

SUNTRUST BANKS INC  
Form 10-Q  
November 04, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2009

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

Commission File Number 001-08918

**SUNTRUST BANKS, INC.**

(Exact name of registrant as specified in its charter)

**Georgia**  
(State or other jurisdiction)

**58-1575035**  
(I.R.S. Employer

of incorporation or organization)

Identification No.)

**303 Peachtree Street, N.E., Atlanta, Georgia 30308**

(Address of principal executive offices) (Zip Code)

Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

(404) 588-7711

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At October 28, 2009, 499,150,479 shares of the Registrant's Common Stock, \$1.00 par value, were outstanding.

**Table of Contents****Tables of Contents**

## PART I FINANCIAL INFORMATION

	<b>Page</b>
Item 1.	
	<u>Financial Statements (Unaudited)</u>
	2
	<u>Consolidated Statements of Income/(Loss)</u>
	2
	<u>Consolidated Balance Sheets</u>
	3
	<u>Consolidated Statements of Shareholders' Equity</u>
	4
	<u>Consolidated Statements of Cash Flows</u>
	5
	<u>Notes to Consolidated Financial Statements</u>
	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	54
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	98
Item 4.	<u>Controls and Procedures</u>
	98

## PART II OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	98
Item 1A.	<u>Risk Factors</u>	98
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	99
Item 3.	<u>Defaults Upon Senior Securities</u>	99
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	99
Item 5.	<u>Other Information</u>	99
Item 6.	<u>Exhibits</u>	100

**SIGNATURES**

101

**PART I FINANCIAL INFORMATION**

The following unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and accordingly do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary to comply with Regulation S-X have been included. Operating results for the three and nine month periods ended September 30, 2009 are not necessarily indicative of the results that may be expected for the full year of 2009.

**Table of Contents****Item 1. FINANCIAL STATEMENTS (UNAUDITED)****SunTrust Banks, Inc.****Consolidated Statements of Income/(Loss)**

(Dollars and shares in thousands, except per share data) (Unaudited)	For the Three Months Ended		For the Nine Months Ended	
	September 30 2009	2008	September 30 2009	2008
<b>Interest Income</b>				
Interest and fees on loans	\$1,370,318	\$1,688,019	\$4,180,248	\$5,258,075
Interest and fees on loans held for sale	57,286	64,937	191,524	236,437
Interest and dividends on securities available for sale				
Taxable interest	177,712	153,006	527,573	462,523
Tax-exempt interest	9,660	10,852	30,377	33,395
Dividends <sup>1</sup>	18,620	21,410	54,848	84,672
Interest on funds sold and securities purchased under agreements to resell	395	7,527	1,890	23,208
Interest on deposits in other banks	33	198	209	646
Trading account interest	23,498	71,365	93,462	243,055
<b>Total interest income</b>	<b>1,657,522</b>	<b>2,017,314</b>	<b>5,080,131</b>	<b>6,342,011</b>
<b>Interest Expense</b>				
Interest on deposits	334,992	545,898	1,157,768	1,873,547
Interest on funds purchased and securities sold under agreements to repurchase	1,460	31,321	6,634	123,648
Interest on trading liabilities	4,658	8,830	15,735	21,463
Interest on other short-term borrowings	2,970	11,220	11,718	47,084
Interest on long-term debt	175,984	273,832	599,063	833,473
<b>Total interest expense</b>	<b>520,064</b>	<b>871,101</b>	<b>1,790,918</b>	<b>2,899,215</b>
<b>Net interest income</b>	<b>1,137,458</b>	<b>1,146,213</b>	<b>3,289,213</b>	<b>3,442,796</b>
Provision for loan losses	1,133,929	503,672	3,090,208	1,511,721
<b>Net interest income after provision for loan losses</b>	<b>3,529</b>	<b>642,541</b>	<b>199,005</b>	<b>1,931,075</b>
<b>Noninterest Income</b>				
Service charges on deposit accounts	219,071	240,241	635,689	682,376
Trust and investment management income	118,874	147,477	351,891	465,898
Other charges and fees	133,433	128,776	385,553	385,588
Card fees	82,370	78,138	238,535	230,465
Retail investment services	51,361	72,791	163,474	218,855
Investment banking income	75,343	62,164	211,915	178,571
Mortgage production related income	28,143	50,028	444,001	199,085
Mortgage servicing related income	60,193	62,654	283,203	124,300
Trading account profits/(losses) and commissions	(86,866)	121,136	(9,593)	100,048
Net gain on sale of businesses	-	81,813	-	200,851
Gain from ownership in Visa	-	-	112,102	86,305
Net gain on sale/leaseback of premises	-	-	-	37,039
Other noninterest income	46,437	66,958	126,024	184,106
Net securities gains <sup>2</sup>	46,692	173,046	25,170	662,247
<b>Total noninterest income</b>	<b>775,051</b>	<b>1,285,222</b>	<b>2,967,964</b>	<b>3,755,734</b>
<b>Noninterest Expense</b>				
Employee compensation	541,347	596,050	1,683,597	1,788,398
Employee benefits	124,690	100,160	422,201	334,852
Outside processing and software	146,850	132,361	430,570	348,731
Operating losses	18,425	135,183	73,616	210,100
Marketing and customer development	38,157	217,693	103,146	320,599
Net occupancy expense	90,445	88,745	265,082	260,669

Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

Equipment expense	41,616	51,931	128,948	155,317
Mortgage reinsurance	10,000	47,956	104,620	79,928
Credit and collection services	69,128	50,568	183,315	112,133
Amortization/impairment of goodwill/intangible assets	13,741	18,551	794,712	104,001
Other real estate expense	88,317	32,304	181,725	69,433
Regulatory assessments	45,473	19,061	241,621	34,387
Net loss on debt extinguishment	2,276	-	15,836	11,723
Visa litigation	-	20,000	7,000	(19,124)
Other noninterest expense	198,382	154,732	472,853	481,723
<b>Total noninterest expense</b>	<b>1,428,847</b>	<b>1,665,295</b>	<b>5,108,842</b>	<b>4,292,870</b>
Income/(loss) before provision/(benefit) for income taxes	(650,267)	262,468	(1,941,873)	1,393,939
Provision/(benefit) for income taxes	(336,056)	(52,767)	(635,790)	241,685
Net income/(loss) including income attributable to noncontrolling interest	(314,211)	315,235	(1,306,083)	1,152,254
Net income attributable to noncontrolling interest	2,730	2,791	9,485	8,893
<b>Net income/(loss)</b>	<b>(\$316,941)</b>	<b>\$312,444</b>	<b>(\$1,315,568)</b>	<b>\$1,143,361</b>
Net income/(loss) available to common shareholders	(\$377,144)	\$304,397	(\$1,416,953)	\$1,115,920
Net income/(loss) per average common share				
Diluted	(\$0.76)	\$0.87	(\$3.41)	\$3.19
Basic	(0.76)	0.87	(3.41)	3.20
Dividends declared per common share	0.01	0.77	0.21	2.31
Average common shares - diluted <sup>3</sup>	494,169	350,970	415,444	349,613
Average common shares - basic	494,169	349,916	415,444	348,409
<sup>1</sup> Includes dividends on common stock of The Coca-Cola Company	\$12,300	\$11,400	\$36,900	\$44,520

<sup>2</sup> Includes other-than-temporary impairment losses of \$9.7 million for the three months ended September 30, 2009, consisting of \$89.7 million of total unrealized losses, net of \$80.0 million of non-credit related unrealized losses recorded in other comprehensive income, before taxes, and other-than-temporary impairment losses of \$16.1 million for the nine months ended September 30, 2009, consisting of \$96.1 million of total unrealized losses, net of \$80.0 million of non-credit related unrealized losses recorded in other comprehensive income, before taxes.

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

See Notes to Consolidated Financial Statements (unaudited).

**Table of Contents****SunTrust Banks, Inc.****Consolidated Balance Sheets**

	As of	
	September 30 2009	December 31 2008
(Dollars in thousands) (Unaudited)		
<b>Assets</b>		
Cash and due from banks	\$4,303,550	\$5,622,789
Interest-bearing deposits in other banks	25,098	23,999
Funds sold and securities purchased under agreements to resell	829,089	990,614
Cash and cash equivalents	5,157,737	6,637,402
Trading assets	6,673,623	10,396,269
Securities available for sale <sup>1</sup>	22,122,850	19,696,537
Loans held for sale (loans at fair value: \$2,862,755 as of September 30, 2009; \$2,424,432 as of December 31, 2008)	4,577,549	4,032,128
Loans (loans at fair value: \$468,658 as of September 30, 2009; \$270,342 as of December 31, 2008)	116,487,938	126,998,443
Allowance for loan and lease losses	(3,024,000)	(2,350,996)
Net loans	113,463,938	124,647,447
Premises and equipment	1,553,342	1,547,892
Goodwill	6,314,382	7,043,503
Other intangible assets (mortgage servicing rights at fair value: \$783,242 as of September 30, 2009; \$0 as of December 31, 2008)	1,604,136	1,035,427
Customers' acceptance liability	5,911	5,294
Other real estate owned	571,553	500,481
Unsettled sales of securities available for sale	3,094,620	6,386,795
Other assets	7,578,106	7,208,786
<b>Total assets</b>	<b>\$172,717,747</b>	<b>\$189,137,961</b>
<b>Liabilities and Shareholders' Equity</b>		
Noninterest-bearing consumer and commercial deposits	\$23,590,252	\$21,522,021
Interest-bearing consumer and commercial deposits	90,010,990	83,753,686
<b>Total consumer and commercial deposits</b>	<b>113,601,242</b>	<b>105,275,707</b>
Brokered deposits (CDs at fair value: \$1,206,402 as of September 30, 2009; \$587,486 as of December 31, 2008)	4,953,103	7,667,167
Foreign deposits	776,697	385,510
<b>Total deposits</b>	<b>119,331,042</b>	<b>113,328,384</b>
Funds purchased	1,037,562	1,120,079
Securities sold under agreements to repurchase	2,186,204	3,193,311
Other short-term borrowings (debt at fair value: \$0 as of September 30, 2009; \$399,611 as of December 31, 2008)	1,692,889	5,166,360
Long-term debt (debt at fair value: \$3,575,807 as of September 30, 2009; \$7,155,684 as of December 31, 2008)	18,177,280	26,812,381
Acceptances outstanding	5,911	5,294
Trading liabilities	2,531,114	3,240,784
Unsettled purchases of securities available for sale	313,582	8,898,279
Other liabilities	4,533,879	4,872,284
<b>Total liabilities</b>	<b>149,809,463</b>	<b>166,637,156</b>
Preferred stock	4,911,416	5,221,703
Common stock, \$1.00 par value	514,667	372,799
Additional paid in capital	8,520,533	6,904,644
Retained earnings	8,886,150	10,388,984
Treasury stock, at cost, and other	(1,076,633)	(1,368,450)
Accumulated other comprehensive income, net of tax	1,152,151	981,125
<b>Total shareholders' equity</b>	<b>22,908,284</b>	<b>22,500,805</b>

## Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

Total liabilities and shareholders' equity	<b>\$172,717,747</b>	\$189,137,961
Common shares outstanding	<b>499,146,588</b>	354,515,013
Common shares authorized	<b>750,000,000</b>	750,000,000
Preferred shares outstanding	<b>50,225</b>	53,500
Preferred shares authorized	<b>50,000,000</b>	50,000,000
Treasury shares of common stock	<b>15,520,007</b>	18,284,356
<sup>1</sup> Includes net unrealized gains on securities available for sale	<b>\$1,903,166</b>	\$1,413,330

*See Notes to Consolidated Financial Statements (unaudited).*

Table of Contents

## SunTrust Banks, Inc.

Consolidated Statements of Shareholders' Equity

(Dollars and shares in thousands, except per share data) (Unaudited)	Preferred Stock	Common Shares Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock and Other <sup>1</sup>	Accumulated Other Comprehensive Income	Total
<b>Balance, January 1, 2008</b>	\$500,000	348,411	\$370,578	\$6,707,293	\$10,646,640	(\$1,661,719)	\$1,607,149	\$18,169,941
Net income	-	-	-	-	1,143,361	-	-	1,143,361
Other comprehensive income:								
Change in unrealized gains (losses) on securities, net of taxes	-	-	-	-	-	-	(733,952)	(733,952)
Change in unrealized gains (losses) on derivatives, net of taxes	-	-	-	-	-	-	4,089	4,089
Change related to employee benefit plans	-	-	-	-	-	-	11,004	11,004
<b>Total comprehensive income</b>								424,502
Change in noncontrolling interest	-	-	-	-	-	(4,070)	-	(4,070)
Issuance of common stock for GB&T acquisition	-	2,221	2,221	152,292	-	-	-	154,513
Common stock dividends, \$2.31 per share	-	-	-	-	(812,971)	-	-	(812,971)
Preferred stock dividends, \$3,440 per share	-	-	-	-	(17,200)	-	-	(17,200)
Exercise of stock options and stock compensation expense	-	439	-	2,251	-	35,314	-	37,565
Performance and restricted stock activity	-	1,609	-	(40,378)	-	40,314	-	(64)
Amortization of performance and restricted stock compensation	-	-	-	-	-	52,490	-	52,490
Issuance of stock for employee benefit plans	-	1,282	-	(37,983)	-	102,154	-	64,171
Other activity	-	-	-	501	-	-	-	501
<b>Balance, September 30, 2008</b>	\$500,000	353,962	\$372,799	\$6,783,976	\$10,959,830	(\$1,435,517)	\$888,290	\$18,069,378
<b>Balance, January 1, 2009</b>	\$5,221,703	354,515	\$372,799	\$6,904,644	\$10,388,984	(\$1,368,450)	\$981,125	\$22,500,805
Net loss	-	-	-	-	(1,315,568)	-	-	(1,315,568)
Other comprehensive income:								
Change in unrealized gains (losses) on securities, net of taxes	-	-	-	-	-	-	321,991	321,991
Change in unrealized gains (losses) on derivatives, net of taxes	-	-	-	-	-	-	(296,469)	(296,469)
Change related to employee benefit plans	-	-	-	-	-	-	153,219	153,219
<b>Total comprehensive loss</b>								(1,136,827)
Change in noncontrolling interest	-	-	-	-	-	(1,648)	-	(1,648)
Common stock dividends, \$0.21 per share	-	-	-	-	(77,632)	-	-	(77,632)
Series A preferred stock dividends, \$3,044 per share	-	-	-	-	(12,398)	-	-	(12,398)
U.S. Treasury preferred stock dividends, \$3,754 per share	-	-	-	-	(182,062)	-	-	(182,062)
Accretion of discount associated with U.S. Treasury preferred stock	17,202	-	-	-	(17,202)	-	-	-
Issuance of common stock in connection with SCAP capital plan	-	141,868	141,868	1,687,867	-	-	-	1,829,735
Extinguishment of forward stock purchase contract	-	-	-	173,653	-	-	-	173,653
Repurchase of preferred stock	(327,489)	-	-	5,047	94,318	-	-	(228,124)
Exercise of stock options and stock compensation expense	-	-	-	6,045	-	-	-	6,045
Performance and restricted stock activity	-	1,900	-	(204,984)	-	174,854	-	(30,130)



Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

Amortization of performance and restricted stock compensation	-	-	-	-	-	51,330	-	51,330
Issuance of stock for employee benefit plans	-	864	-	(51,739)	(5)	67,281	-	15,537
Adoption of ASC 320-10 <sup>2</sup>	-	-	-	-	7,715		(7,715)	-
<b>Balance, September 30, 2009</b>	<b>\$4,911,416</b>	<b>499,147</b>	<b>\$514,667</b>	<b>\$8,520,533</b>	<b>\$8,886,150</b>	<b>(\$1,076,633)</b>	<b>\$1,152,151</b>	<b>\$22,908,284</b>

<sup>1</sup> Balance at September 30, 2009 includes (\$1,110,960) for treasury stock, (\$76,721) for compensation element of restricted stock, and \$111,048 for noncontrolling interest.

Balance at September 30, 2008 includes (\$1,413,849) for treasury stock, (\$135,021) for compensation element of restricted stock, and \$113,353 for noncontrolling interest.

<sup>2</sup> Effective April 1, 2009, the Company adopted the update to ASC 320-10, which provided the guidance in determining the impact of other-than-temporary impairment. Amounts shown are net-of-tax. See Note 1, Summary of Significant Accounting Principles and Note 3, Securities Available For Sale to the Consolidated Financial Statements for additional information on adoption of this accounting guidance.

See Notes to Consolidated Financial Statements (unaudited).

**Table of Contents****SunTrust Banks, Inc.****Consolidated Statements of Cash Flows**

(Dollars in thousands) (Unaudited)	Nine Months Ended September 30	
	2009	2008
<b>Cash Flows from Operating Activities:</b>		
Net income/(loss) including income attributable to noncontrolling interest	(\$1,306,083)	\$1,152,254
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Net gain on sale of businesses	-	(200,851)
Visa litigation	7,000	(19,124)
Expense recognized on contribution of common stock of The Coca-Cola Company	-	183,418
Gain from ownership in Visa	(112,102)	(86,305)
Depreciation, amortization and accretion	722,118	628,581
Impairment of goodwill/intangibles	751,156	45,000
Recovery of mortgage servicing rights impairment, net of reserve	(188,699)	-
Origination of mortgage servicing rights	(585,516)	(396,590)
Provisions for loan losses and foreclosed property	3,244,418	1,564,873
Amortization of performance and restricted stock compensation	51,330	52,490
Stock option compensation	6,045	14,080
Excess tax benefits from stock-based compensation	(369)	(786)
Net loss on extinguishment of debt	15,836	11,723
Net securities gains	(25,170)	(662,247)
Net gain on sale/leaseback of premises	-	(37,039)
Net gain on sale of assets	(40,157)	(43,096)
Net (increase)/decrease in loans held for sale	(809,791)	3,469,032
Contributions to retirement plans	(20,476)	(4,237)
Net (increase)/decrease in other assets	965,585	(1,657,668)
Net decrease in other liabilities	(962,414)	(782,950)
 Net cash provided by operating activities	 1,712,711	 3,230,558
<b>Cash Flows from Investing Activities:</b>		
Proceeds from maturities, calls and paydowns of securities available for sale	2,674,985	1,066,923
Proceeds from sales of securities available for sale	10,210,583	2,047,309
Purchases of securities available for sale	(20,167,736)	(1,915,327)
Proceeds from maturities, calls and paydowns of trading securities	80,496	3,620,326
Proceeds from sales of trading securities	2,113,466	3,004,185
Purchases of trading securities	(85,965)	(3,195,164)
Loan repayments/(originations), net	7,076,102	(4,813,139)
Proceeds from sales of loans held for investment	524,589	933,476
Proceeds from sale of mortgage servicing rights	-	148,378
Capital expenditures	(160,674)	(141,381)
Net cash and cash equivalents received for sale of businesses	-	297,211
Net cash and cash equivalents (paid for)/acquired in acquisitions	(1,802)	70,746
Proceeds from sale/redemption of Visa shares	112,102	86,305
Seix contingent consideration payout	(12,722)	-
Proceeds from the sale/leaseback of premises	-	288,851
Proceeds from the sale of other assets	412,425	252,759
 Net cash provided by investing activities	 2,775,849	 1,751,458
<b>Cash Flows from Financing Activities:</b>		
Net increase/(decrease) in consumer and commercial deposits	7,881,081	(1,681,823)
Net decrease in foreign and brokered deposits	(2,327,478)	(1,888,211)
Assumption of deposits, net	445,482	160,517
Net decrease in funds purchased, securities sold under agreements to repurchase, and other short-term borrowings	(4,563,095)	(3,069,088)
Proceeds from the issuance of long-term debt	574,560	4,838,704
Repayment of long-term debt	(9,319,440)	(3,606,978)

Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

Proceeds from the exercise of stock options	-	22,174
Excess tax benefits from stock-based compensation	369	786
Proceeds from the issuance of common stock	1,829,735	-
Repurchase of preferred stock	(228,124)	-
Common and preferred dividends paid	(261,315)	(830,171)
<b>Net cash used in financing activities</b>	<b>(5,968,225)</b>	<b>(6,054,090)</b>
Net decrease in cash and cash equivalents	(1,479,665)	(1,072,074)
Cash and cash equivalents at beginning of period	6,637,402	5,642,601
Cash and cash equivalents at end of period	\$5,157,737	\$4,570,527

**Supplemental Disclosures:**

Loans transferred from loans held for sale to loans	\$301,308	\$642,268
Loans transferred from loans to other real estate owned	602,651	480,512
U.S. Treasury preferred dividend accrued but unpaid	10,777	-
Accretion on U.S. Treasury preferred stock	17,202	-
Extinguishment of forward stock purchase contract	173,653	-
Gain on repurchase of Series A preferred stock	94,318	-

*See Notes to Consolidated Financial Statements (unaudited).*

---

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)****Note 1 Significant Accounting Policies***Basis of Presentation*

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ( U.S. GAAP ) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results of operations in these financial statements, have been made. Effective May 1, 2008, SunTrust Banks, Inc. ( SunTrust or the Company ) acquired GB&T Bancshares, Inc. ( GB&T ). The acquisition was accounted for under the purchase method of accounting with the results of operations for GB&T included in those of the Company beginning May 1, 2008.

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

These financial statements should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2008. Except for accounting policies that have been modified or recently adopted as described below, there have been no significant changes to the Company's accounting policies as disclosed in the Annual Report on Form 10-K for the year ended December 31, 2008.

*Accounting Policies Recently Adopted and Pending Accounting Pronouncements*

In June 2009, the Financial Accounting Standards Board ( FASB ) issued an update to Accounting Standard Codification 105-10, Generally Accepted Accounting Principles . This standard establishes the FASB Accounting Standard Codification ( Codification or ASC ) as the source of authoritative U.S. GAAP recognized by the FASB for nongovernmental entities. The Codification is effective for interim and annual periods ending after September 15, 2009. The Codification is a reorganization of existing U.S. GAAP and does not change existing U.S. GAAP. The Company adopted this standard during the third quarter of 2009. The adoption had no impact on the Company's financial position, results of operations, and earnings per share.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets , and SFAS No. 167, Amendments to FASB Interpretation No. 46(R) . These standards are effective for the first interim reporting period of 2010. SFAS No. 166 amends the guidance in ASC 860 to eliminate the concept of a qualifying special-purpose entity ( QSPE ) and changes some of the requirements for derecognizing financial assets. SFAS No. 167 amends the consolidation guidance in ASC 810-10. Specifically, the amendments will (a) eliminate the exemption for QSPEs from the new guidance, (b) shift the determination of which enterprise should consolidate a variable interest entity ( VIE ) to a current control approach, such that an entity that has both the power to make decisions and right to receive benefits or absorb losses that could potentially be significant, will consolidate a VIE, and (c) change when it is necessary to reassess who should consolidate a VIE. The Company is evaluating the impact that these standards will have on its financial statements.

The Company is in process of performing an analysis of the impact of these accounting standards on all QSPEs and VIE structures with which it is involved. Based on this analysis to date, the Company expects to consolidate its multi-seller conduit, Three Pillars Funding, LLC ( Three Pillars ). The primary balance sheet impacts of consolidating Three Pillars will be increases in loans and leases, the related allowance for loan losses, and short-term borrowings. The Company expects to earn approximately the same annual net income from its involvement with Three Pillars, but the Company's Consolidated Statement of Income will reflect a reduction in noninterest income and an increase in net interest income due to consolidation. (See Note 7, Certain Transfers of Financial Assets, Mortgage Servicing Rights and Variable Interest Entities, to the Consolidated Financial Statements for more discussion of Three Pillars.)

The pro forma impact of consolidating Three Pillars on January 1, 2010 (based on estimates of the carrying values of the assets of Three Pillars as of September 30, 2009) will be incremental assets and liabilities of approximately \$902.0 million, as the Company currently holds \$1.3 billion of Three Pillars commercial paper at September 30, 2009. There will be an insignificant impact on equity as a result of the transition adjustment that will be recorded on January 1, 2010 related to this consolidation. Based on financial information as of September 30, 2009, the pro forma impact on certain of the Company's regulatory capital ratios as a result of consolidating Three Pillars under both the current and the proposed risk-based capital rules is not significant.



---

**Table of Contents**

**Notes to Consolidated Financial Statements (Unaudited)-Continued**

The Company expects to initially measure assets, liabilities, and noncontrolling interests of Three Pillars at their unpaid principal balance. The Company expects that the cumulative effect of adopting SFAS 167 as of January 1, 2010 will not have a material impact on its financial statements or capital position.

The Company does not currently believe that it is the primary beneficiary of any other significant off-balance sheet entities with which it is involved. The Company will continue to evaluate the impact of the new guidance on its other structures. The ultimate impact could differ due to ongoing interpretations of the standard and market conditions. It is possible that the ongoing analysis and new interpretations may result in the identification of additional VIEs and QSPEs, other than Three Pillars, that may need to be consolidated. The Company does not currently expect the consolidation of such additional entities to have a significant impact on the Company's consolidated financial statements or regulatory capital.

In August 2009, the FASB issued Accounting Standards Update (ASU) 2009-05, *Measuring Liabilities at Fair Value*, which updates ASC 820-10, *Fair Value Measurements and Disclosures*. The updated guidance clarifies that the fair value of a liability can be measured in relation to the quoted price of the liability when it trades as an asset in an active market, without adjusting the price for restrictions that prevent the sale of the liability. This guidance is effective beginning October 1, 2009. The Company does not expect that the guidance will change its valuation techniques for measuring liabilities at fair value.

In May 2009, the FASB updated ASC 855, *Subsequent Events*. ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted this guidance during the second quarter of 2009. In accordance with the update, the Company evaluates subsequent events through the date its financial statements are filed. The adoption of this guidance did not have an impact on the Company's financial position, results of operations, or earnings per share.

In April 2009, the FASB updated ASC 320-10, *Investments - Debt and Equity Securities*. The guidance amends the other-than-temporary impairment (OTTI) guidance for debt securities. If the fair value of a debt security is less than its amortized cost basis at the measurement date, the updated guidance requires the Company to determine whether it has the intent to sell the debt security or whether it is more likely than not it will be required to sell the debt security before the recovery of its amortized cost basis. If either condition is met, an entity must recognize full impairment. For all other debt securities that are considered other-than-temporarily impaired and do not meet either condition, the guidance requires that the credit loss portion of impairment be recognized in earnings and the temporary impairment related to all other factors be recorded in other comprehensive income. In addition, the guidance requires additional disclosures regarding impairments on debt and equity securities. The Company adopted this guidance effective April 1, 2009 and in connection therewith, recorded a \$7.7 million, net of tax, reclassification to decrease other comprehensive income for impairment charges previously recorded through earnings with an offset to retained earnings as a cumulative effect adjustment. The enhanced disclosures required by the guidance are included in Note 3, *Securities Available for Sale*, to the Consolidated Financial Statements.

In April 2009, the FASB updated ASC 820-10, *Fair Value Measurements and Disclosures* to provide guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. This issuance provides guidance on estimating fair value when there has been a significant decrease in the volume and level of activity for the asset or liability and for identifying transactions that may not be orderly. The guidance requires entities to disclose the inputs and valuation techniques used to measure fair value and to discuss changes in valuation techniques and related inputs, if any, in both interim and annual periods. The Company adopted this guidance during the second quarter of 2009 and the adoption did not have a material impact on the Company's financial position and results of operations, as the Company's existing valuation methodologies were largely consistent with those of this guidance. The enhanced disclosures related to this guidance are included in Note 15, *Fair Value Election and Measurement*, to the Consolidated Financial Statements.

In April 2009, the FASB updated ASC 825-10 *Financial Instruments*. This update amends the fair value disclosure guidance in ASC 825-10-50 and requires an entity to disclose the fair value of its financial instruments in interim reporting periods as well as in annual financial statements. The methods and significant assumptions used to estimate the fair value of financial instruments and any changes in methods and assumptions used during the reporting period are also required to be disclosed both on an interim and annual basis. The Company adopted this guidance during the second quarter of 2009. The required disclosures have been included in Note 15, *Fair Value Election and Measurement*, to the Consolidated Financial Statements.

## Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

In June 2008, the FASB updated ASC 260-10, Earnings Per Share. The guidance concludes that invested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities that should be included in the earnings allocation in computing earnings per share under the two-class method. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior period earnings per share data presented must be adjusted retrospectively. The adoption of this update, effective January 1, 2009, did not have a material impact on the Company's financial position, results of operations, and earnings per share.

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

In December 2007, the FASB updated ASC 810-10, Consolidation. This update generally requires that a noncontrolling interest in a subsidiary (i.e. minority interest) be reported in the equity section of the balance sheet instead of being reported as a liability or in the mezzanine section between debt and equity. It also requires that the consolidated income statement include consolidated net income attributable to the Company and the noncontrolling interest of a consolidated subsidiary. The update is effective for annual periods beginning after December 15, 2008. The Company adopted this update effective January 1, 2009, and is required to apply the guidance retrospectively to all prior periods presented. Reclassifications of \$112.7 million were made in the Consolidated Balance Sheet as of December 31, 2008 and \$2.8 million and \$8.9 million in the Consolidated Statements of Income/(Loss) for the three and nine month periods ended September 30, 2008, respectively, to conform to the current period presentation.

**Note 2 Acquisitions / Dispositions**

(in millions)	Date	Cash or other consideration (paid)/received	Goodwill	Other Intangibles	Gain/ (Loss)	Comments
<b>For the Nine Months Ended September 30, 2009</b>						
Acquisition of Epic Advisors, Inc.	4/1/09	(\$2.0)	\$5.0	\$0.6	\$-	Goodwill and intangibles recorded are tax-deductible.
<b>For the Nine Months Ended September 30, 2008</b>						
Purchase of remaining interest in Zevenbergen Capital Investments, LLC	9/30/08	(22.6)	20.7	-	-	Goodwill recorded is tax-deductible.
Sale of TransPlatinum Service Corp.	9/2/08	100.0	(10.5)	-	81.8	
Sale of First Mercantile Trust Company	5/30/08	59.1	(11.7)	(3.0)	29.6	
Acquisition of GB&T Bancshares, Inc <sup>1</sup>	5/1/08	(154.6)	143.5	29.5	-	Goodwill and intangibles recorded are non tax-deductible.
Sale of 24.9% interest in Lighthouse Investment Partners, LLC ( Lighthouse Investment Partners )	1/2/08	155.0	-	(6.0)	89.4	SunTrust will continue to earn a revenue share based upon client referrals to the funds.

<sup>1</sup> On May 1, 2008, SunTrust acquired GB&T, a North Georgia-based financial institution serving commercial and retail customers, for \$154.6 million, including cash paid for fractional shares, via the merger of GB&T with and into SunTrust. In connection therewith, GB&T shareholders received 0.1562 shares of the Company's common stock for each share of GB&T's common stock, resulting in the issuance of approximately 2.2 million shares of SunTrust common stock. As a result of the acquisition, SunTrust acquired approximately \$1.4 billion of loans, primarily commercial real estate loans, and assumed approximately \$1.4 billion of deposit liabilities. SunTrust elected to account for \$171.6 million of the acquired loans at fair value. The remaining loans are accounted for at amortized cost and had a carryover reserve for loan and lease losses of \$158.7 million. The acquisition was accounted for under the purchase method of accounting with the results of operations for GB&T included in SunTrust's results beginning May 1, 2008.

**Note 3 Securities Available for Sale**

Securities available for sale at September 30, 2009 and December 31, 2008 were as follows:

(Dollars in thousands)	Amortized Cost	September 30, 2009		Fair Value
		Unrealized Gains	Unrealized Losses	
U.S. Treasury and federal agencies	\$4,879,151	\$48,797	\$252	\$4,927,696
U.S. states and political subdivisions	968,561	37,626	5,934	1,000,253
Residential mortgage-backed securities - agency	12,155,652	310,186	1,857	12,463,981
Residential mortgage-backed securities - private	522,808	1,650	107,213	417,245
Other debt securities	791,992	15,868	7,537	800,323
Common stock of The Coca-Cola Company	69	1,610,931	-	1,611,000
Other equity securities <sup>1</sup>	901,451	901	-	902,352



Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

Total securities available for sale	\$20,219,684	\$2,025,959	\$122,793	\$22,122,850
-------------------------------------	--------------	-------------	-----------	--------------

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

(Dollars in thousands)	December 31, 2008			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and federal agencies	\$464,566	\$21,889	\$302	\$486,153
U.S. states and political subdivisions	1,018,906	24,621	6,098	1,037,429
Residential mortgage-backed securities - agency	14,424,531	135,803	10,230	14,550,104
Residential mortgage-backed securities - private	629,174	8,304	115,327	522,151
Other debt securities	302,800	4,444	13,059	294,185
Common stock of The Coca-Cola Company	69	1,358,031	-	1,358,100
Other equity securities <sup>1</sup>	1,443,161	5,254	-	1,448,415
<b>Total securities available for sale</b>	<b>\$18,283,207</b>	<b>\$1,558,346</b>	<b>\$145,016</b>	<b>\$19,696,537</b>

<sup>1</sup>Includes \$343.3 million and \$493.2 million of Federal Home Loan Bank ( FHLB ) of Cincinnati and FHLB of Atlanta stock stated at par value, \$360.4 million and \$360.9 million of Federal Reserve Bank stock stated at par value and \$197.4 million and \$588.5 million of mutual fund investments stated at fair value as of September 30, 2009 and December 31, 2008, respectively.

The amortized cost and fair value of investments in debt securities at September 30, 2009 by estimated average life are shown below. Actual cash flows may differ from estimated average lives and contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	1 Year or Less	1-5 Years	5-10 Years	After 10 Years	Total
<b>Distribution of Maturities:</b>					
<b>Amortized Cost</b>					
Residential mortgage-backed securities - agency	\$152,410	\$9,711,233	\$2,210,677	\$81,332	\$12,155,652
Other debt securities	397,451	6,057,151	512,896	195,014	7,162,512
<b>Total debt securities</b>	<b>\$549,861</b>	<b>\$15,768,384</b>	<b>\$2,723,573</b>	<b>\$276,346</b>	<b>\$19,318,164</b>
<b>Fair Value</b>					
Residential mortgage-backed securities - agency	\$157,076	\$9,930,036	\$2,291,170	\$85,699	\$12,463,981
Other debt securities	400,407	6,035,037	526,004	184,069	7,145,517
<b>Total debt securities</b>	<b>\$557,483</b>	<b>\$15,965,073</b>	<b>\$2,817,174</b>	<b>\$269,768</b>	<b>\$19,609,498</b>

Gross realized gains and losses on sales and OTTI on securities available for sale during the periods were as follows:

(Dollars in thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Gross realized gains	\$71,395	\$183,464	\$87,559	\$744,838
Gross realized losses	(15,048)	(142)	(46,273)	(826)
OTTI	(9,655)	(10,276)	(16,116)	(81,765)
<b>Net securities gains/(losses)</b>	<b>\$46,692</b>	<b>\$173,046</b>	<b>\$25,170</b>	<b>\$662,247</b>

Securities with unrealized losses at September 30, 2009 and December 31, 2008 were as follows:

Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

(Dollars in thousands)	Less than twelve months		September 30, 2009 Twelve months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	U.S. Treasury and federal agencies	\$161,276	\$252	\$-	\$-	\$161,276
U.S. states and political subdivisions	79,175	4,775	69,417	1,159	148,592	5,934
Residential mortgage-backed securities - agency	478,401	1,857	103	-	478,504	1,857
Residential mortgage-backed securities - private	16,016	3,461	342,152	103,752	358,168	107,213
Other debt securities	34,065	1,839	28,799	5,698	62,864	7,537
Total securities with unrealized losses	\$768,933	\$12,184	\$440,471	\$110,609	\$1,209,404	\$122,793

(Dollars in thousands)	Less than twelve months		December 31, 2008 Twelve months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	U.S. Treasury and federal agencies	\$43,584	\$302	\$23	\$-	\$43,607
U.S. states and political subdivisions	169,693	4,980	14,879	1,118	184,572	6,098
Residential mortgage-backed securities - agency	3,354,319	10,223	472	7	3,354,791	10,230
Residential mortgage-backed securities - private	450,653	98,696	40,269	16,631	490,922	115,327
Other debt securities	143,666	6,901	28,944	6,158	172,610	13,059
Total securities with unrealized losses	\$4,161,915	\$121,102	\$84,587	\$23,914	\$4,246,502	\$145,016

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

On September 30, 2009, the Company held certain investment securities having unrealized loss positions. The Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before their anticipated recovery. The Company has reviewed its portfolio for OTTI in accordance with the accounting policies outlined in Note 1, Significant Accounting Policies, to the Consolidated Financial Statements. Market changes in interest rates and credit spreads will result in temporary unrealized losses as the market price of securities fluctuates. The turmoil and illiquidity in the financial markets during 2008 and 2009 have increased market yields on securities as a result of credit spreads widening. This shift in market yields resulted in unrealized losses on certain securities within the Company's portfolio that continued during the first nine months of 2009. The unrealized loss of \$107.2 million in private residential mortgage-backed securities (MBS) as of September 30, 2009 includes purchased and retained interests from securitizations that are evaluated quarterly for OTTI using cash flow models. The Company records OTTI based on the credit impairment estimates derived from the cash flow analyses. The remaining unrealized loss in OCI is reflective of the current illiquidity and risk premiums reflected in the market. The unrealized loss of \$7.5 million in other debt securities is primarily related to senior and subordinated corporate bond positions. As of September 30, 2009, approximately 93% of the total securities available for sale portfolio are rated AAA, the highest possible rating by nationally recognized rating agencies.

For the three and nine months ended September 30, 2009, the Company recorded OTTI losses on available for sale securities as follows:

	Three Months Ended September 30 2009	Nine Months Ended September 30 2009	
	Residential Mortgage-Backed Securities - Private	Residential Mortgage-Backed Securities - Private	Other Securities
(Dollars in thousands)			
Total other than temporary impairment losses	\$89,702	\$95,951	\$212
Portion of losses recognized in other comprehensive income (before taxes)	80,047	80,047	-
<b>Net impairment losses recognized in earnings</b>	<b>\$9,655</b>	<b>\$15,904</b>	<b>\$212</b>

While all securities are reviewed for OTTI, the securities primarily impacted by credit impairment are private residential MBS. For these securities, impairment is determined through the use of cash flow models that estimate cash flows on the underlying mortgages, using security specific collateral and the transaction structure. The cash flow models incorporate the remaining cash flows which are adjusted for future expected credit losses. Future expected credit losses are determined by using various assumptions such as current default rates, prepayment rates, and loss severities. The Company develops these assumptions through the use of market data published by third-party sources in addition to historical analysis which includes actual delinquency and default information through the current period. The expected cash flows are then discounted at the interest rate used to recognize interest income on the security to arrive at a present value amount. The following table presents a summary of the significant inputs considered in determining the measurement of credit losses recognized in earnings for private residential MBS:

	September 30 2009
Current default rate	0-12%
Prepayment rate	5-17%
Loss severity	35-100%

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

The following is a rollforward of credit losses recognized in earnings for the three and six months ended September 30, 2009 related to securities for which some portion of the impairment was recorded in other comprehensive income.

(Dollars in thousands)	<b>Three Months Ended September 30, 2009</b>
Balance, as of June 30, 2009	<b>\$12,451</b>
Additions:	
OTTI credit losses on securities not previously impaired	<b>7,833</b>
OTTI credit losses on previously impaired securities	<b>1,822</b>
<b>Balance, as of September 30, 2009</b>	<b>\$22,106</b>

(Dollars in thousands)	<b>Six Months Ended September 30, 2009</b>
Balance, as of April 1, 2009, effective date	<b>\$7,646</b>
Additions:	
OTTI credit losses on securities not previously impaired	<b>12,638</b>
OTTI credit losses on previously impaired securities	<b>1,822</b>
<b>Balance, as of September 30, 2009</b>	<b>\$22,106</b>

The Company adopted the updated guidance in ASC 320-10 on determining OTTI on securities on April 1, 2009 and in conjunction therewith analyzed the securities for which it had previously recognized OTTI and recognized a cumulative effect adjustment representing the non-credit component of OTTI of \$7.7 million, net of tax. The Company had previously recorded the non-credit component as impairment in earnings and therefore this amount was reclassified from retained earnings to other comprehensive income. The beginning balance of \$7.6 million, pre-tax, as of the effective date, represents the credit loss component which remained in retained earnings related to the securities for which a cumulative effect adjustment was recorded. OTTI credit losses reflect the difference between the present value of cash flows expected to be collected, discounted using the security's initial effective interest rate, and the amortized cost basis of these securities. The total OTTI impairment related to factors other than credit and therefore, recognized in accumulated other comprehensive income ( AOCI ), before tax, totaled \$80.0 million as of September 30, 2009.

**Note 4 Allowance for Loan and Lease Losses**

Activity in the allowance for loan and lease losses is summarized in the table below:

(Dollars in thousands)	<b>Three Months Ended September 30</b>			<b>Nine Months Ended September 30</b>		
	<b>2009</b>	2008	%	<b>2009</b>	2008	%
Balance at beginning of period	<b>\$2,896,000</b>	\$1,829,400	58.3 %	<b>\$2,350,996</b>	\$1,282,504	83.3 %
Allowance from GB&T acquisition	-	-	-	-	158,705	(100.0)
Provision for loan losses	<b>1,133,929</b>	503,672	125.1	<b>3,090,208</b>	1,511,721	104.4
Loan charge-offs	<b>(1,045,894)</b>	(419,724)	149.2	<b>(2,528,368)</b>	(1,097,985)	130.3
Loan recoveries	<b>39,965</b>	27,652	44.5	<b>111,164</b>	86,055	29.2
<b>Balance at end of period</b>	<b>\$3,024,000</b>	\$1,941,000	55.8 %	<b>\$3,024,000</b>	\$1,941,000	55.8 %

**Note 5 Premises and Equipment**

## Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

During the nine months ended September 30, 2008, the Company completed sale/leaseback transactions, consisting of 152 branch properties and various individual office buildings. In total, during 2008, the Company sold and concurrently leased back \$201.9 million in land and buildings with associated accumulated depreciation of \$110.3 million. Net proceeds were \$288.9 million, resulting in a gross gain, net of transaction costs, of \$197.3 million. For the nine months ended September 30, 2008, the Company recognized \$37.0 million of gain, all of which was recognized in the first quarter of 2008. The remaining \$160.3 million in gains were deferred and will be recognized ratably over the expected term of the respective leases, which is 10 years.

### **Note 6 Goodwill and Other Intangible Assets**

Due to the continued recessionary environment and sustained deterioration in the economy during the first quarter of 2009, the Company performed a complete goodwill impairment analysis for all of its reporting units. The estimated fair value of the Retail, Commercial, and Wealth and Investment Management reporting units exceeded their respective carrying values as of March 31, 2009; however, the fair value of the Household Lending, Corporate and Investment Banking, Commercial Real Estate (included in Retail and Commercial segment), and Affordable Housing (included in Retail and Commercial segment) reporting units were less than their respective carrying values. The implied fair value of goodwill of the Corporate and Investment Banking reporting unit exceeded the carrying value of the goodwill, thus no goodwill impairment was recorded for this reporting unit as of March 31, 2009. However, the implied fair value of goodwill applicable to the Household Lending, Commercial Real Estate, and Affordable Housing

Table of Contents**Notes to Consolidated Financial Statements (Unaudited)-Continued**

reporting units was less than the carrying value of the goodwill. As of March 31, 2009, an impairment loss of \$751.2 million was recorded, which was the entire amount of goodwill carried by each of those reporting units. Based on the tax nature of the acquisitions that initially generated the goodwill, \$677.4 million of the goodwill impairment charge was non-deductible for tax purposes. The goodwill impairment charge was a direct result of continued deterioration in the real estate markets and macro economic conditions that put downward pressure on the fair value of these businesses. The primary factors contributing to the impairment recognition was further deterioration in the actual and projected financial performance of these reporting units, as evidenced by the increase in net charge-offs and nonperforming loans. These declines reflected the existing economic downturn, which resulted in depressed earnings in these businesses and the significant decline in the Company's market capitalization during the first quarter.

During the second quarter of 2009, the Company performed an updated evaluation of the Corporate and Investment Banking goodwill, which involved estimating the fair value of the reporting unit and the implied fair value of goodwill. The implied fair value of goodwill exceeded the carrying value of goodwill, thus no goodwill impairment was recorded as of June 30, 2009.

The Company completed its annual goodwill impairment test as of September 30, 2009. The estimated fair value of each of the Company's reporting units which carry goodwill exceeded their respective carrying value as of September 30, 2009; therefore, the Company determined there was no impairment of goodwill. The improvement in the estimated fair value of the Corporate and Investment Banking reporting unit was due to increased valuation multiples observed in the market.

Changes in the carrying amount of goodwill by reportable segment for the nine months ended September 30, 2009 are as follows:

(Dollars in thousands)	Retail and Commercial	Wholesale	Corporate and Investment Banking	Household Lending	Mortgage	Wealth and Investment Management	Corporate Other and Treasury	Total
<b>Balance, January 1, 2009</b>	<b>\$5,911,990</b>	<b>\$522,548</b>	<b>\$-</b>	<b>\$-</b>	<b>\$278,254</b>	<b>\$330,711</b>	<b>\$-</b>	<b>\$7,043,503</b>
Intersegment transfers <sup>1</sup>	125,580	(522,548)	223,307	451,915	(278,254)	-	-	-
Goodwill impairment	(299,241)	-	-	(451,915)	-	-	-	(751,156)
Seix contingent consideration	-	-	-	-	-	12,722	-	12,722
Purchase of Epic Advisors, Inc.	-	-	-	-	-	5,012	-	5,012
Other	474	-	-	-	-	3,827	-	4,301
<b>Balance, September 30, 2009</b>	<b>\$5,738,803</b>	<b>\$-</b>	<b>\$223,307</b>	<b>\$-</b>	<b>\$-</b>	<b>\$352,272</b>	<b>\$-</b>	<b>\$6,314,382</b>

<sup>1</sup> Goodwill was reallocated among the reportable segments as a result of the corporate restructuring described in Note 17, Business Segment Reporting, to the Consolidated Financial Statements.

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

Changes in the carrying amounts of other intangible assets for the nine months ended September 30 are as follows:

(Dollars in thousands)	Core Deposit Intangibles	Mortgage Servicing Rights- Amortized Cost	Mortgage Servicing Rights- Fair Value	Other	Total
Balance, January 1, 2008	\$172,655	\$1,049,425	\$-	\$140,915	\$1,362,995
Amortization	(43,761)	(164,546)	-	(15,240)	(223,547)
Mortgage servicing rights ( MSRs ) originated	-	396,590	-	-	396,590
MSRs impairment reserve	-	(1,881)	-	-	(1,881)
MSRs impairment recovery	-	1,881	-	-	1,881
Sale of interest in Lighthouse Partners	-	-	-	(5,992)	(5,992)
Sale of MSRs	-	(131,456)	-	-	(131,456)
Customer intangible impairment charge	-	-	-	(45,000)	(45,000)
Purchased credit card relationships <sup>3</sup>	-	-	-	9,898	9,898
Acquisition of GB&T	29,510	-	-	-	29,510
Sale of First Mercantile Trust	-	-	-	(3,033)	(3,033)
<b>Balance, September 30, 2008</b>	<b>\$158,404</b>	<b>\$1,150,013</b>	<b>\$-</b>	<b>\$81,548</b>	<b>\$1,389,965</b>
<b>Balance, January 1, 2009</b>	<b>\$145,311</b>	<b>\$810,474</b>	<b>\$-</b>	<b>\$79,642</b>	<b>\$1,035,427</b>
Designated at fair value (transfers from amortized cost)	-	(187,804)	187,804	-	-
Amortization	(32,361)	(171,895)	-	(11,323)	(215,579)
MSRs originated	-	-	585,516	-	585,516
MSRs impairment recovery	-	188,699	-	-	188,699
Changes in fair value					
Due to changes in inputs or assumptions <sup>1</sup>	-	-	70,148	-	70,148
Other changes in fair value <sup>2</sup>	-	-	(60,226)	-	(60,226)
Other	-	-	-	151	151
<b>Balance, September 30, 2009</b>	<b>\$112,950</b>	<b>\$639,474</b>	<b>\$783,242</b>	<b>\$68,470</b>	<b>\$1,604,136</b>

<sup>1</sup> Primarily reflects changes in discount rates and prepayment speed assumptions, due to changes in interest rates.

<sup>2</sup> Represents changes due to the collection of expected cash flows, net of accretion, due to passage of time.

<sup>3</sup> During the third quarter of 2008, SunTrust purchased a credit card portfolio of loans including the cardholder relationships from another financial institution representing an outstanding balance of \$82.4 million at the time of acquisition. A majority of the premium paid was attributed to the cardholder relationships and is being amortized over seven years.

The Company elected to create a second class of MSRs effective January 1, 2009. This new class of MSRs is reported at fair value and is being actively hedged as discussed in Note 12, Derivative Financial Instruments, to the Consolidated Financial Statements. MSRs associated with loans originated or sold prior to 2008 continue to be accounted for using the amortized cost method and managed through the Company's overall asset/liability management process. The transfer of MSRs from the amortized cost method to fair value did not have a material effect on the Consolidated Financial Statements since the MSRs were effectively reported at fair value as of December 31, 2008 as a result of impairment losses recognized at the end of 2008.

**Note 7 Certain Transfers of Financial Assets, Mortgage Servicing Rights and Variable Interest Entities*****Certain Transfers of Financial Assets***

The Company has transferred residential and commercial mortgage loans, student loans, commercial and corporate loans, and collateralized debt obligation ( CDO ) securities in a sale or securitization in which the Company has, or had, continuing involvement. All such transfers have been



## Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

accounted for as sales by the Company. The Company's continuing involvement in such transfers has been limited to owning certain beneficial interests, such as securitized debt instruments, and certain servicing or collateral manager responsibilities. Except as specifically noted herein, the Company is not required to provide additional financial support to any of these entities, nor has the Company provided any support it was not obligated to provide. Interests that continue to be held by the Company in transferred financial assets, excluding servicing and collateral management rights, are generally recorded as securities available for sale or trading assets at their allocated carrying amounts based on their relative fair values at the time of transfer and are subsequently remeasured at fair value. For such interests, when quoted market prices are not available, fair value is generally estimated based on the present value of expected cash flows, calculated using management's best estimates of key assumptions, including credit losses, loan repayment speeds, and discount rates commensurate with the risks involved, based on how management believes market participants would determine such assumptions. See Note 15, Fair Value Election and Measurement, to the Consolidated Financial Statements for further discussion of the Company's fair value methodologies. Servicing rights may give rise to servicing assets, which are either initially recognized at fair value, subsequently amortized, and tested for impairment or elected to be carried at fair value. Gains or losses upon sale, in addition to servicing fees and collateral management fees, are recorded in noninterest income. Changes in the fair value of interests that continue to be held by the Company that are accounted for as trading assets or securities available for sale are recorded in trading account profits/(losses) and commissions or as a component of AOCI,

---

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

respectively. In the event any decreases in the fair value of such interests that are recorded as securities available for sale are deemed to be other-than-temporary due to underlying credit impairment, the estimated credit component of such loss is recorded in securities gains/(losses). See Note 1, Significant Accounting Policies, to the Consolidated Financial Statements for a discussion of the impacts of SFAS No. 167 on certain of the Company's involvements with VIEs discussed herein.

**Residential Mortgage Loans**

The Company typically transfers first lien residential mortgage loans in securitization transactions involving QSPEs sponsored by Ginnie Mae, Fannie Mae, and Freddie Mac. These loans are exchanged for cash or securities that are readily redeemed for cash proceeds and servicing rights, which generate servicing assets for the Company. The servicing assets are recorded initially at fair value. Beginning January 1, 2009, the Company began to carry certain mortgage servicing rights at fair value along with servicing rights that were originated in 2008 which were transferred to fair value. See Mortgage Servicing Rights herein and Note 6, Goodwill and Other Intangible Assets, to the Consolidated Financial Statements for further discussion regarding the accounting for servicing rights. In a limited number of securitizations, the Company has transferred loans to QSPEs sponsored by the Company. In these transactions, the Company has received securities representing retained interests in the transferred loans in addition to cash and servicing rights in exchange for the transferred loans. The retained securities are carried at fair value as either trading assets or securities available for sale. The Company has accounted for all transfers of residential mortgage loans to QSPEs as sales and, because the transferees are QSPEs, the Company does not consolidate any of these entities. No events have occurred during the quarter ended September 30, 2009 that changed the status of the QSPEs or the nature of the transactions, which would call into question either the Company's sale accounting or the QSPE status of the transferees.

As seller, the Company has made certain representations and warranties with respect to the originally transferred loans, including those transferred to Ginnie Mae, Fannie Mae, and Freddie Mac, which are discussed in Note 13, Reinsurance Arrangements and Guarantees, to the Consolidated Financial Statements. Additionally, repurchases of loans from QSPEs sponsored by the Company totaled approximately \$17 million in 2008, including approximately \$13 million of second lien loans that were substituted with new loans. No additional repurchases occurred during the quarter ended September 30, 2009; however, the Company accrued \$13 million in the quarter ended June 30, 2009 for contingent losses related to certain of its representations and warranties made in connection with prior transfers of second lien loans. The Company continues to evaluate all facts and circumstances around these loans and has determined that no adjustments to this accrual were warranted as of September 30, 2009.

**Commercial Mortgage Loans**

Certain transfers of commercial mortgage loans were executed with third party special purpose entities, which the Company deemed to be QSPEs and did not consolidate. During 2008, the Company sold all of its retained servicing rights, which were not financial assets subject to the accounting for transfers and servicing of financial assets, in exchange for cash proceeds of approximately \$6.6 million. As seller, the Company had made certain representations and warranties with respect to the originally transferred loans, but the Company has not incurred any losses with respect to such representations and warranties.

**Commercial and Corporate Loans**

In 2007, the Company completed a structured sale of corporate loans to multi-seller commercial paper conduits, which are VIEs administered by unrelated third parties, from which it retained a 3% residual interest in the pool of loans transferred, which does not constitute a Variable Interest (VI) in the third party conduits as it relates to the unparticipated portion of the loans. In the first quarter of 2009, the Company wrote this residual interest and related accrued interest to zero, resulting in a loss of approximately \$16.6 million, inclusive of accrued interest. This write off was the result of the deterioration in the performance of the loan pool to such an extent that the Company will no longer receive cash flows on the interest until the senior participation interest has been repaid in full. The fair value of the residual at December 31, 2008 was \$16.2 million. The Company provides commitments in the form of liquidity facilities to these conduits; the sum of these commitments, which represents the Company's maximum exposure to loss under the facilities, totaled \$381.5 million and \$500.7 million at September 30, 2009 and December 31, 2008, respectively. Due to deterioration in the loans that collateralize these facilities, the Company recorded a contingent loss reserve of \$13.0 million on the facilities during the three months ended September 30, 2009, which was classified in Other Expense in the Consolidated Statements of Income/(Loss). No events have occurred during the quarter ended September 30, 2009 that would call into question either the Company's sale accounting or the Company's conclusions that it is not the primary beneficiary of these VIEs.



Table of Contents**Notes to Consolidated Financial Statements (Unaudited)-Continued**

The Company has had involvement with VIEs that own commercial leveraged loans and bonds, certain of which were transferred by the Company to the VIEs. In addition to retaining certain securities issued by the VIEs, the Company also acts as manager or servicer for these VIEs as well as other VIEs that are funds of commercial leveraged loans and high yield bonds. At September 30, 2009 and December 31, 2008, the Company's direct exposure to loss related to these VIEs was approximately \$14.8 million and \$16.7 million, respectively, which represent the Company's interests in preference shares of these entities. In the first quarter of 2009, the Company recognized losses of \$6.8 million which represented the complete write off of the preference shares in certain of the VIEs due to the continued deterioration in the performance of the collateral in those vehicles. The Company does not expect to receive any significant cash distributions on those preference shares in the foreseeable future. At September 30, 2009 and December 31, 2008, total assets of these entities not included on the Company's Consolidated Balance Sheets were approximately \$2.8 billion. No reconsideration events, as defined in ASC 810-10, occurred during the quarter ended September 30, 2009 that would change the Company's conclusion that it is not the primary beneficiary of these entities.

Student Loans

In 2006, the Company completed one securitization of student loans through a transfer of loans to a QSPE and retained the corresponding residual interest in the QSPE trust. The fair value of the residual interest at September 30, 2009 and December 31, 2008 was \$18.1 million and \$13.4 million, respectively. No events have occurred during the quarter ended September 30, 2009 that changed the status of the QSPEs or the nature of the transactions, which would call into question either the Company's sale accounting or the QSPE status of the transferees.

CDO Securities

The Company has transferred bank trust preferred securities in securitization transactions. The majority of these transfers occurred between 2002 and 2005 with one transaction completed in 2007. The Company retained equity interests in certain of these entities and also holds certain senior interests that were acquired during 2007 and 2008 in conjunction with its acquisition of assets from Three Pillars and the auction rate securities (ARS) transactions discussed in Note 16, Contingencies, to the Consolidated Financial Statements. During 2008, the Company recognized impairment losses, net of distributions received, of \$15.9 million related to the ownership of its equity interests in these VIEs and, at December 31, 2008, these equity interests had all been written down to a fair value of zero due to increased losses in the underlying collateral. During the quarter ended September 30, 2009, the Company sold its senior interest. The Company is not obligated to provide any support to these entities and its maximum exposure to loss at September 30, 2009 and December 31, 2008 is limited to (i) the current senior interests held in trading securities with a fair value of \$29.0 million and \$45.0 million, respectively, and (ii) the remaining senior interests expected to be purchased in conjunction with the ARS issue, which have a total fair value of \$1.6 million and \$9.7 million, respectively. The total assets of the trust preferred CDO entities in which the Company has remaining exposure to loss was \$1.4 billion at September 30, 2009 and \$2.0 billion at December 31, 2008. No events have occurred during the quarter ended September 30, 2009 that would call into question either the Company's sale accounting or the Company's conclusions that it is not the primary beneficiary of these VIEs.

In 2006, the Company received \$472.6 million in proceeds from the transfer of debt securities into a securitization of CDO securities of asset-backed securities (ABS) and residential MBS. The securitization entity was liquidated in 2008.

The following tables present certain information related to the Company's asset transfers in which it has continuing economic involvement for the three and nine months ended September 30, 2009 and September 30, 2008. The Company did not execute any transfers of financial assets from which it retained an interest other than MSRs in the periods presented.

(Dollars in thousands)	Three and Nine Months Ended September 30, 2009											
	Residential Mortgage		Commercial Mortgage		Commercial and		Student Loans		CDO Securities		Consolidated	
	Loans		Loans		Corporate Loans						Year to	
	Third Quarter	Year to Date	Third Quarter	Year to Date	Third Quarter	Year to Date	Third Quarter	Year to Date	Third Quarter	Year to Date	Third Quarter	Year to Date
Cash flows on interests held	\$23,400	\$75,789	\$-	\$-	\$498	\$1,200	\$1,755	\$5,470	\$706	\$2,349	\$26,359	\$84,808
Servicing or management fees	1,182	3,784	-	-	3,556	8,404	165	522	-	-	4,903	12,710

## Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

Three and Nine Months Ended September 30, 2008

(Dollars in thousands)	Residential Mortgage Loans		Commercial Mortgage Loans		Commercial and Corporate Loans		Student Loans		CDO Securities		Consolidated	
	Third Quarter	Year to Date	Third Quarter	Year to Date	Third Quarter	Year to Date	Third Quarter	Year to Date	Third Quarter	Year to Date	Third Quarter	Year to Date
Cash flows on interests held	\$19,115	\$68,939	\$-	\$-	\$4,371	\$20,272	\$2,030	\$6,518	\$298	\$1,784	\$25,814	\$97,513
Servicing or management fees	1,433	4,517	62	182	3,445	10,838	203	626	-	-	5,143	16,163

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

As transferor, the Company typically provides standard representations and warranties in relation to assets transferred. However, other than the loan substitution discussed previously herein, purchases of assets previously transferred in securitization transactions were insignificant across all categories for all periods presented other than those related to Ginnie Mae, Fannie Mae, and Freddie Mac as discussed in Note 13, Reinsurance Arrangements and Guarantees, to the Consolidated Financial Statements.

The Company's retained interests include senior and subordinated securities in residential mortgage securitization transactions and subordinated interests in securitizations of commercial and corporate loans, student loans and CDO securities. At September 30, 2009, the total fair value of such interests was approximately \$273.3 million, as compared to \$367.0 million at December 31, 2008. The weighted average remaining lives of the Company's retained interests ranged from approximately 2.5 years to 18 years for interests in residential mortgage loans, commercial and corporate loans, and student loans as of September 30, 2009 and December 31, 2008, with the weighted average remaining life of interests in CDO securities approximating 24 years. To estimate the fair values of these securities, consideration was given to dealer indications of market value, where applicable, as well as the results of discounted cash flow models using key assumptions and inputs for prepayment rates, credit losses, and discount rates. For the majority of the retained interests, the Company has considered the impacts on the fair values of two unfavorable variations from the estimated amounts, related to the fair values of the Company's retained and residual interests, excluding MSRs, which are separately addressed herein. Declines in fair values for the total retained interests due to 10% and 20% adverse changes in the key assumptions and inputs totaled approximately \$18.0 million and \$32.4 million, respectively, as of September 30, 2009, as compared to approximately \$22.2 million and \$45.7 million, respectively, as of December 31, 2008. For certain subordinated retained interests in residential mortgage securitizations, the Company uses dealer indicated prices, as the Company believes these price indications more accurately reflect the severe disruption in the market for these securities as opposed to modeling efforts the Company could otherwise undertake. As such, the Company has not evaluated any adverse changes in key assumptions of these values. As of September 30, 2009 and December 31, 2008, the fair values of these subordinated interests were \$2.8 million and \$4.4 million respectively, based on weighted average prices of 9.7% and 12.3% of par, respectively. Expected static pool losses were approximately 0.4% to 9% for interests related to securitizations of residential mortgage loans as of September 30, 2009. Expected static pool losses were approximately 5% or less for residential mortgage loans and commercial and corporate loans, as of December 31, 2008. For interests related to securitizations of CDO securities, expected static pool losses ranged from approximately 29% to 35% and 23% to 31% as of September 30, 2009 and December 31, 2008, respectively.

Portfolio balances and delinquency balances based on 90 days or more past due (including accruing and nonaccrual loans) as of September 30, 2009 and December 31, 2008, and net charge-offs related to managed portfolio loans (both those that are owned by the Company and those that have been transferred) for the three and nine month periods ended September 30, 2009 and September 30, 2008 are as follows:

(Dollars in millions)	Principal Balance		Past Due		Net Charge-offs			
	September 30, 2009	December 31, 2008	September 30, 2009	December 31, 2008	For the Three Months Ended September 30, 2009	For the Three Months Ended September 30, 2008	For the Nine Months Ended September 30, 2009	For the Nine Months Ended September 30, 2008
Type of loan:								
Commercial	\$33,491.7	\$41,039.9	\$634.5	\$340.9	\$195.6	\$49.0	\$476.9	\$111.6
Residential mortgage and home equity	47,743.7	48,520.2	3,929.0	2,727.6	566.3	246.7	1,417.7	664.5
Commercial real estate and construction	22,673.3	24,821.1	1,950.3	1,492.6	177.5	50.1	345.9	109.0
Consumer	11,622.6	11,646.9	439.3	411.1	43.2	37.5	114.7	107.6
Credit card	956.6	970.3	-	-	23.4	8.9	62.1	19.2
<b>Total loan portfolio</b>	<b>116,487.9</b>	<b>126,998.4</b>	<b>6,953.1</b>	<b>4,972.2</b>	<b>1,006.0</b>	<b>392.2</b>	<b>2,417.3</b>	<b>1,011.9</b>
Managed securitized loans								
Commercial	3,575.1	3,766.8	83.5	30.2	(4.3)	-	15.6	-
Residential mortgage	1,559.0	1,836.2	119.8	132.2	9.9	7.1	33.7	16.8
Other	518.9	565.2	27.6	61.6	0.1	0.1	0.3	0.2
<b>Total managed loans</b>	<b>\$122,140.9</b>	<b>\$133,166.6</b>	<b>\$7,184.0</b>	<b>\$5,196.2</b>	<b>\$1,011.7</b>	<b>\$399.4</b>	<b>\$2,466.9</b>	<b>\$1,028.9</b>

## Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

Residential mortgage loans securitized through Ginnie Mae, Fannie Mae, and Freddie Mac have been excluded from the tables above since the Company does not retain any beneficial interests or other continuing involvement in the loans other than servicing responsibilities on behalf of Ginnie Mae, Fannie Mae, and Freddie Mac, and repurchase contingencies under standard representations and warranties made with respect to the transferred mortgage loans. The total amount of loans serviced by the Company as a result of such securitization transactions totaled \$125.0 billion and \$106.6 billion at September 30, 2009 and December 31, 2008, respectively. Related servicing fees received by the Company during the three and nine month periods ended September 30, 2009 and September 30, 2008 were \$86.1 million and \$76.0 million and \$240.8 million and \$221.3 million, respectively.

Table of Contents**Notes to Consolidated Financial Statements (Unaudited)-Continued*****Mortgage Servicing Rights***

In addition to other interests that continue to be held by the Company in the form of securities, the Company also retains MSR from certain of its sales or securitizations of residential mortgage loans. MSR on residential mortgage loans are the only servicing assets capitalized by the Company. The Company maintains two classes of MSR: MSR related to loans originated and sold after January 1, 2008, which are reported at fair value and MSR related to loans sold before January 1, 2008, which are reported at amortized cost, net of any allowance for impairment losses. Any impacts of this activity are reflected in the Company's Consolidated Statements of Income/(Loss) in mortgage servicing-related income. See Note 6, Goodwill and Other Intangible Assets, to the Consolidated Financial Statements for the rollforward of MSR.

Income earned by the Company on its MSR is derived primarily from contractually specified mortgage servicing fees and late fees, net of curtailment costs. Such income earned for the three and nine month periods ended September 30, 2009 and September 30, 2008 was \$92.7 million and \$93.0 million and \$256.3 million and \$265.1 million, respectively. These amounts are reported in mortgage servicing-related income in the Consolidated Statements of Income/(Loss).

As of September 30, 2009 and December 31, 2008, the total unpaid principal balance of mortgage loans serviced was \$177.6 billion and \$162.0 billion, respectively. Included in these amounts were \$145.2 billion and \$130.5 billion as of September 30, 2009 and December 31, 2008, respectively, of loans serviced for third parties. As of September 30, 2009 and December 31, 2008, the Company had established MSR valuation allowances of \$17.2 million and \$370.0 million, respectively. No permanent impairment losses were recorded against the allowance, with respect to MSR carried at amortized cost, during the year ended December 31, 2008 or the nine months ended September 30, 2009.

A summary of the key characteristics, inputs, and economic assumptions used to estimate the fair value of the Company's MSR and the sensitivity of the September 30, 2009 and December 31, 2008 fair values to immediate 10% and 20% adverse changes in those assumptions follows.

	<b>2009</b>	<b>2009</b>	<b>Total</b>
(Dollars in millions)	<b>Fair Value</b>	<b>Lower of Cost or Market</b>	<b>Lower of Cost or Market</b>
Fair value of retained MSR	<b>\$783.2</b>	<b>\$690.7</b>	<b>\$815.6</b>
Prepayment rate assumption (annual)	<b>13.5%</b>	<b>22.4%</b>	<b>32.8%</b>
Decline in fair value of 10% adverse change	<b>\$32.5</b>	<b>\$39.3</b>	<b>\$61.2</b>
Decline in fair value of 20% adverse change	<b>62.3</b>	<b>74.6</b>	<b>113.8</b>
Discount rate (annual)	<b>9.8%</b>	<b>10.0%</b>	<b>9.3%</b>
Decline in fair value of 10% adverse change	<b>\$30.8</b>	<b>\$18.0</b>	<b>\$17.9</b>
Decline in fair value of 20% adverse change	<b>59.4</b>	<b>35.2</b>	<b>35.0</b>
Weighted-average life (in years)	<b>6.49</b>	<b>3.90</b>	<b>2.50</b>
Weighted-average coupon	<b>5.31</b>	<b>6.13</b>	<b>6.15</b>

The above sensitivities are hypothetical and should be used with caution. As the amounts indicate, changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

***Variable Interest Entities***

In addition to the Company's involvement with certain VIEs, which is discussed herein under Certain Transfers of Financial Assets, the Company also has involvement with VIEs from other business activities.

**Three Pillars Funding, LLC**



## Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

SunTrust assists in providing liquidity to select corporate clients by directing them to a multi-seller commercial paper conduit, Three Pillars. Three Pillars provides financing for direct purchases of financial assets originated and serviced by SunTrust's corporate clients. Three Pillars has historically financed this activity by issuing A-1/P-1 rated commercial paper (CP); however, in the second quarter of 2009, Three Pillars CP was downgraded to A-2/P-1 due to the downgrade to A-/A2 of SunTrust Bank (the Bank), which provides liquidity and credit enhancement to Three Pillars. This downgrade was not a

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

reflection of the asset quality of Three Pillars. Three Pillars had no other form of senior funding outstanding, other than CP, as of September 30, 2009 or December 31, 2008. (See below where the impacts of the downgrade are further discussed)

The Company's involvement with Three Pillars includes the following activities: services related to the administration of Three Pillars' activities and client referrals to Three Pillars; the issuing of letters of credit, which provide partial credit protection to the CP holders; and providing liquidity arrangements that would provide funding to Three Pillars in the event it can no longer issue CP or in certain other circumstances. The Company's activities with Three Pillars generated total fee revenue for the Company, net of direct salary and administrative costs incurred by the Company, of approximately \$15.9 million and \$13.2 million, and \$49.1 million and \$35.4 million, for the three and nine month periods ended September 30, 2009 and 2008, respectively.

Three Pillars has issued a subordinated note to a third party, which matures in March 2015; however, the note holder may declare the note due and payable upon an event of default, which includes any loss drawn on the note funding account that remains unreimbursed for 90 days. The subordinated note holder absorbs the first dollar of loss in the event of nonpayment of any of Three Pillars' assets. Only the remaining balance of the first loss note, after any incurred losses, would be due. If the first loss note holder declared its loss note due under such circumstances and a new first loss note or other first loss protection was not obtained, the Company would likely consolidate Three Pillars on a prospective basis. The outstanding and committed amounts of the subordinated note were \$20.0 million at September 30, 2009 and December 31, 2008, and no losses had been incurred through September 30, 2009.

The Company has determined that Three Pillars is a VIE, as Three Pillars has not issued sufficient equity at risk, as defined by ASC 810-10. The Company and the holder of the subordinated note are the two significant VI holders in Three Pillars. The Company and this note holder are not related parties or de facto agents of one another. The Company uses a mathematical model that calculates the expected losses and expected residual returns of Three Pillars' assets and operations, based on a Monte Carlo simulation, and allocates each to the Company and the holder of the subordinated note. The results of this model, which the Company evaluates monthly, have shown that the holder of the subordinated note absorbs the majority of the variability of Three Pillars' expected losses. The Company believes the subordinated note is sized in an amount sufficient to absorb the expected loss of Three Pillars based on current commitment levels and the forecasted growth in Three Pillars' assets; as such, the Company has concluded it is not Three Pillars' primary beneficiary and is not required to consolidate Three Pillars. Should future losses reduce the subordinated note funding account below its required level or if the note is reduced to a size deemed insufficient to support the forecasted or actual growth of the assets in Three Pillars, the Company would likely be required to consolidate Three Pillars, if an amendment of the current subordinate note or a new subordinate note could not be obtained. The Company currently believes that any events related to the credit quality of Three Pillars' assets that may result in consolidation are unlikely to occur. See Note 1, "Significant Accounting Policies," to the Consolidated Financial Statements for a discussion of the impacts of SFAS No. 167 on the Company's involvement with Three Pillars.

As of September 30, 2009 and December 31, 2008, Three Pillars had client assets not included on the Company's Consolidated Balance Sheets of approximately \$2.2 billion and \$3.5 billion, respectively, consisting primarily of secured loans. Funding commitments and outstanding receivables extended by Three Pillars to its customers totaled \$4.1 billion and \$2.2 billion, respectively, as of September 30, 2009, almost all of which renew annually, as compared to \$5.9 billion and \$3.5 billion, respectively, as of December 31, 2008. The majority of the commitments are backed by trade receivables and commercial loans that have been originated by companies operating across a number of industries which collateralize 50% and 16%, respectively, of the outstanding commitments, as of September 30, 2009, as compared to 47% and 20%, respectively, as of December 31, 2008. Assets supporting those commitments have a weighted average life of 1.20 years and 1.52 years at September 30, 2009 and December 31, 2008, respectively. At September 30, 2009, Three Pillars' outstanding CP used to fund the assets totaled \$2.2 billion, with remaining weighted average lives of 10.7 days and maturities through November 2009.

Each transaction added to Three Pillars is typically structured to a minimum implied A/A2 rating according to established credit and underwriting policies as approved by credit risk management and monitored on a regular basis to ensure compliance with each transaction's terms and conditions. Typically, transactions contain dynamic credit enhancement features that provide increased credit protection in the event asset performance deteriorates. If asset performance deteriorates beyond predetermined covenant levels, the transaction could become ineligible for continued funding by Three Pillars. This could result in the transaction being amended with the approval of credit risk management, or Three Pillars could terminate the transaction and enforce any rights or remedies available, including amortization of the transaction or liquidation of the collateral. In addition, Three Pillars has the option to fund under the liquidity facility provided by the Bank in connection with the transaction and may be required to fund under the liquidity facility if the transaction remains in breach. In addition, each commitment renewal requires credit risk management approval. The Company is not aware of unfavorable trends related to Three Pillars assets for which the Company expects to suffer material losses. During the nine months ended September 30, 2009 and 2008, there were no write-downs of Three Pillars' assets.



---

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

During the month of September 2008, the illiquid markets put a significant strain on the CP market and, as a result of this temporary disruption, the Company purchased approximately \$275.4 million par amount of Three Pillars' overnight CP, none of which was outstanding at December 31, 2008. Separate from the temporary disruption in the CP markets in September 2008, the Company held outstanding Three Pillars' CP at December 31, 2008 with a par amount of \$400 million, all of which matured on January 9, 2009. None of the Company's purchases of CP during 2008 altered the Company's conclusion that it is not the primary beneficiary of Three Pillars.

The downgrade of Three Pillars' credit rating to A-2 by S&P during the three months ended June 30, 2009 negatively impacted its ability to issue CP to third party investors. Subsequent to the S&P downgrade, the Company successfully completed its capital plan under the stress test, which included a successful common equity raise and tender offer for certain of its preferred stock and hybrid debt instruments. Additionally, in June 2009, Three Pillars received an F-1 rating from Fitch and chose to replace S&P's A-2 rating, which was simultaneously withdrawn. As such, Three Pillars' CP now carries an F-1/P-1 rating, which has allowed Three Pillars to issue approximately 36%, on average, of its CP to investors other than the Company during the quarter ended September 30, 2009. The Company anticipates its purchases of CP will continue to decline over time. At September 30, 2009, the Company held approximately \$1.3 billion of overnight CP at estimated market rates. The purchases of CP by the Company did not alter the allocation of variability within Three Pillars in a manner that was not originally considered, nor was it a means for the Company to provide non-contractual support to Three Pillars in order to protect any VI holders from losses. The predominant driver of risk is the credit risk of the underlying assets owned by Three Pillars, and S&P's downgrade was not in response to any credit deterioration in these assets. Further, the subordinated note holder remains exposed to the majority of variability in expected losses in Three Pillars to the same degree it had prior to any purchases of CP by the Company. The Company's at-market purchases of CP do not impact the interest rates paid by the clients of Three Pillars, as they are obligated to pay a pass through rate based on the rate at which Three Pillars issues CP. After evaluating all facts and circumstances, the Company concluded that the results of the mathematical model that the Company uses to support its conclusion that it is not the primary beneficiary of Three Pillars have not changed, the design of Three Pillars has not changed, and the purchases of CP by the Company has not given rise to an implicit VI in Three Pillars that would result in the Company becoming the primary beneficiary of Three Pillars. The Company will continue to monitor the key considerations surrounding determining Three Pillars' primary beneficiary.

The Company has off-balance sheet commitments in the form of liquidity facilities and other credit enhancements that it has provided to Three Pillars. These commitments are accounted for as financial guarantees by the Company. The liquidity commitments are revolving facilities that are sized based on the current commitments provided by Three Pillars to its customers. The liquidity facilities are generally used if new CP cannot be issued by Three Pillars to repay maturing CP. However, the liquidity facilities are available in all circumstances, except certain bankruptcy-related events with respect to Three Pillars. Draws on the facilities are subject to the purchase price (or borrowing base) formula that, in many cases, excludes defaulted assets to the extent that they exceed available over-collateralization in the form of non-defaulted assets, and may also provide the liquidity banks with loss protection equal to a portion of the loss protection provided for in the related securitization agreement. Additionally, there are transaction specific covenants and triggers that are tied to the performance of the assets of the relevant seller/servicer that may result in a transaction termination event, which, if continuing, would require funding through the related liquidity facility. Finally, in a termination event of Three Pillars, such as if its tangible net worth falls below \$5,000 for a period in excess of 15 days, Three Pillars would be unable to issue CP, which would likely result in funding through the liquidity facilities. Draws under the credit enhancement are also available in all circumstances, but are generally used to the extent required to make payment on any maturing CP if there are insufficient funds from collections of receivables or the use of liquidity facilities. The required amount of credit enhancement at Three Pillars will vary from time to time as new receivable pools are purchased or removed from its asset portfolio, but is generally equal to 10% of the aggregate commitments of Three Pillars.

The total notional amounts of the liquidity facilities and other credit enhancements represent the Company's maximum exposure to potential loss, which was \$4.2 billion and \$414.4 million, respectively, as of September 30, 2009, compared to \$6.1 billion and \$597.5 million, respectively, as of December 31, 2008. The Company did not have any liability recognized on its Consolidated Balance Sheets related to these liquidity facilities and other credit enhancements as of September 30, 2009 or December 31, 2008, as no amounts had been drawn, nor were any draws probable to occur, such that a loss should have been accrued. In addition, no losses were recognized by the Company in connection with these off-balance sheet commitments during the three and nine month periods ended September 30, 2009 or 2008. There are no other contractual arrangements that the Company plans to enter into with Three Pillars to provide it additional support.

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued****Total Return Swaps ( TRS )**

The Company has had involvement with various VIEs related to its TRS business. The Company decided to temporarily suspend this business in late 2008 and terminated its existing transactions during 2009. Under the TRS business model, the VIEs purchase portfolios of loans at the direction of third parties. These third parties are not related parties to the Company, nor are they and the Company de facto agents of each other. In order for the VIEs to purchase the loans, the Company provides senior financing to these VIEs. At December 31, 2008, the Company had \$603.4 million in such financing outstanding, which is classified within trading assets on the Consolidated Balance Sheets. In addition, the Company also enters into TRS transactions with the VIEs that the Company mirrors with a TRS with the third party who controls the loans owned by the VIE. The TRS transactions pass through all interest and other cash flows on the loans to the third party, along with exposing the third parties to any depreciation on the loans and providing them with the rights to all appreciation on the loans. The terms of the TRS transactions require the third parties to post initial margin, in addition to ongoing margin as the fair values of the underlying loans decrease. The Company has concluded that it is not the primary beneficiary of these VIEs, as the VIEs are designed for the benefit of the third parties. The third parties have implicit VIs in the VIEs via their TRS transactions with the Company, whereby these third parties absorb the majority of the expected losses and are entitled to the majority of the expected residual returns of the VIEs. At December 31, 2008, these VIEs had entered into TRS with the Company that had outstanding notional of \$602.1 million. The Company has not provided any support that it was not contractually obligated to for the nine months ended September 30, 2009 or the year ended December 31, 2008. For additional information on the Company's TRS with these VIEs, see Note 12, Derivative Financial Instruments to the Consolidated Financial Statements.

**Community Development Investments**

As part of its community reinvestment initiatives, the Company invests almost exclusively within its footprint in multi-family affordable housing developments and other community development entities as a limited and/or general partner and/or a debt provider. The Company receives tax credits for its partnership investments. The Company has determined that these partnerships are VIEs when SunTrust does not own 100% of the entity because the holders of the equity investment at risk do not have the direct or indirect ability to make decisions that have a significant impact on the business. Accordingly, the Company's general partner, limited partner, and/or debt interests are VIs that the Company evaluates for purposes of determining whether the Company is the primary beneficiary. During 2009 and 2008, SunTrust did not provide any financial or other support to its consolidated or unconsolidated investments that it was not previously contractually required to provide.

For some partnerships, SunTrust operates strictly as a general partner or the indemnifying party and, as such, is exposed to a majority of the partnerships' expected losses. Accordingly, SunTrust consolidates these partnerships on its Consolidated Balance Sheets. As the general partner or indemnifying party, SunTrust typically guarantees the tax credits due to the limited partner and is responsible for funding construction and operating deficits. As of September 30, 2009 and December 31, 2008, total assets, which consist primarily of fixed assets and cash attributable to the consolidated partnerships, were \$19.0 million and \$20.5 million, respectively, and total liabilities, excluding intercompany liabilities, were \$3.2 million and \$3.3 million, respectively. Security deposits from the tenants are recorded as liabilities on the Company's Consolidated Balance Sheets. The Company maintains separate cash accounts to fund these liabilities and these assets are considered restricted. The tenant liabilities and corresponding restricted cash assets were \$0.1 million as of September 30, 2009 and December 31, 2008. While the obligations of the general partner or indemnifying entity are generally non-recourse to SunTrust, the Company, as the general partner or the indemnifying entity, may from time to time step in when needed to fund deficits. During 2009 and 2008, SunTrust did not provide any significant amount of funding as the general partner or the indemnifying entity to fund any deficits the partnerships may have generated.

For other partnerships, the Company acts only in a limited partnership capacity. The Company has determined that it is not the primary beneficiary of these partnerships because it will not absorb a majority of the expected losses of the partnership. Typically, the general partner or an affiliate of the general partner provide guarantees to the limited partner which protect the Company from losses attributable to operating deficits, construction deficits, and tax credit allocation deficits. The Company accounts for its limited partner interests in accordance with the income tax guidance for investments in affordable housing projects in ASC 323-740. Partnership assets of approximately \$1.1 billion and \$1.0 billion in these partnerships were not included in the Consolidated Balance Sheets at September 30, 2009 and December 31, 2008, respectively. These limited partner interests had carrying values of \$221.8 million and \$188.9 million at September 30, 2009 and December 31, 2008, respectively, and are recorded in other assets on the Company's Consolidated Balance Sheets. The Company's maximum exposure to loss for these limited partner investments totaled \$475.6 million and \$473.2 million at September 30, 2009 and December 31, 2008, respectively. The Company's maximum exposure to loss would be borne by the loss of the limited partnership equity investments along with \$217.4 million and \$202.7 million of loans issued by the Company to the limited partnerships at



---

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

September 30, 2009 and December 31, 2008, respectively. The difference between the maximum exposure to loss and the investment and loan balances is primarily attributable to the unfunded equity commitments. Unfunded equity commitments are amounts that the Company has committed to the partnerships upon the partnerships meeting certain conditions. When these conditions are met, the Company will invest these additional amounts in the partnerships.

When SunTrust owns both the limited partner and general partner or acts as the indemnifying party, the Company consolidates the partnerships and does not consider these partnerships VIEs because, as owner of the partnerships, the Company has the ability to directly and indirectly make decisions that have a significant impact on the business. As of September 30, 2009 and December 31, 2008, total assets, which consist primarily of fixed assets and cash, attributable to the consolidated, non-VIE partnerships were \$442.1 million and \$493.5 million, respectively, and total liabilities, excluding intercompany liabilities, primarily representing third-party borrowings, were \$250.3 million and \$327.6 million, respectively.

**Registered and Unregistered Funds Advised by Ridgeworth**

Ridgeworth Capital Management, Inc., ( Ridgeworth ), a registered investment advisor and wholly-owned subsidiary of the Company, serves as the investment advisor for various private placement and publicly registered investment funds (collectively the Funds ). The Company evaluates these Funds to determine if the Funds are voting interest entities or VIEs, as well as monitors the nature of its interests in each Fund to determine if the Company is required to consolidate any of the Funds.

The Company has concluded that some of the Funds are VIEs because the equity investors lack decision making rights. However, the Company has concluded that it is not the primary beneficiary of these funds as the Company does not absorb a majority of the expected losses or expected returns of the funds. As the Company does not directly invest in these funds, its exposure to loss is limited to the investment advisor and other administrative fees it earns. Payment on these fees is received from the individual investor accounts. The total unconsolidated assets of these funds as of September 30, 2009 and December 31, 2008 were \$3.5 billion and \$3.6 billion, respectively.

While the Company does not have any contractual obligation to provide monetary support to any of the Funds, the Company did elect to provide support for specific securities on one occasion in 2008 and two occasions in 2007 to three of the funds. In 2008 and 2007, the Company purchased approximately \$2.4 billion of securities from these three funds at amortized cost plus accrued interest. The Company took these actions in response to the unprecedented market events to protect investors in these funds from possible losses associated with these securities. Two of the funds were previously considered voting interest entities and in connection with these purchases, the Company re-evaluated its involvement with these funds. As a result of the unprecedented circumstances that caused the Company to intervene, the lack of any contractual obligation to provide any current or future support to the funds, and the size of the financial support ultimately provided, the Company concluded that these two funds were still voting interest entities. The Company concluded that the third fund was a VIE and that, as a result of the purchase of securities, it was the primary beneficiary of this fund as it was likely to absorb a majority of the expected losses of the fund. Accordingly, this fund was consolidated in September 2007 and was subsequently closed in November 2007, which resulted in the termination of the VIE. At September 30, 2009 and December 31, 2008, the Company still owned securities purchased from these three funds of \$204.9 million and \$246.0 million, respectively. Additionally, see the Annual Report on Form 10-K for the year ended December 31, 2008 for more information regarding the actions the Company took in 2008 and 2007 relating to these funds.

**Note 8 Long-Term Debt and Capital**

The Company's long term debt decreased from \$26.8 billion at December 31, 2008 to \$18.2 billion at September 30, 2009 primarily as a result of the repayment of \$7.1 billion of its FHLB advances, \$3.4 billion of which were carried at fair value. The Company also repaid \$0.2 billion of its floating rate euro denominated notes that were due in 2011 and repurchased \$0.4 billion of its 5.588% Parent Company junior subordinated notes due 2042.

As part of the Company's participation in the Supervisory Capital Assessment Program ( SCAP ), the Company completed certain transactions as part of an announced capital plan during the second quarter of 2009 that increased its Tier 1 common equity by \$2.1 billion. The transactions utilized to raise the capital consisted of the issuance of common stock, the repurchase of certain preferred stock and hybrid debt securities, and the sale of Visa Class B shares.

## Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

The common stock offerings that the Company completed in conjunction with the capital plan added 141.9 million in new common shares and resulted in \$1.8 billion in additional Tier 1 common equity, net of issuance costs.



**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

Also as part of the capital plan, the Company initiated a cash tender offer to repurchase a defined maximum amount of its outstanding Series A preferred stock. 3,142 shares of the Company's Series A preferred stock were repurchased, resulting in a decrease in preferred stock of \$314.2 million. An after-tax gain of \$89.4 million was included in net loss available to common shareholders and an increase of \$91.0 million was realized in Tier 1 common equity during the three month period ended June 30, 2009. In addition, the Company also repurchased approximately \$0.4 billion of its 5.588% Parent Company junior subordinated notes due 2042, and approximately \$0.1 billion of its 6.10% Parent Company junior subordinated notes due 2036. These transactions resulted in a net after-tax loss of \$44.1 million, as a result of a \$164.9 million after-tax loss related to the extinguishment of the preferred stock forward sale agreement associated with the repurchase of the 5.588% Parent Company junior subordinated notes, and a \$120.8 million after-tax gain from the repurchase of the Parent Company junior subordinated notes. The aggregate impact of the debt repurchases was a \$120.8 million increase to Tier 1 common equity.

Another element of the capital plan involved the sale of the Company's Visa Class B shares resulting in an after-tax gain and increase in Tier 1 common equity of approximately \$70 million.

The Company is subject to various regulatory capital requirements which involve quantitative measures of the Company's assets.

(Dollars in millions)	September 30 2009	December 31 2008
Tier 1 capital	<b>\$18,214.4</b>	\$17,613.7
Total capital	<b>23,053.2</b>	22,743.4
Risk-weighted assets	<b>144,794.6</b>	162,046.4
Tier 1 capital	<b>\$18,214.4</b>	\$17,613.7
Less:		
Qualifying trust preferred securities	<b>2,358.8</b>	2,847.3
Preferred stock	<b>4,911.4</b>	5,221.7
Allowable minority interest	<b>102.1</b>	101.8
Tier 1 common equity	<b>\$10,842.1</b>	\$9,442.9
Risk-based ratios:		
Tier 1 common equity	<b>7.49 %</b>	5.83 %
Tier 1 capital	<b>12.58</b>	10.87
Total capital	<b>15.92</b>	14.04
Tier 1 leverage ratio	<b>11.08</b>	10.45

**Note 9 Earnings/(Loss) Per Share**

Net income/(loss) is the same in the calculation of basic and diluted earnings/(loss) per average common share. Equivalent shares of 35.7 million and 16.0 million related to common stock options and common stock warrants outstanding as of September 30, 2009 and 2008, respectively, were excluded from the computations of diluted earnings/(loss) per average common share because they would have been antidilutive. A reconciliation of the difference between average basic common shares outstanding and average diluted common shares outstanding for the three and nine months ended September 30, 2009 and 2008 is included below. For earnings per share calculation purposes, the impact of dilutive securities are excluded from the diluted share count during periods that the Company has recognized a net loss available to common shareholders because the impact would be anti-dilutive. Additionally, included below is a reconciliation of net income/(loss) to net income/(loss) available to common shareholders.

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

(In thousands, except per share data)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Net income/(loss)	<b>(\$316,941)</b>	\$312,444	<b>(\$1,315,568)</b>	\$1,143,361
Series A preferred dividends	<b>(1,763)</b>	(5,111)	<b>(12,398)</b>	(17,200)
U.S. Treasury preferred dividends	<b>(66,439)</b>	-	<b>(199,264)</b>	-
Gain on repurchase of Series A preferred stock	<b>4,893</b>	-	<b>94,318</b>	-
Dividends and undistributed earnings allocated to unvested shares	<b>3,106</b>	(2,936)	<b>15,959</b>	(10,241)
Net income/(loss) available to common shareholders	<b>(\$377,144)</b>	\$304,397	<b>(\$1,416,953)</b>	\$1,115,920
Average basic common shares	<b>494,169</b>	349,916	<b>415,444</b>	348,409
Effect of dilutive securities:				
Stock options	-	25	-	252
Performance and restricted stock	-	1,029	-	952
Average diluted common shares	<b>494,169</b>	350,970	<b>415,444</b>	349,613
Earnings/(loss) per average common share - diluted	<b>(\$0.76)</b>	\$0.87	<b>(\$3.41)</b>	\$3.19
Earnings/(loss) per average common share - basic	<b>(\$0.76)</b>	\$0.87	<b>(\$3.41)</b>	\$3.20

**Note 10 Income Taxes**

The provision for income taxes was a benefit of \$336.1 million and \$52.8 million for the three months ended September 30, 2009 and 2008, respectively, representing effective tax rates of (51.5)% and (20.3)% during those periods. The provision for income taxes was a benefit of \$635.8 million and an expense of \$241.7 million for the nine months ended September 30, 2009 and 2008, respectively, representing effective tax rates of (32.6)% and 17.5% during those periods. The Company calculated the benefit for income taxes for the three and nine months ended September 30, 2009 based on the discrete methodology using actual year-to-date results. The Company applied an estimated annual effective tax rate to the year-to-date pre-tax earnings to derive the provision for income taxes for the three and nine months ended September 30, 2008.

As of September 30, 2009, the Company's gross cumulative unrecognized tax benefits ( UTBs ) amounted to \$225.1 million, of which \$163.0 million (net of federal benefit) would affect the Company's effective tax rate, if recognized. As of December 31, 2008, the Company's gross cumulative UTBs amounted to \$330.0 million. Additionally, the Company recognized a gross liability of \$41.9 million and \$70.9 million for interest related to its UTBs as of September 30, 2009 and December 31, 2008, respectively. Interest expense related to UTBs was (\$26.6) million for the three months ended September 30, 2009, compared to \$2.4 million for the same period in 2008. Interest expense related to UTBs was (\$15.2) million for the nine months ended September 30, 2009, compared to \$26.9 million for the same period in 2008. The reduction in UTB and in the gross liability for interest related to its UTB was primarily attributable to the settlement of examinations by certain taxing authorities and the related payments and reversal of liability. The Company continually evaluates the UTBs associated with its uncertain tax positions. It is reasonably possible that the total UTBs could decrease during the next 12 months by up to \$30 million due to the completion of tax authority examinations and the expiration of statutes of limitations.

As of September 30, 2009, the Company's federal returns through 2004 have been examined by Internal Revenue Services ( IRS ) and all issues resolved. An IRS examination of the Company's 2005 and 2006 Federal income tax returns is currently in progress. Generally, the state jurisdictions in which the Company files income tax returns are subject to examination for a period from three to seven years after returns are filed.

**Note 11 Employee Benefit Plans****Stock-Based Compensation**

## Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

The weighted average fair values of options granted during the first nine months of 2009 and 2008 were \$5.13 per share and \$8.46 per share, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	<b>Nine Months Ended September 30</b>	
	<b>2009</b>	<b>2008</b>
Expected dividend yield	<b>4.16 %</b>	4.58 %
Expected stock price volatility	<b>83.17</b>	21.73
Risk-free interest rate (weighted average)	<b>1.94</b>	2.87
Expected life of options	<b>6 years</b>	6 years

Table of Contents**Notes to Consolidated Financial Statements (Unaudited)-Continued**

The following table presents a summary of stock option and performance and restricted stock activity:

(Dollars in thousands except per share data)	Stock Options			Performance and Restricted Stock		
	Shares	Price Range	Weighted Average Exercise Price	Shares	Deferred Compensation	Weighted Average Grant Price
<b>Balance, January 1, 2009</b>	15,641,872	\$17.06 - \$150.45	\$65.29	3,803,412	\$113,394	\$64.61
Granted	3,803,796	9.06	9.06	2,554,988	27,982	10.35
Exercised/vested	-	-	-	(1,213,034)	-	64.66
Cancelled/expired/forfeited	(1,028,395)	9.06 - 149.81	60.76	(264,343)	(13,325)	50.41
Amortization of compensation element of performance and restricted stock	-	-	-	-	(51,330)	-
<b>Balance, September 30, 2009</b>	18,417,273	\$9.06 - \$150.45	\$53.93	4,881,023	\$76,721	\$37.28
Exercisable, September 30, 2009	12,864,877		\$65.36			
Available for additional grant, September 30, 2009 <sup>1</sup>	8,942,087					

<sup>1</sup> Includes 4,539,048 shares available to be issued as restricted stock.

The following table presents information on stock options by ranges of exercise price at September 30, 2009:

(Dollars in thousands except per share data)

Range of Exercise Prices	Options Outstanding				Options Exercisable			
	Number Outstanding at September 30, 2009	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value	Number Exercisable at September 30, 2009	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
\$9.06 to \$49.46	4,513,732	\$14.31	8.63	\$50,207	492,636	\$44.71	2.65	\$10
\$49.47 to \$64.57	5,047,115	56.43	2.55	-	5,047,115	56.43	2.55	-
\$64.58 to \$150.45	8,856,426	72.69	4.79	-	7,325,126	72.91	4.11	-
	18,417,273	\$53.93	5.12	\$50,207	12,864,877	\$65.36	3.44	\$10

Stock-based compensation expense recognized in noninterest expense was as follows:

(In thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Stock-based compensation expense:				
Stock options	\$1,756	\$2,753	\$8,234	\$9,587
Performance and restricted stock	15,053	22,946	51,330	52,490

## Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

Total stock-based compensation expense	<b>\$16,809</b>	\$25,699	<b>\$59,564</b>	\$62,077
--	-----------------	----------	-----------------	----------

The recognized stock-based compensation tax benefit amounted to \$6.4 million and \$9.8 million for the three months ended September 30, 2009 and 2008, respectively. For the nine months ended September 30, 2009 and 2008, the recognized stock-based compensation tax benefit was \$22.6 million and \$23.6 million, respectively.

Certain employees received long-term deferred cash awards during the first quarter of 2009 and 2008, which were subject to a three year vesting requirement. The accrual related to these deferred cash grants was \$23.0 million and \$6.6 million as of September 30, 2009 and 2008, respectively.

### ***Retirement Plans***

SunTrust did not contribute to either of its noncontributory qualified retirement plans ( Retirement Benefits plans) in the third quarter of 2009. Effective July 1, 2009 the interest crediting rate used to determine future interest on Personal Pension Accounts in the SunTrust Retirement Plan changed from the IRS Composite Corporate Bond rate to the 30-year Treasury Bond rate. As a result, the plan s 2009 pension cost was remeasured on April 30, 2009 at a discount rate of 6.90%. The remeasurement resulted in a \$170.2 million reduction in the projected benefit obligation and \$28.9 million reduction in pension expense to be recognized over the remainder of 2009. The third quarter pension cost reflects a \$10.8 million reduction in pension expense as a result of this remeasurement and the year to date pension cost reflects an \$18.1 million reduction in pension expense as a result of this remeasurement. The expected long-term rate of return on plan assets for the Retirement Benefit plans remained at 8.00% for 2009.

Table of Contents**Notes to Consolidated Financial Statements (Unaudited)-Continued**

Anticipated employer contributions/benefit payments for 2009 are \$24.0 million for the Supplemental Retirement Benefit plans. For the third quarter of 2009, the actual contributions/benefit payments totaled \$1.5 million. Actual contributions/benefit payments for the nine months ended September 30, 2009 were \$19.9 million.

SunTrust contributed \$0.3 million to the Postretirement Welfare Plan in the third quarter of 2009. Additionally, SunTrust expects to receive a Medicare Subsidy reimbursement in the amount of \$3.3 million. The expected pre-tax long-term rate of return on plan assets for the Postretirement Welfare plan is 7.25% for 2009.

(Dollars in thousands)	<b>Three Months Ended September 30</b>			
	<b>2009</b>		<b>2008</b>	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Service cost	<b>\$14,523</b>	<b>\$73</b>	\$19,468	\$155
Interest cost	<b>29,816</b>	<b>2,803</b>	29,273	2,953
Expected return on plan assets	<b>(37,152)</b>	<b>(1,758)</b>	(46,414)	(2,047)
Amortization of prior service cost	<b>(2,721)</b>	<b>(390)</b>	(2,792)	(390)
Recognized net actuarial loss	<b>25,791</b>	<b>4,648</b>	5,556	3,188
Net periodic benefit cost	<b>\$30,257</b>	<b>\$5,376</b>	\$5,091	\$3,859

(Dollars in thousands)	<b>Nine Months Ended September 30</b>			
	<b>2009</b>		<b>2008</b>	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Service cost	<b>\$49,347</b>	<b>\$219</b>	\$58,404	\$464
Interest cost	<b>89,777</b>	<b>8,408</b>	87,818	8,859
Expected return on plan assets	<b>(111,998)</b>	<b>(5,275)</b>	(139,241)	(6,140)
Amortization of prior service cost	<b>(8,164)</b>	<b>(1,169)</b>	(8,376)	(1,169)
Recognized net actuarial loss	<b>86,260</b>	<b>13,945</b>	16,669	9,562
Net periodic benefit cost	<b>\$105,222</b>	<b>\$16,128</b>	\$15,274	\$11,576

**Note 12 Derivative Financial Instruments**

The Company enters into various derivative financial instruments, both in a dealer capacity to facilitate client transactions and as an end user as a risk management tool. Where derivatives have been entered into with clients, the Company generally manages the risk associated with these derivatives within the framework of its value-at-risk ( VAR ) approach that monitors total exposure daily and seeks to manage the exposure on an overall basis. Derivatives are used as a risk management tool to hedge the Company's exposure to changes in interest rates or other identified market or credit risks, either economically or in accordance with the hedge accounting provisions. The Company may also enter into derivatives, on a limited basis, to capitalize on trading opportunities in the market. In addition, as a normal part of its operations, the Company enters into interest rate lock commitments ( IRLCs ) on mortgage loans that are accounted for as freestanding derivatives and has certain contracts containing embedded derivatives that are carried, in their entirety, at fair value. All freestanding derivatives are carried at fair value in the Consolidated Balance Sheets in trading assets, other assets, trading liabilities, or other liabilities. The associated gains and losses are either recorded in other comprehensive income, net of tax, or within the Consolidated Statements of Income/(Loss) depending upon the use and designation of the derivatives.



---

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued****Credit and Market Risk Associated with Derivatives**

Derivatives expose the Company to credit risk. If the counterparty fails to perform, the credit risk at that time would be equal to the net derivative asset position, if any, for that counterparty. The Company minimizes the credit or repayment risk in derivatives by entering into transactions with high credit-quality counterparties that are reviewed periodically by the Company's Credit Risk Management division. The Company's derivatives may also be governed by an International Swaps and Derivatives Associations Master Agreement ( ISDA ); depending on the nature of the derivative transactions, bilateral collateral agreements may be in place as well. When the Company has more than one outstanding derivative transaction with a single counterparty and there exists a legally enforceable master netting agreement with the counterparty, the Company considers its exposure to the counterparty to be the net market value of all positions with that counterparty, if such net value is an asset to the Company, and zero, if such net value is a liability to the Company. As of September 30, 2009, net derivative asset positions to which the Company was exposed to risk of its counterparties were \$2.4 billion, representing the net of \$3.1 billion in net derivative gains by counterparty, netted by counterparty where formal netting arrangements exist, adjusted for collateral of \$0.7 billion that the Company holds in relation to these gain positions. As of December 31, 2008, net derivative asset positions to which the Company was exposed to risk of its counterparties were \$3.5 billion, representing the net of \$4.6 billion in derivative gains by counterparty, netted by counterparty where formal netting arrangements exist, adjusted for collateral of \$1.1 billion that the Company holds in relation to these gain positions.

Derivative instruments are primarily transacted in the institutional dealer market and priced with observable market assumptions at a mid-market valuation point, with appropriate valuation adjustments for liquidity and credit risk. For purposes of valuation adjustments to its derivative positions, the Company has evaluated liquidity premiums that may be demanded by market participants, as well as the credit risk of its counterparties and its own credit. The Company has considered factors such as the likelihood of default by itself and its counterparties, its net exposures, and remaining maturities in determining the appropriate fair value adjustments to record. Generally, the expected loss of each counterparty is estimated using the Company's proprietary internal risk rating system. The risk rating system utilizes counterparty-specific probabilities of default and loss given default estimates to derive the expected loss. For counterparties that are rated by national rating agencies, those ratings are also considered in estimating the credit risk. In addition, counterparty exposure is evaluated by netting positions that are subject to master netting arrangements, as well as considering the amount of marketable collateral securing the position. Specifically approved counterparties and exposure limits are defined. The approved counterparties are regularly reviewed and appropriate business action is taken to adjust the exposure to certain counterparties, as necessary. This approach used to estimate exposures to counterparties is also used by the Company to estimate its own credit risk on derivative liability positions. To date, no material losses due to a counterparty's inability to pay any net uncollateralized position has been incurred. The Company adjusted the net fair value of its derivative contracts for estimates of net counterparty credit risk by approximately \$26.0 million and \$23.1 million as of September 30, 2009 and December 31, 2008, respectively.

The majority of the Company's consolidated derivatives contain contingencies that relate to the creditworthiness of the Bank. These are contained in industry standard master trading agreements as events of default. Should the Bank be in default under any of these provisions, the Bank's counterparties would be permitted under such master agreements to close-out net at amounts that would approximate the then-fair values of the derivatives and the netting of the amounts would produce a single sum due by one party to the other. The counterparties would have the right to apply any collateral posted by the Bank against any net amount owed by the Bank. In addition, of the Company's total derivative liability positions, approximately \$1.4 billion in fair value, contain provisions conditioned on downgrades of the Bank's credit rating. These provisions, if triggered, would either give rise to an additional termination event ( ATE ) that permits the counterparties to close-out net and apply collateral or, where a Credit Support Annex ( CSA ) is present, require the Bank to post additional collateral. Collateral posting requirements generally result from differences in the fair value of the net derivative liability compared to specified collateral thresholds at different ratings levels of the Bank, both of which are negotiated provisions within each CSA. At September 30, 2009, the Bank carried long-term senior debt ratings of A-/A2 from two of the major ratings agencies. For illustrative purposes, if the Bank were downgraded to BBB-/Baa3, ATEs would be triggered in derivative liability contracts that had a fair value of approximately \$28.9 million at September 30, 2009, against which the Bank had posted collateral of approximately \$9.3 million; ATEs do not exist at lower ratings levels. At September 30, 2009, approximately \$1.4 billion in fair value of derivative liabilities are subject to CSAs, against which the Bank has posted approximately \$1.3 billion in collateral. If requested by the counterparty per the terms of the CSA, the Bank would be required to post estimated additional collateral against these contracts of approximately \$635.4 million if the Bank were downgraded to BBB-/Baa3, and any further downgrades to BB+/Ba1 or below would require the posting of an additional \$22.2 million. Such collateral posting amounts may be more or less than the Bank's estimates based on the specified terms of each CSA as to the timing of a collateral calculation and whether the Bank and its counterparties differ on their estimates of the fair values of the derivatives or collateral.





**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

Derivatives also expose the Company to market risk. Market risk is the adverse effect that a change in market factors, such as interest rates, currency rates, equity prices, or implied volatility, has on the value of a derivative. The Company manages the market risk associated with its derivatives by establishing and monitoring limits on the types and degree of risk that may be undertaken. The Company continually measures this risk by using a VAR methodology.

The table below presents the Company's derivative positions at September 30, 2009. The notional amounts in the table are presented on a gross basis and have been classified within Asset Derivatives or Liability Derivatives based on the estimated fair value of the individual contract at September 30, 2009. On the Consolidated Balance Sheets, the fair values of derivatives with counterparties with master netting agreements are recorded on a net basis. However, for purposes of the table below, the gross positive and gross negative fair value amounts associated with the respective notional amounts are presented without consideration of any netting agreements. For contracts constituting a combination of options that contain a written component and a purchased component (such as a collar), the notional amount of each component is presented separately, with the purchased component being presented as an Asset Derivative and the written component being presented as a Liability Derivative. The fair value of each combination of options is presented with the purchased component, if the combined fair value of the components is positive, and with the written component, if negative.

(Dollars in thousands)	Balance Sheet Classification	Asset Derivatives Notional Amounts	Fair Value	Balance Sheet Classification	Liability Derivatives Notional Amounts	Fair Value
<b>Derivatives designated in cash flow hedging relationships<sup>6</sup></b>						
Equity contracts hedging:						
Securities available for sale	Trading assets	\$1,546,752	\$29,973		\$1,546,752	\$-
Interest rate contracts hedging:						
Floating rate loans	Trading assets	15,000,000	1,058,261	Trading liabilities	1,000,000	4,456
<b>Total</b>		16,546,752	1,088,234		2,546,752	4,456
<b>Derivatives not designated as hedging instruments<sup>7</sup></b>						
Interest rate contracts covering:						
Fixed rate debt	Trading assets	\$3,223,085	\$264,169	Trading liabilities	\$295,000	\$19,222
Corporate bonds and loans		-	-	Trading liabilities	47,568	3,762
MSRs	Other assets	4,535,000	93,801	Other liabilities	1,300,000	4,205
LHFS, IRLCs, LHFI-FV <sup>3</sup>	Other assets	3,557,900 <sup>4</sup>	10,385	Other liabilities	4,563,900	45,950
Trading activity	Trading assets	120,177,079 <sup>1</sup>	3,855,199	Trading liabilities	99,042,272	3,793,799
Foreign exchange rate contracts covering:						
Foreign-denominated debt and commercial loans						
	Trading assets	1,192,689	123,197	Trading liabilities	673,958	153,659
Trading activity	Trading assets	2,128,241	144,332	Trading liabilities	2,300,474	139,742
Credit contracts covering:						
Loans	Trading assets	200,000	1,774	Trading liabilities	150,750	3,456
Trading activity	Trading assets	165,269 <sup>2</sup>	6,978	Trading liabilities	163,072 <sup>2</sup>	3,532
Equity contracts - Trading activity	Trading assets	4,022,126 <sup>1</sup>	479,213	Trading liabilities	7,104,501	633,341
Other contracts:						
IRLCs and other	Other assets	4,104,357	57,101	Other liabilities	186,012 <sup>5</sup>	40,840 <sup>5</sup>
Trading activity	Trading assets	47,882	7,670	Trading liabilities	47,891	7,478
<b>Total</b>		143,353,628	5,043,819		115,875,398	4,848,986

## Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

<b>Total derivatives</b>	\$ 159,900,380	\$ 6,132,053	\$ 118,422,150	\$ 4,853,442
--------------------------	----------------	--------------	----------------	--------------

<sup>1</sup> Amounts include \$24.6 billion and \$0.4 billion of notional related to interest rate futures and equity futures, respectively. These futures contracts settle in cash daily and therefore no derivative asset or liability is recorded.

<sup>2</sup> Asset and liability amounts include \$2.6 million and \$8.7 million, respectively, of notional from purchased and written interest rate swap risk participation agreements, respectively, which notional is calculated as the notional of the interest rate swap participated adjusted by the relevant risk weighted assets conversion factor.

<sup>3</sup> Items contained here that are not previously defined include LHFS & LHFV-FV which are loans held for sale and loans held for investment carried at fair value, respectively.

<sup>4</sup> Amount includes \$1.3 billion of notional amounts related to interest rate futures. These futures contracts settle in cash daily and therefore no derivative asset or liability is recorded.

<sup>5</sup> Includes a \$40.4 million derivative liability recorded in other liabilities in the Consolidated Balance Sheets, related to a notional amount of \$134.3 million. This derivative was established upon the sale of Visa Class B shares in the second quarter of 2009 as discussed in Note 13, Reinsurance Arrangements and Guarantees, to the Consolidated Financial Statements.

<sup>6</sup> See Cash Flow Hedges beginning on page 29 for further discussion.

<sup>7</sup> See Economic Hedging and Trading Activities beginning on page 30 for further discussion.

The impacts of derivative financial instruments on the Consolidated Statements of Income/(Loss) and the Consolidated Statements of Shareholders' Equity for the three and nine months ended September 30, 2009 is presented below. The impacts are segregated between those derivatives that are designated in hedging relationships and those that are used for economic hedging or trading purposes, with further identification of the underlying risks in the derivatives and the hedged items, where appropriate. The tables do not disclose the financial impact of the activities that these derivative instruments are intended to hedge, for both economic hedges and those instruments designated in formal, qualifying hedging relationships.

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued****Three Months Ended September 30, 2009**

(Dollars in thousands)

Derivatives in cash flow hedging relationships	Amount of pre-tax gain/(loss) Recognized in OCI on Derivative (Effective Portion)	Classification of gain/(loss) Reclassified		Amount of pre-tax gain/(loss) Reclassified from AOCI into Income (Effective Portion) <sup>1</sup>
		from AOCI into Income (Effective Portion)		
Equity contracts hedging:				
Securities available for sale	(\$90,595)			\$-
Interest rate contracts hedging:				
Floating rate loans	296,156	Interest and fees on loans		131,978
Floating rate certificates of deposits	(6)	Interest on deposits		(2,037)
<b>Total</b>	<b>\$205,555</b>			<b>\$129,941</b>

**Nine Months Ended September 30, 2009**

(Dollars in thousands)

Derivatives in cash flow hedging relationships	Amount of pre-tax gain/(loss) Recognized in OCI on Derivative (Effective Portion)	Classification of gain/(loss) Reclassified		Amount of pre-tax gain/(loss) Reclassified from AOCI into Income (Effective Portion) <sup>1</sup>
		from AOCI into Income (Effective Portion)		
Equity contracts hedging:				
Securities available for sale	(\$223,114)			\$-
Interest rate contracts hedging:				
Floating rate loans	88,399	Interest and fees on loans		355,965
Floating rate certificates of deposits	(1,499)	Interest on deposits		(47,265)
Floating rate debt	(15)	Interest on long-term debt		(1,333)
<b>Total</b>	<b>(\$136,229)</b>			<b>\$307,367</b>

(Dollars in thousands)

Derivatives not designated as hedging instruments	Classification of gain/(loss) Recognized in Income on Derivative	Amount of gain/(loss) Recognized in Income on Derivatives for the three months ended September 30, 2009	Amount of gain/(loss) Recognized in Income on Derivatives for the nine months ended September 30, 2009
Interest rate contracts covering:			
Fixed rate debt	Trading account profits and commissions	\$57,985	(\$43,829)
Corporate bonds and loans	Trading account profits and commissions	(956)	6,529
MSRs	Mortgage servicing income	66,379	(12,197)
LHFS, IRLCs, LHFI-FV	Mortgage production income	(92,019)	(102,199)
Trading activity	Trading account profits and commissions	27,417	32,306
Foreign exchange rate contracts covering:			
Foreign-denominated debt and commercial loans	Trading account profits and commissions	30,625	92,273
Trading activity	Trading account profits and commissions	(13,536)	(12,185)
Credit contracts covering:			
Loans	Trading account profits and commissions	(7,634)	(17,260)
Other	Trading account profits and commissions	5,713	2,113
Equity contracts - trading activity	Trading account profits and commissions	(27,113)	21,573
Other contracts:			
IRLCs	Mortgage production income	204,848	548,708

## Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

Trading activity	Trading account profits and commissions	1,347	2,272
<b>Total</b>		<b>\$253,056</b>	<b>\$518,104</b>

<sup>1</sup> During the three and nine months ended September 30, 2009, the Company reclassified \$8.1 million and \$24.3 million, respectively, in pre-tax gains from AOCI into net interest income. These gains related to hedging relationships that have been previously terminated or de-designated.

### **Credit Derivatives**

As part of its trading businesses, the Company enters into contracts that are, in form or substance, written guarantees: specifically, credit default swaps ( CDS ), swap participations, and TRS. The Company accounts for these contracts as derivative instruments and, accordingly, records these contracts at fair value, with changes in fair value recorded in trading account profits and commissions.

The Company writes CDS, which are agreements under which the Company receives premium payments from its counterparty for protection against an event of default of a reference asset. In the event of default under the CDS, the Company would either net cash settle or make a cash payment to its counterparty and take delivery of the defaulted reference asset, from which the Company may recover all, a portion, or none of the credit loss, depending on the performance of the reference asset. Events of default, as defined in the CDS agreements, are generally triggered upon the failure to pay and similar events related to the issuer(s) of the reference asset. As of September 30, 2009, all written CDS contracts reference single name corporate credits or corporate credit indices. When the Company has written CDS, it has generally entered into offsetting CDS for the underlying reference asset, under which the Company paid a premium to its counterparty for protection against an event of default on the

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

reference asset. The counterparties to these purchased CDS are of high creditworthiness and have ISDA agreements in place that subject the CDS to master netting provisions, thereby mitigating the risk of non-payment to the Company. As such, at September 30, 2009, the Company does not have any significant risk of making a non-recoverable payment on any written CDS. During 2009 and 2008, the only instances of default on written CDS were driven by credit indices with constituent credit default. In all cases where the Company made resulting cash payments to settle, the Company collected like amounts from the counterparties to the offsetting purchased CDS. At September 30, 2009, the written CDS had remaining terms of approximately six months to six years. The maximum guarantees outstanding at September 30, 2009 and December 31, 2008, as measured by the gross notional amounts of written CDS, were \$131.6 million and \$190.8 million, respectively. At September 30, 2009 and December 31, 2008, the gross notional amounts of purchased CDS contracts, which represent benefits to, rather than obligations of, the Company, were \$185.4 million and \$245.2 million, respectively. The fair values of the written CDS were \$3.0 million and \$34.7 million at September 30, 2009 and December 31, 2008, respectively, and the fair values of the purchased CDS were \$6.5 million and \$45.8 million at September 30, 2009, and December 31, 2008, respectively.

The Company writes swap participations, which are credit derivatives whereby the Company has guaranteed payment to a dealer counterparty in the event that the counterparty experiences a loss on a derivative instrument, such as an interest rate swap, due to a failure to pay by the counterparty's customer (the obligor) on that derivative instrument. The Company monitors its payment risk on its swap participations by monitoring the creditworthiness of the obligors, which is based on the normal credit review process the Company would have performed had it entered into the derivative instruments directly with the obligors. The obligors are all corporations or partnerships. However, the Company continues to monitor the creditworthiness of its obligors and the likelihood of payment could change at any time due to unforeseen circumstances. Further, during 2009 and 2008, the Company did not make any payments under its written swap participations. At September 30, 2009, the remaining terms on these swap participations generally ranged from one month to nine years, with a weighted average on the maximum estimated exposure of 3.5 years. The Company's maximum estimated exposure to written swap participations, as measured by projecting a maximum value of the guaranteed derivative instruments based on interest rate curve simulations and assuming 100% default by all obligors on the maximum values, was approximately \$106.7 million and \$125.7 million at September 30, 2009 and December 31, 2008, respectively. The fair values of the written swap participations were *de minimis* at September 30, 2009 and December 31, 2008. As part of its trading activities, the Company may enter into purchased swap participations, but such activity is not matched, as discussed herein related to CDS or TRS.

The Company has also entered into TRS contracts on loans. The Company's TRS business consists of matched trades, such that when the Company pays depreciation on one TRS, it receives the same depreciation on the matched TRS. As such, the Company does not have any long or short exposure, other than credit risk of its counterparty, which is managed through collateralization. The Company typically receives initial cash collateral from the counterparty upon entering into the TRS and is entitled to additional collateral as the fair value of the underlying reference assets deteriorate. As of December 31, 2008, the Company had decided to temporarily suspend its TRS business and the Company has unwound its positions as of September 30, 2009. The Company did not incur any losses on these unwinds. At December 31, 2008, there was \$602.1 million of outstanding and offsetting TRS notional balances. The fair values of the TRS derivative liabilities and assets were \$166.6 million and \$171.0 million at December 31, 2008, respectively, and related collateral held at December 31, 2008 was \$296.8 million.

**Cash Flow Hedges**

The Company utilizes a comprehensive risk management strategy to monitor sensitivity of earnings to movements in interest rates. Specific types of funding and principal amounts hedged are determined based on prevailing market conditions and the shape of the yield curve. In conjunction with this strategy, the Company employs various interest rate derivatives as risk management tools to hedge interest rate risk from recognized assets and liabilities or from forecasted transactions. The terms and notional amounts of derivatives are determined based on management's assessment of future interest rates, as well as other factors. The Company establishes parameters for derivative usage, including identification of assets and liabilities to hedge, derivative instruments to be utilized, and notional amounts of hedging relationships. At September 30, 2009, the Company's only outstanding interest rate hedging relationships relate to interest rate swaps that have been designated as cash flow hedges of probable forecasted transactions related to recognized assets.

Interest rate swaps have been designated as hedging the exposure to the benchmark interest rate risk associated with floating rate loans. The maximum range of hedge maturities for hedges of floating rate loans is approximately two to five years, with the weighted average being approximately 3.7 years. Ineffectiveness on these hedges was *de minimis* during the three and nine months ended September 30, 2009. As of September 30, 2009, \$335.6 million, net of tax, of the deferred net gains on derivatives that are recorded in AOCI are expected to be reclassified to net interest income over the next twelve months in connection with the recognition of interest income or interest expense on these hedged items.



**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

During the third quarter of 2008, the Company executed equity forward agreements (the Agreements) on 30 million common shares of The Coca-Cola Company (Coke). A consolidated subsidiary of SunTrust owns approximately 22.9 million Coke common shares and a consolidated subsidiary of SunTrust Bank owns approximately 7.1 million Coke common shares. These two subsidiaries entered into separate Agreements on their respective holdings of Coke common shares with a large, unaffiliated financial institution (the Counterparty). Execution of the Agreements (including the pledges of the Coke common shares pursuant to the terms of the Agreements) did not constitute a sale of the Coke common shares under U.S. GAAP for several reasons, including that ownership of the common shares was not legally transferred to the Counterparty. The Agreements resulted in zero cost equity collars which are derivatives in their entirety. The Company has designated the Agreements as cash flow hedges of the Company's probable forecasted sales of its Coke common shares, which are expected to occur in approximately six and a half and seven years from the Agreements' effective date, for overall price volatility below the strike prices on the floor (purchased put) and above the strike prices on the ceiling (written call). Although the Company is not required to deliver its Coke common shares under the Agreements, the Company has asserted that it is probable that it will sell all of its Coke common shares at or around the settlement date of the Agreements. The Federal Reserve's approval for Tier 1 capital was significantly based on this expected disposition of the Coke common shares under the Agreements or in another market transaction. Both the sale and the timing of such sale remain probable to occur as designated. At least quarterly, the Company assesses hedge effectiveness and measures hedge ineffectiveness with the effective portion of the changes in fair value of the Agreements recorded in AOCI and any ineffective portions recorded in trading account profits and commissions. None of the components of the Agreements' fair values are excluded from the Company's assessments of hedge effectiveness. Potential sources of ineffectiveness include changes in market dividends and certain early termination provisions. The Company did not recognize any ineffectiveness during 2008, but did recognize approximately (\$0.6) million and \$3.5 million of ineffectiveness during the three and nine months ended September 30, 2009, which was recorded in trading account profits and commissions. Other than potential measured hedge ineffectiveness, no amounts will be reclassified from AOCI over the next twelve months and any remaining amounts recorded in AOCI will be reclassified to earnings when the probable forecasted sales of the Coke common shares occur.

**Economic Hedging and Trading Activities**

In addition to designated hedging relationships, the Company also enters into derivatives as an end user as a risk management tool to economically hedge risks associated with certain non-derivative and derivative instruments, along with entering into derivatives in a trading capacity with its clients.

The primary risks that the Company economically hedges are interest rate risk, foreign exchange risk, and credit risk. The economic hedging activities are accomplished by entering into individual derivatives or by using derivatives on a macro basis, and generally accomplish the Company's goal of mitigating the targeted risk. To the extent that specific derivatives are associated with specific hedged items, the notional amounts, fair values, and gains/(losses) on the derivatives are illustrated in the tables above.

The Company utilizes interest rate derivatives to mitigate exposures from various instruments.

- o The Company is subject to interest rate risk on its fixed rate debt. As market interest rates move, a portion of the fair value of the Company's debt is affected. To protect against this risk on certain debt issuances that the Company has elected to carry at fair value, the Company has entered into pay variable-receive fixed interest rate swaps (in addition to entering into certain non-derivative instruments on a macro basis) that decrease in value in a rising rate environment and increase in value in a declining rate environment.
- o The Company is exposed to interest rate risk associated with MSRs, which the Company hedges with a combination of derivatives, including MBS forward and option contracts, and interest rate swap and swaption contracts.
- o



## Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

The Company enters into MBS forward and option contracts, interest rate swap and swaption contracts, futures contracts, and eurodollar options to mitigate interest rate risk associated with IRLCs, mortgage loans held for sale, and mortgage loans held for investment reported at fair value.

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

The Company is exposed to foreign exchange rate risk associated with certain senior notes denominated in euros and pound sterling. This risk is economically hedged by entering into cross currency swaps, which receive either euros or pound sterling and pay U.S. dollars. Interest expense on the Consolidated Statements of Income/(Loss) reflects only the contractual interest rate on the debt based on the average spot exchange rate during the applicable period, while fair value changes on the derivatives and valuation adjustments on the debt under ASC 830 are both recorded within trading account profits and commissions.

The Company enters into CDS to hedge credit risk associated with certain loans held within its Corporate and Investment Banking and Wealth and Investment Management lines of business.

Trading activity, in the tables above, primarily includes interest rate swaps, equity derivatives, CDS, futures, options and foreign currency contracts. These derivatives are entered into in a dealer capacity to facilitate client transactions or are utilized as a risk management tool by the Company as an end user in certain macro-hedging strategies. The macro-hedging strategies are focused on managing the Company's overall interest rate risk exposure that is not otherwise hedged by derivatives or in connection with specific hedges and, therefore, the Company does not specifically associate individual derivatives with specific assets or liabilities.

**Note 13 Reinsurance Arrangements and Guarantees*****Reinsurance***

The Company provides mortgage reinsurance on certain mortgage loans through contracts with several primary mortgage insurance companies. Under these contracts, the Company provides aggregate excess loss coverage in a mezzanine layer in exchange for a portion of the pool's mortgage insurance premium. As of September 30, 2009, approximately \$15.3 billion of mortgage loans were covered by such mortgage reinsurance contracts. The reinsurance contracts are intended to place limits on the Company's maximum exposure to losses by defining the loss amounts ceded to the Company as well as by establishing trust accounts for each contract. The trust accounts, which are comprised of funds contributed by the Company plus premiums earned under the reinsurance contracts, are maintained to fund claims made under the reinsurance contracts. If claims exceed funds held in the trust accounts, the Company does not intend to make additional contributions beyond future premiums earned under the existing contracts.

At September 30, 2009, the total loss exposure ceded to the Company was approximately \$656.0 million; however, the maximum amount of loss exposure based on funds held in each separate trust account, including net premiums due to the trust accounts, was limited to \$284.0 million. Of this amount, \$280.0 million of losses have been reserved for as of September 30, 2009, reducing the Company's net remaining loss exposure to \$4.0 million. Future reported losses may exceed \$4.0 million; however, since future premium income will increase the amount of funds held in the trust, future cash losses, net of premium income, are not expected to exceed \$4.0 million. The amount of future premium income is limited to the population of loans currently outstanding since additional loans are not being added to the reinsurance contracts; future premium income could be further curtailed to the extent the Company agrees to relinquish control of individual trusts to the mortgage insurance companies. Premium income, which totaled \$11.0 million and \$36.9 million and \$13.4 million and \$45.5 million for the three and nine month periods ended September 30, 2009 and September 30, 2008, respectively, are reported as part of noninterest income. The related provision for losses, which total \$10.0 million and \$104.6 million and \$48.0 million and \$79.9 million for the three and nine month periods ended September 30, 2009 and September 30, 2008, respectively, is reported as part of noninterest expense.

As noted above, the reserve for estimated losses incurred under its reinsurance contracts totaled \$280.0 million at September 30, 2009. The Company's evaluation of the required reserve amount includes an estimate of claims to be paid by the trust related to loans in default and an assessment of the sufficiency of future revenues, including premiums and investment income on funds held in the trusts, to cover future claims.

***Guarantees***

The Company has undertaken certain guarantee obligations in the ordinary course of business. The issuance of a guarantee imposes an obligation for the Company to stand ready to perform, and should certain triggering events occur, it also imposes an obligation to make future

## Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

payments. Payments may be in the form of cash, financial instruments, other assets, shares of stock, or provisions of the Company's services. The following is a discussion of the guarantees that the Company has issued as of September 30, 2009. In addition, the Company has entered into certain contracts that are similar to guarantees, but that are accounted for as derivatives (see Note 12, Derivative Financial Instruments, to the Consolidated Financial Statements).

---

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued****Visa**

The Company issues and acquires credit and debit card transactions through the Visa, U.S.A. Inc. card association or its affiliates (collectively Visa ). On October 3, 2007, Visa completed a restructuring and issued shares of Class B Visa Inc. common stock ( Class B shares ) to its financial institution members, including 3.2 million shares to the Company, in contemplation of an initial public offering ( IPO ), which occurred in March 2008. For purposes of converting Class B shares to Class A shares of Visa Inc., a conversion factor is applied, which is subject to adjustment depending on the outcome of certain specifically defined litigation. The Class B shares are not transferable (other than to another member bank) until the later of the third anniversary of the IPO closing or the date which certain specifically defined litigation has been resolved; therefore, the Company's Class B shares were classified in other assets and accounted for at their carryover basis of \$0.

The Company is a defendant, along with Visa U.S.A. Inc. and MasterCard International (the Card Associations ), as well as several other banks, in one of several antitrust lawsuits challenging the practices of the Card Associations (the Litigation ). The Company has entered into judgment and loss sharing agreements with Visa and certain other banks in order to apportion financial responsibilities arising from any potential adverse judgment or negotiated settlements related to the Litigation. Additionally, in connection with the restructuring, a provision of the original Visa By-Laws, Section 2.05j, was restated in Visa's certificate of incorporation. Section 2.05j contains a general indemnification provision between a Visa member and Visa, and explicitly provides that after the closing of the restructuring, each member's indemnification obligation is limited to losses arising from its own conduct and the specifically defined Litigation. The maximum potential amount of future payments that the Company could be required to make under this indemnification provision cannot be determined as there is no limitation provided under the By-Laws and the amount of exposure is dependent on the outcome of the Litigation. During 2008, Visa funded \$4.1 billion into an escrow account, established for the purpose of funding judgments in, or settlements of, the Litigation. Agreements associated with the Visa IPO have provisions that Visa will first use the funds in the escrow account to pay for future settlements of, or judgments in the Litigation. If the escrow account is insufficient to cover the Litigation losses, then Visa will issue additional Class A shares ( loss shares ). The proceeds from the sale of the loss shares would then be deposited in the escrow account. The issuance of the loss shares will cause a dilution of the Class B common stock as a result of an adjustment to lower the conversion factor of the Class B common stock to Class A common stock. Visa USA's members are responsible for any portion of the settlement or loss on the Litigation after the escrow account is depleted and the value of the Class B shares is fully-diluted. As a result of its indemnification obligations and percentage ownership of Class B shares, the Company estimated its net guarantee liability to be \$43.5 million as of December 31, 2008. During the second quarter, the Company was notified by Visa of the scheduled recalculation of its membership proportion.

In May 2009, the Company sold its 3.2 million shares of Class B Visa Inc. common stock to another financial institution ( the Counterparty ) for \$112.1 million and recognized a gain of \$112.1 million. Additionally, the Company entered into a derivative with the Counterparty whereby the Counterparty will be compensated by the Company for any decline in the conversion factor as a result of the outcome of the Litigation. Conversely, the Company will be compensated by the Counterparty for any increase in the conversion factor. Accordingly, the Company recorded a derivative liability at its estimated fair value for \$50.5 million. The Counterparty, as a result of its ownership of the Class B common stock, will be impacted by dilutive adjustments to the conversion factor of the Class B common stock caused by the Litigation losses. Since the Company transferred risk associated with the Litigation losses to a different responsible party, the Company recorded an offset to its net guarantee liability. In July 2009, Visa funded an additional \$700 million into their escrow account, triggering a payment by SunTrust to the Counterparty of \$10.1 million. A high degree of subjectivity was used in estimating the fair value of the derivative liability, and the ultimate cost to the Company could be significantly higher or lower than the \$40.4 million recorded as of September 30, 2009.

**Letters of Credit**

Letters of credit are conditional commitments issued by the Company generally to guarantee the performance of a client to a third party in borrowing arrangements, such as commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients and may be reduced by selling participations to third parties. The Company issues letters of credit that are classified as financial standby, performance standby, or commercial letters of credit. Commercial letters of credit are specifically excluded from the disclosure and recognition requirements of ASC 460-10.

As of September 30, 2009 and December 31, 2008, the maximum potential amount of the Company's obligation was \$10.1 billion and \$13.8 billion, respectively, for financial and performance standby letters of credit. The Company has recorded \$126.2 million and \$141.9 million in other liabilities for unearned fees related to these letters of credit as of September 30, 2009 and December 31, 2008, respectively. The Company's outstanding letters of credit generally have a term of less than one year but may extend longer than one year. If a letter of credit is drawn upon, the Company may seek recourse through the client's underlying obligation. If the client's line of credit is also in default, the Company may take

possession of the collateral securing

---

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

the line of credit, where applicable. The Company monitors its credit exposure under standby letters of credit in the same manner as it monitors other extensions of credit in accordance with credit policies. Some standby letters of credit are designed to be drawn upon and others are drawn upon only under circumstances of dispute or default in the underlying transaction to which the Company is not a party. In all cases, the Company holds the right to reimbursement from the applicant and may or may not also hold collateral to secure that right. An internal assessment of the probability of default and loss severity in the event of default is assessed consistent with the methodologies used for all commercial borrowers and the management of risk regarding letters of credit leverages the risk rating process to focus higher visibility on the higher risk and higher dollar letters of credit.

**Loan Sales**

SunTrust Mortgage, Inc. ( STM ), a consolidated subsidiary of SunTrust, originates and purchases residential mortgage loans, a portion of which are sold to outside investors in the normal course of business. When mortgage loans or MSR's are sold, representations and warranties regarding certain attributes of the loans sold are made to the third party purchaser. These representations and warranties may extend through the life of the mortgage loan, generally 25 to 30 years. Subsequent to the sale, if inadvertent underwriting deficiencies or documentation defects are discovered in individual mortgage loans, STM will be obligated to repurchase the respective mortgage loan or MSR's and absorb the loss if such deficiencies or defects cannot be cured by STM within the specified period following discovery. STM's risk of repurchasing loans is largely driven by borrower payment performance under the terms of the mortgage loans.

STM maintains a liability for estimated losses on mortgage loans and MSR's that may be repurchased. This liability is initially based on the estimated fair value of the Company's contingency at the time loans or MSR's are sold and the guarantee liability is created. Subsequently, STM estimates losses that have been incurred and increases the liability if estimated incurred losses exceed the guarantee liability. As of September 30, 2009 and December 31, 2008, the liability for losses related to repurchases totaled \$126.4 million and \$100.5 million, respectively.

**Contingent Consideration**

The Company has contingent payment obligations related to certain business combination transactions. Payments are calculated using certain post-acquisition performance criteria. Arrangements entered into prior to January 1, 2009, the effective date of ASC 805-30-25, are not recorded as liabilities; whereas arrangements entered subsequent to the effective date of ASC 805-30-25 are recorded as liabilities. The potential obligation associated with these arrangements was approximately \$15.1 million and \$31.8 million as of September 30, 2009 and December 31, 2008, respectively, of which \$3.8 million and \$0 million was recorded as liabilities as of September 30, 2009 and December 31, 2008. If required, these contingent payments will be payable at various times over the next five years.

**Public Deposits**

The Company holds public deposits of various states in which it does business. Individual state laws require banks to collateralize public deposits, typically as a percentage of their public deposit balance in excess of Federal Deposit Insurance Corporation ( FDIC ) insurance and may also require a cross-guarantee among all banks holding public deposits of the individual state. The amount of collateral required varies by state and may also vary by institution within each state, depending on the individual state's risk assessment of depository institutions. Certain of the states in which the Company holds public deposits use a pooled collateral method, whereby in the event of default of a bank holding public deposits, the collateral of the defaulting bank is liquidated to the extent necessary to recover the loss of public deposits of the defaulting bank. To the extent the collateral is insufficient, the remaining public deposit balances of the defaulting bank are recovered through an assessment, from the other banks holding public deposits in that state. The maximum potential amount of future payments the Company could be required to make is dependent on a variety of factors, including the amount of public funds held by banks in the states in which the Company also holds public deposits and the amount of collateral coverage associated with any defaulting bank. Individual states appear to be monitoring risk relative to the current economic environment and evaluating collateral requirements and therefore, the likelihood that the Company would have to perform under this guarantee is dependent on whether any banks holding public funds default as well as the adequacy of collateral coverage.

**Other**

In the normal course of business, the Company enters into indemnification agreements and provides standard representations and warranties in connection with numerous transactions. These transactions include those arising from securitization activities, underwriting agreements, merger

## Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

and acquisition agreements, loan sales, contractual commitments, payment processing sponsorship agreements, and various other business transactions or arrangements.

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

The extent of the Company's obligations under these indemnification agreements depends upon the occurrence of future events; therefore, the Company's potential future liability under these arrangements is not determinable.

SunTrust Investment Services, Inc. ( STIS ) and SunTrust Robinson Humphrey, Inc. ( STRH ), broker-dealer affiliates of SunTrust, use a common third party clearing broker to clear and execute their customers' securities transactions and to hold customer accounts. Under their respective agreements, STIS and STRH agree to indemnify the clearing broker for losses that result from a customer's failure to fulfill its contractual obligations. As the clearing broker's rights to charge STIS and STRH have no maximum amount, the Company believes that the maximum potential obligation cannot be estimated. However, to mitigate exposure, the affiliate may seek recourse from the customer through cash or securities held in the defaulting customer's account. For the three and nine month periods ended September 30, 2009 and September 30, 2008, STIS and STRH experienced minimal net losses as a result of the indemnity. The clearing agreements expire in May 2010 for both STIS and STRH.

SunTrust Community Capital, LLC ( SunTrust Community Capital ), a SunTrust subsidiary, previously obtained state and federal tax credits through the construction and development of affordable housing properties and continues to obtain state and federal tax credits through investments as a limited partner in affordable housing developments. SunTrust Community Capital or its subsidiaries are limited and/or general partners in various partnerships established for the properties. If the partnerships generate tax credits, those credits may be sold to outside investors. As of September 30, 2009, SunTrust Community Capital has completed six tax credit sales containing guarantee provisions stating that SunTrust Community Capital will make payment to the outside investors if the tax credits become ineligible. SunTrust Community Capital also guarantees that the general partner under the transaction will perform on the delivery of the credits. The guarantees are expected to expire within a ten year period from inception. As of September 30, 2009, the maximum potential amount that SunTrust Community Capital could be obligated to pay under these guarantees is \$38.6 million; however, SunTrust Community Capital can seek recourse against the general partner. Additionally, SunTrust Community Capital can seek reimbursement from cash flow and residual values of the underlying affordable housing properties provided that the properties retain value. As of September 30, 2009 and December 31, 2008, \$10.0 million and \$11.6 million, respectively, were accrued representing the remainder of tax credits to be delivered, and were recorded in other liabilities on the Consolidated Balance Sheets.

**Note 14 Concentrations of Credit Risk**

Credit risk represents the maximum accounting loss that would be recognized at the reporting date if borrowers failed to perform as contracted and any collateral or security proved to be of no value. Concentrations of credit risk (whether on- or off-balance sheet) arising from financial instruments can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, certain loan products, or certain regions of the country.

Credit risk associated with these concentrations could arise when a significant amount of loans, related by similar characteristics, are simultaneously impacted by changes in economic or other conditions that cause their probability of repayment to be adversely affected. The Company does not have a significant concentration of risk to any individual client except for the U.S. government and its agencies. The major concentrations of credit risk for the Company arise by collateral type in relation to loans and credit commitments. The only significant concentration that exists is in loans secured by residential real estate. At September 30, 2009, the Company owned \$47.7 billion in residential mortgage loans and home equity lines, representing 41.0% of total loans, \$4.4 billion of residential construction loans, representing 3.8% of total loans, and an additional \$15.7 billion in commitments to extend credit on home equity loans and \$13.2 billion in mortgage loan commitments. At December 31, 2008, the Company had \$48.5 billion in residential mortgage loans and home equity lines, representing 38.2% of total loans, \$6.2 billion of residential construction loans, representing 4.9% of total loans, and an additional \$18.3 billion in commitments to extend credit on home equity loans and \$17.0 billion in mortgage loan commitments. The Company originates and retains certain residential mortgage loan products that include features such as interest only loans, high loan to value loans, and low initial interest rate loans. As of September 30, 2009, the Company owned \$15.8 billion of interest only loans, primarily with a 10 year interest only period. Approximately \$2.6 billion of those loans had combined original loan to value ratios in excess of 80% with no mortgage insurance. Additionally, the Company owned approximately \$3.3 billion of amortizing loans with combined loan to value ratios in excess of 80% with no mortgage insurance. As of December 31, 2008, the Company owned \$16.8 billion of interest only loans, primarily with a 10 year interest only period. Approximately \$1.9 billion of those loans had combined original loan to value ratios in excess of 80% with no mortgage insurance. Additionally, the Company owned approximately \$2.4 billion of amortizing loans with combined loan to value ratios in excess of 80% with no mortgage insurance. The Company attempts to mitigate and control the risk in each loan type through private mortgage insurance and underwriting guidelines and practices. A geographic concentration arises because the Company operates primarily in the Southeastern and Mid-Atlantic regions of the United States.





---

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

SunTrust engages in limited international banking activities. The Company's total cross-border outstanding loans were \$623.7 million and \$945.8 million as of September 30, 2009 and December 31, 2008, respectively.

**Note 15 Fair Value Election and Measurement**

The Company has elected to record specific financial assets and financial liabilities at fair value. These instruments include all, or a portion, of the following: fixed rate debt, brokered deposits, loans, loans held for sale, and trading loans. The following is a description of each financial asset and liability class as of September 30, 2009 for which fair value has been elected, including the specific reasons for electing fair value and the strategies for managing the financial assets and liabilities on a fair value basis.

**Fixed Rate Debt**

The debt that the Company initially elected to carry at fair value was all of its fixed rate debt that had previously been designated in qualifying fair value hedges using receive-fixed interest rate swaps. The Company has also elected fair value for specific fixed rate debt issued subsequent to 2006 in which the Company concurrently entered into derivative financial instruments that economically converted the interest rate on the debt from fixed to floating. As of December 31, 2008, the fair value of all such elected fixed rate debt was comprised of \$3.7 billion of fixed rate FHLB advances and \$3.5 billion of publicly-issued debt. The Company elected to record this debt at fair value in order to align the accounting for the debt with the accounting for the derivatives without having to account for the debt under hedge accounting, thus avoiding the complex and time consuming fair value hedge accounting requirements. This move to fair value introduced earnings volatility due to changes in the Company's credit spread. A significant portion of the debt, along with certain of the interest rate swaps previously designated as hedges, continues to remain outstanding; however, in February 2009, the Company repaid all of the FHLB advances outstanding and closed out its exposures on the interest rate swaps. Approximately \$150.8 million of FHLB stock was redeemed in conjunction with the repayment of the advances. Total fair value debt at September 30, 2009 was \$3.6 billion (par).

**Brokered Deposits**

The Company had elected to measure certain certificates of deposit at fair value. These debt instruments include embedded derivatives that are generally based on underlying equity securities or equity indices, but may be based on other underlyings that are generally not clearly and closely related to the host debt instrument. The Company elected to carry these instruments at fair value in order to remove the mixed attribute accounting model. This required bifurcation of a single instrument into a debt component, which would be carried at amortized cost, and a derivative component, which would be carried at fair value, with such bifurcation being based on the fair value of the derivative component and an allocation of any remaining proceeds to the host debt instrument. The Company had elected to carry substantially all newly-issued certificates of deposit at fair value to allow the Company to economically hedge the embedded features. In 2009, given the continued dislocation in the credit markets, the Company evaluated its election to fair value on an instrument by instrument basis whether a new issuance will be carried at fair value.

**Loans and Loans Held for Sale**

The Company elects to record at fair value certain newly-originated mortgage loans held for sale based upon defined product criteria. SunTrust chooses to fair value these mortgage loans held for sale in order to eliminate the complexities and inherent difficulties of achieving hedge accounting and to better align reported results with the underlying economic changes in value of the loans and related hedging instruments. This election impacts the timing and recognition of origination fees and costs. Specifically, origination fees and costs, which had been appropriately deferred under ASC 310-20 and recognized as part of the gain/loss on sale of the loan, are now recognized in earnings at the time of origination. The mark to market adjustments related to loans held for sale and the associated economic hedges is captured in mortgage production income.

**Trading Loans**

The Company often maintains a portfolio of loans that it trades in the secondary market. Pursuant to the provisions of ASC 825-10, the Company elected to carry certain trading loans at fair value in order to reflect the active management of these positions. Subsequent to the initial adoption, additional loans were purchased and recorded at fair value as part of the Company's normal loan trading activities. As of September 30, 2009, approximately \$256.9 million of trading loans were outstanding.



---

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued*****Valuation Methodologies and Fair Value Hierarchy***

The primary financial instruments that the Company carries at fair value include securities, derivative instruments, fixed rate debt, loans, and loans held for sale. Classification in the fair value hierarchy of financial instruments is based on the criteria set forth in ASC 820. Financial instruments that have significantly limited or unobservable trading activity (i.e., inactive markets), such that the estimates of fair value include significant unobservable inputs, are classified as level 3 instruments. The values were generally based on proprietary models or non-binding broker price indications that estimated the credit and liquidity risk.

The classification of an instrument as level 3 versus level 2 involves judgment based on a variety of subjective factors. A market is considered inactive based on whether significant decreases in the volume and level of activity for the asset or liability have been observed. In determining whether a market is inactive, the Company evaluates such factors as the number of recent transactions in either the primary or secondary markets, whether price quotations are current, the variability of price quotations, the significance of bid/ask spreads, declines in (or the absence of) new issuances and the availability of public information. Inactive markets necessitate the use of additional judgment when valuing financial instruments, such as pricing matrices, cash flow modeling and the selection of an appropriate discount rate. The assumptions used to estimate the value of an instrument where the market was inactive were based on the Company's assessment of the assumptions a market participant would use to value the instrument in an orderly transaction and included considerations of illiquidity in the current market environment. Where the Company determined that a significant decrease in the volume and level of activity had occurred, the Company was then required to evaluate whether significant adjustments were required to market data to arrive at an exit price.

**Level 3 Instruments**

SunTrust used significant unobservable inputs to fair value certain financial and non-financial instruments as of September 30, 2009 and December 31, 2008. The general lack of market liquidity necessitates the use of unobservable inputs in certain cases, as the observability of actual trades and assumptions used by market participants that would otherwise be available to the Company to use as a basis for estimating the fair values of these instruments has diminished. It is reasonably likely that current inactive markets will continue as a result of a variety of external factors, including, but not limited to, economic conditions.

The Company's level 3 securities available for sale include instruments totaling approximately \$1.3 billion at September 30, 2009, including FHLB and Federal Reserve Bank stock, as well as certain municipal bond securities, some of which are only redeemable with the issuer at par and cannot be traded in the market. As such, no significant observable market data for these instruments is available. These nonmarketable securities total approximately \$838.1 million at September 30, 2009.

Level 3 trading assets total approximately \$475.8 million at September 30, 2009, which includes the Coke derivative valued at approximately \$30.0 million at September 30, 2009. The remaining level 3 securities, both trading assets and available for sale securities are predominantly CP, interests retained from Company-sponsored securitizations of residential mortgage loans, investments in structured investment vehicles (SIVs), and MBS and ABS collateralized by a variety of underlying assets including residential mortgages, corporate obligations, and commercial real estate for which little or no market activity exists or where the value of the underlying collateral is not readily observable in the market. The Company has increased its exposure to bank trust preferred ABS, student loan ABS, and municipal securities as a result of its offer to purchase certain ARS as a result of failed auctions.

ARS purchased since the auction rate market began failing in February 2008 have been considered level 3 securities due to the significant decrease in the volume and level of activity in these markets, which has necessitated the use of significant unobservable inputs into the Company's valuations. ARS are classified as securities available for sale or trading securities. Under a functioning ARS market, ARS could be remarketed with interest rate caps to investors targeting short-term investment securities that repriced generally every 7 to 28 days. Unlike other short-term instruments, these ARS do not benefit from back-up liquidity lines or letters of credit; therefore, as auctions began to fail, investors were left with securities that were more akin to longer-term, 20-30 year, illiquid bonds. The combination of materially increased tenors, capped interest rates and general market illiquidity has had a significant impact on the risk profiles of these securities and has resulted in the use of valuation techniques and models that rely on significant inputs that are largely unobservable.

---

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

Investments in various ABS such as residual and other retained interests from securitizations, SIVs and MBS, which are classified as securities available for sale or trading securities, are valued based on internal models that incorporate assumptions, such as prepayment speeds and estimated credit losses, which are not observable in the current markets. Generally, the Company attempts to obtain pricing for its securities from a third party pricing provider or third party brokers who have experience in valuing certain investments. This pricing may be used as either direct support for the Company's valuation or used to validate outputs from its own proprietary models. Although third party price indications have been available for the majority of the securities, the significant decrease in the volume and level of trading activity makes it difficult to support the observability of these quotations. Therefore, the Company evaluates third party pricing to determine the reasonableness of the information relative to changes in market data based on any recent trades it executed, market information received from outside market participants and analysts, and/or changes in the underlying collateral performance. When actual trades are not available to corroborate pricing information received, the Company will use industry standard or proprietary models to estimate fair value and will consider assumptions such as relevant market indices that correlate to the underlying collateral, prepayment speeds, default rates, loss severity rates, and discount rates.

Level 3 loans are primarily non-agency residential mortgage loans held for investment or loans held for sale for which there is little to no observable trading activity of similar instruments in either the new issuance or secondary loan markets as either whole loans or as securities. Prior to the non-agency residential loan market disruption, which began during the third quarter of 2007 and continues, the Company was able to obtain certain observable pricing from either the new issuance or secondary loan market. However, as the markets deteriorated and certain loans were not actively trading as either whole loans or as securities, the Company began employing the same alternative valuation methodologies used to value level 3 residential mortgage-backed securities to fair value the loans. During the nine months ended September 30, 2009, we transferred \$301.3 million of loans that were previously designated as held for sale to held for investment, as they were determined to be no longer marketable. Of this amount, \$272.1 million were loans held for sale reported at fair value and will continue to be reported at fair value as loans held for investment.

Additionally, level 3 loans include some of the loans acquired through the acquisition of GB&T. The loans the Company elected to account for at fair value are primarily nonperforming commercial real estate loans, which do not trade in an active secondary market. As these loans are classified as nonperforming, cash proceeds from the sale of the underlying collateral is the expected source of repayment for a majority of these loans. Accordingly, the fair value of these loans is derived from internal estimates, incorporating market data when available, of the value of the underlying collateral.

The Company records MSRs at fair value on both a recurring and non-recurring basis. The fair values of MSRs are determined by projecting cash flows, which are then discounted to estimate an expected fair value. The fair values of MSRs are impacted by a variety of factors, including prepayment assumptions, discount rates, delinquency rates, contractually specified servicing fees, and underlying portfolio characteristics. The underlying assumptions and estimated values are corroborated by values received from independent third parties based on their review of the servicing portfolio. Because these inputs are not transparent in market trades, MSRs are considered to be level 3 assets in the valuation hierarchy.

Most derivative instruments (see Note 12, "Derivative Financial Instruments" to the Consolidated Financial Statements) are level 1 or level 2 instruments. Beginning in the first quarter of 2008, the Company classified IRLCs on residential mortgage loans held for sale which are derivatives, on a gross basis within other assets or other liabilities. The fair value of these commitments, while based on interest rates observable in the market, is highly dependent on the ultimate closing of the loans. These "pull-through" rates are based on the Company's historical data and reflect the Company's best estimate of the likelihood that a commitment will ultimately result in a closed loan. As a result of the adoption of Staff Accounting Bulletin (SAB) No. 109, beginning in the first quarter of 2008, servicing value was also included in the fair value of IRLCs. The fair value of servicing value is determined by projecting cash flows which are then discounted to estimate an expected fair value. The fair value of servicing value is impacted by a variety of factors, including prepayment assumptions, discount rates, delinquency rates, contractually specified servicing fees and underlying portfolio characteristics. Because these inputs are not transparent in market trades, IRLCs are considered to be level 3 assets in the valuation hierarchy.

In addition, the equity forward agreements the Company entered into related to its Coke stock are level 3 instruments, due to the unobservability of a significant assumption used to value these instruments. Because the value is primarily driven by the embedded equity collars on the Coke shares, a Black-Scholes model is the appropriate valuation model. Most of the assumptions are directly observable from the market, such as the per share market price of Coke, interest rates, and the Coke dividend. Volatility is a significant assumption and is impacted both by the unusually large size of the trade and the long tenor until settlement. Because the derivatives carry initial terms of approximately six and a half and seven years and are on a significant number of Coke shares, the observable and active options market on Coke does not provide for any identical or similar



---

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

instruments. As such, the Company receives estimated market values from a market participant who is knowledgeable about Coke equity derivatives and is active in the market. Based on inquiries of the market participant as to their procedures, as well as the Company's own valuation assessment procedures, the Company has satisfied itself that the market participant is using methodologies and assumptions that other market participants would use in arriving at the fair value of the Agreements. At September 30, 2009 and December 31, 2008, the Agreements fair value represented an asset position for the Company of approximately \$30.0 million and \$249.5 million, respectively.

During the second quarter of 2009, in connection with its sale of Visa Class B shares, the Company entered into a derivative contract whereby the ultimate cash payments received or paid, if any, under the contract are based on the ultimate resolution of litigation involving Visa. The value of the derivative was estimated based on the Company's expectations regarding the ultimate resolution of that litigation, which involved a high degree of judgment and subjectivity. Accordingly, the value of the derivative liability was classified as a level 3 instrument. See Note 13, Reinsurance Arrangements and Guarantees, to the Consolidated Financial Statements for further discussion.

As disclosed in the tabular level 3 rollforwards, during the nine months ended September 30, 2009, the Company transferred certain available for sale securities into level 3 due to the illiquidity of these securities and lack of market observable information to value these securities. In addition, the Company transferred certain trading securities and long-term debt out of level 3. Available for sale securities that were transferred into level 3 consist of municipal bonds for which no observable trading activity exists. The U.S. Treasury and federal agency trading securities that were transferred out of level 3 were Small Business Administration securities for which the volume and level of observable trading activity had significantly decreased in prior quarters, but for which the Company began to observe limited increases in such activity during the three months ended March 31, 2009 and significant increases in such activity during the three months ended June 30, 2009. This level of activity provided the Company with sufficient market evidence of pricing, such that the Company did not have to make any significant adjustments to observed pricing, nor was the Company's pricing based on unobservable data. The Company also elected to transfer its fixed rate debt out of level 3 during the three months ended June 30, 2009. The volume and level of activity for transactions in the Company's debt in the secondary markets had begun to increase in the three months ended March 31, 2009 and significantly increased during the three months ended June 30, 2009. As such, the Company was able to use pricing from observable trades to corroborate pricing received from third-party pricing services and market-makers. Transfers into level 3 are generally assumed to be as of the beginning of the quarter in which the transfer occurred, while transfers out of level 3 are generally assumed to occur as of the end of the quarter. None of the transfers into or out of level 3 were the result of using alternative valuation approaches to estimate fair values.

As discussed in Note 7, Certain Transfers of Financial Assets, Mortgage Servicing Rights and Variable Interest Entities, to the Consolidated Financial Statements, the Company began to purchase CP from Three Pillars, which is a multi-seller commercial paper conduit with which the Company has certain levels of involvement. This CP was classified as level 3. The downgrade of Three Pillars' CP to A-2/P-1 during the second quarter caused the volume and level of activity for its CP to significantly decrease. Because of this significant decrease, the observability for identical or similar transactions in the market also significantly decreased. As such, in order to estimate the fair value of its CP issuances to the Company, significant adjustments were required to the most similar asset for which a sufficient level of market observability existed. Three Pillars subsequently received a F-1 rating from Fitch, such that it is now rated F-1/P-1. These ratings triggered increased third party demand for its CP during the quarter ended September 30, 2009 to such a level that the Company stopped making any significant adjustments to third party pricing information when valuing the investments. As such, this CP was transferred out of level 3 effective September 30, 2009.

Certain level 3 assets include non-financial assets such as affordable housing properties, private equity investments, and intangible assets that are measured on a non-recurring basis based on third party price indications or the estimated expected remaining cash flows to be received from these assets discounted at a market rate that is commensurate with their risk profile.

During the third quarter of 2009, the Company transferred certain portions of its other real estate owned portfolio into level 3 due to the lack of observable market data available for Vacant Developed Lots (VDL) and Land. These properties had valuation dates exceeding 12 months as of September 30, 2009. The Company utilized a pooled valuation approach to value the VDL and land and estimated the percentage decline that has taken place in these property types over the past 12 to 18 months on a per state basis. As a result of the valuation analysis performed in assessing market value deterioration by state, the Company recorded a reserve allowance of \$30.2 million for the VDL and land totaling \$76.5 million in net carrying value. These VDL and lands are located primarily in Georgia and North Carolina.

**Table of Contents**

**Notes to Consolidated Financial Statements (Unaudited)-Continued**

**Credit Risk**

The credit risk associated with the underlying cash flows of an instrument carried at fair value was a consideration in estimating the fair value of certain financial instruments. Credit risk was considered in the valuation through a variety of inputs, as applicable, including the actual default and loss severity of the collateral, the instrument's spread in relation to U.S. Treasury rates, the capital structure of the security and level of subordination, and/or the rating on a security/obligor as defined by nationally recognized rating agencies. The assumptions used to estimate credit risk applied relevant information that a market participant would likely use in valuing an instrument.

For loan products that the Company has elected to carry at fair value, the Company has considered the component of the fair value changes due to instrument-specific credit risk, which is intended to be an approximation of the fair value change attributable to changes in borrower-specific credit risk. For the three and nine months ended September 30, 2009, SunTrust recognized a loss on loans accounted for at fair value of approximately \$8.6 million and a loss of approximately \$20.2 million, respectively, due to changes in fair value attributable to borrower-specific credit risk. For the three and nine months ended September 30, 2008, SunTrust recognized a loss on loans accounted for at fair value of approximately \$7.0 million and \$23.8 million, respectively, due to changes in fair value attributable to borrower-specific credit risk. In addition to borrower-specific credit risk, there are other, more significant variables that will drive changes in the fair value of the loans, including interest rates changes and general conditions in the principal markets for the loans.

For the publicly-traded fixed rate debt and brokered deposits carried at fair value, the Company estimated credit spreads above U.S. Treasury rates or LIBOR, based on credit spreads from actual or estimated trading levels of the debt. The Company recognized a loss of approximately \$185.0 million and \$165.4 million, respectively, for the three and nine months ended September 30, 2009, and a gain of approximately \$327.3 million and \$459.7 million, for the three and nine months ended September 30, 2008, respectively, due to changes in its own credit spread on its public debt and brokered deposits.

The following tables present assets and liabilities measured at fair value on a recurring basis and the change in fair value for those specific financial instruments in which fair value has been elected. The tables do not reflect the change in fair value attributable to the related economic hedges the Company used to mitigate the market-related risks associated with the financial instruments. The changes in the fair value of economic hedges were also recorded in trading account profits and commissions or mortgage production or servicing related income, as appropriate, and are designed to partially offset the change in fair value of the financial instruments referenced in the tables below. The Company's economic hedging activities are deployed at both the instrument and portfolio level.



**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

(Dollars in thousands)	Assets/Liabilities	Fair Value Measurements at September 30, 2009, Using		
		Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Trading assets				
U.S. Treasury and federal agencies	\$917,702	\$250,566	\$667,136	\$-
U.S. states and political subdivisions	76,046	-	68,645	7,401
Residential mortgage-backed securities - agency	57,750	-	57,750	-
Residential mortgage-backed securities - private	17,073	-	-	17,073
Collateralized debt obligations	222,620	-	-	222,620
Corporate debt securities	429,387	-	429,387	-
Commercial paper	1,349,861	-	1,349,861	-
Other debt securities	28,698	-	3,995	24,703
Equity securities	169,873	3,175	10,806	155,892
Derivative contracts	3,255,520	184,954	3,040,593	29,973
Other	149,093	-	130,996	18,097
Total trading assets	6,673,623	438,695	5,759,169	475,759
Securities available for sale				
U.S. Treasury and federal agencies	4,927,696	952,087	3,975,609	-
U.S. states and political subdivisions	1,000,253	-	867,026	133,227
Residential mortgage-backed securities - agency	12,463,981	-	12,463,981	-
Residential mortgage-backed securities - private	417,245	-	-	417,245
Other debt securities	800,323	-	717,596	82,727
Common stock of The Coca-Cola Company	1,611,000	1,611,000	-	-
Other equity securities	902,352	137	197,390	704,825
Total securities available for sale	22,122,850	2,563,224	18,221,602	1,338,024
Loans held for sale	2,862,755	-	2,711,108	151,647
Loans	468,658	-	-	468,658
Other intangible assets <sup>2</sup>	783,242	-	-	783,242
Other assets <sup>1</sup>	161,287	54	104,132	57,101
<b>Liabilities</b>				
Brokered deposits	1,206,402	-	1,206,402	-
Trading liabilities	2,531,114	409,373	2,121,741	-
Long-term debt	3,575,807	-	3,575,807	-
Other liabilities <sup>1</sup>	90,995	-	50,155	40,840

<sup>1</sup> These amounts include IRLCs and derivative financial instruments entered into by the Household Lending line of business to hedge its interest rate risk along with a derivative associated with the Company's sale of Visa shares during the quarter ended June 30, 2009.

<sup>2</sup> This amount includes MSRs carried at fair value.



**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

	Fair Value Gain/(Loss) for the Three Months Ended September 30, 2009, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option				Fair Value Gain/(Loss) for the Nine Months Ended September 30, 2009, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option			
	Trading Account Profits and Commissions	Mortgage Production Related Income <sup>2</sup>	Mortgage Servicing Related Income	Total Changes in Fair Values Included in Current- Period Earnings <sup>1</sup>	Trading Account Profits and Commissions	Mortgage Production Related Income <sup>2</sup>	Mortgage Servicing Related Income	Total Changes in Fair Values Included in Current- Period Earnings <sup>1</sup>

(Dollars in thousands)

<b>Assets</b>								
Trading assets	(\$581)	\$-	\$-	(\$581)	\$2,667	\$-	\$-	\$2,667
Loans held for sale	2,021	151,304	-	153,325	2,021	514,655	-	516,676
Loans, net	102	2,755	-	2,857	3,338	13	-	3,351
Other intangible assets	-	5,847	(64,488)	(58,641)	-	13,308	9,922	23,230

<b>Liabilities</b>								
Brokered deposits	(13,864)	-	-	(13,864)	18,466	-	-	18,466
Long-term debt	(210,158)	-	-	(210,158)	(54,741)	-	-	(54,741)

<sup>1</sup> Changes in fair value for the three and nine month periods ended September 30, 2009, exclude accrued interest for the periods then ended. Interest income or interest expense on trading assets, loans, loans held for sale, brokered deposits and long-term debt that have been elected to be carried at fair value are recorded in interest income or interest expense in the Consolidated Statements of Income/(Loss) based on their contractual coupons. Certain trading assets do not have a contractually stated coupon and, for these securities, the Company records interest income based on the effective yield calculated upon acquisition of those securities.

<sup>2</sup> For the three and nine month periods ended September 30, 2009, income related to loans held for sale, net includes \$199.9 million and \$572.2 million, respectively, related to MSR's recognized upon the sale of loans reported at fair value. For the three and nine months ended September 30, 2009, income related to other intangible assets includes \$5.8 million and \$13.3 million, respectively, of MSR's recognized upon the sale of loans reported at the lower of cost or market value. These MSR's are included in the table since the Company elected to report MSR's recognized in 2009 using the fair value method. Previously, MSR's were reported under the amortized cost method.

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

	Assets/Liabilities	Fair Value Measurements at December 31, 2008, Using		
		Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
<b>Assets</b>				
Trading assets				
U.S. Treasury and federal agencies	\$3,127,636	\$142,906	\$2,339,470	\$645,260
U.S. states and political subdivisions	159,135	-	151,809	7,326
Corporate debt securities	585,809	-	579,159	6,650
Commercial paper	399,611	-	399,611	-
Residential mortgage-backed securities - agencies	58,565	-	58,565	-
Residential mortgage-backed securities - private	37,970	-	-	37,970
Collateralized debt obligations	261,528	-	-	261,528
Other debt securities	813,176	-	790,231	22,945
Equity securities	116,788	6,415	8,409	101,964
Derivative contracts	4,701,783	-	4,452,236	249,547
Other	134,269	-	76,074	58,195
<b>Total trading assets</b>	<b>10,396,270</b>	<b>149,321</b>	<b>8,855,564</b>	<b>1,391,385</b>
Securities available for sale				
U.S. Treasury and federal agencies	486,153	127,123	359,030	-
U.S. states and political subdivisions	1,037,429	-	958,167	79,262
Residential mortgage-backed securities - agencies	14,550,104	-	14,550,104	-
Residential mortgage-backed securities - private	522,151	-	-	522,151
Other debt securities	294,185	-	265,772	28,413
Common stock of The Coca-Cola Company	1,358,100	1,358,100	-	-
Other equity securities	1,448,415	141	588,495	859,779
<b>Total securities available for sale</b>	<b>19,696,537</b>	<b>1,485,364</b>	<b>16,721,568</b>	<b>1,489,605</b>
Loans held for sale				
Loans	2,424,432	-	1,936,987	487,445
Other assets <sup>1</sup>	109,600	775	35,231	73,594
<b>Liabilities</b>				
Brokered deposits	587,486	-	587,486	-
Trading liabilities	3,240,784	440,436	2,800,348	-
Other short-term borrowings	399,611	-	399,611	-
Long-term debt	7,155,684	-	3,659,423	3,496,261
Other liabilities <sup>1</sup>	72,911	-	71,738	1,173

<sup>1</sup> This amount includes IRLCs and derivative financial instruments entered into by the Household Lending line of business to hedge its interest rate risk.



**Table of Contents**

**Notes to Consolidated Financial Statements (Unaudited)-Continued**

	Fair Value Gain/(Loss) for the Three Months Ended September 30, 2008, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option			Fair Value Gain/(Loss) for the Nine Months Ended September 30, 2008, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option		
	Trading Account Profits and Commissions	Mortgage Production Related Income	Total Changes in Fair Values Included in Current- Period Earnings <sup>1</sup>	Trading Account Profits and Commissions	Mortgage Production Related Income	Total Changes in Fair Values Included in Current- Period Earnings <sup>1</sup>
(Dollars in thousands)						
<b>Assets</b>						
Trading assets	<b>(\$954)</b>	<b>\$-</b>	<b>(\$954)</b>	(\$120)	\$-	(\$120)
Loans held for sale	-	<b>97,553</b> <sup>2</sup>	<b>97,553</b>	-	215,538 <sup>2</sup>	215,538
Loans	-	<b>(8,121)</b>	<b>(8,121)</b>	-	(21,825)	(21,825)
<b>Liabilities</b>						
Brokered deposits	<b>31,640</b>	-	<b>31,640</b>	43,882	-	43,882
Long-term debt	<b>292,950</b>	-	<b>292,950</b>	456,704	-	456,704

<sup>1</sup> Changes in fair value for the three and nine months ended September 30, 2008 exclude accrued interest for the period then ended. Interest income or interest expense on trading assets, loans, loans held for sale, brokered deposits and long-term debt that have been elected to be carried at fair value are recorded in interest income or interest expense in the Consolidated Statements of Income/(Loss) based on their contractual coupons. Certain trading assets do not have a contractually stated coupon and, for these securities, the Company records interest income based on the effective yield calculated upon acquisition of those securities.

<sup>2</sup> For the three and nine months ended September 30, 2008, these amounts include \$93.3 million and \$380.8 million, respectively, related to MSR assets recognized upon the sale of the loans. These amounts exclude \$5.0 million and \$15.8 million for the three and nine months ended September 30, 2008, respectively, of MSRs recognized upon sale of loans reported at the lower of cost or market value. These MSRs are excluded from the table because neither the loans nor the related MSRs were reported at fair value on a recurring basis.

The following tables present the change in carrying value of those assets measured at fair value on a non-recurring basis, for which impairment was recognized in the current period. The table does not reflect the change in fair value attributable to any related economic hedges the Company may have used to mitigate the interest rate risk associated with loans held for sale and MSRs, nor does it include information related to the goodwill impairment charge recorded during the nine months ended September 30, 2009 which is discussed in Note 6, Goodwill and Other Intangible Assets, to the Consolidated Financial Statements. The Company's economic hedging activities for loans held for sale and MSRs are deployed at the portfolio level.

**Fair Value Measurement at**

**September 30, 2009,**

	Net Carrying Value	Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1)	Using			Valuation Allowance
			Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
(Dollars in thousands)						

Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

Loans Held for Sale <sup>1</sup>	\$1,188,832	\$-	\$1,024,933	163,899	(49,729)
MSRs <sup>2</sup>	78,197	-	-	78,197	(17,179)
OREO <sup>3</sup>	571,553	-	495,039	76,514	(100,051)
Affordable Housing <sup>3</sup>	16,489	-	-	16,489	-
Loans <sup>4</sup>	177,337	-	177,337	-	(33,760)
Other Assets <sup>5</sup>	136,917	-	56,000	80,917	-

<sup>1</sup> These balances are measured at the lower of cost or market.

<sup>2</sup> MSRs carried at amortized cost are stratified for the purpose of impairment testing with impaired amounts presented herein.

<sup>3</sup> Affordable housing was impacted by a \$32.2 million impairment charge recorded during the nine months ended September 30, 2009.

<sup>4</sup> These balances are measured at fair value on a non-recurring basis using the fair value of the underlying collateral.

<sup>5</sup> These assets include equity partner investments, structured leasing products, and other repossessed assets. These assets were impacted by \$22.3 million in impairment charges recorded during the nine months ended September 30, 2009.

**Table of Contents****Notes to Consolidated Financial Statements (Unaudited)-Continued**

(Dollars in thousands)	Net Carrying Value	Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1)	Fair Value Measurement at December 31, 2008, Using			Valuation Allowance
			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Loans Held for Sale <sup>1</sup>	\$839,758	-	\$738,068	\$101,690	(\$68,154)	
MSRs <sup>2</sup>	794,783	-	-	794,783	(370,000)	
OREO <sup>3</sup>	500,481	-	500,481	-	(54,450)	
Affordable Housing <sup>3</sup>	471,156	-	-	471,156	-	
Loans <sup>4</sup>	178,692	-	178,692	-	(34,105)	
Other Assets <sup>5</sup>	45,724	-	-	45,724	-	
Other Intangible Assets <sup>6</sup>	17,298	-	-	17,298	-	

<sup>1</sup> These balances are measured at the lower of cost or market.

<sup>2</sup> MSR's carried at amortized cost are stratified for the purpose of impairment testing with impaired amounts presented herein.

<sup>3</sup> Affordable housing was impacted by a \$19.9 million impairment charge recorded during the year ended December 31, 2008.

<sup>4</sup> These balances are measured at fair value on a non-recurring basis using the fair value of the underlying collateral and were impacted by a \$34.1 million impairment charge recorded during the year ended December 31, 2008.

<sup>5</sup> These assets were impacted by a \$27.2 million impairment charge recorded during the year ended December 31, 2008.

<sup>6</sup> These balances were impacted by a \$45.0 million impairment charge recorded during the second quarter of 2008.



Table of Contents**Notes to Consolidated Financial Statements (Unaudited)-Continued**

The following tables show a reconciliation of the beginning and ending balances for fair valued assets and liabilities measured on a recurring basis using significant unobservable inputs (other than MSR's which are disclosed in Note 6, Goodwill and Other Intangible Assets), to the Consolidated Financial Statements):

(Dollars in thousands)	Beginning balance July 1, 2009	Included in earnings	Fair Value Measurements Using Significant Unobservable Inputs				Fair value September 30, 2009	Change in unrealized gains/ (losses) included in earnings for the three months ended September 30, 2009 related to financial assets still held at September 30, 2009
			Other comprehensive income	Purchases, sales, issuances, settlements, maturities paydowns, net	Transfers to/from other balance sheet line items	Level 3 transfers, net		
<b>Assets</b>								
Trading assets								
U.S. states and political subdivisions								
	\$7,401	\$-	\$-	\$-	\$-	\$-	\$7,401	\$-
Residential mortgage-backed securities - private								
	21,140	1,264 <sup>1</sup>	-	(5,331)	-	-	17,073	(783) <sup>1</sup>
Collateralized debt obligations								
	232,067	3,097 <sup>1,5</sup>	-	(12,544)	-	-	222,620	113 <sup>1</sup>
Commercial paper								
	2,412,408	-	-	(1,117,053)	-	(1,295,355)	-	-
Other debt securities								
	23,553	1,150 <sup>1,5</sup>	-	-	-	-	24,703	1,150 <sup>1</sup>
Equity securities								
	163,350	1,020 <sup>1,5</sup>	-	(8,478)	-	-	155,892	-
Derivative contracts								
	121,164	(596) <sup>1</sup>	(90,595) <sup>6</sup>	-	-	-	29,973	-
Other								
	14,091	4,859 <sup>1</sup>	-	(853)	-	-	18,097	4,859 <sup>1</sup>
<b>Total trading assets</b>								
	<b>2,995,174</b>	<b>10,794<sup>1,5</sup></b>	<b>(90,595)</b>	<b>(1,144,259)</b>	<b>-</b>	<b>(1,295,355)</b>	<b>475,759</b>	<b>5,339<sup>1</sup></b>
Securities available for sale								
U.S. states and political subdivisions								
	136,642	-	(706)	(2,709)	-	-	133,227	-
Residential mortgage-backed securities - private								
	439,920	(9,655) <sup>2</sup>	31,540	(44,560)	-	-	417,245	(9,655) <sup>2</sup>
Other debt securities								
	63,365	20 <sup>2,5</sup>	1,441	17,901	-	-	82,727	-
Other equity securities								
	704,824	-	1	-	-	-	704,825	-
<b>Total securities available for sale</b>								
	<b>1,344,751</b>	<b>(9,635)<sup>2,5</sup></b>	<b>32,276</b>	<b>(29,368)</b>	<b>-</b>	<b>-</b>	<b>1,338,024</b>	<b>(9,655)<sup>2</sup></b>
Loans held for sale								
	157,981	(2,190) <sup>3</sup>	-	(9,316)	(1,160)	6,332	151,647	(4,774) <sup>3</sup>

Edgar Filing: SUNTRUST BANKS INC - Form 10-Q

	494,669	2,857 <sup>4</sup>	-	(24,539)	(3,917)	(412)	468,658	(300) <sup>4</sup>
Loans								
Other assets/(liabilities), net	(19,280)	204,849 <sup>3</sup>	-	10,092	(179,400)	-	16,261	-
	Beginning balance January 1, 2009	Included in earnings	Other comprehensive income	Purchases, sales, issuances, settlements, maturities paydowns, net	Transfers to/from other balance sheet line items	Level 3 transfers, net	Fair value September 30, 2009	Change in unrealized gains/(losses) included in earnings for the nine months ended September 30, 2009 related to financial assets still held at September 30, 2009
<b>Assets</b>								
Trading assets								
U.S. Treasury and federal agencies	645,260	(4,863) <sup>1</sup>	-	(181,154)	-	(459,243)	-	-
U.S. states and political subdivisions	7,326	(324) <sup>1,5</sup>	-	399	-	-	7,401	(324) <sup>1</sup>
Residential mortgage-backed securities - private	37,970	1,204 <sup>1</sup>	-	(22,101)	-	-	17,073	(6,147) <sup>1</sup>
Collateralized debt obligations	261,528	(13,757) <sup>1,5</sup>	-	(25,151)	-	-	222,620	(16,898) <sup>1</sup>
Corporate debt securities	6,650	2,800 <sup>1</sup>	-	(9,450)	-	-	-	-
Commercial paper	-	-	-	1,295,355	-	(1,295,355)	-	-
Other debt securities	22,945	1,138 <sup>1,5</sup>	-	620	-	-	24,703	907 <sup>1</sup>
Equity securities	101,964	5,560 <sup>1,5</sup>	-	48,368	-	-	155,892	1,772 <sup>1</sup>
Derivative contracts	249,547	3,540 <sup>1</sup>	(223,114) <sup>6</sup>	-	-	-	29,973	-
Other	58,195	(10,814) <sup>1</sup>	-	(2,826)	-	(26,458)	18,097	7,565 <sup>1</sup>
<b>Total trading assets</b>	<b>1,391,385</b>	<b>(15,516) <sup>1,5</sup></b>	<b>(223,114)</b>	<b>1,104,060</b>	<b>-</b>	<b>(1,781,056)</b>	<b>475,759</b>	<b>(13,125) <sup>1</sup></b>
Securities available for sale								
U.S. states and political subdivisions	79,262	5,525 <sup>2,5</sup>	(3,817)	49,121	-	3,136	133,227	-
Residential mortgage-backed securities - private	522,151	(15,904) <sup>2</sup>	16,456	(105,458)	-	-	417,245	(15,904) <sup>2</sup>
Other debt securities	28,413	268 <sup>2,5</sup>	2,387	51,659	-	-	82,727	-
Other equity securities	859,779	(212) <sup>2</sup>	(4,350)	(150,392)	-	-	704,825	(212) <sup>2</sup>
<b>Total securities available for sale</b>	<b>1,489,605</b>	<b>(10,323) <sup>2,5</sup></b>	<b>10,676</b>	<b>(155,070)</b>	<b>-</b>	<b>3,136</b>	<b>1,338,024</b>	<b>(16,116) <sup>2</sup></b>
Loans held for sale	487,445	(5,658) <sup>3</sup>	-	(72,163)	(276,448)	18,471	151,647	(14,849) <sup>3&amp;</sup>