US BANCORP \DE\
Form 10-Q
August 10, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2009

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from (not applicable)

Commission file number 1-6880

U.S. BANCORP
(Exact name of registrant as specified in its charter)

Delaware	**41-0255900**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

800 Nicollet Mall
Minneapolis, Minnesota 55402
(Address of principal executive offices, including zip code)

651-466-3000
(Registrant s telephone number, including area code)

(not applicable)
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

YES þ NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES þ NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ
Accelerated filer o
Non-accelerated filer o
(Do not check if a smaller reporting company)
Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding as of July 31, 2009
Common Stock, $.01 Par Value	1,911,974,478 shares

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Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995.

This Quarterly Report on Form 10-Q contains forward-looking statements about U.S. Bancorp. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These statements often include the words may, could, would, should, believes, expects, anticipates, estimates, targets, potentially, probably, projects, outlook or similar expressions. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of U.S. Bancorp. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated. A continuation of the challenging general business and economic conditions and turbulence in the global financial markets could impact U.S. Bancorp s performance, both directly by

affecting its revenues and the value of its assets and liabilities, and indirectly by affecting its customers and counterparties. Dramatic declines in the housing market in the past year have resulted in significant write-downs of asset values by financial institutions. Concerns about the stability of the financial markets generally have reduced the availability of funding to certain financial institutions, leading to a tightening of credit, reduction of business activity, and increased market volatility. There can be no assurance that any governmental program or legislation will help to stabilize the U.S. financial system or alleviate the industry or economic factors that may adversely impact U.S. Bancorp s business. In addition, U.S. Bancorp s business and financial performance could be impacted as the financial industry restructures in the current environment, by increased regulation of financial institutions or other effects of recently enacted legislation, by changes in the creditworthiness and performance of its counterparties, and by changes in the competitive landscape. U.S. Bancorp s results could also be adversely affected by changes in interest rates; deterioration in the credit quality of its loan portfolios or in the value of the collateral securing those loans; deterioration in the value of securities held in its investment securities portfolio; legal and regulatory developments; increased competition from both banks and non-banks; changes in customer behavior and preferences; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management s ability to effectively manage credit risk, market risk, operational risk, legal risk, and regulatory and compliance risk.

For discussion of these and other risks that may cause actual results to differ from expectations, refer to U.S. Bancorp s Annual Report on Form 10-K for the year ended December 31, 2008, on file with the Securities and Exchange Commission, including the sections entitled Risk Factors and Corporate Risk Profile, and all subsequent filings with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934. Forward-looking statements speak only as of the date they are made, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.

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Table 1 Selected Financial Data

	Three Months Ended June 30,			Six Months Ended June 30,		
nd Shares in Millions, Except Per Share Data)	2009	2008	Percent Change	2009	2008	P C
ed Income Statement						
st income (taxable-equivalent basis) (a)	$ 2,104	$ 1,908	10.3%	$ 4,199	$ 3,738	
st income	2,074	1,955	6.1	4,060	4,250	
gains (losses), net	(19)	(63)	69.8	(217)	(314)	
revenue	4,159	3,800	9.4	8,042	7,674	
st expense	2,129	1,818	17.1	4,000	3,597	
for credit losses	1,395	596	*	2,713	1,081	
efore taxes	635	1,386	(54.2)	1,329	2,996	
quivalent adjustment	50	33	51.5	98	60	
e income taxes	100	386	(74.1)	201	862	
ne	485	967	(49.8)	1,030	2,074	
ne attributable to noncontrolling interests	(14)	(17)	17.6	(30)	(34)	
ne attributable to U.S. Bancorp	$ 471	$ 950	(50.4)	$ 1,000	$ 2,040	
ne applicable to U.S. Bancorp common ers	$ 221	$ 926	(76.1)	$ 640	$ 2,003	
mon Share						
per share	$ .12	$ .53	(77.4)%	$ .36	$ 1.15	
rnings per share	.12	.53	(77.4)	.36	1.14	
s declared per share	.050	.425	(88.2)	.100	.850	
ue per share	11.86	11.67	1.6			
lue per share	17.92	27.89	(35.7)			
common shares outstanding	1,833	1,740	5.3	1,794	1,735	
diluted common shares outstanding	1,840	1,755	4.8	1,801	1,752	
Ratios						
average assets	.71%	1.58%		.76%	1.71%	
average common equity	4.2	17.9		6.4	19.6	
st margin (taxable-equivalent basis) (a)	3.60	3.61		3.59	3.58	
ratio (b)	51.0	47.1		48.4	45.0	
Balances						
	$ 183,878	$ 163,070	12.8%	$ 184,786	$ 159,151	
d for sale	6,092	3,417	78.3	5,644	4,267	
nt securities	42,189	42,999	(1.9)	42,255	43,446	
ssets	234,265	212,089	10.5	234,786	209,552	
	266,107	242,221	9.9	266,171	239,448	
st-bearing deposits	37,388	27,851	34.2	36,707	27,485	

	163,220	135,809	20.2	161,800	133,333
n borrowings	27,638	38,018	(27.3)	29,915	36,954
n debt	38,768	37,879	2.3	38,279	38,851
. Bancorp shareholders equity	28,202	22,320	26.4	27,514	21,899

	June 30, 2009	December 31, 2008	
nd Balances			
	$ 182,312	$ 185,229	(1.6)%
e for credit losses	4,571	3,639	25.6
nt securities	40,805	39,521	3.2
	265,560	265,912	(.1)
	163,883	159,350	2.8
n debt	39,196	38,359	2.2
. Bancorp shareholders equity	24,171	26,300	(8.1)
tios			
pital	9.4%	10.6%	
-based capital	13.0	14.3	
	8.4	9.8	
nmon equity to risk-weighted assets (c)	6.7	5.1	
common equity to tangible assets (c)	5.1	3.3	
common equity to risk-weighted assets (c)	5.7	3.7	

* *Not meaningful.*
(a) *Presented on a fully taxable-equivalent basis utilizing a tax rate of 35 percent.*
(b) *Computed as noninterest expense divided by the sum of net interest income on a taxable-equivalent basis and noninterest income excluding securities gains (losses), net.*
(c) *See Non-GAAP Financial Measures on page 26.*

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Management s Discussion and Analysis

OVERVIEW

Earnings Summary U.S. Bancorp and its subsidiaries (the Company) reported net income attributable to U.S. Bancorp of $471 million for the second quarter of 2009 or $.12 per diluted common share, compared with $950 million, or $.53 per diluted common share for the second quarter of 2008. Return on average assets and return on average common equity were .71 percent and 4.2 percent, respectively, for the second quarter of 2009, compared with 1.58 percent and 17.9 percent, respectively, for the second quarter of 2008. Significant items in the second quarter of 2009 results included a $123 million accrual for a Federal Deposit Insurance Corporation (FDIC) special assessment to be paid in the third quarter of 2009 and $19 million of net securities losses. The Company also continued to increase its allowance for credit losses by recording $466 million of provision for credit losses in excess of net charge-offs. In addition, on June 17, 2009, the Company redeemed the $6.6 billion of preferred stock issued to the U.S. Department of the Treasury under the Capital Purchase Program of the Emergency Economic Stabilization Act of 2008. Upon redemption, the Company recorded the remaining $154 million unaccreted discount on the preferred stock in a manner similar to a dividend, reducing earnings per common share. Significant items included in the second quarter of 2008 results were $200 million of provision for credit losses in excess of net charge-offs and net securities losses of $63 million.

Total net revenue, on a taxable-equivalent basis, for the second quarter of 2009 was $359 million (9.4 percent) higher than the second quarter of 2008, reflecting a 10.3 percent increase in net interest income and an 8.6 percent increase in noninterest income. The increase in net interest income from a year ago was principally the result of growth in average earning assets. Noninterest income increased from a year ago, principally due to strong growth in mortgage banking revenue, higher commercial products revenue and lower net securities losses, partially offset by lower payments-related revenue, trust and investment management fees and deposit service charges, all of which were affected by the impact of the slowing economy on equity markets and customer spending. Additionally, the second quarter of 2009 was impacted by lower equity investment valuations.

Total noninterest expense in the second quarter of 2009 was $311 million (17.1 percent) higher than the second quarter of 2008, primarily due to higher FDIC deposit insurance expense, including the $123 million special assessment, higher marketing and litigation-related costs and acquisitions, partially offset by focused reductions in costs as a result of the implementation of the Company s cost containment plan in the first quarter of 2009.

The provision for credit losses for the second quarter of 2009 increased $799 million over the second quarter of 2008, reflecting continuing stress in residential real estate markets and deteriorating economic conditions and the corresponding impact on the commercial, commercial real estate and consumer loan portfolios. Net charge-offs in the second quarter of 2009 were $929 million, compared with net charge-offs of $396 million in the second quarter of 2008. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

The Company reported net income attributable to U.S. Bancorp of $1.0 billion for the first six months of 2009 or $.36 per diluted common share, compared with $2.0 billion, or $1.14 per diluted common share for the first six months of 2008. Return on average assets and return on average common equity were .76 percent and 6.4 percent, respectively, for the first six months of 2009, compared with 1.71 percent and 19.6 percent, respectively, for the first six months of 2008. The Company s results for the first six months of 2009 reflected several significant items, including provision for credit losses in excess of net charge-offs of $996 million, $217 million of net securities losses, the $123 million FDIC special assessment and a $92 million gain from a corporate real estate transaction. Significant items included in the first six months of 2008 results were a $492 million gain related to the Company s ownership position in Visa, Inc. (Visa Gain), $392 million provision for credit losses in excess of net charge-offs and net securities losses of $314 million.

Total net revenue, on a taxable-equivalent basis, for the first six months of 2009 was $368 million (4.8 percent) higher than the first six months of 2008, reflecting a 12.3 percent increase in net interest income and a 2.4 percent decrease in

noninterest income. The increase in net interest income from a year ago was a

result of growth in average earning assets. Noninterest income decreased due to the Visa Gain in the first six months of 2008, in addition to the impact of the deteriorating economy on equity markets and customer spending. These revenue declines were partially offset by higher mortgage banking and commercial products revenue, a gain from a corporate real estate transaction and a lower level of net securities losses in the first six months of 2009.
Total noninterest expense in the first six months of 2009 was $403 million (11.2 percent) higher than in the first six months of 2008, primarily due to higher FDIC deposit insurance expense, higher marketing and litigation-related costs and acquisitions, which were partially offset by focused reductions in costs as a result of the implementation of the Company s cost containment plan in the first quarter of 2009.
The provision for credit losses for the first six months of 2009 increased $1.6 billion over the first six months of 2008. The increase in the provision for credit losses reflected continuing stress in residential real estate markets and deteriorating economic conditions and the corresponding impact on the commercial, commercial real estate and consumer loan portfolios. Net charge-offs in the first six months of 2009 were $1.7 billion, compared with net charge-offs of $689 million in the first six months of 2008. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

STATEMENT OF INCOME ANALYSIS

Net Interest Income Net interest income, on a taxable-equivalent basis, was $2.1 billion in the second quarter of 2009, compared with $1.9 billion in the second quarter of 2008. Net interest income, on a taxable-equivalent basis, was $4.2 billion in the first six months of 2009, compared with $3.7 billion in the first six months of 2008. The increases were due to growth in average earning assets, which were $22.2 billion (10.5 percent) higher in the second quarter of 2009 and $25.2 billion (12.0 percent) higher in the first six months of 2009, compared with the same periods of 2008, primarily driven by increases in average loans, including originated and acquired loans. The net interest margin in the second quarter and first six months of 2009 was 3.60 percent and 3.59 percent, respectively, compared with 3.61 percent and 3.58 percent, respectively, for the same periods of 2008. Given the current interest rate environment, the Company expects the net interest margin to remain relatively stable for the remainder of 2009. Refer to the Consolidated Daily Average Balance Sheet and Related Yields and Rates tables for further information on net interest income.
Total average loans for the second quarter and first six months of 2009 were $20.8 billion (12.8 percent) and $25.6 billion (16.1 percent) higher, respectively, than the same periods of 2008, driven by new loan originations and acquisitions. Retail loan growth, year-over-year, was driven by increases in credit card, home equity and federally-guaranteed student loans. Commercial real estate loan growth reflected new business driven by capital market conditions, slower loan payoffs and an acquisition in the second quarter of 2008. Residential mortgage growth reflected increased origination activity as a result of market interest rate declines. The increase in commercial loans was principally a result of growth in corporate and commercial banking balances as new and existing business customers used bank credit facilities to fund business growth and liquidity requirements. Assets covered by loss sharing agreements with the FDIC (covered assets) relate to the 2008 acquisitions of the banking operations of Downey Savings and Loan Association, F.A. and PFF Bank and Trust (Downey and PFF , respectively) and were $10.7 billion and $11.0 billion in the second quarter and first six months of 2009, respectively.
Average investment securities in the second quarter and first six months of 2009 were $.8 billion (1.9 percent) and $1.2 billion (2.7 percent) lower, respectively, than the same periods of 2008, principally a result of prepayments and sales. The composition of the Company s investment portfolio remained essentially unchanged from a year ago.
Average total deposits for the second quarter and first six months of 2009 increased $27.4 billion (20.2 percent) and $28.5 billion (21.4 percent), respectively, over the same periods of 2008. Excluding deposits from 2008 and 2009 acquisitions, second quarter 2009 average total deposits increased $15.1 billion (11.2 percent) over the second quarter of 2008. Average noninterest-bearing deposits for the second quarter and first six months of 2009 increased $9.5 billion (34.2 percent) and $9.2 billion (33.6 percent), respectively, compared with same periods of 2008, primarily due to growth in Consumer and Wholesale Banking business lines and the impact of acquisitions. Average

total savings deposits increased $12.6 billion (19.7 percent) in the second quarter and $11.0 billion (17.5 percent) in the first six months of 2009, compared with the same periods in 2008, the result of higher Consumer Banking, government, broker-dealer and institutional trust customer balances and

U.S. Bancorp

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Table 2 Noninterest Income

(Dollars in Millions)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Percent Change	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008	Percent Change
Credit and debit card revenue	$ 259	$ 266	(2.6)%	$ 515	$ 514	.2%
Corporate payment products revenue	168	174	(3.4)	322	338	(4.7)
Merchant processing services	278	309	(10.0)	536	580	(7.6)
ATM processing services	104	93	11.8	206	177	16.4
Trust and investment management fees	304	350	(13.1)	598	685	(12.7)
Deposit service charges	250	278	(10.1)	476	535	(11.0)
Treasury management fees	142	137	3.6	279	261	6.9
Commercial products revenue	144	117	23.1	273	229	19.2
Mortgage banking revenue	308	81	*	541	186	*
Investment products fees and commissions	27	37	(27.0)	55	73	(24.7)
Securities gains (losses), net	(19)	(63)	69.8	(217)	(314)	30.9
Other	90	113	(20.4)	259	672	(61.5)
Total noninterest income	$ 2,055	$ 1,892	8.6%	$ 3,843	$ 3,936	(2.4)%

* *Not meaningful*

acquisitions. Contributing to the increase in savings accounts was strong participation in a new savings product introduced nationwide by Consumer Banking late in the third quarter of 2008. Average time certificates of deposit less than $100,000 were higher in the second quarter and first six months of 2009 by $5.3 billion (42.2 percent) and $4.9 billion (37.6 percent), respectively, primarily due to acquisitions. Average time deposits greater than $100,000 decreased slightly (.3 percent) in the second quarter of 2009, compared with the second quarter of 2008, due to acquisitions offset by the impact of wholesale funding decisions. Average time deposits greater than $100,000 increased $3.4 billion (11.4 percent) in the first six months of 2009, compared with the same period of the prior year, due primarily to acquisitions.

Provision for Credit Losses The provision for credit losses for the second quarter and first six months of 2009 increased $799 million and $1.6 billion, respectively, over the same periods of 2008, reflecting the current adverse economic conditions. The provision for credit losses exceeded net charge-offs by $466 million and $996 million in the second quarter and first six months of 2009, respectively, compared with $200 million and $392 million in the same periods of 2008. The increases in the provision and allowance for credit losses reflected continuing stress in residential real estate markets and deteriorating economic conditions and the corresponding impact on the commercial, commercial real estate and consumer loan portfolios. Net charge-offs were $929 million in the second quarter and $1.7 billion in the first six months of 2009, compared with net charge-offs of $396 million in the second quarter and $689 million in the first six months of 2008. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Noninterest Income Noninterest income in the second quarter and first six months of 2009 was $2.1 billion and $3.8 billion, respectively, compared with $1.9 billion and $3.9 billion in the same periods of 2008. The $163 million (8.6 percent) increase during the second quarter and $93 million (2.4 percent) decrease during the first six months of 2009, compared with the same periods of 2008, were principally due to a significant rise in mortgage banking revenue as the lower rate environment drove record mortgage loan production and increased profitability on loan sales, offset by lower fee-based revenue in certain revenue categories due to weaker economic conditions adversely impacting consumer and business spending. In addition, noninterest income decreased in the first six months of 2009, compared with the first six months of 2008, due to the $492 million Visa Gain included in the first quarter of 2008. Other increases in noninterest income included higher ATM processing services related to growth in transaction volumes and business expansion, higher treasury management fees resulting from reduced earnings credit on customer compensating balances, and higher commercial products revenue due to higher standby letter of credit, capital markets and other commercial loan fees. Net securities losses for the second quarter and first six months of 2009 were also lower than the same periods a year ago. Corporate payment products revenue decreased in the second quarter and first six months of 2009, compared with the same periods of 2008, as transaction volumes declined due to

Table 3 Noninterest Expense

	Three Months Ended June 30,			Six Months Ended June 30,		
(Dollars in Millions)	2009	2008	Percent Change	2009	2008	Percent Change
Compensation	$ 764	$ 761	.4%	$ 1,550	$ 1,506	2.9%
Employee benefits	140	129	8.5	295	266	10.9
Net occupancy and equipment	208	190	9.5	419	380	10.3
Professional services	59	59		111	106	4.7
Marketing and business development	80	66	21.2	136	145	(6.2)
Technology and communications	157	149	5.4	312	289	8.0
Postage, printing and supplies	72	73	(1.4)	146	144	1.4
Other intangibles	95	87	9.2	186	174	6.9
Other	554	304	82.2	845	587	44.0
Total noninterest expense	$ 2,129	$ 1,818	17.1%	$ 4,000	$ 3,597	11.2%
Efficiency ratio (a)	51.0%	47.1%		48.4%	45.0%	

(a) Computed as noninterest expense divided by the sum of net interest income on a taxable-equivalent basis and noninterest income excluding securities gains (losses), net.

the slowing economy. Merchant processing services revenue decreased primarily due to lower average customer purchases per transaction. Deposit service charges decreased primarily due to lower overdraft fees, with a decrease in the number of overdraft incidences more than offsetting account growth. Trust and investment management fees declined, as did investment product fees and commissions, reflecting adverse equity market conditions. Other income also decreased due to lower equity investment valuations.

Noninterest Expense Noninterest expense was $2.1 billion in the second quarter and $4.0 billion in the first six months of 2009, increasing $311 million (17.1 percent) and $403 million (11.2 percent), respectively, from the same periods of 2008. The increases in noninterest expense from a year ago were principally due to the impact of higher FDIC deposit insurance expense and acquisitions. Compensation expense increased primarily due to acquisitions, offset by reductions from cost containment efforts. Employee benefits expense increased primarily due to increased pension costs associated with previous declines in the value of pension assets, as well as acquisitions. Net occupancy and equipment expense, and technology and communications expense increased primarily due to acquisitions, as well as branch-based and other business expansion initiatives. Marketing and business development expense increased in the second quarter of 2009, compared with the second quarter of 2008, due to costs related to new credit card product initiatives. Marketing and business development expense for the first six months of 2009 decreased from the same period of 2008 due to a contribution to the U.S. Bancorp Foundation in the first quarter of 2008, offset by the impact of costs related to new credit card product initiatives in 2009. Other intangibles expense increased due to acquisitions. Other expense increased year-over-year due to an increase in FDIC deposit insurance expense, a result of the special assessment in the second quarter of 2009 and the use of assessment credits in 2008 and the first quarter of 2009, which have been fully utilized. In addition, other expense included increased costs for other real estate owned, mortgage

servicing, litigation and acquisition integration.

Income Tax Expense The provision for income taxes was $100 million (an effective rate of 17.1 percent) for the second quarter and $201 million (an effective rate of 16.3 percent) for the first six months of 2009, compared with $386 million (an effective rate of 28.5 percent) and $862 million (an effective rate of 29.4 percent) for the same periods of 2008. The declines in the effective tax rates in the second quarter and first six months of 2009, compared with the same periods of the prior year, reflected the impact of the decline in pre-tax earnings and the relative level of tax-advantaged investments. For further information on income taxes, refer to Note 10 of the Notes to Consolidated Financial Statements.

BALANCE SHEET ANALYSIS

Loans The Company s total loan portfolio was $182.3 billion at June 30, 2009, compared with $185.2 billion at December 31, 2008, a decrease of $2.9 billion (1.6 percent). The decrease was driven primarily by lower commercial loans and covered assets, partially offset by growth in retail loans, residential mortgages and commercial real estate loans. The $3.9 billion (6.9 percent) decrease in commercial loans was primarily driven by lower capital spending and lower utilization of bank credit facilities by business customers, along with improved access to the short-term and long-term bond markets to refinance their bank debt.

Commercial real estate loans increased $.5 billion (1.5 percent) at June 30, 2009, compared with December 31, 2008, reflecting new business growth, as current market conditions have limited borrower access to capital markets, and slower loan payoffs.

Residential mortgages held in the loan portfolio increased $.4 billion (1.7 percent) at June 30, 2009, compared with December 31, 2008, reflecting an increase in mortgage banking origination activity as a result of market interest rate declines. Most loans retained in the portfolio are to customers with prime or near-prime credit characteristics at the date of origination.

Total retail loans outstanding, which include credit card, retail leasing, home equity and second mortgages and other retail loans, increased $1.1 billion (1.8 percent) at June 30, 2009, compared with December 31, 2008. The increase was primarily driven by growth in credit card balances and home equity and second mortgages, partially offset by decreases in student and installment loans and retail leasing balances.

Loans Held for Sale Loans held for sale, consisting primarily of residential mortgages and student loans to be sold in the secondary market, were $7.4 billion at June 30, 2009, compared with $3.2 billion at December 31, 2008. The increase in loans held for sale was principally due to an increase in mortgage loan origination activity as a result of a decline in rates.

Investment Securities Investment securities, including available-for-sale and held-to-maturity, totaled $40.8 billion at June 30, 2009, compared with $39.5 billion at December 31, 2008. The $1.3 billion increase reflected securities purchases of $6.7 billion and a decrease in unrealized losses, partially offset by sales, maturities, prepayments and securities impairments. At June 30, 2009, adjustable-rate financial instruments comprised 45 percent of the investment securities portfolio, compared with 40 percent at December 31, 2008.

The Company conducts a regular assessment of its investment securities to determine whether any securities are other-than-temporarily impaired. During the first six months of 2009, the Financial Accounting Standards Board issued new accounting guidance, which the Company adopted effective January 1, 2009, for the measurement and recognition of other-than-temporary impairment for debt securities. This guidance requires the portion of other-than-temporary impairment related to factors other than credit losses be recognized in other comprehensive income (loss), rather than earnings. The effect of the adoption of this guidance was not significant.

Net unrealized losses included in accumulated other comprehensive income (loss) were $1.7 billion at June 30, 2009, compared with $2.8 billion at December 31, 2008. The decrease in unrealized losses was primarily due to increases in fair value of agency mortgage-backed securities and obligations of state and political subdivisions, and to amounts recognized as other-than-temporary impairment.

As of June 30, 2009, approximately 1 percent of the available-for-sale securities portfolio consisted of perpetual preferred securities, primarily issued by financial institutions. The net unrealized losses for these securities were $134 million at June 30, 2009, compared to $387 million at December 31, 2008. The decrease was principally a result of impairment charges recognized on these securities during the second quarter and first six months of 2009 of $12 million and $210 million, respectively. Impairment charges recognized for the first six months of 2009 were primarily related to the perpetual preferred stock of a large domestic bank downgraded during the first quarter of 2009.

There is limited market activity for the remaining structured investment security and the non-agency mortgage-backed securities held by the Company. As a result, the Company estimates the fair value of these securities using estimates of expected cash flows, discount rates and management s assessment of various market factors, which are judgmental in nature. The Company recorded $76 million and $132 million of impairment charges on non-agency mortgage-backed and structured investment related securities during the second quarter and first six months of 2009, respectively. These impairment charges were due to changes in expected cash flows resulting from the continuing decline in housing prices and an increase in foreclosure activity. Further adverse changes in market conditions may result in additional impairment charges in future periods. Refer to Notes 3 and 12 in the Notes to Consolidated Financial Statements for further information on investment securities.

Deposits Total deposits were $163.9 billion at June 30, 2009, compared with $159.3 billion at December 31, 2008, an increase of $4.6 billion (2.8 percent) that reflected customer flight to quality. The increase in total deposits was primarily the result of increases in money market savings, savings accounts and interest checking balances, partially offset by decreases in noninterest-bearing deposit accounts and time deposits greater than $100,000. Money market savings balances increased $5.6 billion (21.6 percent) due to higher corporate trust, trust and custody, and broker-dealer balances. Savings account balances increased $3.7 billion (40.8 percent) due primarily to strong participation in a new savings

Table 4 Investment Securities

June 30, 2009 (Dollars in Millions)	Available-for-Sale Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (d)	Held-to-Maturity Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (d)
U.S. Treasury and Agencies								
Maturing in one year or less	$ 595	$ 602	.5	3.22%	$	$		%
Maturing after one year through five years	1,003	998	4.1	2.88				
Maturing after five years through ten years	28	28	7.6	4.88				
Maturing after ten years	906	895	15.1	2.35				
Total	$ 2,532	$ 2,523	7.3	2.79%	$	$		%
Mortgage-Backed Securities (a)								
Maturing in one year or less	$ 879	$ 873	.6	2.39%	$	$		%
Maturing after one year through five years	23,704	23,708	3.1	3.66	5	5	4.9	5.07
Maturing after five years through ten years	5,097	4,764	6.6	2.93				
Maturing after ten years	504	346	11.9	2.14				
Total	$ 30,184	$ 29,691	3.7	3.48%	$ 5	$ 5	4.9	5.07%
Asset-Backed Securities (a)								
Maturing in one year or less	$ 1	$ 1	.6	3.11%	$	$		%
Maturing after one year through five years	616	483	3.6	2.26				
Maturing after five years through ten years	31	28	6.9	2.78				
Maturing after ten years	22	9	22.7	1.99				
Total	$ 670	$ 521	4.4	2.28%	$	$		%
Obligations of State and Political Subdivisions (b)								
Maturing in one year or less	$ 11	$ 11	.2	6.79%	$ 1	$ 1	.4	7.04%
Maturing after one year through five years	210	209	2.4	3.01	6	6	2.9	6.71
	1,195	1,174	6.7	6.74	11	13	6.9	7.36

Maturing after five years through ten years								
Maturing after ten years	5,309	4,856	22.3	6.81	16	15	17.4	5.52
Total	$ 6,725	$ 6,250	18.9	6.68%	$ 34	$ 35	10.8	6.39%
Other Debt Securities								
Maturing in one year or less	$	$ 1	.4	8.01%	$ 3	$ 3	.7	1.96%
Maturing after one year through five years	80	56	2.6	5.46	7	7	3.5	2.06
Maturing after five years through ten years	61	45	8.0	6.33				
Maturing after ten years	1,481	986	33.8	4.86				
Total	$ 1,622	$ 1,088	31.3	4.94%	$ 10	$ 10	2.6	2.03%
Other Investments	$ 698	$ 683	8.7	1.93%	$	$		%
Total investment securities (c)	$ 42,431	$ 40,756	7.5	3.96%	$ 49	$ 50	8.5	5.35%

(a) *Information related to asset and mortgage-backed securities included above is presented based upon weighted-average maturities anticipating future prepayments.*

(b) *Information related to obligations of state and political subdivisions is presented based upon yield to first optional call date if the security is purchased at a premium, yield to maturity if purchased at par or a discount.*

(c) *The weighted-average maturity of the available-for-sale investment securities was 7.7 years at December 31, 2008, with a corresponding weighted-average yield of 4.56 percent. The weighted-average maturity of the held-to-maturity investment securities was 8.5 years at December 31, 2008, with a corresponding weighted-average yield of 5.78 percent.*

(d) *Average yields are presented on a fully-taxable equivalent basis under a tax rate of 35 percent. Yields on available-for-sale and held-to-maturity securities are computed based on historical cost balances. Average yield and maturity calculations exclude equity securities that have no stated yield or maturity.*

	June 30, 2009		December 31, 2008	
(Dollars in Millions)	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
U.S. Treasury and agencies	$ 2,532	6.0 %	$ 664	1.6 %
Mortgage-backed securities	30,189	71.0	31,271	73.9
Asset-backed securities	670	1.6	616	1.4
Obligations of state and political subdivisions	6,759	15.9	7,258	17.1
Other debt securities and investments	2,330	5.5	2,527	6.0
Total investment securities	$ 42,480	100.0 %	$ 42,336	100.0 %

product offered by Consumer Banking and higher broker-dealer balances. Interest checking balances increased $3.2 billion (9.9 percent) due to higher government and branch-based balances. Noninterest-bearing deposits decreased $1.8 billion (4.8 percent) due primarily to decreases in broker-dealer and corporate trust balances. Time deposits greater than $100,000 decreased $5.5 billion (15.2 percent) at June 30, 2009, compared with December 31, 2008. Time deposits greater than $100,000 are managed as an alternative to other funding sources, such as wholesale borrowing, based largely on relative pricing.

Borrowings The Company utilizes both short-term and long-term borrowings to fund growth of assets in excess of deposit growth. Short-term borrowings, which include federal funds purchased, commercial paper, repurchase agreements, borrowings secured by high-grade assets and other short-term borrowings, were $29.7 billion at June 30, 2009, compared with $34.0 billion at December 31, 2008. The decrease principally reflected reduced borrowing needs as a result of increases in deposits due to customer flight to quality.
Long-term debt was $39.2 billion at June 30, 2009, compared with $38.4 billion at December 31, 2008, primarily reflecting issuances of $3.7 billion of medium-term notes, partially offset by $2.2 billion of medium-term note maturities and a $.6 billion net decrease in Federal Home Loan Bank advances in the first six months of 2009. The $.8 billion (2.2 percent) increase in long-term debt reflected the Company s issuance of non-guaranteed debt to qualify for redemption of the preferred stock from the U.S. Department of the Treasury. Refer to the Liquidity Risk Management section for discussion of liquidity management of the Company.

CORPORATE RISK PROFILE

Overview Managing risks is an essential part of successfully operating a financial services company. The most prominent risk exposures are credit, residual value, operational, interest rate, market and liquidity risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan or investment when it is due. Residual value risk is the potential reduction in the end-of-term value of leased assets. Operational risk includes risks related to fraud, legal and compliance risk, processing errors, technology, breaches of internal controls and business continuation and disaster recovery risk. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates, which can affect the re-pricing of assets and liabilities differently. Market risk arises from fluctuations in interest rates, foreign exchange rates, and security prices that may result in changes in the values of financial instruments, such as trading and available-for-sale securities that are accounted for on a mark-to-market basis. Liquidity risk is the possible inability to fund obligations to depositors, investors or borrowers. In addition, corporate strategic decisions, as well as the risks described above, could give rise to reputation risk. Reputation risk is the risk that negative publicity or press, whether true or not, could result in costly litigation or cause a decline in the Company s stock value, customer base, funding sources or revenue.

Credit Risk Management The Company s strategy for credit risk management includes well-defined, centralized credit policies, uniform underwriting criteria, and ongoing risk monitoring and review processes for all commercial and consumer credit exposures. In evaluating its credit risk, the Company considers changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), trends in loan performance, the level of allowance coverage relative to similar banking institutions and macroeconomic factors. Refer to Management s Discussion and Analysis Credit Risk Management in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, for a more detailed discussion on credit risk management processes.
The Company manages its credit risk, in part through diversification of its loan portfolio. As part of its normal business activities, the Company offers a broad array of commercial and retail lending products. The Company s retail lending business utilizes several distinct business processes and channels to originate retail credit, including traditional branch lending, indirect lending, portfolio acquisitions and a consumer finance division. Generally, loans managed by the Company s consumer finance division exhibit higher credit risk characteristics, but are priced commensurate with the differing risk profile. With respect to residential mortgages originated through these channels, the Company may

either retain the loans on its balance sheet or sell its interest in the balances into the secondary market while retaining the servicing rights and customer relationships. For residential mortgages that are retained in the Company s portfolio and for home equity and second mortgages, credit risk is also diversified by geography and managed by adherence to loan-to-value and borrower credit criteria during the underwriting process.

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The following tables provide summary information of the loan-to-values of residential mortgages and home equity and second mortgages by distribution channel and type at June 30, 2009 (excluding covered assets):

Residential mortgages (Dollars in Millions)	Interest Only	Amortizing	Total	Percent of Total
Consumer Finance				
Less than or equal to 80%	$ 1,056	$ 2,976	$ 4,032	41.3%
Over 80% through 90%	668	1,540	2,208	22.7
Over 90% through 100%	681	2,695	3,376	34.6
Over 100%		141	141	1.4
Total	$ 2,405	$ 7,352	$ 9,757	100.0%
Other Retail				
Less than or equal to 80%	$ 2,160	$ 10,734	$ 12,894	90.7%
Over 80% through 90%	86	569	655	4.6
Over 90% through 100%	121	543	664	4.7
Over 100%				
Total	$ 2,367	$ 11,846	$ 14,213	100.0%
Total Company				
Less than or equal to 80%	$ 3,216	$ 13,710	$ 16,926	70.6%
Over 80% through 90%	754	2,109	2,863	11.9
Over 90% through 100%	802	3,238	4,040	16.9
Over 100%		141	141	.6
Total	$ 4,772	$ 19,198	$ 23,970	100.0%

Note: Loan-to-values determined as of the date of origination and adjusted for cumulative principal payments, and consider mortgage insurance, as applicable.

Home equity and second mortgages (Dollars in Millions)	Lines	Loans	Total	Percent of Total
Consumer Finance (a)				
Less than or equal to 80%	$ 762	$ 200	$ 962	39.1%
Over 80% through 90%	364	184	548	22.2
Over 90% through 100%	391	384	775	31.5
Over 100%	65	113	178	7.2

Total	$	1,582	$	881	$	2,463	100.0%
Other Retail							
Less than or equal to 80%	$	11,638	$	1,537	$	13,175	78.1%
Over 80% through 90%		1,877		452		2,329	13.8
Over 90% through 100%		900		388		1,288	7.7
Over 100%		51		22		73	.4
Total	$	14,466	$	2,399	$	16,865	100.0%
Total Company							
Less than or equal to 80%	$	12,400	$	1,737	$	14,137	73.1%
Over 80% through 90%		2,241		636		2,877	14.9
Over 90% through 100%		1,291		772		2,063	10.7
Over 100%		116		135		251	1.3
Total	$	16,048	$	3,280	$	19,328	100.0%

(a) Consumer finance category included credit originated and managed by the consumer finance division, as well as the majority of home equity and second mortgages with a loan-to-value greater than 100 percent that were originated in the branches.

Note: Loan-to-values determined on original appraisal value of collateral and the current amortized loan balance, or maximum of current commitment or current balance on lines.

Within the consumer finance division, at June 30, 2009, approximately $2.7 billion of residential mortgages were to customers that may be defined as sub-prime borrowers based on credit scores from independent credit rating agencies at loan origination, compared with $2.9 billion at December 31, 2008.

The following table provides further information on residential mortgages for the consumer finance division:

(Dollars in Millions)		Interest Only		Amortizing		Total	Percent of Division
Sub-Prime Borrowers							
Less than or equal to 80%	$	4	$	1,056	$	1,060	10.8%
Over 80% through 90%		6		644		650	6.7
Over 90% through 100%		17		887		904	9.3
Over 100%				73		73	.7
Total	$	27	$	2,660	$	2,687	27.5%
Other Borrowers							
Less than or equal to 80%	$	1,052	$	1,920	$	2,972	30.5%
Over 80% through 90%		662		896		1,558	16.0
Over 90% through 100%		664		1,808		2,472	25.3
Over 100%				68		68	.7

Total	$ 2,378	$ 4,692	$ 7,070	72.5%
Total Consumer Finance	$ 2,405	$ 7,352	$ 9,757	100.0%

In addition to residential mortgages, at June 30, 2009, the consumer finance division had $.7 billion of home equity and second mortgage loans to customers that may be defined as sub-prime borrowers, unchanged from December 31, 2008.

The following table provides further information on home equity and second mortgages for the consumer finance division:

(Dollars in Millions)	Lines	Loans	Total	Percent of Total
Sub-Prime Borrowers				
Less than or equal to 80%	$ 29	$ 128	$ 157	6.4%
Over 80% through 90%	37	119	156	6.3
Over 90% through 100%	2	239	241	9.8
Over 100%	42	82	124	5.0
Total	$ 110	$ 568	$ 678	27.5%
Other Borrowers				
Less than or equal to 80%	$ 733	$ 72	$ 805	32.7%
Over 80% through 90%	327	65	392	15.9
Over 90% through 100%	389	145	534	21.7
Over 100%	23	31	54	2.2
Total	$ 1,472	$ 313	$ 1,785	72.5%
Total Consumer Finance	$ 1,582	$ 881	$ 2,463	100.0%

The total amount of residential mortgage, home equity and second mortgage loans, other than covered assets, to customers that may be defined as sub-prime borrowers represented only 1.3 percent of total assets at June 30, 2009, compared with 1.4 percent at December 31, 2008. Covered assets include $2.7 billion in loans with negative-amortization payment options at June 30, 2009, compared with $3.3 billion at December 31, 2008. The Company s risk on covered assets is limited by loss sharing agreements with the FDIC. Other than covered assets, the Company does not have any residential mortgages with payment schedules that would cause balances to increase over time.

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Table 5 Delinquent Loan Ratios as a Percent of Ending Loan Balances

90 days or more past due **excluding** nonperforming loans	June 30, 2009	December 31, 2008
Commercial		
Commercial	.19%	.15%
Lease financing		
Total commercial	.16	.13
Commercial Real Estate		
Commercial mortgages		
Construction and development	.76	.36
Total commercial real estate	.22	.11
Residential Mortgages	2.11	1.55
Retail		
Credit card	2.37	2.20
Retail leasing	.10	.16
Other retail	.53	.45
Total retail	.94	.82
Total loans, excluding covered assets	.72	.56
Covered Assets	7.60	5.13
Total loans	1.12%	.84%

90 days or more past due **including** nonperforming loans	June 30, 2009	December 31, 2008
Commercial	1.89%	.82%
Commercial real estate	5.05	3.34

Residential mortgages (a)	3.46	2.44
Retail (b)	1.19	.97
Total loans, excluding covered assets	2.48	1.57
Covered assets	14.10	10.74
Total loans	3.15%	2.14%

(a) Delinquent loan ratios exclude advances made pursuant to servicing agreements to Government National Mortgage Association (GNMA) mortgage pools whose repayments are insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs. Including the guaranteed amounts, the ratio of residential mortgages 90 days or more past due including nonperforming loans was 10.05 percent at June 30, 2009, and 6.95 percent at December 31, 2008.

(b) Delinquent loan ratios exclude student loans that are guaranteed by the federal government. Including the guaranteed amounts, the ratio of retail loans 90 days or more past due including nonperforming loans was 1.36 percent at June 30, 2009, and 1.10 percent at December 31, 2008.

Loan Delinquencies Trends in delinquency ratios are an indicator, among other considerations, of credit risk within the Company s loan portfolios. The Company measures delinquencies, both including and excluding nonperforming loans, to enable comparability with other companies. Accruing loans 90 days or more past due totaled $2.0 billion ($1.2 billion excluding covered assets) at June 30, 2009, compared with $1.6 billion ($967 million excluding covered assets) at December 31, 2008. The increase in 90 day delinquent loans related to covered assets was $210 million. The $278 million increase excluding covered assets reflected stress in residential mortgages, commercial loans, construction loans, credit cards and home equity loans. These loans are not included in nonperforming assets and continue to accrue interest because they are adequately secured by collateral, are in the process of collection and are reasonably expected to result in repayment or restoration to current status, or are managed in homogeneous portfolios with specified charge-off timeframes adhering to regulatory guidelines. The ratio of accruing loans 90 days or more past due to total loans was 1.12 percent (.72 percent excluding covered assets) at June 30, 2009, compared with .84 percent (.56 percent excluding covered assets) at December 31, 2008. The Company expects delinquencies to continue to increase as difficult economic conditions affect more borrowers within both the consumer and commercial loan portfolios.

The following table provides summary delinquency information for residential mortgages and retail loans, excluding covered assets:

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
Residential mortgages				
30-89 days	$ 552	$ 536	2.30%	2.28%
90 days or more	505	366	2.11	1.55
Nonperforming	324	210	1.35	.89
Total	$ 1,381	$ 1,112	5.76%	4.72%
Retail				
Credit card				
30-89 days	$ 354	$ 369	2.38%	2.73%
90 days or more	352	297	2.37	2.20
Nonperforming	107	67	.72	.49
Total	$ 813	$ 733	5.47%	5.42%
Retail leasing				
30-89 days	$ 42	$ 49	.85%	.95%
90 days or more	5	8	.10	.16
Nonperforming				
Total	$ 47	$ 57	.95%	1.11%
Home equity and second mortgages				
30-89 days	$ 179	$ 170	.92%	.89%
90 days or more	137	106	.71	.55
Nonperforming	27	14	.14	.07
Total	$ 343	$ 290	1.77%	1.51%
Other retail				
30-89 days	$ 243	$ 255	1.09%	1.13%
90 days or more	85	81	.38	.36
Nonperforming	21	11	.10	.05
Total	$ 349	$ 347	1.57%	1.54%

Within these product categories, the following table provides information on delinquent and nonperforming loans as a percent of ending loan balances, by channel:

	Consumer Finance (a)		Other Retail	
	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
Residential mortgages				

30-89 days	3.75%	3.96%	1.31%	1.06%
90 days or more	2.98	2.61	1.50	.79
Nonperforming	2.29	1.60	.71	.38
Total	9.02%	8.17%	3.52%	2.23%
Retail				
Credit card				
30-89 days	%	%	2.38%	2.73%
90 days or more			2.37	2.20
Nonperforming			.72	.49
Total	%	%	5.47%	5.42%
Retail leasing				
30-89 days	%	%	.85%	.95%
90 days or more			.10	.16
Nonperforming				
Total	%	%	.95%	1.11%
Home equity and second mortgages				
30-89 days	2.52%	3.24%	.69%	.59%
90 days or more	2.07	2.36	.51	.32
Nonperforming	.24	.14	.13	.07
Total	4.83%	5.74%	1.33%	.98%
Other retail				
30-89 days	5.38%	6.91%	.98%	1.00%
90 days or more	1.04	1.98	.36	.32
Nonperforming			.10	.05
Total	6.42%	8.89%	1.44%	1.37%

(a) Consumer finance category included credit originated and managed by the consumer finance division, as well as the majority of home equity and second mortgages with a loan-to-value greater than 100 percent that were originated in the branches.

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Within the consumer finance division at June 30, 2009, approximately $456 million and $99 million of these delinquent and nonperforming residential mortgages and other retail loans, respectively, were with customers that may be defined as sub-prime borrowers, compared with $467 million and $121 million, respectively, at December 31, 2008.

The following table provides summary delinquency information for covered assets:

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
Covered assets				
30-89 days	$ 365	$ 740	3.48%	6.46%
90 days or more	797	587	7.60	5.13
Nonperforming	682	643	6.50	5.62
Total	$ 1,844	$ 1,970	17.58%	17.21%

Restructured Loans Accruing Interest In certain circumstances, the Company may modify the terms of a loan to maximize the collection of amounts due. In most cases, the modification is either a reduction in interest rate, extension of the maturity date or a reduction in the principal balance. Restructured loans, except those where the principal balance has been reduced, accrue interest as long as the borrower complies with the revised terms and conditions and has demonstrated repayment performance at a level commensurate with the modified terms over several payment cycles.

The following table provides a summary of restructured loans, excluding covered assets, that are performing in accordance with modified terms, and therefore continue to accrue interest:

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
Commercial	$ 56	$ 35	.11%	.06%
Commercial real estate	132	138	.39	.42
Residential mortgages	1,289	813	5.38	3.45
Credit card	541	450	3.64	3.33
Other retail	89	73	.19	.16
Total loans	$ 2,107	$ 1,509	1.16%	.81%

Restructured loans, excluding covered assets, were $598 million higher at June 30, 2009, compared with December 31, 2008, reflecting the impact of restructurings for certain residential mortgage and credit card customers in light of current economic conditions. The Company expects this trend to continue as the Company works to modify loans for borrowers who are having financial difficulties.

The Company has also modified certain covered loans in accordance with the terms of agreements with the FDIC in connection with the acquisitions of Downey and PFF. Losses associated with modifications on these loans, including the economic impact of interest rate reductions, are generally eligible for reimbursement under the loss sharing agreements.

Nonperforming Assets The level of nonperforming assets represents another indicator of the potential for future credit losses. At June 30, 2009, total nonperforming assets were $4.0 billion, compared with $2.6 billion at December 31, 2008. Nonperforming assets at June 30, 2009 included $682 million of covered assets, compared with $643 million at December 31, 2008. The ratio of total nonperforming assets to total loans and other real estate was 2.20 percent (1.94 percent excluding covered assets) at June 30, 2009, compared with 1.42 percent (1.14 percent excluding covered assets) at December 31, 2008. The increase in nonperforming assets was driven primarily by the residential construction portfolio and related industries, the residential mortgage and credit card portfolios, an increase in foreclosed residential properties and the impact of the economic slowdown on other commercial customers.
Included in nonperforming loans were restructured loans that are not accruing interest of $189 million at June 30, 2009, compared with $151 million at December 31, 2008.
Other real estate, excluding covered assets, was $293 million at June 30, 2009, compared with $190 million at December 31, 2008, and was primarily related to foreclosed properties that previously secured residential mortgages, home equity and second mortgage loan balances. The increase in other real estate assets reflected continuing stress in residential construction and related supplier industries and higher residential mortgage loan foreclosures.

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Table 6 Nonperforming Assets (a)

(Dollars in Millions)	June 30, 2009	December 31, 2008
Commercial		
Commercial	$ 785	$ 290
Lease financing	123	102
Total commercial	908	392
Commercial Real Estate		
Commercial mortgages	471	294
Construction and development	1,156	780
Total commercial real estate	1,627	1,074
Residential Mortgages	324	210
Retail		
Credit card	107	67
Retail leasing		
Other retail	48	25
Total retail	155	92
Total nonperforming loans, excluding covered assets	3,014	1,768
Covered Assets	682	643
Total nonperforming loans	3,696	2,411
Other Real Estate (b)	293	190
Other Assets	27	23
Total nonperforming assets	$ 4,016	$ 2,624
Accruing loans 90 days or more past due, excluding covered assets	$ 1,245	$ 967
Accruing loans 90 days or more past due	$ 2,042	$ 1,554
Nonperforming loans to total loans, excluding covered assets	1.75%	1.02%
Nonperforming loans to total loans	2.03%	1.30%
Nonperforming assets to total loans plus other real estate, excluding covered assets (b)	1.94%	1.14%
Nonperforming assets to total loans plus other real estate (b)	2.20%	1.42%

Changes in Nonperforming Assets

Retail and

(Dollars in Millions)	Commercial and Commercial Real Estate	Residential Mortgages (d)	Total
Balance December 31, 2008	$ 1,896	$ 728	$ 2,624
Additions to nonperforming assets			
New nonaccrual loans and foreclosed properties	2,001	720	2,721
Advances on loans	44		44
Total additions	2,045	720	2,765
Reductions in nonperforming assets			
Paydowns, payoffs	(206)	(325)	(531)
Net sales	(11)		(11)
Return to performing status	(64)	(7)	(71)
Charge-offs (c)	(640)	(120)	(760)
Total reductions	(921)	(452)	(1,373)
Net additions to nonperforming assets	1,124	268	1,392
Balance June 30, 2009	$ 3,020	$ 996	$ 4,016

(a) Throughout this document, nonperforming assets and related ratios do not include accruing loans 90 days or more past due.
(b) Excludes $282 million and $209 million at June 30, 2009, and December 31, 2008, respectively of foreclosed GNMA loans which continue to accrue interest.
(c) Charge-offs exclude actions for certain card products and loan sales that were not classified as nonperforming at the time the charge-off occurred.
(d) Residential mortgage information excludes changes related to residential mortgages serviced by others.

The following table provides an analysis of other real estate owned (OREO) excluding covered assets, as a percent of their related loan balances, including further detail for residential mortgages and home equity and second mortgage loan balances by geographical location:

	Amount		As a Percent of Ending Loan Balances	
(Dollars in Millions)	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
Residential				
Minnesota	$ 24	$ 18	.44%	.34%
California	19	13	.36	.29
Michigan	12	12	2.42	2.39
Arizona	10	5	.97	.53
Ohio	9	9	.36	.37
All other states	109	88	.38	.30
Total residential	183	145	.42	.34
Commercial	110	45	.33	.14

Total OREO	$ 293	$ 190	.16%	.10%

.14

Table 7 Net Charge-offs as a Percent of Average Loans Outstanding

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Commercial				
Commercial	1.50%	.43%	1.21%	.39%
Lease financing	3.29	1.14	3.29	1.09
Total commercial	1.72	.51	1.46	.47
Commercial Real Estate				
Commercial mortgages	.47	.11	.35	.10
Construction and development	3.79	.52	4.30	.44
Total commercial real estate	1.44	.24	1.51	.20
Residential Mortgages	1.94	.91	1.74	.69
Retail				
Credit card	7.36	4.84	6.86	4.39
Retail leasing	.80	.58	.91	.53
Home equity and second mortgages	1.72	1.13	1.60	.93
Other retail	1.80	1.16	1.77	1.20
Total retail	2.99	1.86	2.81	1.73
Total loans, excluding covered assets	2.15	.98	1.98	.87
Covered Assets	.07		.15	
Total loans	2.03%	.98%	1.87%	.87%

The Company expects nonperforming assets, including OREO, to continue to increase, however at a decreasing rate as compared with prior periods, as difficult economic conditions affect more borrowers within both the consumer and commercial loan portfolios.

Analysis of Loan Net Charge-Offs Total net charge-offs were $929 million and $1.7 billion for the second quarter and first six months of 2009, respectively, compared with net charge-offs of $396 million and $689 million for the same periods of 2008. The ratio of total loan net charge-offs to average loans outstanding on an annualized basis for the second quarter and first six months of 2009 was 2.03 percent and 1.87 percent, respectively, compared with .98 percent and .87 percent, for the same periods of 2008. The year-over-year increases in total net charge-offs were driven by factors affecting the residential housing markets, including homebuilding and related industries, and credit costs associated with credit card and other consumer and commercial loans as the economy weakened. Given current economic conditions and the continuing weakness in home prices, rising unemployment levels and the economy in general, the Company expects net charge-offs will continue to increase for the remainder of 2009, however at a decreasing rate as compared with prior periods.

Commercial and commercial real estate loan net charge-offs for the second quarter of 2009 increased to $353 million (1.61 percent of average loans outstanding on an annualized basis), compared with $87 million (.41 percent of average loans outstanding on an annualized basis) for the second quarter of 2008. Commercial and commercial real estate loan net charge-offs for the first six months of 2009 increased to $650 million (1.48 percent of average loans outstanding on an annualized basis), compared with $154 million (.37 percent of average loans outstanding on an annualized basis) for the first six months of 2008. The year-over-year increases in net charge-offs reflected continuing stress in housing, especially residential homebuilding and related industry sectors, along with the impact of the deteriorating economic conditions on the commercial loan portfolios.

Residential mortgage loan net charge-offs for the second quarter of 2009 were $116 million (1.94 percent of average loans outstanding on an annualized basis), compared with $53 million (.91 percent of average loans outstanding on an annualized basis) for the second quarter of 2008. Residential mortgage loan net charge-offs for the first six months of 2009 were $207 million (1.74 percent of average loans outstanding on an annualized basis), compared with $79 million (.69 percent of average loans outstanding on an annualized basis) for the first six months of 2008. Total retail loan net charge-offs for the second quarter of 2009 were $458 million (2.99 percent of average loans outstanding on an annualized basis), compared with $256 million (1.86 percent of average loans outstanding on an annualized basis) for the second quarter of 2008. Total retail loan net charge-offs for the first six months of 2009 were $852 million (2.81 percent of average loans outstanding on an annualized basis), compared with $456 million (1.73 percent of average loans outstanding on an annualized basis) for the first six months of 2008. The increased residential mortgage and retail loan net charge-offs reflected the adverse impact of current economic conditions and rising unemployment levels.

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The following table provides an analysis of net charge-offs as a percent of average loans outstanding managed by the consumer finance division, compared with other retail loans:

	Three Months Ended June 30,				Six Months Ended June 30,			
	Average Loans		Percent of Average Loans		Average Loans		Percent of Average Loans	
(Dollars in Millions)	2009	2008	2009	2008	2009	2008	2009	2008
Consumer Finance (a)								
Residential mortgages	$ 9,751	$ 9,990	3.87%	1.69%	$ 9,824	$ 9,944	3.43%	1.27%
Home equity and second mortgages	2,457	2,031	7.02	6.93	2,437	1,952	6.62	5.67
Other retail	565	450	5.68	4.47	546	440	6.65	5.03
Other Retail								
Residential mortgages	$ 14,213	$ 13,317	.62%	.33%	$ 14,116	$ 13,198	.57%	.24%
Home equity and second mortgages	16,857	15,075	.95	.35	16,826	14,865	.87	.31
Other retail	22,188	20,673	1.70	1.09	22,323	18,937	1.65	1.12
Total Company								
Residential mortgages	$ 23,964	$ 23,307	1.94%	.91%	$ 23,940	$ 23,142	1.74%	.69%
Home equity and second mortgages	19,314	17,106	1.72	1.13	19,263	16,817	1.60	.93
Other retail	22,753	21,123	1.80	1.16	22,869	19,377	1.77	1.20

(a) Consumer finance category included credit originated and managed by the consumer finance division, as well as the majority of home equity and second mortgages with a loan-to-value greater than 100 percent that were originated in the branches.

The following table provides further information on net charge-offs as a percent of average loans outstanding for the consumer finance division:

	Three Months Ended June 30,				Six Months Ended June 30,			
	Average Loans		Percent of Average Loans		Average Loans		Percent of Average Loans	
(Dollars in Millions)	2009	2008	2009	2008	2009	2008	2009	2008
Residential mortgages								
Sub-prime borrowers	$ 2,721	$ 3,152	6.34%	3.19%	$ 2,779	$ 3,186	5.66%	2.40%
Other borrowers	7,030	6,838	2.91	1.00	7,045	6,758	2.55	.74
Total	$ 9,751	$ 9,990	3.87%	1.69%	$ 9,824	$ 9,944	3.43%	1.27%
Home equity and second mortgages								
Sub-prime borrowers	$ 687	$ 808	12.84%	12.44%	$ 700	$ 831	11.81%	9.44%
Other borrowers	1,770	1,223	4.76	3.29	1,737	1,121	4.53	2.87
Total	$ 2,457	$ 2,031	7.02%	6.93%	$ 2,437	$ 1,952	6.62%	5.67%

Analysis and Determination of the Allowance for Credit Losses The allowance for loan losses reserves for probable and estimable losses incurred in the Company s loan and lease portfolio, and considers credit loss protection from loss sharing agreements with the FDIC. Management evaluates the allowance each quarter to ensure it is sufficient to cover incurred losses. Several factors were taken into consideration in evaluating the allowance for credit losses at June 30, 2009, including the risk profile of the portfolios, net charge-offs during the period, the level of nonperforming assets, accruing loans 90 days or more past due, delinquency ratios and changes in restructured loan balances. Management also considered the uncertainty related to certain industry sectors, and the extent of credit exposure to specific borrowers within the portfolio. In addition, concentration risks associated with commercial real estate and the mix of loans, including credit cards, loans originated through the consumer finance division and residential mortgage balances, and their relative credit risks, were evaluated. Finally, the Company considered current economic conditions that might impact the portfolio.

At June 30, 2009, the allowance for credit losses was $4.6 billion (2.51 percent of total loans and 2.66 percent of loans excluding covered assets), compared with an allowance of $3.6 billion (1.96 percent of total loans and 2.09 percent of loans excluding covered assets) at December 31, 2008. The ratio of the allowance for credit losses to nonperforming loans was 124 percent (152 percent excluding covered assets) at June 30, 2009, compared with 151 percent (206 percent excluding covered assets) at December 31, 2008. The ratio of the allowance for credit losses to annualized loan net charge-offs was 123 percent (both including and excluding covered assets) at June 30, 2009, compared with 200 percent of full year 2008 net charge-offs (201 percent excluding covered assets) at December 31, 2008.

Table 8 Summary of Allowance for Credit Losses

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in Millions)	2009	2008	2009	2008
Balance at beginning of period	$ 4,105	$ 2,435	$ 3,639	$ 2,260
Charge-offs				
Commercial				
Commercial	183	58	300	104
Lease financing	66	24	129	46
Total commercial	249	82	429	150
Commercial real estate				
Commercial mortgages	28	7	42	11
Construction and development	94	12	211	20
Total commercial real estate	122	19	253	31
Residential mortgages	116	54	209	80
Retail				
Credit card	279	152	504	283
Retail leasing	13	9	28	17
Home equity and second mortgages	85	49	157	81
Other retail	126	74	244	145
Total retail	503	284	933	526
Covered assets	2		8	
Total charge-offs	992	439	1,832	787