Reinvestment
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August 9, 2017

Federal Reserve Bank of St. Louis
David L. Hubbard, Senior Manager
P.O. Box 442
St. Louis, Missouri 63166-2034.
Comments.applications@stls.frb.org

RE: Reinvestment Partners: Response to First Horizon National Corporation Response to Public Comments on the Application by First Horizon National Corporation, Memphis, Tennessee to merge with Capital Bank Financial Corp., Charlotte, North Carolina, and thereby indirectly acquire Capital Bank Corp., Raleigh, North Carolina.

Dear Sir:

Reinvestment Partners has reviewed the response of First Horizon National Corporation ("First Horizon") and First Tennessee Bank National Association ("First Tennessee") to our public comments on their application to merge with Capital Bank Financial Corporation ("Capital Bank"). Reinvestment Partners ("RP") respectfully submits this additional comment in response.

We appreciate learning more about First Tennessee and its CRA programs. We learned that First Tennessee does not process transactions from "high-to-low", that the bank no longer has a relationship with OnDeck Capital, and that First Tennessee has developed an affordable mortgage product.

First Horizon also confirmed that the consumer compliance, fair lending compliance, and CRA programs of the merged bank will be the programs of First Tennessee Bank, which makes its record of meeting its CRA obligations of utmost importance. The Office of the Comptroller of the Currency required First Tennessee to submit a CRA Plan as a condition of its approval of the bank's merger with Trust Atlantic in 2015. In stating its reasons for that condition, the OCC stated:

> *The record indicates that while First Tennessee currently has a minimal presence in North Carolina, it has not adequately demonstrated that it will be effective in achieving its LMI mortgage or other lending goals. In addition, First Tennessee has not developed or implemented an investment strategy that demonstrates the bank's responsiveness to the credit and community development needs of the communities it serves. Rather, First Tennessee noted that it is proactively developing partnerships with community development organizations, government agencies, and non-profit organizations to identify investment opportunities. Consequently, continuing concern exists regarding how the resulting institution would improve its investment test performance and help serve the needs of its communities, in particular the*

mortgage and other credit needs of LMI individuals and geographies and minority individuals and geographies.[1]

We argue that not enough progress has been made. First Tennessee has failed to meet its CRA obligations and commitments under its CRA plan and has not demonstrated that it can be effective in serving the needs of all North Carolina communities. Specifically:

1) First Tennessee failed to meet lending goals for North Carolina's LMI geographies and borrowers;
2) First Tennessee failed to meet small business lending goals in LMI geographies in North Carolina;
3) First Tennessee has not demonstrated significant commitment to community development lending and investments;
4) First Tennessee has failed to adequately address fair housing concerns.

First Tennessee has failed to satisfactorily meet the CRA conditions required in its previous merger, and Reinvestment Partners believes that failure should be the basis for denial of the merger with Capital Bank. Alternatively, if the merger is approved, it should include additional conditions to ensure that this merger will benefit all North Carolina communities.

Lending to Low- and Moderate-Income (LMI) Borrowers and Geographies

Lending to LMI borrowers and geographies is central to CRA and First Tennessee has failed to meet its obligations to these borrowers and communities. First Tennessee stated that they met the 30% LMI goal by including purchased loans. In response, we make the following observations:

1) First Tennessee combines LMI borrowers and geographies. Combining those two categories is essentially double counting because some LMI borrowers will also reside in LMI geographies. Reinvestment Partners requests that the bank separate those two categories since they are considered separately by regulators for CRA purposes.

2) First Tennessee does not meet its 30% goal if purchased loans are removed from consideration. In its 2016 CRA plan, First Tennessee sets origination targets, not purchase targets. In 2016, First Tennessee purchased 22 loans in North Carolina, all of which were either in an LMI geography or to an LMI borrower. In our analysis, we remove purchased loans because these loans were not originated by First Tennessee and the bank was not involved in the original marketing or underwriting of those loans. These types of loans are purchased specifically to meet CRA obligations. Unless the bank that is purchasing LMI mortgage loans can verify that the money spent to purchase those loans is then used to make new loans directly to LMI borrowers or in LMI geographies, the purchase of loans is not creating new opportunities for LMI borrowers or communities and has limited benefits.

[1] September 16, 2015 letter from the Office of the Comptroller of the Currency to Ms. Jackie Prester, Esq. Subject: Application for the merger of TrustAtlantic Bank, Raleigh, North Carolina with and into First Tennessee Bank, National Association, Memphis, Tennessee OCC Control No.: 2014-SO-Combination-141047 Charter No.: 336, CRA Decision #169.

RP will continue to focus our analysis on loans originated by First Tennessee and exclude purchased loans. This type of analysis best highlights the strengths and weaknesses of the bank's lending programs because they are the loans that the bank itself is responsible for marketing, underwriting, and originating directly to clients. Therefore, originated loans provide the best insight into how the bank meets the needs of its communities.

In Raleigh, First Tennessee originated 21 loans in 2016. In its 2016 CRA Plan, First Tennessee set a goal of 3-5 originations to LMI borrowers in the Raleigh MSA. RP believes that target is low. However, in 2016, First Tennessee originated 2 loans to LMI borrowers in the Raleigh MSA. In fact, First Tennessee originated only 3 mortgage loans to LMI borrowers in the entire state of North Carolina.

Three (3) loans in the Raleigh MSA were originated in LMI census tracts. One of those went to an LMI borrower in an LMI census tract. So, out of 21 loans, 9.5% were originated to LMI borrowers and 14.3% were in LMI geographies. In addition, throughout North Carolina, First Tennessee originated 87 loans. Of those loans, 76% were in upper income census tracts. Only 9% of loans were in LMI census tracts. These percentages are far below the 30% goal.

Lending to Minority Borrowers

First Tennessee's mortgage lending data shows a paucity of loans originated to minority borrowers and high rates of denial for minority borrowers. First Tennessee has argued that denials were based on non-protected factors according to credit policies. We are limited to HMDA data, and do not have access to individual file data, and we point out patterns that suggest areas of concern that warrant additional attention. Accordingly, we continue to point out that denial rates for African American and Latino applicants at First Tennessee are double those of white applicants.

In addition, application rates for minorities are well below demographic and market data. In North Carolina, First Tennessee had two African American applicants out of 108 total applicants. In Raleigh, only 1 out of 27 First Tennessee applicants was African American. This 3.7% rate is well below the 11% application rate for African Americans in the Raleigh MSA in 2015.[2] In First Tennessee's total 2016 mortgage portfolio, 5.5% of applicants were African American.

Considering that First Tennessee's branch system includes areas with significant African American populations (for example, in the Raleigh MSA and the Memphis, TN-MS-AR MSA, 21% and 46.1% of the population is African American respectively), these numbers suggest that one of First Tennessee's challenges is outreach and marketing in minority markets. They also suggest that the bank as an institution can do more. While we appreciate that First Tennessee has shared its marketing plan, we would also encourage the bank to think more creatively and meaningfully than radio ads and billboards to increase application rates. For example, will First Tennessee hire dedicated mortgage officers? What is the amount budgeted for marketing? Will First Tennessee pledge to set a goal of meeting the market average for minority application rates? What is the culture of diversity at the bank? Is there more than nominal diversity among bank staff and bank leadership?

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[2] 2015 is the latest publicly available aggregate HMDA data for comparison. However, typically the overall market numbers to not change greatly from one year to the next excluding a major market event.

Small Business Lending

In North Carolina, First Tennessee has not met its goal that 30% of its small business lending be for small businesses in LMI tracts. In North Carolina in 2015 (the latest data available to RP), First Tennessee made 7 small business loans in LMI tracts, reflecting 15.5% of loans by number and 22% by amount. The bank had set a goal of 10-15 small business loans in LMI tracts. In addition, the OCC's conditional approval of the merger with Trust Atlantic Bank asked the bank to ensure that it is meeting the needs of small business lending to businesses with revenues of $1 million or less in LMI geographies. In North Carolina in 2015, First Tennessee did not originate any small business loans to businesses with revenues of $1 million or less in LMI geographies.

In response to our previous analysis of First Tennessee's small business lending, the bank describes the work of the Carolina Small Business Development Fund (formerly The Support Center), a CDFI serving small businesses and entrepreneurs in North Carolina. While we acknowledge that First Tennessee has provided some grant support ($35,000 over three years) for the Carolina Small Business Development Fund, the bank has not made any type of equity investment in the organization nor has the bank provided capital for those loans. Therefore, the bank cannot take credit for the loans made by the CDFI or the jobs created.

We ask First Tennessee to describe what it will do to ensure that small business needs in LMI communities throughout North Carolina are being met.

Community Development Lending

If First Tennessee wants to define their community development lending and qualified investment goals as a percent of Tier 1 capital, we welcome that approach. However, those goals should be annualized and compared to each year's Tier 1 capital.

First Tennessee has stated that it has met and exceeded the 6% to 9% of Tier 1 capital commitment to community development (CD) loans, stating that it has provided $400 million over the past three years. However, on an annualized basis, the bank has failed to meet its goals. According to its reported data, First Tennessee made less than $105 million in CD loans in 2015.

First Tennessee has provided some general language regarding the purposes of those loans. RP requests that First Tennessee provide more detailed information on its community development loans, including information on each loan by geography (state and MSA if applicable), purpose, and amount. In particular, RP would like to know what community development loans have been made in North Carolina in 2015 and 2016.

RP would like to see greater and more specific commitments to community development lending in North Carolina.

Community Development Investments

First Tennessee has touted its partnership with Operation Hope as one of its key investments. The bank's donation of $1 million to the organization and partnership to provide financial literacy and coaching in its branches is commendable. As a HUD-certified housing counseling agency, Reinvestment Partners appreciates their investment in increasing financial capability for customers and helping clients better manage their finances.

While we are glad for the $95,000 in donations to North Carolina agencies, we hope that in the future the number grows to be more reflective of the market share in North Carolina.

Community development investments encompass much more than donations. RP would like to know what other investments, outside of donations, First Tennessee has made, particularly in North Carolina. We are not aware of any investments into North Carolina CDFIs, other than relatively small donations. While First Tennessee mentioned that it had an introductory meeting with CAHEC, a nonprofit affordable housing tax credit syndicator focused primarily on the Southeast, we are not aware of any investment made into CAHEC to date nor any tax credit investments in North Carolina.

We would like First Tennessee to place long overdue investments in North Carolina CDFIs prior to their merger with Capital Bank, as well as commit to continue providing investments in the future. We encourage First Tennessee to consider more creative and innovative investments such as tax credit and EQ2 Investments.

Supplier Diversity

First Tennessee has stated that its minority supplier spend of 6.21% has exceeded its 2% minority supplier spend goal. However, given that the original goal of 2% was exceptionally low compared to the diversity of First Tennessee's markets, we continue to request that First Tennessee do more in this area. In North Carolina, a 10-15% range is more typical for minority supplier spend. We ask that First Tennessee set its goal in this range.

Conclusion

Reinvestment Partners continues to question how the First Tennessee – Capital Bank merger will benefit LMI and minority communities in North Carolina. First Tennessee has failed to meet the commitments it made in the conditional approval of its previous merger. Therefore, any new mergers should not be approved until those obligations are met.

We continue to ask that the merger be approved only if the following conditions are met:

- Commitment to increase lending to LMI borrowers;
- Commitment to increase lending in LMI geographies (with an emphasis on owner-occupied housing and not investor owners);
- A plan to address fair lending issues and commitment to goals to increase lending to minorities;
- A community development plan with goals for community development lending and investments that are creative, innovative, and impactful;

- Commitment to devote at least 15% of supplier spend to minority-owned enterprises;
- Commitment to transparency and third-party monitoring of progress toward the lending and community development goals.

Sincerely,

Peter Skillern

Peter Skillern
Executive Director