MOODY'S
INVESTORS SERVICE

SPECIAL REPORT

U.S. Bank Asset Quality: Negative Trends Slow Down, But the Pain Isn't Over

U.S. Banking Industry Fundamental Credit Conditions - 4Q09

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Executive Summary

Moody's credit outlook for the U.S. banking industry continues to be negative.[1] The negative outlook is driven by the continued weakness in U.S. bank asset quality. Aggregate non-performing loans and charge-offs for rated U.S. banks declined on a linked-quarter basis in the fourth quarter of 2009 for the first time since early 2007, mainly due to improvement in the residential mortgage portfolios of the four largest banks. However, these indicators remain near historic highs, and we do not rule out the possibility of a reversal of the positive trends experienced in the fourth quarter for larger banks, especially considering the unknown impact of modification programs on the residential mortgage trends. Additionally, commercial real estate (CRE), for most banks, continues to deteriorate rapidly. Although aggregate asset quality indicators may display additional improvement in 2010, we do not believe they will return to "normal" levels until 2011.

An additional consideration for the continuation of the negative outlook on the U.S. banking industry is 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 in 2010 with persistent high unemployment and headwinds from significant sovereign budget deficits. More severe macroeconomic developments would significantly strain U.S. bank fundamental credit quality.

Moody's estimates that rated U.S. banks will incur $536 billion of loan charge-offs between 2008 and 2011, equal to 9.7% of loans outstanding at December 31, 2007. Rated U.S. banks charged off $240 billion of loans in 2008 and 2009, leaving $296 billion to reach our full estimate (equal to 55% of total estimate). This compares to a loan loss allowance of $188 billion, or 3.7% of loans, an unprecedented level. Although banks have provisioned for a substantial amount of their remaining charge-offs, the additional provision required will extend the period that many banks will be unprofitable well into 2010, and will reduce capital levels. With that said, we have incorporated these loss estimates into our views of banks' capital adequacy and ratings.

This Special Report discusses the actual loss experience for rated U.S. banks through the end of 2009 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.

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

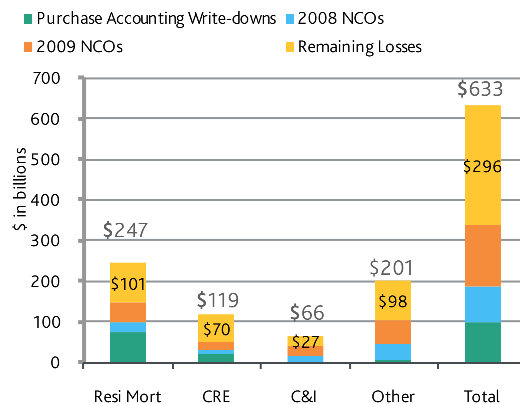
Moody's estimates that rated U.S. banks will incur $536 billion of loan losses between 2008 and 2011, equal to 9.7% of loans outstanding at December 31, 2007. We have incorporated this amount into our views of banks' capital adequacy and into our ratings. This amount has been reduced for the purchase accounting marks taken on residential and commercial mortgage portfolios 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. On a gross basis (prior to the reduction by the purchase accounting marks), Moody's loss estimate is $633 billion, or 11.4% of loans outstanding at December 31, 2007. Essentially, we believe charge-offs equal to 1.7% of loans were eliminated through purchase accounting write-downs. Note that these estimates exclude securitized credit cards.

The charts and table below summarize our gross loss estimates in dollar and percentage terms by asset class for all rated U.S. banks (Figures 1 and 2). Each asset class is broken down as follows: charge-offs that have been eliminated through purchase accounting write-downs, 2008 charge-offs, 2009 charge-offs, and the remaining losses that would need to be incurred to reach our full estimate. Rated U.S. banks charged off $88 billion of loans in 2008 and $152 billion in 2009, leaving $296 billion, or 5.3% of loans, to be charged off in 2010 and 2011 to reach our full estimate. Therefore, rated U.S. banks have recognized 45% of our anticipated net charge-offs. On an asset class basis, we believe 42% of residential mortgage losses have been taken versus 30% for CRE.

FIGURE 1

Loss Tracker: 2008 - 2011 ($ Basis)

Moody's Rated U.S. Banks

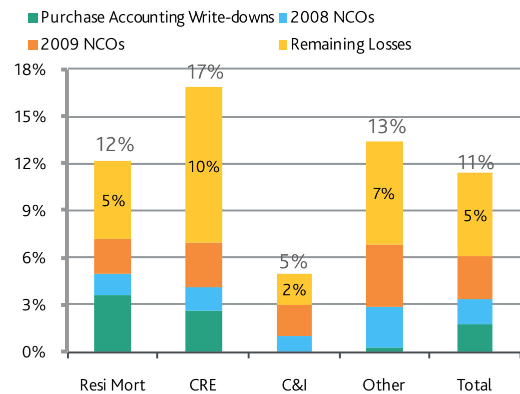


Source: Moody's

FIGURE 2

Loss Tracker: 2008 - 2011 (% Basis)

Moody's Rated U.S. Banks



Source: Moody's

Although the increase in charge-offs between 2008 and 2009 is substantial, the quarterly charge-off trend moderated at the end of 2009 with aggregate charge-offs actually declining slightly (from $41.3 billion to $40.2 billion) between the third and fourth quarters of 2009. This slow down in net charge-off recognition for rated U.S. banks did not change our forecast of the amount of charge-offs rated U.S. banks will incur, but it has changed our expectations regarding the timing of when these losses will be recognized. Previously, we had anticipated that rated U.S. banks would incur elevated charge-offs through 2010 and return to a more normalized level of charge-offs in 2011. However, we now

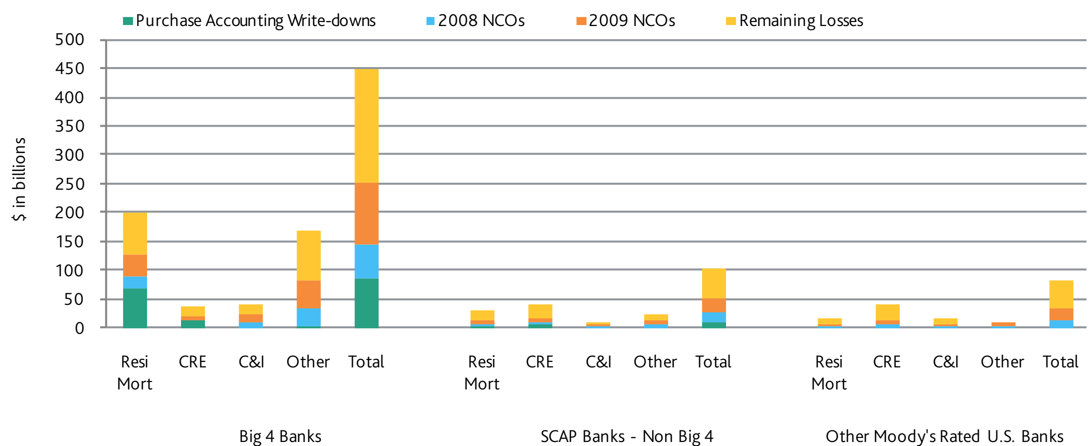
anticipate that banks will still be grappling with elevated charge-offs through at least the first half of 2011.

Figure 3 summarizes our gross loss estimate in dollar terms for the following bank groups: "Big 4 Banks"[2], "SCAP Banks – Non Big 4"[3], and "Other Moody's Rated U.S. Banks"[4]. Our gross loss estimates for the Big 4 Banks, SCAP Banks – Non Big 4, and Other Moody's Rated U.S. Banks are $447 billion (12.9%), $104 billion (10.4%), and $81 billion (7.5%), respectively. In comparison to our estimate that rated U.S. banks are 45% of the way through their net charge-offs, we believe the Big 4 Banks are 46% of the way through their net charge-offs, while SCAP Banks – Non Big 4 and Other Moody's Rated U.S. Banks are each 43%.

FIGURE 3

Loss Tracker: 2008 - 2011 ($ Basis)

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



Source: Moody's

Figure 4 shows the remaining losses in percentage terms for the three bank groups. As previously stated, we believe 42% of residential mortgage losses have been taken versus 30% for CRE. For the Big 4 Banks, we estimate that the bulk of the remaining losses will come from residential mortgages and other loans (credit cards, auto loans, and other consumer loans). Together, these asset classes represent over 70% of the Big 4 Banks' aggregate loan book. On the other hand, for the SCAP Banks – Non Big 4 and Other Moody's Rated U.S. Banks, we expect most of the remaining losses to come from CRE as these banks have a much higher concentration in that sector than the Big 4 Banks.

[2] Includes Bank of America, Citigroup, JP Morgan, and Wells Fargo.

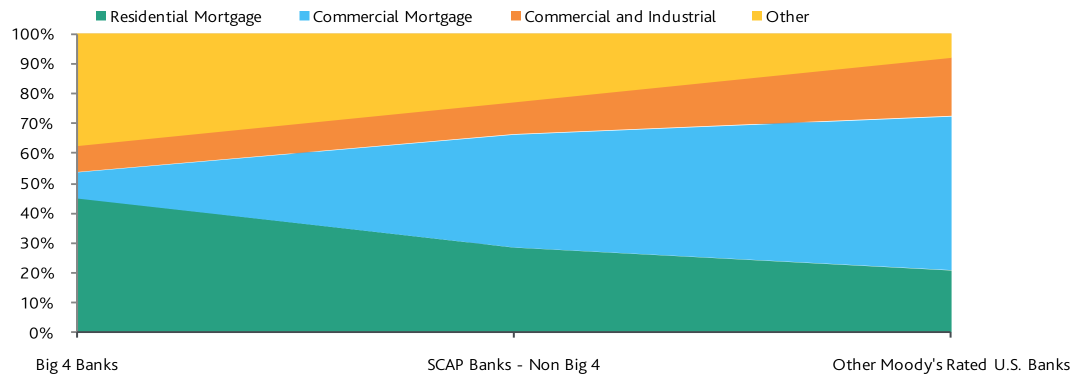
[3] Includes the ten "traditional" banks that participated in the Supervisory Capital Assessment Program (SCAP) other than the largest four banks: PNC, US Bank, Bank of New York Mellon, SunTrust, BB&T, Capital One, State Street, Fifth Third, KeyCorp, and Regions. Excludes the other SCAP participants: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

[4] 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 4

Remaining Estimated Losses by Asset Class

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



Source: Moody's

The table below provides a comprehensive summary of our loss estimates by bank type and asset class.

TABLE 1

Moody's U.S. Rated Bank Loss Tracker

$ in Billions

	2008 NCOS		2009 NCOS		REMAINING LOSSES		2008 - 2011 ESTIMATED LOSSES		PURCHASE ACCOUNTING WRITE-DOWNS		GROSS LOSSES	
	$	%	$	%	$	%	$	%	$	%	$	%
All Rated U.S. Banks												
Residential Mortgage	26.2	1.3%	45.7	2.3%	101.2	5.0%	173.1	8.6%	73.5	3.6%	246.6	12.2%
Commercial Mortgage	10.1	1.4%	20.1	2.8%	70.0	9.9%	100.2	14.2%	18.7	2.6%	118.9	16.8%
Commercial and Industrial	12.8	1.0%	26.4	2.0%	26.8	2.0%	66.0	5.0%	0.0	0.0%	66.0	5.0%
Other	39.2	2.6%	59.9	4.0%	97.8	6.5%	196.9	13.1%	4.1	0.3%	201.0	13.4%
Total	88.3	1.6%	152.1	2.7%	295.8	5.3%	536.2	9.7%	96.3	1.7%	632.5	11.4%
Big 4 Banks												
Residential Mortgage	20.0	1.4%	36.1	2.6%	74.6	5.3%	130.7	9.3%	70.0	5.0%	200.7	14.2%
Commercial Mortgage	1.9	0.7%	5.9	2.1%	19.7	7.2%	27.5	10.0%	11.4	4.1%	38.9	14.1%
Commercial and Industrial	8.0	1.1%	16.9	2.3%	14.6	2.0%	39.5	5.3%	0.0	0.0%	39.5	5.3%
Other	30.1	2.9%	46.7	4.5%	87.3	8.4%	164.1	15.8%	4.1	0.4%	168.2	16.1%
Total	60.0	1.7%	105.6	3.0%	196.2	5.7%	361.8	10.4%	85.5	2.5%	447.3	12.9%
SCAP Banks - Non Big 4												
Residential Mortgage	4.3	1.5%	5.3	1.9%	16.5	5.8%	26.1	9.1%	3.5	1.2%	29.6	10.3%
Commercial Mortgage	3.7	2.1%	5.8	3.3%	22.7	13.0%	32.2	18.4%	7.3	4.2%	39.5	22.6%
Commercial and Industrial	2.4	0.9%	4.9	1.9%	3.9	1.5%	11.2	4.4%	0.0	0.0%	11.2	4.4%
Other	5.8	2.0%	7.7	2.7%	10.5	3.7%	24.0	8.5%	0.0	0.0%	24.0	8.5%
Total	16.2	1.6%	23.7	2.4%	53.6	5.4%	93.5	9.3%	10.8	1.1%	104.3	10.4%
Other Moody's Rated U.S. Banks												
Residential Mortgage	1.9	0.6%	4.3	1.3%	10.1	3.1%	16.3	5.0%	0.0	0.0%	16.3	5.0%
Commercial Mortgage	4.5	1.7%	8.4	3.3%	27.6	10.7%	40.5	15.7%	0.0	0.0%	40.5	15.7%
Commercial and Industrial	2.4	0.8%	4.6	1.5%	8.3	2.6%	15.3	4.8%	0.0	0.0%	15.3	4.8%
Other	3.3	1.9%	5.5	3.2%	0.0	0.0%	8.8	5.1%	0.0	0.0%	8.8	5.1%
Total	12.1	1.1%	22.8	2.1%	46.0	4.3%	80.9	7.5%	0.0	0.0%	80.9	7.5%

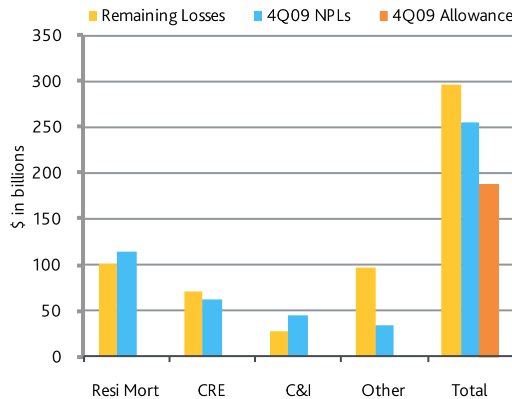
On an aggregate basis, rated U.S. banks' loan loss allowance stood at $188 billion (3.7% of loans) and non-performing loans[5] stood at $254 billion (5.0% of loans) at December 31, 2009. Figures 5 through 8 show Moody's estimated remaining losses in relation to the year-end 2009 allowance and non-performers for all rated U.S. banks and separately for each bank type. Although banks have provisioned for a substantial amount of their remaining charge-offs, the remaining provision required will extend the period that many banks will be unprofitable well into 2010.

[5] Non-performing loans are defined as nonaccrual loans plus loans past due 90 days or more and still accruing.

FIGURE 5

Remaining Losses vs. NPLs and Allowance

Moody's Rated U.S. Banks

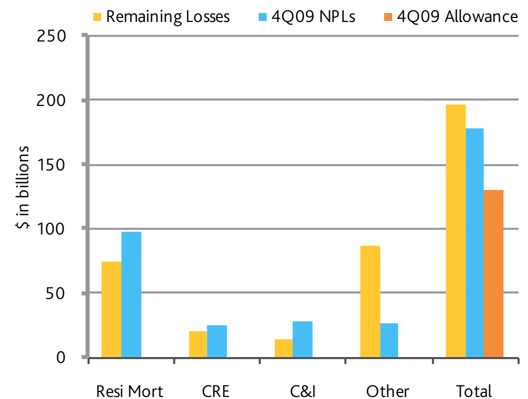


Source: Moody's, Regulatory FR Y-9C and TFR data

FIGURE 6

Remaining Losses vs. NPLs and Allowance

Big 4 Banks

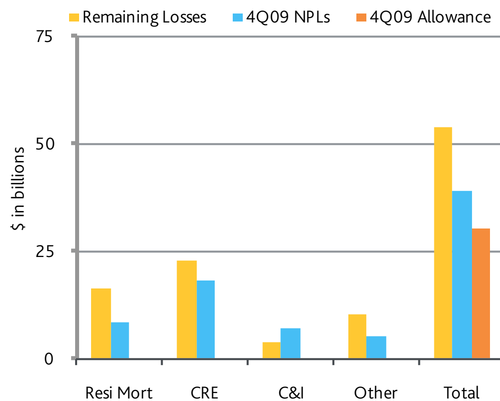


Source: Moody's, Regulatory FR Y-9C and TFR data

FIGURE 7

Remaining Losses vs. NPLs and Allowance

SCAP Banks – Non Big 4

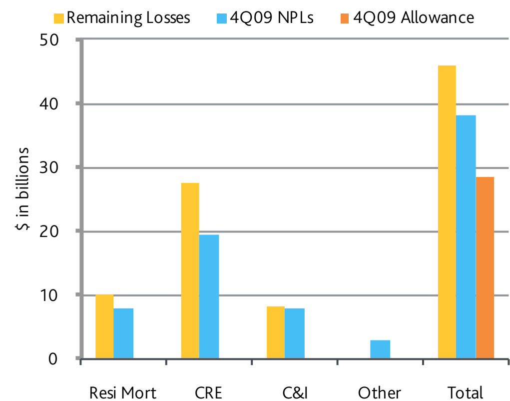


Source: Moody's, Regulatory FR Y-9C and TFR data

FIGURE 8

Remaining Losses vs. NPLs and Allowance

Other Moody's Rated U.S. Banks



Source: Moody's, Regulatory FR Y-9C and TFR data

U.S. Banking Industry Fundamental Credit Conditions

Fundamental Credit Trends

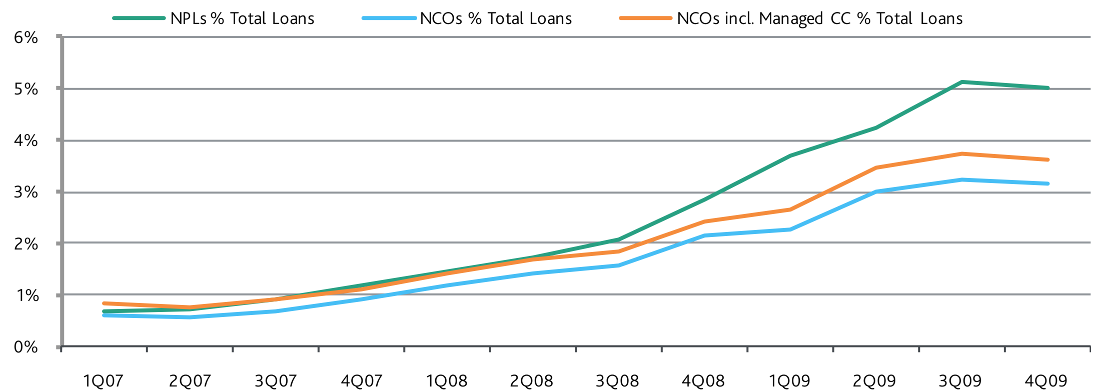
The global economic downturn has resulted in significant asset quality deterioration at U.S. banks. The non-performing loan and charge-off trends began to turn negative in 2007 and worsened rapidly in 2008 and the first half of 2009, before showing signs of moderation in the second half of 2009. Fourth quarter 2009 aggregate non-performing loans and charge-offs declined modestly on a linked-quarter basis for the first time since early 2007, mainly due to improvement in residential mortgage asset quality at the four largest banks. However, these indicators remain near historic highs. At December 31, 2009, non-performing loans and fourth quarter annualized net charge-offs were 5.0%

and 3.2% (3.6% on a managed basis) of total loans, respectively. We do not rule out the possibility of a reversal of the positive trends experienced in the fourth quarter for larger banks, especially considering the unknown impact of modification programs on the residential mortgage trends. Additionally, CRE for most banks continues to deteriorate rapidly. Although aggregate asset quality indicators may display additional improvement in 2010, we do not believe they will return to "normal" levels until 2011. Figure 9 shows the 2007, 2008, and 2009 quarterly trends in aggregate non-performing loans and annualized net charge-offs as a percentage of total loans on an asset-weighted basis for the universe of Moody's rated U.S. banks.

FIGURE 9

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

Moody's Rated U.S. Banks



Source: Regulatory FR Y-9C and TFR data

The quarterly trends in aggregate non-performing loans and charge-offs for the three bank groups are shown in Figures 10 and 11. At December 31, 2009, the Big 4 Banks had the highest non-performing loan ratio at 5.8% due to the weaker performance of their residential mortgage portfolio versus the other bank groups. SCAP Banks – Non Big 4 and Other Moody's Rated U.S. Banks had non-performing loan ratios of 4% and 3.6%, respectively. The Big 4 Banks' residential mortgage non-performing loan ratio was 7.6% at December 31, 2009 versus 2.9% for the SCAP Banks – Non Big 4 and 2.4% for Other Moody's Rated U.S. Banks. The Big 4 Banks were more active in affordability products such as option ARM and subprime loans.

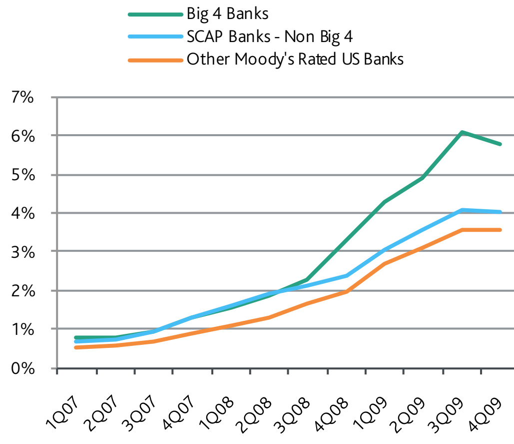
However, the Big 4 Banks' non-performing loan ratio declined on a linked-quarter basis. The non-performing loan ratios of the other two groups remained relatively flat. Charge-offs demonstrated a similar pattern in the fourth quarter. While they continued to increase for the SCAP Banks – Non Big 4 and Other Moody's Rated U.S. Banks, reaching 2.8% and 2.4%, respectively, charge-offs for the Big 4 Banks modestly decreased to 3.6% from 3.8% in the third quarter.

We primarily attribute this difference in performance to CRE concentrations, which are highly correlated to bank size, with smaller banks having higher concentrations. In many instances, residential mortgage and credit card portfolios showed improvement in charge-offs in the fourth quarter (helping the large banks); CRE portfolios did not (harming the smaller banks). Non-performing and charge-off rates on CRE loans now exceed the rates for residential mortgage loans for rated U.S. banks.

FIGURE 10

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

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

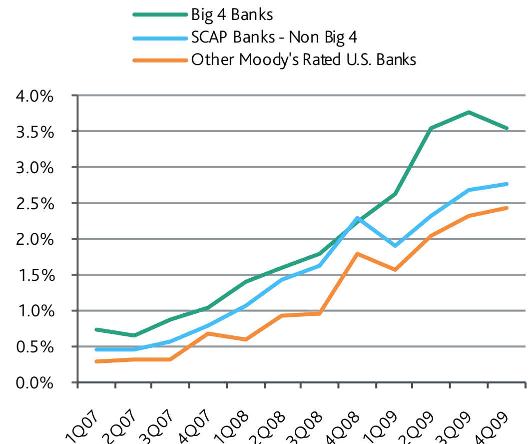


Source: Regulatory FR Y-9C and TFR data

FIGURE 11

Annualized NCOs % Total Loans (Asset-Weighted)

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



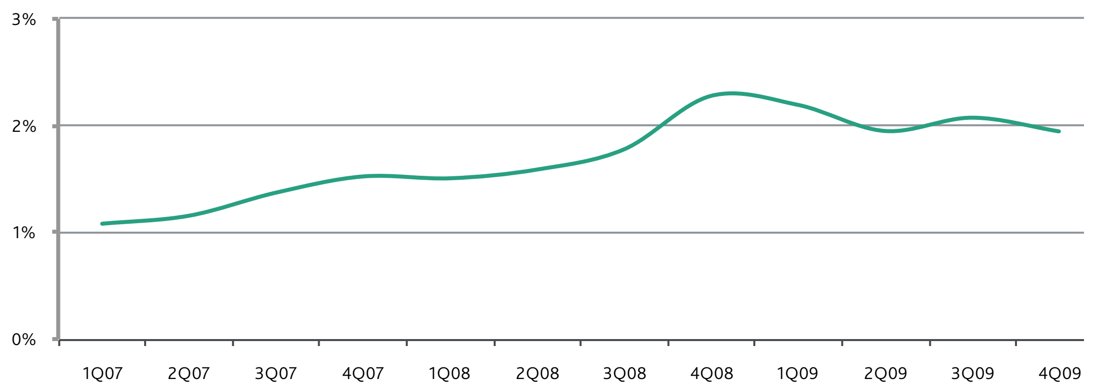
Source: Regulatory FR Y-9C and TFR data

Figure 12 shows the quarterly trend in aggregate loans 30-89 days past due and still accruing for rated U.S. banks. After a slight increase in the third quarter of 2009, early stage delinquencies fell to 1.9% of total loans at year-end, the lowest level since the third quarter of 2008. Most asset classes showed improvement in the fourth quarter. Non-performers, charge-offs, and early stage delinquencies by asset class are discussed in greater detail in the "Asset Quality Trends by Asset Class" section.

FIGURE 12

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

Moody's Rated U.S. Banks



Source: Regulatory FR Y-9C and TFR data

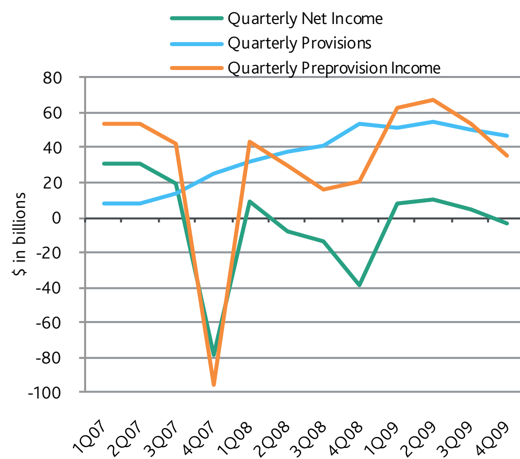
Figure 13 shows the quarterly trends in provisions, preprovision income, and net income for rated U.S. banks and Figure 14 shows the quarterly trend in net income for the three bank groups. U.S. banks did not enter this cycle with sufficient reserves to absorb the current level of asset quality deterioration. As a result, increased provisions, in addition to security portfolio write-downs and declines in capital markets-related revenues, made many banks unprofitable in the fourth quarter of 2007 and for all of 2008. In aggregate, banks were profitable in the first three quarters of 2009 despite

heightened provisions. This was due to the strong performance of the capital markets and mortgage origination activities of the largest banks. However, notwithstanding a slightly lower provision, rated U.S. banks as a group were unprofitable in the fourth quarter because preprovision income dropped considerably, mainly due to Citigroup's $10 billion pre-tax loss related to its TARP repayment and the exiting of its loss-sharing agreement. Nonetheless, full-year 2009 net income was $18.9 billion compared to a $51 billion net loss in 2008 and $3.7 billion of net income in 2007. SCAP Banks – Non Big 4 showed a slight increase in profitability in the fourth quarter due to a reduction in provision levels. Other Moody's Rated U.S. Banks have been unprofitable or break-even since early 2008 and showed a modest drop in net income in the fourth quarter of 2009 due to provisions related to CRE.

FIGURE 13

Provisions, Preprovision Income, & Net Income

Moody's Rated U.S. Banks

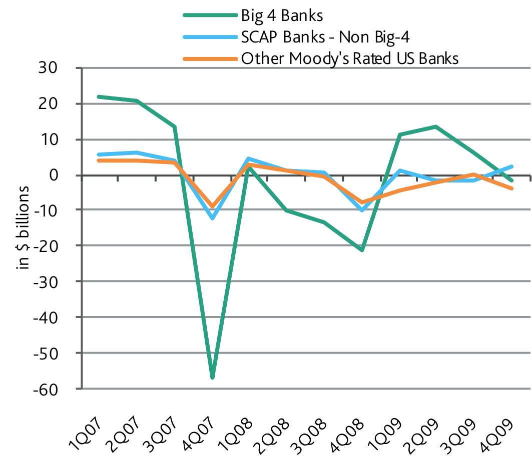


Source: Regulatory FR Y-9C and TFR data

FIGURE 14

Net Income

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



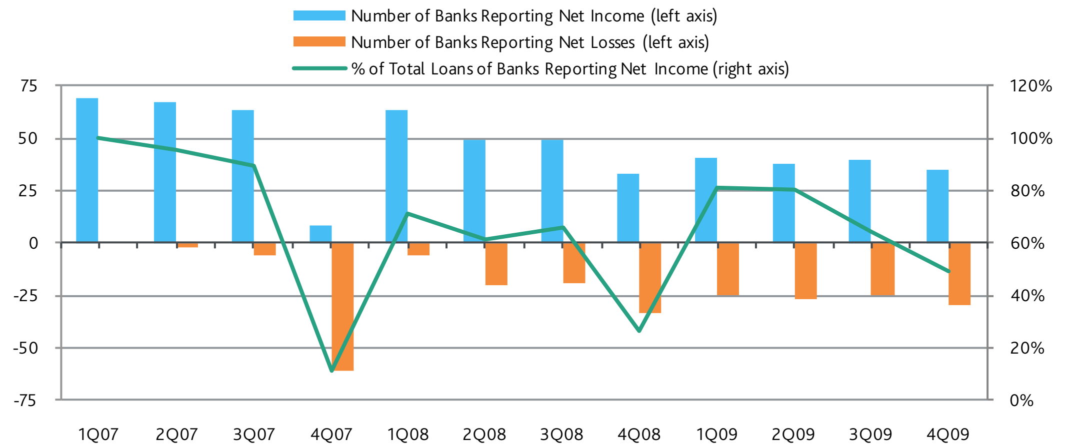
Source: Regulatory FR Y-9C and TFR data

Figure 15 shows the number of rated U.S. banks that reported net income and net losses on a quarterly basis in 2007, 2008, and 2009. In the fourth quarter 2009, only 54% of rated U.S. banks (by number) were profitable, compared to 62% in the third quarter. Profitable banks represented 49% of loans at year-end compared to 64% at September 30, 2009. Due to our expectation that provision levels will remain elevated in 2010, we anticipate that many banks will remain unprofitable in the near term.

FIGURE 15

Number of Banks Reporting Income/Losses

Moody's Rated U.S. Banks



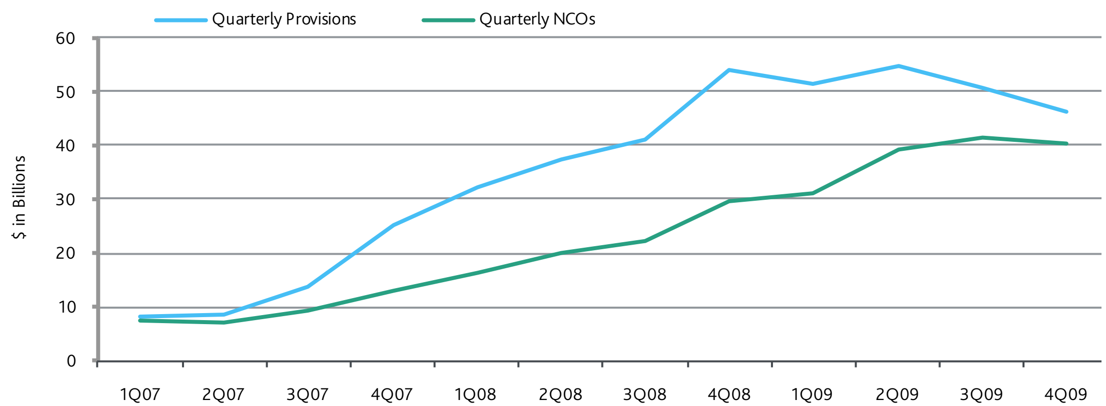
Source: Regulatory FR Y-9C and TFR data

During 2009, rated U.S. banks continued to build their loan loss allowances by recording provisions in excess of charge-offs. However, the allowance build slowed significantly in the third and fourth quarters as provisions fell and charge-offs remained elevated. Figure 16 shows the quarterly trends in provisions and charge-offs. Provisions exceeded charge-offs by $6.0 billion in the fourth quarter and $9.3 billion in the third quarter versus $15.3 billion in the second quarter and $20.3 billion in the first quarter.

FIGURE 16

Loan Loss Provisions vs. NCOs

Moody's Rated U.S. Banks



Source: Regulatory FR Y-9C and TFR data

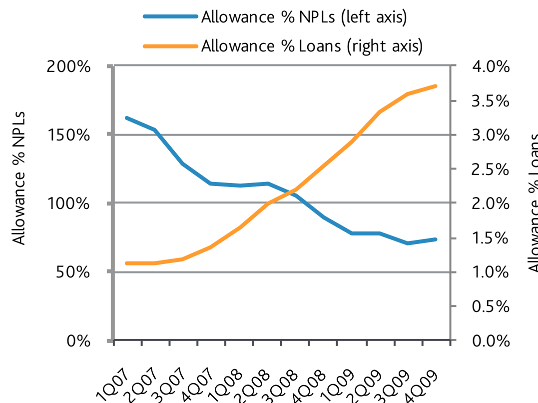
Figure 17 shows the ratio of allowance to non-performing loans including loans past due 90 days or more and the ratio of allowance to loans. Rated U.S. banks' coverage of non-performing loans by loan loss allowances has worsened significantly since 2007, a trend that remained unchanged through the

third quarter of 2009. There was a small improvement to 74% in the fourth quarter (left scale) in comparison to 70% in the previous quarter. Elevated provisions have improved the ratio of allowance to loans, which has risen steadily over the three-year period, reaching 3.7% at December 31, 2009 (right scale). Figure 18 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. All three groups had approximately the same ratios of allowance to non-performers during 2009.

FIGURE 17

Allowance % NPLs incl. 90+ and Loans

Moody's Rated U.S. Banks

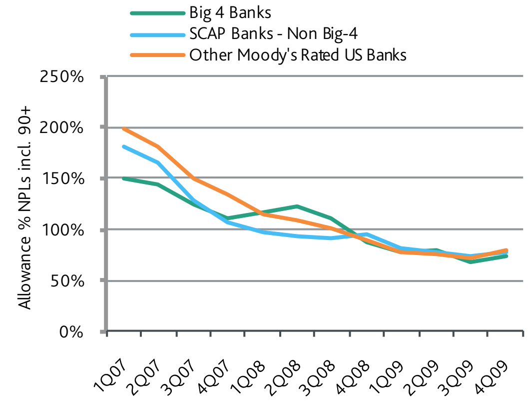


Source: Regulatory FR Y-9C and TFR data

FIGURE 18

Allowance % NPLs incl. 90+

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



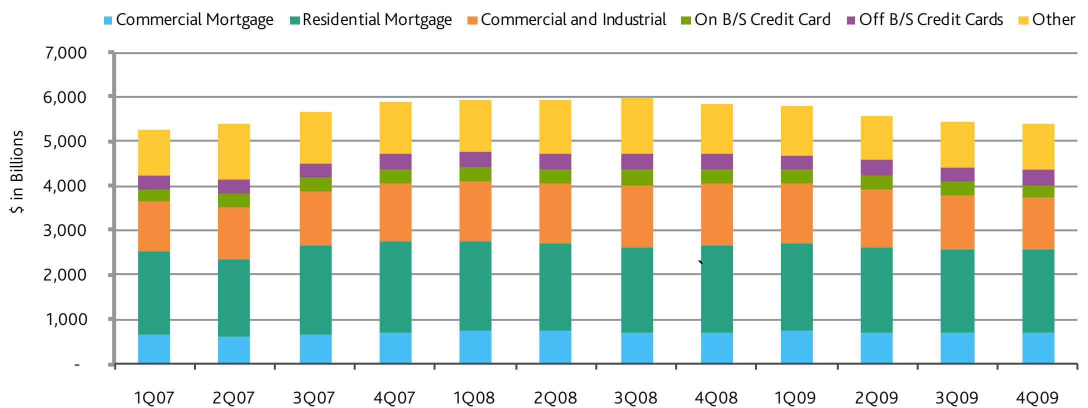
Source: Regulatory FR Y-9C and TFR data

Although U.S. banks experienced a pronounced decline in loan balances since the third quarter of 2008, the pace of this trend somewhat abated for rated U.S. banks in the fourth quarter of 2009. All major loan categories remained relatively flat compared to third quarter levels as depicted in Figure 19. Nonetheless, rated U.S. banks' total loan balances, including off balance sheet credit cards, fell to $5.4 trillion at December 31, 2009 in contrast to $5.8 trillion at the end of 2008. This decrease can be attributed to a combination of heightened charge-offs and a decline in new loan originations.

FIGURE 19

Loan Balances by Asset Class

Moody's Rated U.S. Banks



Source: Regulatory FR Y-9C and TFR data

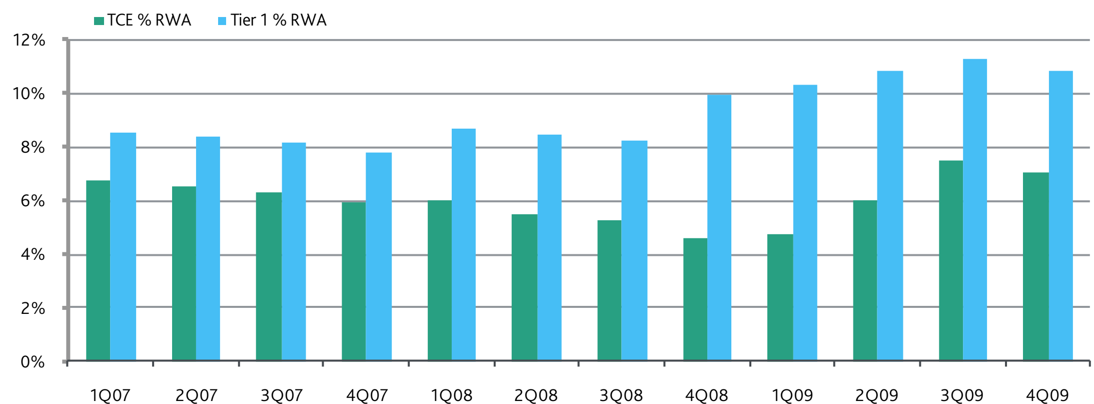
U.S. banks' poor performance in 2007 and 2008 undermined capital levels, especially tangible common equity (TCE). The Tier 1 ratio was supported by private hybrid capital raises that took place in the first half of 2007, the U.S. Treasury's TARP preferred investments, which primarily took place in the first quarter of 2008, and the significant capital raises, assets sales, and hybrid instrument conversions that took place during the first three quarters of 2009. The latter items bolstered tangible capital as well. The fall in Tier 1 in the fourth quarter of 2009 relates to TARP redemptions and net losses, with the net losses also impacting tangible capital.

Figure 20 shows the quarterly trends in aggregate TCE (calculated as common equity less goodwill and other intangibles, excluding mortgage servicing rights) to risk-weighted assets (RWA) and Tier 1 capital to RWA for Moody's rated U.S. banks. At December 31, 2009, the TCE ratio fell to 7% from 7.5% at September 30, 2009. Similarly, the Tier 1 ratio decreased to 10.9% from 11.3% over the same period. Absent significant capital raises, we expect capital ratios to continue to weaken going forward as asset quality issues persist, hampering banks' ability to generate capital internally.

FIGURE 20

Capital Ratios

Moody's Rated U.S. Banks

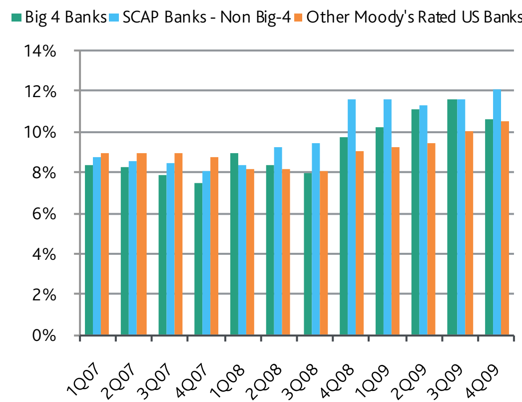


Source: Regulatory FR Y-9C and TFR data

The Tier 1 and TCE ratio trends for the three groups of rated U.S. banks are illustrated in Figures 21 and 22. While the Tier 1 ratio for the SCAP Banks – Non Big-4 and Other Moody's Rated U.S. Banks continued to improve in the fourth quarter, it fell to 10.6% from 11.6% for the Big 4 Banks on a linked-quarter basis due to TARP repayment. The TCE ratio, on the other hand, declined for the Big 4 Banks and SCAP Banks – Non Big 4, but remained relatively unchanged for Other Moody's Rated U.S. Banks at 8.5%.

FIGURE 21

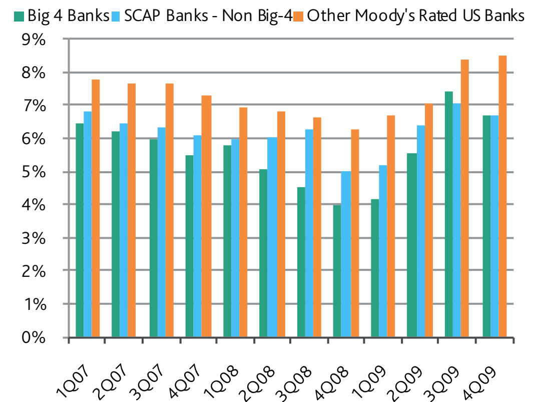
Tier 1 Capital % RWA



Source: Regulatory FR Y-9C and TFR data

FIGURE 22

TCE % RWA



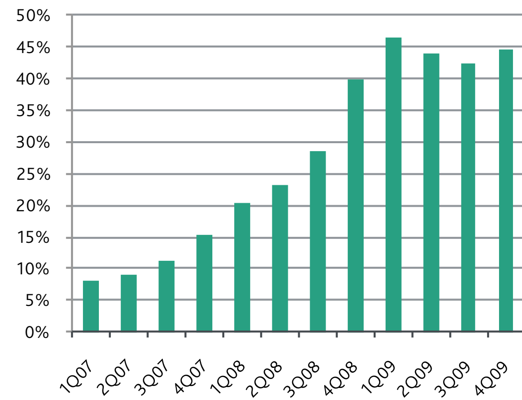
Source: Regulatory FR Y-9C and TFR data

The ratio of non-performing assets to TCE plus loan loss reserves remained elevated during 2009 (Figures 23 and 24). After improving moderately in the second and third quarters due to capital raising initiatives that took place during the year, the ratio's improving trend reversed in the fourth quarter, weakening to 44.5% from 42.4% in the prior quarter and 39.9% in the fourth quarter of 2008. Because U.S. banks remain exposed to CRE, this metric will likely continue to worsen going forward, particularly for smaller regional and community banks.

FIGURE 23

NPAs % TCE plus Loan Loss Reserves

Moody's Rated U.S. Banks

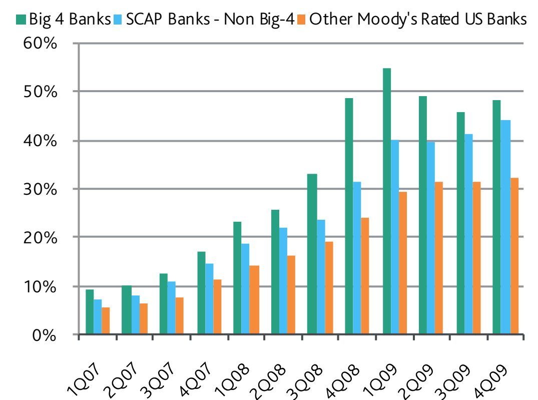


Source: Regulatory FR Y-9C and TFR data

FIGURE 24

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

Asset Quality Trends by Asset Class

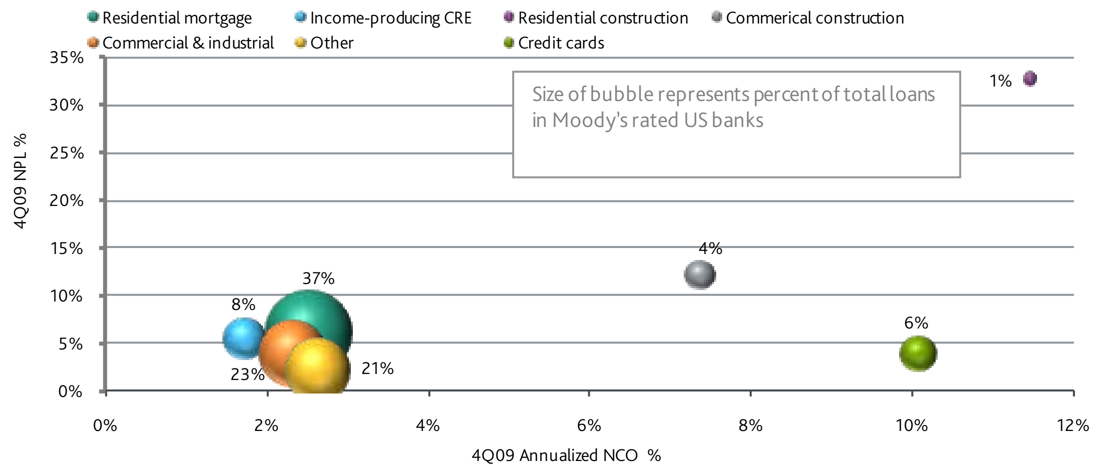
Although asset quality deterioration began with residential real estate, U.S. banks experienced weakening in all asset classes throughout 2008 and 2009. Figure 25 serves as a "heat map" for asset

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 25

Asset Quality Heat Map

Moody's Rated U.S. Banks



Source: Regulatory FR Y-9C and TFR data

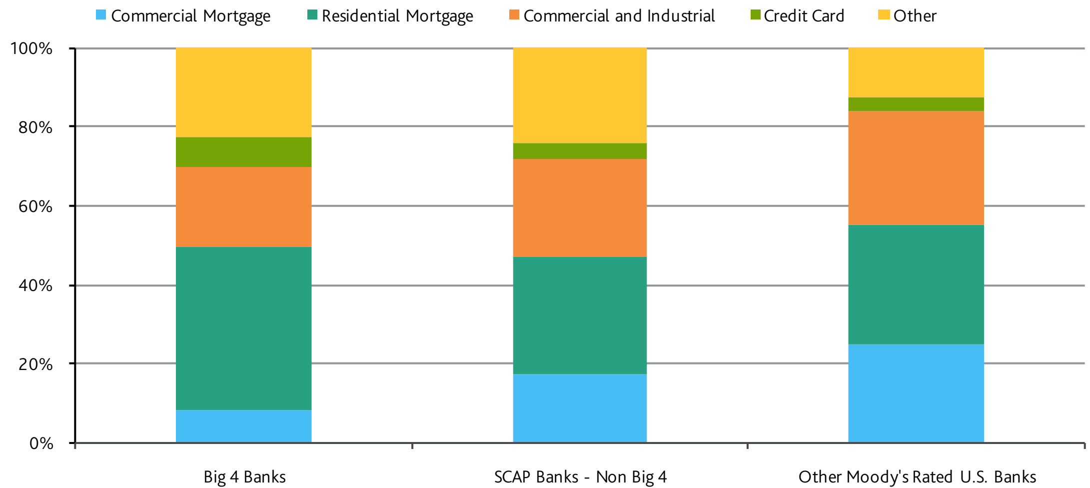
In aggregate, residential mortgages represent the largest loan concentration at 37% of total loans, followed by commercial and industrial loans at 23% and commercial mortgages (non-owner occupied income producing and construction loans) at 13%. Although all asset classes are showing deterioration, construction loans, especially residential construction, are significant outliers. These assets classes do not represent a significant amount of overall rated U.S. banks' assets, but individual banks with high concentrations in these assets have been severely impacted.

Figure 26 compares the loan composition of the three bank types. The Big 4 Banks' loan portfolio is more heavily skewed towards residential mortgages, which account for 42% of their total loans, while commercial mortgages account for only 8% of loans. In contrast, the SCAP Banks – Non Big 4 and Other Moody's Rated U.S. Banks have a much greater exposure to the CRE sector, with commercial mortgages representing 18% and 25% of total loans, respectively. Note that Moody's only considers non-owner occupied properties as CRE. Loans related to owner occupied properties are considered to be commercial and industrial.

FIGURE 26

Loan Composition

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



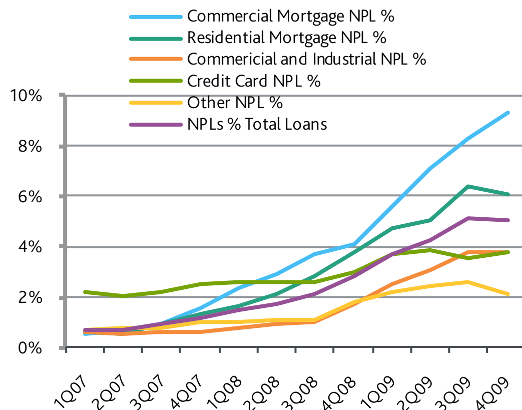
Source: Regulatory FR Y-9C and TFR data

Figures 27 and 28 show the quarterly trends in non-performing loans by asset class on an aggregate basis for rated U.S. banks, as both a percentage of related loans and on a dollar basis. In aggregate, residential mortgage non-performing loans decreased to 6.0% from 6.4% on a linked-quarter basis. Conversely, non-performing loans on the commercial mortgage side increased to 9.3% from 8.3% during the fourth quarter. The SCAP Banks – Non Big 4 and Other Moody's Rated U.S. Banks have the worst performing CRE portfolios. While those banks represent only 32% of total rated U.S. bank assets, they account for a combined 60% of total commercial mortgage non-performing loans. Figure 28 illustrates the fact that residential mortgages continue to comprise the bulk of aggregate non-performing loans.

FIGURE 27

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

Moody's Rated U.S. Banks

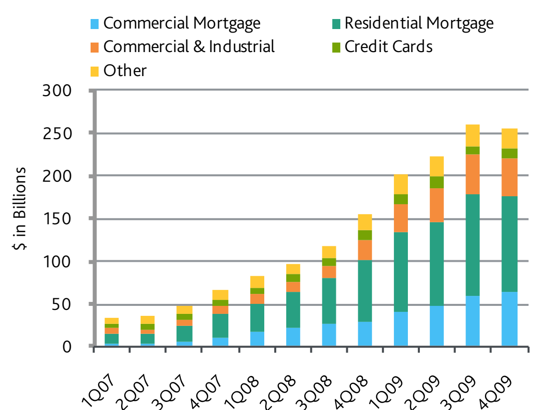


Source: Regulatory FR Y-9C and TFR data

FIGURE 28

NPLs inc. 90+

Moody's Rated U.S. Banks



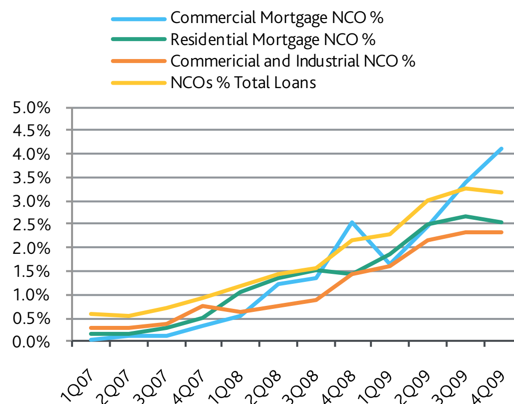
Source: Regulatory FR Y-9C and TFR data

Figures 29 and 30 show the quarterly trends in net charge-offs by asset class on an aggregate basis for rated U.S. banks, both annualized as a percentage of related loans and on a dollar basis. We show the annualized net charge-off rates for credit cards and other loans (primarily other consumer loans) separately (Figure 34) due to the normally high charge-off rates associated with those asset classes. Net charge-offs decreased modestly to 3.2% of loans in the fourth quarter. The asset class trends are similar to the non-performers; residential mortgage fourth quarter annualized charge-offs decreased to 2.5% from 2.7%, but CRE annualized charge-offs increased to 4.1% from 3.4%. Further deterioration in commercial property fundamentals (i.e. vacancy rates) and increases in capitalization (cap) rates are anticipated, although the worst of the value declines is likely over.

FIGURE 29

Annualized NCOs % Total Loans

Moody's Rated U.S. Banks

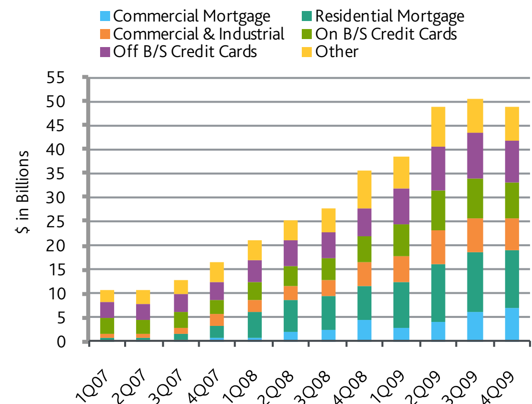


Source: Regulatory FR Y-9C and TFR data

FIGURE 30

Annualized NCOs

Moody's Rated U.S. Banks



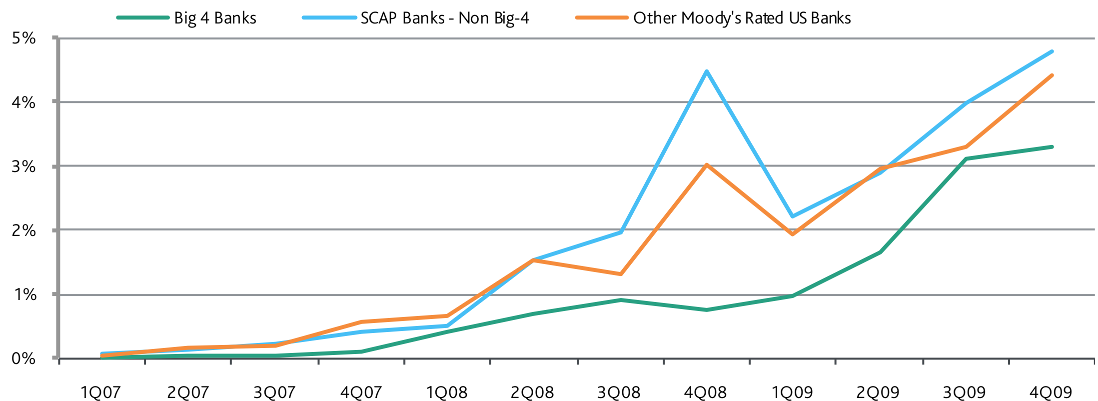
Source: Regulatory FR Y-9C and TFR data

Figure 31 shows the quarterly trends in commercial mortgage charge-offs by bank type. The Big 4 Banks showed a sharp moderation in commercial mortgage charge-offs in the fourth quarter of 2009, while the other banks showed sharp increases.

FIGURE 31

Commercial Mortgage Annualized NCOs

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



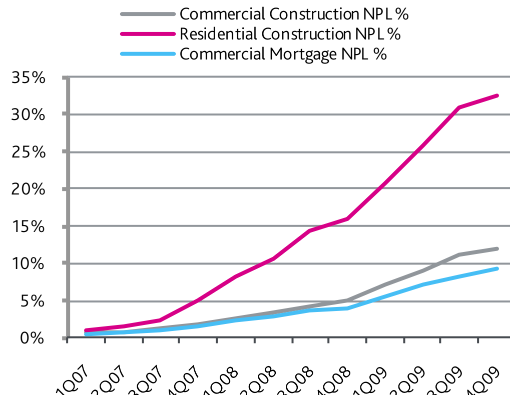
Source: Regulatory FR Y-9C and TFR data

Commercial mortgage deterioration has been severe in construction, especially residential construction. Figures 32 and 33 show the quarterly trends in commercial and residential construction non-performing loans and annualized net charge-offs on an aggregate basis for rated U.S. banks.

FIGURE 32

Construction NPLs % Loans

Moody's Rated U.S. Banks

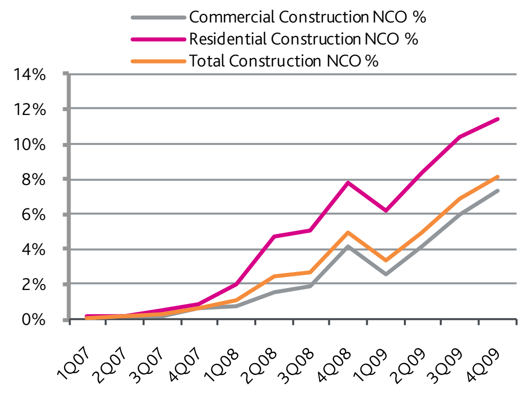


Source: Regulatory FR Y-9C and TFR data

FIGURE 33

Construction NCOs % Loans

Moody's Rated U.S. Banks



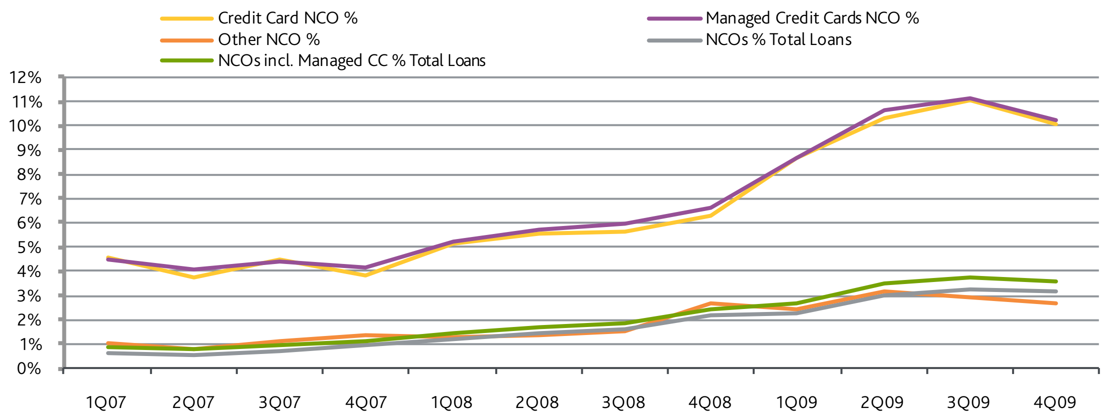
Source: Regulatory FR Y-9C and TFR data

Figure 34 illustrates the quarterly trend in credit card and other consumer annualized net charge-offs as a percentage of related loans on an aggregate basis for rated U.S. banks. We expect the quality of these portfolios to remain pressured well into 2010 given the expected continuing high unemployment rate.

FIGURE 34

Credit Card & Other Annualized NCOs % Loans

Moody's Rated U.S. Banks



Source: Regulatory FR Y-9C and TFR data

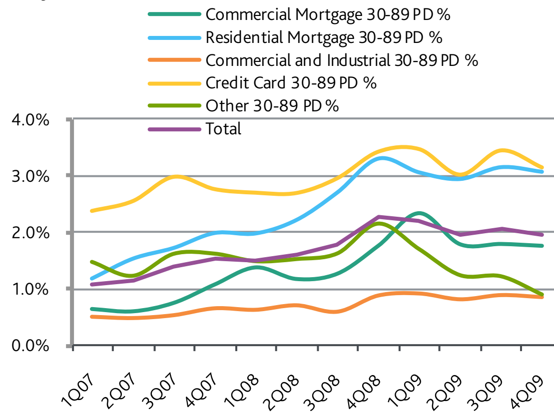
Figures 35 and 36 show the quarterly trends in aggregate loans 30-89 days past due and still accruing by asset class for rated U.S. banks, both annualized as a percentage of related loans and on a dollar basis. During the fourth quarter of 2009, the trend in early stage delinquencies remained relatively

flat. In dollar terms, delinquencies decreased by $6.5 billion to $98.7 billion. The driver behind the decrease in delinquencies was the other loans category, which decreased by 21% to $9.5 billion.

FIGURE 35

Loans 30-89 Days Past Due % Loans

Moody's rated U.S. Banks

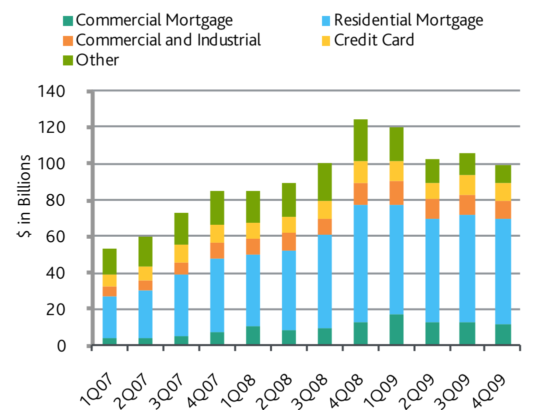


Source: Regulatory FR Y-9C and TFR data

FIGURE 36

Loans 30-89 Days Past Due

Moody's rated U.S. Banks



Source: Regulatory FR Y-9C and TFR data

Appendix 1: Moody's U.S. Bank Ratings List as of March 9, 2010

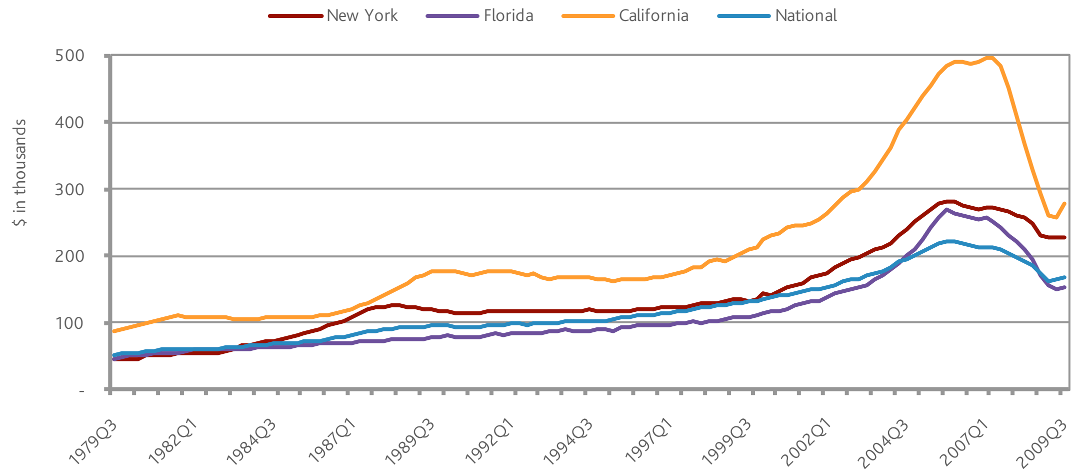
ENTITY NAME	BANK FINANCIAL STRENGTH	BCA	RATING UPLIFT	BANK SR RATING	TYPE OF SUPPORT	RATING UPLIFT	HOLDCO SR RATING	OUTLOOK
Bank of New York Mellon Corporation (The)	B+	Aa2	2	Aaa	Systemic	1	Aa2	Stable
Commerce Bancshares, Inc.	B+	Aa2	--	Aa2	--	--	--	Negative
U.S. Bancorp	B+	Aa2	1	Aa1	Systemic	0	Aa3	Negative
Bank of Hawaii Corporation	B	Aa3	--	Aa3	--		A1	Negative
BB&T Corporation	B	Aa3	1	Aa2	Systemic	0	A1	Negative
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
BancorpSouth, Inc.	C+	A2	--	A2	--	--	A3	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)
Hudson Valley Holding Corp.	C+	A2	--	A2	--	--	--	Negative
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	Negative
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	--	--	Baa1	Negative
Associated Banc-Corp	C	A3	--	A3	--	--	(P)Baa1	Stable
Astoria Federal Savings & Loan Association	C	A3	--	A3	--	--	Baa1	Negative
Capital One Financial Corporation	C	A3	1	A2	Systemic	0	Baa1	Negative
Fifth Third Bancorp	C	A3	1	A2	Systemic	0	Baa1	Negative
First Horizon National Corporation	C	A3	--	A3	--	--	Baa1	Negative
First Midwest Bancorp, Inc.	C	A3	--	A3	--	--	Baa1	Negative

ENTITY NAME	BANK FINANCIAL STRENGTH	BCA	RATING UPLIFT	BANK SR RATING	TYPE OF SUPPORT	RATING UPLIFT	HOLDCO SR RATING	OUTLOOK
First Niagara Financial Group, Inc.	C	A3	--	A3	--	--	Baa1	Stable
Fulton Financial Corporation	C	A3	--	A3	--	--	Baa1	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	Negative
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	Stable(m)
Whitney Holding Corporation	C	A3	--	A3	--	--	Baa1	Negative
Bank of America Corporation	C-	Baa2	5	Aa3	Systemic	4	A2	Stable
Citigroup Inc.	C-	Baa2	4	A1	Systemic	3	A3	Stable(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-	Baa1	4	Aa3	Parental	--	--	Rating(s) Under Review
Santander Holdings USA, Inc.	C-	Baa2	2	A3	Parental	2	Baa1	Negative
SunTrust Banks, Inc.	C-	Baa1	2	A2	Systemic	1	Baa1	Negative
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	Negative
Western Alliance Bancorporation	D+	Ba1	--	Ba1	--	--	Ba3	Stable
Synovus Financial Corp.	D	Ba2	--	Ba2	--	--	--	Negative
Citizens Republic Bancorp, Inc.	D-	Ba3	--	Ba3	--	--	B2	Negative
Zions Bancorporation	D-	Ba3	1	Ba2	Systemic	0	B2	Negative
Pacific Capital Bancorp	E+	B3	--	B3	--	--	C	Rating(s) Under Review

Appendix 2: Economic Indicators

Median Sales Price, Existing Single Family Homes

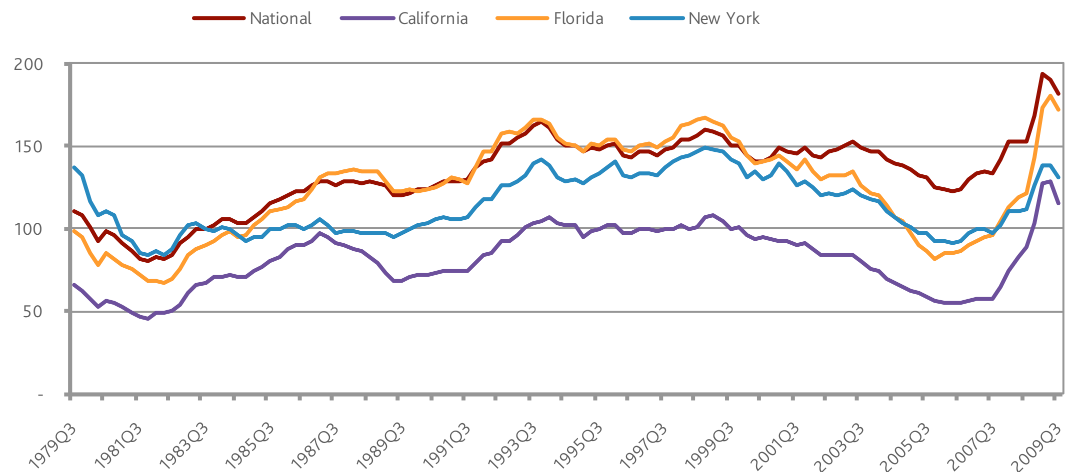
1Q79 – 3Q09



Source: National Association of Realtors, Moody's Economy.com

Home Affordability Index

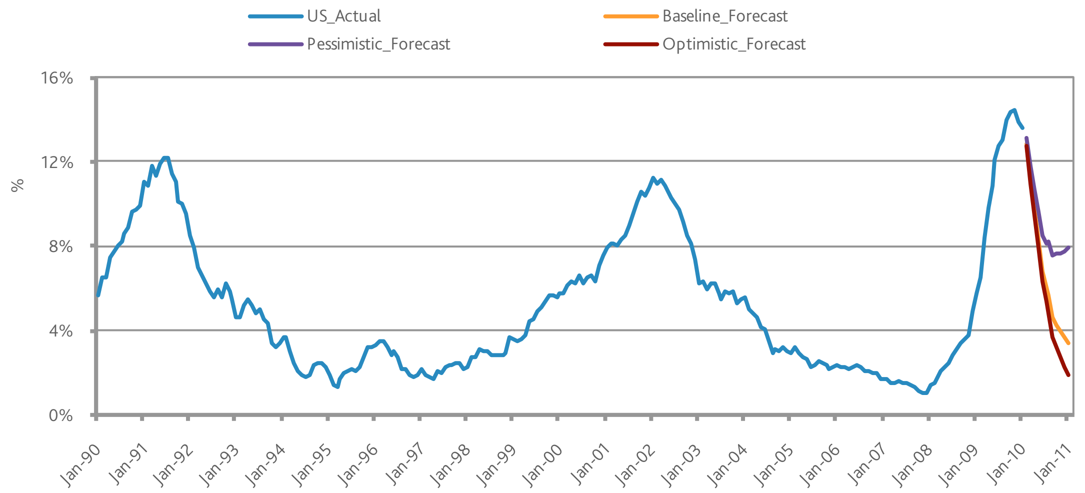
1Q79 – 3Q09



Source: National Association of Realtors, Moody's Economy.com

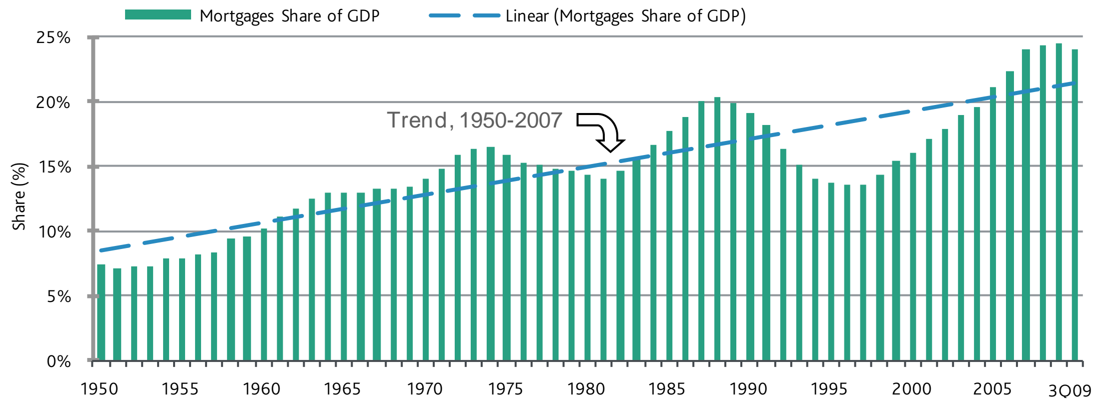
U.S. Speculative Grade Default Rates

August 1989 to January 2010 (Actual), February 2010 to January 2011 (Forecast)



Source: Moody's

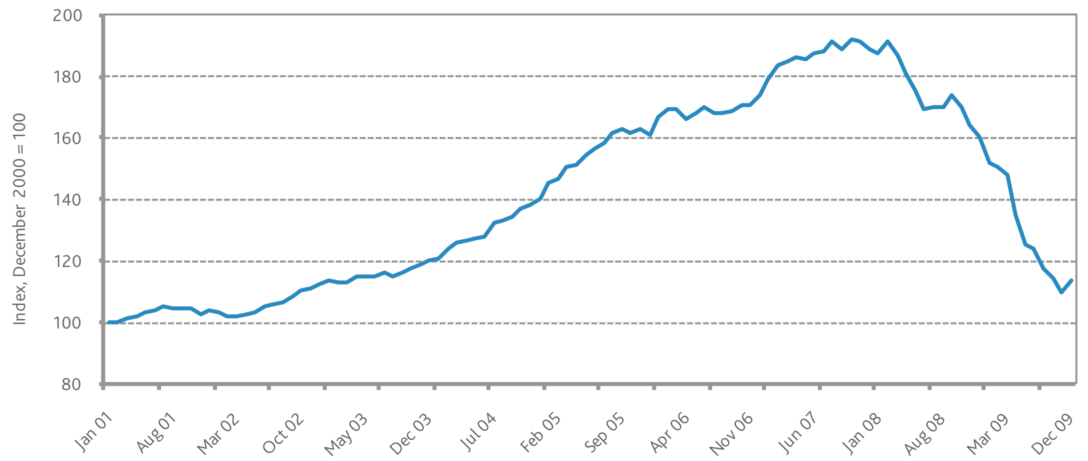
Commercial and Multifamily Mortgages % GDP



Source: Federal Reserve Flow of Funds. Data through 3Q09

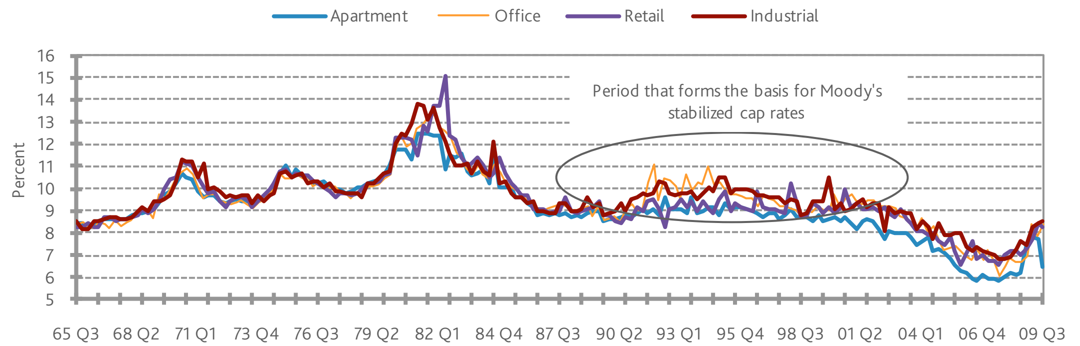
Moody's/REAL Commercial Property Price Index (CPPI)

National - All Property Type Aggregate



Source: Moody's

Cap Rates By Property Type

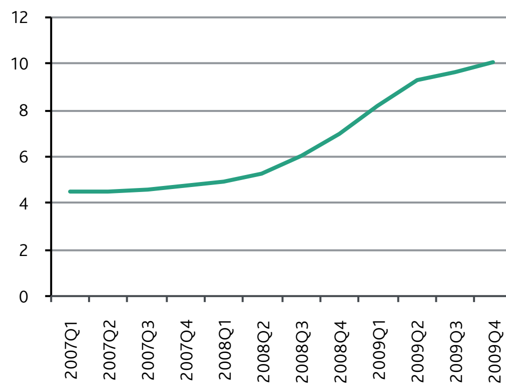


Source: American Council of Life Insurers (ACLI). Data through 3Q09.

Moody's U.S. CRE Conduit LTV Trends

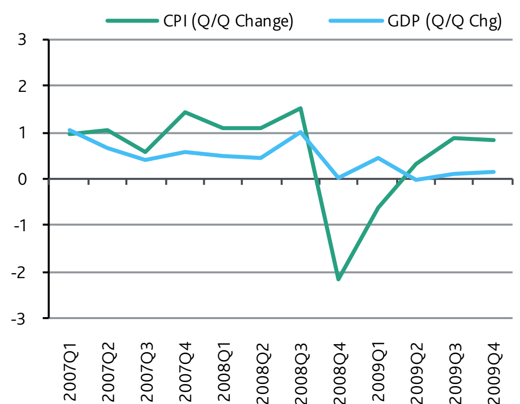
Source: Moody's; Moody's LTVs are calculated on the basis of Moody's sustainable cash flows and cap rates; these are not underwritten calculations.

Unemployment Rate (%)



Source: Moody's Economy.com

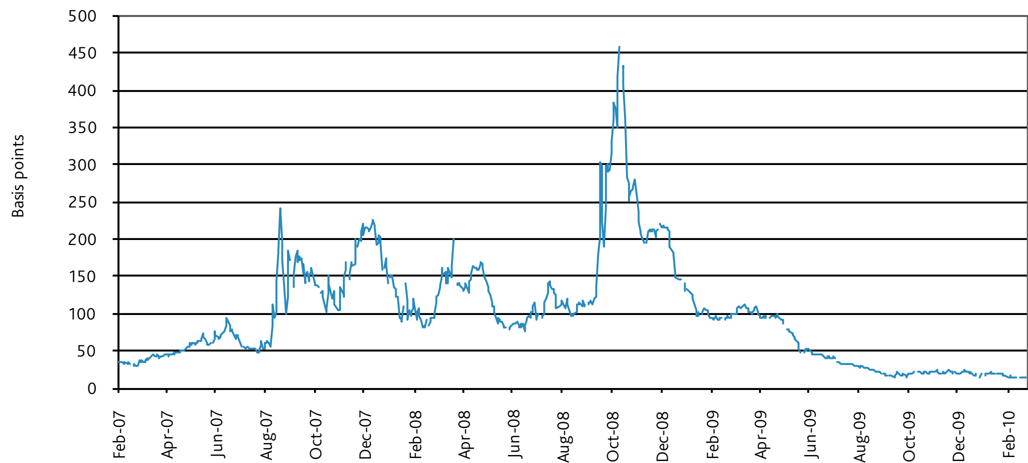
GDP and Inflation Growth Rates



Source: Moody's Economy.com

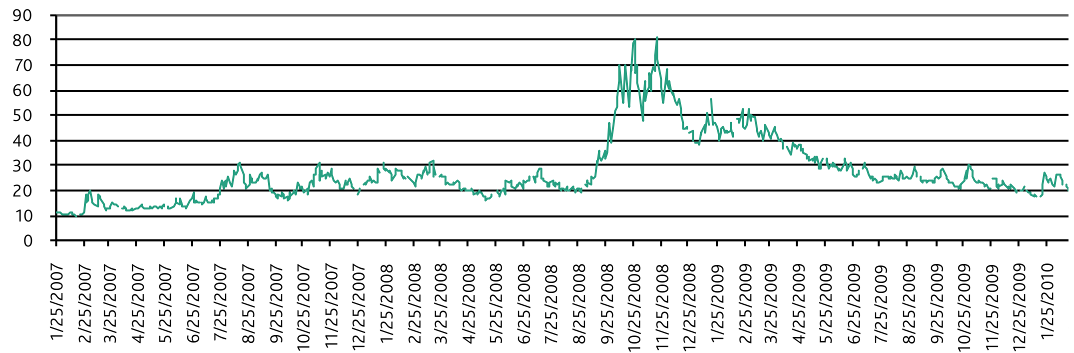
TED Spread

3 Month Libor vs. 3 Month Treasury Bill



Source: British Bankers' Association; U.S. Board of Governors of the Federal Reserve System; Computed by Moody's Economy.com

Volatility Index



Source: Chicago Board Options Exchange

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