



LETTER OF COMMENT NO. 5

March 27, 2009

The Honorable Members of the FASB Financial Crisis Advisory Group
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Your request for written submissions from constituents.

On March 17, 2009, the FASB released its Proposed Staff Position under FASB Statement No. 157, *Fair Value Measurements*. On March 25th we filed a comment with the Technical Director of the FASB as Disclosure Insight's¹ response to a call for public input. Given the gravity and global impact of the issues before us, I've attached a copy of that same letter in response to the FCAG's request for written input from constituents.

Our comments on Statement 157 speak to a number of issues that we and our clients encounter every day in attempting to use and interpret financial statements. As such, I respectfully offer them to your esteemed group along with my sincere wishes for great success as you undertake your important work.

Respectfully Submitted,

/s/ John P. Gavin, CFA
President and CEO

¹ Disclosure Insight, Inc. is a privately held and independent investment research firm. Our clients are primarily institutional investors, including hedge funds and mutual fund houses. Central to our research is a risk-profiling process we employ that manually gathers data from public company filings on about 100 separate risk factors over a five year period. Often we incorporate aspects of forensic analysis into our work and frequently find ourselves challenging the adequacy or appropriateness of a public company's accounting and/or disclosure practices.

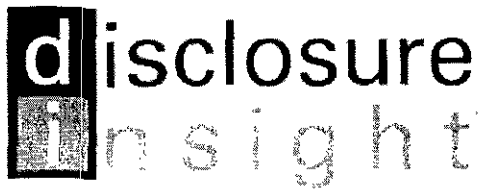
Attachment

Disclosure Insight®

*Comment Letter Submitted to
FASB on 25-March-2009 on
Proposed Changes to FASB 157*

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March 25, 2009

Technical Director, FASB
401 Merritt 7
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File Reference: Proposed FSP FAS 157-e

To the Technical Director:

On March 17, 2009, the FASB released its Proposed Staff Position under FASB Statement No. 157, *Fair Value Measurements*. This letter and the attached research report we recently published¹ are respectfully submitted as Disclosure Insight's² response to a call for public input.

Without an attendant and significant increase in related disclosures, which we recommend below but doubt will occur, the FASB's proposal will surely hurt financial reporting. Simply put, this proposal poses grave danger to the integrity of U.S., if not global, capital markets.

The credible assessment of fair value is critical to price discovery for investors. Yet, investors are straining to understand and trust the financial statements of many companies, especially financial companies. This is partially because investors must rely so heavily on the opaque assumptions and judgments used by management to assign fair value to assets³.

We believe FASB's proposed changes will give public company managements even more latitude than they already have to value assets as they see fit without investors knowing the how's and why's behind their thinking. This isn't mere conjecture. A study we published on 18-March-2009 found reasonable basis to question the integrity of the balance sheets of at least 70% of 50 of the largest banks trading in the U.S.

Our research examined the extent to which banks in our study did, or did not, impair goodwill in 2008 reporting periods. To our surprise, given the staggering loss of market value in the sector, we found bank goodwill balances that were highly inflated and widely unimpaired.

¹ A copy of our *Bank Goodwill Impairment Study* published 18-March-2009 is attached as an addendum to this letter. We retain intellectual property rights on the work but, in the public interest, grant permission to FASB to post it.

² Disclosure Insight, Inc. is a privately held and independent investment research firm. Central to our research is a risk-profiling process we employ that manually gathers data from public company filings on about 100 separate risk factors over a five year period. Often we incorporate aspects of forensic analysis into our work and frequently find ourselves challenging the adequacy or appropriateness of a public company's accounting and/or disclosure practices.

³ We cannot help but note that the financial services companies, one of the primary forces behind and beneficiaries of the proposed changes before us, already produce some of the most opaque financial statements out there. Enron, also well known for its opaque financial statements, repeatedly claimed compliance with mark-to-market accounting rules in place at the time. They would surely have a field day with the proposed changes to Fair Value rules today.

There are two elements that make our findings regarding goodwill impairments troubling. First, many investors ignore goodwill; that is, banks would likely have gotten a pass for large impairments with their year-end filings but still didn't take them. Second, goodwill represents a non-cash intangible asset; in other words, it's not central to how banks calculate their tier one capital ratios or included in tangible book values.

Our research findings beg a critical question: If banks are not even using reasonable bases to fairly value their non-cash intangible assets, as our research suggests is the case, how can investors have confidence they are using reasonable bases to establish sufficient allowances for their very tangible loan losses and how Level 2/Level 3 assets are valued?

Given what we found, it strains credibility to believe the proposed changes to FASB Statement 157 will improve the balance sheet monkeyshines that already exist. It will make them worse. In part, this is because the proposal also amounts to a license for management to push-back on their auditors who might otherwise try to rein them in.

If the FASB is determined to proceed with changes to Statement 157 we respectfully suggest consideration of the following, in concert with other regulators where possible:

1. Promulgation of practices and disclosure protocols similar to those used in accounting for pensions. This could be appended onto the existing Level 1-3 asset classification/valuation protocols already in existence. They could then be further enhanced by requiring disclosure of the following:
 - a. Disclosure of original book value of those assets identified as [supposedly] lacking active markets⁴.
 - b. An immediate liquidity value of the assets if they had to be sold within 30-90 days, allowing some may [supposedly] have no real market at present.
 - c. Present value of those assets deemed to lack active markets and the assumptions used to arrive there such as:
 - i. Discount rates used to value the assets
 - ii. Interest rate assumptions used to value the assets
 - iii. Rate-of-return assumptions used to value the assets
 - iv. Cash flow forecasts regarding the assets
 - v. Time horizons used and rationale for the same
 - vi. Basis on which management determined there is no active market
2. Alternatively, or concurrently, we would suggest classification and segregation of assets [supposedly] lacking active markets into separate categories/pools such that users of financial statements can easily discern:

⁴ We qualify some of our sentences by putting the word 'supposedly' in brackets as we question the notion there truly exists no market for many of the assets this proposal aims to address. A buyer can be found for most any asset. The question comes down to whether the price is acceptable to the seller. Lack of an acceptable price on its own should not be deemed as sufficient basis to justify changes to accounting rules when one considers that liquidity and counterparty risk are two of the many risks investors need to evaluate when deploying capital. It is our opinion, and concern, that many of the strongest supporters of changes to FASB No. 157 failed to include sufficiently prudent liquidity and counterparty risk assessments in their initial calculus and are now seeking rule changes such as this proposal to let them hide or otherwise postpone recognizing the true cost of their failures.

- a. What the asset pools are and what qualifies for inclusion in the same.
- b. For each asset pool, public companies should provide quantification of those assets lacking an active market as well as the size of the total pool to which those assets would otherwise belong.
- c. The assumptions used to value those assets at present; that is, how does management know they lack an inactive market and how did they arrive at the values they did.
- d. Identification of clear “triggering” events that would cause a change to how assets in each pool are valued in the future.
- e. Changes since the last reporting period. This should be done at least quarterly with clear and separate disclosures for amounts added to and amounts deleted from each pool during each reporting period (no net numbers).
- f. Identification of reasons for those additions and/or deletions that took place each reporting period. This should include a clearly identified process for “rehabilitating” assets for which markets again become [supposedly] active.
- g. Identification and quantification of those assets that moved between pools.

Finally, given the complexity of the issues involved, we do not think it reasonable to assume the FASB’s proposed changes to 157 can be implemented at the proposed effective date without significant compromise of investor confidence in the filings of those public companies expected to take advantage of the change. Further study and modification of the proposal are needed. We urge our regulators and the FASB to resist any misguided calls for expediency on this matter.

Respectfully Submitted,

/s/ John P. Gavin, CFA
President and CEO

With Copies to:

The Honorable Christina Romer, Chair, President’s Council of Economic Advisors
The Honorable Lawrence H. Summers, Chair, National Economic Council
The Honorable Ben S. Bernake, Chairman of the Federal Reserve
The Honorable Timothy F. Geithner, Secretary of the Treasury
The Honorable Sheila C. Bair, Chair, FDIC
The Honorable Mary Schapiro, SEC Chair
The Office of the Chief Accountant for the SEC, James L. Kroeker, Acting Chief Accountant
The Office of the Secretary for the SEC, Elizabeth M. Murphy, Secretary
The Honorable Amy Klobuchar, Senator, Minnesota
The Honorable Christopher J. Dodd, Chairman, Senate Committee on Banking
The Honorable Richard C. Shelby, Ranking Member, Senate Committee on Banking
The Honorable Erik Paulsen, Congressman, Third District, Minnesota
The Honorable Barney Frank, Chairman, House Committee on Financial Services
The Honorable Spencer Bachus, Ranking Member, House Committee on Financial Services
Mr. Patrick Finnegan, Director of Financial Reporting Group, CFA Institute
Ms. Alicia A. Posta, Executive Director, FASB Advisory Groups
Ms. Barbara Roper, Director of Investor Protection, Consumer Federation of America
Mr. William H. Donaldson, CFA, Co-Chair, Council of Institutional Investors
Mr. Arthur Levitt, Jr., Co-Chair, Council of Institutional Investors

Addendum

Bank Goodwill Impairment Study

Published: March 18, 2009

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THE BANK WRITE-DOWNS THAT ARE COMING - GOODWILL IMPAIRMENTS PROVIDE A HINT

At Least 70% of Banks in Our Study Have Questionable Goodwill Balances

D.I. Profile™: Using accounting for goodwill as a proxy, we conclude there is reasonable basis to question the integrity of the balance sheets of at least 70% of 50 of the largest banks trading in the United States. This suggests widespread and sizable write-downs remain to be taken.

Our thesis is simple. The credible assessment of fair value is a critical component of price discovery for investors. Yet, despite the staggering loss of market value in the sector, which typically compels write-downs, the evidence is persuasive that the goodwill balances of banks appear inflated and widely unimpaired. We get it. As an intangible asset, goodwill isn't critical to valuing a bank. But if banks are not even using reasonable expectations to fairly value their non-cash intangible assets, like goodwill, we argue it becomes that much harder to rely on the assumptions and judgments they used to value their very tangible Level 2 and Level 3 assets and to establish sufficient allowances for loan losses.

- 1. Investors are straining to trust bank balance sheets.** Across the 50 banks we analyzed, \$2.74 trillion is categorized as Level 1, 2, and 3 assets. Level 2 assets equal \$1.48 trillion of the total, or 53.9%. Level 3 assets total \$259 billion, or 9.4% of the total. The methodologies banks use to value these sizable Level 2 and 3 asset bases are typically opaque, leaving investors highly vulnerable to the judgments and representations of management. These 50 banks also hold \$4.76 trillion in loans, net of \$130.8 billion in allowances for loan losses (2.7% of net loans). Despite the "Great Recession", out of our group of 50 banks, allowances as a percentage of loans range from a paltry 0.2% to 4.7%.
- 2. Goodwill gives us a reliable proxy.** Like allowances for loan losses and Level 2 and 3 assets, assessment of goodwill for impairment is highly dependent on management assumptions and estimates. Goodwill and impairments are readily disclosed as are the rules governing its impairment. Collectively, the 50 banks we analyzed carry \$273.1 billion in goodwill and \$72.6 billion in intangibles on their balance sheets.
- 3. It appears banks are not adequately impairing their goodwill.** While market value isn't necessarily the sole trigger for a bank to impair its goodwill, it is a powerful one. Fully 72% (36 of 50) of the banks we analyzed trade below book with 58% (29 of 50) trading below tangible book. Based on the rules governing goodwill, we expected to find widespread goodwill impairments by banks. That didn't happen. Rather, our analysis shows that 70% (35 of 50) of the banks we analyzed did not impair goodwill in 2008. Despite a pop in the easy credit bubble, a period during which many acquisitions that generated the goodwill were made, only \$21.5 billion (less than 10%) in total goodwill was written down by 15 of the banks in our study.
- 4. Bank of America - The poster child for goodwill desperately in need of impairment.** Our analysis of Bank of America's acquisitions of FleetBoston, MBNA, and LaSalle illustrate well why banks need to impair their goodwill more - far more - than they've done to date.

**Banks with the Most Questionable Treatment of Goodwill and/or Intangibles
15 Banks Trading Below Tangible Book Value Per Share
That Did Not Impair Any Goodwill in 2008**

(millions of \$, other than per share)	Goodwill (G)	Intangibles (I)	Equity (E)	(G+I)/E	TBV/Share	Stock Price	Price/TBV
Huntington Bancshares Inc.	\$3,055.0	\$356.7	\$7,227.1	47.2%	\$10.42	\$1.74	0.17
Webster Financial Corp.	529.9	34.0	1,874.1	30.1%	23.15	4.44	0.19
SunTrust Banks Inc.	7,043.5	1,035.4	22,388.1	36.1%	40.36	12.15	0.30
Bank of America Corp.	81,934.0	8,535.0	177,052.0	51.1%	17.26	6.27	0.36
Cathay General Bancorp	319.6	29.2	1,292.9	27.0%	17.58	10.61	0.60
Comerica Inc.	150.0	0.0	5,100.0	2.9%	27.69	18.51	0.67
First Citizens Bancshares Inc.	102.6	3.8	1,443.4	7.4%	152.67	105.00	0.69
First Horizon National Corp.	192.4	45.1	3,279.5	7.2%	14.82	10.52	0.71
Whitney Holding Corp.	435.7	22.9	1,525.5	30.1%	15.73	11.19	0.71
Astoria Financial Corp.	185.0	0.0	1,181.8	15.7%	10.40	8.69	0.84
PNC Financial Services Group	8,868.0	2,820.0	25,422.0	46.0%	31.00	28.51	0.92
Susquehanna Bancshares Inc.	1,017.6	54.0	1,945.9	55.1%	10.15	9.48	0.93
JPMorgan Chase & Co.	48,027.0	14,984.0	166,884.0	37.8%	26.35	25.14	0.95
BB&T Corp.	5,483.0	542.0	16,037.0	37.6%	17.90	17.53	0.98
City National Corp.	459.4	40.6	2,044.0	24.5%	30.30	30.12	0.99

**Banks Trading Above Tangible Book Value per Share,
But Below Book Value per Share,
That Did Not Impair Any Goodwill in 2008**

(millions of \$, other than per share)	Goodwill (G)	Intangibles (I)	Equity (E)	(G+I)/E	BV/Share	Stock Price	Price/BV
Associated Banc-Corp.	\$929.2	\$801.7	\$2,876.5	60.2%	\$22.45	\$13.35	0.59
Wells Fargo & Co.	22,627.0	14,740.0	99,084.0	37.7%	22.71	14.66	0.65
M&T Bank Corp.	3,192.0	183.0	6,784.0	49.7%	56.35	39.76	0.71
New York Community Bancorp	2,436.4	87.8	4,219.2	59.8%	12.23	9.90	0.81
State Street Corp.	4,527.0	1,851.0	12,774.0	49.9%	29.57	25.59	0.87

Notes on methodology: This research report relies on data available in the 31-Dec-08 filings made by 50 of the largest banks trading in the United States (based on asset size). Large banks without year-end filings as of 9-Mar-09 were not included. Because of their recent re-definition as bank holding companies, Goldman Sachs (GS) and Morgan Stanley (MS) were not included in this analysis though data for them are provided. Historical and other data are used to illustrate comparables. FASB Statements 142 and 157 are the reference points for rules governing goodwill and fair value accounting referred to in this study. Prices are as of the close on 17-March-09.

Summary Data:

- **Of the 50 banks we analyzed ...**
 - 72% are trading below book value (36 of the 50)
 - 58% are trading below tangible book value (29 of the 50)
 - 30% impaired their goodwill (15 of the 50)
 - 70% have NOT impaired their goodwill (35 of the 50)

- **Of the 35 banks that have NOT impaired (Note: two had no goodwill) ...**
 - 60% are trading below book value (21 of the 35)
 - 46% are trading below tangible book value (16 of the 35)

- **Of those 15 banks that have impaired ...**
 - 100% are trading below book value (All 15)
 - 87% are trading below tangible book value (13 of the 15)

1. **Investors are straining to trust bank balance sheets.** Across the 50 banks we analyzed, \$2.74 trillion is categorized as Level 1, 2, and 3 assets. Level 2 assets equal \$1.48 trillion of the total, or 53.9%. Level 3 assets total \$259 billion, or 9.4% of the total. The methodologies banks use to value these sizable Level 2 and 3 asset bases are typically opaque, leaving investors highly vulnerable to the judgments and representations of management. These 50 banks also hold \$4.76 trillion in loans, net of \$130.8 billion in allowances for loan losses (2.7% of net loans). Despite the “Great Recession”, out of our group of 50 banks, allowances as a percentage of loans range from a paltry 0.2% to 4.7%.

The 10 Largest Banks by Loans

(millions of \$)	Loans (L)	Allowances (A)	A/L
Bank of America Corp.	\$908,375.0	\$23,071.0	2.54%
Wells Fargo & Co.	843,817.0	21,013.0	2.49%
JPMorgan Chase & Co.	721,734.0	23,164.0	3.21%
Citigroup Inc.	664,600.0	29,616.0	4.46%
US Bancorp	181,715.0	3,514.0	1.93%
PNC Financial Services Group Inc.	171,572.0	3,917.0	2.28%
SunTrust Banks Inc.	124,647.4	2,351.0	1.89%
Capital One Financial Corp.	96,493.8	4,524.0	4.69%
BB&T Corp.	95,671.0	1,574.0	1.65%
Regions Financial Corp.	95,592.5	1,826.1	1.91%

The classification of assets into Level 1, Level 2, and Level 3 is reported by the banks in their filings. This is because FASB Statement 157 requires public companies to allocate assets based on the ability and reliability of fair market values.

**The 10 Largest Banks by Total Asset Size with Their
 Respective Level 1, 2, and 3 Exposures**

(millions of \$)	Total Assets	Level 1*	Level 2*	Level 3*
JPMorgan Chase & Co.	\$2,175,052.0	\$263,135.0	\$242,298.0	\$51,623.0
Citigroup Inc.	1,938,470.0	97,661.0	137,777.8	64,407.3
Bank of America Corp.	1,817,943.0	26,992.0	402,452.0	51,450.0
Wells Fargo & Co.	1,309,639.0	5,699.0	166,007.0	46,963.0
PNC Financial Services Group Inc.	291,081.0	268.0	24,357.0	6,990.0
US Bancorp	265,912.0	474.0	37,760.0	4,737.0
Bank of New York Mellon Corp.	237,512.0	2,139.0	33,066.0	724.0
SunTrust Banks Inc.	189,138.0	1,195.0	171,030.8	214.9
State Street Corp.	173,631.0	10,124.0	35,285.0	9,156.0
Capital One Financial Corp.	165,913.0	299.0	28,840.0	4,000.3

*Level 1, 2, and 3 assets as reported by banks are netted against liabilities.

For the uninitiated, here is what the different asset levels mean:

Level 1 – Mark-to-Market Assets. Level 1 assets are the easiest to value and include listed stocks, bonds, funds, or any assets that have a frequent “mark to market” mechanism for pricing. Valuation is simply based on market price.

Level 2 – Mark-to-Model Assets. These assets lack regular markets, but their fair value can be readily determined using other data or related market prices. These are frequently referred to as “mark to model” assets. An example of a Level 2 asset would be an interest rate swap. The asset value would be based on underlying interest rates, market-determined risk premiums, similar instruments in active markets, and/or conditions observable in the market.

Level 3 – Mark-to-Model Assets on Steroids. Valuation for Level 3 assets can be particularly challenging as they are typically highly illiquid with fair value relying heavily on estimates that can include use of option pricing models, discounted cash flow models, and similar techniques. This category of asset continues to receive the most scrutiny as many Level 3 assets consist of mortgage-backed securities, which have incurred massive defaults and loss in value. Accusations have been made that the firms owning Level 3 assets were/are not adjusting them sufficiently though market conditions would have warranted as much.

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2. **Goodwill gives us a reliable proxy.** Like allowances for loan losses and Level 2 and 3 assets, assessment of goodwill for impairment is highly dependent on management assumptions and estimates. Goodwill and impairments are readily disclosed as are the rules governing its impairment. Collectively, the 50 banks we analyzed carry \$273.1 billion in goodwill and \$72.6 billion in intangibles on their balance sheets.

Goodwill can only be created through an exchange of shareholder value in the form of cash or stock. It's an investment. It comes with a cost. Like many investments, things don't always work the way you hoped and write-downs are needed.

In June 2001, the FASB issued its Statement 142, covering Goodwill and Other Intangible Assets. This forever eliminated the requirement for amortizing existing and newly acquired goodwill. Few investors have paid attention to another of its requirements; that is, that goodwill must be tested for impairment annually and written down when impaired. In strong markets this didn't matter much. Now it does.

The issuance of FASB Statement 142 represented the first major change in 30 years regarding the accounting treatment of goodwill. It called for two major changes to goodwill accounting:

- Amortization of all goodwill ceased. Goodwill is now carried as an asset without reduction to earnings for amortization of the same.
- Companies are required, at least once per year, to assess the goodwill they carry on their balance sheet as to whether it is impaired. Goodwill found to be impaired is required to be recognized as a loss against the amount of goodwill carried on the balance sheet.

Guidelines for how to test for impairment were provided. The impairment test consists of a two-step process:

- **Step One:** Goodwill is allocated across reporting units of a company. So in the first step, the fair value of a reporting unit is compared with its carrying amount, including goodwill. If the fair value of a reporting unit is deemed to exceed its carrying amount (book value), there is no goodwill impairment and the test is complete. If the fair value for the unit is less than its book value, however, the company must proceed to the second step.
- **Step Two:** The second step of the impairment test is more detailed and aims to replicate the valuation/allocation process a company performed at acquisition. A comparison of the implied fair value of a reporting unit's goodwill is made against the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, the company must take an impairment charge equal to the difference.

When available, the standard suggested traditional quoted market comparables are deemed as best evidence of fair value. Otherwise, valuation techniques such as discounted cash flows or similar analytics are deemed acceptable.

3. **It appears banks are not adequately impairing their goodwill.** While market value isn't necessarily the sole trigger for a bank to impair its goodwill, it is a powerful one. Fully 72% (36 of 50) of the banks we analyzed trade below book with 58% (29 of 50) trading below tangible book. Based on the rules governing goodwill, we expected to find widespread goodwill impairments by banks. That didn't happen. Rather, our analysis shows that 70% (35 of 50) of the banks we analyzed did not impair goodwill in 2008. Despite a pop in the easy credit bubble, a period during which many acquisitions that generated the goodwill were made, only \$21.5 billion (less than 10%) in total goodwill was written down by 15 of the banks in our study.

- Of the 50 banks we analyzed ...
 - 72% are trading below book value (36 of the 50)
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 - 46% are trading below tangible book value (16 of the 35)
- Of those 15 banks that have impaired ...
 - 100% are trading below book value (All 15)
 - 87% are trading below tangible book value (13 of the 15)

This last data point struck us as most curious; that 100% of the banks that impaired their goodwill trade below book value and only two are trading above tangible book value. The market appears to suggest that the goodwill impairments these banks took were not sufficient or their other assets are worth less.

The 15 Banks from Our 50 Bank Sample That Did Impair Goodwill in 2008

(millions of \$)	Goodwill Impairment	Goodwill	Impairment Charge as a % of GW Prior to Impairment
Synovus Financial Corp.	\$479.6	\$39.5	92.4%
Marshall & Ilsley Corp.	1,535.1	605.1	71.7%
South Financial Group Inc.	426.0	224.2	65.5%
Colonial BancGroup Inc.	575.0	432.1	57.1%
Regions Financial Corp.	6,000.0	5,548.0	52.0%
KeyCorp.	469.0	1,138.0	29.2%
Fifth Third Bancorp.	965.0	2,624.0	26.9%
Citigroup Inc.	9,568.0	27,132.0	26.1%
Citizens Republic Bancorp Inc.	178.1	597.2	23.0%
Zions Bancorp.	353.8	1,651.4	17.6%
Wilmington Trust Corp.	66.9	356.0	15.8%
Fulton Financial Corp.	90.0	534.4	14.4%
Capital One Financial Corp.	810.8	11,964.0	6.3%
Popular Inc.	12.5	605.8	2.0%
East West Bancorp Inc.	0.9	337.4	0.3%

Regions Financial, Marshall & Ilsley, Colonial BancGroup, Synovus, and South Financial Group get credit for having impaired more than 50% of their original goodwill balances. By contrast, **Capital One, Popular, and East West Bancorp** impaired tiny amounts of their original goodwill balances.

**The 10 Banks Carrying the Most Goodwill and Intangibles
(In absolute terms)**

(million of \$)	Goodwill (G)	Intangibles (I)	G+I	Equity (E)	(G+I)/ E	Impaired Goodwill
Bank of America Corp.	\$81,934.0	\$8,535.0	\$90,469.0	\$177,100.0	51.1%	No
JPMorgan Chase & Co.	48,027.0	14,984.0	63,011.0	166,900.0	37.8%	No
Citigroup Inc.	27,132.0	14,159.0	41,291.0	141,600.0	29.2%	Yes
Wells Fargo & Co.	22,627.0	14,740.0	37,367.0	99,100.0	37.7%	No
Bank of New York Mellon Corp.	15,898.0	5,856.0	21,754.0	25,264.0	86.1%	No
Capital One Financial Corp.	11,964.0	1,383.0	13,347.0	26,612.0	50.2%	Yes
PNC Financial Services Group Inc.	8,868.0	2,820.0	11,688.0	25,422.0	46.0%	No
US Bancorp	8,571.0	2,834.0	11,405.0	26,300.0	43.4%	No
SunTrust Banks Inc.	7,043.5	1,035.4	8,078.9	22,388.1	36.1%	No
Regions Financial Corp.	5,548.0	638.0	6,186.0	16,813.0	36.8%	Yes

**The 10 Banks Carrying the Most Goodwill and Intangibles
(As a % of total equity)**

(million of \$)	Goodwill (G)	Intangibles (I)	G+I	Equity (E)	(G+I)/ E	Impaired Goodwill
Bank of New York Mellon Corp	\$15,898.0	\$5,856.0	\$21,754.0	\$25,264.0	86.1%	No
Associated Banc-Corp	929.2	801.7	1730.8	2,876.5	60.2%	No
New York Community Bancorp Inc	2,436.4	87.8	2524.2	4,219.2	59.8%	No
Susquehanna Bancshares Inc	1,017.6	54.0	1071.6	1,945.9	55.1%	No
Bank of America Corp	81,934.0	8,535.0	90469.0	177,052.0	51.1%	No
Capital One Financial Corp	11,964.0	1,383.0	13347.0	26,612.0	50.2%	Yes
State Street Corp	4,527.0	1,851.0	6378.0	12,774.0	49.9%	No
M&T Bank Corp	3,192.0	183.0	3375.0	6,784.0	49.7%	No
Huntington Bancshares Inc	3,055.0	356.7	3411.7	7,227.1	47.2%	No
PNC Financial Services Group Inc	8,868.0	2,820.0	11688.0	25,422.0	46.0%	No

4. **Bank of America – The poster child for goodwill desperately in need of impairment.** Our analysis of Bank of America's acquisitions of FleetBoston, MBNA, and LaSalle illustrate well why banks need to impair their goodwill more – far more – than they've done to date.

BAC paid a total of \$102.8 billion for these three acquisitions. Using market comparables, one of the methods prescribed under FASB 142, we derived a current value for these acquisitions of \$37.4 billion. BAC currently carries \$64.7 billion in goodwill on its book for these three acquisitions, or twice our estimated value for what these acquisitions are now worth. As such, it strains credibility that Bank of America did not impair any goodwill.

- **FleetBoston**

- Acquired by BAC on 1-Apr-04 for a total price of \$47.3 billion (basically an all stock deal).
- Bank of America booked \$33.2 billion in goodwill for the acquisition.
- From 1-Apr-04 to present, three comparables we picked for FleetBoston (USB, STI, and WFC) have seen an average of drop of 52.4% in their market caps.
- Applying the 52.4% average drop to the FleetBoston purchase price implies a current value for that acquisition of \$22.5 billion.
- This is substantially less than the \$33.2 billion of goodwill that BAC acquired with FleetBoston.

- **MBNA**

- Acquired by BAC on 1-Jan-06 for a total price of \$34.6 billion (\$28.9 billion in stock, \$5.2 billion cash).
- Bank of America booked \$20.4 billion in goodwill for the acquisition.
- From 1-Jan-06 to present, two comparables we picked for MBNA (COF and AXP) have seen an average drop of 75.5% in their market caps.
- Applying the 75.5% average drop to the MBNA purchase price implies a current value for that acquisition of \$8.5 billion.
- This is substantially less than the \$20.4 billion of goodwill that BAC acquired with MBNA.

- **LaSalle**

- Acquired by BAC on 1-Oct-07 for a total price of \$21.0 billion (all cash).
- Bank of America booked \$11.1 billion in goodwill for the acquisition.
- From 1-Oct-07 to present, three comparables we picked for LaSalle (KEY, FITB, and PNC) have seen an average drop of 69.4% in their market caps.
- Applying the 69.4% average drop to the LaSalle purchase price implies a current value for that acquisition of \$6.4 billion.
- This is substantially less than the \$11.1 billion of goodwill that BAC acquired with LaSalle.

We did not conduct the same analysis above for either the Countrywide or Merrill Lynch acquisitions. These acquisitions account for \$9.4 billion of BAC's goodwill. In the end, we decided that the only appropriate comparables for Countrywide and Merrill were companies that are no longer in business.

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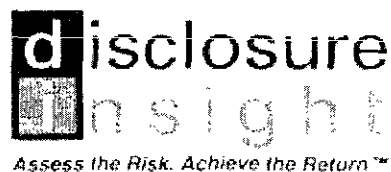
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(\$ in millions)	Goodwill (G)	Intangibles (I)	Total Assets	Equity (E)	(G+I)/ E	TARP	Level 2, Net	Level 3, Net	TBV/ Share	BV/ Share	Stock Price	Price/ BV	Price/ TBV	Goodwill Impairment
Associated Banc-Corp.	929.2	801.7	24,192.0	2,876.5	60.2%	525.0	5,013.6	4.1	8.94	22.45	13.35	0.59	1.49	0.0
Astoria Financial Corp.	185.0	0.0	21,982.1	1,181.8	15.7%	0.0	1,389.3	63.5	10.40	12.33	8.69	0.71	0.84	0.0
BancorpSouth Inc.	269.0	27.5	13,480.2	1,240.3	23.9%	0.0	980.1	39.4	11.36	14.92	19.98	1.34	1.76	0.0
Bank of America Corp.	81,934.0	8,535.0	1,817,943.0	177,052.0	51.1%	45,000.0	402,452.0	51,450.0	17.26	35.29	6.27	0.18	0.36	0.0
Bank of New York Mellon Corp.	15,898.0	5,856.0	237,512.0	25,264.0	86.1%	3,000.0	33,066.0	724.0	3.06	22.00	24.55	1.12	8.03	0.0
BB&T Corp.	5,483.0	542.0	152,015.0	16,037.0	37.6%	3,133.6	33,586.0	1,692.0	17.90	28.68	17.53	0.61	0.98	0.0
BOK Financial Corp.	335.8	25.4	22,734.0	1,846.0	19.6%	0.0	6,141.1	42.8	21.25	26.42	28.64	1.08	1.35	0.0
Capital One Financial Corp.	11,964.0	1,383.0	165,913.0	26,612.0	50.2%	3,555.2	28,840.0	4,000.3	30.26	60.70	13.37	0.22	0.44	810.8
Cathay General Bancorp	319.6	29.2	11,582.6	1,292.9	27.0%	258.0	3,173.9	28.8	17.58	24.07	10.61	0.44	0.60	0.0
Citigroup Inc.	27,132.0	14,159.0	1,938,470.0	141,630.0	29.2%	45,000.0	137,777.8	64,407.3	17.69	24.97	2.51	0.10	0.14	9,568.0
Citizens Republic Bancorp Inc.	597.2	21.4	13,086.0	1,601.3	38.6%	300.0	2,281.6	183.3	7.80	12.71	1.41	0.11	0.18	178.1
City National Corp.	459.4	40.6	16,455.5	2,044.0	24.5%	400.0	2,161.1	32.4	30.30	40.11	30.12	0.75	0.99	0.0
Colonial BancGroup Inc.	432.1	49.6	26,035.6	1,345.0	35.8%	0.0	3,856.2	1,547.8	4.26	6.64	0.69	0.10	0.16	575.0
Comerica Inc.	150.0	0.0	65,153.0	5,100.0	2.9%	2,250.0	8,353.0	1,190.0	27.69	28.53	18.51	0.65	0.67	0.0
Commerce Bancshares Inc.	125.6	17.2	17,532.0	1,576.6	9.1%	0.0	3,444.1	217.6	18.89	20.77	33.99	1.64	1.80	0.0
Cullen/Frost Bankers Inc.	52.7	24.3	15,034.0	1,763.0	4.4%	0.0	3,657.1	0.0	27.99	29.27	43.49	1.49	1.55	0.0
East West Bancorp Inc.	337.4	0.0	12,422.8	1,550.8	21.8%	306.5	1,424.6	835.4	19.03	24.33	5.05	0.21	0.27	0.9
Fifth Third Bancorp	2,624.0	168.0	119,764.0	12,077.0	23.1%	3,408.0	14,398.0	2,772.0	16.08	20.92	1.95	0.09	0.12	965.0
First Citizens Bancshares Inc.	102.6	3.8	16,745.7	1,443.4	7.4%	0.0	75.3	149.1	152.67	164.83	105.00	0.64	0.69	0.0
First Horizon National Corp.	192.4	45.1	31,022.0	3,279.5	7.2%	866.5	3,780.5	651.1	14.82	15.98	10.52	0.66	0.71	0.0
FirstMerit Corp.	139.2	1.4	11,100.0	937.8	15.0%	125.0	2,528.4	133.7	8.66	10.19	16.96	1.66	1.96	0.0
Fulton Financial Corp.	534.4	23.4	16,185.1	1,859.6	30.0%	0.0	2,472.6	551.0	6.77	9.67	6.83	0.71	1.01	90.0
Goldman Sachs Group Inc.	3,523.0	1,677.0	884,547.0	64,369.0	8.1%	10,000.0	304,320.0	37,688.0	133.70	145.45	98.99	0.68	0.68	0.0
Hudson City Bancorp Inc.	152.1	11.6	54,145.0	4,938.7	3.3%	0.0	13,321.0	0.0	9.12	9.43	10.79	1.14	1.18	0.0
Huntington Bancshares Inc.	3,055.0	356.7	54,352.0	7,227.1	47.2%	1,398.1	3,049.7	1,200.0	10.42	19.73	1.74	0.09	0.17	0.0
JPMorgan Chase & Co.	48,027.0	14,984.0	2,175,052.0	166,884.0	37.8%	45,000.0	242,298.0	51,623.0	26.35	42.34	25.14	0.59	0.95	0.0
KeyCorp	1,138.0	128.0	104,531.0	10,480.0	12.1%	2,500.0	9,653.0	2,005.0	18.61	21.17	8.28	0.39	0.44	469.0
M&T Bank Corp.	3,192.0	183.0	65,615.0	6,784.0	49.7%	0.0	4,793.9	2,470.8	28.31	56.35	39.76	0.71	1.40	0.0

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(\$ in millions)	Goodwill (G)	Intangibles (I)	Total Assets	Equity (E)	(G+I)/ E	TARP	Level 2, Net	Level 3, Net	TBV/ Share	BV/ Share	Stock Price	Price/ BV	Price/ TBV	Goodwill Impairment
Marshall & Ilsley Corp.	605.1	158.3	62,336.4	6,260.2	12.2%	1,715.0	7,047.9	207.1	20.18	22.99	5.00	0.22	0.25	1,535.1
Morgan Stanley	2,243.0	895.0	658,812.0	50,831.0	6.2%	10,000.0	79,171.0	59,616.0	45.55	48.55	23.81	0.49	0.49	1,238.0
New York Community Bancorp Inc.	2,436.4	87.8	32,466.9	4,219.2	59.8%	0.0	953.4	14.6	4.91	12.23	9.90	0.81	2.01	0.0
Northern Trust Corp.	389.4	73.2	82,053.6	6,389.4	7.2%	1,576.0	14,473.1	34.8	26.55	28.62	59.97	2.10	2.26	0.0
Peoples United Financial Inc.	1,261.7	347.1	20,167.7	5,175.5	31.1%	0.0	421.6	0.0	10.25	14.88	17.39	1.17	1.70	0.0
PNC Financial Services Group Inc.	8,868.0	2,820.0	291,081.0	25,422.0	46.0%	7,579.2	24,357.0	6,990.0	31.00	57.39	28.51	0.50	0.92	0.0
Popular Inc.	605.8	53.2	38,882.8	3,268.4	20.2%	935.0	8,222.0	518.0	9.25	11.59	2.48	0.21	0.27	12.5
Regions Financial Corp.	5,548.0	638.0	146,248.0	16,813.0	36.8%	3,500.0	17,778.6	425.0	14.45	22.85	4.09	0.18	0.28	6,000.0
South Financial Group Inc.	224.2	21.9	13,602.3	1,620.5	15.2%	347.0	1,985.0	295.1	18.41	21.71	1.10	0.05	0.06	426.0
State Street Corp.	4,527.0	1,851.0	173,631.0	12,774.0	49.9%	2,000.0	35,285.0	9,156.0	14.81	29.57	25.59	0.87	1.73	0.0
SunTrust Banks Inc.	7,043.5	1,035.4	189,138.0	22,388.1	36.1%	4,850.0	171,030.8	214.9	40.36	63.15	12.15	0.19	0.30	0.0
Susquehanna Bancshares Inc.	1,017.6	54.0	13,683.0	1,945.9	55.1%	300.0	1,822.0	110.5	10.15	22.58	9.48	0.42	0.93	0.0
Synovus Financial Corp.	39.5	21.3	35,786.3	3,787.2	1.6%	967.9	3,911.6	265.1	11.28	11.46	3.23	0.28	0.29	479.6
TCF Financial Corp.	152.6	0.0	16,740.3	1,493.7	10.2%	361.2	1,965.6	5.5	10.25	11.42	12.15	1.06	1.19	0.0
TFS Financial Corp.	0.0	0.0	10,875.8	1,794.0	0.0%	0.0	309.4	0.4	5.76	5.76	12.24	2.13	2.13	0.0
UMB Financial Corp.	104.9	18.1	10,976.6	974.8	12.6%	0.0	2,129.7	0.0	20.80	23.81	42.64	1.79	2.05	0.0
US Bancorp	8,571.0	2,834.0	265,912.0	26,300.0	43.4%	6,599.0	37,760.0	4,737.0	7.55	13.33	14.52	1.09	1.92	0.0
Valley National Bancorp	295.1	26.0	14,718.1	1,363.6	23.5%	300.0	1,322.0	0.0	7.61	9.96	11.07	1.11	1.45	0.0
Washington Federal Inc.	0.0	220.4	12,521.8	1,581.7	13.9%	200.0	1,980.0	0.0	12.95	15.05	12.35	0.82	0.95	0.0
Webster Financial Corp.	529.9	34.0	17,583.5	1,874.1	30.1%	400.0	1,148.6	92.6	23.15	33.11	4.44	0.13	0.19	0.0
Wells Fargo & Co.	22,627.0	14,740.0	1,309,639.0	99,084.0	37.7%	25,000.0	166,007.0	46,963.0	14.14	22.71	14.66	0.65	1.04	0.0
Whitney Holding Corp.	435.7	22.9	12,380.5	1,525.5	30.1%	300.0	1,670.1	0.0	15.73	22.48	11.19	0.50	0.71	0.0
Wilmington Trust Corp.	356.0	42.4	11,881.2	1,103.1	36.1%	330.0	1,278.9	77.0	8.97	14.05	10.00	0.71	1.11	66.9
Zions Bancorp	1,651.4	125.9	55,092.8	6,501.7	27.3%	1,400.0	2,152.2	894.4	40.96	56.37	10.85	0.19	0.26	353.8

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