SUNTRUST BANKS INC
Form 10-Q
November 04, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2011
or
[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-08918
SUNTRUST BANKS, INC.
(Exact name of registrant as specified in its charter)

Georgia	58-1575035
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

303 Peachtree Street, N.E., Atlanta, Georgia 30308
(Address of principal executive offices) (Zip Code)
(404) 588-7711
(Registrant's telephone number, including area code)
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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).
x Yes o No
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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
At October 31, 2011, 536,997,314 shares of the Registrant's Common Stock, $1.00 par value, were outstanding.

TABLE OF CONTENTS

		Page
Glossary of Defined Terms		i
PART I FINANCIAL INFORMATION		
Item 1.	Financial Statements (Unaudited)	
	Consolidated Statements of Income	1
	Consolidated Balance Sheets	2
	Consolidated Statements of Shareholders' Equity	3
	Consolidated Statements of Cash Flows	4
	Notes to Consolidated Financial Statements	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	75
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	115
Item 4.	Controls and Procedures	115
PART II OTHER INFORMATION		
Item 1.	Legal Proceedings	115
Item 1A.	Risk Factors	115
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	117
Item 3.	Defaults Upon Senior Securities	117
Item 4.	(Removed and Reserved)	117
Item 5.	Other Information	118
Item 6.	Exhibits	118
SIGNATURE		119

PART I – FINANCIAL INFORMATION

The following unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and accordingly do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary to comply with Regulation S-X have been included. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2011.

GLOSSARY OF DEFINED TERMS

ABS — Asset-backed securities.
AFS — Available for sale.
ALCO — Asset/Liability Management Committee.
ALM — Asset/Liability Management.
ALLL — Allowance for loan and lease losses.
AOCI — Accumulated other comprehensive income.
ARS — Auction rate securities.
ASC —FASB Accounting Standard Codification.
ASU — Accounting standards update.
ATE — Additional termination event.
ATM — Automated teller machine.
Bank — SunTrust Bank.
BCBS — Basel Committee on Banking Supervision.
Board — The Company's Board of Directors.
CCAR — Comprehensive Capital Analysis and Review.
CDO — Collateralized debt obligation.
CD — Certificate of deposit.
CDS — Credit default swaps.
CIB — Corporate and Investment Banking.
Class A shares — Visa Inc. Class A common stock.
Class B shares —Visa Inc. Class B common stock.
CLO — Collateralized loan obligation.
Coke — The Coca-Cola Company.
Company — SunTrust Banks, Inc.
CP — Commercial paper.
CPP — Capital Purchase Program.
CRE — Commercial Real Estate.
CSA — Credit support annex.
DBRS — Dun and Bradstreet, Inc.
Dodd-Frank Act — The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
EPS — Earnings per share.
ERISA — Employee Retirement Income Security Act of 1974.
Exchange Act — Securities Exchange Act of 1934.
FASB — Financial Accounting Standards Board.
FDIC — The Federal Deposit Insurance Corporation.
Federal Reserve — The Board of Governors of the Federal Reserve System.
Fed funds — Federal funds.
FFIEC — Federal Financial Institutions Examination Council.
FHA — Federal Housing Administration.
FHLB — Federal Home Loan Bank.

FICO — Fair Isaac Corporation.
FINRA — Financial Industry Regulatory Authority.
Fitch — Fitch Ratings Ltd.
FTE — Fully taxable-equivalent.
FVO — Fair value option.
GB&T — GB&T Bancshares, Inc.
GSE — Government-sponsored enterprise.
IFRS — International Financial Reporting Standards.
IPO — Initial public offering.
IRLC — Interest rate lock commitments.
IRS — Internal Revenue Service.
ISDA — International Swaps and Derivatives Associations Master Agreement.
KBW Bank Sector Index — Keefe, Bruyette & Woods, Inc. Bank Sector Index.
LHFI — Loans held for investment.
LHFI-FV — Loans held for investment carried at fair value.
LHFS — Loans held for sale.
LIBOR —London InterBank Offered Rate.
LOCOM – Lower of cost or market.
LTI — Long-term incentive.
LTV— Loan to value.
MBS — Mortgage-backed securities.
MD&A — Management's Discussion and Analysis of Financial Condition and Results of Operations.
Moody's — Moody's Investors Service.
MSR — Mortgage servicing right.
MVE — Market value of equity.
NEO — Named executive officers.
NOW — Negotiable order of withdrawal account.
NPL — Nonperforming loan.
NSF — Non-sufficient funds.
OCI — Other comprehensive income.
OREO — Other real estate owned.
OTC — Over-the-counter.
OTTI — Other-than-temporary impairment.
Parent Company — Parent Company of SunTrust Banks, Inc. and subsidiaries.
QSPE — Qualifying special-purpose entity.
RidgeWorth — RidgeWorth Capital Management, Inc.
ROA — Return on average total assets.
ROE — Return on average common shareholders' equity.
S&P — Standard and Poor's.
SBA — Small Business Administration.
SEC — U.S. Securities and Exchange Commission.
SERP — Supplemental Executive Retirement Plan.

SIV — Structured investment vehicles.
SPE — Special purpose entity.
STIS — SunTrust Investment Services, Inc.
STM — SunTrust Mortgage, Inc.
STRH — SunTrust Robinson Humphrey, Inc.
SunTrust — SunTrust Banks, Inc.
TARP — Troubled Asset Relief Program.
TDR — Troubled debt restructuring.
The Agreements — Equity forward agreements.
Three Pillars —Three Pillars Funding, LLC.
TRS — Total return swaps.
U.S. — United States.
U.S. GAAP — Generally Accepted Accounting Principles in the United States.
U.S. Treasury — The United States Department of the Treasury.
UTB — Unrecognized tax benefits.
VA —Veteran’s Administration.
VAR —Value at risk.
VI — Variable interest.
VIE — Variable interest entity.
Visa —The Visa, U.S.A. Inc. card association or its affiliates, collectively.
W&IM — Wealth and Investment Management.

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

SunTrust Banks, Inc.
Consolidated Statements of Income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
(Dollars in millions and shares in thousands, except per share data) (Unaudited)	2011	2010	2011	2010
Interest Income				
Interest and fees on loans	$1,296	$1,330	$3,910	$3,964
Interest and fees on loans held for sale	21	36	71	102
Interest and dividends on securities available for sale:				
Taxable interest	175	189	517	532
Tax-exempt interest	5	7	16	25
Dividends[1]	20	19	61	57
Trading account interest	21	23	63	67
Total interest income	1,538	1,604	4,638	4,747
Interest Expense				
Interest on deposits	154	214	485	672
Interest on long-term debt	110	138	347	451
Interest on trading liabilities	7	9	22	23
Interest on repurchase agreements	1	2	4	4
Interest on other short-term borrowings	3	3	9	10
Total interest expense	275	366	867	1,160
Net interest income	1,263	1,238	3,771	3,587
Provision for credit losses	347	615	1,186	2,138
Net interest income after provision for credit losses	916	623	2,585	1,449
Noninterest Income				
Service charges on deposit accounts	176	184	509	588
Other charges and fees	130	137	386	399
Card fees	104	96	309	277
Trust and investment management income	134	124	404	373
Retail investment services	58	52	175	147
Mortgage production related income	54	133	56	86
Mortgage servicing related income	58	132	202	290
Investment banking income	68	96	231	210
Trading account profits/(losses) and commissions	66	(22)	171	80
Net securities gains[2]	2	69	98	128
Other noninterest income	53	46	157	119
Total noninterest income	903	1,047	2,698	2,697
Noninterest Expense				
Employee compensation	642	597	1,898	1,729
Employee benefits	108	112	354	354
Outside processing and software	164	157	484	463
Net occupancy expense	90	92	268	273
Regulatory assessments	80	67	232	197
Other real estate expense	62	78	195	210
Credit and collection services	71	69	182	208
Equipment expense	44	45	132	128
Marketing and customer development	41	43	125	121

Operating losses	72	27	161	57
Amortization of intangible assets	11	13	34	39
Net (gain)/loss on debt extinguishment	(1)	12	(3)	67
Other noninterest expense	176	187	505	516
Total noninterest expense	1,560	1,499	4,567	4,362
Income/(loss) before provision/(benefit) for income taxes	259	171	716	(216)
Provision/(benefit) for income taxes	45	14	136	(230)
Net income including income attributable to noncontrolling interest	214	157	580	14
Net (loss)/income attributable to noncontrolling interest	(1)	4	7	9
Net income	$215	$153	$573	$5
Net income/(loss) available to common shareholders	$211	$84	$424	($201)
Net income/(loss) per average common share				
Diluted[3]	$0.39	$0.17	$0.81	($0.41)
Basic	0.40	0.17	0.81	(0.41)
Dividends declared per common share	$0.05	$0.01	$0.07	$0.03
Average common shares - diluted	535,395	498,802	524,888	498,515
Average common shares - basic	531,928	495,501	521,248	495,243

[1] Includes dividends on common stock of The Coca-Cola Company of $14 million and $42 million during the three and nine months ended September 30, 2011, respectively, and $13 million and $40 million during the three and nine months ended September 30, 2010, respectively.

[2] Includes credit-related other-than-temporary impairment losses of $2 million for the nine months ended September 30, 2011 and 2010. There were no credit-related other-than-temporary impairment losses for the three months ended September 30, 2011 and 2010.

[3] For earnings per share calculation purposes, the impact of dilutive securities are excluded from the diluted share count during periods that the Company has recognized a net loss available to common shareholders because the impact would be anti-dilutive.

See Notes to Consolidated Financial Statements (unaudited).

1

SunTrust Banks, Inc.
Consolidated Balance Sheets

(Dollars in millions and shares in thousands) (Unaudited)	As of September 30, 2011	December 31, 2010
Assets		
Cash and due from banks	$4,637	$4,296
Interest-bearing deposits in other banks	21	24
Funds sold and securities purchased under agreements to resell	842	1,058
Cash and cash equivalents	5,500	5,378
Trading assets	6,288	6,175
Securities available for sale	27,502	26,895
Loans held for sale[1] (loans at fair value: $1,675 as of September 30, 2011 and $3,168 as of December 31, 2010)	2,243	3,501
Loans[2] (loans at fair value: $452 as of September 30, 2011 and $492 as of December 31, 2010)	117,475	115,975
Allowance for loan and lease losses	(2,600)	(2,974)
Net loans	114,875	113,001
Premises and equipment	1,559	1,620
Goodwill	6,344	6,323
Other intangible assets (MSRs at fair value: $1,033 as of September 30, 2011 and $1,439 as of December 31, 2010)	1,138	1,571
Other real estate owned	509	596
Other assets	6,595	7,814
Total assets	$172,553	$172,874
Liabilities and Shareholders' Equity		
Noninterest-bearing consumer and commercial deposits	$32,447	$27,290
Interest-bearing consumer and commercial deposits	91,486	92,735
Total consumer and commercial deposits	123,933	120,025
Brokered deposits (CDs at fair value: $1,056 as of September 30, 2011 and $1,213 of December 31, 2010)	2,283	2,365
Foreign deposits	35	654
Total deposits	126,251	123,044
Funds purchased	998	951
Securities sold under agreements to repurchase	2,016	2,180
Other short-term borrowings	3,218	2,690
Long-term debt [3] (debt at fair value: $2,016 as of September 30, 2011 and $2,837 as of December 31, 2010)	13,544	13,648
Trading liabilities	1,735	2,678
Other liabilities	4,591	4,553
Total liabilities	152,353	149,744
Preferred stock, no par value	172	4,942
Common stock, $1.00 par value	550	515
Additional paid in capital	9,314	8,403
Retained earnings	8,933	8,542
Treasury stock, at cost, and other	(795)	(888)
Accumulated other comprehensive income, net of tax	2,026	1,616
Total shareholders' equity	20,200	23,130
Total liabilities and shareholders' equity	$172,553	$172,874

Common shares outstanding	537,001	500,436
Common shares authorized	750,000	750,000
Preferred shares outstanding	2	50
Preferred shares authorized	50,000	50,000
Treasury shares of common stock	12,919	14,231

[1] Includes loans held for sale, at fair value, of consolidated VIEs	$311	$316
[2] Includes loans of consolidated VIEs	3,161	2,869
[3] Includes debt of consolidated VIEs ($285 and $290 at fair value at September 30, 2011 and December 31, 2010, respectively)	728	764

See Notes to Consolidated Financial Statements (unaudited).

2

SunTrust Banks, Inc.
Consolidated Statements of Shareholders' Equity

(Dollars and shares in millions, except per share data) (Unaudited)	Preferred Stock	Common Shares Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock and Other[1]	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2010	$4,917	499	$515	$8,521	$8,563	($1,055)	$1,070	$22,531
Net income	—	—	—	—	5	—	—	5
Other comprehensive income:								
Change in unrealized gains on securities, net of taxes	—	—	—	—	—	—	472	472
Change in unrealized gains on derivatives, net of taxes	—	—	—	—	—	—	438	438
Change related to employee benefit plans	—	—	—	—	—	—	85	85
Total comprehensive income								1,000
Change in noncontrolling interest	—	—	—	—	—	(2)	—	(2)
Common stock dividends, $0.03 per share	—	—	—	—	(15)	—	—	(15)
Series A preferred stock dividends, $3,044 per share	—	—	—	—	(6)	—	—	(6)
U.S. Treasury preferred stock dividends, $3,750 per share	—	—	—	—	(182)	—	—	(182)
Accretion of discount for preferred stock issued to U.S. Treasury	18	—	—	—	(18)	—	—	—
Stock compensation expense	—	—	—	18	—	—	—	18
Restricted stock activity	—	1	—	(73)	—	43	—	(30)
Amortization of restricted stock compensation	—	—	—	—	—	31	—	31
Issuance of stock for employee benefit plans and other	—	—	—	(23)	3	31	—	11
Fair value election of MSRs	—	—	—	—	89	—	—	89
Adoption of VIE consolidation guidance	—	—	—	—	(7)	—		(7)
Balance, September 30, 2010	$4,935	500	$515	$8,443	$8,432	($952)	$2,065	$23,438
Balance, January 1, 2011	$4,942	500	$515	$8,403	$8,542	($888)	$1,616	$23,130
Net income	—	—	—	—	573	—	—	573
Other comprehensive income:								
Change in unrealized gains on securities, net of taxes	—	—	—	—	—	—	294	294
Change in unrealized gains on derivatives, net of taxes	—	—	—	—	—	—	129	129
Change related to employee benefit plans	—	—	—	—	—	—	(13)	(13)
Total comprehensive income								983
Change in noncontrolling interest	—	—	—	—	—	(8)	—	(8)
	—	—	—	—	(37)	—	—	(37)

Common stock dividends, $0.07 per share								
Series A preferred stock dividends, $3,044 per share	—	—	—	—	(5)	—	—	(5)
U.S. Treasury preferred stock dividends, $1,236 per share	—	—	—	—	(60)	—	—	(60)
Accretion of discount for preferred stock issued to U.S. Treasury	6	—	—	—	(6)	—	—	—
Repurchase of preferred stock issued to U.S. Treasury	(4,776)	—	—	—	(74)	—	—	(4,850)
Purchase of outstanding warrants	—	—	—	(11)	—	—	—	(11)
Issuance of common stock	—	35	35	982	—	—	—	1,017
Stock compensation expense	—	—	—	9	—	—	—	9
Restricted stock activity	—	2	—	(57)	—	49	—	(8)
Amortization of restricted stock compensation	—	—	—	—	—	25	—	25
Issuance of stock for employee benefit plans and other	—	—	—	(12)	—	27	—	15
Balance, September 30, 2011	$172	537	$550	$9,314	$8,933	($795)	$2,026	$20,200

[1] Balance at September 30, 2011 includes ($858) for treasury stock, ($58) for compensation element of restricted stock, and $121 for noncontrolling interest.

Balance at September 30, 2010 includes ($1,014) for treasury stock, ($44) for compensation element of restricted stock, and $106 for noncontrolling interest.

See Notes to Consolidated Financial Statements (unaudited).

3

SunTrust Banks, Inc.
Consolidated Statements of Cash Flows

	Nine Months Ended September 30	
(Dollars in millions) (Unaudited)	2011	2010
Cash Flows from Operating Activities:		
Net income including income attributable to noncontrolling interest	$580	$14
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion	563	600
Origination of mortgage servicing rights	(183)	(198)
Provisions for credit losses and foreclosed property	1,309	2,277
Amortization of restricted stock compensation	25	31
Net (gain)/loss on extinguishment of debt	(3)	67
Net securities gains	(98)	(128)
Net gain on sale of assets	(309)	(440)
Net decrease in loans held for sale	2,146	1,296
Net increase in other assets	(556)	(185)
Net increase in other liabilities	265	513
Net cash provided by operating activities	3,739	3,847
Cash Flows from Investing Activities:		
Proceeds from maturities, calls, and paydowns of securities available for sale	3,903	4,040
Proceeds from sales of securities available for sale	11,585	14,102
Purchases of securities available for sale	(15,664)	(19,779)
Proceeds from maturities, calls, and paydowns of trading securities	132	88
Proceeds from sales of trading securities	102	93
Net increase in loans including purchases of loans	(5,018)	(2,662)
Proceeds from sales of loans	499	696
Capital expenditures	(78)	(156)
Contingent consideration and other payments related to acquisitions	(20)	(4)
Proceeds from the sale of other assets	481	568
Net cash used in investing activities	(4,078)	(3,014)
Cash Flows from Financing Activities:		
Net increase/(decrease) in total deposits	3,207	(1,518)
Net increase in funds purchased, securities sold under agreements to repurchase, and other short-term borrowings	1,416	1,011
Proceeds from the issuance of long-term debt	1,039	500
Repayment of long-term debt	(1,255)	(3,466)
Proceeds from the issuance of common stock	1,017	—
Repurchase of preferred stock	(4,850)	—
Purchase of outstanding warrants	(11)	—
Common and preferred dividends paid	(102)	(202)
Net cash provided by/(used in) financing activities	461	(3,675)
Net increase/(decrease) in cash and cash equivalents	122	(2,842)
Cash and cash equivalents at beginning of period	5,378	6,997
Cash and cash equivalents at end of period	$5,500	$4,155
Supplemental Disclosures:		
Loans transferred from loans held for sale to loans	$53	$111
Loans transferred from loans to loans held for sale	657	296
Loans transferred from loans and loans held for sale to other real estate owned	570	870
Accretion of discount for preferred stock issued to the U.S. Treasury	80	18

Total assets of newly consolidated VIEs at January 1, 2010	—	2,541

See Notes to Consolidated Financial Statements (unaudited).

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results of operations in these financial statements, have been made.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could vary from these estimates. Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

The Company evaluated subsequent events through the date its financial statements were issued.

These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2010. Except for accounting policies that have been modified or recently adopted as described below, there have been no significant changes to the Company's accounting policies as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are considered LHFI. The Company's loan balance is comprised of loans held in portfolio, including commercial loans, consumer loans, and residential loans. Interest income on all types of loans, except those classified as nonaccrual, is accrued based upon the outstanding principal amounts using the effective yield method.

Commercial loans (commercial & industrial, commercial real estate, and commercial construction) are considered to be past due when payment is not received from the borrower by the contractually specified due date. The Company typically classifies commercial loans as nonaccrual when one of the following events occurs: (i) interest or principal has been past due 90 days or more, unless the loan is both well secured and in the process of collection; (ii) collection of recorded interest or principal is not anticipated; or (iii) income for the loan is recognized on a cash basis due to the deterioration in the financial condition of the debtor. When a loan is placed on nonaccrual, unpaid interest is reversed against interest income. Interest income on nonaccrual loans, if recognized, is recognized after the principal has been reduced to zero. If and when commercial borrowers demonstrate the ability to repay a loan in accordance with the contractual terms of a loan classified as nonaccrual, the loan may be returned to accrual status, upon meeting all regulatory, accounting, and internal policy requirements.

Consumer loans (guaranteed student loans, other direct, indirect, and credit card) are considered to be past due when payment is not received from the borrower by the contractually specified due date. Other direct and indirect loans are typically placed on nonaccrual when payments have been past due for 90 days or more except when the borrower has declared bankruptcy, in which case, they are moved to nonaccrual status once they become 60 days past due. Credit card loans are never placed on nonaccrual status but rather are charged off once they are 180 days past due. Guaranteed student loans continue to accrue interest regardless of delinquency status because collection of principal and interest is reasonably assured. When a loan is placed on nonaccrual, unpaid interest is reversed against interest income. Interest income on nonaccrual loans, if recognized, is recognized after the principal has been reduced to zero. Nonaccrual consumer loans are typically returned to accrual status once they are no longer past due.

Residential loans (guaranteed residential mortgages, nonguaranteed residential mortgages, home equity products, and residential construction) are considered to be past due when a monthly payment is due and unpaid for one month. Nonguaranteed residential mortgages and residential construction loans are generally placed on nonaccrual when payments are 120 days past due. Home equity products are generally placed on nonaccrual when payments are 90 days past due. The exception for nonguaranteed residential mortgages, residential construction loans, and home equity products is when the borrower has declared bankruptcy, in which case, they are moved to nonaccrual status once they become 60 days past due. Guaranteed residential mortgages continue to accrue interest regardless of delinquency status because collection of principal and interest is reasonably assured. When a loan is placed on nonaccrual, unpaid interest is reversed against interest income. Interest income on nonaccrual loans, if recognized, is recognized on a cash

basis. Nonaccrual residential loans are typically returned to accrual status once they no longer meet the delinquency threshold that resulted in them initially being moved to nonaccrual status.

Notes to Consolidated Financial Statements (Unaudited)-Continued

TDRs are loans in which the borrower is experiencing financial difficulty and the Company has granted an economic concession to the borrower. To date, the Company's TDRs have been predominantly first and second lien residential mortgages and home equity lines of credit. Prior to modifying a borrower's loan terms, the Company performs an evaluation of the borrower's financial condition and ability to service under the potential modified loan terms. The types of concessions granted are generally interest rate reductions and/or term extensions. If a loan is accruing at the time of modification, the loan remains on accrual status and is subject to the Company's charge-off and nonaccrual policies. See the "Allowance for Credit Losses" section within this Note for further information regarding these policies. If a loan is on nonaccrual before it is determined to be a TDR then the loan remains on nonaccrual. TDRs may be returned to accrual status if there has been at least a six month sustained period of repayment performance by the borrower. Consistent with regulatory guidance, upon sustained performance and classification as a TDR through the Company's year end, the loan will be removed from TDR status as long as the modified terms were market-based at the time of modification. Generally, once a residential loan becomes a TDR, we expect that the loan will likely continue to be reported as a TDR for its remaining life even after returning to accruing status as the modified rates and terms at the time of modification were typically more favorable than those generally available in the market. Interest income recognition on impaired loans is dependent upon nonaccrual status, TDR designation, and loan type as discussed above.

For loans accounted for at amortized cost, fees and incremental direct costs associated with the loan origination and pricing process, as well as premiums and discounts, are deferred and amortized as level yield adjustments over the respective loan terms. Premiums for purchased credit cards are amortized on a straight-line basis over one year. Fees received for providing loan commitments that result in funded loans are recognized over the term of the loan as an adjustment of the yield. If a loan is never funded, the commitment fee is recognized into noninterest income at the expiration of the commitment period. Origination fees and costs are recognized in noninterest income and expense at the time of origination for newly-originated loans that are accounted for at fair value. See Note 3, "Loans," for additional information.

Allowance for Credit Losses

The Allowance for Credit Losses is composed of the ALLL and the reserve for unfunded commitments. The Company's ALLL is the amount considered adequate to absorb probable losses within the portfolio based on management's evaluation of the size and current risk characteristics of the loan portfolio. In addition to the review of credit quality through ongoing credit review processes, the Company employs a variety of modeling and estimation techniques to measure credit risk and construct an appropriate and adequate ALLL. Numerous asset quality measures, both quantitative and qualitative, are considered in estimating the ALLL. Such evaluation considers numerous factors for each of the loan portfolio segments, including, but not limited to net charge-off trends, internal risk ratings, changes in internal risk ratings, loss forecasts, collateral values, geographic location, delinquency rates, nonperforming and restructured loan status, origination channel, product mix, underwriting practices, industry conditions, and economic trends. In addition to these factors, refreshed FICO scores are considered for consumer and residential loans and single name borrower concentration is considered for commercial loans. These credit quality factors are incorporated into various loss estimation models and analytical tools utilized in the ALLL process and/or are qualitatively considered in evaluating the overall reasonableness of the ALLL.

Large commercial (all loan classes) nonaccrual loans and certain consumer (other direct), residential (nonguaranteed residential mortgages, home equity products, and residential construction), and commercial (all classes) loans whose terms have been modified in a TDR are individually identified for evaluation of impairment. A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the agreement. If necessary, a specific allowance is established for individually evaluated impaired loans. The specific allowance established for these loans is based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows, the loan's estimated market value, or the estimated fair value of the underlying collateral depending on the most likely source of repayment. Any change in the present value attributable to the passage of time is recognized through the provision for credit losses.

General allowances are established for loans and leases grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience, portfolio trends, regional and national economic conditions, and expected loss given default derived from the Company’s internal risk rating process. Other adjustments may be made to the ALLL after an assessment of internal and external influences on credit quality that are not fully reflected in the historical loss or other risk rating data. These influences may include elements such as changes in credit underwriting, concentration risk, macroeconomic conditions, and/or recent observable asset quality trends.

The Company’s charge-off policy meets regulatory minimums. Losses on unsecured consumer loans are recognized at 90 days past due compared to the regulatory loss criteria of 120 days past due. Losses, as appropriate, on secured consumer loans, including residential real estate, are typically recognized between 120 and 180 days past due, depending on the collateral type, in compliance with the FFIEC guidelines. Loans that have been partially charged-off remain on nonperforming status, regardless of collateral value, until specific borrower performance criteria are met.

Notes to Consolidated Financial Statements (Unaudited)-Continued

The Company uses numerous sources of information in order to make an appropriate evaluation of a property's value. Estimated collateral valuations are based on appraisals, broker price opinions, recent sales of foreclosed properties, automated valuation models, other property-specific information, and relevant market information, supplemented by the Company's internal property valuation professionals. The value estimate is based on an orderly disposition and marketing period of the property. In limited instances, the Company adjusts externally provided appraisals for justifiable and well-supported reasons, such as an appraiser not being aware of certain property-specific factors or recent sales information. Appraisals generally represent the "as is" value of the property but may be adjusted based on the intended disposition strategy of the property.

For commercial real estate loans secured by property, an acceptable third-party appraisal or other form of evaluation, as permitted by regulation, is obtained prior to the origination of the loan and upon a subsequent transaction involving a material change in terms. In addition, updated valuations may be obtained during the life of a transaction, as appropriate, such as when a loan's performance materially deteriorates. In situations where an updated appraisal has not been received or a formal evaluation performed, the Company monitors factors that can positively or negatively impact property value, such as the date of the last valuation, the volatility of property values in specific markets, changes in the value of similar properties, and changes in the characteristics of individual properties. Changes in collateral value affect the ALLL through the risk rating or impaired loan evaluation process. Charge-offs are recognized when the amount of the loss is quantifiable and timing is known. The charge-off is measured based on the difference between the loan's carrying value, including deferred fees, and the estimated net realizable value of the loan, net of estimated selling costs. When assessing property value for the purpose of determining a charge-off, a third-party appraisal or an independently derived internal evaluation is generally employed.

For mortgage loans secured by residential property where the Company is proceeding with a foreclosure action, a new valuation is obtained prior to the loan becoming 180 days past due and, if required, the loan is written down to net realizable value, net of estimated selling costs. In the event the Company decides not to proceed with a foreclosure action, the full balance of the loan is charged-off. If a loan remains in the foreclosure process for 12 months past the original charge-off, typically at 180 days past due, the Company obtains a new valuation and, if required, writes the loan down to the new valuation, less estimated selling costs. At foreclosure, a new valuation is obtained and the loan is transferred to OREO at the new valuation less estimated selling costs; any loan balance in excess of the transfer value is charged-off. Estimated declines in value of the residential collateral between these formal evaluation events are captured in the ALLL based on changes in the house price index in the applicable metropolitan statistical area or other market information.

In addition to the ALLL, the Company also estimates probable losses related to unfunded lending commitments, such as letters of credit and binding unfunded loan commitments. Unfunded lending commitments are analyzed and segregated by risk similar to funded loans based on the Company's internal risk rating scale. These risk classifications, in combination with an analysis of historical loss experience, probability of commitment usage, existing economic conditions, and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments. The reserve for unfunded lending commitments is reported on the Consolidated Balance Sheets in other liabilities and through the third quarter of 2009, the provision associated with changes in the unfunded lending commitment reserve was reported in the Consolidated Statements of Income in noninterest expense. Beginning in the fourth quarter of 2009, the Company began recording changes in the unfunded lending commitment reserve in the provision for credit losses. See Note 4, "Allowance for Credit Losses," for additional information.

Accounting Policies Recently Adopted and Pending Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-06, an update to ASC 820-10, "Fair Value Measurements." This ASU requires the disclosure of transfers in and out of level 1 and 2 of the fair value hierarchy, along with the reasons for the transfers and a gross presentation of purchases and sales of level 3 instruments. Additionally, the ASU requires fair value measurement disclosures for each class of assets and liabilities and enhanced disclosures around level 2 valuation techniques and inputs. The Company adopted the disclosure requirements for level 1 and 2 transfers and the expanded fair value measurement and valuation disclosures effective January 1, 2010. The disclosure requirements for level 3 activities were effective for the interim reporting period ending March 31, 2011. The required disclosures are

included in Note 12, “Fair Value Election and Measurement.” The adoption of these disclosure requirements had no impact on the Company’s financial position, results of operations, or EPS.

In July 2010, the FASB issued ASU 2010-20, “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” The ASU requires more disclosures about the credit quality of financing receivables, which include loans, lease receivables, and other long-term receivables, and the credit allowances held against them. The disclosure requirements that were effective as of December 31, 2010 are included in Note 3, “Loans,” and Note 4, “Allowance for Credit Losses.” Disclosures about activity that occurs during a reporting period were effective for the interim reporting period ending March 31, 2011 are also included in Note 3, “Loans,” and Note 4, “Allowance for Credit Losses.” The adoption of the ASU did not have an impact on the Company’s financial position, results of operations, or EPS.

Notes to Consolidated Financial Statements (Unaudited)-Continued

In December 2010, the FASB issued ASU 2010-28, "When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts." The update requires companies to perform step 2 of the goodwill impairment analysis if the carrying value of a reporting unit is zero or negative and it is more likely than not that goodwill for that reporting unit is impaired. The adoption of the ASU as of January 1, 2011 did not have an impact on the Company's financial position, results of operations, or EPS.

In April 2011, the FASB issued ASU 2011-02, "Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." The ASU provides additional guidance to assist creditors in determining whether a modification of a receivable meets the criteria to be considered a TDR, both for purposes of recognizing loan losses and additional disclosures regarding TDRs. A modification of a credit arrangement constitutes a TDR if the debtor is experiencing financial difficulties and the Company grants a concession to the debtor that it would not otherwise consider. The clarifications for classification apply to all restructurings occurring on or after January 1, 2011. The measurement of impairment for those newly identified TDRs was applied prospectively beginning on July 1, 2011. The related disclosures, which were previously deferred by ASU 2011-01, were required for the interim reporting period ending September 30, 2011 and subsequent reporting periods. The required disclosures and impact as a result of adoption are included in Note 3, "Loans." The adoption of the ASU did not have a significant impact on the Company's financial position, results of operations, or EPS.

In April 2011, the FASB issued ASU 2011-03, "Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements." A repurchase agreement is a transaction in which a company sells financial instruments to a buyer, typically in exchange for cash, and simultaneously enters into an agreement to repurchase the same or substantially the same financial instruments from the buyer at a stated price plus accrued interest at a future date. The determination of whether the transaction is accounted for as a sale or a collateralized financing is determined by assessing whether the seller retains effective control of the financial instrument. The ASU changes the assessment of effective control by removing the criterion that requires the seller to have the ability to repurchase or redeem financial assets with substantially the same terms, even in the event of default by the buyer and the collateral maintenance implementation guidance related to that criterion. The Company will apply the new guidance to repurchase agreements entered into or amended after January 1, 2012. The Company does not expect the ASU to have a significant impact on the Company's financial position, results of operations, or EPS.

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." The primary purpose of the ASU is to conform the language in the fair value measurements guidance in U.S. GAAP and IFRS. The ASU also clarifies how to apply existing fair value measurement and disclosure requirements. Further, the ASU requires additional disclosures about transfers between level 1 and 2 of the fair value hierarchy, quantitative information for level 3 inputs, and the level of the fair value measurement hierarchy for items that are not measured at fair value in the statement of financial position but for which the fair value is required to be disclosed. The ASU is effective for the interim reporting period ending March 31, 2012. The Company is evaluating the impact of the ASU; however, it is not expected to have a significant impact on the Company's financial position, results of operations, or EPS.

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." The ASU requires presentation of the components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. The update does not change the items presented in OCI and does not affect the calculation or reporting of EPS. The guidance is effective on January 1, 2012 and must be applied retrospectively for all periods presented. The Company is in the process of evaluating the presentation options; however, adoption of the ASU will not have an impact on the Company's financial position, results of operations, or EPS.

In September 2011, the FASB issued ASU 2011-08, "Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment." The ASU amends interim and annual goodwill impairment testing requirements. Under the ASU, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The more likely than not threshold is

defined as having a likelihood of more than 50 percent. The guidance is effective for annual and interim goodwill impairment tests beginning January 1, 2012 with early adoption permitted. The Company has not elected to early adopt the amendments; however, adoption of the ASU will not have an impact on the Company's financial position, results of operations, or EPS.

8

Notes to Consolidated Financial Statements (Unaudited)-Continued

NOTE 2 – SECURITIES AVAILABLE FOR SALE
Securities Portfolio Composition

(Dollars in millions)	September 30, 2011 Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	$374	$12	$—	$386
Federal agency securities	2,527	118	—	2,645
U.S. states and political subdivisions	471	21	2	490
MBS - agency	19,302	728	—	20,030
MBS - private	319	1	33	287
CDO/CLO securities	337	—	5	332
ABS	534	13	7	540
Corporate and other debt securities	53	2	1	54
Coke common stock	—	2,027	—	2,027
Other equity securities[1]	710	1	—	711
Total securities AFS	$24,627	$2,923	$48	$27,502

(Dollars in millions)	December 31, 2010 Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	$5,446	$115	$45	$5,516
Federal agency securities	1,883	19	7	1,895
U.S. states and political subdivisions	565	17	3	579
MBS - agency	14,014	372	28	14,358
MBS - private	378	3	34	347
CDO/CLO securities	50	—	—	50
ABS	798	15	5	808
Corporate and other debt securities	464	19	1	482
Coke common stock	—	1,973	—	1,973
Other equity securities[1]	886	1	—	887
Total securities AFS	$24,484	$2,534	$123	$26,895

[1]At September 30, 2011, other equity securities included the following securities at cost: $171 million in FHLB of Atlanta stock, $391 million in Federal Reserve Bank stock, and $148 million in mutual fund investments. At December 31, 2010, other equity securities included the following securities at cost: $298 million in FHLB of Atlanta stock, $391 million in Federal Reserve Bank stock, and $197 million in mutual fund investments.

Securities AFS that were pledged to secure public deposits, repurchase agreements, trusts, and other funds had a fair value of $7.9 billion and $6.9 billion as of September 30, 2011 and December 31, 2010, respectively. Further, under The Agreements, the Company pledged its shares of Coke common stock, which is hedged with derivative instruments, as discussed in Note 11, "Derivative Financial Instruments." The Company has also pledged $1.1 billion and $823 million of certain trading assets and cash equivalents to secure $1.0 billion and $793 million of repurchase agreements as of September 30, 2011 and December 31, 2010, respectively.

Notes to Consolidated Financial Statements (Unaudited)-Continued

The amortized cost and fair value of investments in debt securities at September 30, 2011 by estimated average life are shown below. Actual cash flows may differ from estimated average lives and contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in millions)	1 Year or Less	1-5 Years	5-10 Years	After 10 Years	Total
Distribution of Maturities:					
Amortized Cost					
U.S. Treasury securities	$9	$213	$152	$—	$374
Federal agency securities	73	2,209	189	56	2,527
U.S. states and political subdivisions	136	245	26	64	471
MBS - agency	1,101	11,236	4,050	2,915	19,302
MBS - private	31	141	130	17	319
CDO/CLO securities	—	237	100	—	337
ABS	328	204	2	—	534
Corporate and other debt securities	7	4	17	25	53
Total debt securities	$1,685	$14,489	$4,666	$3,077	$23,917
Fair Value					
U.S. Treasury securities	$9	$224	$153	$—	$386
Federal agency securities	74	2,309	204	58	2,645
U.S. states and political subdivisions	139	260	27	64	490
MBS - agency	1,138	11,644	4,246	3,002	20,030
MBS - private	28	129	114	16	287
CDO/CLO securities	—	234	98	—	332
ABS	335	203	2	—	540
Corporate and other debt securities	7	4	18	25	54
Total debt securities	$1,730	$15,007	$4,862	$3,165	$24,764

Securities in an Unrealized Loss Position

The Company held certain investment securities having unrealized loss positions. Market changes in interest rates and credit spreads will result in temporary unrealized losses as the market price of securities fluctuates. As of September 30, 2011, the Company did not intend to sell these securities nor was it more likely than not that the Company would be required to sell these securities before their anticipated recovery or maturity. The Company has reviewed its portfolio for OTTI in accordance with the accounting policies outlined in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010.

Notes to Consolidated Financial Statements (Unaudited)-Continued

	September 30, 2011					
	Less than twelve months		Twelve months or longer		Total	
(Dollars in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Temporarily impaired securities						
Federal agency securities	$34	$—	$—	$—	$34	$—
U.S. states and political subdivisions	2	—	32	2	34	2
MBS - agency	52	—	—	—	52	—
MBS - private	9	—	22	3	31	3
CDO/CLO securities	333	5	—	—	333	5
ABS	—	—	11	5	11	5
Corporate and other debt securities	—	—	2	1	2	1
Total temporarily impaired securities	430	5	67	11	497	16
Other-than-temporarily impaired securities[1]						
MBS - private	18	1	220	29	238	30
ABS	3	1	2	1	5	2
Total other-than-temporarily impaired securities	21	2	222	30	243	32
Total impaired securities	$451	$7	$289	$41	$740	$48

	December 31, 2010					
	Less than twelve months		Twelve months or longer		Total	
(Dollars in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Temporarily impaired securities						
U.S. Treasury securities	$2,010	$45	$—	$—	$2,010	$45
Federal agency securities	1,426	7	—	—	1,426	7
U.S. states and political subdivisions	45	1	35	2	80	3
MBS - agency	3,497	28	—	—	3,497	28
MBS - private	18	—	17	3	35	3
ABS	—	—	14	4	14	4
Corporate and other debt securities	—	—	3	1	3	1
Total temporarily impaired securities	6,996	81	69	10	7,065	91
Other-than-temporarily impaired securities[1]						
MBS - private	—	—	286	31	286	31
ABS	4	1	—	—	4	1
Total other-than-temporarily impaired securities	4	1	286	31	290	32

Total impaired securities	$7,000	$82	$355	$41	$7,355	$123

[1]Includes OTTI securities for which credit losses have been recorded in earnings in current or prior periods.
Unrealized losses on securities that have been other-than-temporarily impaired are the result of factors other than credit, and therefore, are recorded in OCI. Losses related to credit impairment on these securities is determined through estimated cash flow analyses and have been recorded in earnings in current or prior periods. The unrealized OTTI loss relating to private MBS as of September 30, 2011, includes purchased and retained interests from 2007 vintage securitizations. The unrealized OTTI loss relating to ABS is related to four securities within the portfolio that are 2003 and 2004 vintage home equity issuances. The expectation of cash flows for the previously impaired ABS securities has improved such that the amount of expected credit losses was reduced, and the expected increase in cash flows will be accreted into earnings as a yield adjustment over the remaining life of the securities.

Notes to Consolidated Financial Statements (Unaudited)-Continued

Realized Gains and Losses and Other than Temporarily Impaired

(Dollars in millions)	Three Months Ended September 30 2011	2010	Nine Months Ended September 30 2011	2010
Gross realized gains	$4	$69	$180	$147
Gross realized losses	(2)	—	(80)	(17)
OTTI	—	—	(2)	(2)
Net securities gains	$2	$69	$98	$128

The securities that gave rise to the credit impairment recognized during the nine months ended September 30, 2011 consisted of private MBS with a fair value of $176 million at September 30, 2011. The securities impacted by credit impairment during the nine months ended September 30, 2010, consisted of private MBS with a fair value of $1 million as of September 30, 2010. Credit impairment that is determined through the use of cash flow models is estimated using cash flows on security specific collateral and the transaction structure. Future expected credit losses are determined by using various assumptions, the most significant of which include current default rates, prepayment rates, and loss severities. For the majority of the securities that the Company has reviewed for credit-related OTTI, credit information is available and modeled at the loan level underlying each security, and the Company also considers information such as loan to collateral values, FICO scores, and geographic considerations such as home price appreciation/depreciation. These inputs are updated on a regular basis to ensure the most current credit and other assumptions are utilized in the analysis. If, based on this analysis, the Company does not expect to recover the entire amortized cost basis of the security, the expected cash flows are then discounted at the security's initial effective interest rate to arrive at a present value amount. OTTI credit losses reflect the difference between the present value of cash flows expected to be collected and the amortized cost basis of these securities. During the nine months ended September 30, 2011 and 2010, all OTTI recognized in earnings on private MBS have underlying collateral of residential mortgage loans securitized in 2007. The majority of the OTTI was taken on private MBS which were originated by the Company and, therefore, have geographic concentrations in the Company's primary footprint. Additionally, the Company has not purchased new private MBS during the nine months ended September 30, 2011, and continues to reduce existing exposure primarily through paydowns.

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
(Dollars in millions)			MBS - Private	MBS - Private
OTTI[1]	$—	$—	$3	$2
Portion of losses recognized in OCI (before taxes)	—	—	(1)	—
Net impairment losses recognized in earnings	$—	$—	$2	$2

[1] The initial OTTI amount represents the excess of the amortized cost over the fair value of AFS debt securities. For subsequent impairments of the same security, amount represents additional declines in the fair value subsequent to the previously recorded OTTI, if applicable, until such time the security is no longer in an unrealized loss position.

The following is a rollforward of credit losses recognized in earnings for the nine months ended September 30, 2011 and 2010, related to securities for which some portion of the OTTI loss remains in AOCI:

(Dollars in millions)	
Balance, as of January 1, 2011	$20
Additions:	
OTTI credit losses on previously impaired securities	2
Reductions:	
Increases in expected cash flows recognized over the remaining life of the securities	(1)

Balance, as of September 30, 2011	$21
Balance, as of January 1, 2010	$22
Additions/Reductions:[1]	
Increases in expected cash flows recognized over the remaining life of the securities	(1)
Balance, as of September 30, 2010	$21

[1] During the nine months ended September 30, 2010, the Company recognized $2 million of OTTI through earnings on debt securities in which no portion of the OTTI loss was included in OCI at any time during the period. OTTI related to these securities are excluded from this amount.

Notes to Consolidated Financial Statements (Unaudited)-Continued

The following table presents a summary of the significant inputs used in determining the measurement of credit losses recognized in earnings for private MBS for the nine months ended September 30, 2011 and September 30, 2010:

	September 30, 2011	September 30, 2010
Current default rate	4 - 8%	2 - 7%
Prepayment rate	12 - 22%	14 - 22%
Loss severity	39 - 44%	37 - 46%

NOTE 3 - LOANS

Composition of Loan Portfolio

(Dollars in millions)	September 30, 2011	December 31, 2010
Commercial loans:		
Commercial & industrial[1]	$47,985	$44,753
Commercial real estate	5,330	6,167
Commercial construction	1,390	2,568
Total commercial loans	54,705	53,488
Residential loans:		
Residential mortgages - guaranteed	4,449	4,520
Residential mortgages - nonguaranteed[2]	23,517	23,959
Home equity products	15,980	16,751
Residential construction	1,046	1,291
Total residential loans	44,992	46,521
Consumer loans:		
Guaranteed student loans	5,333	4,260
Other direct	1,945	1,722
Indirect	10,003	9,499
Credit cards	497	485
Total consumer loans	17,778	15,966
LHFI	$117,475	$115,975
LHFS	$2,243	$3,501

[1]Includes $3 million and $4 million of loans carried at fair value at September 30, 2011 and December 31, 2010, respectively.

[2]Includes $449 million and $488 million of loans carried at fair value at September 30, 2011 and December 31, 2010, respectively.

During the nine months ended September 30, 2011, the Company transferred $657 million in LHFI to LHFS. Additionally, during the nine months ended September 30, 2011, the Company sold $479 million in loans and leases that had been held for investment at December 31, 2010 for a gain of $20 million. There were no other material sales of LHFI during the period.

Credit Quality Evaluation

The Company evaluates the credit quality of its loan portfolio based on internal credit risk ratings using numerous factors, including consumer credit risk scores, rating agency information, LTV ratios, collateral, collection experience, and other internal metrics. For the commercial portfolio, the Company believes that the most appropriate credit quality indicator is the individual loan’s risk assessment expressed according to regulatory agency classification, pass or criticized. Loans are rated pass or criticized based on the borrower’s willingness and ability to contractually perform

along with the estimated net losses the Company would incur in the event of default. Criticized loans have a higher probability of default. As a result, criticized loans are further categorized into accruing and nonaccruing, representing management's assessment of the collectibility of principal and interest. Ratings for loans are updated at least annually or more frequently if there is a material change in creditworthiness.
For consumer and residential loans, the Company believes that consumer credit risk, as assessed by the FICO scoring method, is a relevant credit quality indicator. FICO scores are obtained at origination as part of the Company's formal underwriting process,

Notes to Consolidated Financial Statements (Unaudited)-Continued

and refreshed FICO scores are obtained by the Company at least quarterly. However, for student loans which are guaranteed by a federal agency, the Company does not utilize FICO scores as the Company does not originate government guaranteed student loans. For guaranteed student loans, the Company monitors the credit quality based primarily on delinquency status, which it believes is the most appropriate indicator of credit quality. As of September 30, 2011 and December 31, 2010, 80% and 77%, respectively, of the guaranteed student loan portfolio was current with respect to payments; however, the loss exposure to the Company was mitigated by the government guarantee.

LHFI by credit quality indicator are shown in the tables below:

	Commercial & industrial		Commercial real estate		Commercial construction	
(Dollars in millions)	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Credit rating:						
Pass	$45,823	$42,140	$3,763	$4,316	$600	$836
Criticized accruing	1,682	2,029	1,227	1,509	405	771
Criticized nonaccruing	480	584	340	342	385	961
Total	$47,985	$44,753	$5,330	$6,167	$1,390	$2,568

	Residential mortgages - nonguaranteed [2]		Home equity products		Residential construction	
(Dollars in millions)	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Current FICO score range:						
700 and above	$16,205	$15,920	$11,348	$11,673	$695	$828
620 - 699	4,184	4,457	2,857	2,897	215	258
Below 620[1]	3,128	3,582	1,775	2,181	136	205
Total	$23,517	$23,959	$15,980	$16,751	$1,046	$1,291

	Consumer - other direct[3]		Consumer - indirect		Consumer - credit cards	
(Dollars in millions)	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Current FICO score range:						
700 and above	$1,187	$973	$7,530	$6,780	$278	$258
620 - 699	231	231	1,764	1,799	148	149
Below 620[1]	86	105	709	920	71	78
Total	$1,504	$1,309	$10,003	$9,499	$497	$485

[1]For substantially all loans with refreshed FICO scores below 620, the borrower's FICO score at the time of origination exceeded 620 but has since deteriorated as the loan has seasoned.

[2]Excludes $4.4 billion and $4.5 billion at September 30, 2011 and December 31, 2010, respectively, of federally guaranteed residential loans. At both September 30, 2011 and December 31, 2010, the majority of these loans had FICO scores of 700 and above.

[3]Excludes $441 million and $413 million as of September 30, 2011 and December 31, 2010, respectively, of private-label student loans with third party insurance. At both September 30, 2011 and December 31, 2010, the majority of these loans had FICO scores of 700 and above.

Notes to Consolidated Financial Statements (Unaudited)-Continued

The payment status for the LHFI portfolio is shown in the tables below:

	As of September 30, 2011				
(Dollars in millions)	Accruing Current	Accruing 30-89 Days Past Due	Accruing 90+ Days Past Due	Nonaccruing[3]	Total
Commercial loans:					
Commercial & industrial[1]	$47,366	$74	$66	$479	$47,985
Commercial real estate	4,979	9	1	341	5,330
Commercial construction	1,004	1	—	385	1,390
Total commercial loans	53,349	84	67	1,205	54,705
Residential loans:					
Residential mortgages - guaranteed	3,237	179	1,033	—	4,449
Residential mortgages - nonguaranteed[2]	21,728	342	30	1,417	23,517
Home equity products	15,417	223	—	340	15,980
Residential construction	771	22	3	250	1,046
Total residential loans	41,153	766	1,066	2,007	44,992
Consumer loans:					
Guaranteed student loans	4,245	413	675	—	5,333
Other direct	1,918	15	5	7	1,945
Indirect	9,919	60	4	20	10,003
Credit cards	482	8	7	—	497
Total consumer loans	16,564	496	691	27	17,778
Total LHFI	$111,066	$1,346	$1,824	$3,239	$117,475

[1]Includes $3 million of loans carried at fair value.
[2]Includes $449 million of loans carried at fair value.
[3]Total nonaccruing loans past due 90 days or more totaled $2.5 billion. Nonaccruing loans past due fewer than 90 days include modified nonaccrual loans reported as TDRs.

	As of December 31, 2010				
(Dollars in millions)	Accruing Current	Accruing 30-89 Days Past Due	Accruing 90+ Days Past Due	Nonaccruing[3]	Total
Commercial loans:					
Commercial & industrial[1]	$44,046	$111	$12	$584	$44,753
Commercial real estate	5,794	27	4	342	6,167
Commercial construction	1,595	11	1	961	2,568
Total commercial loans	51,435	149	17	1,887	53,488
Residential loans:					
Residential mortgages - guaranteed	3,469	167	884	—	4,520
Residential mortgages - nonguaranteed[2]	21,916	456	44	1,543	23,959
Home equity products	16,162	234			