September 30, 2010

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

**Re: Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (File Reference No. 1810-100)**

Dear Mr. Golden:

Thank you for the opportunity to comment on the Proposed Accounting Standards Update. Although I am Managing Director and Senior Banks analyst for BofA Merrill Lynch, I write on my own behalf as a member of the investor community and a user of financial statements. None of my comments should be taken to reflect the views of Bank of America or of the BofA Merrill Lynch Global Research Department.

While supporting FASB's desire to "provide an improved and consistent financial reporting model", I also believe prescribing "Fair Value" treatment in accounting for financial instruments would likely have adverse effects on the economy as whole, as well as the banking industry. I believe implementation of the standards as written could drive a number of negative outcomes, including:

- **Magnified, yet unnecessary, levels of panic during periods of financial stress** as a result of material loan markdowns such as those experienced during the peak of the crisis, which could drive significant bank-equity declines and asset volatility; actual loan price performance indicates that most value was recovered, as markets "over-shot" to the down-side.

- **Structurally higher loan pricing/credit contraction,** as banks would be forced to adjust loan pricing to offset asset volatility resulting from applying FV marks. I expect loan pricing/spreads could rise by more than one-third, as the true cost of complying with the new accounting directives would be borne by borrowers, and by the economy as a whole, through the increase in cost/decrease in availability of credit.

- **Lower credibility of bank financial statements,** as marking of Core Deposits as proposed is strictly a theoretical exercise, ultimately detracting from the utility and credibility of banks' balance sheets.

This letter contains a number of analyses which attempt to quantify the impact of applying FASB FV standards across the banking industry, informing the key concerns noted above.

Please feel free to contact me at (646) 855-5004 or at guy.moszkowski@baml.com with any follow up questions or feedback.

Sincerely,

/s/ Guy Moszkowski

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## Summary of FASB Proposal's key impacts on Loans, Deposits

### Fair Value for Assets, including Bank Loans:

Fair Value accounting to extend to all financial instruments held, per FASB proposal

FASB is proposing that all financial instruments held be subject to "Fair Value" accounting, unlike the current regime in which securities held for trading purposes are "marked to market", but generally other financial instruments, such as bank loan assets and deposit liabilities, are carried at "amortized cost". The proposals would extend to all companies but I focus in this letter on the potential impacts to the banking industry, and the potential for broader impacts on the economy as a whole given the banks' unique role in the provision of credit and payments.

No earnings effect likely, but assets, and bank capital, could be much more volatile, exacerbating market stress

Loan assets would become far more volatile; markdowns of bank loan portfolios during a downturn could drive book values materially lower, thereby reducing bank capital levels, which during periods of financial stress would magnify market concerns over the health of banks and contribute to market instability.

Volatility may considerably exceed the economic reality

Certainly it is not desirable for the FASB to attempt to mitigate market volatility and economic turmoil by promoting accounting standards that do not reflect economic reality. Indeed, I support the idea that financial statements should reflect as accurately as possible the true financial condition of issuers. My concern, however, is that an attempt to mark certain assets (principally loans) to Fair Value is likely to inject a degree of volatility to bank capital levels, and perceptions of the solvency of banks, which does not in fact represent their true condition at moments of peak market stress. Furthermore, the unrepresentative statements could actually contribute at those critical points to unnecessary market upheaval and economic dislocation.

Loans have historically been carried at "Amortized Cost", essentially meaning that they are carried at the amount loaned/ due, less the reserve for loan losses. Under the proposal, Loans would be carried at Fair Value, and while the existing Fair Value standards issued by FASB in the past allow for the exclusion of prices reflecting "distressed sales", nonetheless, observed market prices for loan portfolios would be a key input, and very difficult to ignore under a Fair Value regime. I will illustrate below that observed or implied loan prices (and thus FV marks), if used in 2008/09, would probably have driven considerable "mark-to-market" erosion of bank balance sheets.

### Valuing Bank "Core" Deposits: "Remeasurement" method

Deposit values could also fluctuate, perhaps too theoretical for financial-statement credibility

While proposed changes in accounting for "core deposits" are not labeled "Fair Value", a new concept of "remeasurement" is proposed which would have banks account for deposits based on the difference between the cost of sourcing and maintaining the deposits, on the one hand, and the cost of available alternative funding, on the other. This seems rather theoretical, since in many cases the deposit funding is so large relative to the banks' total assets that alternatives would not realistically be available.

However, because the estimated cost of the funding would presumably change with prevailing interest rates, I expect this accounting treatment would help mitigate the impact on capital of FV "hits" to loan and other asset values. In this sense it would be somewhat similar to the "Debt Value Adjustments", or DVA, that banks have taken on certain liabilities (generally, those related to structured notes) since FAS 157 and 159 were implemented in 2007. I would point out, however, that in practice, investors have tended to ignore the liability adjustments even as they have paid considerable attention to "mark-to-market" losses on assets, as the asset impacts are viewed as economically relevant, while the adjustments in the value of banks' borrowings are viewed as economically irrelevant unless the institution can actually repurchase its debt at a discount, which has occurred in only a limited fashion.

## Asset Volatility could drive needless capital swings, market instability

Loan-market values were an ineffective predictor of actual realized losses for banks

In evaluating the impact of applying Fair Value, or “Mark-to-Market” treatment to bank balance sheets, I look at the observed and estimated price movements across individual loan categories over the cycle. The analysis demonstrates that market values were extremely volatile, but proved an ineffective predictor of actual realized losses, as a result of which market values snapped back sharply.

DebtX loan marks reflect both empirically observed whole loan trades, and informed estimates

Table 2 reflects DebtX data for individual loan marks over the 4Q07-2Q10 period, with marks derived from numerous sources, reflecting a mix of 1) empirically observed whole loan trades, 2) FV estimates from investor-submitted data, as well as 3) interpolation of third-party data. The results clearly demonstrate that, following declines across all loan categories through 2008-09, secondary loan markets improved materially, with some loan prices recovering above “pre-crisis” levels.

*Note*: *DebtX, the provider for historical loan marks, has developed a clearinghouse for illiquid assets over a decade-plus, with executed trades providing DebtX with real time information on the pricing levels at which loans actually sell. In addition, DebtX provides DXMark® valuations for nearly $1trn of whole loans on a monthly basis for a variety of government agencies and enterprises (including FDIC, GSEs, banks, REITs, pension funds, insurance companies, and others). Most notably, DebtX calculations have been deemed acceptable for use in financial reporting by many of the top tier accounting firms. The firm’s ability to provide both empirically observed trades as well as indicative industry loan marks (when such trades are not available to market participants) gives us increased confidence in the reliability of the data for the Fair Value analysis. Additional details surrounding the assumptions for determining Fair Value loan marks across individual categories are listed in Table 1 below:*

**Table 1: DebtX methodology for determining loan marks across major categories ($mn and %)**

| Loan Type | Performance Level | 4Q07 | 1Q08 | 2Q08 | 3Q08 | 4Q08 | 1Q09 | 2Q09 | 3Q09 | 4Q09 | 1Q10 | 2Q10 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1-4 Family Residential | Performing | F | F | F | F | F | F,E | F,E | F,E | F,E | F,E | F,E |
| 1-4 Family Residential | Non-performing | I | F | I | I | E | E | E | E | E | E | E |
| Multifamily | Performing | F | F | F | F | F | F | F | F | F | F | F |
| Multifamily | Non-performing | I | I | I | I | E,I | E,I | E,I | E,I | E,I | E,I | E,I |
| Nonfarm Nonresidential | Performing | E,F | E,F | E,F | E,F | E,F | E,F | E,F | E,F | E,F | E,F | E,F |
| Nonfarm Nonresidential | Non-performing | E | E | E | E | E | E | E | E | E | E | E |
| Construction & Development | Performing | I | I | E | E | E | E | E | E | E | E | E |
| Construction & Development | Non-performing | I | I | E | E | E | E | E | E | E | E | E |
| Home Equity Lines | Performing | I | I | I | I | I | I | I | I | F,I | I | F,I |
| Home Equity Lines | Non-performing | I | I | I | I | I | I | I | I | I | I | I |
| Commercial & Industrial | Performing | E | I | I | I | E,I | E,I | E,I | E,I | E,I | E,I | E,I |
| Commercial & Industrial | Non-performing | E | I | I | I | E | E | E | E | E | E,I | E |
| Credit Cards | Performing | I | I | I | I | I,E | I,E | I,E | I,E | I,E | I,E | I,E |
| Credit Cards | Non-performing | I | I | I | I | I,E | I,E | I,E | I,E | I,E | I,E | I,E |
| Other Consumer | Performing | I | E | I | I | I,E | I,E | I,E | I,E | I,E | I,E | I,E |
| Other Consumer | Non-performing | I | I | I | I | I,E | I,E | I,E | I,E | I,E | I,E | I,E |

Source: DebtX

Note: E = empirically observed whole loan trades

F = fair value estimates based on investor submitted loan data

I = interpolation of third party data

DebtX provided FV marks for both performing and nonperforming loans across each individual B/S category as reported by the FDIC. In order to determine a “blended” FV mark (reflecting the weighted average of performing and nonperforming loan marks), for each loan category I applied relevant performing and nonperforming weights released by the FDIC in its *Quarterly Loan Portfolio Performance Indicators* report. The performing, nonperforming, and weighted average marks, for each category, are displayed in Table 2 below. The different quarterly weightings assumed for performing and nonperforming loans for each category are displayed in Table 3.

### Table 2: DebtX historical loan marks across individual B/S categories, weighted average marks in bold (%)

| Loan Type | Performance Level | 4Q07 | 1Q08 | 2Q08 | 3Q08 | 4Q08 | 1Q09 | 2Q09 | 3Q09 | 4Q09 | 1Q10 | 2Q10 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1-4 Family Residential | Performing | 89.9% | 87.3% | 86.7% | 86.6% | **83.7%** | 86.3% | 86.3% | 86.7% | 88.6% | 89.4% | 91.4% |
| 1-4 Family Residential | Non-performing | 48.0% | 43.2% | 42.5% | 42.3% | 42.1% | 42.5% | **41.8%** | 42.2% | 45.3% | 45.7% | 49.5% |
| **1-4 Family Residential** | **Weighted Average** | **89.3%** | **86.5%** | **85.6%** | **85.5%** | **82.6%** | **84.8%** | **84.6%** | **84.7%** | **86.5%** | **87.2%** | **89.3%** |
| Multifamily | Performing | 99.7% | 96.6% | 97.7% | 87.5% | **86.3%** | 84.3% | 84.8% | 84.3% | 93.4% | 93.0% | 94.1% |
| Multifamily | Non-performing | 58.0% | 55.9% | 54.5% | 56.6% | 49.2% | 44.1% | **47.2%** | 52.9% | 54.4% | 55.9% | 56.9% |
| **Multifamily** | **Weighted Average** | **99.4%** | **96.2%** | **97.2%** | **87.1%** | **85.7%** | **83.4%** | **83.7%** | **83.3%** | **91.8%** | **91.5%** | **92.7%** |
| Nonfarm Nonresidential | Performing | 98.5% | 99.6% | 97.1% | 90.3% | **87.3%** | 87.4% | 85.4% | 82.7% | 86.2% | 91.7% | 92.4% |
| Nonfarm Nonresidential | Non-performing | 51.0% | 47.4% | 45.8% | 46.6% | 37.3% | 31.0% | **35.4%** | 41.1% | 43.0% | 45.0% | 43.9% |
| **Nonfarm Nonresidential** | **Weighted Average** | **98.1%** | **99.1%** | **96.5%** | **89.8%** | **86.6%** | **86.3%** | **84.1%** | **81.4%** | **84.7%** | **89.9%** | **90.5%** |
| Construction & Development | Performing | 62.0% | 62.6% | 61.0% | 56.7% | **54.9%** | 55.0% | 53.7% | 69.6% | 63.2% | 65.3% | 67.5% |
| Construction & Development | Non-performing | 35.0% | 31.0% | 27.0% | 23.0% | 18.2% | 26.3% | **35.7%** | 28.1% | 27.7% | 33.2% | 38.7% |
| **Construction & Development** | **Weighted Average** | **61.2%** | **61.2%** | **59.1%** | **54.4%** | **52.0%** | **52.2%** | **51.5%** | **64.1%** | **58.1%** | **60.4%** | **63.3%** |
| Home Equity Lines | Performing | 94.2% | 80.1% | 76.0% | 78.0% | **63.7%** | 45.0% | 48.0% | 55.8% | 60.6% | 63.7% | 69.0% |
| Home Equity Lines | Non-performing | 9.1% | 8.6% | 7.5% | 7.4% | 7.0% | 6.8% | **6.7%** | 7.1% | 8.4% | 8.0% | 9.0% |
| **Home Equity Lines** | **Weighted Average** | **93.6%** | **79.4%** | **75.2%** | **77.4%** | **63.2%** | **44.5%** | **47.5%** | **55.2%** | **59.9%** | **63.0%** | **68.2%** |
| Commercial & Industrial | Performing | 98.5% | 99.0% | 97.8% | 94.5% | **92.7%** | 92.9% | 92.1% | 90.7% | 92.5% | 95.3% | 95.8% |
| Commercial & Industrial | Non-performing | 35.0% | 31.0% | 27.0% | 23.0% | 18.2% | 26.3% | **35.7%** | 28.1% | 27.7% | 33.2% | 38.7% |
| **Commercial & Industrial** | **Weighted Average** | **98.2%** | **98.6%** | **97.2%** | **93.8%** | **91.6%** | **91.6%** | **90.7%** | **88.7%** | **90.5%** | **93.6%** | **94.3%** |
| Credit Cards | Performing | 99.6% | 96.7% | 98.2% | 95.4% | **84.2%** | 86.8% | 94.4% | 96.6% | 97.2% | 97.6% | 98.2% |
| Credit Cards | Non-performing | 11.1% | 10.5% | 9.2% | 9.0% | 8.6% | 8.3% | **8.2%** | 8.7% | 10.3% | 9.7% | 11.0% |
| **Credit Cards** | **Weighted Average** | **99.3%** | **96.4%** | **97.9%** | **95.1%** | **83.9%** | **86.3%** | **93.8%** | **96.1%** | **96.8%** | **97.4%** | **97.9%** |
| Other Consumer | Performing | 97.6% | 94.7% | 95.1% | 89.8% | **84.4%** | 87.0% | 87.3% | 89.7% | 90.8% | 94.4% | 95.2% |
| Other Consumer | Non-performing | 10.1% | 9.5% | 8.4% | 8.2% | 7.8% | 7.5% | **7.4%** | 7.9% | 9.4% | 8.9% | 10.0% |
| **Other Consumer** | **Weighted Average** | **97.2%** | **94.3%** | **94.8%** | **89.5%** | **84.1%** | **86.6%** | **86.9%** | **89.3%** | **90.4%** | **94.0%** | **94.9%** |
| Average Mark | Performing | 92.5% | 89.6% | 88.7% | 84.9% | 79.7% | 78.1% | 79.0% | 82.0% | 84.1% | 86.3% | 88.0% |
| Average Mark | Non-performing | 32.2% | 29.6% | 27.7% | 27.0% | 23.6% | 24.1% | 27.3% | 27.0% | 28.3% | 30.0% | 32.2% |
| **Average Mark** | **Weighted Average** | **92.0%** | **89.0%** | **87.9%** | **84.1%** | **78.7%** | **77.0%** | **77.9%** | **80.3%** | **82.3%** | **84.6%** | **86.4%** |

Source: DebtX, FDIC

### Table 3: % of Performing and Nonperforming Loans across each category

| % Weight of Performing across each loan category (%) | 4Q07 | 1Q08 | 2Q08 | 3Q08 | 4Q08 | 1Q09 | 2Q09 | 3Q09 | 4Q09 | 1Q10 | 2Q10 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1-4 family residential real estate | 98.5% | 98.1% | 97.5% | 97.5% | 97.4% | 96.6% | 96.3% | 95.5% | 95.2% | 94.9% | 95.0% |
| Multifamily | 99.3% | 99.1% | 98.9% | 98.7% | 98.4% | 97.8% | 97.2% | 96.8% | 96.0% | 95.8% | 96.3% |
| Nonfarm nonresidential real estate | 99.2% | 99.1% | 98.9% | 98.8% | 98.6% | 98.0% | 97.4% | 97.0% | 96.5% | 96.2% | 96.2% |
| Construction & development | 97.0% | 95.6% | 94.3% | 93.1% | 92.1% | 90.2% | 87.9% | 86.8% | 85.7% | 84.9% | 85.3% |
| Home equity loans | 99.3% | 99.0% | 98.8% | 99.1% | 99.1% | 98.8% | 98.7% | 98.7% | 98.6% | 98.7% | 98.7% |
| Commercial & industrial | 99.5% | 99.4% | 99.1% | 99.0% | 98.6% | 98.1% | 97.5% | 96.8% | 96.9% | 97.2% | 97.4% |
| Credit cards | 99.6% | 99.6% | 99.6% | 99.7% | 99.6% | 99.4% | 99.4% | 99.4% | 99.5% | 99.7% | 99.7% |
| Other Consumer | 99.6% | 99.6% | 99.6% | 99.6% | 99.6% | 99.5% | 99.5% | 99.5% | 99.5% | 99.5% | 99.6% |

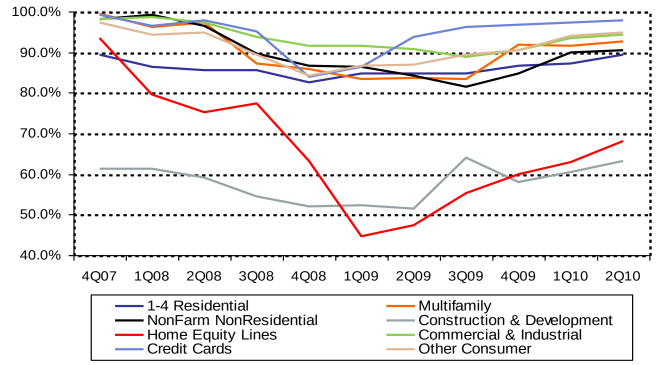
| % Weight of Non-performing across each loan category (%) | 4Q07 | 1Q08 | 2Q08 | 3Q08 | 4Q08 | 1Q09 | 2Q09 | 3Q09 | 4Q09 | 1Q10 | 2Q10 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1-4 family residential real estate | 1.5% | 1.9% | 2.5% | 2.5% | 2.6% | 3.4% | 3.7% | 4.5% | 4.8% | 5.1% | 5.0% |
| Multifamily | 0.7% | 0.9% | 1.1% | 1.3% | 1.6% | 2.2% | 2.8% | 3.2% | 4.0% | 4.2% | 3.7% |
| Nonfarm nonresidential real estate | 0.8% | 0.9% | 1.1% | 1.2% | 1.4% | 2.0% | 2.6% | 3.0% | 3.5% | 3.8% | 3.8% |
| Construction & Development | 3.0% | 4.4% | 5.7% | 6.9% | 7.9% | 9.8% | 12.1% | 13.2% | 14.3% | 15.1% | 14.9% |
| Home equity loans | 0.7% | 1.0% | 1.2% | 0.9% | 0.9% | 1.2% | 1.3% | 1.3% | 1.4% | 1.3% | 1.3% |
| Commercial & industrial | 0.5% | 0.6% | 0.9% | 1.0% | 1.4% | 1.9% | 2.5% | 3.2% | 3.1% | 2.8% | 2.6% |
| Credit cards | 0.4% | 0.4% | 0.4% | 0.3% | 0.4% | 0.6% | 0.6% | 0.6% | 0.5% | 0.3% | 0.3% |
| Other Consumer | 0.4% | 0.4% | 0.4% | 0.4% | 0.4% | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% | 0.4% |

Source: FDIC

Loan price swings were significant….

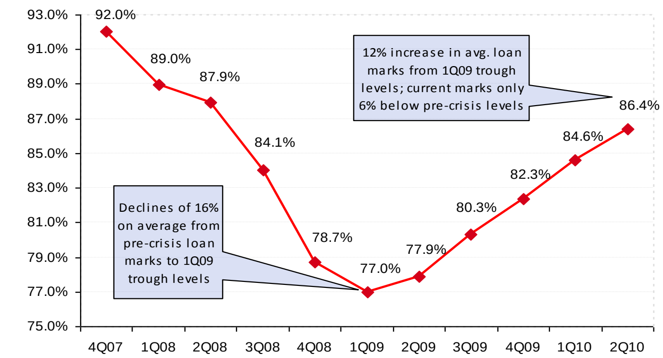
The marked recovery in loan pricing clearly demonstrates how unreflective "market" prices can be of actual loan portfolio performance during periods of financial stress. Following a ~16% decline from pre-crisis loan marks (peak to trough), recent loan marks (as of 2Q10) have improved materially, rising ~12% vs. trough levels on average. In addition, current loan marks are only ~6% below "pre-crisis" levels, and are at or above pre-crisis levels for many large loan categories (1-4 Family, Construction, Credit Cards).

**Chart 1: Fair Value of weighted average loan marks, all categories (%)**




Source: DebtX

**Chart 2: FV weighted avg. loan marks, mean across all categories (%)**




Source: DebtX

….but recovery in value indicates the market over-reacted, based on subsequent loan-loss data

I believe that using these "fair market" values could have real economic consequences during a downturn, though, as marks akin to those of '08-'09 could cause declines in capital that could seriously undermine investor and public confidence in banks, to a degree considerably exceeding reality, given the subsequent snap-back. Most notably, the recovery was evident across all loan types, whether linked to housing, commercial, or consumer markets.

**Table 4: Current loan marks (2Q10) vs. trough and pre-crisis (4Q07) levels**

| Loan Type | Performance Level | 4Q07 | Trough | 2Q10 | Current Loan Marks vs. 4Q07 | Current Loan Marks vs. Trough |
|---|---|---|---|---|---|---|
| 1-4 Family Residential | Performing | 89.9 | 83.7 | 91.4 | 1.7% | 9.2% |
| 1-4 Family Residential | Non-performing | 48.0 | 41.8 | 49.5 | 3.1% | 18.4% |
| **1-4 Family Residential** | **Weighted Average** | **89.3** | **82.6** | **89.3** | **0.0%** | **8.1%** |
| Multifamily | Performing | 99.7 | 84.3 | 94.1 | -5.6% | 11.6% |
| Multifamily | Non-performing | 58.0 | 44.1 | 56.9 | -1.9% | 29.0% |
| **Multifamily** | **Weighted Average** | **99.4** | **83.3** | **92.7** | **-6.7%** | **11.3%** |
| Nonfarm Nonresidential | Performing | 98.5 | 82.7 | 92.4 | -6.2% | 11.7% |
| Nonfarm Nonresidential | Non-performing | 51.0 | 31.0 | 43.9 | -13.9% | 41.6% |
| **Nonfarm Nonresidential** | **Weighted Average** | **98.1** | **81.4** | **90.5** | **-7.7%** | **11.2%** |
| Construction & Development | Performing | 62.0 | 53.7 | 67.5 | 8.9% | 25.7% |
| Construction & Development | Non-performing | 35.0 | 18.2 | 38.7 | 10.6% | 112.6% |
| **Construction & Development** | **Weighted Average** | **61.2** | **51.5** | **63.3** | **3.4%** | **22.8%** |
| Home Equity Lines | Performing | 94.2 | 45.0 | 69.0 | -26.8% | 53.3% |
| Home Equity Lines | Non-performing | 9.1 | 6.7 | 9.0 | -1.1% | 34.3% |
| **Home Equity Lines** | **Weighted Average** | **93.6** | **44.5** | **68.2** | **-27.1%** | **53.2%** |
| Commercial & Industrial | Performing | 98.5 | 90.7 | 95.8 | -2.7% | 5.6% |
| Commercial & Industrial | Non-performing | 35.0 | 18.2 | 38.7 | 10.6% | 112.6% |
| **Commercial & Industrial** | **Weighted Average** | **98.2** | **88.7** | **94.3** | **-3.9%** | **6.3%** |
| Credit Cards | Performing | 99.6 | 84.2 | 98.2 | -1.4% | 16.6% |
| Credit Cards | Non-performing | 11.1 | 8.2 | 11.0 | -0.9% | 34.1% |
| **Credit Cards** | **Weighted Average** | **99.3** | **83.9** | **97.9** | **-1.3%** | **16.7%** |
| Other Consumer | Performing | 97.6 | 84.4 | 95.2 | -2.5% | 12.8% |
| Other Consumer | Non-performing | 10.1 | 7.4 | 10.0 | -1.0% | 35.1% |
| **Other Consumer** | **Weighted Average** | **97.2** | **84.1** | **94.9** | **-2.5%** | **12.8%** |

Source: DebtX, FDIC

## Core Deposit Marks: Mitigate asset volatility, but valuation inputs unclear

Applying asset marks was straightforward, but core deposit valuation proved more complicated….

In further illustration of this point, I applied the indicative FV marks to each individual FDIC Balance Sheet segment, in order to determine the impact over the business cycle on bank capital/leverage ratios. Applying the asset marks was straightforward. Regarding the marks to banks' core deposits, however, which could be an important mitigator of asset-value volatility and its impact on reported bank capital, things are more complicated. The discount rate (i.e. alternative funds rate minus all-in-cost-to-service rate) and other details surrounding the valuation inputs for core deposits are vague and difficult to estimate based on the current ED, and thus I was at higher risk of material "back-testing" errors. As a result, I ran 3 scenarios to provide a range of possible core deposit marks *pro forma* for FASB implementation:

….Ran scenario analysis for marking core deposits, as could be an important mitigator of asset volatility

- **Base Case Scenario:** 10 year implied maturity, 1.5% discount rate
- **More Conservative Scenario:** 5 year implied maturity, 1.0% discount rate
- **Less Conservative Scenario:** 15 year implied maturity, 2.0% discount rate

Note that I did not adjust the discount rate to account for the possibility that banks' credit spreads could widen and tighten "over-the-cycle"; or that rates would decline and rise with the cycle, though these movements could clearly impact the liability valuation. The three tables below provide a summary of the results from the scenario analysis; all three tables use the same set of asset marks, based on loan and securities data as noted earlier; each table represents a different Core Deposit valuation assumption, as described just above.

**Conclusion: FV marks drove severe equity declines/volatility**

Applying FASB FV req. to FDIC industry B/S, even under the "base case" scenario, equity/capital levels declined -21% at the peak of the crisis; needless volatility given loan value snap-back

While the marking of core deposits helps mitigate the impact of asset markdowns, it's not a big help in any but the least-conservative scenario for valuing the deposits. When applying FASB requirements to the FDIC industry balance sheet, even under the Base Case scenario, equity levels declined by -21% in 2Q09 due to lower loan marks overwhelming the offsetting benefit of marking core deposits, vs. actual reported equity levels. Under the same scenario, applying current loan marks to the FDIC industry balance sheet, equity levels would be +24% higher than reported levels, reflecting the sharp rebound in marks as loan valuations regained their footing. Note, under the more conservative deposit valuation approach, equity declines would have been -60% at the cycle trough. Under the least conservative approach, equity levels pro forma FASB would have been even higher than reported levels at the peak of the crisis, demonstrating the huge volatility in equity/capital levels when assuming different deposit valuation inputs.

*Note: the appendix beginning on pg 13 provides a breakdown of individual FDIC balance sheet categories and calculations for determining pro forma equity levels over the cycle.*

## Table 5: Base Case Scenario pro forma implementation of FASB standards ($mn)

| Scenario Analysis: Base Case | 2010Q2 | 2010Q1 | 2009Q4 | 2009Q3 | 2009Q2 | 2009Q1 | 2008Q4 | 2008Q3 | 2008Q2 | 2008Q1 | 2007Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Assets Calculated | 13,122,362 | 13,267,638 | 13,014,635 | 13,153,824 | 13,216,014 | 13,458,363 | 13,757,892 | 13,480,812 | 13,207,003 | 13,278,129 | 12,946,123 |
| Assets Fair Value | 12,582,403 | 12,597,760 | 12,133,088 | 12,107,895 | 12,036,170 | 12,233,100 | 12,763,566 | 12,769,816 | 12,657,712 | 12,793,393 | 12,497,503 |
| *Assets Delta* | *-539,960* | *-669,878* | *-881,546* | *-1,045,929* | *-1,179,843* | *-1,225,263* | *-994,326* | *-710,996* | *-549,292* | *-484,735* | *-448,620* |
| Liabilities Calculated | 11,203,802 | 11,400,527 | 11,166,006 | 11,259,761 | 11,348,634 | 11,541,964 | 11,791,079 | 11,636,733 | 11,355,613 | 11,338,066 | 11,117,497 |
| Liabilities Fair Value | 10,308,222 | 10,507,328 | 10,260,160 | 10,373,078 | 10,469,356 | 10,576,010 | 10,888,164 | 10,722,663 | 10,515,036 | 10,529,853 | 10,325,243 |
| *Liabilities Delta* | *895,580* | *893,199* | *905,845* | *886,683* | *879,278* | *965,954* | *902,916* | *914,071* | *840,577* | *808,213* | *792,255* |
| Equity Capital Reported | 1,506,599 | 1,480,025 | 1,465,719 | 1,462,639 | 1,421,395 | 1,389,463 | 1,291,071 | 1,306,240 | 1,351,126 | 1,360,843 | 1,347,365 |
| *Equity Benefit / (Decline) resulting from Fair Value* | *355,621* | *223,321* | *24,299* | *-159,246* | *-300,565* | *-259,310* | *-91,410* | *203,075* | *291,286* | *323,477* | *343,634* |
| **Equity Capital pro forma FASB proposal** | **1,862,220** | **1,703,346** | **1,490,018** | **1,303,394** | **1,120,830** | **1,130,154** | **1,199,661** | **1,509,315** | **1,642,411** | **1,684,320** | **1,691,000** |
| *% Increase / (Decrease) in Equity Capital pro forma FASB proposal* | *23.6%* | *15.1%* | *1.7%* | *-10.9%* | *-21.1%* | *-18.7%* | *-7.1%* | *15.5%* | *21.6%* | *23.8%* | *25.5%* |

Source: FDIC, DebtX, BofA ML Global Research Forecasts

## Table 6: More conservative scenario pro forma implementation of FASB standards ($mn)

| Scenario Analysis: More Conservative | 2010Q2 | 2010Q1 | 2009Q4 | 2009Q3 | 2009Q2 | 2009Q1 | 2008Q4 | 2008Q3 | 2008Q2 | 2008Q1 | 2007Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Assets Calculated | 13,122,362 | 13,267,638 | 13,014,635 | 13,153,824 | 13,216,014 | 13,458,363 | 13,757,892 | 13,480,812 | 13,207,003 | 13,278,129 | 12,946,123 |
| Assets Fair Value | 12,582,403 | 12,597,760 | 12,133,088 | 12,107,895 | 12,036,170 | 12,233,100 | 12,763,566 | 12,769,816 | 12,657,712 | 12,793,393 | 12,497,503 |
| *Assets Delta* | *-539,960* | *-669,878* | *-881,546* | *-1,045,929* | *-1,179,843* | *-1,225,263* | *-994,326* | *-710,996* | *-549,292* | *-484,735* | *-448,620* |
| Liabilities Calculated | 11,203,802 | 11,400,527 | 11,166,006 | 11,259,761 | 11,348,634 | 11,541,964 | 11,791,079 | 11,636,733 | 11,355,613 | 11,338,066 | 11,117,497 |
| Liabilities Fair Value | 10,911,329 | 11,110,891 | 10,859,040 | 10,953,890 | 11,015,329 | 11,146,222 | 11,451,564 | 11,255,606 | 11,039,473 | 11,052,205 | 10,836,422 |
| *Liabilities Delta* | *292,473* | *289,636* | *306,966* | *305,871* | *333,305* | *395,742* | *339,516* | *381,127* | *316,140* | *285,861* | *281,076* |
| Equity Capital Reported | 1,506,599 | 1,480,025 | 1,465,719 | 1,462,639 | 1,421,395 | 1,389,463 | 1,291,071 | 1,306,240 | 1,351,126 | 1,360,843 | 1,347,365 |
| *Equity Benefit / (Decline) resulting from Fair Value* | *-247,487* | *-380,241* | *-574,580* | *-740,058* | *-846,538* | *-829,521* | *-654,810* | *-329,869* | *-233,151* | *-198,875* | *-167,544* |
| **Equity Capital pro forma FASB proposal** | **1,259,112** | **1,099,784** | **891,139** | **722,582** | **574,857** | **559,942** | **636,261** | **976,372** | **1,117,974** | **1,161,968** | **1,179,821** |
| *% Increase / (Decrease) in Equity Capital pro forma FASB proposal* | *-16.4%* | *-25.7%* | *-39.2%* | *-50.6%* | *-59.6%* | *-59.7%* | *-50.7%* | *-25.3%* | *-17.3%* | *-14.6%* | *-12.4%* |

Source: FDIC, DebtX, BofA ML Global Research Forecasts

## Table 7: Less conservative scenario pro forma implementation of FASB standards ($mn)

| Scenario Analysis: Less Conservative | 2010Q2 | 2010Q1 | 2009Q4 | 2009Q3 | 2009Q2 | 2009Q1 | 2008Q4 | 2008Q3 | 2008Q2 | 2008Q1 | 2007Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Assets Calculated | 13,122,362 | 13,267,638 | 13,014,635 | 13,153,824 | 13,216,014 | 13,458,363 | 13,757,892 | 13,480,812 | 13,207,003 | 13,278,129 | 12,946,123 |
| Assets Fair Value | 12,582,403 | 12,597,760 | 12,133,088 | 12,107,895 | 12,036,170 | 12,233,100 | 12,763,566 | 12,769,816 | 12,657,712 | 12,793,393 | 12,497,503 |
| *Assets Delta* | *-539,960* | *-669,878* | *-881,546* | *-1,045,929* | *-1,179,843* | *-1,225,263* | *-994,326* | *-710,996* | *-549,292* | *-484,735* | *-448,620* |
| Liabilities Calculated | 11,203,802 | 11,400,527 | 11,166,006 | 11,259,761 | 11,348,634 | 11,541,964 | 11,791,079 | 11,636,733 | 11,355,613 | 11,338,066 | 11,117,497 |
| Liabilities Fair Value | 9,511,323 | 9,709,829 | 9,468,849 | 9,605,639 | 9,747,951 | 9,822,578 | 10,143,732 | 10,018,473 | 9,822,087 | 9,839,659 | 9,649,811 |
| *Liabilities Delta* | *1,692,479* | *1,690,698* | *1,697,157* | *1,654,122* | *1,600,683* | *1,719,386* | *1,647,347* | *1,618,260* | *1,533,526* | *1,498,407* | *1,467,686* |
| Equity Capital Reported | 1,506,599 | 1,480,025 | 1,465,719 | 1,462,639 | 1,421,395 | 1,389,463 | 1,291,071 | 1,306,240 | 1,351,126 | 1,360,843 | 1,347,365 |
| *Equity Benefit / (Decline) resulting from Fair Value* | *1,152,519* | *1,020,820* | *815,610* | *608,193* | *420,839* | *494,123* | *653,022* | *907,264* | *984,235* | *1,013,671* | *1,019,066* |
| **Equity Capital pro forma FASB proposal** | **2,659,118** | **2,500,845** | **2,281,330** | **2,070,833** | **1,842,235** | **1,883,586** | **1,944,093** | **2,213,505** | **2,335,361** | **2,374,514** | **2,366,431** |
| *% Increase / (Decrease) in Equity Capital pro forma FASB proposal* | *76.5%* | *69.0%* | *55.6%* | *41.6%* | *29.6%* | *35.6%* | *50.6%* | *69.5%* | *72.8%* | *74.5%* | *75.6%* |

Source: FDIC, DebtX, BofA ML Global Research Forecasts

## Loan Pricing would likely be forced higher, effectively curtailing credit

FASB proposal may force banks to increase loan pricing to compensate for higher asset volatility under FASB…

Recently enacted US financial reforms, along with pending more-stringent capital requirements proposed by the Bank for International Settlements, are designed to improve bank balance sheets and business practices, and are an inevitable and largely appropriate outcome given the mistakes leading to the crisis. However, I am concerned that, by injecting considerably more volatility to bank asset levels, FASB's proposals could force banks to compensate for greater asset volatility by materially raising loan pricing, which would effectively, and negatively, impact the availability of credit.

Assuming banks will fully price in the potential impact of future balance sheet marks/asset volatility, I attempt to quantify how much loan pricing may increase for consumers assuming FASB standards are implemented as written. The analysis reflects the following assumptions for potential re-pricing of loans:

- 54% of banking industry assets are comprised of loans (an actual figure, based on 2Q10 FDIC industry data)
- 54% of equity capital is used to support bank lending
- Banks target an ROE of ~10% for their lending businesses
- Banks will re-price loans to fully offset potential equity volatility/capital shortfall resulting from implementation of FASB standards

Analysis demonstrates loan pricing may increase more than one-third (+37%) as banks will retain additional capital to help mitigate asset volatility

Applying these assumptions to the banking industry, I developed a scenario analysis to quantify the potential re-pricing of bank loans under the FASB FV proposal. As reflected in Table 8 below, I applied the ROE and capital assumptions listed above to 2Q10 FDIC reported balance sheet data, quantifying loan spreads/pricing under both current accounting standards as well as pro forma FASB impacts. Under current accounting standards, banks would require ~389bps of loan spread, I estimate, to generate a 10% ROE for their lending businesses; this appears in-line with published Net Interest Margin reported by large banks. However, pro forma FASB impacts, I expect banks will require additional equity capital to help mitigate asset volatility levels, with the cost reflected in higher loan pricing.

"True cost" of new accounting directives to be borne by consumers

For this analysis I applied the "base case" deposit valuation approach, assuming banks will fully price in the potential risk of capital shortfall, which I forecast at -$301bn during the peak of the crisis (2Q09). The data suggests that pro forma FASB impacts, in order to maintain an ROE of 10%, while retaining additional capital to help mitigate asset volatility, loan spreads would need to increase by more than one-third (+37%) to 533bps, vs. 389bps currently. This analysis supports my view of *structurally* higher loan pricing to compensate the banking industry for future capital volatility resulting from the application of fair value marks; of course the indication is that much of the true cost of complying with the new accounting directives would be borne by borrowers, and by the economy as a whole, as a result of the increase in cost/ decrease in availability of credit.

## Table 8: Scenario Analysis, potential re-pricing of bank loans ($mn and %)

| Scenario Analysis: Bank Loan Re-pricing | 2010Q2 | 2010Q1 | 2009Q4 | 2009Q3 | 2009Q2 | 2009Q1 | 2008Q4 | 2008Q3 | 2008Q2 | 2008Q1 | 2007Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Reported Industry Assets | 13,220,551 | 13,356,625 | 13,107,980 | 13,246,478 | 13,300,015 | 13,538,166 | 13,841,154 | 13,572,527 | 13,300,424 | 13,369,323 | 13,033,935 |
| Bank Loans | 7,144,055 | 7,239,742 | 7,053,820 | 7,194,472 | 7,414,110 | 7,539,551 | 7,699,613 | 7,833,295 | 7,851,491 | 7,846,642 | 7,803,769 |
| Equity Capital Reported | 1,506,599 | 1,480,025 | 1,465,719 | 1,462,639 | 1,421,395 | 1,389,463 | 1,291,071 | 1,306,240 | 1,351,126 | 1,360,843 | 1,347,365 |
| ***Equity Benefit / (Decline) resulting from Fair Value*** | ***355,621*** | ***223,321*** | ***24,299*** | ***-159,246*** | ***-300,565*** | ***-259,310*** | ***-91,410*** | ***203,075*** | ***291,286*** | ***323,477*** | ***343,634*** |
| Equity Capital pro forma FASB proposal | 1,862,220 | 1,703,346 | 1,490,018 | 1,303,394 | 1,120,830 | 1,130,154 | 1,199,661 | 1,509,315 | 1,642,411 | 1,684,320 | 1,691,000 |
| *% Increase / (Decrease) in Equity Capital pro forma FASB proposal* | *23.6%* | *15.1%* | *1.7%* | *-10.9%* | *-21.1%* | *-18.7%* | *-7.1%* | *15.5%* | *21.6%* | *23.8%* | *25.5%* |

| Scenario Analysis: Bank Loan Re-pricing | 2010Q2 |
|---|---|
| ***FDIC reported figures and Bank Lending Assumptions:*** | |
| Total Reported Industry Assets ($mn) | 13,220,551 |
| Bank Loans Reported ($mn) | 7,144,055 |
| *Loans as % of Total Assets (%)* | *54.0%* |
| Equity Reported ($mn) | 1,506,599 |
| *Equity Capital allocated to Bank Lending (%)* | *54.0%* |
| Capital Allocated to Bank Lending ($mn) | 813,563 |
| | |
| ***Current Accounting standards:*** | |
| Weighted Average Loan Spread (bps) | 389 |
| Weighted Average Life of Loan Portfolio (yr) | 5 |
| Cumulative Net Revenues from Bank Lending $mn) | 1,390,697 |
| Annual Net Revenues from Bank Lending ($mn) | 278,139 |
| EBIT ($mn, assume 55% Expense Ratio) | 125,163 |
| Net Income ($mn, assume Tax Rate 35%) | 81,356 |
| *Return on Equity (%)* | *10.0%* |
| | |
| ***Pro Forma implementation FASB FV standards:*** | |
| Capital Allocated to Bank Lending ($mn) | 813,563 |
| *Equity Benefit / (Decline) resulting from Fair Value ($mn)* | -300,565 |
| Equity Capital required to help mitigate asset volatility ($mn) | 1,114,129 |
| | |
| *ROE Target (%)* | *10.0%* |
| Net Income required to achieve 10% ROE target ($mn) | 111,413 |
| Annual Net Revenue required to achieve 10% ROE target ($mn) | 380,899 |
| *Loan Spread required to achieve 10% ROE target (%)* | *5.33%* |
| | |
| *Weighted Average Loan Spread pro forma FASB ED (bps)* | *533* |
| *Weighted Average Loan Spread under Current Standards (bps)* | *389* |
| | |
| **Estimated increase in Loan Spread to compensate for asset volatility (%)** | **+37%** |

Source: FDIC, DebtX, BofA/ML Global Research

## Marking Core Deposits: Journey into "Fantasy land" for Bank financials?

As noted above, as part of the Exposure Draft, FASB has proposed that the "carrying value" for banks' core deposits (i.e., demand deposits and others which are considered a bank's most stable deposits) be determined using a "remeasurement" method which is the present value of the average (during the period) core deposit amount discounted by the difference between the alternative funds rate and the all-in-cost-to-service rate over the implied maturity.

Core deposit marking allows rate sensitivity in loans/securities to be counterbalanced with rate sensitivity of deposits

It's worth noting that the main reason for requiring that deposits be measured in a way other than simply recording the amounts due to depositors is, as noted in a report on the FASB Exposure Draft produced by Ernst & Young (Technical Line No. 2010-7, 7 July 2010), to "provide a link between the accounting for loans…and the accounting for core deposits. Because loans will now be measured at fair value, the interest rate risk inherent in the loans now will be recognized in the financial statements. Some of the interest rate sensitivity in the loans is counterbalanced by the interest rate sensitivity of the deposit base".

Core Deposits will likely be marked at levels lower than amounts owed to customers, helping mitigate impact of potential asset markdowns

The use of the present value based on the difference between the bank's cost to acquire and manage the deposits, on the one hand, and the cost of securing the funding in an alternative manner, on the other, is designed, apparently, to provide the bank with credit for the fact that its franchise allows it to capture deposits in a way which is more cost-effective than alternative funding sources. In most cases therefore the liability associated with the core deposit base will be recorded at an amount lower than the amount actually due to customers, though I can envision a situation where, if a bank's deposit –gathering costs rise significantly, or if it is inefficient, the opposite could be true. But that will not be the norm.

Marking of Core Deposits is strictly a theoretical exercise, and will ultimately detract from credibility of Financial Statements

In theory, I understand the argument for marking core deposits as they are a key source of funding with implied maturity, and failure to give credit to the longevity of core deposits and the bank's cost advantages in sourcing deposits relative to market funding will result in "asymmetric" balance sheet treatment, in light of the desire to mark assets at fair value. This said, I believe that marking core deposits is strictly a theoretical exercise, and will not resonate with financial statement users, as banks will still be fully obligated to return deposits to account holders regardless of implied marks from movement in yields/rates/spreads. This is in contrast to asset marks since assets truly may end up being worth less.

It is therefore my view that financial statements will lose credibility in the eyes of investors, analysts, and other industry participants if core deposits were to receive such treatment under the remeasurement approach, since it would not be a true representation of the bank's liability to its depositors.

FV marks on core deposits will likely be viewed as "economically irrelevant" by investors, as with other FV liability adjustments (i.e. "DVA")

In a sense, the remeasurement would be somewhat similar to the "Debt Value Adjustments", or DVA, that banks have taken on certain liabilities (generally, those related to structured notes) since FAS 157 and 159 were implemented in 2007. This has resulted in gains (when the bank's credit spreads have widened) and losses (when the credit spreads have tightened) that have helped offset losses on marked-to-market securities positions, which were sometimes very large as credit conditions deteriorated, particularly in mortgage products. I would point out, however, that in practice, investors have tended to ignore the liability adjustments even as they have paid considerable attention to "mark-to-market" losses on assets, as the asset impacts are viewed as economically relevant, while the adjustments in the value of banks' borrowings are viewed as economically irrelevant unless the institution can actually repurchase its debt at a discount, which has occurred in only a limited fashion. Given the nature of deposits, even this type of event cannot be held out as a reasonable possibility.

**Conclusion:** While I support FASB's pursuit of improved and consistent financial reporting, the application of FASB FV standards as written would have adverse effects on the economy as a whole, as well as on the banking industry.

# Appendix: FV of FDIC Industry B/S

This section provides a breakdown of fair value marks across individual asset and liability categories as reflected in the FDIC Industry Balance Sheet. Fair Value marks were derived from numerous sources (each source listed in Table 9 below), and reflect my best estimates for determining the impact of assets/liabilities FV marks on bank equity/capital levels.

Apply FV marks across each individual FDIC B/S category; Sources for loan marks listed in Table 9 below

The list of the sources used to derive the FV historical marks largely consists of DebtX prices for bank whole loans, as well as indicative marks for securities/bank debt derived from the BofA/ML "Lighthouse" pricing database. Those line items for which there are no FV marks reflect either assets not requiring such treatment under FASB standards (bank premises, intangibles) as well as other securities/liabilities for which would expect little to no impact from applying FV treatment given their short duration (cash, repo, non-core deposits).

**Table 9: Sources for Asset/Liability Marks**

| FDIC Bank Balance Sheet Categories (Assets) | Source for Loan / Securities Marks | as % of Reported B/S Assets |
|---|---|---|
| **Loans secured by real estate** | | |
| 1-4 Family residential mortgages | Debt X (Residential RE) | 14.2% |
| Multifamily residential real estate | Debt X (Multifamily RE) | 1.6% |
| Nonfarm nonresidential | Debt X (Commercial RE) | 8.2% |
| Construction and development | Debt X (Construction) | 2.9% |
| Home equity lines | Debt X (HELOC) | 5.0% |
| Farmland | Debt X (Residential RE) | 0.5% |
| Real estate loans in foreign offices | CMBS Eurozone AAA Spreads | 0.5% |
| Commercial & industrial loans | Debt X (C&I) | 8.9% |
| **Loans to individuals** | | |
| Credit cards | Debt X (Credit Cards) | 5.3% |
| Other loans to individuals | Debt X (Other Consumer) | 4.5% |
| **Other Loans and Leases** | | |
| Farm loans | Debt X (Residential RE) | 0.4% |
| Loans to depository institutions | 12M LIBOR Spreads | 0.6% |
| Loans to foreign governments & official institutions | JPM EMBI Index (Global Spreads) | 0.0% |
| Obligations of states & political subdivisions in the U.S. | BofA/ML Lighthouse Database (Muni Spreads) | 0.4% |
| Other loans | Debt X (C&I) | 1.7% |
| Lease financing receivables | Unmarked | 0.8% |
| **Securities** | | |
| Available for sale | Already Fair Value | 17.5% |
| Held to maturity (Blended Mark, Agency/UST/Muni; 70%/ 15%/ 15%) | BofA/ML Lighthouse Database | 1.6% |
| Cash and due from depository institutions | None | 8.2% |
| Federal funds sold and reverse repurchase agreements | None (reflecting shorter term/duration) | 3.2% |
| Bank premises and fixed assets | None | 0.9% |
| Other real estate owned | Lower of Fair Value or Cost | 0.4% |
| Trading account assets | Already Fair Value | 5.1% |
| Intangible assets | None | 3.1% |
| Other Assets | None | 5.7% |
| **FDIC Bank Balance Sheet Categories (Liabilities and Equity)** | **Source for Deposit/Bank Debt Marks** | **as % of Reported B/S Assets** |
| Core Deposits | Scenario Analysis (varying inputs) | 50.8% |
| Non-core Deposits | None (reflecting shorter term/duration) | 18.3% |
| Federal funds purchased & repurchase agreements | None (reflecting shorter term/duration) | 4.5% |
| FHLB advances | None | 3.4% |
| Bank Debt | BofA/ML Lighthouse Database | 4.4% |
| Subordinated Debt | BofA/ML Lighthouse Database | 1.1% |
| Trading Account Liabilities | Already Fair Value | 2.1% |
| **Total Equity Capital** | Assets Minus Liabilities | 11.4% |

Source: DebtX, FDIC, BofA/ML Global Research

FV marks applied over 4Q07 – 2Q10 cycle, help measure degree of equity/capital declines arising from FASB FV proposal

Table 10 below reflects the FDIC Industry balance sheet as reported. Each line item reflects the individual categories for both assets and liabilities. For this analysis, FV marks were applied beginning in 4Q07 (pre-crisis) through 2Q10, in order to measure the impact of significant asset volatility over the most recent cycle on bank equity/capital levels.

Tables 15-17 provide summary of impacts from FV marks on bank equity/capital levels under the 3 deposit valuation approaches

Tables 11-14 reflect mark-to-market levels for each individual asset/liability category, derived from reported levels and calculated implied FV marks (i.e. [Reported * (Implied Mark / 100) = mark-to-market estimate). Tables 15-17 provide a summary of the results under three core deposit valuation approaches. As discussed earlier in this letter, the results reflect severe equity declines/volatility over the cycle, with a -21% decline in equity levels under the base case, and a -60% decline under the more conservative deposit valuation approach.

*Note: For the analysis, the FDIC Balance Sheet reported Asset and Liability totals for the aggregate industry cannot be perfectly reconciled with the sum of individual line items, as a few B/S categories fail to capture some data items reported by Thrifts within TFR reports (items highlighted in Table 10). That said, the resulting difference between the level of Total Assets and the sum of the individual asset categories as reported is de minimis and would not meaningfully impact this analysis. In addition, the fair value marks are applied against the sum of the individual B/S categories only, for both assets and liabilities, rather than reported totals, to ensure consistent FV treatment for both sides of the FDIC Balance Sheet.*

## Table 10: Assets and Liabilities of FDIC-Insured Commercial Banks and Savings Institutions ($mn)

| | 2010Q2 | 2010Q1 | 2009Q4 | 2009Q3 | 2009Q2 | 2009Q1 | 2008Q4 | 2008Q3 | 2008Q2 | 2008Q1 | 2007Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total Assets** | **13,220,551** | **13,356,625** | **13,107,980** | **13,246,478** | **13,300,015** | **13,538,166** | **13,841,154** | **13,572,527** | **13,300,424** | **13,369,323** | **13,033,935** |
| **Loans secured by real estate** | **4,336,825** | **4,400,501** | **4,462,931** | **4,527,185** | **4,651,629** | **4,701,123** | **4,705,271** | **4,750,343** | **4,795,336** | **4,805,783** | **4,781,778** |
| 1-4 Family residential mortgages | 1,874,335 | 1,887,370 | 1,916,253 | 1,928,222 | 2,012,536 | 2,045,744 | 2,045,171 | 2,102,655 | 2,154,781 | 2,215,826 | 2,241,451 |
| Nonfarm nonresidential | 1,081,004 | 1,090,417 | 1,091,308 | 1,090,088 | 1,086,495 | 1,077,150 | 1,066,238 | 1,043,670 | 1,019,460 | 990,532 | 968,668 |
| Construction and development | 383,313 | 417,972 | 451,080 | 493,028 | 535,726 | 566,680 | 590,940 | 614,684 | 626,504 | 631,802 | 629,494 |
| Home equity lines | 654,450 | 659,603 | 661,429 | 667,473 | 672,906 | 674,238 | 668,286 | 652,106 | 646,923 | 624,920 | 611,407 |
| Multifamily residential real estate | 214,703 | 214,919 | 212,618 | 216,278 | 213,311 | 210,429 | 206,526 | 205,896 | 211,599 | 208,321 | 202,817 |
| Farmland | 67,584 | 66,645 | 66,701 | 66,512 | 65,521 | 64,545 | 63,700 | 62,323 | 61,062 | 58,628 | 57,410 |
| Real estate loans in foreign offices | 61,435 | 63,576 | 63,542 | 65,584 | 65,135 | 62,338 | 64,411 | 69,008 | 75,006 | 75,754 | 70,532 |
| **Commercial & industrial loans** | **1,174,939** | **1,187,609** | **1,220,672** | **1,275,178** | **1,364,714** | **1,432,211** | **1,493,959** | **1,502,724** | **1,489,817** | **1,480,807** | **1,439,127** |
| **Loans to individuals** | **1,359,543** | **1,380,686** | **1,060,226** | **1,040,197** | **1,037,135** | **1,046,281** | **1,088,888** | **1,082,714** | **1,069,392** | **1,048,085** | **1,058,458** |
| Credit cards | 699,404 | 716,995 | 422,092 | 392,971 | 398,233 | 403,071 | 444,692 | 411,627 | 396,041 | 386,849 | 421,818 |
| Other loans to individuals | 601,475 | 604,599 | 576,642 | 584,202 | 581,861 | 584,511 | 582,629 | 602,199 | 605,272 | 595,436 | 573,357 |
| **Farm loans** | **58,270** | **55,598** | **59,581** | **60,020** | **58,352** | **56,137** | **59,801** | **59,501** | **58,426** | **53,954** | **56,786** |
| **Loans to depository institutions** | **76,436** | **89,840** | **111,882** | **133,052** | **123,923** | **108,867** | **111,871** | **135,666** | **148,925** | **143,154** | **136,366** |
| **Loans to foreign governments & official institutions** | **2,210** | **2,368** | **3,147** | **2,735** | **2,289** | **1,599** | **2,423** | **1,952** | **3,332** | **1,842** | **1,673** |
| **Obligations of states & political subdivisions in the U.S.** | **59,235** | **59,782** | **62,095** | **61,164** | **57,690** | **56,921** | **55,888** | **54,598** | **49,976** | **47,880** | **45,204** |
| **Other loans** | **225,857** | **222,214** | **195,744** | **206,285** | **216,559** | **216,563** | **236,862** | **277,727** | **252,426** | **258,889** | **258,136** |
| **Lease financing receivables** | **104,527** | **106,435** | **109,318** | **111,305** | **115,320** | **116,031** | **120,816** | **126,931** | **130,375** | **129,400** | **130,796** |
| Gross total loans and leases | 7,398,139 | 7,505,327 | 7,285,934 | 7,417,609 | 7,628,160 | 7,736,353 | 7,876,382 | 7,992,543 | 7,998,526 | 7,970,332 | 7,908,805 |
| **Less: Unearned income** | **2,794** | **2,710** | **3,765** | **2,613** | **2,903** | **2,481** | **2,878** | **2,792** | **2,515** | **2,455** | **2,309** |
| Total loans and leases | 7,395,345 | 7,502,616 | 7,282,168 | 7,414,996 | 7,625,258 | 7,733,872 | 7,873,505 | 7,989,751 | 7,996,011 | 7,967,877 | 7,906,496 |
| **Less: Reserve for losses** | **251,290** | **262,875** | **228,348** | **220,523** | **211,147** | **194,321** | **173,892** | **156,456** | **144,520** | **121,236** | **102,727** |
| Net loans and leases | 7,144,055 | 7,239,742 | 7,053,820 | 7,194,472 | 7,414,110 | 7,539,551 | 7,699,613 | 7,833,295 | 7,851,491 | 7,846,642 | 7,803,769 |
| **Securities** | **2,527,735** | **2,531,562** | **2,500,459** | **2,396,676** | **2,336,957** | **2,206,200** | **2,035,272** | **2,024,859** | **2,017,365** | **1,953,045** | **1,954,146** |
| Available for sale (fair value) | 2,312,902 | 2,304,892 | 2,266,049 | 2,134,099 | 2,070,817 | 1,949,923 | 1,805,287 | 1,781,241 | 1,846,223 | 1,794,691 | 1,777,292 |
| Held to maturity (amortized cost) | 214,833 | 226,670 | 234,410 | 262,577 | 266,139 | 256,276 | 229,985 | 243,619 | 171,142 | 158,353 | 176,854 |
| **Cash and due from depository institutions** | **1,078,198** | **1,104,109** | **1,049,152** | **1,036,900** | **936,360** | **1,050,864** | **1,104,808** | **738,576** | **561,849** | **554,410** | **524,161** |
| **Federal funds sold and reverse repurchase agreements** | **429,085** | **418,040** | **413,750** | **492,937** | **545,411** | **631,280** | **722,828** | **748,091** | **727,004** | **752,290** | **691,705** |
| **Bank premises and fixed assets** | **119,442** | **120,458** | **121,130** | **121,664** | **123,049** | **122,521** | **122,028** | **119,726** | **121,862** | **121,063** | **120,084** |
| **Other real estate owned** | **49,285** | **46,263** | **41,226** | **37,141** | **33,928** | **29,689** | **26,672** | **22,459** | **18,900** | **15,648** | **12,127** |
| **Trading account assets** | **678,912** | **691,392** | **711,919** | **785,080** | **729,037** | **803,831** | **946,729** | **905,611** | **893,382** | **1,011,265** | **876,076** |
| **Intangible assets** | **409,757** | **424,849** | **428,338** | **424,684** | **431,395** | **415,133** | **421,607** | **484,148** | **481,433** | **469,181** | **461,743** |
| **Other Assets** | **753,855** | **750,608** | **756,672** | **727,782** | **723,358** | **718,615** | **740,505** | **673,320** | **602,318** | **620,922** | **566,078** |
| **Total liabilities and capital** | **13,220,551** | **13,356,625** | **13,107,980** | **13,246,478** | **13,300,015** | **13,538,166** | **13,841,154** | **13,572,527** | **13,300,424** | **13,369,323** | **13,033,935** |
| **Deposits** | **9,140,980** | **9,198,191** | **9,226,795** | **9,101,060** | **9,021,146** | **8,953,914** | **9,035,718** | **8,727,756** | **8,572,676** | **8,565,753** | **8,415,367** |
| Foreign office deposits | 1,473,285 | 1,506,444 | 1,529,974 | 1,547,805 | 1,465,932 | 1,414,921 | 1,539,300 | 1,505,522 | 1,543,532 | 1,496,782 | 1,502,575 |
| Domestic office deposits | 7,667,695 | 7,691,747 | 7,696,820 | 7,553,255 | 7,555,215 | 7,538,993 | 7,496,418 | 7,222,234 | 7,029,143 | 7,068,971 | 6,912,791 |
| **Federal funds purchased & repurchase agreements** | **597,054** | **625,318** | **604,648** | **788,791** | **811,789** | **849,999** | **881,586** | **935,868** | **891,451** | **877,567** | **834,853** |
| **FHLB advances** | **445,400** | **480,333** | **533,211** | **575,700** | **634,642** | **703,715** | **796,379** | **911,487** | **840,543** | **841,585** | **808,944** |
| **Other borrowed money** | **586,405** | **683,372** | **390,904** | **341,333** | **448,250** | **504,781** | **421,837** | **527,963** | **508,413** | **461,631** | **530,215** |
| **Subordinated debt** | **150,986** | **150,540** | **156,989** | **161,256** | **168,125** | **170,929** | **185,464** | **176,833** | **185,078** | **185,580** | **185,393** |
| **Trading account liabilities** | **282,977** | **262,773** | **253,459** | **291,622** | **264,681** | **358,625** | **470,095** | **356,827** | **357,454** | **405,950** | **342,726** |
| **Total liabilities** | **11,713,952** | **11,876,600** | **11,642,260** | **11,783,839** | **11,878,620** | **12,148,703** | **12,550,083** | **12,266,286** | **11,949,298** | **12,008,480** | **11,686,569** |
| **Total equity capital** | **1,506,599** | **1,480,025** | **1,465,719** | **1,462,639** | **1,421,395** | **1,389,463** | **1,291,071** | **1,306,240** | **1,351,126** | **1,360,843** | **1,347,365** |

Source: FDIC (reported items as of 1Q10, updated for 2Q10)

Note: Items highlighted in gray do not include data for insured savings institutions that file Thrift Financial Reports, thereby creating minor discrepancies in reconciling individual balance sheet items to reported totals

## Table 11: Fair Value of Loans Secured by Real Estate ($mn and %)

| | 2010Q2 | 2010Q1 | 2009Q4 | 2009Q3 | 2009Q2 | 2009Q1 | 2008Q4 | 2008Q3 | 2008Q2 | 2008Q1 | 2007Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Loans secured by real estate (reported)** | **4,336,825** | **4,400,501** | **4,462,931** | **4,527,185** | **4,651,629** | **4,701,123** | **4,705,271** | **4,750,343** | **4,795,336** | **4,805,783** | **4,781,778** |
| **1-4 Family residential mortgages (reported)** | **1,874,335** | **1,887,370** | **1,916,253** | **1,928,222** | **2,012,536** | **2,045,744** | **2,045,171** | **2,102,655** | **2,154,781** | **2,215,826** | **2,241,451** |
| **1-4 Family residential mortgages (mark-to-market)** | **1,673,781** | **1,645,787** | **1,657,559** | **1,633,204** | **1,702,605** | **1,734,791** | **1,689,311** | **1,797,770** | **1,844,493** | **1,916,689** | **2,001,616** |
| **Weighted average fair value mark** | **89.3** | **87.2** | **86.5** | **84.7** | **84.6** | **84.8** | **82.6** | **85.5** | **85.6** | **86.5** | **89.3** |
| *Sequential Price Change (%)* | *2.4%* | *0.8%* | *2.1%* | *0.1%* | *-0.2%* | *2.7%* | *-3.4%* | *-0.1%* | *-1.0%* | *-3.1%* | |
| **Multifamily residential real estate (reported)** | **214,703** | **214,919** | **212,618** | **216,278** | **213,311** | **210,429** | **206,526** | **205,896** | **211,599** | **208,321** | **202,817** |
| **Multifamily residential real estate (mark-to-market)** | **199,030** | **196,651** | **195,183** | **180,160** | **178,541** | **175,498** | **176,993** | **179,335** | **205,674** | **200,405** | **201,600** |
| **Weighted average fair value mark** | **92.7** | **91.5** | **91.8** | **83.3** | **83.7** | **83.4** | **85.7** | **87.1** | **97.2** | **96.2** | **99.4** |
| *Sequential Price Change (%)* | *1.3%* | *-0.3%* | *10.2%* | *-0.5%* | *0.4%* | *-2.7%* | *-1.6%* | *-10.4%* | *1.0%* | *-3.2%* | |
| **Nonfarm nonresidential (reported)** | **1,081,004** | **1,090,417** | **1,091,308** | **1,090,088** | **1,086,495** | **1,077,150** | **1,066,238** | **1,043,670** | **1,019,460** | **990,532** | **968,668** |
| **Nonfarm nonresidential (mark-to-market)** | **978,309** | **980,285** | **924,338** | **887,332** | **913,742** | **929,580** | **923,362** | **937,216** | **983,779** | **981,617** | **950,263** |
| **Weighted average fair value mark** | **90.5** | **89.9** | **84.7** | **81.4** | **84.1** | **86.3** | **86.6** | **89.8** | **96.5** | **99.1** | **98.1** |
| *Sequential Price Change (%)* | *0.7%* | *6.1%* | *4.1%* | *-3.2%* | *-2.5%* | *-0.3%* | *-3.6%* | *-6.9%* | *-2.6%* | *1.0%* | |
| **Construction and development (reported)** | **383,313** | **417,972** | **451,080** | **493,028** | **535,726** | **566,680** | **590,940** | **614,684** | **626,504** | **631,802** | **629,494** |
| **Construction and development (mark-to-market)** | **242,637** | **252,455** | **262,077** | **316,031** | **275,899** | **295,807** | **520,027** | **540,922** | **551,324** | **555,985** | **385,250** |
| **Weighted average fair value mark** | **63.3** | **60.4** | **58.1** | **64.1** | **51.5** | **52.2** | **52.0** | **54.4** | **59.1** | **61.2** | **61.2** |
| *Sequential Price Change (%)* | *4.8%* | *4.0%* | *-9.4%* | *24.5%* | *-1.3%* | *0.4%* | *-4.4%* | *-8.0%* | *-3.4%* | *0.0%* | |
| **Home equity lines (reported)** | **645,450** | **659,603** | **661,429** | **667,473** | **672,906** | **674,238** | **668,286** | **652,106** | **646,923** | **624,920** | **611,407** |
| **Home equity lines (mark-to-market)** | **440,197** | **415,550** | **396,196** | **368,445** | **319,630** | **300,036** | **422,357** | **504,730** | **486,486** | **496,187** | **625,516** |
| **Weighted average fair value mark** | **68.2** | **63.0** | **59.9** | **55.2** | **47.5** | **44.5** | **63.2** | **77.4** | **75.2** | **79.4** | **93.6** |
| *Sequential Price Change (%)* | *8.3%* | *5.2%* | *8.5%* | *16.2%* | *6.7%* | *-29.6%* | *-18.3%* | *2.9%* | *-5.3%* | *-15.2%* | |
| **Farmland (reported)** | **67,584** | **66,645** | **66,701** | **66,512** | **65,521** | **64,545** | **63,700** | **62,323** | **61,062** | **58,628** | **57,410** |
| **Farmland (mark-to-market)** | **60,353** | **58,115** | **57,696** | **56,336** | **55,431** | **54,734** | **52,616** | **53,286** | **52,269** | **50,714** | **51,267** |
| **Weighted average fair value mark** | **89.3** | **87.2** | **86.5** | **84.7** | **84.6** | **84.8** | **82.6** | **85.5** | **85.6** | **86.5** | **89.3** |
| *Sequential Price Change (%)* | *2.4%* | *0.8%* | *2.1%* | *0.1%* | *-0.2%* | *2.7%* | *-3.4%* | *-0.1%* | *-1.0%* | *-3.1%* | |
| **Real estate loans in foreign offices (reported)** | **61,435** | **63,576** | **63,542** | **65,584** | **65,135** | **62,338** | **64,411** | **69,008** | **75,006** | **75,754** | **70,532** |
| **Real estate loans in foreign offices (mark-to-market)** | **58,250** | **60,552** | **59,803** | **61,724** | **61,027** | **58,406** | **60,409** | **66,964** | **73,557** | **74,439** | **69,972** |
| **Fair value mark** | **94.8** | **95.2** | **94.1** | **94.1** | **93.7** | **93.7** | **93.8** | **97.0** | **98.1** | **98.3** | **99.2** |
| *Sequential Price Change (%)* | ***-0.5%*** | ***1.2%*** | ***0.0%*** | ***0.5%*** | ***0.0%*** | ***-0.1%*** | ***-3.4%*** | ***-1.1%*** | ***-0.2%*** | ***-1.0%*** | |
| CMBS AAA Eurozone Spreads (bps) | 525 | 480 | 600 | 600 | 645 | 645 | 635 | 300 | 195 | 175 | 80 |

Source: DebtX, FDIC, BofA/ML Global Research forecasts

## Table 12: Fair Value of Consumer, C&I, and Other Loans and Leases ($mn and %)

| | 2010Q2 | 2010Q1 | 2009Q4 | 2009Q3 | 2009Q2 | 2009Q1 | 2008Q4 | 2008Q3 | 2008Q2 | 2008Q1 | 2007Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Commercial & industrial loans (reported) | 1,174,939 | 1,187,609 | 1,220,672 | 1,275,178 | 1,364,714 | 1,432,211 | 1,493,959 | 1,502,724 | 1,489,817 | 1,480,807 | 1,439,127 |
| Commercial & industrial loans (mark-to-market) | 1,107,967 | 1,111,602 | 1,104,708 | 1,131,083 | 1,237,795 | 1,311,905 | 1,368,466 | 1,409,556 | 1,448,102 | 1,460,076 | 1,413,222 |
| Weighted average fair value mark | 94.3 | 93.6 | 90.5 | 88.7 | 90.7 | 91.6 | 91.6 | 93.8 | 97.2 | 98.6 | 98.2 |
| *Sequential Price Change (%)* | *0.7%* | *3.4%* | *2.0%* | *-2.2%* | *-1.0%* | *0.0%* | *-2.3%* | *-3.5%* | *-1.4%* | *0.4%* | |
| Loans to individuals (reported) | 1,359,543 | 1,380,686 | 1,060,226 | 1,040,197 | 1,037,135 | 1,046,281 | 1,088,888 | 1,082,714 | 1,069,392 | 1,048,085 | 1,058,458 |
| Credit cards (reported) | 699,404 | 716,995 | 422,092 | 392,971 | 398,233 | 403,071 | 444,692 | 411,627 | 396,041 | 386,849 | 421,818 |
| Credit Cards (mark-to-market) | 684,717 | 698,353 | 408,585 | 377,645 | 373,542 | 347,850 | 373,096 | 391,457 | 387,724 | 372,923 | 418,865 |
| Weighted average fair value mark | 97.9 | 97.4 | 96.8 | 96.1 | 93.8 | 86.3 | 83.9 | 95.1 | 97.9 | 96.4 | 99.3 |
| *Sequential Price Change (%)* | *0.5%* | *0.6%* | *0.7%* | *2.5%* | *8.7%* | *2.9%* | *-11.8%* | *-2.9%* | *1.6%* | *-2.9%* | |
| Other loans to individuals (reported) | 601,475 | 604,599 | 576,642 | 584,202 | 581,861 | 584,511 | 582,629 | 602,199 | 605,272 | 595,436 | 573,357 |
| Other Loans to Individuals (mark-to-market) | 570,800 | 568,323 | 521,285 | 521,693 | 505,637 | 506,186 | 489,991 | 538,968 | 573,798 | 561,497 | 557,303 |
| Weighted average fair value mark | 94.9 | 94.0 | 90.4 | 89.3 | 86.9 | 86.6 | 84.1 | 89.5 | 94.8 | 94.3 | 97.2 |
| *Sequential Price Change (%)* | *1.0%* | *4.0%* | *1.2%* | *2.8%* | *0.3%* | *3.0%* | *-6.0%* | *-5.6%* | *0.5%* | *-3.0%* | |
| Farm loans (reported) | 58,270 | 55,598 | 59,581 | 60,020 | 58,352 | 56,137 | 59,801 | 59,501 | 58,426 | 53,954 | 56,786 |
| 1-4 Family residential mortgages (mark-to-market) | 52,035 | 48,482 | 51,537 | 50,837 | 49,366 | 47,604 | 49,396 | 50,873 | 50,012 | 46,671 | 50,710 |
| Weighted average fair value mark | 89.3 | 87.2 | 86.5 | 84.7 | 84.6 | 84.8 | 82.6 | 85.5 | 85.6 | 86.5 | 89.3 |
| *Sequential Price Change (%)* | *2.4%* | *0.8%* | *2.1%* | *0.1%* | *-0.2%* | *2.7%* | *-3.4%* | *-0.1%* | *-1.0%* | *-3.1%* | |
| Loans to depository institutions (reported) | 76,436 | 89,840 | 111,882 | 133,052 | 123,923 | 108,867 | 111,871 | 135,666 | 148,925 | 143,154 | 136,366 |
| Loans to depository Institutions (mark-to-market) | 75,739 | 88,964 | 110,485 | 130,949 | 121,526 | 106,728 | 109,708 | 133,521 | 147,066 | 141,758 | 135,123 |
| Fair value mark | 99.1 | 99.0 | 98.8 | 98.4 | 98.1 | 98.0 | 98.1 | 98.4 | 98.8 | 99.0 | 99.1 |
| *Sequential Price Change (%)* | *0.1%* | *0.3%* | *0.3%* | *0.4%* | *0.0%* | *0.0%* | *-0.4%* | *-0.3%* | *-0.3%* | *-0.1%* | |
| 12 Month LIBOR Spreads (bps) | 92 | 98 | 126 | 161 | 197 | 200 | 197 | 161 | 126 | 98 | 92 |
| Loans to foreign governments & official institutions (reported) | 2,210 | 2,368 | 3,147 | 2,735 | 2,289 | 1,599 | 2,423 | 1,952 | 3,332 | 1,842 | 1,673 |
| Loans to foreign governments & official institutions (mark-to-market) | 2,093 | 2,309 | 3,039 | 2,608 | 2,122 | 1,389 | 2,063 | 1,696 | 3,103 | 1,766 | 1,625 |
| Fair value mark | 94.7 | 97.5 | 96.6 | 95.3 | 92.7 | 86.9 | 85.1 | 86.9 | 93.1 | 95.9 | 97.1 |
| *Sequential Price Change (%)* | *-2.9%* | *1.0%* | *1.3%* | *2.9%* | *6.7%* | *2.0%* | *-2.0%* | *-6.7%* | *-2.9%* | *-1.3%* | |
| JPM EMBI Index Global Spread (bps) | 358 | 261 | 294 | 337 | 433 | 657 | 724 | 657 | 433 | 337 | 294 |
| Obligations of states & political subdivisions in the U.S. (reported) | 59,235 | 59,782 | 62,095 | 61,164 | 57,690 | 56,921 | 55,888 | 54,598 | 49,976 | 47,880 | 45,204 |
| Obligations of states & political subdivisions in the U.S. (reported) | 58,302 | 58,760 | 61,083 | 60,207 | 56,561 | 55,817 | 54,553 | 52,932 | 48,470 | 46,564 | 43,759 |
| Fair value mark | 98.4 | 98.3 | 98.4 | 98.4 | 98.0 | 98.1 | 97.6 | 96.9 | 97.0 | 97.3 | 96.8 |
| *Sequential Price Change (%)* | *0.1%* | *-0.1%* | *-0.1%* | *0.4%* | *0.0%* | *0.5%* | *0.7%* | *0.0%* | *-0.3%* | *0.5%* | |
| 1 yr Muni Bond Yields (bps) | 31 | 39 | 31 | 41 | 53 | 62 | 97 | 225 | 198 | 192 | 296 |
| 2 yr Muni Bond Yields (bps) | 58 | 73 | 62 | 75 | 97 | 99 | 179 | 248 | 257 | 223 | 305 |
| 5 yr Muni Bond Yields (bps) | 170 | 180 | 166 | 167 | 218 | 209 | 256 | 325 | 337 | 290 | 329 |
| 7 yr Muni Bond Yields (bps) | 232 | 251 | 243 | 219 | 278 | 271 | 301 | 361 | 359 | 329 | 347 |
| 10 yr Muni Bond Yields (bps) | 309 | 327 | 326 | 293 | 352 | 348 | 391 | 415 | 403 | 379 | 374 |
| Other loans (assume C&I) | 225,857 | 222,214 | 195,744 | 206,285 | 216,559 | 216,563 | 236,862 | 277,727 | 252,426 | 258,889 | 258,136 |
| Other loans | 212,983 | 207,993 | 177,148 | 182,975 | 196,419 | 198,372 | 216,965 | 260,508 | 245,358 | 255,265 | 253,489 |
| Weighted average fair value mark | 94.3 | 93.6 | 90.5 | 88.7 | 90.7 | 91.6 | 91.6 | 93.8 | 97.2 | 98.6 | 98.2 |
| *Sequential Price Change (%)* | *0.7%* | *3.4%* | *2.0%* | *-2.2%* | *-1.0%* | *0.0%* | *-2.3%* | *-3.5%* | *-1.4%* | *0.4%* | |
| Lease financing receivables (reported) | 104,527 | 106,435 | 109,318 | 111,305 | 115,320 | 116,031 | 120,816 | 126,931 | 130,375 | 129,400 | 130,796 |

Source: DebtX, FDIC, BofA/ML Global Research forecasts

**Table 13: Securities portfolio and other balance sheet assets ($mn and %)**

| | 2010Q2 | 2010Q1 | 2009Q4 | 2009Q3 | 2009Q2 | 2009Q1 | 2008Q4 | 2008Q3 | 2008Q2 | 2008Q1 | 2007Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Securities (reported)** | **2,527,735** | **2,531,562** | **2,500,459** | **2,396,676** | **2,336,957** | **2,206,200** | **2,035,272** | **2,024,859** | **2,017,365** | **1,953,045** | **1,954,146** |
| **Securities (mark-to-market)** | **2,542,149** | **2,541,427** | **2,510,860** | **2,409,176** | **2,348,468** | **2,220,433** | **2,048,260** | **2,031,218** | **2,019,374** | **1,956,659** | **1,955,153** |
| **Available for sale (reported)** | **2,312,902** | **2,304,892** | **2,266,049** | **2,134,099** | **2,070,817** | **1,949,923** | **1,805,287** | **1,781,241** | **1,846,223** | **1,794,691** | **1,777,292** |
| **Held to maturity (reported)** | **214,833** | **226,670** | **234,410** | **262,577** | **266,139** | **256,276** | **229,985** | **243,619** | **171,142** | **158,353** | **176,854** |
| **Held to maturity (mark-to-market)** | **229,247** | **236,535** | **244,812** | **275,077** | **277,651** | **270,510** | **242,974** | **249,977** | **173,151** | **161,968** | **177,861** |
| **Fair value mark (Blended 70% Agency, 15% Govt, 15% Muni)** | **106.71** | **104.35** | **104.44** | **104.76** | **104.33** | **105.55** | **105.65** | **102.61** | **101.17** | **102.28** | **100.57** |
| *Sequential Price Change (%)* | *2.3%* | *-0.1%* | *-0.3%* | *0.4%* | *-1.2%* | *-0.1%* | *3.0%* | *1.4%* | *-1.1%* | *1.7%* | |
| Securities portfolio mix banking industry: | | | | | | | | | | | |
| U.S. Treasury securities | 164,986 | 156,859 | 102,508 | 86,633 | 58,037 | 38,072 | 33,090 | 36,318 | 23,613 | 23,696 | 31,396 |
| Agency Mortgage-backed securities | 1,381,160 | 1,386,426 | 1,395,280 | 1,350,441 | 1,365,416 | 1,313,451 | 1,299,759 | 1,261,315 | 1,322,213 | 1,281,381 | 1,236,004 |
| State and municipal securities | 167,997 | 165,726 | 163,425 | 165,914 | 163,662 | 154,003 | 151,803 | 144,834 | 149,547 | 151,722 | 153,250 |
| Equity securities | 18,822 | 19,352 | 25,775 | 29,696 | 42,878 | 44,812 | 27,260 | 21,882 | 27,281 | 29,556 | 29,037 |
| Marks for HTM securities portfolio: | | | | | | | | | | | |
| Indicative Mark U.S. Treasury securities | 109.15 | 104.51 | 105.64 | 107.81 | 107.51 | 114.45 | 116.47 | 107.95 | 106.13 | 110.90 | 103.30 |
| Agency Mortgage-backed securities | 106.21 | 104.28 | 104.19 | 103.88 | 103.52 | 103.40 | 102.82 | 101.35 | 100.10 | 99.92 | 99.41 |
| State and municipal securities | 106.60 | 104.53 | 104.39 | 105.82 | 104.90 | 106.71 | 108.02 | 103.15 | 101.23 | 104.69 | 103.25 |
| **Cash and due from depository institutions (reported)** | **1,078,198** | **1,104,109** | **1,049,152** | **1,036,900** | **936,360** | **1,050,864** | **1,104,808** | **738,576** | **561,849** | **554,410** | **524,161** |
| **Federal funds sold and reverse repurchase agreements (reported)** | **429,085** | **418,040** | **413,750** | **492,937** | **545,411** | **631,280** | **722,828** | **748,091** | **727,004** | **752,290** | **691,705** |
| **Bank premises and fixed assets (reported)** | **119,442** | **120,458** | **121,130** | **121,664** | **123,049** | **122,521** | **122,028** | **119,726** | **121,862** | **121,063** | **120,084** |
| **Other real estate owned (reported)** | **49,285** | **46,263** | **41,226** | **37,141** | **33,928** | **29,689** | **26,672** | **22,459** | **18,900** | **15,648** | **12,127** |
| **Trading account assets (reported)** | **678,912** | **691,392** | **711,919** | **785,080** | **729,037** | **803,831** | **946,729** | **905,611** | **893,382** | **1,011,265** | **876,076** |
| **Intangible assets (reported)** | **409,757** | **424,849** | **428,338** | **424,684** | **431,395** | **415,133** | **421,607** | **484,148** | **481,433** | **469,181** | **461,743** |
| Goodwill | 303,211 | 303,000 | 303,151 | 304,851 | 306,143 | 303,883 | 309,216 | 356,296 | 363,143 | 362,405 | 351,891 |
| **Other Assets (reported)** | **753,855** | **750,608** | **756,672** | **727,782** | **723,358** | **718,615** | **740,505** | **673,320** | **602,318** | **620,922** | **566,078** |

Source: DebtX, FDIC, BofA/ML Global Research forecasts

**Table 14: Core Deposits, Bank Debt, and other Liabilities ($mn and %)**

| | 2010Q2 | 2010Q1 | 2009Q4 | 2009Q3 | 2009Q2 | 2009Q1 | 2008Q4 | 2008Q3 | 2008Q2 | 2008Q1 | 2007Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Deposits (reported)** | **9,140,980** | **9,198,191** | **9,226,795** | **9,101,060** | **9,021,146** | **8,953,914** | **9,035,718** | **8,727,756** | **8,572,676** | **8,565,753** | **8,415,367** |
| **Non-core Deposits (reported)** | **2,424,743** | **2,476,891** | **2,557,647** | **2,633,107** | **2,941,166** | **2,604,009** | **2,761,668** | **2,792,867** | **2,732,519** | **2,748,818** | **2,722,850** |
| **Core Deposits (reported)** | **6,716,237** | **6,721,300** | **6,669,148** | **6,467,953** | **6,079,980** | **6,349,905** | **6,274,049** | **5,934,889** | **5,840,157** | **5,816,935** | **5,692,517** |
| Core Deposits MtM (more conservative scenario: 1.0% discount rate, 5 year maturity) | 6,390,269 | 6,395,086 | 6,345,465 | 6,154,035 | 5,784,892 | 6,041,717 | 5,969,543 | 5,646,843 | 5,556,709 | 5,534,614 | 5,416,235 |
| Core Deposits MtM (base case scenario: 1.5% discount rate, 10 year maturity) | 5,787,161 | 5,791,524 | 5,746,586 | 5,573,223 | 5,238,920 | 5,471,505 | 5,406,143 | 5,113,900 | 5,032,272 | 5,012,262 | 4,905,055 |
| Core Deposits MtM (less conservative scenario: 2.0% discount rate, 15 year maturity) | 4,990,263 | 4,994,025 | 4,955,275 | 4,805,784 | 4,517,515 | 4,718,073 | 4,661,711 | 4,409,710 | 4,339,322 | 4,322,068 | 4,229,624 |
| **Federal funds purchased & repurchase agreements (reported)** | **597,054** | **625,318** | **604,648** | **788,791** | **811,789** | **849,999** | **881,586** | **935,868** | **891,451** | **877,567** | **834,853** |
| **FHLB advances (reported)** | **445,400** | **480,333** | **533,211** | **575,700** | **634,642** | **703,715** | **796,379** | **911,487** | **840,543** | **841,585** | **808,944** |
| **Other borrowed money (reported)** | **586,405** | **683,372** | **390,904** | **341,333** | **448,250** | **504,781** | **421,837** | **527,963** | **508,413** | **461,631** | **530,215** |
| **Other borrowed money (mark-to-market)** | **617,484** | **717,540** | **411,231** | **355,669** | **432,561** | **453,294** | **412,978** | **468,303** | **489,602** | **464,401** | **530,798** |
| **Fair value mark** | ***105.3*** | ***105.0*** | ***105.2*** | ***104.2*** | ***96.5*** | ***89.8*** | ***97.9*** | ***88.7*** | ***96.3*** | ***100.6*** | ***100.1*** |
| *Sequential Price Change (%)* | *0.3%* | *-0.2%* | *1.0%* | *8.0%* | *7.5%* | *-8.3%* | *10.4%* | *-7.9%* | *-4.3%* | *0.5%* | |
| **Subordinated debt (reported)** | **150,986** | **150,540** | **156,989** | **161,256** | **168,125** | **170,929** | **185,464** | **176,833** | **185,078** | **185,580** | **185,393** |
| **Subordinated Debt (mark-to-market)** | **153,402** | **152,948** | **153,378** | **154,967** | **145,597** | **134,863** | **159,314** | **143,412** | **171,197** | **179,271** | **180,016** |
| **Fair value mark** | ***101.6*** | ***101.6*** | ***97.7*** | ***96.1*** | ***86.6*** | ***78.9*** | ***85.9*** | ***81.1*** | ***92.5*** | ***96.6*** | ***97.1*** |
| *Sequential Price Change (%)* | *0.0%* | *4.0%* | *1.7%* | *11.0%* | *9.8%* | *-8.1%* | *5.9%* | *-12.3%* | *-4.2%* | *-0.5%* | |
| **Trading account liabilities (reported)** | **282,977** | **262,773** | **253,459** | **291,622** | **264,681** | **358,625** | **470,095** | **356,827** | **357,454** | **405,950** | **342,726** |

Source: DebtX, FDIC, BofA/ML Global Research forecasts

# Scenario Analysis: Equity levels pro forma FASB impacts (3 Core Deposit Valuation Approaches):

### Table 15: Base Case Scenario ($mn and %)

| Scenario Analysis: Base Case | 2010Q2 | 2010Q1 | 2009Q4 | 2009Q3 | 2009Q2 | 2009Q1 | 2008Q4 | 2008Q3 | 2008Q2 | 2008Q1 | 2007Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Assets Calculated | 13,122,362 | 13,267,638 | 13,014,635 | 13,153,824 | 13,216,014 | 13,458,363 | 13,757,892 | 13,480,812 | 13,207,003 | 13,278,129 | 12,946,123 |
| Assets Fair Value | 12,582,403 | 12,597,760 | 12,133,088 | 12,107,895 | 12,036,170 | 12,233,100 | 12,763,566 | 12,769,816 | 12,657,712 | 12,793,393 | 12,497,503 |
| *Assets Delta* | *-539,960* | *-669,878* | *-881,546* | *-1,045,929* | *-1,179,843* | *-1,225,263* | *-994,326* | *-710,996* | *-549,292* | *-484,735* | *-448,620* |
| Liabilities Calculated | 11,203,802 | 11,400,527 | 11,166,006 | 11,259,761 | 11,348,634 | 11,541,964 | 11,791,079 | 11,636,733 | 11,355,613 | 11,338,066 | 11,117,497 |
| Liabilities Fair Value | 10,308,222 | 10,507,328 | 10,260,160 | 10,373,078 | 10,469,356 | 10,576,010 | 10,888,164 | 10,722,663 | 10,515,036 | 10,529,853 | 10,325,243 |
| *Liabilities Delta* | *895,580* | *893,199* | *905,845* | *886,683* | *879,278* | *965,954* | *902,916* | *914,071* | *840,577* | *808,213* | *792,255* |
| Equity Capital Reported | 1,506,599 | 1,480,025 | 1,465,719 | 1,462,639 | 1,421,395 | 1,389,463 | 1,291,071 | 1,306,240 | 1,351,126 | 1,360,843 | 1,347,365 |
| *Equity Benefit / (Decline) resulting from Fair Value* | *355,621* | *223,321* | *24,299* | *-159,246* | *-300,565* | *-259,310* | *-91,410* | *203,075* | *291,286* | *323,477* | *343,634* |
| **Equity Capital pro forma FASB proposal** | **1,862,220** | **1,703,346** | **1,490,018** | **1,303,394** | **1,120,830** | **1,130,154** | **1,199,661** | **1,509,315** | **1,642,411** | **1,684,320** | **1,691,000** |
| *% Increase / (Decrease) in Equity Capital pro forma FASB proposal* | *23.6%* | *15.1%* | *1.7%* | *-10.9%* | *-21.1%* | *-18.7%* | *-7.1%* | *15.5%* | *21.6%* | *23.8%* | *25.5%* |
| *FDIC Equity / Assets (Gross Leverage) Calculated* | *11.5%* | *11.2%* | *11.3%* | *11.1%* | *10.8%* | *10.3%* | *9.4%* | *9.7%* | *10.2%* | *10.2%* | *10.4%* |
| ***FDIC Equity / Assets (Gross Leverage) Pro Forma FASB ED*** | ***14.2%*** | ***12.8%*** | ***11.4%*** | ***9.9%*** | ***8.5%*** | ***8.4%*** | ***8.7%*** | ***11.2%*** | ***12.4%*** | ***12.7%*** | ***13.1%*** |

Source: DebtX, FDIC, BofA/ML Global Research forecasts

### Table 16: More Conservative Scenario ($mn and %)

| Scenario Analysis: More Conservative | 2010Q2 | 2010Q1 | 2009Q4 | 2009Q3 | 2009Q2 | 2009Q1 | 2008Q4 | 2008Q3 | 2008Q2 | 2008Q1 | 2007Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Assets Calculated | 13,122,362 | 13,267,638 | 13,014,635 | 13,153,824 | 13,216,014 | 13,458,363 | 13,757,892 | 13,480,812 | 13,207,003 | 13,278,129 | 12,946,123 |
| Assets Fair Value | 12,582,403 | 12,597,760 | 12,133,088 | 12,107,895 | 12,036,170 | 12,233,100 | 12,763,566 | 12,769,816 | 12,657,712 | 12,793,393 | 12,497,503 |
| *Assets Delta* | *-539,960* | *-669,878* | *-881,546* | *-1,045,929* | *-1,179,843* | *-1,225,263* | *-994,326* | *-710,996* | *-549,292* | *-484,735* | *-448,620* |
| Liabilities Calculated | 11,203,802 | 11,400,527 | 11,166,006 | 11,259,761 | 11,348,634 | 11,541,964 | 11,791,079 | 11,636,733 | 11,355,613 | 11,338,066 | 11,117,497 |
| Liabilities Fair Value | 10,911,329 | 11,110,891 | 10,859,040 | 10,953,890 | 11,015,329 | 11,146,222 | 11,451,564 | 11,255,606 | 11,039,473 | 11,052,205 | 10,836,422 |
| *Liabilities Delta* | *292,473* | *289,636* | *306,966* | *305,871* | *333,305* | *395,742* | *339,516* | *381,127* | *316,140* | *285,861* | *281,076* |
| Equity Capital Reported | 1,506,599 | 1,480,025 | 1,465,719 | 1,462,639 | 1,421,395 | 1,389,463 | 1,291,071 | 1,306,240 | 1,351,126 | 1,360,843 | 1,347,365 |
| *Equity Benefit / (Decline) resulting from Fair Value* | *-247,487* | *-380,241* | *-574,580* | *-740,058* | *-846,538* | *-829,521* | *-654,810* | *-329,869* | *-233,151* | *-198,874* | *-167,545* |
| **Equity Capital pro forma FASB proposal** | **1,259,112** | **1,099,783** | **891,139** | **722,582** | **574,857** | **559,942** | **636,261** | **976,371** | **1,117,974** | **1,161,968** | **1,179,820** |
| *% Increase / (Decrease) in Equity Capital pro forma FASB proposal* | *-16.4%* | *-25.7%* | *-39.2%* | *-50.6%* | *-59.6%* | *-59.7%* | *-50.7%* | *-25.3%* | *-17.3%* | *-14.6%* | *-12.4%* |
| *FDIC Equity / Assets (Gross Leverage) Calculated* | *11.5%* | *11.2%* | *11.3%* | *11.1%* | *10.8%* | *10.3%* | *9.4%* | *9.7%* | *10.2%* | *10.2%* | *10.4%* |
| ***FDIC Equity / Assets (Gross Leverage) Pro Forma FASB ED*** | ***9.6%*** | ***8.3%*** | ***6.8%*** | ***5.5%*** | ***4.3%*** | ***4.2%*** | ***4.6%*** | ***7.2%*** | ***8.5%*** | ***8.8%*** | ***9.1%*** |

Source: DebtX, FDIC, BofA/ML Global Research forecasts

## Table 17: Less Conservative Scenario ($mn and %)

| Scenario Analysis: Less Conservative | 2010Q2 | 2010Q1 | 2009Q4 | 2009Q3 | 2009Q2 | 2009Q1 | 2008Q4 | 2008Q3 | 2008Q2 | 2008Q1 | 2007Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Assets Calculated | 13,122,362 | 13,267,638 | 13,014,635 | 13,153,824 | 13,216,014 | 13,458,363 | 13,757,892 | 13,480,812 | 13,207,003 | 13,278,129 | 12,946,123 |
| Assets Fair Value | 12,582,403 | 12,597,760 | 12,133,088 | 12,107,895 | 12,036,170 | 12,233,100 | 12,763,566 | 12,769,816 | 12,657,712 | 12,793,393 | 12,497,503 |
| *Assets Delta* | *-539,960* | *-669,878* | *-881,546* | *-1,045,929* | *-1,179,843* | *-1,225,263* | *-994,326* | *-710,996* | *-549,292* | *-484,735* | *-448,620* |
| | | | | | | | | | | | |
| Liabilities Calculated | 11,203,802 | 11,400,527 | 11,166,006 | 11,259,761 | 11,348,634 | 11,541,964 | 11,791,079 | 11,636,733 | 11,355,613 | 11,338,066 | 11,117,497 |
| Liabilities Fair Value | 9,511,323 | 9,709,829 | 9,468,849 | 9,605,639 | 9,747,951 | 9,822,578 | 10,143,732 | 10,018,473 | 9,822,087 | 9,839,659 | 9,649,811 |
| *Liabilities Delta* | *1,692,479* | *1,690,698* | *1,697,157* | *1,654,122* | *1,600,683* | *1,719,386* | *1,647,347* | *1,618,260* | *1,533,526* | *1,498,407* | *1,467,686* |
| | | | | | | | | | | | |
| Equity Capital Reported | 1,506,599 | 1,480,025 | 1,465,719 | 1,462,639 | 1,421,395 | 1,389,463 | 1,291,071 | 1,306,240 | 1,351,126 | 1,360,843 | 1,347,365 |
| *Equity Benefit / (Decline) resulting from Fair Value* | *1,152,519* | *1,020,820* | *815,610* | *608,193* | *420,839* | *494,123* | *653,022* | *907,264* | *984,235* | *1,013,671* | *1,019,066* |
| **Equity Capital pro forma FASB proposal** | **2,659,118** | **2,500,845** | **2,281,330** | **2,070,833** | **1,842,235** | **1,883,586** | **1,944,093** | **2,213,505** | **2,335,361** | **2,374,514** | **2,366,431** |
| *% Increase / (Decrease) in Equity Capital pro forma FASB proposal* | *76.5%* | *69.0%* | *55.6%* | *41.6%* | *29.6%* | *35.6%* | *50.6%* | *69.5%* | *72.8%* | *74.5%* | *75.6%* |
| | | | | | | | | | | | |
| *FDIC Equity / Assets (Gross Leverage) Calculated* | *11.5%* | *11.2%* | *11.3%* | *11.1%* | *10.8%* | *10.3%* | *9.4%* | *9.7%* | *10.2%* | *10.2%* | *10.4%* |
| ***FDIC Equity / Assets (Gross Leverage) Pro Forma FASB ED*** | ***20.3%*** | ***18.8%*** | ***17.5%*** | ***15.7%*** | ***13.9%*** | ***14.0%*** | ***14.1%*** | ***16.4%*** | ***17.7%*** | ***17.9%*** | ***18.3%*** |

Source: DebtX, FDIC, BofA/ML Global Research forecasts