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REGIONS

October 22, 2012

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

Office of the Comptroller of the Currency
250 E Street, S.W.
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Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Re: <u>Regulatory Capital Rules</u>:

Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action (OCC Docket ID OCC-2012-0008, RIN 1557- AD 46; FRB Docket No. R- 1442, RIN 7100 – AD 87; FDIC RIN 3064-AD95);

Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements (OCC Docket ID OCC-2012-0009, RIN 1557 – AD 46; FRB Docket No. R- 1442, RIN 7100 – AD 87; FDIC RIN 3064-AD96)

Ladies and Gentlemen:

I am writing on behalf of Regions Financial Corporation ("Regions") to provide comments to the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposits Insurance Corporation (collectively, the "Agencies") in

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response to the publication of the Notices of Proposed Rulemaking ("NPRs") filed in the Federal Register on August 30, 2012 regarding the U.S. implementation of Basel III. Regions is appreciative of the opportunity to comment on these very important NPRs. Specifically, Regions will be commenting on (i) the Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action ("Basel III NPR") and (ii) the Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements ("Standardized Approach NPR"). Regions supports the goal of the Agencies to produce an enhanced regulatory capital framework alongside harmonized international standards. As previously communicated, Regions is supportive of regulatory reform measures that balance enhancing the safety and soundness of the financial system with continuing to support banks' important role as financial intermediaries. However, after review of the impact of the NPRs on the Company and the industry, Regions has several specific concerns with the NPRs as proposed.

Regions' primary concern revolves around certain regulatory reforms that appear to lack a specific correlation between actual risk and assigned capital. The imposition of new regulations will not necessarily produce a more sound financial system without proper analysis of the aggregate effect upon the economy and the banking industry. More regulation does not equate to more effective regulation. The policies that guide regulation should provide banks with a clear and pronounced view of what regulators intend their role to be within the economy and should be based upon a unified set of goals.

Regions strongly believes that the cumulative effect on the economy of the multitude of regulations that have been proposed should be carefully evaluated prior to their finalization. At this important point in our nation's recovery, the economy needs pro-growth policies and regulations; anything to the contrary must be quantitatively supported. As such, Regions agrees with both the joint industry letter signed by the American Bankers Association, Financial Services Roundtable, and Securities Industry and Financial Markets Association (the "Joint Industry Letter") as well as the comment letter submitted by Regions and several of its Regional Banking peers (the "Regional Bank Letter") that prior to the finalization of these rules a Quantitative Impact Study ("QIS") should be undertaken and the results be made available to the industry and the public.

I. General Issues

A. Regulatory Accumulation

The Capital Plan Rule and the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") have created new and more stringent capital guidelines in an attempt to facilitate a more stable financial environment. Principally, a bank must be able to effectively manage its own capital while adhering to the prudential framework established by internal policies (directed by the goal of long-term growth and profitability) and to the mandated regulatory framework. The end goal of capital regulation should be to merge these two approaches rather than force management to balance them.

While individual regulations viewed in isolation could represent a viable effort to remedy the capital deficiency issues that existed within the financial system, the ultimate impact of the cumulative effect of the regulations as a whole may hinder the ability of banks to assist with the economic recovery. Additionally, regulation should appropriately balance prudent bank capital levels with ensuring that the bank's investor base is willing to provide capital should it be required during a period of stress. It is critical that a bank's investor base is willing to support the bank should there be a need to access the capital markets in the future. Simply requiring a bank to maintain higher capital levels through all cycles may actually result in reduced access during times of stress. Arbitrary and excessively punitive measurements that are imposed upon banks encumber the ability of management to judiciously perform their duties and the ability of the bank to operate successfully as a financial intermediary within the economy.

B. Excessive and Retroactive Risk-Weighting Reaction

The asset categories that received the largest increases to their risk-weighting determinations in the proposed rules were those that experienced higher loss rates during the recent financial crisis. By broadly imposing stringent risk-weights across an entire asset category, such as those attributed to specific residential mortgage products, the proposal does not properly attribute risk to the specific characteristics that contributed to the increased losses. Also, capital rules should not collectively penalize residential mortgages by generalizing the associated risk from a short sample period, completely disregarding its prior performance in its entirety. The assigned risk-weightings for the various asset categories do not reflect the overall risk profile of the assets, as the proposed weightings illustrate a reaction to an idiosyncratic recession. As not all recessions or crises are likely to emulate the recent mortgage crisis, it seems inappropriate to create a standardized approach to risk-weighting based upon one specific and isolated economic cycle. The goal of the final capital rules should not be to solve the last crisis, but to prepare banks and the financial system for future ones.

Regions recognizes that risk-weighting adjustments may be necessary in order to more appropriately calibrate capital held on certain assets with the inherent risk in those assets; however, changes as drastic as those proposed within the NPRs should be supported by empirical evidence before finalized. Regions believes that prior to finalization of the proposed rules, data should be provided that shows increases in risk weights are clearly correlated and calibrated to associated risks over an extended period. Where the proposals do not include this level of correlation and evidence, the changes should not be approved, especially where they may have a significant impact on lending and the economy. Based upon the idiosyncratic nature of the most recent banking and economic crisis, Regions recommends that the Standardized Approach focus not only upon reactionary risk traits based upon an isolated scenario, but rather the comprehensive, calculated risk profile of the exposures demonstrated through empirical evidence.

C. Quantitative Impact Study

As previously discussed, assigned risk weights should be supported by statistical evidence from the Agencies. As the proposed risk weight changes are significant and will dramatically affect lending, the Agencies should offer additional data to support their assertions rather than conclusory statements. To assess the merit of this concern, Regions strongly urges the Agencies to perform, publish, and allow comments on a full Quantitative Impact Study ("QIS") of the Standardized Approach NPR prior to its mandatory implementation. A QIS would provide much-needed data to help determine whether this proposed fundamental re-tooling of the generally applicable risk-weightings would be advisable based on: (1) the empirical impact on banks in terms of changed capital requirements; and (2) measurement of the burden that would be imposed by the proposed changes, including the impact to lending on a granular level. Regions welcomes an opportunity to work with the Agencies on a Standardized Approach QIS.

Regions has significant concerns regarding the potential competitive advantages Advanced Approach banks receive over banks using the proposed Standardized Approach. As a result of the overly punitive risk weights assigned to exposures as proposed, especially in mortgage and home equity lending, Standardized Approach banks appear to be forced to assign higher capital to identical exposures as Advanced Approach banks, which are able to attribute risk weights that are generally consistent with the economic reality underlying the exposures. Due to the excessively punitive risk weights for Category 2 loans and requiring the combination of first and second lien exposures, the proposed Standardized Approach's presumption of risk is not appropriately calibrated with the actual risk and economic reality underlying the exposures. By imposing higher risk weights upon the same asset, Standardized Approach banks would be at a competitive disadvantage to Advanced Approach banks as it relates to certain mortgage products. Regions believes that exposures under the Standardized Approach should be attributed risk consistently with the Advanced Approaches banks which is measured to actual not presumptive risk. It is Regions' opinion that a QIS can best determine the appropriate amount of risk to be assigned for the Standardized Approach and avoid any unintended errors such as a lack of uniformity and fairness across the two approaches.

In striking an appropriate regulatory balance, that is producing financial reform that effectively promotes a sound financial system with minimal economic consequences, all proposals should be scrutinized and assessed by the regulators not only in the soundness in their academic or methodological foundation but also in their real-world economic impact in a recovering financial system. Failure to do so could result in harm to the economy and ultimately prevent achieving the goal of proposed regulation to ensure soundness. The NPRs as proposed provide neither the methodological groundwork for the derivation of the risk-weighting nor the impact assessment of this significant proposal upon lending.

As discussed in this letter, Regions' specific concerns focus upon certain proposed rules which appear excessive and in some instances conflicting with proper risk management. The following sections of this letter explain Regions' assessment of the impact of the proposals on both banks and our customers and present proposed alternatives, combining satisfactory regulatory capital enhancements with negligible impact to lending.

II. AOCI Filter Removal

A. Impacts of Proposed Changes

Under the current regulatory capital framework, temporary changes in the market value of AFS securities are "neutralized" from capital. By excluding unrealized gains and losses associated with the AFS investment portfolio, the current rule allows for appropriate management of bank interest rate and liquidity risks without injecting capital volatility, given the mismatch of accounting treatments for AFS securities and the debt and deposits that fund them. Under the current Basel III NPR, unrealized gains and losses on all available-for-sale securities and pension-related actuarial valuations would flow through to regulatory capital. In doing this, the proposal increases the volatility of a bank's regulatory capital and actually lessens the ability of the bank to effectively manage its own risk. If the purpose of regulatory capital is to create 'loss absorption capacity', then the Agencies should not include market value changes that are based on potentially short-term changes in interest rates. While the investment portfolio is created to generate liquidity, assets need not be sold in order to access this liquidity.

Additionally, banks manage interest rate risk across their entire balance sheet in the aggregate. That is, investment decisions within the AFS portfolio are based upon interest rate risk that exists within the bank's loan, deposit and other funding portfolios. Each of these portfolios are accounted for on a cost basis; that is, there is no regulatory capital charge for short-term changes in the instrument's value. By "flowing through" unrealized gains and losses only on the AFS portfolio, the proposal would result in an asymmetric treatment of interest rate risk. A bank's regulatory capital would only reflect the interest rate impacts of the AFS portfolio and not the offsetting effects in the deposit base or other portfolios within the bank's balance sheet. Also, banks already recognize gains and losses that are expected to be realized within the income statement as a result of the quarterly Other Than Temporary Impairment ("OTTI") evaluation required by GAAP. Regions believes that OTTI appropriately reflects the impact of losses that are likely to be permanent rather than temporary.

When comparing interest rate risk management for U.S. banks versus foreign banks, it is important to consider that most foreign jurisdictions mark-to-market their investment portfolios but also use fair value hedges to minimize any capital volatility. This difference in approach makes removing the AOCI filter overly punitive to U.S. banks and creates a competitive disadvantage. Additionally, another material difference exists in that the U.S. banks offer fixed rate mortgages whereas in most foreign jurisdictions (Europe in particular) most mortgage products are floating rate. Therefore mortgage prepayment risk is a unique risk that U.S. banks must manage. This is done most effectively in the AFS portfolio. Given this is a unique phenomenon for U.S. banks, removing the AOCI filter creates a competitive disadvantage versus foreign banks given the additional capital that will be required to be held to hedge against this capital volatility. Keeping the filter for certain lower credit risk securities ensures banks are able to continue to offer fixed rate mortgage products while also protecting the bank's balance sheet.

The effect of the proposed filter removal would dramatically influence the balance sheet management of the bank as it forces banks to balance regulatory capital with interest rate risk management. The direct result of this proposal may lead towards a migration to shorter duration investments, decreasing the funding for 30-year Fannie Mae and Freddie Mac mortgage-backed securities and longer-term U.S. Treasury bonds, as banks limit their investment in such securities. Also, this proposal forces banks to manage their AFS securities portfolio according to short-term volatility forecasts which may not be as prudent as a long-term interest rate hedging strategy. The proposal will likely shift interest rate risk management away from the investment portfolio as banks must assess the costs of the investment portfolio's regulatory capital burden with the benefits of the bank's risk management strategy. Another unintended consequence of this proposal would be the addition of another capital buffer as banks have to hold capital in anticipation of future unrealized losses. The accumulation of punitive capital buffers in recent regulation poses inherent difficulty for banks to prudently manage capital.

As banks shift towards shorter duration mortgage-backed securities due to the AOCI filter removal, available funds for longer duration mortgage lending may diminish accordingly. Decreased funding in mortgage lending would lead to higher borrowing costs and could significantly hinder an economic recovery. Also, pricing on customers' deposits may be altered as banks can no longer utilize securities as a hedge against rate maturities and fluctuations. Ultimately, the increased capital required to be held against the potential for unrealized losses would directly lead to decreased availability in funds for lending and higher costs to the consumer.

As previously stated, given the current "neutralization" of unrealized gains and losses in the AFS portfolio, banks are able to offer products that meet the needs of their customers, regardless of the interest rate structure (fixed or floating). Banks then couple this interest rate risk with other risks within its balance sheet and then hedge its net position in the investment portfolio. If this impact is no longer neutralized, banks will have to limit future product offerings to its desired interest rate risk profile as the bank's ability to offset this risk with balance sheet hedging is limited by specific identification requirements of FAS 133. In the end, the bank may not always be able to offer the product the customer desires, potentially transferring risk to the consumer, who may be unequipped to manage it.

B. Regions' Recommendations

Regions supports the proposals set forth in the Joint Industry Letter and Regional Bank Letter regarding the proposed removal of the AOCI filter. Regions believes the most prudent course would be to consider the treatment of AOCI in conjunction with the Basel III Liquidity Coverage Ratio and to implement any changes to the current treatment once the liquidity rules have been finalized. Any proposed regulations that require banks to hold a greater inventory of liquid assets should not be accompanied by higher capital requirements on those assets.

Also, if no delay is conceded by the Agencies, Regions proposes that an alternative treatment be applied for certain instruments. Specifically, instruments whose changes in fair value are predominantly attributable to fluctuations in a benchmark interest rate (e.g. U.S. government and agency obligations and obligations of government-sponsored entities) should be excluded from the filter's removal. These instruments, which bear little to no credit risk to the banks, are an important asset-liability management tool and the inclusion of such instruments in a filter removal diminishes the risk management capabilities of banks.

III. Capital Conservation Buffer

A. Impacts of Proposed Changes

The Capital Conservation Buffer primarily impacts banks through the creation of a de facto minimum capital requirement. In order to preserve capital distributions and meet market and supervisory expectations, the banks must hold capital in excess of the required buffers while also managing its capital levels to a "floating" minimum established through stress testing requirements under Dodd-Frank Section 165 and the Capital Plan Rule, since a breach of capital targets under a hypothetical stressed scenario can prevent a bank's capital distributions.

Managing regulatory capital to different minimums requires banks to hold excess capital, restricting its ability to prudently deploy capital.

Although Regions recognizes that the Capital Conservation Buffer is required to meet international standards, we believe that there are issues with its application that warrant consideration and potentially revision. As proposed, banks would be restricted from making any capital distributions when Eligible Retained Income is negative and if the Capital Conservation Buffer is less than 250 basis points. Regions has two specific issues with this restriction as proposed.

First, Eligible Retained Income is defined as a banking organization's net income for the four calendar quarters preceding the current quarter, as reported in the banking organization's quarterly regulatory reports, net of any capital distributions, certain discretionary bonus payments and associated tax effects not already reflected in net income. Offering such a prescriptive approach to when capital distributions should be curtailed minimizes the substantial efforts banks have made to bolster their internal capital planning processes. Both through internal stress testing as well as through improved decision frameworks, banks now have much more robust processes through which capital distribution decisions are made. Through the existing supervisory framework, banks should be permitted to leverage this framework and make any necessary changes to its capital distribution plans as Management and the bank's Board of Directors see fit.

However, if the Agencies chose to not remove this prescriptive framework, there are certain changes to the definition that should be made. First, this definition does not take into consideration that certain items included in net income, such as goodwill impairment and other non-cash, non-capital charges, which are captured in the definition of "net income" for regulatory reporting purposes, do not impact regulatory capital. This could result in a bank being forced to incur a very severe reputational and market impact from a scenario that has little to no economic impact on the firm; e.g., a decrease in regulatory capital below the Capital Conservation Buffer coupled with a large goodwill impairment or other non-cash, non-capital write-downs that result in negative earnings. The purpose of limiting capital distributions when ratios fall within the buffer is to ensure that banking organizations are conserving a portion of their income in order to reestablish the capital buffer. Therefore, using an income calculation that includes potentially material non-cash, non-capital charges would fail to recognize the full level of capital retention.

The second issue associated with the capital distribution restriction relates to the seniority of capital instruments, as the proposed rules subject both common and preferred shareholders to the same restriction on dividends. For example, when a bank is approaching the end of a protracted adverse credit cycle, due to the accumulation of several quarters of losses, a bank may have negative retained income and may be just falling below the Capital Conservation Buffer. However, the bank may be expected to generate income in the coming quarters because the worst is behind them, and their buffer has served its purpose. In that case, it may be appropriate for the bank to consider reducing its common dividend to preserve capital in the event their future estimates are incorrect, but it is too severe to force them to eliminate preferred dividends. By including both common stock and preferred dividends as capital distributions and subject to the same constraints, the Fed is disrupting the seniority of the capital structure; i.e., preferred shareholders should have a different "attachment point" than common shareholders in terms of when their dividends are suspended.

B. Regions' Recommendations

An effective Capital Conservation Buffer should not only bolster the resilience of capital in a bank through financial cycles but also be accompanied by a constructive remediation process to allow the bank to recover its buffer while not further undermining its stability. In order for the Capital Conservation Buffer to serve as a prudential regulatory tool rather than a punitive measure that could actually trigger additional deterioration, Regions recommends the following:

- Capital distributions should be governed by the capital planning framework employed within banks
- However, if the Agencies choose to maintain the current proposal, the definition of Eligible Retained Income should be modified to exclude non-cash, non-capital charges
- The definition of capital distributions grant seniority preference to preferred dividend payments by allowing for different attachment points as to when preferred dividends are eliminated

Eligible Retained Income

The prescriptive framework should be removed and banks should be allowed to leverage their enhanced internal processes and capital planning governance structures in the determination of capital distributions. Since the credit crisis, banks have greatly enhanced decision frameworks around capital planning; including greater involvement of the banks' Board of Directors. These frameworks remain under supervisory guidance and as such provide for appropriate consideration by the Regulators without having to rely on a prescriptive framework.

However, should the Regulators choose not to remove the proposed framework, Regions would recommend certain changes to the definition of Eligible Retained Income. In light of the potential materiality of non-cash, non-capital charges, such as goodwill impairment, and the effect they may have on the ability to make payouts within the Capital Conservation Buffer, including preferred dividend payments, Regions believes that there should be a greater correlation between the income that contributes to capital and the income that determines a bank's ability to make capital distributions when inside the buffer. Also, Regions believes there should be a mirroring between the income that contributes to capital and the income that determines a banking organization's ability to make capital distributions when within the buffer. Therefore, Regions urges the Agencies to redefine the definition of Eligible Retained Income to remove non-cash, non-capital charges.

Capital Distributions

By simultaneously restricting both common and preferred dividends if the buffer falls below 2.5% and Eligible Retained Income is negative, the Agencies are terminating the seniority of the preferred shareholders and permanently damaging the investor base for a scenario that may not be economically severe. Regions advises the Agencies to implement a capital distribution restriction that recognizes the subordination between common and preferred stock by initially limiting only common stock distributions, therefore curtailing preferred stock dividends only at a certain "attachment point" when capital levels deem this necessary. By restricting distributions initially only upon common dividends, the Capital Conservation Buffer would serve its purpose as a tool to bolster banks' resilience throughout financial cycles rather than severely impairing a vital capital base. Preferred dividends should only be curtailed when capital levels are significantly diminished rather than a slight decline under the 2.5% buffer.

IV. Netting of Deferred Tax Liabilities Against Assets Subject to Deduction

A. Impact to Banks and Customers

The current proposal regarding the netting of deferred tax liabilities ("DTLs") against assets subject to deduction lacks the appropriate level of clarity and guidance needed for banks to properly plan their tax strategy. This ambiguity imposes uncertainty in the regulatory process that may result in inconsistent application of the netting rules across different banks.

Ambiguity in the regulatory process often results in higher compliance costs to the banking industry, which could ultimately impact fees and interest rates incurred by consumers. In addition, vagueness in the case of the DTL netting rules may result in overly conservative application of the rules within the banking industry in an attempt by banks to avoid conflict with Regulators. Although the netting rules are intended to ensure adequate capital, such rules should be clear to avoid unintended consequences, such as capital limitations resulting in unnecessary reductions in lending and/or higher costs to consumers.

B. Proposed Changes

Regions supports the request for clarification set forth in the Joint Industry Letter regarding the proposed rules related to DTL netting. Regions believes the netting rules should be clarified in situations where the bank has the option to net DTLs against a number of asset types. The netting rules should affirmatively allow the bank to change its netting decision from one reporting period to the next. Where a bank has netted DTLs (that were otherwise permissible to net) against mortgage servicing assets ("MSAs") in one reporting period, Regions requests that the proposed rules more explicitly state that the bank is not bound to the same treatment in subsequent reporting periods and thus may net such DTLs against any other permissible asset type, such as DTAs arising from operating loss and tax credit carryforwards. In addition, Regions requests confirmation that banks subject to the Federal Reserve's Capital Plan Rule and Comprehensive Capital Analysis and Review ("CCAR") process be allowed to choose to net DTLs against different assets in different economic scenarios provided all applicable netting requirements are met.

Regions also requests confirmation that DTLs (that are otherwise permissible to net) associated with a non-significant investment in the capital of an unconsolidated financial institution (or of any significant investment in the capital of an unconsolidated financial institution that is not in the form of common stock) that is subject to the corresponding deduction approach may be netted against such investment. Although netting is not specifically addressed in the rules related to investments in unconsolidated financial institutions, it is consistent with the DTL netting rules in general that would allow netting against any asset subject to a deduction.

V. Mortgage Servicing Assets

Regions believes the proposed treatment of mortgage servicing assets ("MSAs") is overly punitive especially considering the risk characteristics and the hedging strategies that banks employ to hedge against the risk within the asset. MSAs effectively represent an investment in an interest only ("I/O") strip of cash flows. Regions appreciates there is some risk in the bank's ability to recognize those cash flows. However, Regions believes the proposed treatment, both within the 10% and 15% threshold deductions as well as with the 250% risk weighting, is too punitive especially when considered in the context of other assets and their proposed risk weightings. Banks devote significant resources into hedging the MSA; however, no credit is given for these hedging strategies. That is, the risk mitigation of the bank's hedging strategy is not factored into the asset that is subject to the threshold deductions. In doing this, the capital charge does not reflect the true economic reality of the MSA portfolio in the aggregate.

In determining the appropriate capital requirements for MSAs, the Agencies should consider the various ways the asset is created. In the case of purchased mortgage servicing rights ("PMSRs"), there is no upfront gain booked to regulatory capital assuming a purchase at fair market value. Future changes in fair value that are taken through capital are managed through the hedging strategy discussed previously. In this context requiring this asset to be subject to the 10% / 15% threshold deduction is incredibly onerous given no upfront gain is recorded. Forcing a deduction from capital to which no gain was attributed would make it difficult for MSAs to stay within the regulated banking system.

Originated mortgage servicing rights ("OMSRs") represent an important service that banks provide to their customer base. By not allowing banks to fully recognize mortgage servicing assets within regulatory capital and increasing the proposed risk weights of the portion not deducted, the proposed rules may significantly alter the strategy of many banks with retail mortgage servicing operations. Not only does the proposal harm customer relationships, as the servicing rights remains a strong link between a mortgage lender and the customer, it encourages non-regulated institutions to become more heavily involved within the mortgage lending and servicing industry. Regions considers it imprudent to transfer mortgage servicing activity away from the banks given the important customer relationship component of this asset and the risk management techniques employed by banks to manage the risk within this asset.

Regions strongly urges the Agencies to re-evaluate the punitive treatment on MSAs and re-propose a solution which factors in both the hedging activities performed by banks as well as recognizing the important customer relationship aspect of this asset. Specifically, in cases where a bank can prove it has specifically isolated its hedging portfolio against the MSR; the capital treatment should reflect this net exposure. Additionally, for PMSRs, Regions requests the Agencies reevaluate the asset being subject to the threshold deduction given there is no gain recorded when purchased. It is likely far more prudent for the residual risk of this asset to reside in the regulated banking system and not within the unregulated "shadow" banking entities.

VI. Other Tier 1 Qualifications

The Basel III NPR provides that, in order for an instrument to qualify as Additional Tier 1 capital, a banking organization must have full discretion to cancel dividends or other capital distributions on the instrument without triggering an event of default, a requirement to make a payment-in-kind, or an imposition of other restrictions on the banking organization except in relation to any capital distributions to holders of common stock. Regions has concerns with this provision.

Primarily, Regions believes it is the Agencies' intent for noncumulative perpetual preferred stock to qualify as Additional Tier 1 capital. However, the dividend/distribution limitations included in the proposal present concerns for noncumulative perpetual preferred stock. Specifically, noncumulative perpetual preferred stock typically has "dividend stopper" or similar arrangements that require the banking organization to stop making dividend payments on other Tier 1 instruments if dividends are not paid on the preferred stock. In fact, some noncumulative perpetual preferred stock may have arrangements that require a banking organization to cease making dividend payments on all other preferred stock if it stops dividend payments on particular noncumulative perpetual preferred stock. These arrangements could potentially deviate from criterion (7) within the Basel III NPR. The Basel Committee has addressed this issue, stating explicitly that the Additional Tier 1 criteria do not prohibit dividend stopper arrangements with respect to other Additional Tier 1 instruments. The Agencies should interpret criterion for Additional Tier 1 in a manner consistent with the Basel Committee's interpretation, such that dividend stopper arrangements that stop dividend payments on Tier 1 instruments will not preclude noncumulative perpetual preferred or additional parity preferred stock from qualifying as Additional Tier 1 capital.

Also, the Agencies propose to add a requirement whereby an instrument would qualify as Additional Tier 1 capital only if the payment of a penny per share dividend on common stock did not preclude a banking organization from canceling or making marginal dividend payments on Additional Tier 1 capital instruments. Regions would not be supportive of such a requirement as it would significantly increase the cost of issuing Additional Tier 1 instruments. Developments during and subsequent to the recent financial crisis have made it clear to bank investors that the risk that common dividends may be reduced or eliminated is higher and more probable than was the case historically. Regions believes the adverse impact this requirement would have on the preferred markets would likely outweigh the potential benefit to equity markets of preserving penny dividends while stopping payment on preferred dividends. Investors in preferred stock view the dividend stopper as a key feature that provides some protection against the elimination of their preferred dividends. Unlike the common stock investor, the benefits of a reduced dividend will not accrue to a preferred stock investor in a recovery scenario, as preferred holders' dividends are noncumulative and therefore any missed dividend is permanently lost to them. Preferred stock investors may be of the view that if a banking organization has limited need to access the preferred markets, it would be incentivized to make decisions to maximize returns to the common stock investors at the expense of the preferred stock investors. As a result, Regions believes that preferred stock investors would demand significantly higher returns on their investments to compensate for the increased probability of non-payment, therefore significantly increasing the cost of raising capital.

VII. Mortgage Exposure Risk Weighting

The significantly increased risk weights for mortgage exposures, as proposed, create an entirely new framework that lacks any empirical data or evidence to support the proposal. This will inevitably have severe consequences upon the mortgage lending environment if finalized as proposed as it will prompt banks to eliminate many existing products, decrease the availability of credit, and increase the costs of mortgages. Rather than properly aligning higher risk weights to loans that carry actual higher risks, the proposed framework broadly includes mortgage products in expansive groupings that fails to account for the underlying risk characteristics of the exposures. By neglecting to consider the critical role of prudent underwriting, the mortgage exposure risk weights fail to properly assess the appropriate amount of risk within the exposures and pose significant harm to the mortgage lending environment.

A. Impacts of Proposed Changes

As proposed, the NPRs significantly obstruct the ability of banks to serve as an effective financial intermediary in the mortgage market. The proposed increase in required capital for mortgage exposures would inexorably:

- Significantly reduce the amount of credit provided to homeowners by banks, especially within home equity lending as it becomes cost prohibitive to banks. (Leading to difficulty for the consumer to access liquidity and small business to receive start-up capital)
- Substantially increase pricing, including considerable interest rate increases for all but the lowest risk borrowers
- Create an international competitive imbalance as these changes are not required under Basel III
- Discourage banks from holding both first and second liens on a property
- Encourage certain mortgage products to disappear or migrate towards non-banking "shadow" entities

By imposing a more product-based methodology that risk-weights certain residential mortgage exposures in a range between 35% and 200%, the maximum risk-weight exceeds all previous risk-weightings applied to mortgage exposures, dramatically impacting banks' willingness to offer the products that receive the most punitive treatment. The maximum risk-weighting of 200% for exposures secured by home mortgages appears excessive when compared to unsecured consumer loans which mostly retain a maximum 100% risk weighting. Additionally, this capital charge is 50 percent higher than the associated risk weight on unsecured past due exposures. Though the category definitions, and presumably, the higher risk-weighting, are a direct response to the recent housing crisis, the agencies provide no empirical evidence for the prescribed risk calibration. If adopted as proposed, the immediate effect would be increased mortgage costs to the consumers due to the higher capital requirement, including substantial decreases in home equity lending. Given these significant impacts to the economy, there should be a quantified correlation between the risk weightings applied and the intrinsic credit risk in the assets.

In addition to the increased costs as a result of higher capital requirements, the proposed rules would dramatically affect the availability of mortgage products offered by banks. In addition to home equity loans, many interest only and balloon payment loans, which have traditionally been offered by banks to high net worth customers, would be restricted to customers due to their perceived high risk by the Agencies. Customers seeking mortgage products that include characteristics deemed as "risky" by the proposal, such as interest-only loans or balloon payments, would either be rejected by banks or incur higher borrowing costs due to regulatory capital requirements, disregarding the actual credit worthiness of the borrower and the accurate risk-profile of the loan. Regions believes that in most cases a prudently underwritten loan that has some of the characteristics deemed to attract a higher capital charge by the Agencies will perform better than a poorly underwritten higher quality mortgage (as defined by the Agencies). Clearly there are certain exceptions to this such as negative amortization loans; however, for the preponderance of the product suite that is currently offered by the banks today this is likely the case.

The proposals severely restrict the ability of lower income consumers to access the mortgage lending market. Due to the excessive risk weights on mortgage exposures with higher LTVs and the absence of PMI recognition in the LTV calculation, the significantly increased pricing on these higher LTV loans will force many customers out of the regulated mortgage market. The pricing impact of neglecting PMI on risk weighting higher LTV loans would adversely affect consumers' accessibility to mortgage products and result in a "double payment" as customers would still pay for mortgage insurance while also being charged a higher rate of interest. An indirect effect of this could lead to the rise of non-banking, unregulated entities offering similar products, leading to an unfair advantage and potential increase in predatory lending.

Additionally, the proposals currently provide disincentives to banks from holding both the first and second lien positions on mortgages, which contradicts prudential credit management. Regulatory measures should not discourage proper risk management techniques; instead the two methods should be closely aligned. The proposal discourages banks from holding both liens as it would significantly increase the combined exposure risk weighting, ultimately forcing customers to obtain home equity loans and lines of credit from a different bank due to pricing. If a bank makes a category 2 second lien loan behind its own first lien loan, the incremental risk weighting associated with the combined exposure is incredibly high (because the inflated risk weight also applies to the whole balance of the first lien). This "tainting" effect is especially onerous for the first lien in that the second provides a layer of subordination to the first. This will strongly disincentivize second lien loan origination by the first mortgage holding bank (a disincentive that does not exist for another bank making that same second lien loan). Also, as previously stated, the higher risk weights adversely affect prudent risk management as banks seek to manage the full credit relationship, both from a customer relationship and credit risk management perspective. In the unfortunate circumstance of having to resolve credit issues with a borrower, the bank is in a much better position if it manages the full mortgage relationship. By owning the full relationship, the bank is not exposed to actions another bank may take in order to protect its interests solely. These benefits also accrue to the borrower as in many cases the interests of the bank and the borrower are aligned if the bank has the full mortgage relationship. Credit availability will be contracted as banks actively look to avoid causing category 1 exposures to double or even triple in risk weights through the extension of a junior lien mortgage. Banks will struggle to meet the credit needs of their customers due to the regulatory constraints imposed under this proposal. The consequence of linking category 1 and category 2 loans will directly lead to higher costs of borrowing for home equity loans and line of credits which often are utilized to fund small business growth or to provide for major purchases, educational expenses, or home renovations. Despite the creditworthiness of the customer and the bank's existing knowledge and relationship with the customer, many first-lien customers will be forced to seek category 2 loans elsewhere as the proposals will have limited the ability of the bank to lend upon sound underwriting.

By neglecting to consider the impact of the proposals on the availability of mortgage credit (as noted within the Federal Reserve's June 7, 2012 Open Meeting), specifically on HELOCs, Regions believes the overall effect of significantly reduced lending outweighs any benefit from higher capital levels. The ultimate effect of the higher capital charges will be a reluctance of banks to participate in mortgage lending, despite the creditworthiness of the borrower, principally within home equity lending. This particularly affects small business lending as many individuals fund small business startups through accessing equity in their homes. If the availability of home equity lending is severely restricted as proposed, this would directly impact the growth of this very important segment of our economy. Recognizing the significance of home equity lending in financing small business growth, the Small Business Administration (the "SBA") recently published a policy exception (SOP 50 10 5(D), Subpart B, Chapter 2, Paragraph IV.E.2) allowing the proceeds of a SBA-guaranteed loan to refinance personal debt of the small business owner, such as a HELOC, if used for business purposes. This supports Regions' assertion that home equity is a powerful engine in the growth and development of small businesses and therefore any proposed regulations that will affect this important part of our economy should be grounded in empirical evidence.

B. Regions' Recommendations

Regions strongly encourages the Agencies to consider a re-proposal of the Standardized Approach NPR after completing the previously requested QIS. The potential impacts of these proposed changes are too severe to not be thoroughly grounded in empirical evidence and the appropriate cost/benefit analysis undertaken. Through this QIS, Regions believes banks working with the Agencies can properly identify the risk characteristics that have historically led to losses both in the last credit crisis as well as in previous economic cycles. Additionally, through this process, the banks and the Agencies can together attempt to estimate the impact these changes will have on the economy so that the aforementioned cost/benefit analysis can be undertaken; as requested by many in Congress as well as Trade Associations. Additionally, through a collaborative process that is later made publicly available, the Agencies would satisfy a key request by many in Congress that the rulemaking process be more transparent to the public. Regions supports the proposals outlined in the Joint Trade Association and Regional Bank Letters and directs the Agencies there for more detail.

VIII. High Volatility Commercial Real Estate

A. Impacts of Proposed Changes

While the recent crisis indicated the need to hold additional capital for certain commercial real estate exposures, Regions believes that the high volatility commercial real estate ("HVCRE") definition includes a broad generalization of construction loans that do not possess a uniform risk structure. By imposing a comprehensive 150% risk weighting to acquisition, development, and construction ("ADC") loans, the rules do not recognize the variations in structuring alternatives for certain loans that would materially alter the risk profile. This is evident in the expansive definition of what may be considered ADC loans, which includes loans ranging from initial construction to cosmetic renovations. As currently proposed, the generalization of HVCRE exposures would significantly constrain small business growth by restricting the ability of banks to lend to construction projects, particularly small business construction.

As proposed, the definition of HVCRE and its severe 150% risk weighting (as compared to an unsecured business loan that carries a 100% risk weight) significantly reduces both the availability of credit and increases the pricing of ADC loans to customers. Currently, the rule as proposed does not include any carve-out for small business loans. For many small businesses, the equity contribution requirements would be onerous and, in Regions' opinion, unnecessary. In most cases, these properties are owner occupied and therefore they already have considerable "skin in the game". The impact of this proposal as written on small businesses is further exacerbated when considered relative to the changes in required capital on home equity loans which serve as an important source of start-up capital to this segment.

Also, by applying the same 150% risk weight to all HVCRE loans, the proposed rules fail to properly provide incentives for borrowers to contribute incremental capital between the zero and 15% range. Assuming one of the goals of the Standardized Approach NPR is to incent less risky behavior, Regions would suggest creating a more graduated scale for loans based on the level of contributed capital so that banks would be given a benefit in regulatory capital with respect to transactions in which an amount of equity greater than 15% has been contributed by the borrower.

B. Regions' Recommendations

Regions supports the proposals set forth in the Joint Industry Letter and the Regional Bank Letter regarding the HVCRE risk weight and definition. In order to reduce the lending impact to small businesses and other lower risk ADC loans, Regions advises the Agencies to modify the definition of HVCRE to appropriately exclude those loans that do not possess elevated risks, specifically small business loans (exposures less than $1 million) and owner occupied loans. Owner occupied loans can be characterized as loans that are for the purpose of enhancing an ongoing business, which will occupy the majority of the facility when the ADC loan improvements are completed, and the majority of whose source of repayment is from the owner occupied business. Owner occupied loans behave much more like commercial and industrial loans and thus should carry a similar risk weight. Including small businesses and owner occupied developments in the HVCRE rule would likely decrease the availability of funds for small business lending by increasing the costs of this kind of lending. Regions strongly believes that small business loans and owner occupied loans should be exempt in order not to further impede the ability of this important segment of the economy to grow. Consequently, Regions proposes that these groups of loans be excluded from the scope of the HVCRE rule.

In addition, the proposed HVCRE risk-weight structure does not take into consideration loans that have more than 15% equity in the transaction; therefore, there is no incentive from a regulatory capital perspective for banks to ask for more than 15% equity even though, in absolute terms, the more equity contributed to the project, the less risk a bank takes. For example, if an ADC loan has 50% equity at the initiation of the project and maintained that equity throughout the entire transaction, there is no change in risk-weight compared to transactions in which a borrower has only contributed 15% equity upfront. Assuming one of the goals of the Standardized Approach NPR is to incent less risky behavior, Regions would suggest that banks be given a benefit in regulatory capital with respect to transactions in which an amount of equity greater than 15% has been contributed by the borrower by creating a more graduated scale for loans based on the level of contributed capital.

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In summary, Regions is appreciative of the opportunity to comment on these very important pieces of rulemaking. Enhanced regulatory capital, harmonized along international standards, will provide a stabilizing impact to the banking industry as long as the measures are backed by empirical evidence and the impacts on economic growth are understood. As described above, we are supportive of regulatory capital proposals that appropriately balance the need for a stronger financial system with ensuring banks' abilities to effectively serve their important role as financial intermediaries. It is critical that the perceived benefits of these proposals are balanced with the very real costs that they will likely impose on our economy. Banks are an important engine for economic growth which should not be unnecessarily hindered at this important time in our nation's recovery.

Again, thank you for your consideration of these comments, and I am available should you have any questions or would like to discuss in further detail.

Sincerely,

David J. Turner, Jr.
Senior Executive Vice President and
Chief Financial Officer