# CONSUMER CONFIDENCE KEY

*Charlie Myatt, Rutherford County regional president, First Tennessee*

**If there is a silver lining to this crisis, it is that banks are making fewer uncertain loans than before.**

**by Charlie Myatt**

The financial services industry, banking in particular, is at a crossroads. High-stakes risks taken by consumers, investors, and banks themselves have threatened the future of many banks and created an unprecedented downturn in our nation's economy.

No one has a large enough crystal ball to predict the immediate financial future. The situation changes from day to day and week to week. However, the government has put a number of extremely positive measures in place, such as raising FDIC limits, lowering interest rates, and foreclosure modification programs, that are working to restore consumer and investor confidence, key factors in any financial recovery.

Historically, middle Tennessee has withstood lesser economic downturns due to its diversity. In the most recent slide at the turn of the century, beginning with the dot-com bust and fueled by the tragic events of September 11, 2001, middle Tennessee withstood economic pressures, not falling as far as other areas of the nation and emerging from the cycle more quickly.

This is largely due to the fact that middle Tennessee boasts an extremely diverse economy that includes healthcare, education, government, and transportation: the top four industry sectors that according to Chris Low, FTN Financial's chief economist, are insulated in times of economic downturn.

The news in recent weeks that the U.S. economy has been in a recession since December 2007 is no surprise from a banker's perspective, but the seeds were planted sometime earlier to create this problematic perfect storm.

For the past 15 years or so, interest rates have declined sharply to 40-year lows. Fueled in 2003–04, the real-estate market took off with a record number of houses sold at higher and higher prices and more risks taken. Both consumers and lenders were caught up in the subprime real-estate market. Some mortgage lenders turned away from business as usual, not asking for proof of income or a down payment, and teaser rates and ARMs took over the market.

On the investment side, an old investment tool, the asset-based security (ABS), was being packed with mortgages of homeowners who were questionable credit risks. Investors, blinded by questionable credit ratings on these securities, began to place their bets in a high-stakes game of gimmicky Wall Street products.

Around mid-2006, when the housing bubble popped and prices began dropping, reality set in. Many homeowners found themselves having to refinance their homes, which were no longer appreciating in value, and at a much higher rate. Many could not afford the new payments, and the foreclosures began.

Today, in our region and across the U.S., we are seeing this risk pyramid being taken apart piece by piece. Banks must buttress their capital position and liquidity by reducing lending activities.

If there is a silver lining to this crisis, it is that banks are making fewer uncertain loans than before. So when consumers hear that some customers or potential customers are not getting loans, the truth is that banks are less likely to make real-estate, automobile, or other loans to less creditworthy customers. In other words, we have learned our lesson.

Already, there is much more scrutiny in the credit-card business. A year ago, consumers might receive one or two invitations from companies each day, offering them a credit card. Certainly, any financial organization offering credit cards is considering or has instituted one of several means of holding the line on credit cards, such as raising the interest rates on their new or existing cards, lowering credit limits, changing their terms and conditions, or increasing minimum payments on card balances.

At First Tennessee, while we remain cautious about lending, we are making credit available. The bank continues to watch the loan portfolio, but there is still plenty of available credit for our good business and consumer customers. But every bank in our region must, for at least the next year, continue to be very careful about lending activity.

Last year, before the subprime issue became a global financial crisis, First Tennessee made a strategic decision to concentrate on reducing the balance sheet. The company reduced its national business by selling the mortgage company earlier this year to focus on doing what we do best: providing the products and services to our customers in Tennessee.

Looking at our business lines, we recognized that our national mortgage customers were not in the same kind of customer relationships that we enjoy in Tennessee. We didn't have, for example, those customers' individual checking and business accounts, which is the case for us in the state and here in middle Tennessee. The personal relationships we have with our customers make First Tennessee the leading independent bank in the state.

By selling the mortgage business and all of our banks outside of the Tennessee area, we chose to invest in our core banking franchise here, taking advantage of our reputation in the state and our ability to concentrate on building that franchise in the coming years. First Tennessee is optimistic about what lies ahead. The bank is not planning to stand still but will continue to expand business in Tennessee and work on building market share in priority markets across the state, with middle Tennessee as a top priority.

While these expansion plans are part of a long-term growth strategy implemented in 2003, the most recent U.S. government efforts to stabilize financial markets and bolster the capital and liquidity of banks are positive, including raising the FDIC account insurance limit to $250,000 from $100,000 and the takeover of Fannie Mae and Freddie Mac. Putting the two mortgage organizations under federal conservatorship has brought down mortgage loan rates across the country, making it more attractive for qualified individuals to buy a first or new home.

Another confidence-restoring action is the government's modification program for delinquent homeowners, effectively lowering mortgage rates and making mortgages affordable for the nation's homeowners and potential homeowners. If everything goes as planned, the government will be able to provide genuine assistance to approximately three million distressed homeowners, allowing them to avoid foreclosure.

Last, from a banking perspective, nothing has been as critical to restoring consumer confidence as the government's Troubled Asset Relief Program (TARP). Instead of pursuing a strategy of buying problem loans, TARP has injected capital into healthy banks. The U.S. Treasury has agreed to purchase $866 million in First Horizon preferred stock, representing three percent of the company's risk-weighted assets as of the end of the second quarter.

This infusion will allow First Tennessee to facilitate lending and pursue growth strategies. The intent behind TARP is to make credit available to businesses and consumers, a responsibility we take very seriously. We need to re-establish confidence in our financial system and provide access to credit at fairly attractive rates.

From a company perspective, First Tennessee expects to build its presence in middle Tennessee. We continue to pursue attractive financial locations throughout the region and just recently opened our 50th middle Tennessee center in Murfreesboro.

While at the year's end the consumer is very bearish on the economy, there is reason for some optimism in Tennessee and specifically middle Tennessee. Housing and real estate remain an issue although not as severe as elsewhere around the country. Unemployment is up in the state, but 94 percent of all Tennesseans are still employed. That's an important building block for our immediate economic future.

Nobody can predict the next 12 months or how long economic recovery will take. However, quick action by the federal government has the banking industry stabilized and poised to lead businesses and consumers into a new era of economic prosperity. ■

*Charlie Myatt is First Tennessee's Rutherford County regional president (615-893-7210, CHMYATT@firsttennessee.com).*

*The 6,000 employees of First Horizon National Corp. (NYSE:FHN) provide financial services through over 200 bank locations in Tennessee and 14 capital markets offices worldwide (www.fhnc.com). First Tennessee has the largest combined market share in the 17 Tennessee counties where it does business and one of the highest customer retention rates of any U.S. bank. FTN Financial is one of the nation's top underwriters of U.S. government agency securities.* AARP *and* Working Mother *have recognized FHN as one of the best U.S. employers.*