

SUNTRUST BANKS INC
Form 10-Q
May 05, 2010
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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 March 31, 2010

or

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

EXCHANGE ACT OF 1934

Commission File Number 001-08918

SUNTRUST BANKS, INC.

(Exact name of registrant as specified in its charter)

Georgia	58-1575035
(State or other jurisdiction	(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)
(404) 588-7711

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(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 ☒

Accelerated filer ☐

Non-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 April 29, 2010, 499,887,039 shares of the Registrant's Common Stock, \$1.00 par value, were outstanding.

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PART I FINANCIAL INFORMATION	

The following unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and accordingly do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary to comply with Regulation S-X have been included. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the full year of 2010.

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GLOSSARY OF DEFINED TERMS

A&D Acquisition and development.

ABS Asset-backed securities.

ALCO Asset/Liability Management Committee.

ALLL Allowance for loan and lease losses.

Alt-A Alternative A-paper.

AOI Accumulated other comprehensive income.

AFS Available for sale.

ARMs Adjustable rate mortgages.

ARS Auction rate securities.

ASC FASB Accounting Standard Codification.

ASU Accounting standards update.

ATE Additional termination event.

ATM Automated teller machine.

Bank SunTrust Bank.

Board The Company's Board of Directors.

CDO Collateralized debt obligation.

CD Certificate of deposit.

CDS Credit default swaps.

CIB Corporate and Investment Banking.

Class B shares Visa Inc. Class B common stock.

CLO Collateralized loan obligation.

CLTV Combined loan to value.

Coke The Coca-Cola Company.

Company SunTrust Banks, Inc. and subsidiaries.

CP Commercial paper.

CPP Capital Purchase Program.

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CPR Conditional prepayment rate.

CRA Community Reinvestment Act of 1977.

CSA Credit support annex.

Cusip Committee on Uniform Security Identification Procedures.

Cymric Cymric Family Office Services.

DBRS Dun and Bradstreet, Inc.

EESA The Emergency Economic Stabilization Act of 2008.

EPS Earnings per share.

FASB Financial Accounting Standards Board.

FDIC The Federal Deposit Insurance Corporation.

Federal Reserve The Board of Governors of the Federal Reserve System.

Fed funds Federal funds.

FFELP Federal Family Education Loan Program.

FFIEC Federal Financial Institutions Examination Council.

FHA Federal Housing Administration.

FHFA Federal Housing Finance Agency.

FHLB Federal Home Loan Bank.

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FICO Fair Isaac Corporation.

FINRA Financial Industry Regulatory Authority.

Fitch Fitch Ratings Ltd.

FTE Fully taxable-equivalent.

FVO Fair Value Option.

GenSpring GenSpring Family Offices LLC.

GB&T GB&T Bancshares, Inc.

GSEs Government-sponsored enterprises.

HUD Department of Housing and Urban Development.

IIS Institutional Investment Solutions.

Inlign Inlign Wealth Management, LLC.

IPO Initial public offering.

IRA Individual retirement arrangement.

IRLCs Interest rate lock commitments.

IRS Internal Revenue Service.

ISDA International Swaps and Derivatives Associations Master Agreement.

LHFI-FV Loans held for investment carried at fair value.

LHFS Loans held for sale.

LIBOR London InterBank Offered Rate.

LOCOM Lower of cost or market.

LTi Long-term incentive.

LTV Loan to value.

MBS Mortgage-backed securities.

MD&A Management's Discussion and Analysis of Financial Condition and Results of Operations.

MMMFs Money market mutual funds.

MSRs Mortgage servicing rights.

MVE Market value of equity.

NEO Named executive officer.

NOW Negotiable order of withdrawal account.

NSF Non-sufficient funds.

OCI Other comprehensive income.

OREO Other real estate owned.

OTC Over-the-counter.

OTTI Other-than-temporary impairment.

Parent Company SunTrust Banks, Inc.

PWM Private Wealth Management.

QSPE Qualifying special purpose entity.

RidgeWorth RidgeWorth Capital Management, Inc.

RMBS Residential mortgage-backed security.

S&P Standard and Poor's.

SBA Small Business Administration.

SCAP Supervisory Capital Assessment Program.

SEC U.S. Securities and Exchange Commission.

Seix Seix Investment Advisors, Inc.

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SIVs	Structured investment vehicles.
SPE	Special purpose entity.
STIAA	SunTrust Institutional Asset Advisors LLC.
STIS	SunTrust Investment Services, Inc.
STM	SunTrust Mortgage, Inc.
STRH	SunTrust Robinson Humphrey, Inc.
SunTrust	SunTrust Banks, Inc. and subsidiaries.
SunTrust Community Capital	SunTrust Community Capital, LLC.
TARP	Troubled Asset Relief Program.
TDR	Troubled debt restructuring.
The Agreements	Equity forward agreements.
Three Pillars	Three Pillars Funding, LLC.
TRS	Total return swaps.
Twin Rivers	Twin Rivers Insurance Company.
U.S. GAAP	Generally Accepted Accounting Principles in the United States.
U.S. Treasury	The United States Department of the Treasury.
UTBs	Unrecognized tax benefits.
VA	Veteran s Administration.
VAR	Value at risk.
VI	Variable interest.
VIE	Variable interest entity.
Visa	The Visa, U.S.A. Inc. card association or its affiliates, collectively.
VRDO	Variable rate demand obligations.

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

	For the Three Months Ended March 31	
(Dollars and shares in thousands, except per share data) (Unaudited)	2010	2009
Interest Income		
Interest and fees on loans	\$1,316,756	\$1,412,885
Interest and fees on loans held for sale	33,177	61,832
Interest and dividends on securities available for sale		
Taxable interest	175,902	181,202
Tax-exempt interest	8,928	10,699
Dividends ¹	18,959	18,162
Interest on funds sold and securities purchased under agreements to resell	245	937
Interest on deposits in other banks	18	113
Trading account interest	19,701	43,505
Total interest income	1,573,686	1,729,335
Interest Expense		
Interest on deposits	233,045	423,873
Interest on funds purchased and securities sold under agreements to repurchase	1,092	2,733
Interest on trading liabilities	6,135	6,160
Interest on other short-term borrowings	3,194	5,155
Interest on long-term debt	158,783	229,316
Total interest expense	402,249	667,237
Net interest income	1,171,437	1,062,098
Provision for credit losses	861,609	994,098
Net interest income after provision for credit losses	309,828	68,000
Noninterest Income		
Service charges on deposit accounts	195,902	206,394
Other charges and fees	129,100	124,321
Trust and investment management income	122,087	116,010
Mortgage production related income/(loss)	(30,929)	250,470
Mortgage servicing related income	70,504	83,352
Card fees	86,934	75,660
Investment banking income	55,916	59,534
Retail investment services	46,740	56,713
Trading account profits/(losses) and commissions	(7,268)	107,293
Other noninterest income	27,631	38,114
Net securities gains ²	1,543	3,377
Total noninterest income	698,160	1,121,238
Noninterest Expense		
Employee compensation	556,498	573,022
Employee benefits	135,295	163,030
Outside processing and software	148,703	138,361
Net occupancy expense	91,141	87,417
Regulatory assessments	64,335	47,473
Credit and collection services	73,790	47,918

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Other real estate expense	46,008	44,372
Equipment expense	40,513	43,540
Marketing and customer development	34,127	34,725
Operating losses	13,797	22,621
Amortization/impairment of goodwill/intangible assets	13,187	767,016
Mortgage reinsurance	9,400	70,039
Net loss/(gain) on debt extinguishment	(9,307)	(25,304)
Other noninterest expense	143,056	137,793
 Total noninterest expense	 1,360,543	 2,152,023
 Income/(loss) before provision/(benefit) for income taxes	 (352,555)	 (962,785)
Provision/(benefit) for income taxes	(194,162)	(150,777)
 Net income/(loss) including income attributable to noncontrolling interest	 (158,393)	 (812,008)
Net income attributable to noncontrolling interest	2,421	3,159
 Net income/(loss)	 (\$160,814)	 (\$815,167)
 Net income/(loss) available to common shareholders	 (\$229,184)	 (\$875,381)
 Net income/(loss) per average common share		
Diluted	(\$0.46)	(\$2.49)
Basic	(0.46)	(2.49)
 Dividends declared per common share	 0.01	 0.10
Average common shares - diluted ³	494,871	351,352
Average common shares - basic	494,871	351,352
1 Includes dividends on common stock of The Coca-Cola Company	\$13,200	\$12,300

² Includes other-than-temporary impairment losses of \$1 million for the three months ended March 31, 2010

and \$1 million for the three months ended March 31, 2009. During the three months ended March 31, 2010 there were

no non-credit related unrealized losses recorded in other comprehensive income associated with OTTI securities.

³ For earnings per share calculation purposes, the impact of dilutive securities are excluded from the diluted share

count during periods that the Company has recognized a net loss available to common shareholders because the

impact would be anti-dilutive.

See Notes to Consolidated Financial Statements (unaudited).

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

	As of	
	March 31	December 31
(Dollars in thousands) (Unaudited)	2010	2009
Assets		
Cash and due from banks	\$4,671,345	\$6,456,406
Interest-bearing deposits in other banks	24,665	24,109
Funds sold and securities purchased under agreements to resell	1,613,663	516,656
Cash and cash equivalents	6,309,673	6,997,171
Trading assets	6,038,104	4,979,938
Securities available for sale	26,238,529	28,477,042
Loans held for sale ¹ (loans at fair value: \$2,650,980 as of March 31, 2010; \$2,923,375 as of December 31, 2009)	3,696,990	4,669,823
Loans ² (loans at fair value: \$420,484 as of March 31, 2010; \$448,720 as of December 31, 2009)	113,979,448	113,674,844
Allowance for loan and lease losses	(3,176,000)	(3,120,000)
Net loans	110,803,448	110,554,844
Premises and equipment	1,553,786	1,551,794
Goodwill	6,322,878	6,319,078
Other intangible assets (MSRs at fair value: \$1,641,188 as of March 31, 2010; \$935,561 as of December 31, 2009)	1,799,919	1,711,299
Customers' acceptance liability	5,912	6,264
Other real estate owned	627,639	619,621
Other assets	8,399,377	8,277,861
Total assets	\$171,796,255	\$174,164,735
Liabilities and Shareholders' Equity		
Noninterest-bearing consumer and commercial deposits	\$25,148,837	\$24,244,041
Interest-bearing consumer and commercial deposits	90,994,812	92,059,411
Total consumer and commercial deposits	116,143,649	116,303,452
Brokered deposits (CDs at fair value: \$1,241,806 as of March 31, 2010; \$1,260,505 as of December 31, 2009)	2,350,846	4,231,530
Foreign deposits	254,941	1,328,584
Total deposits	118,749,436	121,863,566
Funds purchased	1,158,713	1,432,581
Securities sold under agreements to repurchase	2,794,195	1,870,510
Other short-term borrowings	2,387,640	2,062,277
Long-term debt ³ (debt at fair value: \$3,944,137 as of March 31, 2010; \$3,585,892 as of December 31, 2009)	16,531,380	17,489,516
Acceptances outstanding	5,912	6,264
Trading liabilities	3,246,890	2,188,923
Other liabilities	4,302,163	4,720,243
Total liabilities	149,176,329	151,633,880
Preferred stock	4,923,292	4,917,312
Common stock, \$1.00 par value	514,667	514,667
Additional paid in capital	8,446,209	8,521,042
Retained earnings	8,419,219	8,562,807
Treasury stock, at cost, and other	(989,840)	(1,055,136)
Accumulated other comprehensive income, net of tax	1,306,379	1,070,163
Total shareholders' equity	22,619,926	22,530,855

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Total liabilities and shareholders' equity	\$171,796,255	\$174,164,735
Common shares outstanding	499,857,812	499,156,858
Common shares authorized	750,000,000	750,000,000
Preferred shares outstanding	50,225	50,225
Preferred shares authorized	50,000,000	50,000,000
Treasury shares of common stock	14,808,783	15,509,737
¹ Includes loans held for sale of consolidated VIEs	\$310,899	-
² Includes loans of consolidated VIEs	1,544,856	-
³ Includes debt of consolidated VIEs	284,728	-

See Notes to Consolidated Financial Statements (unaudited).

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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 ¹	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2009	\$5,221,703	354,515	\$372,799	\$6,904,644	\$10,388,984	(\$1,368,450)	\$981,125	\$22,500,805
Net loss	-	-	-	-	(815,167)	-	-	(815,167)
Other comprehensive income:								
Change in unrealized gains (losses) on securities, net of taxes	-	-	-	-	-	-	48,968	48,968
Change in unrealized gains (losses) on derivatives, net of taxes	-	-	-	-	-	-	(18,993)	(18,993)
Change related to employee benefit plans	-	-	-	-	-	-	22,915	22,915
Total comprehensive loss								(762,277)
Change in noncontrolling interest	-	-	-	-	-	(679)	-	(679)
Common stock dividends, \$0.10 per share	-	-	-	-	(35,621)	-	-	(35,621)
Series A preferred stock dividends, \$1,000 per share	-	-	-	-	(5,000)	-	-	(5,000)
U.S. Treasury preferred stock dividends, \$1,250 per share	-	-	-	-	(60,625)	-	-	(60,625)
Accretion of discount associated with U.S. Treasury preferred stock	5,654	-	-	-	(5,654)	-	-	-
Exercise of stock options and stock compensation expense	-	-	-	3,285	-	-	-	3,285
Restricted stock activity	-	1,658	-	(161,571)	-	138,995	-	(22,576)
Amortization of restricted stock compensation	-	-	-	-	-	20,283	-	20,283
Issuance of stock for employee benefit plans and other	-	520	-	(32,822)	(3)	40,856	-	8,031
Balance, March 31, 2009	\$5,227,357	356,693	\$372,799	\$6,713,536	\$9,466,914	(\$1,168,995)	\$1,034,015	\$21,645,626
Balance, January 1, 2010	\$4,917,312	499,157	\$514,667	\$8,521,042	\$8,562,807	(\$1,055,136)	\$1,070,163	\$22,530,855
Net loss	-	-	-	-	(160,814)	-	-	(160,814)
Other comprehensive income:								
Change in unrealized gains (losses) on securities, net of taxes	-	-	-	-	-	-	39,123	39,123
Change in unrealized gains (losses) on derivatives, net of taxes	-	-	-	-	-	-	121,936	121,936
Change related to employee benefit plans	-	-	-	-	-	-	75,157	75,157
Total comprehensive income								75,402
Change in noncontrolling interest	-	-	-	-	-	(2,479)	-	(2,479)

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Common stock dividends, \$0.01 per share	-	-	-	-	(4,992)	-	-	(4,992)
Series A preferred stock dividends, \$1,000 per share	-	-	-	-	(1,725)	-	-	(1,725)
U.S. Treasury preferred stock dividends, \$1,250 per share	-	-	-	-	(60,625)	-	-	(60,625)
Accretion of discount associated with U.S.								
Treasury preferred stock	5,980	-	-	-	(5,980)	-	-	-
Stock compensation expense	-	-	-	5,669	-	-	-	5,669
Restricted stock activity	-	492	-	(67,535)	-	39,748	-	(27,787)
Amortization of restricted stock compensation	-	-	-	-	-	12,268	-	12,268
Issuance of stock for employee benefit plans and other	-	209	-	(12,967)	1,975	15,759	-	4,767
Fair value election of MSRs					88,995			88,995
Adoption of VIE consolidation guidance	-	-	-	-	(422)	-	-	(422)
Balance, March 31, 2010	\$4,923,292	499,858	\$514,667	\$8,446,209	\$8,419,219	(\$989,840)	\$1,306,379	\$22,619,926

1 Balance at March 31, 2010 includes (\$1,030,156) for treasury stock, (\$65,401) for compensation element of restricted stock, and \$105,717 for noncontrolling interest.

Balance at March 31, 2009 includes (\$1,173,026) for treasury stock, (\$107,985) for compensation element of restricted stock, and \$112,016 for noncontrolling interest.

See Notes to Consolidated Financial Statements (unaudited).

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

	Three Months Ended March 31	
	2010	2009
(Dollars in thousands) (Unaudited)		
Cash Flows from Operating Activities:		
Net income/(loss) including income attributable to noncontrolling interest	(\$158,393)	(\$812,008)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Depreciation, amortization and accretion	197,944	234,985
Goodwill impairment	-	751,156
MSRs impairment Recovery	-	(31,298)
Origination of MSRs	(66,300)	(146,290)
Provisions for credit losses and foreclosed property	903,653	1,026,917
Amortization of restricted stock compensation	12,268	20,283
Stock option compensation	5,669	3,285
Excess tax benefits from stock-based compensation	16	(181)
Net gain on extinguishment of debt	(9,307)	(25,304)
Net securities gains	(1,543)	(3,377)
Net gain on sale of assets	(8,439)	(6,913)
Net decrease/(increase) in loans held for sale	1,422,737	(2,937,455)
Contributions to retirement plans	(2,603)	(1,286)
Net (increase)/decrease in other assets	(857,066)	739,273
Net increase/(decrease) in other liabilities	380,449	(547,123)
Net cash provided by/(used in) operating activities	1,819,085	(1,735,336)
Cash Flows from Investing Activities:		
Proceeds from maturities, calls and paydowns of securities available for sale	1,106,359	780,575
Proceeds from sales of securities available for sale	2,726,341	6,488,762
Purchases of securities available for sale	(1,570,269)	(9,500,312)
Proceeds from maturities, calls and paydowns of trading securities	44,114	23,577
Proceeds from sales of trading securities	-	2,009,051
Purchases of trading securities	-	(85,965)
Net decrease in loans	8,438	2,072,094
Proceeds from sales of loans held for investment	229,848	181,379
Capital expenditures	(48,338)	(47,126)
Contingent consideration and other payouts related to acquisitions	(4,083)	(15,343)
Proceeds from the sale of other assets	155,547	86,023
Net cash provided by investing activities	2,647,957	1,992,715
Cash Flows from Financing Activities:		
Net (decrease)/increase in deposits	(3,113,062)	5,198,430
Assumption of deposits, net	-	445,482
Net decrease in funds purchased, securities sold under agreements to repurchase, and other short-term borrowings	(1,048,123)	(1,863,316)
Proceeds from the issuance of long-term debt	-	574,560
Repayment of long-term debt	(925,997)	(4,090,686)
Excess tax benefits from stock-based compensation	(16)	181
Common and preferred dividends paid	(67,342)	(98,433)
Net cash (used in)/provided by financing activities	(5,154,540)	166,218

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Net (decrease)/increase in cash and cash equivalents	(687,498)	423,597
Cash and cash equivalents at beginning of period	6,997,171	6,637,402
Cash and cash equivalents at end of period	\$6,309,673	\$7,060,999

Supplemental Disclosures:

Loans transferred from loans held for sale to loans	\$2,769	\$8,565
Loans transferred from loans to loans held for sale	184,901	-
Loans transferred from loans to other real estate owned	181,628	213,287
Accretion on U.S. Treasury preferred stock	5,980	5,654
Total assets of consolidated VIEs at January 1, 2010	2,049,392	-

See Notes to Consolidated Financial Statements (unaudited).

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

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

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

These financial statements should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2009. 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, 2009.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are considered held for investment. The Company's loan balance is comprised of loans held in portfolio, including commercial loans, consumer loans, real estate loans and lines, credit card receivables, direct financing leases, leveraged leases, and nonaccrual and restructured loans. Interest income on all types of loans is accrued based upon the outstanding principal amounts, except those classified as nonaccrual loans. The Company typically classifies commercial and commercial real estate loans as nonaccrual when one of the following events occurs: (i) interest or principal has been in default 90 days or more, unless the loan is secured by collateral having realizable value sufficient to discharge the debt in full and the loan is in the legal process of collection; (ii) collection of recorded interest or principal is not anticipated; or (iii) income for the loan is recognized on a cash basis due to the deterioration in the financial condition of the debtor. Consumer and residential mortgage loans are typically placed on nonaccrual when payments have been in default for 90 and 120 days or more, respectively.

When a loan is placed on nonaccrual, unpaid interest is reversed against interest income. Interest income on nonaccrual loans, if recognized, is either recorded using the cash basis method of accounting or recognized at the end of the loan after the principal has been reduced to zero, depending on the type of loan. If and when borrowers demonstrate the ability to repay a loan in accordance with the contractual terms of a loan classified as nonaccrual, the loan may be returned to accrual status. See Allowance for Loan and Lease Losses section of this Note for further discussion of impaired loans.

TDRs are loans in which the borrower is experiencing financial difficulty and the Company has granted an economic concession to the borrower. To date, the Company's TDRs have been almost exclusively first and second lien residential mortgages and home equity lines of credit. Prior to modifying a borrower's loan terms, the Company performed a careful evaluation of the borrower's financial condition and ability to service the modified loan terms. The types of concessions granted are generally interest rate reductions and/or term extensions. If a loan is accruing at the time of modification, the loan remains on accrual status and is subject to the Company's charge-off and nonaccrual policies. See the Allowance for Loans and Lease Losses section within this Note for further information regarding these policies. If a loan is on nonaccrual before it is determined to be a TDR then the loan remains on nonaccrual. TDRs may be returned to accrual status if there has been at least a six month sustained period of repayment performance by the borrower. Upon sustained performance and classification as a TDR over the Company's year end, the loan will be removed from TDR status as long as the modified terms were market based at the time of modification. Generally, once a single 1-4 family residential related loan becomes a TDR, it is probable that the loan will likely continue to be reported as a TDR until it ultimately pays off.

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

Allowance for Loan and Lease Losses

The Company's ALLL is the amount considered adequate to absorb probable losses within the portfolio based on management's evaluation of the size and current risk characteristics of the loan portfolio. Such evaluation considers numerous factors, including, but not limited to net charge-off trends, internal risk ratings, changes in internal risk ratings, loss forecasts, collateral values, geographic location, borrower FICO scores, delinquency rates, nonperforming and restructured loans, origination channel, product mix, underwriting practices, industry conditions and economic trends.

Specific allowances for loan and lease losses are established for large commercial, corporate, and commercial real estate nonaccrual loans that are evaluated on an individual basis and certain consumer, commercial, corporate, and commercial real estate loans whose terms have been modified in a TDR. The specific allowance established for these loans and leases is based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows, the loan's estimated market value, or the estimated fair value of the underlying collateral depending on the most likely source of repayment.

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

The Company's charge-off policy meets or is more stringent than regulatory minimums. Losses on unsecured consumer loans are recognized at 90-days past due compared to the regulatory loss criteria of 120 days past due. Secured consumer loans, including residential real estate, are typically charged-off between 120 and 180 days past due, depending on the collateral type, in compliance with the FFIEC guidelines.

For commercial real estate loans secured by property, an acceptable appraisal or other form of evaluation is obtained prior to the origination of the loan. Updated evaluations of the collateral's value are obtained at least annually, or earlier if the credit quality of the loan deteriorates. Changes in collateral value affect the ALLL through the risk rating process.

For mortgage loans secured by residential property where we are proceeding with a foreclosure action, we obtain a new valuation prior to 180 days past due and, if required, write the loan down to fair value, net of estimated selling and holding costs. Estimated valuations are based on appraisals, broker price opinions, recent sales of foreclosed properties, or automated valuation models. The value estimate is based on an orderly disposition and marketing period of the property. In the event we decide not to proceed with a foreclosure action, we charge-off the full balance of the loan. If a loan remains in the foreclosure process for 12 months past the original charge-off, typically at 180 days past due, we obtain a new valuation and, if required, write the loan down to the new valuation, less estimated selling and holding costs. At foreclosure, a new valuation is obtained and the loan is transferred to OREO at the new valuation less estimated selling and holding costs; any loan balance in excess of the transfer value is charged-off. Estimated declines in value of the residential collateral are captured in the ALLL based on changes in the house price index at the metropolitan statistical area or other market information.

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

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Accounting Policies Recently Adopted and Pending Accounting Pronouncements

In June 2009, the FASB issued ASU 2009-16, an update to ASC 860-10, Transfers and Servicing, and ASU 2009-17, an update to ASC 810-10, Consolidation. These updates are effective for the first interim reporting period of 2010. The update to ASC 860-10 amends the guidance to eliminate the concept of a QSPE and changes some of the requirements for derecognizing financial assets. The amendments to ASC 810-10: (a) eliminate the exemption for existing QSPEs from U.S. GAAP, (b) shift the determination of which enterprise should consolidate a 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 to the VIE will consolidate a VIE, and (c) change when it is necessary to reassess who should consolidate a VIE.

The Company has analyzed the impacts of these amendments on all QSPEs and VIE structures with which it is involved. Based on this analysis, the Company consolidated its multi-seller conduit, Three Pillars, and a CLO entity. The Company consolidated these entities because certain subsidiaries of the Company have significant decision-making rights and own VIs that could potentially be significant to these VIEs. The primary balance sheet impacts from consolidating Three Pillars and the CLO on January 1, 2010, were increases in loans and leases, the related allowance for loan losses, LHFS, long-term debt, and other short-term borrowings. The consolidations of Three Pillars and the CLO had no impact on the Company's earnings or cash flows that result from its involvement with these VIEs, but the Company's Consolidated Statements of Income/(Loss) reflect a reduction in noninterest income and increases in net interest income and noninterest expense due to the consolidations. For additional information on the Company's VIE structures, refer to Note 6, Certain Transfers of Financial Assets, Mortgage Servicing Rights and Variable Interest Entities, to the Consolidated Financial Statements.

The combined impact of consolidating Three Pillars and the CLO on January 1, 2010 were incremental total assets and total liabilities of \$2.0 billion, respectively, and an insignificant impact on shareholders' equity. No additional funding requirements with respect to these entities are expected to significantly impact the liquidity position of the Company. Upon adoption, the Company consolidated the assets and liabilities of Three Pillars at their unpaid principal amounts and subsequently accounted for these assets and liabilities on an accrual basis. The Company consolidated the assets and liabilities of the CLO based on their estimated fair values upon adoption, and made an irrevocable election to carry all of the financial assets and financial liabilities of the CLO at fair value. The impact on certain of the Company's regulatory capital ratios as a result of consolidating Three Pillars and the CLO was not significant.

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Notes to Consolidated Financial Statements (Unaudited)-Continued

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; however, the accounting guidance requires an entity to reassess whether it is the primary beneficiary at least quarterly. The Company does not currently expect to consolidate additional VIEs in future periods.

In January 2010, the FASB issued ASU 2010-06, an update to ASC 820-10, Fair Value Measurements. This update adds a new requirement to disclose transfers in and out of level 1 and level 2, along with the reasons for the transfers, and requires a gross presentation of purchases and sales of level 3 activities. Additionally, the update clarifies that entities provide fair value measurement disclosures for each class of assets and liabilities and that entities provide enhanced disclosures around level 2 valuation techniques and inputs. The Company adopted the disclosure requirements for level 1 and level 2 transfers and the expanded fair value measurement and valuation disclosures effective January 1, 2010. The disclosure requirements for level 3 activities are effective for the Company on January 1, 2011. The adoption of the disclosure requirements for level 1 and level 2 transfers and the expanded qualitative disclosures, had no impact on the Company's financial position, results of operations, and EPS. The Company does not expect the adoption of the level 3 disclosure requirements to have an impact on its financial position, results of operations, and EPS.

In February 2010, the FASB issued ASU 2010-09, an update to ASC 855-10, Subsequent Events. This update amends the guidance to remove the requirement for SEC filers to disclose the date through which subsequent events have been evaluated. SEC filers must continue to evaluate subsequent events through the date the financial statements are issued. The amendment was effective and has been adopted by the Company upon issuance.

In February 2010, the FASB issued ASU 2010-10, an update to ASC 810-10, Consolidation. This update defers the amendments to the consolidation requirements of ASC 810-10 for a reporting entity's interest in entities that have the attributes of investment companies or for which it is acceptable based on industry practice to apply measurement principles that are consistent with those followed by investment companies. The deferral also applies to a reporting entity's interest in an entity that is required to comply with or operate in accordance with requirements that are similar to those included in Rule 2a-7 of the Investment Company Act of 1940 for registered MMMFs. Certain of the Company's wholly-owned subsidiaries provide investment advisor services for various private placement and publicly registered investment funds. The deferral applies to all of these funds.

In March 2010, the FASB issued ASU 2010-11, an update to ASC 815-15, Derivatives and Hedging Embedded Derivatives. This update clarifies that the scope exception for potential bifurcation and separate accounting in ASC 815-15 applies to contracts containing an embedded credit derivative that is only in the form of subordination of one financial instrument to another. Other contracts containing embedded credit derivatives do not qualify for the scope exception. This update is effective for the Company on July 1, 2010. The Company is currently evaluating the impact that this update will have on its financial position, results of operations, and EPS.

Table of Contents**Notes to Consolidated Financial Statements (Unaudited)-Continued****Note 2 Trading Assets and Liabilities**

The fair values of the components of trading assets and liabilities at March 31, 2010 and December 31, 2009 were as follows:

(Dollars in thousands) (Unaudited)	March 31 2010	December 31 2009
Trading Assets		
U.S. Treasury securities	\$856,962	\$498,781
Federal agency securities	418,466	474,188
U.S. states and political subdivisions	209,501	58,520
Residential mortgage-backed securities - agency	159,547	94,164
Residential mortgage-backed securities - private	5,288	6,463
Collateralized debt obligations	158,252	174,942
Corporate and other debt securities	530,742	465,637
Commercial paper	44,704	639
Asset backed securities	50,908	50,775
Equity securities	250,375	256,096
Derivative contracts	2,628,972	2,610,288
Trading loans	724,387	289,445
Total trading assets	\$6,038,104	\$4,979,938
Trading Liabilities		
U.S. Treasury securities	\$1,348,719	\$189,461
Federal agency securities	3,813	3,432
Corporate and other debt securities	161,307	144,142
Equity securities	248	7,841
Derivative contracts	1,732,803	1,844,047
Total trading liabilities	\$3,246,890	\$2,188,923

Table of Contents**Notes to Consolidated Financial Statements (Unaudited)-Continued****Note 3 Securities Available for Sale**

Securities AFS at March 31, 2010 and December 31, 2009 were as follows:

	March 31, 2010			
(Dollars in thousands) (Unaudited)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	\$5,204,825	\$2,501	\$1,826	\$5,205,500
Federal agency securities	1,982,052	19,685	488	2,001,249
U.S. states and political subdivisions	895,947	26,920	7,093	915,774
Residential mortgage-backed securities - agency	13,435,188	301,264	25,544	13,710,908
Residential mortgage-backed securities - private	445,662	711	77,167	369,206
Asset-backed securities	1,002,540	10,724	9,465	1,003,799
Corporate bonds and other debt securities	495,971	14,551	1,364	509,158
Common stock of The Coca-Cola Company	69	1,649,931	-	1,650,000
Other equity securities ¹	871,999	936	-	872,935
Total securities available for sale	\$24,334,253	\$2,027,223	\$122,947	\$26,238,529

	December 31, 2009			
(Dollars in thousands) (Unaudited)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	\$5,206,383	\$719	\$30,576	\$5,176,526
Federal agency securities	2,733,534	12,704	8,653	2,737,585
U.S. states and political subdivisions	927,887	27,799	10,629	945,057
Residential mortgage-backed securities - agency	15,704,594	273,207	61,724	15,916,077
Residential mortgage-backed securities - private	471,583	1,707	95,207	378,083
Asset-backed securities	309,611	10,559	5,423	314,747
Corporate bonds and other debt securities	505,185	9,989	3,373	511,801
Common stock of The Coca-Cola Company	69	1,709,931	-	1,710,000
Other equity securities ¹	786,248	918	-	787,166
Total securities available for sale	\$26,645,094	\$2,047,533	\$215,585	\$28,477,042

¹Includes \$343 million and \$343 million of FHLB of Cincinnati and FHLB of Atlanta stock stated at par value, \$360 million and \$360 million of Federal Reserve Bank stock stated at par value and \$168 million and \$82 million of mutual fund investments stated at fair value as of March 31, 2010 and December 31, 2009, respectively.

See Note 14, Contingencies, to the Consolidated Financial Statements for information concerning ARS classified as securities AFS.

Securities AFS that were pledged to secure public deposits, repurchase agreements, trusts, and other funds had a fair value of \$6.4 billion as of March 31, 2010. Further, under The Agreements, the Company pledged its shares of common stock of The Coca-Cola Company, which had a fair value of \$1.7 billion as of March 31, 2010. See Note 10, Derivative Financial Instruments, to the Consolidated Financial Statements which further discusses this transaction. The Company has also pledged \$1.2 billion of certain trading assets and cash equivalents to secure \$1.2 billion of repurchase agreements as of March 31, 2010. Additionally, as of March 31, 2010, the Company had pledged \$47.5 billion of net eligible loan collateral to support \$28.8 billion in available borrowing capacity at either the Federal Reserve discount window or the FHLB of Atlanta. Of the available borrowing capacity, \$8.6 billion was outstanding as of March 31, 2010.

The amortized cost and fair value of investments in debt securities at March 31, 2010 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.

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

	1 Year	1-5	5-10	After 10	
(Dollars in thousands) (Unaudited)	or Less	Years	Years	Years	Total
Distribution of Maturities:					
Amortized Cost					
U.S. Treasury securities	\$24,781	\$5,180,044	\$-	\$-	\$5,204,825
Federal agency securities	239,330	1,613,118	124,790	4,814	1,982,052
U.S. states and political subdivisions	214,621	435,806	129,103	116,417	895,947
Residential mortgage-backed securities - agency	192,433	10,895,155	636,563	1,711,037	13,435,188
Residential mortgage-backed securities - private	27,112	240,817	152,388	25,345	445,662
Asset-backed securities	361,607	622,835	18,098	-	1,002,540
Corporate bonds and other debt securities	11,935	305,583	152,733	25,720	495,971
Total debt securities	\$1,071,819	\$19,293,358	\$1,213,675	\$1,883,333	\$23,462,185
Fair Value					
U.S. Treasury securities	\$25,095	\$5,180,405	\$-	\$-	\$5,205,500
Federal agency securities	241,247	1,628,565	126,551	4,886	2,001,249
U.S. states and political subdivisions	217,971	455,051	132,173	110,579	915,774
Residential mortgage-backed securities - agency	197,873	11,157,137	664,003	1,691,895	13,710,908
Residential mortgage-backed securities - private	24,475	200,788	122,056	21,887	369,206
Asset-backed securities	365,088	621,958	16,753	-	1,003,799
Corporate bonds and other debt securities	12,222	310,724	161,856	24,356	509,158
Total debt securities	\$1,083,971	\$19,554,628	\$1,223,392	\$1,853,603	\$23,715,594

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

(Dollars in thousands) (Unaudited)	Three Months Ended March 31	
	2010	2009
Gross realized gains	\$14,990	\$4,193
Gross realized losses	(12,386)	(95)
OTTI	(1,061)	(721)
Net securities gains	\$1,543	\$3,377

Securities in a continuous unrealized loss position at March 31, 2010 and December 31, 2009 were as follows:

(Dollars in thousands) (Unaudited)	Less than twelve months		March 31, 2010 Twelve months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Temporarily impaired securities						
U.S. Treasury securities	\$2,503,144	\$1,823	\$263	\$3	\$2,503,407	\$1,826
Federal agency securities	190,631	488	-	-	190,631	488
U.S. states and political subdivisions	44,404	2,156	104,902	4,937	149,306	7,093
Residential mortgage-backed securities - agency	2,742,588	25,544	-	-	2,742,588	25,544
Residential mortgage-backed securities - private	52,119	5,064	6,919	357	59,038	5,421
Asset-backed securities	141,138	703	13,431	6,523	154,569	7,226

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Corporate bonds and other debt securities	-	-	24,356	1,364	24,356	1,364
Total temporarily impaired securities	5,674,024	35,778	149,871	13,184	5,823,895	48,962
Other-than-temporarily impaired securities						
Residential mortgage-backed securities - private	4,341	400	301,612	71,346	305,953	71,746
Asset-backed securities	3,285	2,239	-	-	3,285	2,239
Total other-than-temporarily impaired securities	7,626	2,639	301,612	71,346	309,238	73,985
Total impaired securities	\$5,681,650	\$38,417	\$451,483	\$84,530	\$6,133,133	\$122,947

(Dollars in thousands) (Unaudited)	Less than twelve months		December 31, 2009 Twelve months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Temporarily impaired securities						
U.S. Treasury securities	\$5,083,249	\$30,571	\$263	\$5	\$5,083,512	\$30,576
Federal agency securities	1,341,330	\$8,653	-	-	1,341,330	8,653
U.S. states and political subdivisions	125,524	5,711	64,516	4,918	190,040	10,629
Residential mortgage-backed securities - agency	5,418,226	61,724	-	-	5,418,226	61,724
Residential mortgage-backed securities - private	14,022	3,174	7,169	385	21,191	3,559
Asset-backed securities	10,885	1,205	16,334	4,218	27,219	5,423
Corporate bonds and other debt securities	19,819	2	30,416	3,371	50,235	3,373
Total temporarily impaired securities	\$12,013,055	\$111,040	\$118,698	\$12,897	\$12,131,753	\$123,937
Other-than-temporarily impaired securities						
Residential mortgage-backed securities - private	646	906	304,493	90,742	305,139	91,648
Total other-than-temporarily impaired securities	646	906	304,493	90,742	305,139	91,648
Total impaired securities	\$12,013,701	\$111,946	\$423,191	\$103,639	\$12,436,892	\$215,585

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Notes to Consolidated Financial Statements (Unaudited)-Continued

On March 31, 2010, 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2009. Market changes in interest rates and credit spreads will result in unrealized losses as the market price of securities fluctuates. The economic environment and illiquidity in the financial markets since 2008 have increased market yields on securities resulting in unrealized losses on certain securities within the Company's portfolio.

The Company records OTTI through earnings based on the credit impairment estimates generally derived from cash flow analyses. The remaining unrealized loss, due to factors other than credit, is recorded in OCI. The unrealized OTTI loss of \$72 million in private residential MBS as of March 31, 2010 includes purchased and retained interests from securitizations that have been other-than-temporarily impaired in prior periods. The unrealized OTTI loss of \$2 million in asset-backed securities is related to three securities within the portfolio that are home equity issuances and have also been other-than-temporarily impaired in prior periods. Based on the analysis of the underlying cash flows of these securities, there is no expectation of further credit impairment. As of March 31, 2010, approximately 94% of the total securities AFS portfolio are rated AAA, the highest possible rating by nationally recognized rating agencies.

All securities are reviewed quarterly for OTTI. For the three months ended March 31, 2010 and 2009, the Company recorded OTTI losses on AFS securities of \$1 million through earnings. The securities with credit impairment for the three months ended March 31, 2010, are private residential MBS with a fair market value of less than \$1 million as of March 31, 2010. Based on the cash flow analyses, the entire unrealized loss on these securities was recorded in earnings. There is no portion of the loss that is recognized in other comprehensive income as of March 31, 2010. In addition, for the three months ended March 31, 2010, there is no change in the balance of the amount of credit losses recognized in earnings related to securities for which some portion of the impairment was recorded in other comprehensive income.

Credit impairment that is determined through the use of cash flow models is estimated using cash flows on security specific collateral and the transaction structure. Future expected credit losses are determined by using various assumptions, the most significant of which include current default rates, prepayment rates, and loss severities. For the majority of the securities that the Company has reviewed for OTTI, credit information is available and modeled at the loan level underlying each security and also considers information such as loan to collateral values, FICO scores, and geographic considerations such as home price appreciation/depreciation. These inputs are updated on a regular basis to ensure the most current credit and other assumptions are utilized in the analysis. If, based on this analysis, the Company does not expect to recover the entire amortized cost basis of the security, the expected cash flows are then discounted at the security's initial effective interest rate to arrive at a present value amount. OTTI credit losses reflect the difference between the present value of cash flows expected to be collected and the amortized cost basis of these securities.

The following table presents a summary of the significant inputs used in determining the measurement of credit losses recognized in earnings for private residential MBS for the three months ended March, 31, 2010:

	Three Months Ended March 31, 2010
Current default rate	2 - 6%
Prepayment rate	15 - 22%
Loss severity	37 - 46%

The Company holds stock in the FHLB of Atlanta and FHLB of Cincinnati totaling \$343 million as of both March 31, 2010 and December 31, 2009. The Company accounts for the stock based on industry guidance which requires that the investment be carried at cost and be evaluated for impairment based on the ultimate recoverability of the par value. The Company evaluated its holdings in FHLB stock at March 31, 2010 and believes its holdings in the stock are ultimately recoverable at par. In addition, the Company does not have operational or liquidity needs that would require a redemption of the stock in the foreseeable future and therefore determined that the stock was not other-than-temporarily impaired.

Table of Contents**Notes to Consolidated Financial Statements (Unaudited)-Continued****Note 4 – Allowance for Credit Losses**

Activity in the allowance for credit losses is summarized in the table below:

	Three Months Ended March 31		% Change
(Dollars in thousands) (Unaudited)	2010	2009	
Balance at beginning of period	\$3,234,900	\$2,378,507	36 %
Provision for loan losses	875,909	994,098	(12)
Provision for unfunded commitments ¹	(14,300)	2,662	(637)
Allowance from consolidation of VIE	676	-	
Loan charge-offs	(861,961)	(646,916)	33
Loan recoveries	41,377	36,822	12
Balance at end of period	\$3,276,601	\$2,765,173	18 %
Components:			
ALLL	\$3,176,000	\$2,735,000	16 %
Unfunded commitments reserve ²	100,601	30,173	233
Allowance for credit losses	\$3,276,601	\$2,765,173	18 %

¹Beginning in the fourth quarter of 2009, the Company recorded the provision for unfunded commitments within the provision for credit losses in the Consolidated Statements of Income/(Loss). Considering the immateriality of this provision prior to the fourth quarter of 2009, the provision for unfunded commitments remains classified within other noninterest expense in the Consolidated Statements of Income/(Loss).

²The unfunded commitments reserve is separately recorded in other liabilities in the Consolidated Balance Sheets.

Note 5 Goodwill and Other Intangible Assets

Goodwill is required to be tested for impairment on an annual basis or as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. In 2009 and the first quarter of 2010, the Company's reporting units were comprised of Retail, Commercial, Commercial Real Estate, Household Lending, Corporate and Investment Banking, Wealth and Investment Management, and Affordable Housing.

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. However, the implied fair value of goodwill applicable to the Household Lending, Commercial Real Estate, and Affordable Housing reporting units was less than the carrying value of the goodwill. As of March 31, 2009, an impairment loss of \$751 million was recorded, which was the entire amount of goodwill carried by each of those reporting units. \$677 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 factor 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. The decline in fair value of these reporting units was significantly influenced by the current economic downturn, which resulted in depressed earnings in these businesses and the significant decline in the Company's market capitalization during the first quarter of 2009.

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No events have occurred nor circumstances changed since the annual testing of the Company's goodwill on September 30, 2009 that caused re-testing of goodwill during the first quarter of 2010.

The changes in the carrying amount of goodwill by reportable segment for the three months ended March 31 are as follows:

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Notes to Consolidated Financial Statements (Unaudited)-Continued

	Corporate and						
(Dollars in thousands) (Unaudited)	Retail and Commercial	Wholesale	Investment Banking	Household Lending	Mortgage	Wealth and Investment Management	Total
Balance, January 1, 2009	\$5,911,990	\$522,548	\$-	\$-	\$278,254	\$330,711	\$7,043,503
Intersegment transfers	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 price adjustments	535	-	-	-	-	3,827	4,362
Balance, March 31, 2009	\$5,738,864	\$-	\$223,307	\$-	\$-	\$347,260	\$6,309,431
Balance, January 1, 2010	5,738,803	-	223,307	-	-	356,968	6,319,078
Inlign contingent consideration	-	-	-	-	-	3,465	3,465
Purchase price adjustments	-	-	-	-	-	335	335
Balance, March 31, 2010	\$5,738,803	\$-	\$223,307	\$-	\$-	\$360,768	\$6,322,878

Changes in the carrying amounts of other intangible assets for three months ended March 31 are as follows:

	MSRs				
(Dollars in thousands) (Unaudited)	Core Deposit Intangibles	MSRs Amortized Cost	Fair Value	Other	Total
Balance, January 1, 2009	\$145,311	\$810,474	\$-	\$79,642	\$1,035,427
Designated at fair value (transfers from amortized cost)	-	(187,804)	187,804	-	-
Amortization	(11,881)	(67,467)	-	(4,108)	(83,456)
MSRs originated	-	-	146,290	-	146,290
MSRs impairment recovery	-	31,298	-	-	31,298
Changes in fair value					
Due to changes in inputs or assumptions ¹	-	-	(9,054)	-	(9,054)
Other changes in fair value ²	-	-	(16,744)	-	(16,744)
Cymric purchase price adjustment	-	-	-	(428)	(428)
Balance, March 31, 2009	\$133,430	\$586,501	\$308,296	\$75,106	\$1,103,333
Balance, January 1, 2010	\$104,240	\$603,821	\$935,561	\$67,677	\$1,711,299
Designated at fair value (transfers from amortized cost)	-	(603,821)	603,821	-	-
Amortization	(9,774)	-	-	(3,412)	(13,186)
MSRs originated	-	-	66,300	-	66,300
Changes in fair value					
Due to fair value election	-	-	144,634	-	144,634
Due to changes in inputs or assumptions ¹	-	-	(44,776)	-	(44,776)
Other changes in fair value ²	-	-	(64,352)	-	(64,352)
Balance, March 31, 2010	\$94,466	\$-	\$1,641,188	\$64,265	\$1,799,919

¹ Primarily reflects changes in discount rates and prepayment speed assumptions due to changes in interest rates.

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

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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 10, *Derivative Financial Instruments*, to the Consolidated Financial Statements. The transfer of MSRs from LOCOM 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. At December 31, 2009, MSRs associated with loans originated or sold prior to 2008 continued to be accounted for at LOCOM and managed through the Company's overall asset/liability management process. Effective January 1, 2010, the Company elected to designate all remaining MSRs carried at LOCOM at fair value. Upon designating the remaining MSRs at fair value in January 2010, the Company recognized a cumulative effect increase to retained earnings, net of taxes, of \$89 million.

Note 6 - Certain Transfers of Financial Assets, Mortgage Servicing Rights and Variable Interest Entities

Certain Transfers of Financial Assets and related Variable Interest Entities

The Company has transferred residential and commercial mortgage loans, student loans, commercial and corporate loans, and CDO securities in sale or securitization transactions in which the Company has, or had, continuing involvement. All such transfers have been accounted for as sales by the Company. The Company's continuing involvement in such transfers includes owning certain beneficial interests, including senior and subordinate debt instruments as well as equity interests, servicing or collateral manager responsibilities, and guarantee or recourse arrangements. Except as specifically noted herein, the Company is not required to provide additional financial support to any of the entities to which the Company has transferred financial assets, nor has the Company provided any support it was not otherwise obligated to provide. Prior to January 1, 2010, interests that were held by the Company in transferred financial assets, excluding servicing and collateral management rights, were generally recorded as securities AFS or trading assets at their allocated carrying amounts based on their relative fair values at the time of transfer and were subsequently remeasured at fair value. In accordance with the new accounting guidance related to transfers of financial assets that became effective on January 1, 2010, upon completion of future transfers of assets that satisfy the conditions to be reported as a sale, the Company will derecognize the transferred assets and recognize at fair value any beneficial interests in the transferred financial assets such as trading assets or securities AFS, as well as servicing rights retained and guarantee liabilities incurred. See Note 13, *Fair Value Measurement and Election*, to the Consolidated Financial Statements for further discussion of the Company's fair value methodologies.

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Notes to Consolidated Financial Statements (Unaudited)-Continued

When evaluating transfers and other transactions with VIEs for consolidation under the newly adopted VIE consolidation guidance, the Company first determines if it has a VI in the VIE. A VI is typically in the form of securities representing retained interests in the transferred assets and, at times, servicing rights and collateral manager fees. If the Company has a VI in the entity, it then evaluates whether or not it has both (1) the power to direct the activities that most significantly impact the economic performance of the VIE, and (2) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. If the Company determines that it does not have power over the significant activities of the VIE, an analysis of the economics of the VIE is not necessary. If it is determined that the Company does have power over the significant activities of the VIE, the Company must determine if it also has an obligation to absorb losses and/or the right to receive benefits that could potentially be significant to the VIE.

Below is a summary of transfers of financial assets to VIEs for which the Company has retained some level of continuing involvement.

Residential Mortgage Loans

The Company typically transfers first lien residential mortgage loans in conjunction with Ginnie Mae, Fannie Mae, and Freddie Mac securitization transactions whereby the loans are exchanged for cash or securities that are readily redeemed for cash proceeds and servicing rights. The securities issued through these transactions are guaranteed by the issuer and, as such, under seller/servicer agreements the Company is required to service the loans in accordance with the issuers' servicing guidelines and standards. For the three months ended March 31, 2010 and 2009, the Company sold residential mortgage loans to these entities, which resulted in pre-tax gains of \$85 million and \$226 million, respectively. As seller, the Company has made certain representations and warranties with respect to the originally transferred loans, including those transferred under Ginnie Mae, Fannie Mae, and Freddie Mac programs, which are discussed in Note 11, Reinsurance Arrangements and Guarantees, to the Consolidated Financial Statements.

In a limited number of securitizations, the Company has transferred loans to trusts, which previously qualified as QSPEs, sponsored by the Company. These trusts issue securities which are ultimately supported by the loans in the underlying trusts. 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 received securities are carried at fair value as either trading assets or securities AFS. As of March 31, 2010, the fair value of securities received totaled \$218 million, of which \$214 million was classified as securities AFS and \$4 million was classified as trading assets. Securities AFS of \$63 million relate to senior and subordinate securities retained from a 2003 securitization of prime fixed and floating rate loans. Subordinate level securities from this securitization of \$22 million were valued by the Company using a discounted cash flow model based on historical performance. The Company analyzed two adverse changes in each of the key assumptions used to value these securities, which includes base case assumptions for CPR of 13% - 15%, expected credit losses of 0.77% - 0.91%, and yields ranging from 7% - 450%. These assumptions are either unchanged or slightly improved compared to the December 31, 2009 assumptions. At March 31, 2010, a 20% adverse change in the CPR and in credit loss assumptions would result in a decline in the fair value of the securities of less than \$1 million, while a 20% increase in the assumed discount rate resulted in a decline in the fair value of the securities of approximately \$1 million. In addition, the Company, as servicer, holds optional redemption rights on the underlying collateral at such time that the collateral pool reaches 10% of the original pool balance. At March 31, 2010, the portfolio balance was approximately 13% of the original pool balance.

The remaining \$155 million of securities retained from securitizations of residential mortgage loans are interests from 2007 securitizations of prime jumbo fixed rate mortgage loans as well as securitizations of adjustable rate loans. The Company owns portions of senior and subordinate retained interests from these securitizations. As discussed in Note 13, Fair Value Measurement and Election, the Company was able to price the majority of these securities at March 31, 2010, using a third party pricing service. Retained interests of approximately \$12 million not priced using a third party pricing service were valued using a discounted cash flow model. The Company analyzed two adverse changes in each of the key assumptions used to value these securities, which includes base case assumptions for CPR of 12% - 16%, expected credit losses of 2.5% - 15.8%, and yields ranging from 14% - 30%. These assumptions are either unchanged or slightly improved compared to the December 31, 2009 assumptions. The result of a 20% adverse change in the CPR, a 20% adverse change in credit loss assumptions, and a 20% increase in the assumed discount rate each resulted in a decline in the fair value of the securities of less than \$1 million.

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Notes to Consolidated Financial Statements (Unaudited)-Continued

The Company evaluated these securitization transactions for consolidation under the newly adopted VIE consolidation guidance. As servicer of the underlying loans, the Company is generally deemed to have power over the securitization. However, if a single party, such as the issuer or the master servicer, effectively controls the servicing activities or has the unilateral ability to terminate the Company as servicer without cause, then that party is deemed to have power. In almost all of its securitization transactions, the Company does not retain power over the securitization as a result of these restraints; therefore, an analysis of the economics of the securitization is not necessary. In certain transactions, the Company does have power as the servicer; however, the Company does not also have an obligation to absorb losses or the right to receive benefits that could potentially be significant to the securitization. The absorption of losses and the receipt of benefits would generally manifest itself through the retention of senior or subordinated interests. As of January 1, 2010, the Company determined that it was not the primary beneficiary of, and thus did not consolidate, any of these securitization transactions. No events occurred during the three months ended March 31, 2010 that would change the Company's previous conclusion that it is not the primary beneficiary of any of these securitization transactions. Total assets as of March 31, 2010 and December 31, 2009 of the unconsolidated trusts in which the Company has a VI are \$750 million and \$780 million, respectively.

The Company's maximum exposure to loss related to the unconsolidated VIEs in which it holds a VI is comprised of the loss of value of any interests it retains and any repurchase obligations it incurs as a result of a breach of its representations and warranties. Due to the uncertainty around its repurchase obligations, the Company's maximum exposure to loss cannot be reasonably estimated.

Separately, the Company has accrued \$76 million and \$36 million as of March 31, 2010 and December 31, 2009 for contingent losses related to certain of its representations and warranties made in connection with other previous transfers. The Company did not repurchase any of these previously transferred loans during the three months ended March 31, 2010 or 2009.

Commercial and Corporate Loans

In 2007, the Company completed a \$1.9 billion structured sale of corporate loans to multi-seller CP 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 VI in the third party conduits as it relates to the unparticipated portion of the loans. During the three months ended March 31, 2009, the Company wrote this residual interest and related accrued interest to zero, resulting in a loss of approximately \$17 million. This write off was the result of the deterioration in the performance of the loan pool to such an extent that the Company expects that it will no longer receive cash flows on the interest until the senior participation interest has been repaid in full. In conjunction with the transfer of the loans, the Company provided 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 \$322 million at December 31, 2009. Due to deterioration in the loans that collateralize these facilities, the Company recorded a contingent loss reserve of \$16 million on the facilities during the year ended December 31, 2009. In January 2010, the administrator of the conduits drew on these commitments in full, resulting in a funded loan to the conduits that is recorded on the Company's Consolidated Balance Sheets. This event did not modify the Company's sale accounting treatment or conclusion that it is not the primary beneficiary of these VIEs. In addition, no other events have occurred during the three months ended March 31, 2010 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.

The Company has involvement with CLO entities that own commercial leveraged loans and bonds, certain of which were transferred by the Company to the CLOs. In addition to retaining certain securities issued by the CLOs, the Company also acts as collateral manager for these CLOs. The securities retained by the Company and the fees received as collateral manager represent a VI in the CLOs, which are considered to be VIEs.

Beginning January 1, 2010, upon adoption of the new VIE consolidation guidance, the Company determined that it was the primary beneficiary of, and thus, would consolidate one of these CLOs as it has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses and the right to receive benefits from the entity that could potentially be significant to the CLO. In addition to fees received as collateral manager, including eligibility for performance incentive fees, and owning certain preference shares, the Company's multi-seller conduit, Three Pillars, owns a senior interest in the CLO, resulting in economics that could potentially be significant to the VIE. Accordingly, on January 1, 2010, the Company consolidated \$307 million in total assets and \$279 million in net liabilities, after the impacts of the intercompany elimination of this senior interest. The Company elected to consolidate the CLO at fair value and to carry the financial assets and financial liabilities of the CLO at fair value subsequent to adoption. The initial consolidation of the CLO had no impact on the Company's Consolidated Statements of Shareholders' Equity. Substantially all of the assets and liabilities of the CLO are loans and issued debt, respectively. The loans are classified within loans held for sale at fair value and the debt is included with long-term debt at fair value on the Company's Consolidated Balance Sheets (see Note 13, "Fair Value Measurement and Election", to the Consolidated Financial

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Statements for a discussion of the Company's methodologies for estimating the fair values of these financial instruments). The Company is not obligated, contractually or otherwise, to provide financial support to this VIE nor has it previously provided support to this VIE. Further, creditors of the VIE have no recourse to the general credit of the Company, as the liabilities of the CLO are paid only to the extent of available cash flows from the CLO's assets.

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Notes to Consolidated Financial Statements (Unaudited)-Continued

For the remaining CLOs, which are also considered to be VIEs, the Company has determined that it is not the primary beneficiary as it does not have an obligation to absorb losses or the right to receive benefits from the entities that could potentially be significant to the VIE. During the three months ended March 31, 2009, the Company recognized losses of \$7 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; therefore, the carrying value of the Company's investment in the preference shares was zero as of March 31, 2010 and December 31, 2009. The Company has no ongoing involvement with these vehicles other than the fees that it receives as a result of managing the assets of these vehicles. These fees are considered adequate compensation and are commensurate with the level of effort required to provide such services. The fees received by the Company from these entities are recorded as trust and investment management income in the Consolidated Statements of Income/(Loss) and totaled approximately \$3 million for the three months ended March 31, 2010 and 2009. Senior fees earned by the Company are generally not considered at risk; however, subordinate fees earned by the Company are subject to the availability of cash flows and to the priority of payments. These subordinate fees are not expected to be significant. The total assets and liabilities of these entities that were not included on the Company's Consolidated Balance Sheets were approximately \$2.2 billion and \$2.2 billion, respectively, at March 31, 2010 and \$2.3 billion and \$2.2 billion, respectively, at December 31, 2009. The Company is not obligated to provide any support to these entities, nor has it previously provided support to these entities. No events occurred during the three months ended March 31, 2010 that would change the Company's previous conclusion that it is not the primary beneficiary of any of these securitization transactions.

Student Loans

In 2006, the Company completed a securitization of government guaranteed student loans through a transfer of loans to a securitization SPE, which previously qualified as a QSPE, and retained the corresponding residual interest in the SPE. The residual interest represents the Company's maximum exposure to loss as a result of its involvement with the VIE and is classified within trading assets on the Company's Consolidated Balance Sheets. The fair value of the residual interest at both March 31, 2010 and December 31, 2009 was less than \$25 million. The key assumptions and inputs used by the Company in valuing this retained interest include prepayment speeds and the discount rate. The Company did not significantly modify the assumptions used to value the retained interest at March 31, 2010 from the assumptions used to value the retained interest at December 31, 2009. For both periods, analyses of the impact on the fair values of two adverse changes from the key assumptions were performed and the resulting amounts were insignificant for each key assumption and in the aggregate.

The total assets and liabilities of this VIE that were not included in the Company's Consolidated Balance Sheets were approximately \$516 million and \$510 million, respectively, at March 31, 2010 and \$532 million and \$522 million, respectively, at December 31, 2009. The Company is not obligated to provide any support to this entity, nor has it previously provided support to this entity. All of the student loans that were securitized are U.S. government guaranteed student loans. As such, the Company has agreed to service each loan consistent with the guidelines determined by the applicable government agencies. Accordingly, the Company believes that it does not have the power to direct activities that most significantly impact the economic performance of the VIE that holds these student loans, and it is therefore not the primary beneficiary of the VIE under the new VIE consolidation guidance. No events occurred during the three months ended March 31, 2010 that would change the Company's previous conclusion that it is not the primary beneficiary of this VIE.

Table of Contents**Notes to Consolidated Financial Statements (Unaudited)-Continued****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 ARS transactions discussed in Note 14, Contingencies, to the Consolidated Financial Statements. During 2009, the Company sold its senior interest related to the acquisition of assets from Three Pillars. The Company continues to hold, at March 31, 2010, senior interests related to the ARS purchases.

The Company did not significantly modify the assumptions used to value the retained interest at March 31, 2010 from the assumptions used to value the interest at December 31, 2009. The Company analyzed the impact on the fair values of two adverse changes from the key assumptions. Due to the seniority of the interests in the structure, current estimates of credit losses in the underlying collateral could withstand a 20% adverse change without the securities incurring a loss. In addition, while all the underlying collateral is currently eligible for repayment by the obligor, given the nature of the collateral and the current repricing environment, the Company assumed no prepayment would occur before the final maturity, which is approximately 24 years on a weighted average basis. Therefore, the key assumption in valuing these securities was the assumed discount rate, which was estimated to be 14% over LIBOR. A 20% adverse change in the assumed discount rate results in a decline of approximately \$4 million in the fair value of these securities.

The Company is not obligated to provide any support to these entities and its maximum exposure to loss at March 31, 2010 and December 31, 2009 was limited to (i) the current senior interests held in trading securities, which had a fair value of \$26 million, and (ii) the remaining senior interests expected to be purchased in conjunction with the ARS issue, which had a total fair value of approximately \$2 million. The total assets of the trust preferred CDO entities in which the Company has remaining exposure to loss was \$1.3 billion at March 31, 2010 and December 31, 2009. The Company determined that it was not the primary beneficiary of any of these VIEs under the new VIE consolidation guidance, as the Company lacks the power to direct the significant activities of any of the VIEs. No events occurred during the three months ended March 31, 2010 that called into question either the Company's sale accounting or the Company's conclusions that it is not the primary beneficiary of these VIEs.

The following tables present certain information related to the Company's asset transfers in which it has continuing economic involvement for the three months ended March 31:

(Dollars in thousands) (Unaudited)	Three Months Ended March 31, 2010				
	Residential Mortgage Loans	Commercial and Corporate Loans	Student Loans	CDO Securities	Total
Cash flows on interests held	\$14,346	\$899	\$2,924	\$397	\$18,566
Servicing or management fees	1,069	3,952	191	-	5,212

(Dollars in thousands) (Unaudited)	Three Months Ended March 31, 2009				
	Residential Mortgage Loans	Commercial and Corporate Loans	Student Loans	CDO Securities	Total
Cash flows on interests held	\$26,127	\$394	\$338	\$439	\$27,298
Servicing or management fees	1,336	2,983	204	-	4,523

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

Portfolio balances and delinquency balances based on 90 days or more past due (including accruing and nonaccrual loans) as of March 31, 2010 and December 31, 2009, and net charge-offs related to managed portfolio loans (both those that are owned by the Company and those that have been transferred) for three months ended March 31, 2010 and 2009 are as follows:

(Dollars in millions) (Unaudited)	Principal Balance		Past Due		Net Charge-offs For the Three Months Ended	
	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009	March 31, 2010	2009
Type of loan:						
Commercial	\$33,394	\$32,494	\$396	\$508	\$96	\$132
Residential mortgage and home equity	46,481	46,743	3,715	4,065	574	339
Commercial real estate and construction	21,018	21,721	2,086	1,902	94	83
Consumer	12,046	11,649	446	428	29	40
Credit card	1,040	1,068	17	-	28	16
Total loan portfolio	113,979	113,675	6,660	6,903	821	610
Managed securitized loans						
Commercial	3,272	3,460	55	64	-	7
Residential mortgage	1,421	1,482	132	123	11	9
Other	496	506	26	25	-	-
Total managed loans	\$119,168	\$119,123	\$6,873	\$7,115	\$832	\$626

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 \$128.1 billion and \$127.8 billion at March 31, 2010 and December 31, 2009, respectively. Related servicing fees received by the Company during the three months ended March 31, 2010 and 2009 were \$92 million and \$76 million, respectively.

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. MSRs on residential mortgage loans are the only servicing assets capitalized by the Company. Previously, the Company maintained two classes of MSRs: MSRs related to loans originated and sold after January 1, 2008, which were reported at fair value, and MSRs related to loans sold before January 1, 2008, which were reported at amortized cost, net of any allowance for impairment losses. Beginning January 1, 2010, the Company elected to account for all MSRs at fair value. See Note 5, Goodwill and Other Intangible Assets, to the Consolidated Financial Statements for the rollforward of MSRs. As of December 31, 2009, the Company had established MSRs valuation allowances of \$7 million. No permanent impairment losses were recorded against the allowance for MSRs carried at amortized cost during the year ended December 31, 2009.

Income earned by the Company on its MSRs is derived primarily from contractually specified mortgage servicing fees and late fees, net of curtailment costs. Such income earned for the three months ended March 31, 2010 and 2009, was \$99 million, and \$82 million, respectively. These amounts are reported in mortgage servicing related income in the Consolidated Statements of Income/(Loss).

As of March 31, 2010 and December 31, 2009, the total unpaid principal balance of mortgage loans serviced was \$178.1 billion and \$178.9 billion, respectively. Included in these amounts were \$146.1 billion and \$146.7 billion as of March 31, 2010 and December 31, 2009, respectively, of loans serviced for third parties.

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A summary of the key characteristics, inputs, and economic assumptions used to estimate the fair value of the Company's MSR as of March 31, 2010 and December 31, 2009, and the sensitivity of the fair values to immediate 10% and 20% adverse changes in those assumptions are as follows:

	March 31, 2010	December 31, 2009	
(Dollars in millions) (Unaudited)	Fair Value	Fair Value	Lower of Cost or Market
Fair value of retained MSR	\$1,641	\$936	\$749
Prepayment rate assumption (annual)	15%	10%	17%
Decline in fair value of 10% adverse change	\$62	\$30	\$30
Decline in fair value of 20% adverse change	119	58	58
Discount rate (annual)	11%	10%	12%
Decline in fair value of 10% adverse change	\$63	\$39	\$27
Decline in fair value of 20% adverse change	121	75	51
Weighted-average life (in years)	5.86	7.50	4.84
Weighted-average coupon	5.67	5.24	6.11

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.

Other Variable Interest Entities

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

Three Pillars Funding, LLC

SunTrust assists in providing liquidity to select corporate clients by directing them to a multi-seller CP conduit, Three Pillars. Three Pillars provides financing for direct purchases of financial assets originated and serviced by SunTrust's corporate clients by issuing CP.

The Company has determined that Three Pillars is a VIE as Three Pillars has not issued sufficient equity at risk. Previously, Three Pillars had issued a subordinated note to a third party, which would have absorbed the first dollar of loss in the event of nonpayment of any of Three Pillars assets. The outstanding and committed amounts of the subordinated note were \$20 million at December 31, 2009 and no losses had been incurred through December 31, 2009. In January 2010, Three Pillars repaid and extinguished the subordinated note in full. In accordance with the provisions of the new VIE consolidation guidance, the Company has determined that it is the primary beneficiary of Three Pillars, as certain subsidiaries have both the power to direct the significant activities of Three Pillars and own potentially significant VIs, as discussed further herein. No losses on any of Three Pillars' assets were incurred during the three months ended March 31, 2010.

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 revenue for the Company, net of direct salary and administrative costs, of approximately \$15 million and \$18 million for the three months ended March 31, 2010 and 2009, respectively.

At March 31, 2010, the Company's Consolidated Balance Sheets reflected approximately \$1.5 billion of secured loans held by Three Pillars, which are included within commercial loans, and \$317 million of CP issued by Three Pillars, excluding intercompany liabilities, which is included within other short-term borrowings; other assets and liabilities were *de minimis* to the Company's Consolidated Balance Sheets. The assets and liabilities of Three Pillars were consolidated by the Company at their unpaid principal amounts at January 1, 2010; upon

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consolidation, the Company recorded an allowance for loan losses on \$1.7 billion of secured loans that were consolidated at that time, resulting in a transition adjustment of less than \$1 million, which is presented as Adoption of VIE consolidation guidance on the Company's Consolidated Statements of Shareholders' Equity.

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Notes to Consolidated Financial Statements (Unaudited)-Continued

Funding commitments extended by Three Pillars to its customers totaled \$3.5 billion at March 31, 2010, almost all of which renew annually. At December 31, 2009, Three Pillars had \$1.8 billion of assets not included on the Company's consolidated balance sheet and funding commitments and outstanding receivables totaled \$3.7 billion and \$1.7 billion, respectively. 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. Trade receivables and commercial loans collateralize 53% and 20%, respectively, of the outstanding commitments, as of March 31, 2010, compared to 50% and 18%, respectively, as of December 31, 2009. Total assets supporting outstanding commitments have a weighted average life of 1.12 years and 1.25 years at March 31, 2010 and December 31, 2009, respectively.

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. For the three months ended March 31, 2010 and 2009, there were no write-downs of Three Pillars' assets.

At March 31, 2010, Three Pillars' outstanding CP used to fund its assets had remaining weighted average lives of 10.7 days and maturities through May 14, 2010. The assets of Three Pillars generally provide the sources of cash flows for the CP. However, the Company has issued commitments in the form of liquidity facilities and other credit enhancements to support the operations of Three Pillars. Due to the Company's consolidation of Three Pillars as of January 1, 2010, these commitments now eliminate in consolidation for U.S. GAAP purposes. The liquidity commitments are revolving facilities that are sized based on the current commitments provided by Three Pillars to its customers. The liquidity facilities may generally be 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.

Due to the consolidation of Three Pillars, the Company's maximum exposure to potential loss was \$3.6 billion as of March 31, 2010, which represents the Company's exposure to the lines of credit that Three Pillars had extended to its clients. Prior to consolidation, the Company had \$3.8 billion and \$371 million, respectively, of liquidity facilities and other credit enhancements outstanding as of December 31, 2009. The Company did not recognize any liability on its Consolidated Balance Sheets related to these liquidity facilities and other credit enhancements as of March 31, 2010 or December 31, 2009, 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 commitments during the three months ended March 31, 2010 or 2009.

Total Return Swaps

The Company has had involvement with various VIEs related to its TRS business. The Company had unwound prior transactions during 2009, such that no such transactions were outstanding at December 31, 2009. However, during the three months ended March 31, 2010, the Company began to execute new TRS transactions.

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Under the matched book TRS business model, the VIEs purchase assets (typically loans) from the market that serve as the underlying reference assets for a TRS between the VIE and the Company and a mirror TRS between the Company and its third party clients. The TRS between the VIEs and the Company hedge the Company's exposure to the TRS with its third party clients. 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 reference assets, the Company provides senior financing, in the form of demand notes, to these VIEs. The TRS contracts pass through interest and other cash flows on the assets owned by the VIEs to the third parties, along with exposing the third parties to depreciation on the assets and providing them with the rights to appreciation on the assets. The terms of the TRS contracts require the third parties to post initial margin, in addition to ongoing margin as the fair values of the underlying assets change. There is no legal obligation between the Company and its third party clients for the Company to purchase the reference assets or for the Company to cause the VIEs to purchase the assets.

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Prior to January 1, 2010, the Company had concluded it was not the primary beneficiary of the VIEs, as the VIEs were designed for the benefit of the third parties. Specifically, the third parties had implicit VIs in the VIEs via their TRS contracts with the Company, whereby these third parties absorbed the majority of the expected losses and were entitled to the majority of the expected residual returns of the VIEs. The Company has considered the new VIE consolidation guidance with respect to the new VIEs established subsequent to January 1, 2010. Specifically, the Company has evaluated the nature of all VIs and other interests and involvement with the VIEs, in addition to the purpose and design of the VIEs, relative to the risks they were designed to create. Based on this evaluation, the Company has determined that it is not the primary beneficiary of the VIEs, as the design of the TRS business results in the Company having limited power to direct the significant activities of the VIEs. The purpose and design of a VIE are key components of a consolidation analysis and any power should be analyzed based on the substance of that power relative to other facts and circumstances. As discussed herein, the VIEs would not exist if the Company did not enter into the TRS contracts with the third parties.

At March 31, 2010, the Company had \$399 million in senior financing outstanding to VIEs, which was classified within trading assets on the Consolidated Balance Sheets; the carrying values and fair values of the senior financing arrangements are the same. These VIEs had entered into TRS contracts with the Company with outstanding notional amounts of \$395 million at March 31, 2010 and the Company had entered into mirror TRS contracts with its third parties with the same outstanding notional amounts. At March 31, 2010, the fair values of these TRS assets and liabilities were \$12 million and \$11 million, respectively. The notional amounts of the TRS contracts with the VIEs represent the Company's maximum exposure to loss, although such exposure to loss has been mitigated via the TRS contracts with the third parties. The Company has not provided any support that it was not contractually obligated to for the three months ended March 31, 2010. For additional information on the Company's TRS with these VIEs, see Note 10, 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 it does not own 100% of the entity because the holders of the equity investment at risk do not have the power through voting rights or similar rights to direct the activities of the entity that most significantly impact the entity's economic performance. 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 2010 and 2009, the Company 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, the Company operates strictly as a general partner and, as such, has both (1) the power to direct the activities of the VIE that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of and the right to receive benefits from the entity that could potentially be significant to the VIE. Accordingly, the Company consolidates these partnerships on its Consolidated Balance Sheets. As the general partner, the Company typically guarantees the tax credits due to the limited partner and are responsible for funding construction and operating deficits. As of March 31, 2010 and December 31, 2009, total assets, which consist primarily of fixed assets and cash attributable to the consolidated partnerships, were \$11 million and \$14 million, respectively, and total liabilities, excluding intercompany liabilities, were \$1 million and \$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 *de minimis* as of March 31, 2010 and December 31, 2009. While the obligations of the general partner are generally non-recourse to the Company, as the general partner, the Company may from time to time step in when needed to fund deficits. During 2010 and 2009, the Company did not provide any significant amount of funding as the general partner or to cover any deficits the partnerships may have generated.

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

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 does not have the power to direct the activities of entity that most significantly impact the entity's economic performance. The Company accounts for its limited partner interests in accordance with the accounting guidance for investments in affordable housing projects. 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. Partnership assets of approximately \$1.1 billion and \$1.1 billion in these partnerships were not included in the Consolidated Balance Sheets at March 31, 2010 and December 31, 2009, respectively. These limited partner interests had carrying values of \$216 million and \$218 million at March 31, 2010 and December 31, 2009, 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 \$468 million at March 31, 2010 and December 31, 2009. The Company's maximum exposure to loss would be borne by the loss of the limited partnership equity investments along with \$227 million and \$219 million of loans issued by the Company to the limited partnerships at March 31, 2010 and December 31, 2009, 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 the Company 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 March 31, 2010 and December 31, 2009, total assets, which consist primarily of fixed assets and cash, attributable to the consolidated, non-VIE partnerships were \$418 million and \$425 million, respectively, and total liabilities, excluding intercompany liabilities, primarily representing third-party borrowings, were \$107 million and \$209 million, respectively. See Note 13, Fair Value Measurement and Election, to the Consolidated Financial Statements for further discussion on the impact of impairment charges on affordable housing partnership investments recorded during 2009.

Registered and Unregistered Funds Advised by RidgeWorth

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. In February 2010, the FASB issued guidance that defers the application of the new VIE consolidation guidance for investment funds meeting certain criteria. All of the registered and unregistered Funds advised by RidgeWorth meet the scope exception criteria and thus are not evaluated for consolidation under the new guidance. Accordingly, the Company continues to apply the consolidation guidance in effect prior to the issuance of the new guidance to interests in funds that qualify for the deferral. Further, funds that were determined to be VIEs under the previous accounting guidance and are still considered VIEs under the new accounting guidance are required to comply with the new disclosure requirements.

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 nor expected returns of the funds. The Company's exposure to loss is limited to the investment advisor and other administrative fees it earns and if applicable, any equity investments. Payment on fees is received from the individual investor accounts. The total unconsolidated assets of these funds as of March 31, 2010 and December 31, 2009 were \$3.1 billion and \$3.3 billion, respectively.

The Company does not have any contractual obligation to provide monetary support to any of the Funds and did not provide any support, contractual or otherwise, to the Funds during the periods ended March 31, 2010 and December 31, 2009.

Note 7 Loss Per Share

Net loss is the same in the calculation of basic and diluted loss per average common share. Equivalent shares of 32 million and 33 million related to common stock options and common stock warrants outstanding as of March 31, 2010 and 2009, respectively, were excluded from the computations of diluted 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 months ended March 31, 2010 and 2009 is included below. For EPS 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 antidilutive. Additionally, included

below is a reconciliation of net loss to net loss available to common shareholders.

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

(In thousands, except per share data) (Unaudited)	Three Months Ended March 31	
	2010	2009
Net loss	(\$160,814)	(\$815,167)
Series A preferred dividends	(1,726)	(5,000)
U.S. Treasury preferred dividends and accretion of discount	(66,605)	(66,279)
Dividends and undistributed earnings allocated to unvested shares	(39)	11,065
Net loss available to common shareholders	(\$229,184)	(\$875,381)
 Average basic common shares	 494,871	 351,352
Effect of dilutive securities:		
Stock options	908	-
Restricted stock	2,459	545
 Average diluted common shares	 498,238	 351,897
 Loss per average common share - diluted	 (\$0.46)	 (\$2.49)
 Loss per average common share - basic	 (\$0.46)	 (\$2.49)

Note 8 - Income Taxes

The provision for income taxes was a benefit of \$194 million and \$151 million for the three months ended March 31, 2010 and 2009, respectively, representing effective tax rates of (54.7%) and (15.6%), respectively, during those periods. The Company calculated the benefit for income taxes for the three months ended March 31, 2010 and 2009 based on the discrete methodology using actual year-to-date results. The Company moved from an insignificant net deferred tax asset at December 31, 2009 to a net deferred tax liability at March 31, 2010 after the carryback of the 2009 federal net operating loss.

As of March 31, 2010, the Company's gross cumulative UTBs amounted to \$106 million, of which \$71 million (net of federal tax benefit) would affect the Company's effective tax rate, if recognized. As of December 31, 2009, the Company's gross cumulative UTBs amounted to \$161 million. The reduction in UTBs was primarily attributable to the settlement of an examination by a taxing authority and the related payments and reversal of the liability. Additionally, the Company recognized a gross liability of \$31 million and \$39 million for interest related to its UTBs as of March 31, 2010 and December 31, 2009, respectively. Interest related to UTBs was income of approximately \$5 million for the three months ended March 31, 2010, compared to an expense of approximately \$8 million, for the same period in 2009. 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 \$18 million due to completion of tax authority examinations and the expiration of statutes of limitations.

The Company files consolidated and separate income tax returns in the United States federal jurisdiction and in various state jurisdictions. As of March 31, 2010, the Company's federal returns through 2006 have been examined by the IRS. All issues have been resolved for tax years through 2004. Only one issue remains in dispute for tax years 2005 and 2006. 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 9 - Employee Benefit Plans

The Company sponsors various short and LTI plans for eligible employees. The Company delivers LTIs through various incentive programs, including stock options, restricted stock, LTI cash plan, and salary shares. Certain employees received long-term deferred cash awards which are subject to a three year vesting requirement. The accrued liability related to these deferred cash grants was \$34 million and \$28 million as of March 31, 2010 and December 31, 2009, respectively.

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An important new compensation development that had the characteristics of both base salary and equity emerged as part of the U.S. Treasury's Interim Final Rule on TARP Standards for Compensation and Corporate Governance. This compensation development became known as salary shares. Specifically, the Interim Rule prohibits the payment of short-term incentives (annual bonus) and stock options to the Senior Executive Officers and to the next 20 most highly compensated employees. Effective January 1, 2010, the Company chose to use the salary share concept because it is specifically authorized by EESA to address the constraints on the annual cash bonus and equity awards; and the Company believes it is necessary that it use this approach to remain competitive and to minimize the risk of talent flight to other companies with whom it competes. Specifically, the Company will pay additional base salary amounts in the form of stock (salary shares) to the NEOs and other employees who are among the next 20 most highly-compensated

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employees. The Company will do this each pay period in the form of stock units under the SunTrust Banks, Inc. 2009 Stock Plan. The stock units will not include any rights to receive dividends or dividend equivalents. As required by EESA, each salary share will be non-forfeitable upon grant but may not be sold or transferred until the expiration of a holding period. As a result, the NEO is at risk for the value of our stock price until the stock unit is settled. The stock units will be settled in cash; one half on March 31, 2011 and one half on March 31, 2012, unless settled earlier due to the executive's death. The amount to be paid on settlement of the stock units will be equal to the value of a share of SunTrust common stock on the settlement date. Benefit plan determinations and limits were established to ensure that the salary shares were accounted for equitably within relevant benefit plans. As of March 31, 2010, the accrual related to salary shares is \$2 million.

Stock-Based Compensation

The weighted average fair values of options granted during the first three months of 2010 and 2009 were \$12.75 per share and \$4.73 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:

	Three Months Ended March 31	
(Unaudited)	2010	2009
Dividend yield	0.17%	4.42%
Expected stock price volatility	56.23	84.20
Risk-free interest rate (weighted average)	2.84	1.99
Expected life of options	6 years	6 years

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

	Stock Options			Restricted Stock		
(Dollars in thousands except per share data)		Price	Weighted		Deferred	Weighted
(Unaudited)	Shares	Range	Average	Shares	Compensation	Average
Balance, January 1, 2010	17,661,216	\$9.06 - \$150.45	\$53.17	4,770,172	\$59,161	\$37.02
Granted	1,163,138	22.69 - 23.70	23.53	892,965	20,354	22.80
Exercised/vested	-	-	-	(1,035,574)	-	72.77
Cancelled/expired/forfeited	(319,000)	22.75 - 79.73	59.08	(56,503)	(1,846)	32.68
Amortization of restricted stock compensation	-	-	-	-	(12,268)	-
Balance, March 31, 2010	18,505,354	\$9.06 - \$150.45	\$51.20	4,571,060	\$65,401	\$26.20
Exercisable, March 31, 2010	12,324,920		\$65.97			
Available for additional grant, March 31, 2010 ¹	7,189,953					

¹ Includes 3,637,785 shares available to be issued as restricted stock.

The following table presents information on stock options by ranges of exercise price at March 31, 2010:

(Dollars in thousands except per share data) (Unaudited)

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Range of Exercise Prices	Options Outstanding				Options Exercisable			
	Number Outstanding at March 31, 2010	Weighted Average Exercise Price	Average Remaining Contractual Life (Years)	Total Aggregate Intrinsic Value	Number Exercisable at March 31, 2010	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Total Aggregate Intrinsic Value
\$9.06 to \$49.46	5,634,618	\$16.07	8.53	\$69,783	454,384	\$45.52	2.31	\$31
\$49.47 to \$64.57	4,821,757	56.44	2.10	-	4,821,757	56.44	2.10	-
\$64.58 to \$150.45	8,048,979	72.66	4.69	-	7,048,779	73.81	4.23	-
	18,505,354	\$51.20	5.18	\$69,783	12,324,920	\$65.97	3.33	\$31

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

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

(Dollars in thousands) (Unaudited)	Three Months Ended March 31	
	2010	2009
Stock-based compensation expense:		
Stock options	\$3,609	\$2,913
Restricted stock	12,268	20,283
Total stock-based compensation expense	\$15,877	\$23,196

The recognized stock-based compensation tax benefit amounted to \$6 million and \$9 million for the three months ended March 31, 2010 and 2009, respectively.

Retirement Plans

SunTrust did not contribute to either of its noncontributory qualified retirement plans (Retirement Benefits plans) in the first quarter of 2010. The expected long-term rate of return on plan assets for the Retirement Benefit Plans is 8.00% for 2010.

Anticipated employer contributions/benefit payments for 2010 are \$12 million for the Supplemental Retirement Benefit plans. For the first quarter of 2010, the actual contributions/benefit payments totaled \$3 million.

SunTrust contributed less than \$1 million to the Postretirement Welfare Plan in the first quarter of 2010. Additionally, SunTrust expects to receive a Medicare Part D Subsidy reimbursement for 2010 in the amount of \$2 million. The expected pre-tax long-term rate of return on plan assets for the Postretirement Welfare plan is 6.75% for 2010.

(Dollars in thousands) (Unaudited)	Three Months Ended March 31			
	2010		2009	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Service cost	\$17,331	\$-	\$18,856	\$73
Interest cost	32,007	2,436	30,063	2,803
Expected return on plan assets	(45,723)	(1,806)	(37,558)	(1,758)
Amortization of prior service cost	(2,792)	(95)	(2,721)	(390)
Recognized net actuarial loss	15,027	245	32,456	4,648
Net periodic benefit cost	\$15,850	\$780	\$41,096	\$5,376

During March 2010, a comprehensive health care reform legislation was signed into law under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (the Acts). Included among the major provisions of the law is a change in tax treatment of the federal drug subsidy paid with respect to Medicare-eligible retirees. The effect of the Acts on the Company's Other Postretirement Benefits obligation and cost depends on finalization of related regulatory requirements; however, the impact is not expected to be material. The Company will continue to monitor and assess the effect of the Acts as the regulatory requirements are finalized.

Table of Contents**Notes to Consolidated Financial Statements (Unaudited)-Continued****Note 10 - 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 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, in consideration of trading opportunities in the market. In addition, as a normal part of its operations, the Company enters into 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 and any embedded derivatives that the Company bifurcates from the host contracts 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 OCI, net of tax, or within the Consolidated Statements of Income/(Loss) depending upon the use and designation of the derivatives.

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 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 March 31, 2010, net derivative asset positions to which the Company was exposed to risk of its counterparties were \$1.7 billion, representing the net of \$2.5 billion in net derivative gains by counterparty, netted by counterparty where formal netting arrangements exist, adjusted for collateral of \$0.8 billion that the Company holds in relation to these gain positions. As of December 31, 2009, net derivative asset positions to which the Company was exposed to risk of its counterparties were \$1.8 billion, representing the net of \$2.5 billion in 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.

The Company adjusted the fair value of its net derivative asset position for estimates of counterparty credit risk by approximately \$21 million and \$25 million as of March 31, 2010 and December 31, 2009, respectively. See Note 13, Fair Value Measurement and Election, to the Consolidated Financial Statements for further discussion on quantification of counterparty credit risk.

The majority of the Company's 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 \$1.3 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 ATE that permits the counterparties to close-out net and apply collateral or, where a 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 March 31, 2010, the Bank carried senior long-term debt ratings of BBB+/A1 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 \$23 million at March 31, 2010, against which the Bank had posted collateral of approximately \$10 million; ATEs do not exist at lower ratings levels. At March 31, 2010, approximately \$1.2 billion in fair value of derivative liabilities are subject to CSAs, against which the Bank has posted approximately \$1.1 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 \$627 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 \$19 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.

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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 March 31, 2010. 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 March 31, 2010. 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 the combined fair value is negative.

	Asset Derivatives			Liability Derivatives		
(Dollars in thousands) (Unaudited)	Balance Sheet Classification	Notional Amounts	Fair Value	Balance Sheet Classification	Notional Amounts	Fair Value
Derivatives designated in cash flow hedging relationships ⁵						
Equity contracts hedging:						
Securities available for sale	Trading assets	\$1,546,752	\$21,460	Trading liabilities	\$1,546,752	\$-
Interest rate contracts hedging:						
Floating rate loans	Trading assets	16,350,000	832,026		-	-
Total						
		17,896,752	853,486		1,546,752	-
Derivatives not designated as hedging instruments ⁶						
Interest rate contracts covering:						
Fixed rate debt	Trading assets	3,223,085	230,347	Trading liabilities	295,000	13,121
Corporate bonds and loans		-	-	Trading liabilities	44,575	3,536
MSRs	Other assets	8,910,000	50,315	Other liabilities	6,520,000	26,028
LHFS, IRLCs, LHFI-FV	Other assets	5,076,192 ³	13,365	Other liabilities	1,982,843	7,054
Trading activity	Trading assets	109,775,247 ¹	3,434,455	Trading liabilities	88,287,718	3,306,993
Foreign exchange rate contracts covering:						
Foreign-denominated debt and commercial loans	Trading assets	1,094,810	29,050	Trading liabilities	507,124	146,142
Trading activity	Trading assets	1,754,169	88,058	Trading liabilities	1,938,991	90,477
Credit contracts covering:						
Loans	Trading assets	125,000	461	Trading liabilities	175,750	2,581
Trading activity	Trading assets	556,237 ²	16,350	Trading liabilities	540,501 ²	13,717
Equity contracts - Trading activity	Trading assets	3,722,363 ¹	481,543	Trading liabilities	6,919,091	660,945
Other contracts:						
IRLCs and other	Other assets	3,412,603	32,682	Other liabilities	736,600 ⁴	42,132 ⁴
Trading activity	Trading assets	73,535	6,712	Trading liabilities	86,245	6,781

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Total	137,723,241	4,383,338	108,034,438	4,319,507
Total derivatives	\$155,619,993	\$5,236,824	\$109,581,190	\$4,319,507

¹ Amounts include \$21.8 billion and \$0.5 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.

² Asset and liability amounts include \$2 million and \$10 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.

³ Amount includes \$1.6 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.

⁴ Includes a \$40 million derivative liability recorded in other liabilities in the Consolidated Balance Sheets, related to a notional amount of \$134 million. This derivative was established upon the sale of Visa Class B shares in the second quarter of 2009 as discussed in Note 11, Reinsurance Arrangements and Guarantees, to the Consolidated Financial Statements.

⁵ See Cash Flow Hedges in this Note for further discussion.

⁶ See Economic Hedging and Trading Activities in this Note for further discussion.

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Notes to Consolidated Financial Statements (Unaudited)-Continued

The table below presents the Company's derivative positions at December 31, 2009.

(Dollars in thousands) (Unaudited)	Balance Sheet Classification	Asset Derivatives			Liability Derivatives		
		Notional	Notional		Notional	Notional	
		Amounts	Fair Value		Balance Sheet Classification	Amounts	Fair Value
Derivatives designated in cash flow hedging relationships ⁵				&nbs			