



**BOARD OF GOVERNORS**  
OF THE  
**FEDERAL RESERVE SYSTEM**

WASHINGTON, D.C. 20551

DIVISION OF BANKING  
SUPERVISION AND  
REGULATION

December 18, 2007

Mr. Alton E. Yother  
Regions Financial Corporation  
1900 5<sup>th</sup> Avenue North  
Birmingham, Alabama 35203

Dear Mr. Yother:

This is in response to your letter dated October 30, 2007 regarding the regulatory capital treatment of the Regulation T margin debits ("Reg. T margin loans") of the registered U.S. broker-dealer subsidiary of Regions Financial Corporation ("Regions"): Morgan Keegan & Company, Inc. You ask that Regions be granted an exception from the Board's risk-based capital adequacy guidelines for bank holding companies (the "guidelines") (12 CFR part 225, App. A), which require a 100 percent risk weight for Reg. T margin loans. Specifically, you ask for an exception from the guidelines to permit Regions to assign a 10 percent risk weight to its Reg. T margin loans, consistent with the capital treatment that the Board approved for Citigroup Inc. in a letter dated June 15, 2007.

In the request, you contend that the risk-based capital requirement for such loans is excessive and represent that Regions has a de minimis internal economic capital charge for credit risk on Reg. T margin loans.

A margin account at a broker-dealer registered with the Securities and Exchange Commission ("SEC") is a leveraged account, through which securities can be purchased, sold short, carried, or traded using a loan from the broker-dealer and a deposit of cash or securities by the customer. The amount of leverage available to a customer is limited by the Board's Regulation T (12 CFR part 220), the margin-maintenance rules of the Financial Industry Regulatory Authority (NYSE Rule 431 and NASD Rule 2520), and the lender's internal margin-maintenance requirements. The request also explains that Regions generally applies internal margin-maintenance requirements that exceed those in Regulation T, NYSE Rule 431, and NASD Rule 2520.

As noted above, Reg. T margin loans held by U.S. bank holding companies ("BHCs") currently are assigned to the 100 percent risk weight category under the guidelines, resulting in a risk-based capital requirement of 8 percent. In contrast, other domestic and foreign firms, including foreign banking organizations that own U.S. broker-dealers, as well as U.S. broker-dealers and consolidated supervised entities ("CSEs") regulated by the SEC, are currently required to hold either no or de minimis regulatory capital against Reg. T margin loans.

After carefully considering the request, and subject to the conditions listed below, the Board has approved an exception to the guidelines that permits Regions to treat Reg. T margin loans in a manner that differs from that set forth in the guidelines. Specifically, the Board will allow Regions to apply a 10 percent risk weight to its Reg. T margin loans. The Board has approved this exception under the reservation-of-authority provision contained in the guidelines (12 CFR part 225, App. A, § III.A). This provision permits the Board, on a case-by-case basis, to determine the appropriate risk weight for any asset or off-balance-sheet item that imposes risks on a BHC that are incommensurate with the risk weight otherwise specified in the guidelines.

To qualify for the capital treatment outlined above, Regions' Reg. T margin loans must meet the following conditions:

1. The securities collateral for the Reg. T margin loans is liquid and readily marketable;
2. The Reg. T margin loans and associated collateral are marked to market each business day;
3. The Reg. T margin loans are subject to initial margin requirements under Regulation T and daily margin-maintenance requirements under NYSE Rule 431 or NASD Rule 2520; and
4. Regions has a reasonable basis for concluding that it would be able to liquidate the collateral for the Reg. T margin loans without undue delay, even in the case of bankruptcy or insolvency of the borrower.

The Board believes that the capital treatment approved above for Regions' Reg. T margin loans provides a more risk-sensitive treatment for these transactions than their treatment under the guidelines. The combination of initial margin requirements under Regulation T, ongoing margin-maintenance requirements under NYSE Rule 431 or NASD Rule 2520, generally higher ongoing margin-maintenance requirements under Regions internal policies, Regions' daily mark-to-market and margin-call policies, the high liquidity of the collateral, Regions' typical right to terminate the loan at any time, and Regions' general protection from the automatic stay in bankruptcy makes these loans a low-credit-risk product that warrants a 10 percent risk weight.

This exception accommodates Regions' broker-dealer activities in a risk-sensitive manner, helps remove an artificial and anachronistic constraint on certain of Regions' securities-based lending operations, and brings Regions' risk-based capital requirement for Reg. T margin loans more in accord with the capital requirement for such loans that the SEC imposes on broker-dealers and CSEs. Regions should be aware, however, that the Board may in the future impose a regulatory capital treatment for Reg. T margin loans that differs from the treatment described in the request, depending in part on the outcome of the current efforts to implement the Basel II Capital Accord in the United States.

This determination is conditioned on Regions compliance with all the commitments and representations it has made to the Board in connection with the request. These commitments and representations are deemed to be conditions imposed in writing by the Board in connection with granting the request and, as such, may be enforced in proceedings under applicable law. Further, this determination is based on the specific facts and circumstances described in the request and in your discussions with Federal Reserve staff. Any material change in those facts and circumstances or any failure by Regions to observe any of its commitments or representations may result in a different view or in a revocation of the regulatory capital treatment permitted under this determination.

The capital treatment set forth in this letter for Reg. T margin loans will be made available to similarly situated institutions that request and receive Board approval for such treatment.

If you have any questions with regard to this letter, please direct them to Norah Barger, Associate Director, at (202) 452-2402, or Juan C. Climent, Supervisory Financial Analyst, at (202) 872-7526, in the Division of Banking Supervision and Regulation; or Mark E. Van Der Weide, Senior Counsel, at (202) 452-2263, or April Snyder, Counsel, at (202) 452-3099, in the Legal Division.

Sincerely,



Roger T. Cole  
Director