Fitch Ratings
KNOW YOUR RISK

Banks

U.S.A.
Special Report

US Home Equity Woes: Banks Grapple with Higher Losses

Long-Term IDR

Bank of America Corporation	AA
Countrywide Financial Corp	BBB-
Fifth Third Bancorp	AA-
First Horizon National Corp	BBB+
Huntington Bancshares Inc.	A-
JPMorgan Chase & Co.	AA-
KeyCorp	A
National City Corporation	A
PNC Financial Services Group	A+
Regions Financial Corporation	A+
Sovereign Bancorp, Inc.	BBB
SunTrust Banks, Inc.	A+
Washington Mutual, Inc.	BBB
Wells Fargo & Company	AA

Rating Outlook/Watch

Bank of America Corporation	Watch Neg
Countrywide Financial Corp	Watch Pos
Fifth Third Bancorp	Watch Neg
First Horizon National Corp	Negative
Huntington Bancshares Inc.	Watch Neg
JPMorgan Chase & Co.	Stable
KeyCorp	Stable
National City Corporation	Negative
PNC Financial Services Group	Stable
Regions Financial Corporation	Stable
Sovereign Bancorp, Inc.	Stable
SunTrust Banks, Inc.	Watch Neg
Washington Mutual, Inc.	Negative
Wells Fargo & Company	Stable

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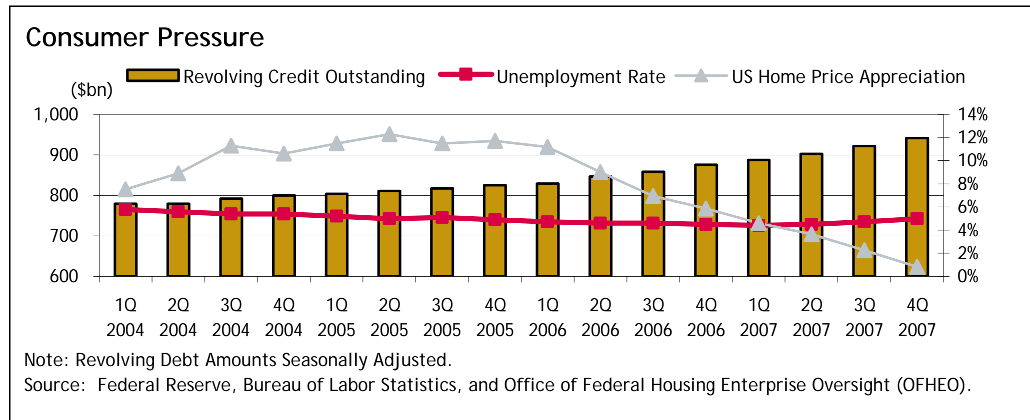
Related Research

2008 Rating Outlook Negative for US Banks, Dec 13, 2007

Overview

With a backdrop of robust housing appreciation and easily available credit, for a number of years US consumers have been able to readily tap home equity to pay for a cadre of items as well as a tool to refinance themselves out of problematic debt situations. Despite a still relatively sound, although now worsening, employment picture and low interest rates, credit metrics in auto and credit card portfolios have deteriorated in recent quarters, as the reduced availability of mortgage-related product and declining home values has impacted consumers' ability to tap their home equity. The declining housing market, particularly in certain geographies, has reduced borrower equity levels in homes, in many cases, below zero. Continued declines in home prices, high consumer debt levels, and slowing economic trends have all combined to yield increasing losses in many bank home equity portfolios and credit losses are expected to accelerate in 2008.



Note: Revolving Debt Amounts Seasonally Adjusted.
Source: Federal Reserve, Bureau of Labor Statistics, and Office of Federal Housing Enterprise Oversight (OFHEO).

On March 7, 2008, Fitch took negative rating actions on eight large US banking institutions based, in part, on their exposure to home equity and other consumer loans, as well as Fitch's belief that future losses will be much higher than previously anticipated. Further rating action in the sector will not likely be driven by home equity exposure alone, although it continues to be a greater concern for several issuers.

Risk layering has come back to haunt a number of financial institutions in both the residential mortgage and home equity space. For a number of years, home equity was the only engine of growth for a number of banks and this quest for growth combined with frothy home price appreciation (HPA) in a number of markets created a tempting source of financing for consumers that was often exploited by brokers. According to FDIC data, on-balance sheet home equity and second-lien mortgage loans increased 43% from year-end 2004 to year-end 2007, compared to 29% growth of total loans.

Loans with certain key characteristics are generally exhibiting more stress. Chief among these is the origination channel. Loans originated through brokers or third-parties are performing considerably worse than similar loans originated through the bank's branch network or customer base. The property location is also a key credit factor, as markets with more home price depreciation and/or higher current loan-to-value (LTV) ratios are exhibiting increased loss rates. Finally, loans with anything less than full borrower

documentation do not appear as strong as those traditionally underwritten. A particularly toxic situation emerges when more than one of these characteristics is layered onto the product.

Fitch has conducted a review of the largest banks with particular attention paid to those with the highest home equity exposure as a percent of their total loan portfolio. To the extent possible, we have factored in the relative risks associated with the risk layering characteristics referred to above. Challenges in home equity lending are expected to persist throughout 2008 and into 2009, as many banks had aggressively grown their portfolios in recent years and continue to have exposure to un-drawn home equity lines of credit.

In this report, Fitch will discuss:

- Bank home equity exposure as a percent of balance sheet categories;
- Loan characteristics posing highest portfolio risk;
- Relative credit metrics of banks with largest exposures; and
- Potential impact of higher credit losses on bank profitability.

- In some cases, home equity loans represent greater than 25% of bank's gross loans.
- Third-party originations exhibiting weaker performance.
- Concentrations in California and Florida, where home prices are falling, will hurt portfolio credit metrics.

Large Bank Exposures

Regulatory Data: Home Equity Exposure Defined as Second Lien Closed-End Loans and Revolving 1-4 Family Loans

	Institution	% of Gross Loans	% of Assets	% of Equity	Growth: 2005-2007
1	Countrywide Financial Corporation	30.89%	16.35%	236.23%	-23.30%
2	Washington Mutual, Inc.	25.98%	19.36%	258.25%	19.91%
3	First Horizon National Corporation	25.95%	18.12%	314.15%	-9.92%
4	National City Corporation	21.88%	17.52%	196.45%	-10.14%
5	Wells Fargo & Company	20.71%	14.76%	178.27%	23.95%
6	Huntington Bancshares Incorporated	17.83%	13.21%	121.45%	50.17%
7	SunTrust Banks, Inc.	16.96%	12.39%	123.20%	25.68%
8	Commerce Bancorp, Inc.	15.90%	5.78%	102.27%	41.72%
9	PNC Financial Services Group, Inc.	15.67%	8.16%	76.32%	10.76%
10	JPMorgan Chase & Co.	15.27%	5.43%	68.86%	36.25%
11	Fifth Third Bancorp	13.45%	10.25%	124.19%	-2.29%
12	Regions Financial Corporation	13.35%	9.11%	64.82%	119.82%
13	Bank of America Corporation	12.90%	6.83%	79.86%	67.48%
14	KeyCorp	12.03%	9.09%	117.37%	-6.92%
15	Sovereign Bancorp, Inc.	10.83%	7.40%	88.63%	-36.72%
16	U.S. Bancorp	10.36%	6.92%	78.12%	9.76%
17	M&T Bank Corporation	10.25%	7.59%	75.88%	6.22%
18	Citigroup Inc.	8.15%	3.21%	61.83%	70.55%
19	BB&T Corporation	8.15%	5.64%	59.16%	15.27%
20	Wachovia Corporation	8.03%	4.99%	50.83%	15.40%
21	Synovus Financial Corp.	7.13%	5.78%	55.24%	33.51%
22	Marshall & Ilsley Corporation	6.61%	5.11%	43.52%	-8.44%
23	Popular, Inc.	5.81%	3.91%	48.52%	5.27%
24	Zions Bancorporation	5.39%	3.98%	39.82%	42.06%
25	Capital One Financial Corporation	2.41%	1.65%	10.20%	68.73%
	Median	12.90%	7.40%	78.12%	15.40%
	Mean	13.68%	8.90%	106.94%	22.59%

Note: Countrywide, Washington Mutual, and Sovereign Data from Company Filings.
Source: SNL Financial, Company Filings, and Fitch.

Fitch conducted an analysis of the largest US banks in order to assess their respective exposures to home equity loans as a percent of gross loans, total assets, and equity. For better comparability, issuer data was based on regulatory filings, and home equity loans were defined as the combination of closed-end loans secured by 1-4 family residential property secured by junior liens and revolving open-end loans secured by 1-4 family

residential properties and extended under lines of credit. Data for Countrywide Financial, Washington Mutual and Sovereign Bancorp (all thrift holding companies) were assembled from GAAP filings. All statistics presented are based on home equity loans and lines outstanding, therefore un-drawn balances are not reflected. According to FDIC data, however, un-drawn lines have averaged nearly 53% of total home equity commitments over the last four years, and un-drawn commitments amounted to nearly $718.6bn at year-end 2007. Those with larger home equity balances are likely to have higher un-drawn commitments, on a relative basis.

Home equity loans account for greater than 10% of gross loans at seventeen of the largest banks in the US. Countrywide Financial, Washington Mutual, and First Horizon Financial have the largest exposures, with home equity contributing more than 25% to gross loans and accounting for more than 200% of equity. Growth rates have been relatively robust in recent years, although some bank metrics are inflated by acquisition activity; notably Regions Financial. Still, average growth at the top 25 banks with the largest exposure averages 22.6% between 2005 and 2007.

The remainder of this report will focus on the banks with the largest exposure as a percentage of gross loans, with the exception of Commerce Bancorp, which is being acquired by Toronto-Dominion Bank. Underwriting factors having the largest impact on portfolio performance include the channel of loan origination, LTV ratios, and geographic concentrations. Each will be discussed in more detail below.

Origination Channel

For a variety of reasons, loans originated through third-party channels tend to perform more poorly than those originated in the branch network including the lack of a more complete customer relationship, volume focus, and perhaps a mortgage broker that is able to game a bank's underwriting process. After experiencing higher losses in good times and a lack of cross-sell opportunities, a number of banks had previously curtailed originations sourced by third parties. Generally, this has served those banks well as a substantially higher loss level has emanated from this channel. While the actual percentage has not been publicly disclosed, a substantial portion of Countrywide's home equity portfolio was originated through third-party channels; which includes broker and correspondent banking originations.

Home Equity Origination Channel
(As of December 31, 2007)

	% of Portfolio	Third-Party	Branch
1	Countrywide Financial Corporation	NA	NA
2	Washington Mutual, Inc.	6.0%	94.0%
3	First Horizon National Corporation	13.0%	87.0%
4	National City Corporation	42.0%	58.4%
5	Wells Fargo & Company	14.1%	85.9%
6	Huntington Bancshares Incorporated	10.0%	97.0%
7	SunTrust Banks, Inc.*	12.3%	87.7%
8	PNC Financial Services Group, Inc.	0.0%	100.0%
9	JPMorgan Chase & Co.**	40.4%	59.6%
10	Fifth Third Bancorp	22.0%	78.0%
11	Regions Financial Corporation	0.0%	100.0%
12	Bank of America Corporation	0.0%	100.0%
13	KeyCorp	12.0%	88.0%
14	Sovereign Bancorp, Inc.	8.0%	92.0%

* Home Equity Lines only.
**Based on 2007 originations only.
Source: Company Filings and Presentations. NA - Not Available.

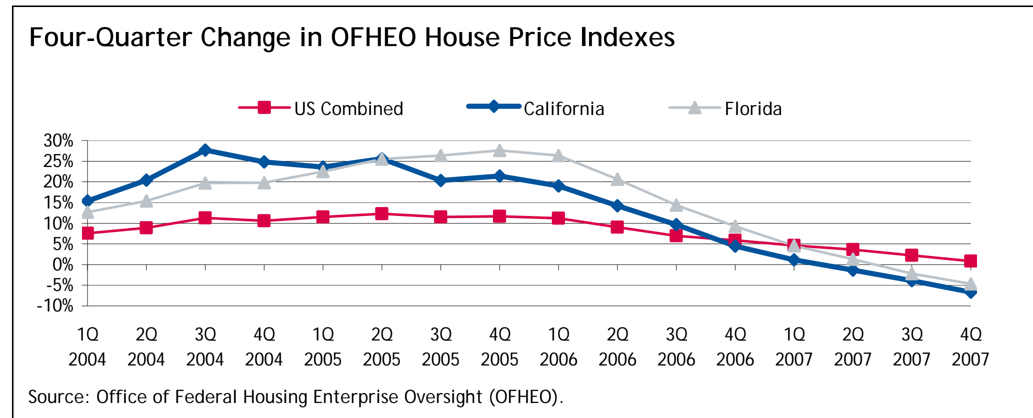
National City, JPMorgan, and Fifth Third, also had a relatively high proportion of third-party originations, at 42%, 40.4%, and 22% of portfolios, respectively. National City decided not to keep out of footprint third party originations in their portfolio, beginning in 2005, but continued to originate these loans for sale. However, due to disruptions in the secondary markets, a number of loans previously held for sale were transferred to the loan portfolio in the third quarter of 2007, albeit at fair value.

Retail originations, usually through the branch network, have tended to perform better for most institutions. For those institutions with a large mortgage banking operation, retail originations tend to reflect the national mortgage market as opposed to the company's geographic footprint. This would include First Horizon and National City, among others.

Loan-to-Value and Geographic Concentrations

Loan-to-Value (LTV) is a bigger issue for more recent vintages, particularly in markets with declining home prices. Additionally, a higher LTV at time of origination indicates (at least intuitively) a consumer taking on incremental risk either at the time of the purchase of the house through a piggy back loan or leveraging up with a second later on in order to tap housing appreciation. The propensity for the customer to walk away from the property as opposed to ride out the downturn has increased exponentially; driving higher probability of default, and widespread media coverage may have accelerated this trend further.

Four-Quarter Change in OFHEO House Price Indexes



Source: Office of Federal Housing Enterprise Oversight (OFHEO).

California and Florida housing prices appreciated at a much higher level than the national average in 2004 through the third quarter of 2006, and have depreciated faster since the first quarter of 2007. As a result, a number of recent loan vintages with a high LTV at time of origination will likely be in a no or negative equity situation at this point. Additionally, loans in expensive housing states like California tend to be larger raising the ante on the severity of the loss at time of charge-off. While not a home price appreciation story, exposure to some rust belt states, with high foreclosure rates, namely Michigan and Ohio, reflects the economic weakness in those markets.

Of the top banking institutions that disclose detailed portfolio data, Countrywide, Fifth Third, National City, and Wells Fargo, have the largest exposure to loans with LTV ratios above 90%, at 44%, 31%, 30%, and 29.2% of respective portfolios. Countrywide and Huntington Bancshares have the highest weighted average portfolio LTV at 84% and 80%, respectively. Washington Mutual has the largest exposure to California and Florida, at 64% of its portfolio, followed by Countrywide at 50%.

Home Equity Loan-to-Value and Location of Property
(As of December 31, 2007)

	% of Portfolio	LTV > 90%	80% < LTV < 90%	California	Florida	Weighted Average LTV
1	Countrywide Financial Corporation *	44.0%	30.0%	43.0%	7.0%	84.0%
2	Washington Mutual, Inc.	5.2%	31.0%	54.7%	9.2%	73.0%
3	First Horizon National Corporation	16.3%	26.7%	13.0%	3.0%	NA
4	National City Corporation	30.0%	30.0%	NA	NA	NA
5	Wells Fargo & Company	29.2%	NA	36.1%	3.8%	NA
6	Huntington Bancshares Incorporated	6.0%	NA	NA	NA	80.0%
7	SunTrust Banks, Inc.**	17.2%	NA	NA	23.6%	74.0%
8	PNC Financial Services Group, Inc.	NA	NA	0.0%	0.0%	73.0%
9	JPMorgan Chase & Co.	17.9%	NA	15.3%	5.5%	NA
10	Fifth Third Bancorp	31.0%	21.0%	NA	7.0%	78.0%
11	Regions Financial Corporation	NA	NA	NA	NA	74.0%
12	Bank of America Corporation	NA	NA	NA	NA	70.0%
13	KeyCorp	NA	NA	NA	NA	70.0%
14	Sovereign Bancorp, Inc.	6.1%	23.8%	1.0%	1.0%	64.0%

* Data as of 3Q 2007. ** Home Equity Lines only.
Source: Company Filings and Presentations. NA - Not Available.

Other Factors

Those issuers with a higher first lien position would be expected to have better credit metrics as they have a priority claim on the liquidation value of the property. Of the issuers that report first lien positions KeyCorp, Regions Financial, and PNC Financial have the highest first lien positions at or above 39%. Wells Fargo has the lowest protection, with first liens representing just 14% of the portfolio, although a considerable portion of its portfolio is behind a Wells Fargo first mortgage.

Home Equity: Other Factors
(As of December 31, 2007)

	% of Portfolio	Weighted-Average FICO	% First Lien
1	Countrywide Financial Corporation *	729	NA
2	Washington Mutual, Inc.	NA	27%
3	First Horizon National Corporation	752	NA
4	National City Corporation	NA	NA
5	Wells Fargo & Company	725	14%
6	Huntington Bancshares Incorporated	748	NA
7	SunTrust Banks, Inc.	723	28%
8	PNC Financial Services Group, Inc.	727	39%
9	JPMorgan Chase & Co.	NA	22%
10	Fifth Third Bancorp	742	23%
11	Regions Financial Corporation	733	41%
12	Bank of America Corporation	721	NA
13	KeyCorp	NA	57%
14	Sovereign Bancorp, Inc.	774	37%

* Data as of 3Q 2007.
Source: Company Filings and Presentations. NA - Not Available.

FICO is a relative risk measure and is highly predictive of default probability among loans with similar characteristics that are properly underwritten; however, risk layering diminishes the predictive capability of FICO. Ten issuers report a weighted-average FICO score for their portfolios and the average is about 737; a relatively strong credit score.

Some issuers have also pursued PMI (private mortgage insurance) as a loss mitigant for the higher LTV portfolio. Wells Fargo and Countrywide have utilized this tool to help cap or share risk. While this could work well to help curb bank losses, the ability to collect this insurance and properly document claims remains an uncertainty.

- Credit metrics have deteriorated rapidly in light of declining home values.
- Higher delinquency and roll rates are expected to pressure credit metrics further in 2008.
- Banks with the largest exposure to third-party originated loans and California are expected to experience the greatest relative pressure.

Credit Quality

The credit quality of bank home equity portfolios has deteriorated rather rapidly over the last 12 months, and Fitch believes lenders with greater exposure to the more "toxic" underwriting components have higher portfolio credit risk. In many cases, persistent geographic weakness has reduced homeowner equity below zero and, as a result, has yielded higher delinquency roll rates, as lenders in second-lien positions find no merit in pursuing foreclosure. Fitch expects home equity credit metrics to deteriorate more rapidly in coming quarters, as HPA continues to decline.

Home equity loans and lines past due 30-days or more have increased materially over the last 12 months, with the majority of deterioration occurring in the fourth quarter. The average delinquency rate for the banks presented below was 1.75% in the fourth quarter of 2007, compared to 0.86% and 0.74% at year-end 2006 and 2005, respectively.

Home Equity Delinquencies and Non-Accruals

(Home Equity Exposure Defined as Second Lien Closed-End Loans and Revolving 1-4 Family Loans)

		Past Due 30+ Days					Change (bp)		Non-Accruals					Change (bp)	
	Institution	4Q 2006	1Q 2007	2Q 2007	3Q 2007	4Q 2007	YOY	3Q to 4Q	4Q 2006	1Q 2007	2Q 2007	3Q 2007	4Q 2007	YOY	3Q to 4Q
1	Countrywide Financial Corporation *	2.93%	2.96%	3.70%	4.62%	5.92%	299	130	NA	NA	NA	NA	NA	NA	NA
2	Washington Mutual, Inc.**	NA	NA	NA	NA	NA	NA	NA	0.44%	0.56%	0.68%	0.90%	1.37%	93	47
3	First Horizon National Corporation	1.02%	0.98%	1.01%	1.14%	1.44%	42	31	0.06%	0.03%	0.07%	0.06%	0.06%	–	–
4	National City Corporation	0.87%	0.97%	0.65%	1.25%	1.76%	89	51	0.02%	0.03%	0.02%	0.08%	0.10%	8	2
5	Wells Fargo & Company	0.88%	0.88%	0.96%	1.23%	1.51%	64	28	0.39%	0.41%	0.39%	0.40%	0.46%	7	6
6	Huntington Bancshares Incorporated	1.29%	1.15%	1.15%	1.25%	1.71%	42	46	0.23%	0.25%	0.26%	0.00%	0.00%	(23)	–
7	SunTrust Banks, Inc.	0.67%	0.67%	0.91%	1.13%	1.34%	67	21	0.45%	0.69%	0.83%	1.16%	1.44%	99	28
8	PNC Financial Services Group, Inc.	0.65%	0.64%	0.64%	0.76%	0.97%	32	21	0.18%	0.17%	0.22%	0.21%	0.22%	3	1
9	JPMorgan Chase & Co.	0.74%	0.74%	0.66%	0.87%	1.04%	30	18	0.44%	0.46%	0.48%	0.59%	0.83%	39	24
10	Fifth Third Bancorp	1.32%	1.36%	1.34%	1.58%	1.77%	45	19	0.37%	0.38%	0.42%	0.56%	0.78%	41	21
11	Regions Financial Corporation	1.03%	1.08%	1.16%	1.12%	1.09%	06	(4)	0.07%	0.04%	0.03%	0.03%	0.06%	(1)	3
12	Bank of America Corporation	0.74%	0.67%	0.76%	0.98%	1.23%	50	25	0.33%	0.57%	0.51%	0.73%	1.13%	80	40
13	KeyCorp	0.99%	0.87%	1.02%	1.15%	1.17%	18	2	0.51%	0.52%	0.54%	0.60%	0.64%	13	4
14	Sovereign Bancorp, Inc.***	1.31%	0.68%	0.59%	1.42%	1.41%	10	(1)	0.81%	0.20%	0.22%	0.89%	0.91%	10	1
	Median****	0.93%	0.92%	0.99%	1.14%	1.39%	44	23	0.37%	0.38%	0.39%	0.56%	0.64%	10	4
	Mean****	1.09%	1.08%	1.16%	1.42%	1.75%	65	32	0.33%	0.33%	0.36%	0.48%	0.62%	29	14

*Based on servicing portfolio, calculation methodology may differ from other institutions. **Washington Mutual metrics exclude HEQ originated in subprime mortgage channel.
*** Represents loans 90-days past due and includes loans held for sale and securitized. ****Past-due excludes Sovereign which is based on 90-days.
Source: SNL Financial, Company Filings, and Fitch. NA - Not Available.

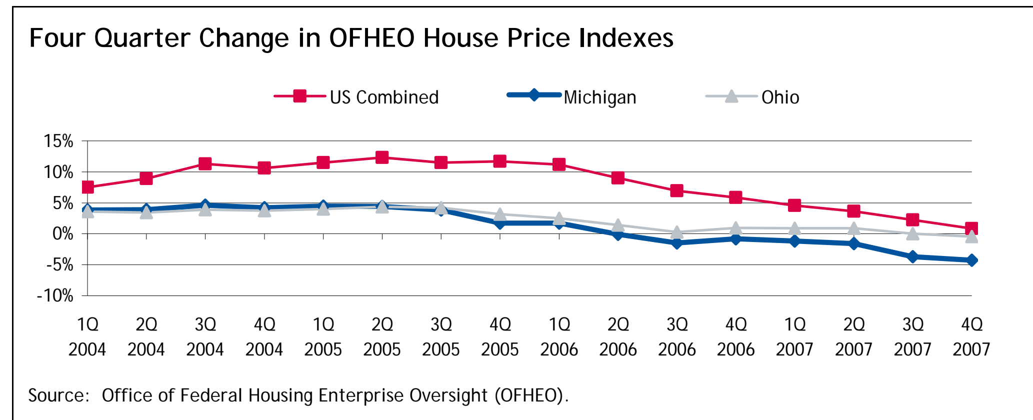
Countrywide's delinquency rate increased at the fastest pace, rising from 2.93% of its serviced portfolio at year-end 2006 to 5.92% of its serviced portfolio at year-end 2007. Higher California concentrations, a greater amount of third-party originated loans, and higher LTV ratios, all contribute to the larger relative rate. Countrywide has also taken significant write-downs of its residual interests in home equity securitizations.

Ohio-based banks like National City, Fifth Third, and Huntington have generally averaged higher delinquency rates on home equity portfolios over the last five quarters, given their exposure to the weaker economies of Ohio and Michigan, in addition to their varying reliance on the broker channel for originations and exposure to markets like California and Florida. While property values in Michigan and Ohio appreciated at a pace well below the national average in 2004 and 2005, even loans with lower relative LTV ratios are feeling pressure, as local economic weakness persists and home values fall more rapidly than the national average.

National City began originating and selling certain home equity loans in 2005, but in the third quarter of 2007 potential buyers withdrew from the market and the bank transferred approximately $4.4bn of home equity loans into its held for investment portfolio. The bank took a mark-to-market adjustment, suspended broker originations, and curtailed origination of non-agency eligible loans. National City's 30-plus day

delinquency rate deteriorated 89 basis points year-over-year, reaching 1.76% at year-end 2007, with 51 basis points of deterioration occurring in the fourth quarter, given the addition of relatively poorer loans to the held for investment portfolio.

Fifth Third Bancorp had the second highest 30-day delinquency rate, behind Countrywide, at 1.77% in the fourth quarter of 2007. Fitch believes this is the result of a weaker economic footprint, a relatively large exposure to third-party originated loans, and the fact that approximately 31% of the portfolio has an LTV above 90%.



Source: Office of Federal Housing Enterprise Oversight (OFHEO).

SunTrust Banks, Inc. had the largest amount of home equity lines and loans on non-accrual status at year-end 2007, amounting to 1.44% of its portfolio, and also had the greatest deterioration year-over-year, up over 300% from 0.45% at year-end 2006. Approximately 2.59% of third-party originated lines, which represent approximately 12.3% of the bank's home equity lines, are considered non-performing and are pushing this metric up.

Washington Mutual posted the greatest fourth quarter deterioration in non-accruals, which increased to 1.37% from 0.90% in the third quarter. The bank has the largest exposure to California of those banks that publicly disclose geographic concentrations, with nearly 55% of loans collateralized with California property. According to OFHEO, California experienced a 6.65% four-quarter decline in its housing price index in the fourth quarter of 2007, the most of any state, and some markets in California are considerably worse.

The average net charge-off rate for the 14 banks presented was 0.89% in the fourth quarter of 2007, annualized, compared to 0.44% and 0.26% in 2006 and 2005, respectively.

Countrywide's banking operations reported the highest net charge-offs in the fourth quarter of 2007 at 1.66%, up 144 basis points or over 700% from the fourth quarter of 2006. Washington Mutual reported a 1.61% net charge-off rate, up 158 basis points year-over-year. Rising delinquency rates combined with higher roll rates have produced a rapid deterioration in net charge-off levels, which Fitch expects to persist in 2008 and into 2009.

Wells Fargo reported relatively high net charge-offs in the fourth quarter, at 1.34% of the portfolio, up 60 basis points from 0.74% in the third quarter, due in large part to third-party originated loans, which have a higher percentage of loans with a LTV ratio above 90% and also greater exposure to California and Florida. Wells has discontinued third party activities not behind its own first mortgage and segregated third-party loans into a

liquidating portfolio. The bank has also used PMI historically in an attempt to mitigate losses.

Home Equity Net Charge-Offs
(Home Equity Exposure Defined as Second Lien Closed-End Loans and Revolving 1-4 Family Loans)

		Net Charge-Offs					Change (bp)	
	Institution	4Q 2006	1Q 2007	2Q 2007	3Q 2007	4Q 2007	YOY	3Q to 4Q
1	Countrywide Financial Corporation*	0.22%	0.50%	1.38%	1.23%	1.66%	144	43
2	Washington Mutual, Inc.**	0.02%	0.19%	0.39%	0.68%	1.61%	158	92
3	First Horizon National Corporation	0.18%	0.32%	0.40%	0.45%	0.72%	54	27
4	National City Corporation	0.38%	0.37%	0.27%	0.55%	1.01%	63	46
5	Wells Fargo & Company	0.25%	0.39%	0.46%	0.74%	1.34%	109	60
6	Huntington Bancshares Incorporated	0.35%	0.47%	0.41%	0.44%	0.64%	28	20
7	SunTrust Banks, Inc.	0.21%	0.33%	0.49%	0.57%	0.96%	75	39
8	PNC Financial Services Group, Inc.	0.15%	0.25%	0.25%	0.24%	0.43%	28	18
9	JPMorgan Chase & Co.	0.20%	0.24%	0.32%	0.47%	0.94%	74	47
10	Fifth Third Bancorp	0.47%	0.69%	0.88%	1.01%	1.26%	79	25
11	Regions Financial Corporation	0.35%	0.20%	0.25%	0.37%	0.30%	(5)	(7)
12	Bank of America Corporation	0.09%	0.07%	0.12%	0.19%	0.61%	52	41
13	KeyCorp	0.20%	0.33%	0.28%	0.38%	0.51%	31	13
14	Sovereign Bancorp, Inc.***	1.81%	0.13%	0.08%	-0.01%	0.51%	(130)	52
	Median	**0.21%**	**0.33%**	**0.35%**	**0.46%**	**0.83%**	**58**	**40**
	Mean	**0.35%**	**0.32%**	**0.43%**	**0.52%**	**0.89%**	**54**	**37**

* Banking Operations Only. **Washington Mutual metrics exclude HEQ originated in subprime mortgage channel. **4Q 2006 excludes $382.5m charge related to loans held for sale.
Source: SNL Financial, Company Filings, and Fitch.

Sovereign Bancorp reported the largest year-over-year decline in net charge-offs, as it sold $3.4bn of its third-party originated home equity portfolio in the first quarter of 2007. Approximately $658m of third-party loans were not sold and were marked-to-market in the first quarter.

While their exposures are sizeable, at 15.67% and 13.35% of gross loans, respectively, PNC Financial and Regions Financial are in a solid position, from a home equity credit perspective. Both have portfolios that were wholly originated through bank branches, weighted-average LTVs are relatively solid, at 73% and 74%, respectively, and first lien positions are high, at 39% and 41%, respectively. Regions posted the lowest fourth quarter net charge-off rate, at 0.30%, followed by PNC at 0.43%. KeyCorp is also in a relatively solid position, despite its weaker footprint, as the weighted-average LTV ratio is 70% and 57% of loans are in a first lien position.

- Provision expenses could increase materially in 2008 as a result of home equity performance alone.

Profitability Impact

Banks boosted provision expense in 2007 as credit normalization and weakness in mortgage and consumer asset classes yielded increased credit losses. Many issuers built allowance levels in anticipation of continued deterioration, but Fitch believes some asset classes are deteriorating much faster than management anticipated. Provision expense may increase significantly in 2008, as consumer credit indicators worsen, which could have a sizeable impact on bank profitability.

In a simplistic example, assuming credit losses on home equity portfolios rise to 2%, 5%, or 7.5% of a bank's portfolio, provision expense may need to grow by a material amount in 2008, relative to 2007, which was already elevated relative to prior years, to cover losses on home equity portfolios alone. If deterioration continues across the loan portfolio, provision expense will increase even more substantially.

While portfolio deterioration is not expected to happen to the same degree across the bank universe, those with riskier portfolios could see net charge-offs well above 2% in

Provision Analysis
(As of December 31, 2007; $ in 000s)

	Institution	2007 Provision	2007 Home Equity	Stress HEQ Net Charge-Offs 2.0%	5.0%	7.5%	NCO / 2007 Provision 2.0%	5.0%	7.5%
1	Countrywide Financial Corporation*	2,286,183	34,103,449	682,069	1,705,172	2,557,759	29.8%	74.6%	111.9%
2	Washington Mutual, Inc.	3,107,000	63,488,000	1,269,760	3,174,400	4,761,600	40.9%	102.2%	153.3%
3	First Horizon National Corporation	272,765	6,708,897	134,178	335,445	503,167	49.2%	123.0%	184.5%
4	National City Corporation	1,325,903	26,339,867	526,797	1,316,993	1,975,490	39.7%	99.3%	149.0%
5	Wells Fargo & Company	4,928,000	84,907,000	1,698,140	4,245,350	6,368,025	34.5%	86.1%	129.2%
6	Huntington Bancshares Incorporated	628,719	7,225,126	144,503	361,256	541,884	23.0%	57.5%	86.2%
7	SunTrust Banks, Inc.	664,922	22,241,520	444,830	1,112,076	1,668,114	66.9%	167.2%	250.9%
8	PNC Financial Services Group, Inc.	315,270	11,336,584	226,732	566,829	850,244	71.9%	179.8%	269.7%
9	JPMorgan Chase & Co.	6,538,000	84,850,000	1,697,000	4,242,500	6,363,750	26.0%	64.9%	97.3%
10	Fifth Third Bancorp	628,254	11,377,265	227,545	568,863	853,295	36.2%	90.5%	135.8%
11	Regions Financial Corporation	555,000	12,848,353	256,967	642,418	963,626	46.3%	115.8%	173.6%
12	Bank of America Corporation	8,358,868	117,242,543	2,344,851	5,862,127	8,793,191	28.1%	70.1%	105.2%
13	KeyCorp	529,219	9,090,747	181,815	454,537	681,806	34.4%	85.9%	128.8%
14	Sovereign Bancorp, Inc.	407,692	6,197,000	123,940	309,850	464,775	30.4%	76.0%	114.0%
	Median						35.3%	88.3%	132.5%
	Mean						39.8%	99.5%	149.2%

* Banking operations only. Note: Home Equity Exposure Defined as Second Lien Closed-End Loans and Revolving 1-4 Family Loans.
Source: SNL Financial, Company Filings and Fitch.

2008. Under Fitch's stressed examples, Washington Mutual, which has the largest exposure to California and Florida, would have to record 102.2% of its entire 2007 provision expense just to cover home equity losses in 2008, if HEQ net charge-offs reach 5% (assuming dollar-for-dollar provisioning). Similarly, National City, which has a large amount of third-party originated loans would also need a provision equal to the bank's entire 2007 provision expense to cover HEQ losses alone in 2008, at a 5% net charge-off level.

- Many banks have gone through several rounds of underwriting changes.
- Expectations for home price appreciation will be a key input going forward.

Underwriting Changes

Despite rising credit losses on home equity products, many financial institutions continue to believe in the long-term viability of the product. As a result, banks have gone through several rounds of underwriting revisions, in order to reduce exposure to declining home prices, and ultimately, improve the profitability potential of home equity lines and loans.

In 2007, for example, JPMorgan Chase capped CLTVs at 90% in the broker channel, eliminated stated income across the wholesale channel, eliminated stated income with debt-to-income over 50% across all channels, capped CLTVs on investor/second homes at 80%, and stopped originating subprime home equity. In 2008, JPM tightened underwriting further; setting CLTVs at a maximum of 85% in all markets (less where there is expected depreciation), eliminated all stated income, reduced maximum debt-to-income ratios, and set a minimum FICO of 660. Many other issuers have exited third-party originations altogether and limited exposure to in-footprint properties.

While Fitch expects home equity origination volume to decline materially in 2008, the quality of new originations will be highly dependent upon the bank's ability to accurately assess home values and borrower liquidity. Clearly, the more conservative the home price depreciation assumptions, the better the ultimate credit quality of the portfolio should be.

Conclusion: Rating Impact

Following rating actions in late 2007 and to date in 2008, the effect of home equity deterioration on future bank rating action will likely be the result of the overall impact of home equity in combination with a myriad of other factors. Residential mortgage, residential construction, credit cards, auto loans, and student loans are all expected to experience increased credit losses in 2008, as the housing correction continues and

consumers deal with higher debt levels in a weakening economic environment. Furthermore, liquidity and capitalization will continue to be key rating factors, particularly given the disrupted credit markets.

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