AmSouth Bank
Post Office Box 11007
Birmingham, Alabama 35288
(205) 801-0661

Michael J. Willoughby
Executive Vice President and
Chief Credit Officer
Corporate Credit Administration

AMSOUTH

9

February 14, 2006

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 1-5
Washington, DC 20219
RE: Docket No. 05-21

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
RE: Docket No. OP-1246

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attention: No. 2005-56

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Re: PROPOSED GUIDANCE ON NON-TRADITIONAL MORTGAGE PRODUCTS

Ladies and Gentlemen:

AmSouth Bancorporation (AmSouth) appreciates the opportunity to comment on the proposed Interagency Guidance on Nontraditional Mortgage Products issued jointly on December 20, 2005 by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision and the National Credit Union Administration (the Agencies).

AmSouth is a bank holding company with total assets in excess of $50 billion at December 31, 2005. AmSouth offers a complete range of consumer and commercial banking and trust services to businesses and individuals through approximately 600 branch banking offices located in Alabama, Florida, Tennessee, Mississippi, Louisiana and Georgia. The Bank also operates a network of over 1,200 automated teller machines.

We support the intent of the proposed guidance, namely to:

1. ensure lenders prudently assess their borrower's ability to repay nontraditional mortgage loans
2. establish strong risk management standards for untested products
3. require appropriate capital and loan loss reserves for untested products
4. provide borrowers with sufficient information so they clearly understand the loan terms and associated risks of nontraditional mortgage products

The following are our overall comments:

- Mortgages with limited documentation and payment flexibility are conveniences that a wide range of customers prefer today and will continue to demand in the future.
- Since most bank mortgage products are either Fannie Mae or Freddie Mac products, or are patterned after their products, we believe the Agencies can most quickly achieve their objectives by focusing on the government sponsored entities. This is also true for underwriting policies.
- For borrowers with significant bank relationships, such as private client customers, non-traditional mortgage products often present no greater risk, even when risk layering appears to be evident. The final guidance should distinguish between customers who are not well known by the bank versus the bank's relationship customers.
- The final guidance should recognize that interest-only mortgages with a long time to payment adjustment pose substantially less risk than mortgage products with the potential for negative amortization or a short time to payment adjustment.
- In order for the Agencies to realize their objectives, a level playing field needs to be maintained between bank mortgage organizations and home equity lenders.
- Due to the lack of seasoning (although excellent performance) for many non-traditional mortgage products, we believe it is premature for the final guidance to suggest specific risk segments or concentration limits. We would prefer that the Agencies rely on each financial institution, as it has in the past, for the identification of portfolio risk segments and the setting of concentration limits due to the unique characteristics of each lender's portfolio.

The following recommendations and comments are in agreement with the original intent of the proposed guidance. This comment letter has been organized to follow the structure of the proposed guidance.

LOAN TERMS AND UNDERWRITING STANDARDS

Qualification

We generally agree that underwriting standards should address the effect of a substantial (which we would define as more than a 25% increase) payment increase (payment shock) on the borrower's capacity to repay the loan when the loan begins to amortize. On the other hand, we also believe the length of time until the customer's payment adjusts is an important consideration. The time to adjustment is directly related to the likelihood that customers will ever experience a payment change or a shock. For example, we believe loans with a 10 year interest-only period warrant different treatment than loans with a 3 year interest-only period. The likelihood of customers refinancing or moving within a ten year period is very high compared to a shorter time frame.

It is our recommendation that loans with an adjustment period exceeding the average life of a mortgage (about 5 years) should be underwritten based on the initial payment amount. Loans with an adjustment period less than the average life of a mortgage should be underwritten using the fully indexed rate, assuming a fully amortizing repayment schedule. Prepayment penalties should only need to be considered when the penalty is substantial, the loan to value ratio is high (over 90%) and the interest rate adjustment period is less than the average life of the mortgage. In other cases, it is likely that prepayment penalties can be financed as part of a new mortgage if the customer cannot otherwise secure funds to pay the penalty.

We agree with the proposed guidance relating to qualifying customers for mortgage loans with the potential for negative amortization. AmSouth does not originate mortgages with the potential for negative amortization.

Collateral-Dependent Loans
We agree that loans to consumer borrowers who do not demonstrate the capacity to repay from sources other than the collateral pledged are generally unsafe and unsound. AmSouth does not originate collateral-dependent mortgages.

Risk Layering
We agree that nontraditional mortgages combined with risk layering features may pose increased risk if mitigating factors are not present. We believe the majority of loans AmSouth originates for it's own portfolio have mitigating factors when risk layering is present. The most common mitigating factors for the mortgages AmSouth originates are: private client relationship, high income/low DTI ratio, high liquid assets, mortgage insurance, high FICO score and other significant Bank relationships.

Reduced Documentation

While we understand stated income and reduced documentation can be misused, o ur loss experience for stated income and reduced documentation loans has been excellent. We believe the increasing popularity of reduced documentation and stated income for qualifying borrowers stems from two consumer trends which are likely to continue. First of all, borrowers strongly prefer reduced documentation or stated income loans. Borrowers are willing to pay a premium price to avoid additional paperwork. The use of stated income has already become a standard industry practice for most credit card, automobile and home equity loans, so customers are starting to have the same expectation for mortgage loans. Given a choice, most borrowers will choose a lender with reduced documentation requirements.

Secondly, borrowers want to be able to close mortgage loans more quickly. Again, borrowers are used to quick loan closings for home equity, automobile and other consumer loans. They are increasingly impatient with the length of time required to close a traditional mortgage, of which income verification and asset verification are two time consuming elements. We suggest it is critically important for the mortgage underwriting practices to remain competitive with home equity lending, since the distinction between these two products is becoming less clear to borrowers.

We believe that while reduced documentation may not be proper for all borrowers, it is especially appropriate for affluent customers who are well known by the Bank or have significant banking relationships. For example, our private client customers are qualified for the private client program with a thorough process involving interviews with a Relationship Manager, preparation of personal financial statements, review of tax returns, etc. These customers tend to be very interested in stated income loans due to the complexity of their tax returns and financial situation. We believe private client customers and other customers with significant Bank relationships are good candidates for reduced documentation loans because the risk is mitigated by our relationship.

Furthermore, we believe mortgages with reduced documentation and stated income do not pose a significant risk when mortgage insurance or other credit enhancements are present. This is also true of loans with low loan to value ratios (<=70%) because the bank is unlikely to experience a loss given default.

Simultaneous Second-Lien Loans

We believe first mortgages with delayed amortization are often preferred by our borrowers with simultaneous second-lien loans. This product offering may be appropriate when risk mitigating factors are present. Our borrowers' desire for more leverage, in the form of higher loan to value ratios, is a direct result of the recent high returns for residential real estate assets. As the rate of increase in home values slows, we expect customers will be less interested in loans with high loan to value ratios. We also believe that while our probability of default might increase slightly in the presence of a simultaneous second (assuming no risk mitigants exist), it is not clear that the Bank will experience an increased loss given default.

Simultaneous second-lien loans are a natural response by the mortgage industry to aggressive home equity lending practices over the last five years. In the recent past, mortgage organizations continued to make first mortgage loans at traditional loan to value ratios while home equity lenders provided high loan to value home equity loans which closed a few months after the first mortgage. This situation results in the same risk exposure for the first lien mortgage holder. In fact, the first mortgage holder's risk is probably reduced with a simultaneous second-lien loan. Unless it is closed simultaneously, the first mortgage holder is often unaware of a second lien home equity loan. The simultaneous closing allows lenders to properly consider the second mortgage payment and other loan terms in a combined underwriting process. A simultaneous second-lien loan usually results in lower costs and greater convenience for the borrower, too. We believe the final guidance relating to simultaneous second-lien loans needs to provide a level playing field for mortgage lenders and home equity lenders. Otherwise the Agencies objectives may not be realized.

Introductory Interest Rates
We generally agree that underwriting standards should address the fact that introductory interest rates will eventually adjust, possibly resulting in a substantial payment increase for the borrower when the loan begins to amortize. This is especially true for payment option ARMs which AmSouth chooses not to originate. However, we also believe the length of time until the customer's payment adjusts is an important consideration for loan underwriting. The usefulness of the fully indexed rate, as defined in the proposed guidance, is related to the time to adjustment. Any assumptions about future interest rate levels or the shape of the yield curve are not likely to be accurate far into the future, such as with a 10 year adjustment period. AmSouth tries to minimize the probability of a customer experiencing severe payment shock based on the features of our nontraditional product offerings.

Lending to Subprime Borrowers
We agree with the comments in the proposed guidance concerning subprime borrowers. We also realize that a definition of the term "subprime" is often difficult and cannot be based on credit scores alone. The presence of significant derogatory credit or an absence of credit history should be included in any definition of a subprime borrower. In addition, customers with significant liquid assets or bank relationships, such as private client customers, should not be considered subprime.

Non-Owner Occupied Investor Loans
We agree with the comments in the proposed guidance relating to investor loans.

PORTFOLIO AND RISK MANAGEMENT PRACTICES

Policies
We agree with the comments in the proposed guidance relating to lending policies for nontraditional mortgage products. Many of the Bank's lending policies for mortgage loans are based on Fannie Mae and Freddie Mac guidelines. For this reason, we believe the Agencies can most quickly achieve their objectives by focusing on the lending policies of the government sponsored entities.

Concentrations

Due to the lack of seasoning (although excellent performance) of our non-traditional mortgage products, we believe it is premature for the final guidance to suggest specific risk segments or concentration limits. We would prefer that the Agencies rely on the existing risk management processes of each financial institution for the identification of portfolio risk segments and the setting of concentration limits. Each lender's portfolio contains unique combinations of borrowers, loan characteristics, underwriting policies and servicing procedures which should be considered in order for concentration limits to prove useful in managing risk.

Controls
We agree with the comments in the proposed guidance relating to controls.

Third–Party Originations
We agree with the comments in the proposed guidance relating to third-party originations. AmSouth does not rely on third parties for the origination of mortgage loans.

Secondary Market Activity
We agree with the comments in the proposed guidance relating to secondary market activity.

Management Information and Reporting
We agree with the comments in the proposed guidance relating to management information and reporting.

Stress Testing
We generally agree with the comments in the proposed guidance relating to stress testing, but note that there is limited default and loss information to model. Over the past several years losses have been less than 10 basis points per year. Even in a recession such as that which occurred in 2000\2001 mortgage losses did not exceed 15 basis points.

Capital and Allowance for Loan and Lease Losses
We agree with the comments in the proposed guidance relating to capital and the loss allowance.

CONSUMER PROTECTION ISSUES

AmSouth believes lenders should provide borrowers with sufficient information so they clearly understand the loan terms and associated risks of nontraditional mortgage products. Providing clear explanations of non-traditional or complex mortgage products is a challenge with borrowers who are inexperienced borrowers or less-sophisticated financially. We believe financially astute, experienced mortgage borrowers fully understand the terms and associated risks of our non-traditional mortgage offerings.

We also believe that disclosures to consumers regarding the potential consequences of negative amortization should be a focus for the Agencies.

Sincerely,

Michael J. Willoughby
Executive Vice President