

OFFICE OF THE TREASURER-TAX COLLECTOR



HALL OF FINANCE & RECORDS
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INFORMATION TECHNOLOGY

CHANGES IN ELIGIBLE CREDITS

In the month of August, there was one change to the Treasurer's approved eligibility list.

The following was removed from the Domestic Bank Eligibility list:

- 1) **First Tennessee Bank**

The Treasury Investment Committee also discussed Lockhart Funding.

Please see the attached report detailing the reasons the above action was taken by the Treasurer.

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To: Treasury Investment Committee
From: John Byerly, Senior Financial Analyst
Date: August 27, 2007

Subject: First Tennessee Bank, NA
Ratings: A/A1/A+ A-1/P-1/F1

Exposure:

County:	\$30MM	9-7-07
	\$50MM	9-18-07
Schools:	\$30MM	9-7-07
JWA:	\$2MM	9-7-07
X-Fund:	None	

Recommend: Remove First Tennessee Bank, NA

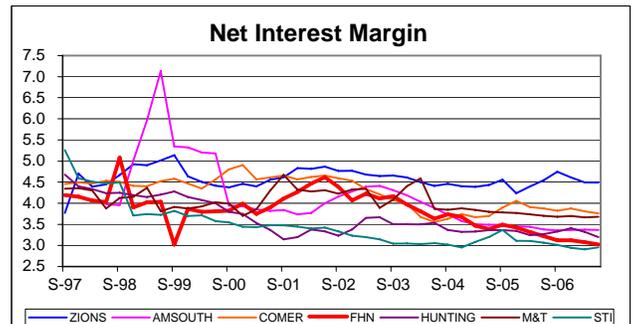
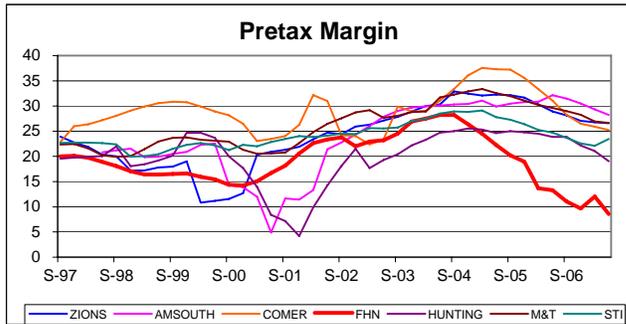
Summary:

First Tennessee Bank, NA, (FTN) is a wholly owned subsidiary and primary banking operation of First Horizon National Corp. (FHN). FHN is the largest bank in Tennessee and benefits from leading positions in most of that state's major deposit markets. We have looked favorably at FTN's performance as compared to its peers for many years. In recent times, however, FTN's performance has stumbled. (See attached)

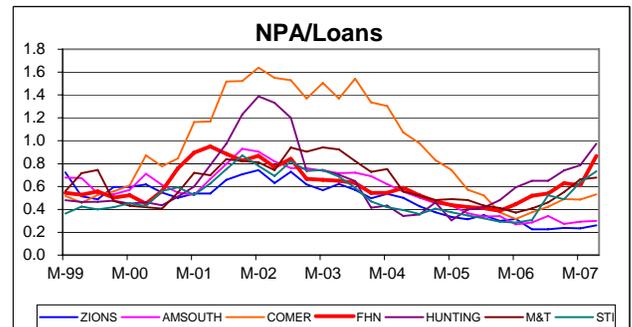
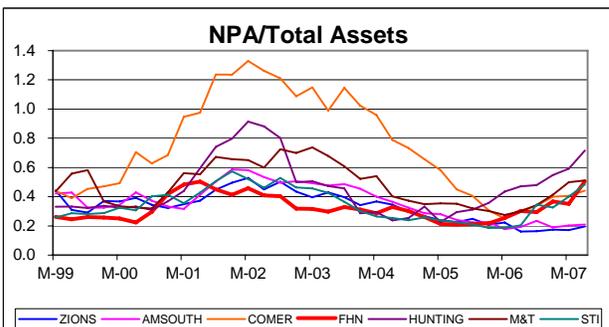
First Tennessee's performance has been increasingly concerning. Our review of FHN/FTN dated July 13, 2006 noted growing concern over the loss of cost control and a bothersome Q1 2006 financial "kitchen sink" report where, among other concerns, subprime mortgage losses were treated as "one-time". On April 11, 2007, I recommended restricting the purchase of First Tennessee. On April 18, 2007, Q1 07 earnings were reported with credit metrics continuing to deteriorate both historically and against peer-group. Finally, Moody's announced on August 22, that it has placed the long-term ratings of First Horizon and its subsidiaries including First Tennessee under review for possible downgrade.

New management at FHN has implemented initiatives to reduce costs and return more profitable results but we won't likely see improvement until 2008. I recommend removing the name until we see performance return to more competitive levels.

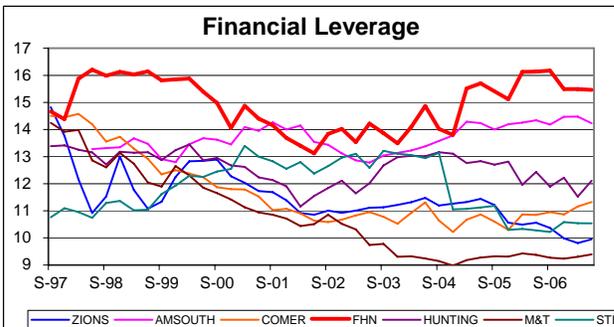
FOR REFERENCE: HBAN, ZIONS, M&T = SPLIT RATED



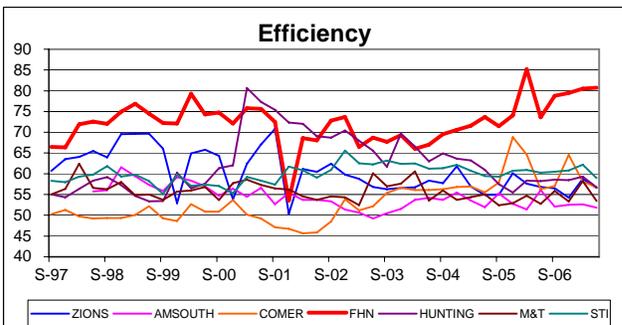
Worst profitability among peers; less diversified business.



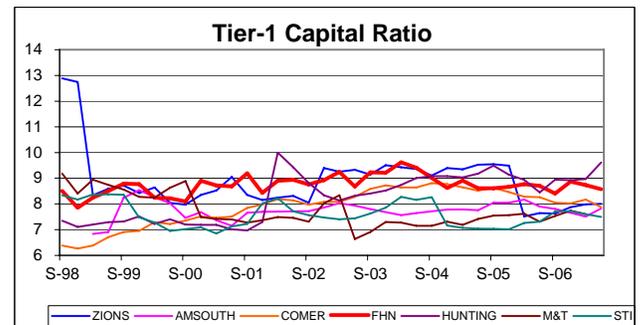
Nice low non-performing assets until end of '05. Absolute level is still okay; trend is concerning.



Most levered among peers.



This shows FHN's loss of control with regard to expenses



Tier-1 Capital is expected to run between 7 and 9 for most banks most of the time. No biggie here.

9 is not "x"% better than 8.

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To: Treasury Investment Committee
From: John Byerly, Senior Financial Analyst
Date: August 27, 2007

Subject: Lockhart Funding LLC

Ratings: NR/P-1/F1
Exposure: County Combined - \$109.9 million
Schools - \$53.9 million
JWA - \$1.98 million
Recommend: Maintain eligibility of Lockhart

Summary:

Lockhart Funding is a partially supported securities arbitrage program sponsored by Zions First National Bank. Lockhart benefits from:

Great access to liquidity

- Zions Bancorp has over \$8 billion in liquid assets (see attached graphs for more fundamental analysis of Zions).
- Zions has access to \$7 billion through home loan banks.
- The Federal Reserve has demonstrated its intent to provide liquidity.
- Many new investors, used to buying second-tier securities, very willing to step in and buy this 'AAA-asset' conduit at current levels.
- Worst case scenario calls for Zions bank to buy all assets out of the program. Zions run capital levels above stated target. Would rebuild capital ratio within three to four months. Collapsing Lockhart would have

Hedge feature

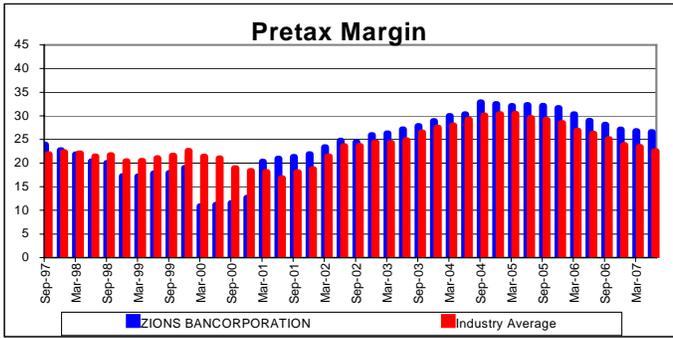
- Assets still offer a positive spread at these 6 % funding levels. In the event a negative spread arises, a hedge agreement with Zions provides for the difference.

Strong commitment by management

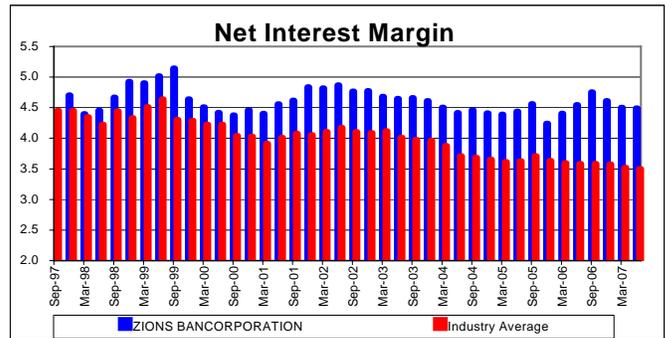
- Zions' management expresses their understanding that they are legally and morally bound. They have demonstrated their willingness and ability to honor their commitment in the past. Liquidity funding is very streamlined, taking minutes to initiate.
- Outs to funding are very conservative relative to other conduits
 - Assets have to deteriorate from top-tier to CCC-flat overnight for the liquidity provider to *not* fund. Other conduits may only need to drop below investment grade. Lockhart's assets are 100% rated AAA by Fitch and 99% rated Aaa by Moody's.
 - Assets whose ratings fall to BBB- come out immediately with same-day funding.
 - Understand the out is there for regulatory purposes. If not for the out, there would be no "true sale".
- Investor reports are increasingly transparent and ahead of the pack. More detailed disclosure beginning in March.

It could reasonably be argued that this type of program provides for more investor protection than unsecured bank debt. Ultimately the liquidity bank's ability and willingness to absorb assets under duress is the investor's worst case scenario. But in this case there are AAA-rated assets providing another layer of protection.

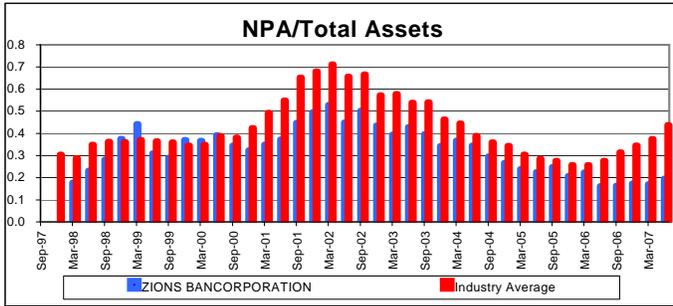
All AAA-rated assets are not created equal. Lockhart's assets are high quality and conservatively selected. Zions is not motivated to replace assets as old assets mature, enabling management more flexibility to maintain portfolio quality. I view ABCP favorably in general and Lockhart in particular while looking to minimize credit risk. I recommend the continued eligibility of Lockhart Funding LLC.



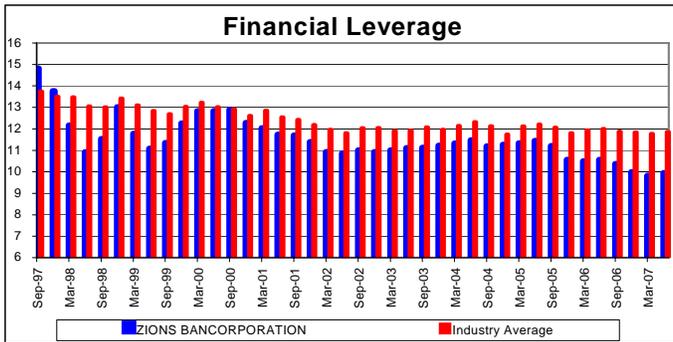
Profitability and NIM quite good



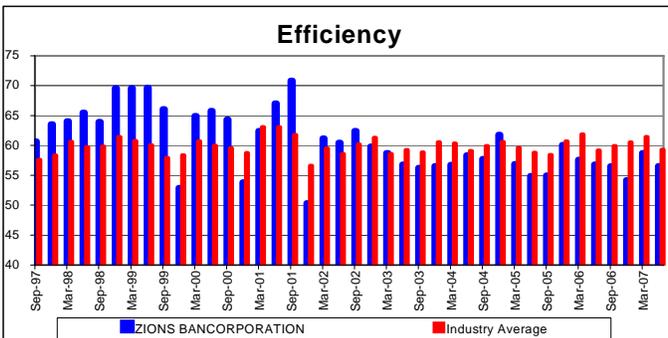
NIM not squeezed like many banks



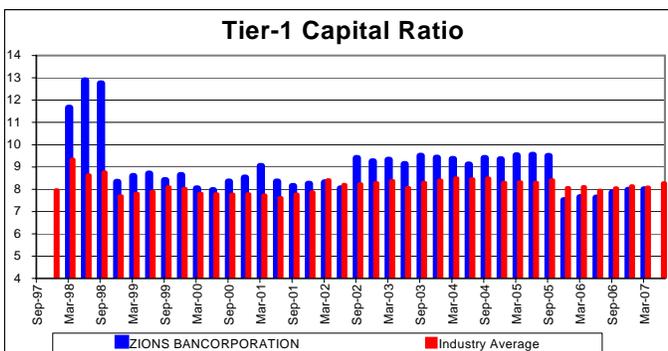
**Good quality assets
Nonperforming assets up slightly
in June but tame compared
to peer group**



**Leverage down and
below peer group**



**Efficiency ratio hovering
around 55%, quite good**



**Tier 1 Capital
around 8%,
anxious to see June's**