FIRST HORIZON
NATIONAL CORPORATION

Letter of Comment No: 24
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Date Received: 09/28/04

September 28, 2004

Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

By email to: director@fasb.org

Re: Proposed FASB Staff Position No. EITF Issue 03-1-b

Dear Ms. Bielstein:

As a diversified financial institution with over $2.4 billion in available-for-sale and held-to-maturity securities, First Horizon National Corporation appreciates the opportunity to comment on the Proposed FASB Staff Position No. EITF Issue 03-1-b, *Effective Date of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (respectively the "Proposed FSP" and "EITF 03-1"). We fully support the Proposed FSP's deferral of paragraph 16 of EITF 03-1 as it applies to debt securities that cannot be contractually prepaid or settled in a manner that would result in an investor failing to recover substantially all of its cost. However, the provisions of EITF 03-1 and the Proposed FSP could have a significant effect on our investment strategies regarding perpetual preferred stock. Specifically, we believe that paragraph 10 of EITF 03-1 is not consistent with our perspective for investments in perpetual preferred stock and we request inclusion of such investments within the deferral provisions of the Proposed FSP. Our views are provided below.

In reviewing paragraph 10 of EITF 03-1, we noted that certain instruments having many of the characteristics of debt securities, but which are considered equity securities by the issuer under the guidance of Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, would be considered equity securities for purposes of evaluating whether an impairment is other-than-temporary. Thus, paragraph 16 of EITF 03-1 (and the Proposed FSP's deferral) would not apply to these investments. These securities include perpetual preferred stock issued by the Federal National Mortgage Association ("FNMA") and Federal Home Loan Mortgage Corporation ("FHLMC"). Presented below are the relevant descriptions of the key attributes of the perpetual preferred shares issued by FNMA and FHLMC which have been reproduced from their most recent Form 10-K filings.

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FNMA

> In general, our preferred stock has no par value, has a stated value and liquidation preference of $50 per share, and is not convertible or exchangeable for any of our other stock or obligations. Holders of preferred stock are entitled to receive noncumulative, quarterly dividends when, and if, declared by our Board of Directors, but will have no right to require redemption of any shares of preferred stock. Payment of dividends on preferred stock is not mandatory, but has priority over payment of dividends on common stock. After a specified period, we have the option to redeem preferred stock at its stated value. All outstanding preferred stock is nonvoting.

FHMLC

> During 2002, Freddie Mac completed one preferred stock offering, raising approximately $300 million . . . . All 17 classes of preferred stock outstanding at December 31, 2002 have a par value of $1 per share, and are redeemable, on specified dates, at the company's option at their redemption price (or redemption value) plus dividends accrued through the redemption date. In addition, all 17 classes of preferred stock are perpetual and non-cumulative and carry no significant voting rights or rights to purchase additional Freddie Mac stock or securities. Costs incurred in connection with the issuance of preferred stock are charged to "Additional paid-in capital."

From an investor's perspective these preferred shares are more closely related to debt securities than equity securities. While the primary characteristics requiring treatment as equity by the issuer are the perpetual nature of the shares and the non-cumulative dividend, an investor receives a liquidation preference, a stated redemption value equal to original issue price, and a dividend preference. These rights are more consistent with the status of an unsecured debt holder rather than an equity holder. Further, an investor has no significant voting rights or rights to purchase additional stock or securities of the issuer. The lack of voting rights and inability to avoid dilution of ownership interest are inherently inconsistent with the concept that an investor is holding a meaningful equity interest in an issuer.

When electing to invest in perpetual preferred stock of FNMA or FHLMC, financial institutions value the shares to be acquired based upon methodologies consistent with those used for investments in debt securities (e.g., interest rate risk, projected cash flows, credit risk). Therefore, interest rate movements can be the sole cause of a decline in value of the securities, resulting in impairment of the preferred shares. This is identical to the situation that has given rise to the Proposed FSP's deferral of paragraph 16 of EITF 03-1. Additionally, upon review of the offering circulars for all FNMA and FHLMC perpetual preferred stock issuances, we noted that every publicly traded issuance since 1997 received investment-grade debt ratings from Standard & Poor's and/or Moody's. This clearly indicates that both FNMA and FHLMC understand that investors view the perpetual preferred stock as a form of debt security rather than an equity security.

Given these facts, we believe that paragraph 10 of EITF 03-1 should be modified to indicate that the phrase "contractually prepaid or otherwise settled in such a way that the investor would not recover substantially all of its cost" is applied to both equity and debt securities. Under this expansion, investors paying amounts over redemption value for perpetual preferred stock would still be compelled to meet the "substantially all" threshold before qualifying for use of paragraph 16. However, investors acquiring perpetual preferred stock at redemption value or less would qualify for paragraph 16 without further analysis because redemption of the securities would ensure recovery of the original cost basis.

If expansion of the "substantially all" concept to all equity securities is not acceptable, we propose that preferred shares classified as equity by the issuer should be evaluated based on the facts and circumstances of individual situations to evaluate the relevance of paragraph 10 with respect to positions held by an investor. If it is possible for an investor to recover "substantially all" of its cost upon redemption of the preferred shares, paragraph 10 should not be applicable.

To accommodate further deliberation of this issue, we believe that the deferral provided in the Proposed FSP be expanded to include, at a minimum, investments in perpetual preferred stock if redemption of the securities would result in the investor recovering "substantially all" of its cost.

If you have any questions or comments regarding the positions presented in this letter, please contact me at (901) 537-1937.

Sincerely,

/s/ Shawn P. Luke

Shawn P. Luke
Manager-Accounting Research
First Horizon National Corporation