FIRST HORIZON
NATIONAL CORPORATION

October 22, 2012

VIA EMAIL:
regs.comments@occ.treas.gov
Docket IDs OCC-2012-0008 and 0009
regs.comments@federalreserve.gov
Docket Nos. R-1430 and R-1442
comments@FDIC.gov
FDIC RIN 3064-AD95 and 96

Office of the Comptroller of the Currency
250 E Street, S.W., Mail Stop 2-3
Washington, D.C. 20219

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

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

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

Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements

Ladies and Gentlemen:

We appreciate the opportunity to comment on the proposed rules (the Rule) issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (the "Agencies") that would revise the agencies' general risk-based capital requirements for determining risk-weighted assets and revise the agencies' risk-based and leverage capital requirements consistent with the Basel III Agreements and Section 171 of the Dodd-Frank Act.

First Tennessee Bank National Association is a regional bank with $25 billion in total assets as of September 30, 2012. Our 4,600 employees provide financial services through more than 175 bank locations in and around Tennessee. In addition, our FTN Financial Capital Markets division provides fixed income trading, investment accounting and other related services thousands of community oriented U.S. depository institutions.

We have participated in industry discussions and contributed to industry responses. We fully support the joint letter submitted by the American Bankers Association, the Financial Services Roundtable, and the Securities Industry and Financial Markets Association as well as the letter submitted by the Mid Size Bank Coalition of America.

Through our individual response, we want to specifically highlight areas that we believe are the most important to our institution, the industry and the US economy. Our Capital Markets division has submitted a separate comment letter addressing issues from the viewpoint of the depository institutions they serve.

We are quite concerned about the potential consequences from the cumulative impact of these proposals combined with other regulatory initiatives and the current economic environment. Some examples follow and more details on these and other concerns are noted in the appendices.

- Certain residential mortgage products will no longer be profitable unless the interest rate charged to the customer increases dramatically to cover the higher capital cost and compliance costs. The expected end result is that consumers will either have to pay more, do without or go to the unregulated sector. The cumulative effect of the various provisions affecting mortgages will further restrict residential credit so that regulated lenders will focus only on loans they can sell or securitize with or to Fannie or Freddie Mac.
- Capital levels are likely to become more volatile due to the impact from AFS securities. Most would expect an increase in lending to accompany a recove y in the economy and an increase in market interest rates. However, an increase in interest rates will result in less capital thus restricting credit and hampering any economic recovery.

In general, we expect these rules will restrict access to credit, hinder the economic recovery and could accelerate the consolidation of banking assets among the largest institutions. We respectfully suggest that you should assess the cumulative effect of these proposed rules and the often inter-connected impact of other significant rule-making efforts and changes to the banking system. Examples of on-going significant rule making efforts with respect to mortgages include changes or rules on Qualifying Mortgages, Qualified Residential Mortgage, pre-payment penalties, expanded disclosures, escrow and servicing requirements, HMDA requirements, new APR calculations, and mortgage origination compensation standards.

Thank you for the opportunity to express our views on this matter.

Sincerely,

D. Bryan Jordan
Chairman, President & CEO
First Horizon National Corporation

APPENDIX I

Standardized Approach - Issues and Impact on Residential Mortgage Lending

Less Credit Available at a Higher Cost

It is axiomatic that increased capital requirements will result in higher interest rates for consumers and especially so for certain loans. As an example, we estimate the rates on our first lien HELOC loans with would need to increase by approximately 100 to 200 basis points in order to maintain our current risk adjusted return on capital position. In our estimation, certain types of loans will simply no longer be available because the borrowers will not be able to pay an interest rate high enough to compensate the lender for the increase in capital that is required.

Risk Weightings Not Sized Appropriately

The proposed risk weightings for Category 2 residential mortgages are not sized appropriately (i.e. they are too high) in relation to Category 1 mortgages or for other consumer exposures. We submit these as an indication of the incongruities.

- Is a Category 2 with less than 60 LTV the same risk as a Category 1 with a greater than 90 LTV?
- Is a Category 1 mortgage with greater than 90 LTV the same risk as unsecured consumer debt?
- Is a Category 2 mortgage with a greater than 90 LTV twice as risky as unsecured consumer debt?

Eliminate the two categories or broaden the scope of category 1

We believe the proposed definition is too narrow as it excludes certain types of loans that are low risk if prudently underwritten. For example, all junior-liens are excluded without consideration of the borrower's equity in the home and their ability to pay. As noted above, we don't believe the risk weightings for junior liens with sufficient equity are sized appropriately.

Balloon mortgages are also totally excluded from this category. For certain borrowers, a balloon mortgage might be the most appropriate and cost effective choice. We believe the risk characteristics of the relationship should be the driving factor rather than the structure of the loan. As an example, assume a well qualified borrower is seeking a mortgage and will borrow up to 80 LTV. Under the proposed rules a balloon loan would require twice as much capital as a traditional fixed rate mortgage with a 30 year term. In our opinion, this does not comport with the realities of the marketplace and the true risk of the relationship.

We urge you to consider eliminating the distinction between catego y 1 and 2 or broadening the exposures that can be included in category 1.

Lack of coordination with Qualified Mortgage Provisions

The CFPB is evaluating industry comments concerning the definition of a Qualified Mortgage (QM). This is critical for the industry because it will represent the standard for residential lending and afford (we hope) a legal safe harbor for lenders. The consensus in the industry is that the QM definition should be as broad as possible to avoid restricting the availability of credit. One key factor in the qualification as a QM is the determination by the lender that the borrower has the ability to pay the mortgage. Given the broad impact of the QM designation and its clear link to risk - we suggest the risk weightings for residential mortgages should be coordinated with the ultimate QM definition.

Loan-to-value is not the only metric

The proposed rules assign different risk weights to residential mortgages based on whether the mortgage is a traditional mortgage Category 1 or not (Category 2) and on the loan-to-value (LTV) of the mortgage. The risk weights vary from 35 to 100 percent for Category 1 mortgages and from 100 to 200 percent for Category 2. Although LTV is clearly an important metric, calibrating the risk weights to that single metric completely ignores the actual risk of the loan because it doesn't consider the borrower's ability to pay.

Broaden exemption for loan modifications

If a mortgage is restructured or modified, the proposed rule requires a bank to classify the mortgage in accordance with the terms and characteristics after the modification or restructuring. Lenders are allowed to assign a lower risk weight provided they update the LTV ratio at the time of the modification. Loans modified or restructured under the Home Affordable Mortgage Program are not considered modified or restructured for purposes of this section. We suggest broadening this exemption to encourage (rather than discourage) responsible actions for borrowers.

Grandfather existing mortgage exposures

We believe the rule should be modified to grandfather all existing mortgage exposures by assigning them risk weights as required under the current general risk-based capital requirements. As noted by other commentators, grandfathering such mortgages is appropriate for several reasons.

- Many banks will not have the data necessary to assign mortgage categories under the NPR or any re-proposal. The proposed mortgage categories did not exist at the time these mortgages were originated, and as such, the originator might not have recorded data or other information that would allow the current holders of such mortgages to assign the appropriate risk weight.
- Even if a bank has the data necessary to calculate the risk weights applicable to each mortgage, it would be extremely burdensome for many banks—the extent of which would be scaled to the number of exposures—to examine old records in order to determine mortgage categories and calculate LTV ratios under the proposed framework.
- The retroactive impact of the proposed treatment would be especially harsh due to the substantial increase in capital that would be required for existing category 2 mortgages. While institutions can adjust their lending practices with respect to newly-issued mortgages, they cannot do so with respect to mortgages already made.
- Existing loans that have been on a bank's books and that have satisfactory payment records demonstrate that a borrower is able to maintain current payments and is likely to continue to make payments. Such seasoned, performing loans are less likely to default and are less risky than newly originated loans.

Accordingly, existing mortgages should be grandfathered and allowed to roll off using existing risk weights, with the new standards phasing in with the provision of new mortgages over time.

APPENDIX II

Regulatory Capital Rules

The Cumulative Impact of Dodd-Frank and this Proposal on Banking

Most would agree that the US economy will benefit from an improvement in the availability of and demand for credit. However, the broad application of the Capital Proposal to nearly the entire U.S. banking industry is unexpected, and has the potential to cause significant disruptions to the banking industry and the overall economy. As a general matter, the Capital Proposal fails to account for the cumulative impact of Basel III and additional restrictions and prohibitions imposed by the Dodd-Frank Act.

While we acknowledge the proposal includes transition rules, we submit they are too stringent given the lack of lead time and the credit conditions in the US. We suggest that the initial implementation be delayed and the transition rules adjusted to allow a more realistic time frame for adoption.

Consequences from Including Gains and Losses on Available-for-Sale Securities

The Capital Proposal contemplates the "flow through" to Tier 1 Common Equity (CET1) of all unrealized gains and losses on a banking organization's AFS securities. Under the current risk-based capital rules, unrealized gains and losses on AFS debt securities are not included in regulatory capital, unrealized losses on Available For Sale (AFS) equity securities are included in Tier 1 capital, and unrealized gains on AFS equity securities are partially included in Tier 2 capital.

We believe this provision could have significant negative consequences as interest rates return to more normal (i.e. higher) levels. A return to higher interest rate levels would presumably be accompanies by an increase in loan demand. Most financial institutions utilize the bond portfolio as a liquidity buffer and as an investment vehicle until the funds can be channeled into loans. With loan demand slack and interest rates at historic lows, bond portfolios are often larger than normal and bond prices are elevated. When interest rates rise, one should expect each of these trends to reverse.

However, banks will have less ability to lend if required to immediately reduce their capital for these unrealized losses. The accounting rules have long been in place as a guide on when losses should be recognized from the bond portfolio.

However, we acknowledge that there are situations where something other than rising interest rates have created an unrealized loss in a bond (e.g. credit risk resulting in other than temporary impairment).

If you decide to include an Accumulated Other Comprehensive Income (AOCI) adjustment for AFS securities, we strongly suggest that unrealized gains and losses that predominantly result from changes in interest rate risk should be carved out. In other words, we suggest applying a filter that adjusts CET1 primarily in response to credit risk, but not interest rate risk. The simplest way to apply this is to exclude all Type 1 securities from this provision.

Reduction in Inclusion for Mortgage Servicing Assets – Another Roadblock for Housing

As a result of the Capital Proposal, mortgage servicing assets includable in regulatory capital will decrease from the current 100% of Tier 1 to 10% of CET1, which would be a significant drop for those banks with large retail mortgage operations that retain servicing rights. This is before the overall 15% limitation on the combined balance of includable Mortgage Servicing Assets (MSA), Deferred Tax Assets (DTA) and investments in the common stock of financial institutions. Such banks would thus in many cases be significantly more inclined to sell loans with servicing rights released in light of the more severe limitations in the Capital Proposal.

In recognition of the fact that this deduction would disproportionately affect banks with sizable retail mortgage positions that have been developed in reliance on their ability to retain servicing rights that would be fully includable in Tier 1 capital, we suggest that, at a minimum, existing MSAs should be grandfathered.

Competitive Disadvantage with Treatment of Goodwill

Although the Capital Proposal preserves the existing deduction of goodwill, including goodwill embedded in the valuation of significant investments in unconsolidated financial institutions, it differs from Basel III in that these deductions are immediately applicable, in 2013, whereas Basel III phases in the deduction of goodwill over the period from 2014 through 2018.

This disparity of treatment is yet another example of the many ways in which the overlay of the most conservative aspects of Dodd-Frank and the existing U.S. regulatory regime with the most conservative positions advocated by Basel III will, in the aggregate, subject U.S. banking organizations to a significant competitive disadvantage relative to their global competitors.

Capital Conservation Buffer to become *de-facto* Minimum

The Capital Proposal would establish a capital conservation buffer meant to incentivize banks to maintain their CET1, Tier 1, and total capital ratios above the required minimums. Banking organizations would need to hold capital conservation buffers in order to avoid being subject to limitations on capital distributions and discretionary bonus payments to executive officers.

We believe the capital ratios adjusted for the capital conservation buffer will function as a *de facto* minimum capital requirement since most institutions need and desire the flexibility to make capital distributions to shareholders and appropriately reward executive management. As the Agencies are well aware, market and supervisory preferences will force banking organizations to hold capital in excess of this *de facto* minimum, essentially leading to "buffers" being maintained in excess of the required "buffers."

Competitive Disadvantage for Phase Out Period for Capital Instruments

The Capital Proposal would phase out TRuPS and other non-qualifying capital instruments issued by depository institution holding companies with total consolidated assets of $15 billion or more ratably over a 3-year period beginning in 2013, with full phase-out occurring on January 1, 2016. In contrast, Basel III suggests phasing out such instruments ratably over a 10-year horizon beginning in 2013, with full phase-out occurring on January 1, 2022.

We understand that Dodd-Frank's Collins Amendment requires the phase out of such instruments over a 3-year period, but submit that it does not require that they be phased out so aggressively in 25% increments, as opposed to the 10% increments suggested by Basel III. Whereas a foreign institution of $15 billion or more subject to the Basel III phase-out timeline would be allowed to include 90% of its TRuPS in Tier 1 in 2013, a similar U.S. BHC or Savings and Loan Holding Company would be allowed to include only 75%. In year two, the foreign institution would be allowed to include 80%, while the U.S. institution could include only 50%, and so on.

In order to reduce the resulting competitive disadvantage to which U.S. institutions will inevitably be subjected, and to give U.S. institutions additional flexibility to phase out non-qualifying capital instruments in an orderly and less punitive fashion, we suggest revision of the phase-out of non-qualifying capital instruments issued by such institutions to reflect a phase-out in 10% increments in each of 2013 (*i.e.*, 90% includable in Tier 1), 2014 (80% includable in Tier 1) and 2015 (70% includable in Tier 1), with full phase-out occurring in 2016, in full compliance with the Dodd-Frank Act.