve the issuance of a single class of ABS interests is overly restrictive and beyond the scope of the original Dodd-Frank Act legislation. Section 941 of the Dodd-Frank Act focuses on those assets that are the underlying collateral of an asset-backed security and not on the structure of a new ABS transaction. By requiring resecuritization transactions to consist of only a single class, it reduces the efficiency of an ABS transaction execution. Furthermore, the market is full of investors in need of specific tranches of ABS transactions. These investors need planned asset class securities ("PAC's"), interest only strips ("IO's"), principal only strips ("PO's"), and other structured tranches to meet specific investment needs of their particular portfolios. Multi-tranche resecuritization transactions permit all of the different tranches to be created in an efficient, cost effective manner to fulfill this investor need.

When the underlying collateral for a resecuritization transaction consists solely of pass through certificates that meets the QRM definition or are otherwise exempt, the first resecuritization transaction that creates multiple classes of ABS interests should not require risk retention. While there could have been abuses to the resecuritization process in the past, those abuses likely came from the resecuritization of junior classes of previous securitizations, not the resecuritization of pass through securities.

Government Sponsored Enterprise Resecuritizations

Section B §___.11 of the proposed rule provides that the guaranty provided by an Enterprise while operating under the conservatorship or receivership of FHFA with capital support from the United States will satisfy the risk retention requirements of the Enterprise under section 15G of the Exchange Act with respect to the mortgage-backed securities issued by the Enterprise. We believe the intent of the proposed rule is that all of the risk retention methods listed in Section B of the proposal are available to satisfy the risk retention requirements of all types of securitizations; therefore, we believe the guaranty provided by an Enterprise pursuant to Section B §___.11 would meet the risk retention requirements of any resecuritization of Enterprise securities. However, the proposed rules don't specifically state that Enterprise resecuritizations are exempt from further risk retention, even though we believe that is the intent of the proposed rule. Given the importance of Enterprise securitizations (and resecuritizations) to the current mortgage finance market, we believe it is critical to specifically state this exemption.

Risk Retention Holding Period

Section C §___.14(a) of the proposed rule prohibits the sale or transfer, for the life of the security, of any interest or assets that a sponsor is required to retain pursuant to the proposed rule, whereas Section 15G of the Dodd-Frank Act simply specifies that the regulations must specify the minimum duration of the risk retention required. Thus the proposed rule has placed a significantly more onerous burden on sponsors than was originally intended. It is important to note that the rationale for requiring the retention of risk was to improve the quality of the underwriting of the underlying loans. Sound underwriting policies and procedures are designed to "predict" a borrower's ability to pay in the future. However, no matter how conservative a lender's underwriting practices may be, a degree of delinquencies and defaults will always occur. Traditional conservative underwriting will result in a loan that can withstand a degree of economic stresses and in which the borrower's ability to pay is not solely dependent on the equity in the home. Nevertheless, residential home loans are made to people who experience various life events over time. Some of these life events, such as serious illness/injury, loss of job, divorce, death, etc, can negatively impact the borrower's ability to pay although that borrower met or exceeded all requirements of the underwriting guidelines at closing. No underwriting process is able to predict these life events. Furthermore, by requiring sponsors to retain risk for the life of the security, sponsors are required to set aside capital for delinquencies that are not associated with underwriting deficiencies. This extended risk retention requirement will therefore lead to an overabundance of capital being set aside for issues which sponsors have no control over, which will ultimately lead to less credit available to borrowers.

We agree with other commenters and recommend that the risk retention requirement for sponsors/originators expire after some set period; we would recommend on the 3^{rd} anniversary of the issuance of the securities.

We thank you again for the opportunity to comment on the proposed rule and appreciate your willingness to consider our suggestions.

Sincerely,

MWaddell

Michael K. Waddell
Executive Vice President
Chief Operating and Financial Officer