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INVESTORS SERVICE

BANKING SYSTEM OUTLOOK

U.S. Bank Asset Quality: Over the River, but not through the Woods

U.S. Banking Industry Fundamental Credit Conditions - 2Q10

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Executive Summary

Although U.S. rated bank asset quality continues to improve, Moody's credit outlook for the U.S. banking industry continues to be negative.[1] On one hand it is clear that bank asset quality issues are past the peak, however on the other, charge-offs and non-performers remain near historic highs. We believe the return to "normal" levels of credit conditions will be slow and uneven through the next twelve to eighteen months.

Loan charge-offs have decreased on an aggregate basis for three consecutive quarters and were 3% of loans in 2Q10, the lowest level since 1Q09. All major categories showed improvement in charge-offs during the second quarter with the exception of commercial real estate (CRE), which increased modestly.

Moody's estimates that rated U.S. banks will incur $744 billion of loan charge-offs between 2008 and 2011. We estimate $476 billion of these losses have been recognized leaving $268 billion, or 36%, remaining. Although sizeable, the remaining losses are beginning to look manageable in relation to these banks' loan loss allowance of $213 billion (4.0% of loans) and tangible common equity of $601 billion at June 30, 2010.

We have incorporated our expected loss estimates into our views of banks' capital adequacy and ratings. However, our rating outlooks, the majority of which remain negative, are influenced by the potential for a worse-than-expected macroeconomic environment. Moody's central macroeconomic scenario (what we consider to be the most likely scenario) continues to be a sluggish economic recovery for the remainder of 2010 with persistent high unemployment and headwinds from significant sovereign budget deficits. More severe macroeconomic developments, the probability of which we place at 20% to 30%, would significantly strain U.S. bank fundamental credit quality and likely result in significant U.S. bank downgrades absent mitigating actions to bolster capital.

This Special Report discusses the actual loss experience for rated U.S. banks through the second quarter of 2010 in comparison to our estimates, and the fundamental credit conditions of the U.S. banking industry.

[1] Moody's outlook on the fundamental credit conditions of the U.S. banking industry has been negative since June 2008.

U.S. Rated Bank Asset Quality

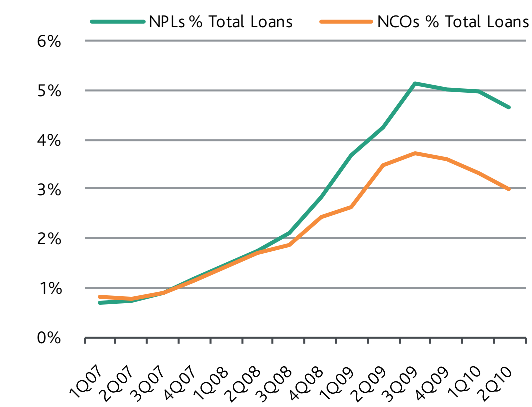
Asset quality trends

Bank asset quality issues are past the peak. Loan charge-offs have decreased on an aggregate basis for three consecutive quarters and were 3% of loans in the second quarter of 2010, the lowest level since the first quarter of 2009. Non-performers also decreased in the second quarter to 4.7% of loans, the lowest level since the second quarter of 2009 (Figure 1). Early stage delinquencies are at 1.6% of total loans at June 30, 2010, down 10.5% from the prior quarter (Figure 2).

FIGURE 1

NPLs incl. 90+, Annualized NCOs (Asset-Weighted)

Moody's Rated U.S. Banks

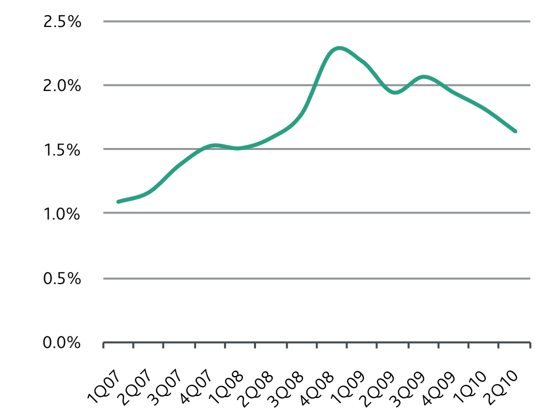


Source: Regulatory FR Y-9C and TFR data

FIGURE 2

Loans 30-89 Days Past Due and Accruing % Total Loans (Asset-Weighted)

Moody's Rated U.S

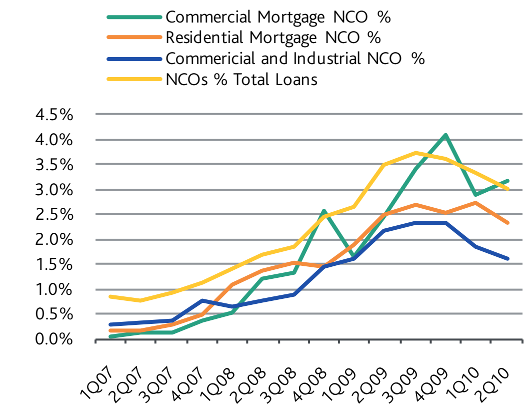


Source: Regulatory FR Y-9C and TFR data

The improvement in charge-offs in the second quarter of 2010 was driven by residential mortgages and credit cards where charge-offs fell by $2.1 billion, or 16%, and $1.4 billion, or 9%, respectively, from the first quarter of 2010 (Figures 3 and 4). Despite the improvement in residential mortgages the recovery in home prices remains feeble and there is considerable risk that these trends could turn negative again. In regards to credit cards, the downward trend appears more secure, absent a double dip recession, as the correlation between card charge-offs and the unemployment rate has weakened.[2]

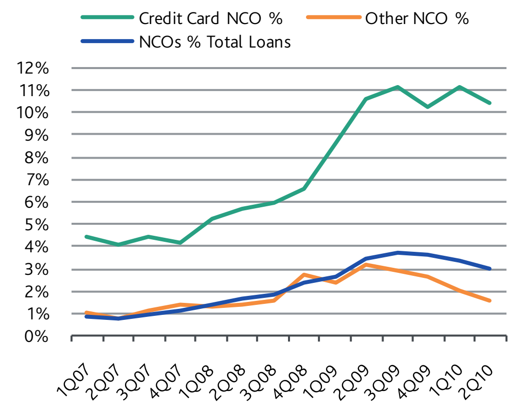
[2] De-Linking of Charge-offs and Unemployment Is Credit Positive for Big Six U.S. Card Banks, August 2010

FIGURE 3
Annualized NCOs % Total Loans
Moody's Rated U.S Banks



Source: Regulatory FR Y-9C and TFR data

FIGURE 4
Credit Card & Other Annualized NCOs % Loans
Moody's Rated U.S. Banks



Source: Regulatory FR Y-9C and TFR data

Commercial real estate charge-offs have displayed significant variability, declining in the first quarter of 2010 but then reversing trend and increasing in the second quarter of 2010. This is similar to the trend experienced in 2009. We attribute the first quarter trend to the extra scrutiny of year-end audits. As for commercial real estate, property markets remain largely frozen and the wholesale extension of loan maturities by lenders continues to delay the establishment of market-clearing prices on the underlying properties. Although we believe commercial real estate charge-offs could increase in future quarters, we find it unlikely they will return to their fourth quarter 2009 peak. Trends in non-performers, charge-offs, and early stage delinquencies by asset class are displayed in Appendix 1.

Figures 5 and 6 display the asset quality trends for the following bank groups: "Big 4 Banks"[3], "SCAP Banks – Non Big 4"[4], and "Other Moody's Rated U.S. Banks"[5]. The Big 4 Banks have the highest non-performing loan ratio due to the concentration and weaker performance of their residential mortgage portfolios versus the other bank groups. The Big 4 Banks' residential mortgage non-performing loan ratio was 7.7% at June 30, 2010 versus 2.4% for the SCAP Banks – Non Big 4 and 2.0% for Other Moody's Rated U.S. Banks. This is due to the Big 4 Banks' activity in affordability products such as option ARM and subprime loans. However, due to improvement in their residential mortgage portfolios, the Big 4 Banks' non-performing loan ratio has declined for three consecutive quarters while the non-performing loan ratios of the other two groups appear to have only just begun their descent from first quarter peaks. Charge-offs declined for all the groups in the quarter, with the Big 4 Banks declining the most due to improvements in residential mortgages and credit cards.

3 Includes Bank of America, Citigroup, JP Morgan Chase, and Wells Fargo.

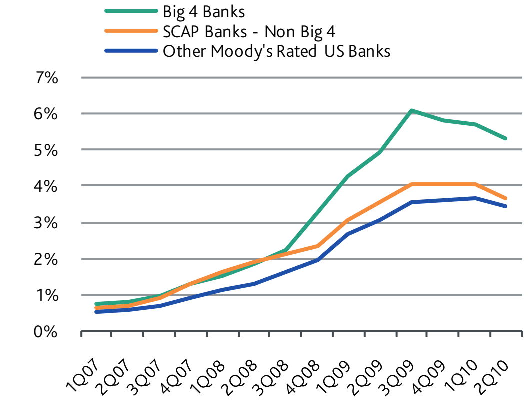
4 Includes the ten "traditional" banks that participated in the Supervisory Capital Assessment Program (SCAP) other than the largest four banks: PNC, US Bank, Bank of New York Mellon, SunTrust, BB&T, Capital One, State Street, Fifth Third, KeyCorp, and Regions. Excludes the other SCAP participants: securities firms and finance companies that recently converted to bank holding companies (Goldman Sachs, Morgan Stanley, GMAC, and American Express) and MetLife.

5 Includes Moody's rated U.S. banks excluding those mentioned above. This group represents approximately 50 banks ranging in asset size from approximately $10 billion to $100 billion.

FIGURE 5

NPLs incl. 90+ % Total Loans (Asset-Weighted)

Big 4 Banks, SCAP Banks – Non Big 4, Other Moody's Rated U.S. Banks

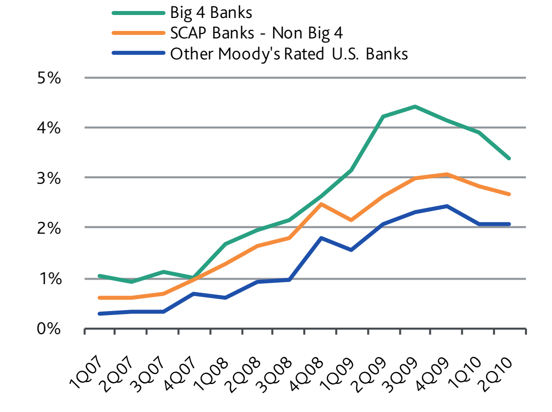


Source: Regulatory FR Y-9C and TFR data

FIGURE 6

Annualized NCOs % Total Loans (Asset-Weighted)

Big 4 Banks, SCAP Banks – Non Big 4, Other Moody's Rated U.S. Banks



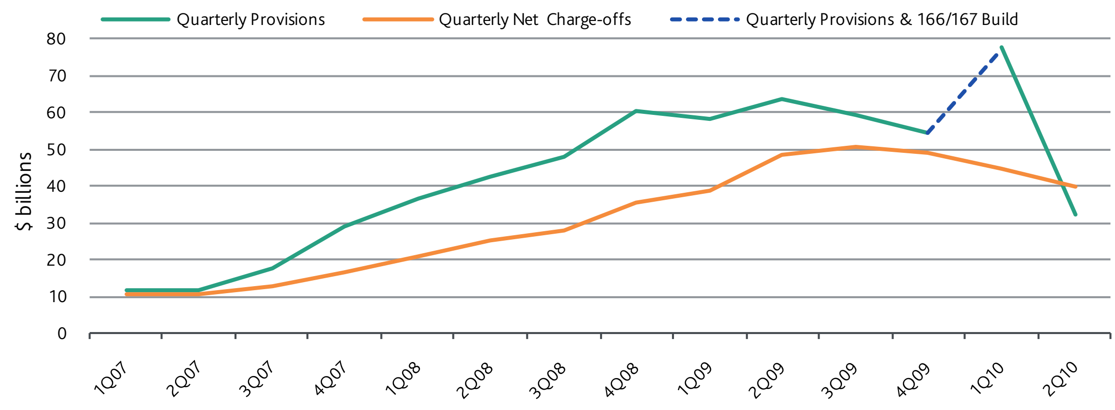
Source: Regulatory FR Y-9C and TFR data

Rated U.S. banks began to reduce their allowances in the second quarter of 2010 as asset quality continued to improve (Figure 7). Charge-offs exceeded provisions by $7 billion in the second quarter of 2010. The implementation of FAS 166/167 increased the loan reserve build significantly in the first quarter of 2010. For the four large traditional credit card banks (Bank of America, JP Morgan Chase, Citigroup and CapitalOne) this build was equal to $36 billion in the first quarter of 2010. Excluding this amount provisions were $41 billion in the first quarter, $4 billion less than charge-offs.

FIGURE 7

Loan Loss Provisions vs. NCOs

Moody's Rated U.S. Banks



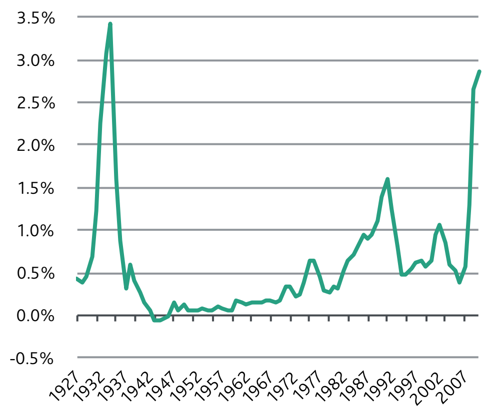
Source: Regulatory FR Y-9C and TFR data

Despite the recent improvements in asset quality, the level of charge-offs and non-performers remain near historic highs. For example, Figure 8 displays the annual trend in the loan charge-off rate from 1927 through the first half of 2010 for FDIC insured commercial banks. The first half 2010 charge-offs of 2.9% of loans (annualized) for all FDIC insured commercial banks has only been exceeded during the Great Depression in 1933 (3.1% charge-off rate) and 1934 (3.4% charge-off rate). As displayed in Figure 9, the net charge-off percentage for rated U.S. banks was 3.5% for 2009 and 3.2% in the first half of 2010 (annualized), in line with the peak depression years. We believe the return to "normal" levels of credit conditions will be slow and uneven through the next twelve to eighteen months.

FIGURE 8

Commercial Bank Loan C/Os 1927 to 1st half 2010

Annual C/O's peaked at 3.4% in 1934

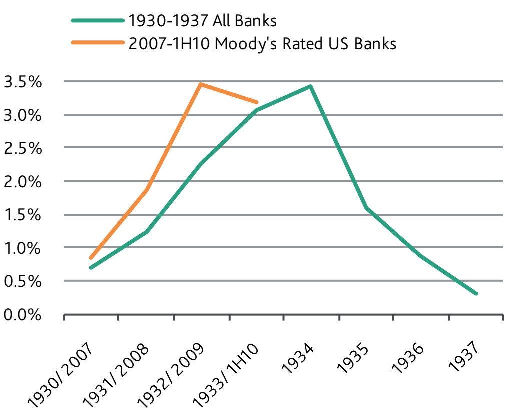


Source: "Banking and Monetary Statistics, 1914-1941"; 1942-present FDIC

FIGURE 9

Rated Bank C/Os Exceed Great Depression Peak

2009 C/O's at 3.5%, 1ST Half 2010 3.2%



Source: "Banking and Monetary Statistics, 1914-1941"; 1942- present FDIC; Moody's

Tracking Charge-offs Against Moody's Loan Loss Estimates: 2008-2011

We estimate that rated U.S. banks will incur $744 billion of loan losses between 2008 and 2011, representing a cumulative loss total of 13.6% of loans (note that these estimates include securitized credit cards). We have incorporated this amount into our views of banks' capital adequacy and into our ratings. Figures 10 and 11 summarize the status of the actual losses incurred by asset and bank type for the rated U.S. banks versus our estimate. In aggregate, rated U.S. banks have recognized 64% of our anticipated charge-offs. On an asset class basis, 68% of residential mortgage losses have been taken versus 49% for CRE. The Big 4 Banks are just over 67% of the way through their gross charge-offs, while SCAP Banks – Non Big 4 are 61% through and Other Moody's Rated U.S. Banks 52% through.

FIGURE 10

Actual C/O's Vs. Moody's Estimate: Product

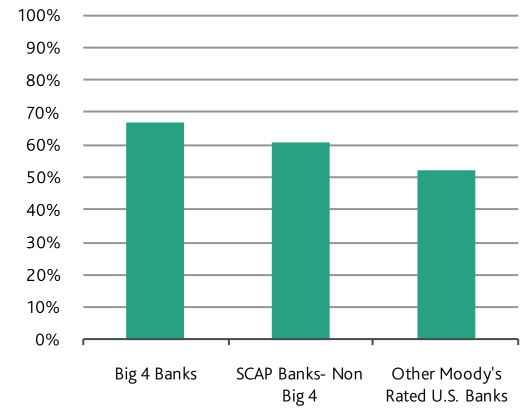
64% Of The Way Through Our Estimated Losses

Source: Regulatory Fr Y-9c And Tfr Data

FIGURE 11

Actual C/O's vs. Moody's Estimate: Bank Type

Big 4 Banks 67% through our estimated losses



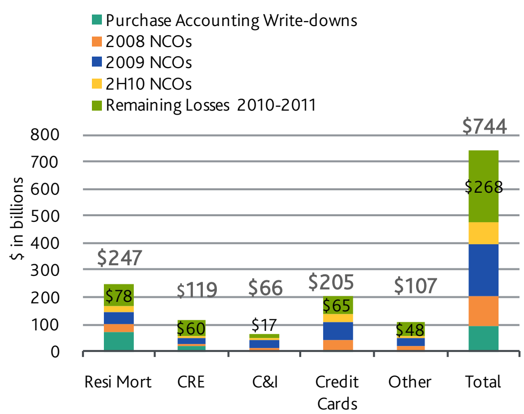
Source: Regulatory Fr Y-9c And Tfr Data

The charts below summarize our gross loss estimates in dollar and cumulative percentage terms (i.e. – adding up all the annual losses from 2008 to 2011) by asset class for all rated U.S. banks (Figures 12 and 13). Each asset class is broken down as follows: charge-offs that have been eliminated through purchase accounting write-downs[6], 2008 charge-offs, 2009 charge-offs, first half 2010 charge-offs and the remaining losses that would need to be incurred to reach our full estimate. These amounts have been adjusted to treat credit card securitizations as if they had been on balance sheet beginning on January 1, 2008. Rated U.S. banks charged off $109 billion of loans in 2008, $187 billion in 2009, and $84 billion in the first half of 2010 ($39.6 billion for the second quarter), leaving $268 billion to be charged off the second half of 2010 and 2011 to reach our full estimate. Despite the slowdown in net charge-off recognition for rated U.S. banks, the trend remains in line with our overall loss forecast for the 2008 to 2011 period, however there is the potential that our full estimate of commercial real estate charge-offs will not be recognized until 2012.

FIGURE 12

Loss Tracker: 2008 - 2011 ($ Basis)

Moody's Rated U.S. Banks

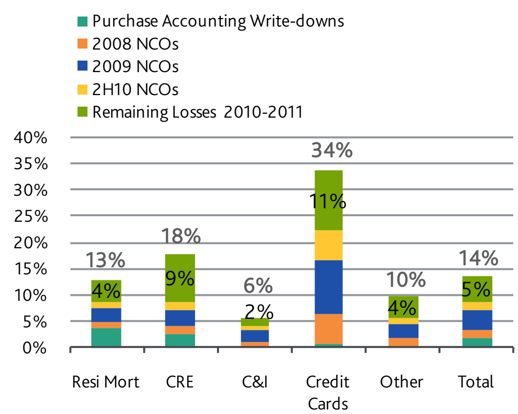


Source: Moody's

FIGURE 13

Loss Tracker: 2008 - 2011 (Cumulative% Basis)

Moody's Rated U.S. Banks



Source: Moody's

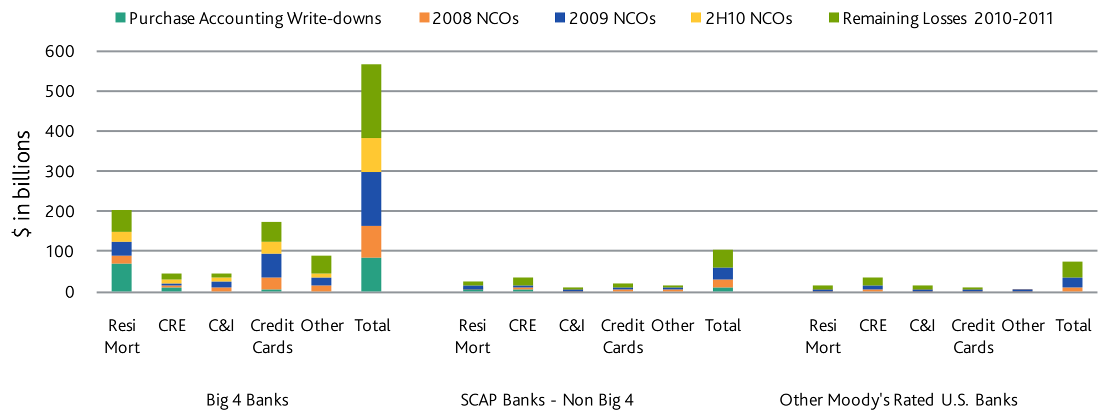
6 We estimate charge-offs equal to $96 billion were eliminated through purchase accounting write-downs in recent acquisitions, including JP Morgan's purchase of Washington Mutual, Wells Fargo's purchase of Wachovia, Bank of America's purchases of Countrywide and Merrill Lynch, and PNC's purchase of National City.

Our gross loss estimates for the Big 4 Banks, SCAP Banks – Non Big 4, and Other Moody's Rated U.S. Banks are $540 billion (15.8% relative to 2Q10 loan balances), $117 billion (11.6% relative to 2Q10 loan balances), and $86 billion (8.2% relative to 2Q10 loan balances), respectively (Figure 14).

FIGURE 14

Loss Tracker: 2008 - 2011 ($ Basis)

Big 4 Banks, SCAP Banks – Non Big 4, Other Moody's Rated U.S. Banks



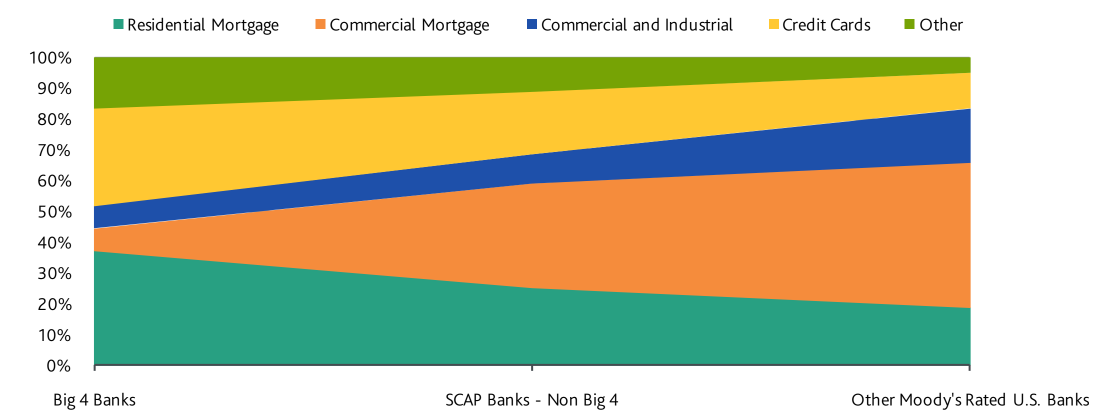
Source: Moody's

Figure 15 shows the remaining losses in percentage terms for the three bank groups. For the Big 4 Banks, we estimate that the bulk of the remaining losses will come from residential mortgages and credit cards. On the other hand, for the SCAP Banks – Non Big 4 and Other Moody's Rated U.S. Banks, we expect a sizable amount of the remaining losses to come from CRE as these banks have a much higher concentration in that sector than the Big 4 Banks.

FIGURE 15

Remaining Estimated Losses by Asset Class

Moody's Rated U.S. Banks

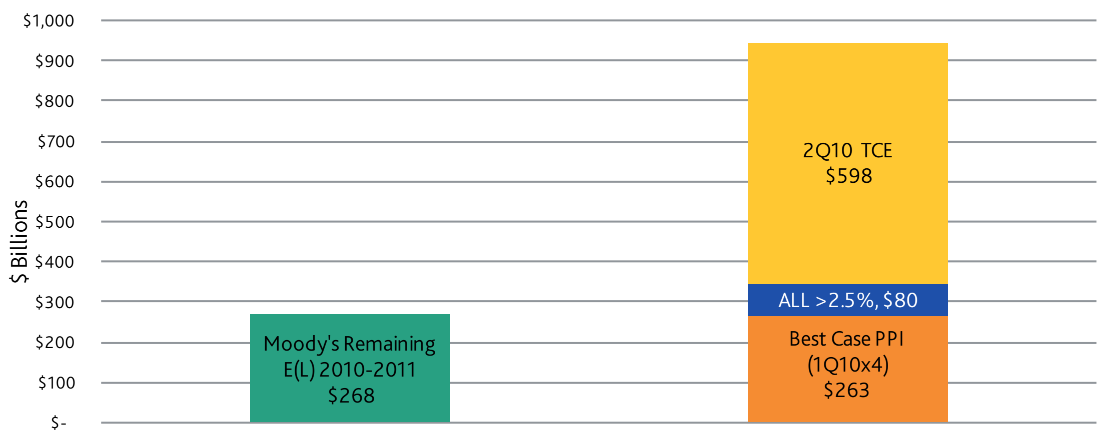


Source: Moody's

Appendix 2 provides a comprehensive summary of our loss estimates by bank type and asset class.

Although we estimate $268 billion of charge-offs remain for the rated U.S. banks in 2010 and 2011, the provisioning needed will be less due to the current high levels of allowance for loan losses. The allowance for loan losses stood at $212 billion or 4% of loans at June 30, 2010. Assuming this was reduced to 2.5% of loans during 2010 and 2011, a reduction of $80 billion, the provisioning need for our estimated charge-offs would be $188 billion. In Figure 16, we compare this "excess allowance," combined with U.S. rated bank tangible common equity ($598 billion at June 30, 2010) and "best case" pre-provision earnings (assumed equal to first quarter 2010 pre-provision earnings, the highest quarterly in the past four quarters). These loss absorption resources are beginning to make the remaining loss estimate look more manageable.

FIGURE 16
Moody's Remaining Losses vs. Bank Resources
Moody's Rated U.S. Banks



Source: Moody's

The Impact of a Worse Than Expected Economic Environment

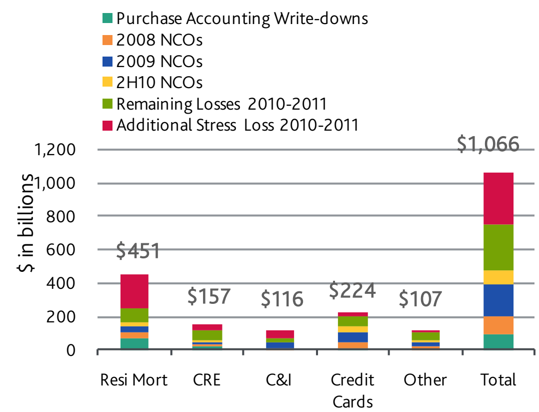
Moody's central macroeconomic scenario (what we consider to be the most likely scenario) is the forecast underlying our bank ratings. The characteristics of this scenario are a sluggish economic recovery in 2010 with persistent high unemployment and headwinds from significant sovereign budget deficits. If this forecast is accurate we would expect that in twelve to eighteen months the U.S banks will have absorbed much of the losses stemming from the crisis.

We also consider the possibility of more severe economic environments which have a wide range of potential severity – from a "double-dip" recession to a remake of the Great Depression. We place the probability of a worsening of the global economy in 2010 at 20% to 30%. Our stress losses are calculated by applying a range of asset-class specific multiples to our base case losses, which result in an approximately 40% increase in our multiyear loss estimates. These multiples are determined at a granular level based on individual portfolio characteristics and performance. More specifically, we have assumed an economic downturn in 2010 could result in an additional $322 billion of loan losses for U.S rated banks, over and above the $744 billion in 2008-11 already expected . We believe two-thirds of these losses would come from residential real estate. Such a downturn would take a heavy toll on U.S. bank asset quality (Figures 17 and 18).

FIGURE 17

Loss Tracker: 2008 - 2011 ($ Basis)

Moody's Rated U.S. Banks

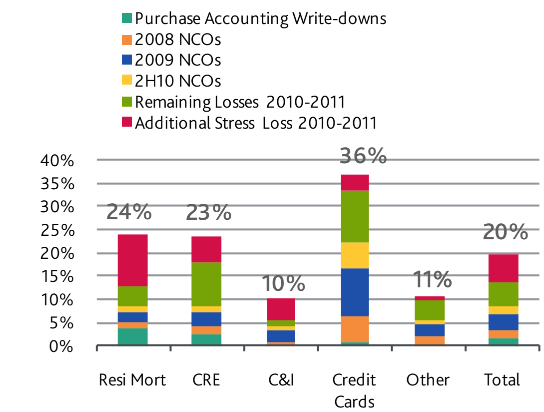


Source: Moody's

FIGURE 18

Cumulative % Losses: 2008 - 2011 (% Basis)

Moody's Rated U.S. Banks



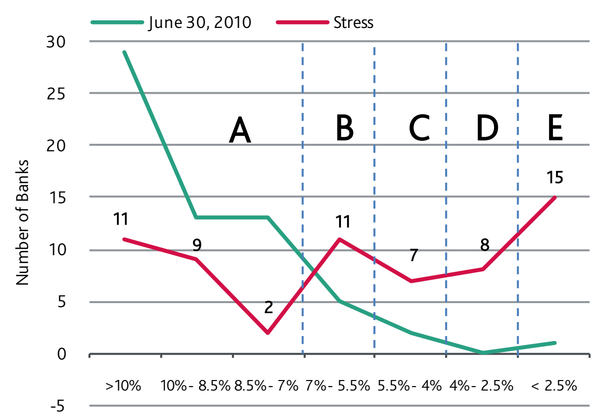
Source: Moody's

Losses of such a magnitude would stress bank capital and likely result in significant US bank downgrades absent mitigating actions to bolster capital. Figure 19 displays the distribution of rated U.S. bank tangible common equity (TCE) to risk-weighted assets (RWA) ratios at June 30, 2010 and our estimation of the distribution of TCE/RWA should the provisioning related to our stress losses be recognized in the next twelve months. Under this scenario approximately 38% of the rated U.S banks would have capital levels consistent with a D (Baa3 to Ba3) or E (Caa1 to C) stand-alone Bank Financial Strength Rating. Figure 20 shows our stress losses in relation to potential bank loss absorption resources in a more severe economic environment. In calculating these stressed ratios we assume that banks' pre-provision income over the next twelve months is equal to their worst quarterly result in the past four quarters annualized and that banks can reduce their loan loss allowances to 2.5% of loans.

FIGURE 19

Further Macroeconomic Deterioration: TCE %RWA

Moody's Rated U.S. Banks

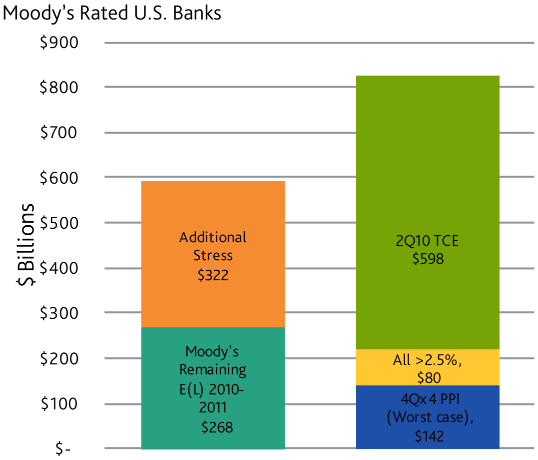


Note: Letters represent BFSR implied by TCE/RWA ratio range
Source: Moody's

FIGURE 20

Further Macroeconomic Deterioration

Moody's Rated U.S. Banks



Source: Moody's

Additionally, we have estimated the investment levels that would be required to recapitalize rated U.S. banks at different levels of TCE/RWA under our base and stress cases (Figure 21). The stress case assumptions are as noted above. The base case assumptions only include the remaining $268 billion of charge-offs, with the related provisioning taken over the next four quarters. We use the banks' best quarterly pre-provision income over the previous four quarters on an annualized basis and assume banks reduce their loan loss allowance to 2.5% of loans as in the stress case.

FIGURE 21

Potential Investment Needed to Recapitalize Moody's Rated U.S. Banks Under Stress Losses

CAPITAL IN $ BILLIONS	AS OF 6/30/2010		BASE CASE		STRESS CASE	
TCE % RWA:	CAPITAL NEEDED	# OF U.S. BANKS	CAPITAL NEEDED	# OF U.S. BANKS	CAPITAL NEEDED	# OF U.S. BANKS
2.5% (D- BFSR)	$0.1	1	$1	4	$20	15
4.0% (C- BFSR)	$0.1	1	$4	4	$55	23
5.5% (B- BFSR)	$2	3	$9	12	$96	30
7.0% (A- BFSR)	$17	8	$31	20	$165	41

Source: Moody's

To explain the table using the 4% (C-(Baa1) stand-alone Banking Financial Strength Rating) row: The figures under the "as of 6/30/2010" header represent that there is currently one rated U.S. bank with a TCE/RWA below 4% and it would require $0.1 billion of capital to increase its ratio to 4%. The figures under the "Base Case" header represent that with our base case remaining losses of $268 billion, four rated U.S. banks' TCE/RWA would fall below 4% and the capital needed to increase their ratio to 4% would be $4 billion. The figures under the "Stress Case" header represent that with our stress case of an additional $322 billion of losses, 23 rated U.S. banks' TCE/RWA ratios would fall below 4% and the capital needed to increase their ratio to 4% would be $55 billion.

U.S. Banking Industry Profitability and Capital Trends

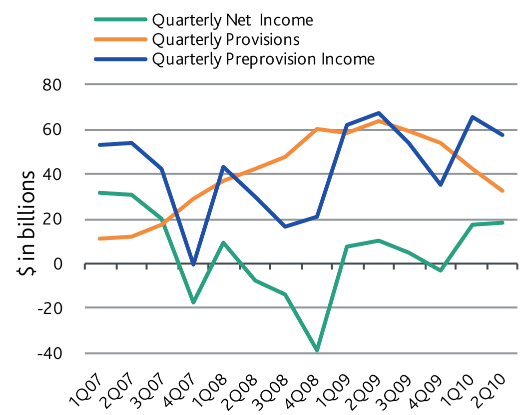
Profitability

In the second quarter of 2010, the rated U.S. banks' net income remained flat as reduced provisions were offset by declines in non-interest income which was negatively impacted by poor capital market conditions and increased market volatility. Although net interest margin increased, balance sheets continued to shrink, limiting net interest income expansion. Net interest margin spiked in the first quarter of 2010 for the Big 4 and SCAP banks due to the consolidation of previously off-balance sheet credit cards (Figures 22 to 25). The majority of rated banks remain asset sensitive and are therefore well positioned for rising interest rates.

FIGURE 22

Provisions, Pre-provision Income, & Net Income

Moody's Rated U.S. Banks

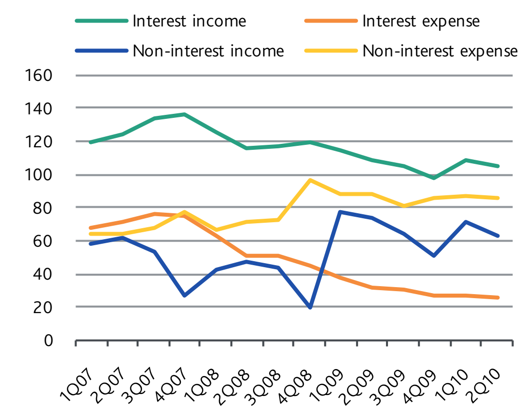


Source: Regulatory FR Y-9C and TFR data

FIGURE 23

Pre-provision Income Components

Moody's Rated U.S. Banks

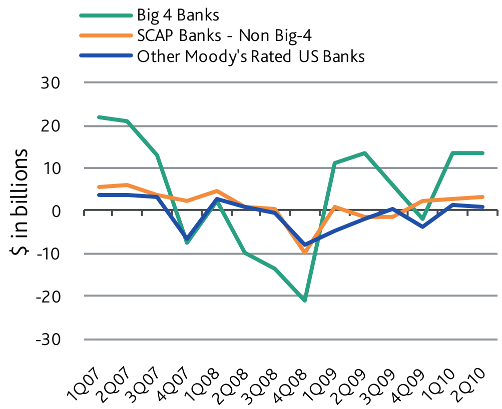


Source: Regulatory FR Y-9C and TFR data

FIGURE 24

Net Income

Big 4 Banks, SCAP Banks – Non Big 4, Other Moody's Rated U.S. Banks

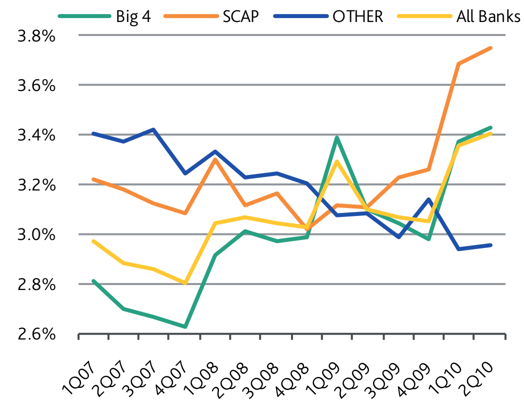


Source: Regulatory FR Y-9C and TFR data

FIGURE 25

Net Interest Margin Time Series (Weighted Avg)

Big 4 Banks, SCAP Banks – Non Big 4, Other Moody's Rated U.S. Banks



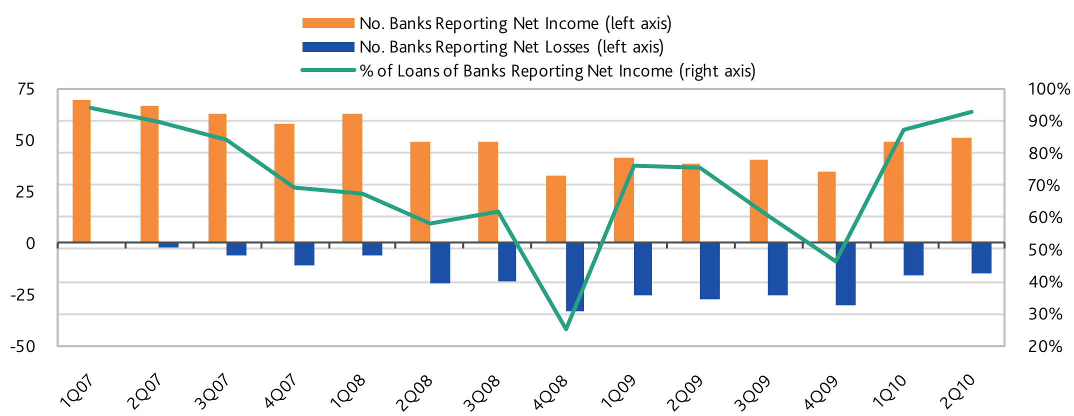
Source: Regulatory FR Y-9C and TFR data

In the second quarter of 2010, 77% of rated U.S. banks (by number) were profitable, flat compared to the first quarter of 2010, and up from 54% in the fourth quarter of 2009. Profitable banks represented 93% of loans highlighting that the smallest rated banks, which have CRE concentrations, are more likely to be unprofitable (Figure 26). Due to our expectation that provision levels will remain elevated, although decreasing, in 2010, we anticipate that a number of banks will remain unprofitable in the near term.

FIGURE 26

Number of Banks Reporting Income/Losses

Moody's Rated U.S. Banks



Source: Regulatory FR Y-9C and TFR data

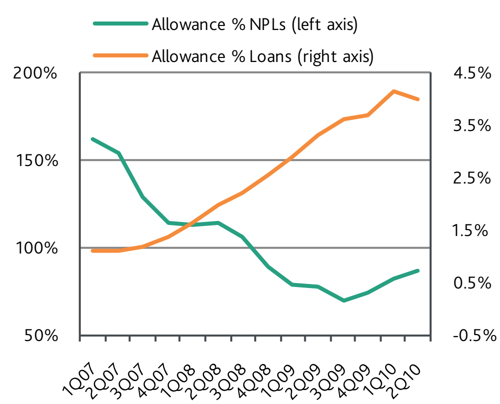
Balance Sheet and Capital

Rated U.S. banks' coverage of non-performing loans by loan loss allowances has worsened significantly since 2007 (Figure 27). However, there have been improvements in the last three quarters with the ratio at 86% at June 30, 2010 versus its low of 70% in the third quarter of 2009 (left scale). The ratio of allowance to loans, which had been rising steadily since the first quarter of 2007- decreased slightly to 4.0% at June 30, 2010 (right scale). Figure 28 shows the quarterly trends in the allowance to non-performing loan ratio for the Big 4 Banks, SCAP Banks – Non Big-4, and Other Moody's Rated U.S. Banks. Other Moody's Rated U.S. Banks have the lowest coverage at 76% versus the Big 4 Banks and SCAP Banks–Non Big-4 at 87% and 92%, respectively.

FIGURE 27

Allowance % NPLs incl. 90+ and Loans

Moody's Rated U.S. Banks

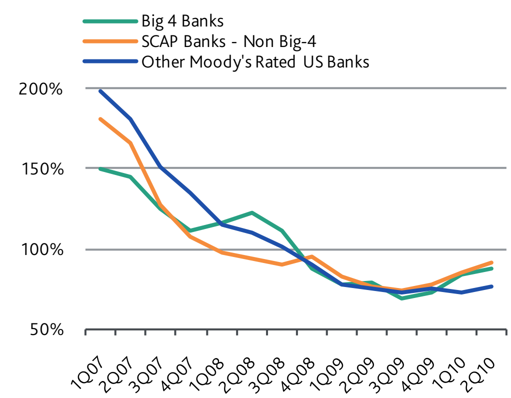


Source: Regulatory FR Y-9C and TFR data

FIGURE 28

Allowance % NPLs incl. 90+

Big 4 Banks, SCAP Banks – Non Big 4, Other Moody's Rated U.S. Banks



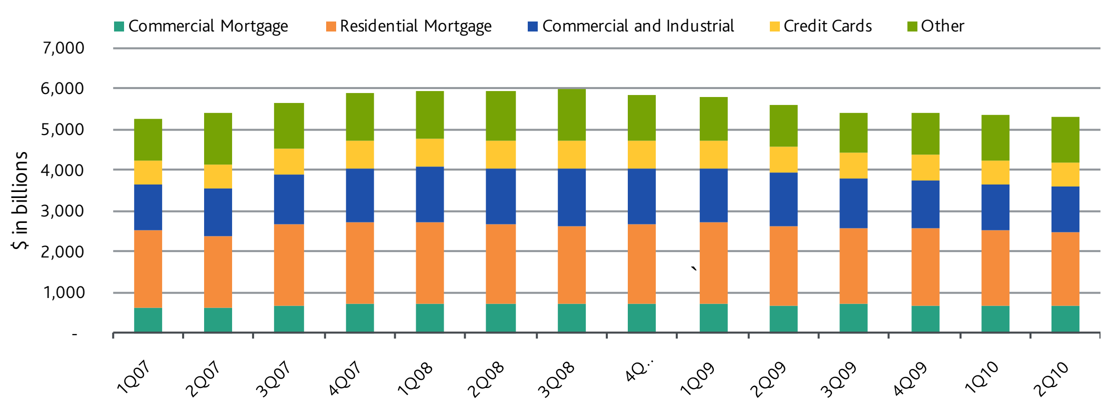
Source: Regulatory FR Y-9C and TFR data

Although U.S. banks experienced a pronounced decline in loan balances since the third quarter of 2008, the pace of this trend has somewhat abated for rated U.S. banks recently. All major loan categories decreased slightly in the second quarter of 2010 compared to first quarter levels (Figure 29). This decrease can be attributed to a combination of heightened charge-offs and a decline in new loan originations.

FIGURE 29

Loan Balances by Asset Class

Moody's Rated U.S. Banks



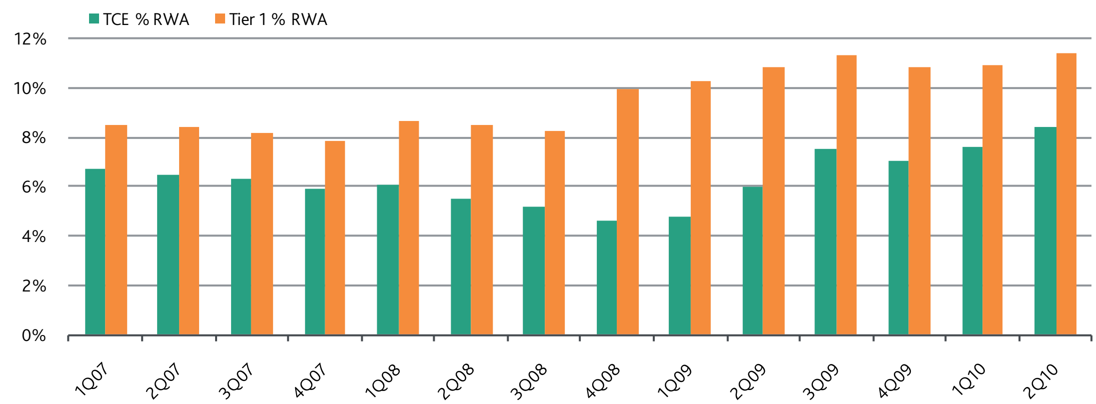
Source: Regulatory FR Y-9C and TFR data

With regard to the development of capital, the second quarter of 2010 included internal capital generation, capital raises and TARP repayments resulting in the TCE (calculated as common equity less goodwill and other intangibles, excluding mortgage servicing rights) to risk-weighted assets (RWA) ratio rising to 8.4% at June 30, 2010 from 7.6% at March 31, 2010, while the Tier 1 to RWA ratio surpassed the peak reached in the third quarter of 2009, rising to 11.4% (Figure 30)

FIGURE 30

Capital Ratios

Moody's Rated U.S. Banks



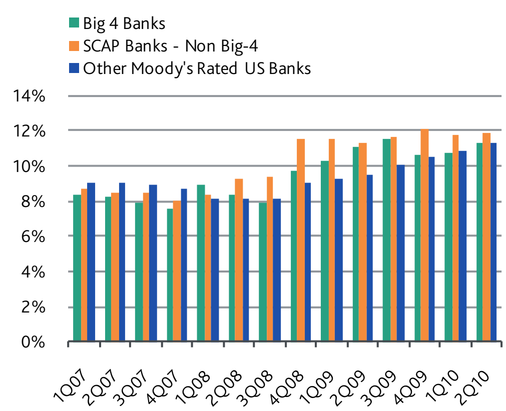
Source: Regulatory FR Y-9C and TFR data

The Tier 1 and TCE ratio trends for the three groups of rated U.S. banks are illustrated in Figures 31 and 32. Similar to the aggregate trends, the TCE and Tier 1 ratio improved slightly for each group.

FIGURE 31

Tier 1 Capital % RWA

Big 4 Banks, SCAP Banks – Non Big 4, Other Moody's Rated U.S. Banks

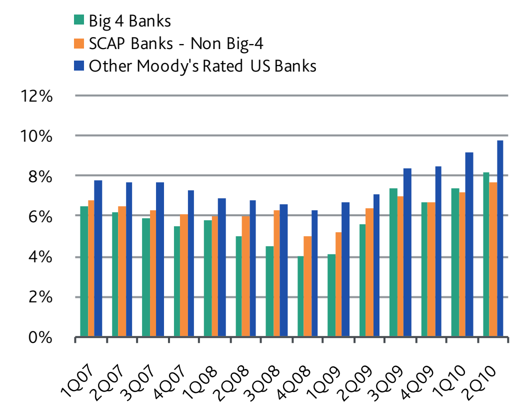


Source: Regulatory FR Y-9C and TFR data

FIGURE 32

TCE % RWA

Big 4 Banks, SCAP Banks – Non Big 4, Other Moody's Rated U.S. Banks



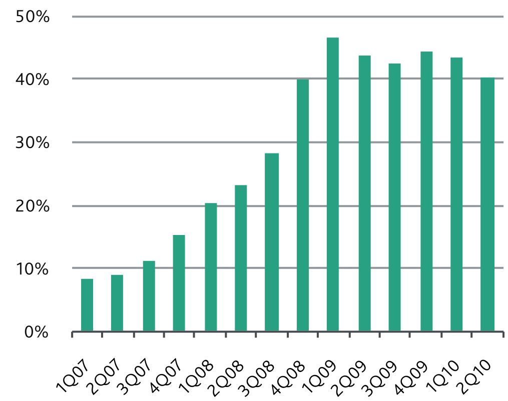
Source: Regulatory FR Y-9C and TFR data

The ratio of non-performing assets (NPAs) to TCE plus loan loss reserves remained elevated during 2009 (Figures 33 and 34). This ratio has decreased to 40% from the mid-40% range experienced in the past several quarters.

FIGURE 33

NPAs % TCE plus Loan Loss Reserves

Moody's Rated U.S. Banks

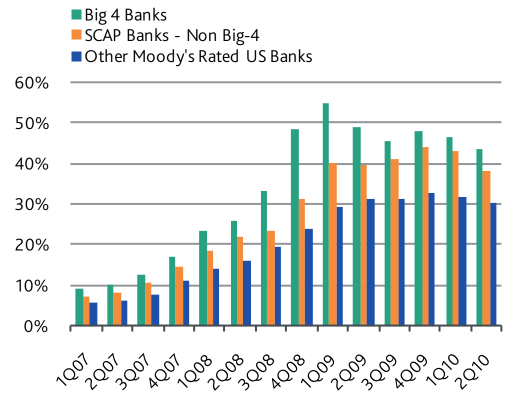


Source: Regulatory FR Y-9C and TFR data

FIGURE 34

NPAs % TCE plus Loan Loss Reserves

Big 4 Banks, SCAP Banks – Non Big 4, Other Moody's Rated U.S. Banks



Source: Regulatory FR Y-9C and TFR data

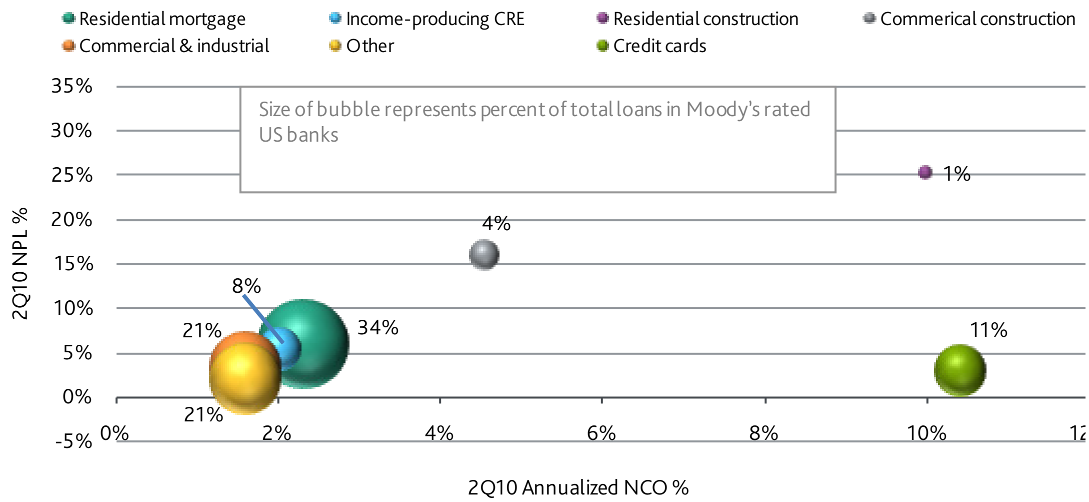
Appendix 1: Concentrations and Quality Trends by Asset Class

Figure 35 serves as a "heat map" for asset quality issues at rated U.S. banks. It displays concentrations (size of bubble), non-performing loans (y-axis), and net charge-offs (x-axis) for the major asset classes.

FIGURE 35

Asset Quality Heat Map

Moody's Rated U.S. Banks

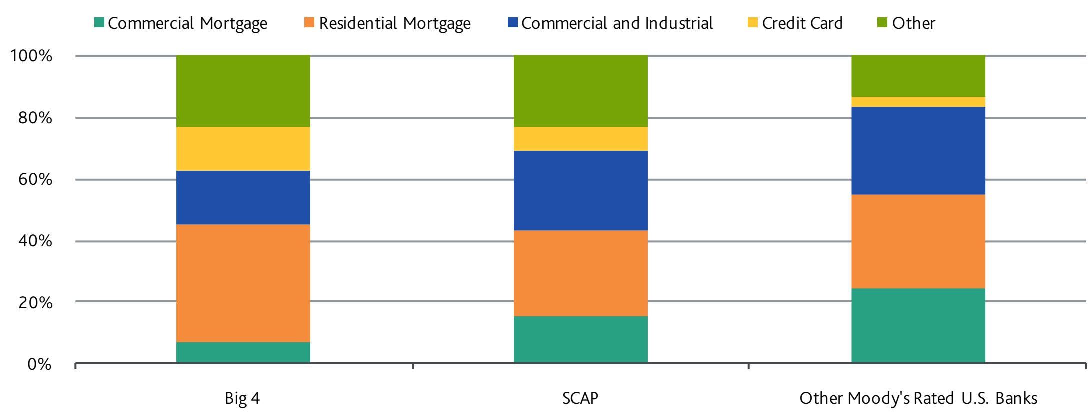


Source: Regulatory FR Y-9C and TFR data

FIGURE 36

Loan Composition as of June 30, 2010

Big 4 Banks, SCAP Banks – Non Big 4, Other Moody's Rated U.S. Banks

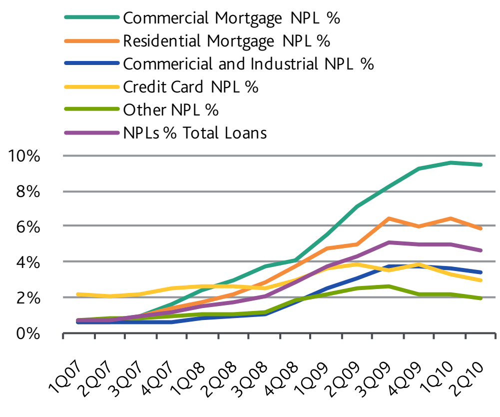


Source: Regulatory FR Y-9C and TFR data

FIGURE 37

NPLs incl. 90+ % Total Loans (Asset-Weighted)

Moody's Rated U.S. Banks

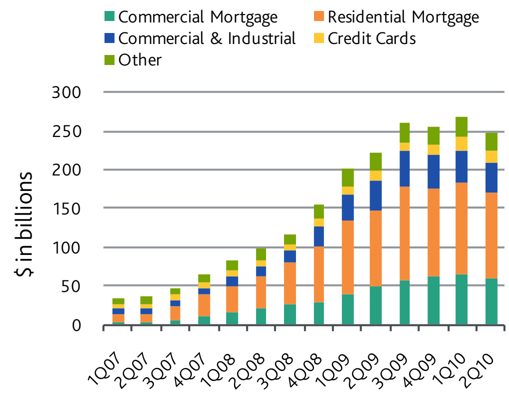


Source: Regulatory FR Y-9C and TFR data

FIGURE 38

NPLs inc. 90+

Moody's Rated U.S. Banks

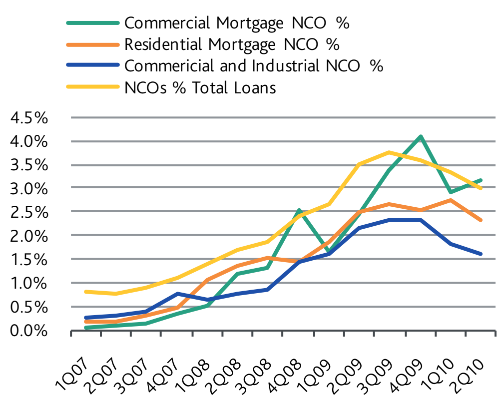


Source: Regulatory FR Y-9C and TFR data

FIGURE 39

Annualized NCOs % Total Loans

Moody's Rated U.S. Banks

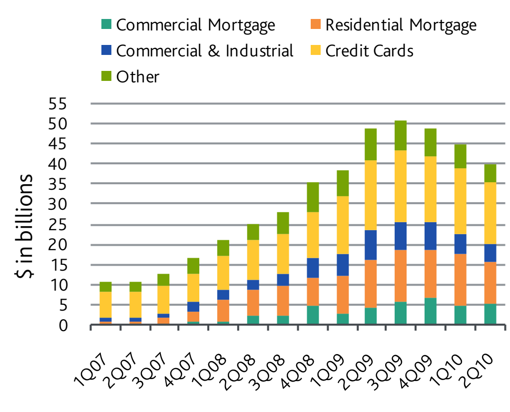


Source: Regulatory FR Y-9C and TFR data

FIGURE 40

Annualized NCOs

Moody's Rated U.S. Banks

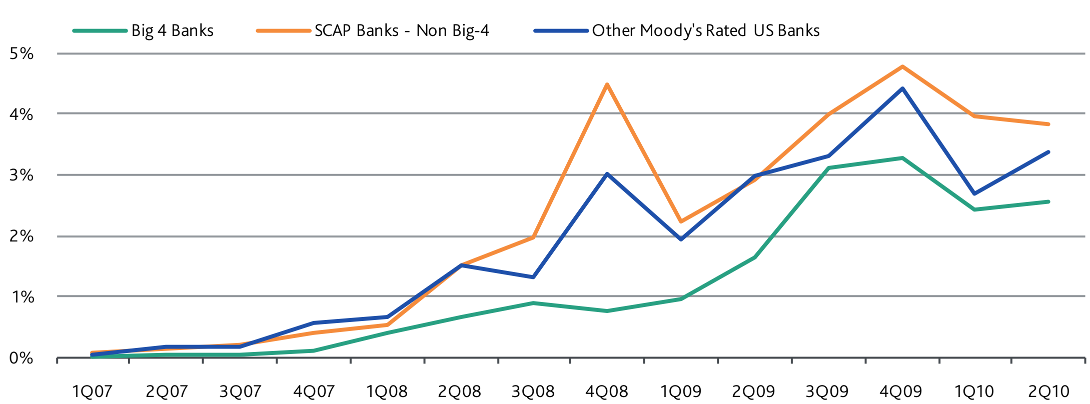


Source: Regulatory FR Y-9C and TFR data

FIGURE 41

Commercial Mortgage Annualized NCOs

Big 4 Banks, SCAP Banks – Non Big 4, Other Moody's Rated U.S. Banks

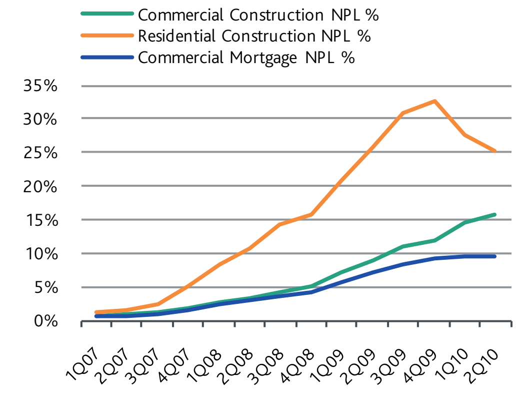


Source: Regulatory FR Y-9C and TFR data

FIGURE 42

Construction NPLs % Loans

Moody's Rated U.S. Banks

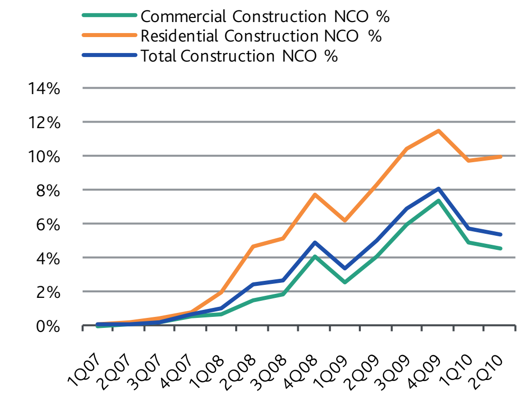


Source: Regulatory FR Y-9C and TFR data

FIGURE 43

Construction NCOs % Loans

Moody's Rated U.S. Banks

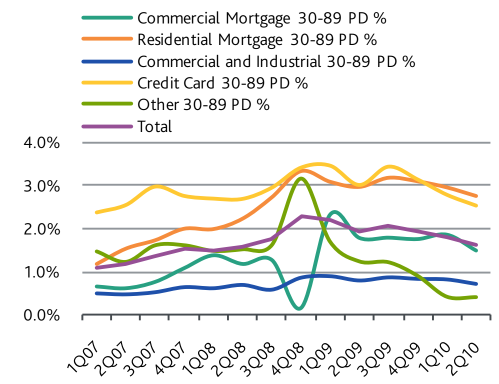


Source: Regulatory FR Y-9C and TFR data

FIGURE 44

Loans 30-89 Days Past Due % Loans

Moody's rated U.S. Banks

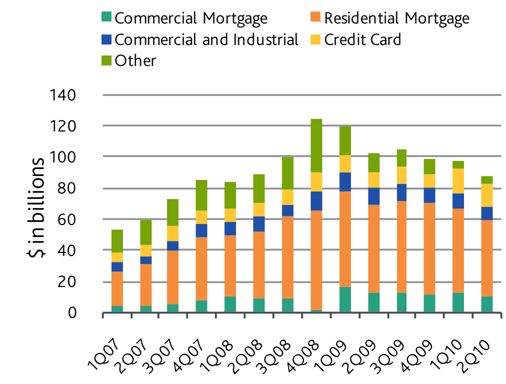


Source: Regulatory FR Y-9C and TFR data

FIGURE 45

Loans 30-89 Days Past Due

Moody's rated U.S. Banks



Source: Regulatory FR Y-9C and TFR data

Appendix 2: Comprehensive Summary of Moody's U.S. Bank Loss Estimate

Table 1

Moody's Rated U.S. Bank Loss Tracker

	2008 NCOS		2009 NCOS		2H10 NCOS		REMAINING LOSSES		2008 - 2011 ESTIMATED LOSSES		PURCHASE ACCOUNTING WRITE-DOWNS		GROSS LOSSES	
	$	% ANNUM	$	% ANNUM	$	% ANNUM	$	% CUM	$	% CUM	$	%	$	% CUM
All Rated U.S. Banks														
Resi Mort	26	1.4%	46	2.4%	23	1.3%	78	4.3%	173	9.3%	74	3.6%	247	13.0%
CRE	10	1.4%	20	2.9%	10	1.5%	60	9.3%	100	15.2%	19	2.6%	119	17.8%
C&I	13	0.9%	26	2.3%	10	0.9%	17	1.5%	66	5.6%		0.0%	66	5.6%
Credit Cards	40	5.8%	66	10.4%	31	5.5%	65	11.3%	201	32.9%	4	0.6%	205	33.5%
Other	21	1.9%	29	2.7%	10	0.9%	48	4.3%	107	9.7%		0.0%	107	9.7%
Total	109	1.9%	187	3.4%	84	1.6%	268	5.0%	647	12.0%	96	1.6%	744	13.6%
Big 4 Banks														
Resi Mort	20	1.5%	36	2.8%	18	1.4%	57	4.6%	131	10.4%	70	5.0%	201	15.3%
CRE	2	0.7%	6	2.4%	3	1.3%	17	7.0%	28	11.4%	11	4.1%	39	15.5%
C&I	8	1.1%	17	2.8%	6	1.0%	9	1.6%	40	6.4%		0.0%	40	6.4%
Credit Cards	33	5.8%	55	10.8%	26	5.6%	53	11.4%	167	33.6%	4	0.7%	172	34.3%
Other	15	2.1%	22	3.1%	8	1.0%	45	5.9%	89	12.1%		0.0%	89	12.1%
Total	78	2.1%	136	4.1%	60	1.8%	180	5.5%	454	13.6%	86	2.3%	540	15.8%
SCAP Banks Non Big 4														
Resi Mort	4	1.5%	5	1.9%	3	1.1%	13	4.9%	26	9.4%	4	1.2%	30	10.7%
CRE	4	2.2%	6	3.4%	3	2.0%	20	12.9%	32	20.5%	7	4.2%	40	24.7%
C&I	2	0.8%	5	2.0%	2	0.9%	2	0.7%	11	4.4%		0.0%	11	4.4%
Credit Cards	5	6.1%	7	8.9%	3	4.6%	8	10.4%	24	30.0%		0.0%	24	30.0%
Other	4	1.5%	4	1.9%	2	0.8%	3	1.4%	13	5.6%		0.0%	13	5.6%
Total	19	1.8%	28	2.8%	14	1.4%	46	4.7%	106	10.6%	11	1.0%	117	11.6%
Other Moody's Rated U.S. Banks														
Resi Mort	2	0.6%	4	1.3%	2	0.7%	8	2.5%	16	5.1%		0.0%	16	5.1%
CRE	5	1.6%	8	3.2%	4	1.5%	24	9.3%	41	15.6%		0.0%	41	15.6%
C&I	2	0.7%	5	1.5%	2	0.7%	6	2.1%	15	4.9%		0.0%	15	4.9%
Credit Cards	2	4.9%	3	8.2%	2	4.8%	4	11.6%	10	29.4%		0.0%	10	29.4%
Other	2	1.2%	3	1.9%	1	0.7%		0.0%	4	3.8%		0.0%	4	3.8%
Total	12	1.1%	23	2.1%	11	1.0%	42	4.0%	86	8.2%		0.0%	86	8.2%

Source: Moody's

Appendix 3: Moody's U.S. Bank Ratings List as of August 25, 2010

ENTITY NAME	BANK FINANCIAL STRENGTH	BCA	UPLIFT	BANK SR RATING	TYPE OF SUPPORT	UPLIFT	HOLDCO SR RATING	OUTLOOK
Bank of New York Mellon Corporation (The)	B+	Aa2	2	Aaa	Systemic	1	Aa2	Stable
Commerce Bancshares, Inc.	B+	Aa2	--	Aa2	--	--	--	Negative
U.S. Bancorp	B+	Aa2	1	Aa1	Systemic	0	Aa3	Rating(s) Under Review
Bank of Hawaii Corporation	B	Aa3	--	Aa3	--		A1	Negative
BB&T Corporation	B	Aa3	1	Aa2	Systemic	0	A1	Rating(s) Under Review
City National Corporation	B	Aa3	--	Aa3	--	--	A1	Negative
Cullen/Frost Bankers, Inc.	B	Aa3	--	Aa3	--	--	A1	Negative
JPMorgan Chase & Co.	B	Aa3	2	Aa1	Systemic	1	Aa3	Negative
Northern Trust Corporation	B	Aa3	--	Aa3	--	--	A1	Stable
State Street Corporation	B	Aa3	1	Aa2	Systemic	0	A1	Negative
BOK Financial Corporation	B-	A1	--	A1	--	--	A2	Negative
Comerica Incorporated	B-	A1	--	A1	--	--	A2	Negative
FirstMerit Corporation	B-	A1	--	A1	--	--	--	Negative
Hancock Holding Company	B-	A1	--	A1	--	--	A2	Negative
Old National Bancorp	B-	A1	--	A1	--	--	A2	Negative
TCF Financial Corporation	B-	A1	--	A1	--	--	--	Negative
TD Bank US Holding Company	B-	A1	2	Aa2	Parental	--	A1	Negative
Valley National Bancorp	B-	A1	--	A1	--	--	--	Negative
BancWest Corporation	C+	A2	1	A1	Parental	--	--	Stable(m)*
Citizens Financial Group, Inc.	C+	A2	--	A2	--	--	--	Negative
First Citizens BancShares, Inc.	C+	A2	--	A2	--	--	--	Negative
Harris Bankcorp, Inc.	C+	A2	--	A1	--	--	--	Stable(m)
M&T Bank Corporation	C+	A2	--	A2	--	--	A3	Negative
New York Community Bancorp, Inc.	C+	A2	--	A2	--	--	A3	Negative
People's United Financial Inc.	C+	A2	--	A2	--	--	A3	Stable
PNC Financial Services Group, Inc.	C+	A2	1	A1	Systemic	0	A3	Rating(s) Under Review
SVB Financial Group	C+	A2	--	A2	--	--	A3	Negative
UnionBanCal Corporation	C+	A2	--	A2	--	--	--	Negative
Amarillo National Bancorp, Incorporated	C	A3	--	A3	--	--	--	Stable
American Savings Bank, FSB	C	A3	--	A3	--	--	--	Stable
Associated Banc-Corp	C	A3	--	A3	--	--	(P)Baa1	Stable
Astoria Federal Savings & Loan Association	C	A3	--	A3	--	--	Baa1	Negative
BancorpSouth, Inc.	C	A3	--	A3	--	--	Baa1	Negative
Capital One Financial Corporation	C	A3	1	A2	Systemic	0	Baa1	Rating(s) Under Review
Fifth Third Bancorp	C	A3	1	A2	Systemic	0	Baa1	Rating(s) Under Review

ENTITY NAME	BANK FINANCIAL STRENGTH	BCA	UPLIFT	BANK SR RATING	TYPE OF SUPPORT	UPLIFT	HOLDCO SR RATING	OUTLOOK
First Horizon National Corporation	C	A3	--	A3	--	--	Baa1	Negative
First Midwest Bancorp, Inc.	C	A3	--	A3	--	--	Baa1	Negative
First Niagara Financial Group, Inc.	C	A3	--	A3	--	--	Baa1	Stable
Fulton Financial Corporation	C	A3	--	A3	--	--	Baa1	Stable
Hudson Valley Holding Corp.	C	A3	--	A3	--	--	--	Negative
HSBC USA Inc.	C	A3	3	Aa3	Parental	3	A1	Negative
INTRUST Financial Corporation	C	A3	--	A3	--	--	Baa1	Stable
KeyCorp	C	A3	1	A2	Systemic	0	Baa1	Rating(s) Under Review
Marshall & Ilsley Corporation	C	A3	--	A3	--	--	Baa1	Negative
Trustmark Corporation	C	A3	--	A3	--	--	Baa1	Negative
United Bankshares, Inc.	C	A3	--	A3	--	--	--	Negative
Webster Financial Corporation	C	A3	--	A3	--	--	Baa1	Stable
Wells Fargo & Company	C	A3	4	Aa2	Systemic	3	A1	Negative(m)
Whitney Holding Corporation	C	A3	--	A3	--	--	Baa1	Negative
Bank of America Corporation	C-	Baa2	5	Aa3	Systemic	4	A2	Negative(m)
Citigroup Inc.	C-	Baa2	4	A1	Systemic	3	A3	Negative(m)
Compass Bancshares, Inc.	C-	Baa2	2	A3	Parental	2	Baa1	Negative
First National of Nebraska, Inc.	C-	Baa1	--	Baa1	--	--	--	Negative
Huntington Bancshares Incorporated	C-	Baa1	--	Baa1	--	--	Baa2	Negative
RBC Bancorporation (USA)	C-	Baa2	4	A1	Parental	--	--	Stable
Santander Holdings USA, Inc.	C-	Baa1	1	A3	Parental	1	Baa1	Stable*
SunTrust Banks, Inc.	C-	Baa1	2	A2	Systemic	1	Baa1	Rating(s) Under Review
Susquehanna Bancshares, Inc.	C-	Baa2	--	Baa2	--	--	--	Negative
Wilmington Trust Corporation	C-	Baa2	--	Baa2	--	--	Baa3	Negative
Regions Financial Corporation	D+	Baa3	2	Baa1	Systemic	1	Baa3	Rating(s) Under Review
Western Alliance Bancorporation	D+	Ba1	--	Ba1	--	--	Ba3	Stable
Synovus Financial Corp.	D-	Ba3	--	Ba3	--	--	--	Stable
Citizens Republic Bancorp, Inc.	D-	Ba3	--	Ba3	--	--	B2	Negative
Zions Bancorporation	D-	Ba3	1	Ba2	Systemic	0	B2	Rating(s) Under Review*
Pacific Capital Bancorp	E	Caa1	--	Caa1	--	--	C	Rating(s) Under Review

» contacts continued from page 1

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