

<b>STANDARD &amp;POORS</b>	<b>RATINGS DIRECT</b>

## Research: Freddie Mac

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### CREDIT RATING

Not Rated

#### Outstanding Rating(s)

Senior unsecured <i>Local currency</i>	AAA/A-1+
Subordinated <i>Local currency</i>	AA-
Preferred stock <i>Local currency</i>	AA-
Risk to the government <i>Local currency</i>	AA-
Short-Term debt <i>Local currency</i>	A-1+

#### Sovereign Rating

United States of America	AAA/Stable/A -1+
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### ■ Major Rating Factors

#### Strengths:

- Low credit risk
- Government-sponsored enterprise (GSE) charter allows favored status of debt securities in the capital markets
- Long track record of managing and mitigating interest rate risk

#### Weaknesses:

- Business concentration in residential mortgage loans
- Inherent exposures to interest rate risk
- High expenses and management time diverted to the accounting restatement

### ■ Rationale

The 'AAA/A-1+' senior unsecured debt ratings on Freddie Mac reflect both the implicit government support for the securities of this GSE, as elaborated in its charter and governing legislation, and its overall financial profile. The 'AA-' subordinated debt, preferred stock, and risk-to-the government ratings are based on the financial profile of Freddie Mac and the operating benefits it receives as a GSE.

Freddie Mac is operating with higher capital levels than ever, given the Office of Federal Housing Enterprise Oversight's (OFHEO) Jan. 29, 2004, directive that the company hold a 30% surplus above its regulatory minimum ratio until it reaches full and timely disclosure of financial results. The higher

capital level is viewed positively by Standard & Poor's Ratings Services, and strengthens Freddie Mac's financial profile. We will monitor capital management practices once Freddie Mac has returned to full and timely disclosure to see if this more conservative posture toward capital continues. At this time, Freddie Mac has released its fiscal 2004 and year-to-date June 30, 2005, financials. GAAP quarterly earnings volatility has increased significantly due to the accounting standard FAS 133 for derivatives and the accounting for the guarantee asset and guarantee liability associated with the guarantee business. Freddie Mac's hedging strategy that utilizes derivatives is instrumental in managing one of its key risks—interest rate risk—which is inherent in its core business of buying and holding long-term, low-yield, fixed-rate residential mortgage assets. The higher GAAP earnings volatility is a key rating issue to the extent that it may negatively affect the level of quarterly retained earnings and capital. Credit risk exposures are not high and credit quality measures remain strong.

## ■ Outlook

The stable outlook reflects Freddie Mac's low credit risk profile, strong market share of the conforming mortgage market, and its long-successful track record of managing its key risk, interest rate risk. Operating as a GSE, Freddie Mac has broad access to the capital markets at favorable rates to fund its operations. The most recent legislation proposed in the Senate and the House, addressing changing the regulatory oversight of the mortgage GSE, appears to be stalled, and the timeframe for the potential future adoption is highly uncertain at this time.

## ■ Profile

Freddie Mac is a housing GSE and is one of the nation's largest financial institutions, operating with total assets of \$779.9 billion and \$1.6 trillion on a managed basis (including all Mortgage Participation Certificates [PCs] issued and outstanding) at June 30, 2005. Operating in the secondary mortgage market, Freddie Mac's primary business function in the residential mortgage market is the buying and guaranteeing of conforming mortgage loans and mortgage-related securities (PCs), which are funded by issuing mortgage securitizations, debt securities, and equity. Freddie Mac guarantees the payment of principal and interest on the mortgage-related securities it issues.

Freddie Mac's charter limits the types of single-family mortgages that qualify for the credit guarantee; the mortgage loans must be the conforming loan size (\$359,650) and have an 80% loan-to-value (LTV). Of the total mortgage debt outstanding for 2004, totaling \$8.7 trillion, Freddie Mac's \$1.5 trillion total mortgage portfolio represented 17% of the total debt outstanding.

Freddie Mac's statutory purpose includes providing stability in the secondary market for residential mortgages and increasing the liquidity of mortgage investments in the U.S. Freddie Mac is the second-largest purchaser of home mortgages in the U.S., competing directly with Fannie Mae for the purchase or guarantee of conventional residential mortgages. The company funds its business through the issuance of debt securities in the global capital markets and issuing MBS and PCs. Freddie Mac's charter limits its home mortgage finance business to the conforming residential mortgage market, and the company is required by its statutory mission to participate in this market at all times, regardless of market conditions.

OFHEO, which is under the Department of Housing and Urban Development (HUD), is Freddie Mac's safety and soundness regulator, and HUD is Freddie Mac's mission regulator. Regulatory oversight by OFHEO and its certification of regulatory capital has been critical to our rating coverage and surveillance of Freddie Mac. OFHEO has imposed two critical operating requirements on Freddie Mac until it returns to timely reporting of its financial statements: the January 2004 directive that the company maintain a 30% capital surplus over regulatory minimum capital standards, and that it receive regulatory approval prior to repurchasing or redeeming any common or preferred stock. (Freddie Mac is required to file a report with OFHEO after the declaration of and before the payment of common dividends, but not to receive prior approval.) In December 2003, Freddie Mac paid a \$125 million civil penalty to OFHEO, and in September 2004, it agreed to assist its regulator in its legal pursuit of Freddie Mac's past executives. Other than this, Freddie Mac has been operating its core mortgage business without regulatory restriction.

The consolidation in the mortgage market continues to drive higher customer concentration at Freddie Mac and presents further restraint of pricing flexibility, as larger clients of Freddie Mac seek to negotiate

guarantee fees based on volume or other factors. During 2004, Wells Fargo, Chase, ABN AMRO, and National City accounted for approximately 63% of Freddie Mac's total mortgage purchase volume, versus 55% from the top four sellers in 2001. (The 55% did not come from the same four sellers as in 2004.) Wells Fargo was the largest source of mortgage purchases and represented approximately 33% of Freddie Mac's total 2004 mortgage purchase volume.

### **Regulatory update**

Freddie Mac has had to face the following significant regulatory issues related to its accounting restatement:

- Aug. 18, 2004: Freddie Mac announced that it received a "Wells Notice" from the SEC. The Wells Notice advised the company that the SEC staff is considering a recommendation that the SEC initiate a civil injunctive action against the company for possible violations of the federal securities laws, including Section 10(b) of the 1934 Act and the SEC's Rule 10b-5, as well as Sections 17(a)(1), (2), and (3) of the 1933 Act. The Wells Notice indicated that the SEC staff may seek a permanent injunction and a civil money penalty. Freddie Mac has been cooperating with the SEC's investigation.
- Jan. 29, 2004: OFHEO issued a letter directing Freddie Mac to maintain a mandatory target capital surplus of 30% over its minimum capital requirement. This new regulatory directive does not change the statutory minimum capital requirement of Freddie Mac.

### **Ownership And Legal Status**

Freddie Mac is a shareholder-owned GSE, chartered by Congress on July 24, 1970, under the Federal Home Loan Mortgage Corporation Act (the Freddie Mac Act). Freddie Mac's enabling legislation establishes the membership of the Board of Directors at 18 directors. Shareholders elect 13 members, and the President of the United States appoints five directors. Prior to Freddie Mac's 2004 annual meeting, the company was informed that none of the then-current appointees would be reappointed by the President. These board seats remain vacant to date.

Freddie Mac's debt and equity securities are exempt from registration under the Securities Act and the Exchange Act. In October 2000, Freddie Mac committed to voluntary registration of its common stock under the Exchange Act. In September 2004, the voluntary commitments were updated and transformed to enforceable commitments in an agreement with OFHEO. The SEC registration has been delayed until Freddie Mac returns to timely release of its financial results.

Freddie Mac securities have "agency status" in the capital markets, which includes the preferred treatment of exemption from SEC registration, eligible investments for financial institutions, and mutual funds without limitation. Authorizing legislation includes the 1989 FIRREA Act, which provides for the dual oversight of Freddie Mac by the U.S. Treasury Department and HUD. The authorizing legislation requires the approval of the Secretary of the Treasury for the issuance of debt by Freddie Mac, and HUD establishes annual affordable housing goals for Freddie Mac. OFHEO, a part of HUD, is Freddie Mac's safety and soundness regulator.

### **Strategy**

Freddie Mac's primary business of providing a secondary market for conforming mortgages in a profitable manner is performed with an emphasis on controlling risk while also fulfilling its mandated affordable housing goals. In pursuing its goal of enhancing mortgage credit availability, Freddie Mac purchases a variety of mortgage products, including mortgages of varying maturity terms, as well as guaranteeing the principal and interest on MBS that represent pools of mortgages. Given Freddie Mac's exposure to both credit risk and interest-rate risk, management's strategic initiatives include broader use of risk-based pricing, stronger loss mitigation processes in dealing with delinquent and defaulted loans, and further development of controlling interest rate risk. Freddie Mac significantly reduces the credit and interest rate risk of the mortgages it owns through the use of third parties (mortgage insurers for example) and the capital markets.

Management's time and corporate resources have been focused on completing the build-out of critical

internal accounting systems to support and better link the core risk management activities and the core mortgage purchase and securitization activities.

## ■ Accounting

In January 2003, Freddie Mac announced it would restate its audited financial statements for the fiscal years ended Dec. 31, 2002, 2001, and 2000. Freddie Mac's accounting restatement was driven by management coincident with the hiring of its new outside accounting firm, PricewaterhouseCoopers LLP (PWC), who was hired in March 2002 to replace Arthur Andersen.

The critical changes to Freddie Mac's restated financial statements for the years ended 2002, 2001, and 2000 surround the correction of numerous errors related to the adoption and application of SFAS 133 on derivatives and hedging, resulting in reclassification of items that were previously recorded as eligible for hedge effectiveness to ineffectiveness as prescribed by SFAS 133. The critical net cumulative adjustments include net income increasing by \$5 billion for the year ended Dec. 31, 2002, regulatory core capital increasing \$5.2 billion, and shareholders' equity rising \$6.7 billion at Dec. 31, 2002.

These derivatives, primarily receive-and-pay fixed swaps and swaptions, are now marked to market on the income statement as they were deemed to not have a hedge designation. Quarterly earnings volatility has increased significantly due to the mark to market of derivatives that are not designated as hedges and therefore cannot elect hedge accounting under FAS 133. The asymmetric mark to market of the hedges and not the hedged asset or liability has created significant volatility in noninterest income and stockholders' equity, and has distorted GAAP earning results.

There has been a critical change to the methodology used to account for the guarantee fee income. Freddie Mac must now account for a guarantee asset and a guarantee liability, the value of which swings with critical assumptions like prepayments, credit losses, and interest rate changes. The guarantee asset for PCs represents the fair value of future cash inflows related to the credit guarantee business and structured securities to third parties in transactions that qualify as sales under SFAS 125/140 or that were subject to the requirements of FIN 45. The guarantee obligation for PCs represents the unamortized balance of the obligation to guarantee the payment of principal and interest of PCs and structured securities, initially booked at fair value in transactions that qualify for SFAS 125/140 or subject to FIN 45.

## ■ Risk Management

The guaranteed mortgage portfolio, retained and off-balance-sheet, totaled \$1.3 trillion at June 30, 2005, and Freddie Mac purchased \$172 billion of mortgages in the first half of 2005. The single-family mortgage portfolio continues to have significant geographic diversification and carries very low credit risk. Freddie Mac's charter limits the types of single-family mortgages that qualify for the credit guarantee; namely the mortgage loans must be no larger than the conforming loan size (\$417,000) and have an 80% LTV. (The conforming loan size adjusts annually based on changes in average house prices as published by the Federal Housing Finance Board and based on supervisory guidance issued by OFHEO.) The guaranteed mortgage portfolio continues to have a concentration of fixed-rate mortgage loans with 30-year fixed-rate mortgage loans 59% of the portfolio and 15-year fixed-rate mortgages at 27%. The remainder of the portfolio, 14%, includes adjustable-rate mortgages (ARMs), 9%; balloon mortgages, 2%; and the balance in interest only, option ARMs, and others. Multifamily loans are the other critical earning asset at Freddie Mac. This portfolio has significant geographic diversification and totaled \$57 billion or only 4.2% of the guaranteed portfolio. Credit losses have been virtually zero in this portfolio.

Credit risk management continues to be strong at Freddie Mac and is a strength to its credit profile. Stressing the credit portfolio for a 5% nationwide decline in house prices would increase Freddie Mac's credit losses by \$500 million or 24% of year-to-date pretax earnings at June 30, 2005, and approximately 3 basis points (bps) of the managed mortgage portfolio. The average mark-to-market LTV is approximately 60% and about 1% of the single-family mortgage portfolio has a current LTV greater than 95%.

An industry proponent of automated underwriting, Freddie Mac's "Loan Prospector" automated loan

underwriting service, which was offered in 1995, combines the LTV ratios and other loan and borrower characteristics to generate credit-risk-classifications that provide it and lenders with a better tool to evaluate overall loan risk.

In its mission oversight capacity of Freddie Mac, HUD establishes annual affordable mortgage purchase goals (since 1993) for Freddie Mac, and these goals continue to be met. Also, Freddie Mac relies on private mortgage insurance to off-load much of the credit risk.

The investment portfolio's credit risk is very limited, as Freddie Mac restricts itself to investing in highly liquid and highly rated securities. Exposure to credit risk in its derivatives activity also is quite low, since Freddie Mac limits its activities to counterparties with strong credit ratings and typically requires collateral for the replacement value.

## ■ Profitability

Net income for the first half of 2005 was \$1.4 billion or 0.36% ROA, down from \$4.1 billion for the first half of 2004. The decline in profitability is primarily due to net fair value losses on derivatives not in qualifying hedge accounting relationships. Year-to-date 2005 net income levels are lower, primarily due to the GAAP reporting of derivative losses and losses on the guarantee asset for PCs at fair value. These two items significantly lowered GAAP noninterest income for the first six months of 2005 by \$1.4 billion with "losses on the Guarantee Asset for PCs at fair values" showing a "loss" of \$685 million and "derivative losses" of \$747 million. The reading of GAAP earnings does not portray a comparable analysis of core earnings performance given the nonhedge designation of the vast majority of Freddie Mac's derivatives and the fair value changes in the Guarantee Asset and Guarantee Liability. The large jump in GAAP net income in 2001 was due to the large gains on mark-to-market derivatives that were previously designated hedges under hedge accounting as prescribed by SFAS 133. Going forward, to the extent interest rates change, the asymmetric mark-to-market of derivatives will lead to significant variability of quarterly GAAP earnings, especially in periods of volatile interest rate changes.

Standard & Poor's still values the guarantee fee (averaging 16 bps) as a valuable source of fee income for Freddie Mac, carrying an "annuity" attribute as a revenue source.

Freddie Mac's core profitability continues to be dominated by net interest income, which is primarily affected by the size of the mortgage markets and the volatility of interest rates. Freddie Mac focuses on option-adjusted-spreads (OAS) and OAS FV to gauge its profitability. The liquidation of relatively higher coupon securities is suppressing net interest income and the company's net interest margin is at its lower range, measuring only 83 bps versus 124 bps in 2004. The lower level of net interest income is also due to the shift in the earning asset mix of the retained portfolio, as higher-yielding, fixed-rate assets to lower-yielding, floating rate assets. Due to its wholesale structure and low tax rate (exemption from state and local taxes), Freddie Mac operates with a high post-tax profit margin of 53%.

## ■ Asset-Liability Management

Interest rate exposures remain high at Freddie Mac given the concentration of long-dated fixed rate assets in the earning asset mix. The management of interest rate risk has been good as exposures are managed to minimize earnings volatility tied to shifts in market rates. Freddie Mac's key interest rate risk measure, portfolio market value sensitivity (PMVS), has been very low for a long time, and in the midst of volatile interest rate risk markets during the past three years. At June 30, 2005, the company's PMVS averaged 1% year-to-date and averaged 2% in 2004. Also, Freddie Mac's duration gap was close to zero in both 2004 and year-to-date 2005.

The majority of derivatives that Freddie Mac uses to manage its high exposures to interest rate risk are used to create synthetic funding structures to better manage the variable cash flows and high prepayment risk associated with the longer-term, fixed-rate mortgage assets it purchases and holds for investment. Derivatives enhance Freddie Mac's funding flexibility through the use of longer maturity pay-fixed swaps that can lengthen its shorter-term debt issues, or with the use of swaptions and options to create callable debt. Throughout the financial restatement period, Freddie Mac has closely managed its exposures to interest rate risk and its key measures have remained stable.





Preferred stock and other capital	4,609	4,609	4,609	4,609	4,596	3,195	0.59	0.58	0.57	0.61	0.72	0.70
Preferred stock	4,609	4,609	4,609	4,609	4,596	3,195	0.59	0.58	0.57	0.61	0.72	0.70
Common shareholders' equity (reported)	27,354	26,697	26,878	26,721	15,028	11,642	3.51	3.36	3.35	3.55	2.34	2.53
Share capital and surplus	1,062	1,025	966	896	823	581	0.14	0.13	0.12	0.12	0.13	0.13
Revaluation reserve	(4,178)	(3,593)	(1,498)	2,340	(557)	456	(0.54)	(0.45)	(0.19)	0.31	(0.09)	0.10
Retained profits	31,773	30,618	28,837	24,955	15,710	11,629	4.07	3.85	3.59	3.32	2.45	2.53
Other equity	(1,303)	(1,353)	(1,427)	(1,470)	(948)	(1,024)	(0.17)	(0.17)	(0.18)	(0.20)	(0.15)	(0.22)
Total liabilities and equity	779,995	795,174	803,449	752,249	641,100	459,297	100.00	100.00	100.00	100.00	100.00	100.00
Less revaluation reserve, intangibles	4,178	3,593	1,498	(2,340)	557	(456)						
Tangible total equity	36,141	34,899	32,985	28,990	20,181	14,381						
Tangible common equity	31,532	30,290	28,376	24,381	15,585	11,186						
Adjusted common equity	31,532	30,290	28,376	24,381	15,585	11,186						
Plus preferred stock and other capital	4,609	4,609	4,609	4,609	4,596	3,195						
Plus general reserves	107	114	197	177	103	334						
Adjusted total equity	36,248	35,013	33,182	29,167	20,284	14,715						
*Data as of June 30, 2005. Ratios annualized where appropriate. N.A.--Not available. Certain raw data items used within the above financial spreads have been obtained from SNL Financial LC.												

Table 2 Profit and Loss Statement Statistics												
(Mil. \$)	-Year ended Dec. 31-						Adj. avg. assets (%)					
	2005*	2004	2003	2002	2001	2000	2005*	2004	2003	2002	2001	2000
<b>Profitability</b>												
Interest income	17,601	35,603	37,098	38,476	35,368	29,182	4.47	4.45	4.77	5.52	6.43	6.90
Interest income on loans	2,020	4,007	4,251	4,290	4,385	4,177	0.51	0.50	0.55	0.62	0.80	0.99
Interest income on securities	14,422	28,460	29,051	30,039	26,847	20,536	3.66	3.56	3.73	4.31	4.88	4.85
Interest income on other assets	1,159	3,136	3,796	4,147	4,136	4,469	0.29	0.39	0.49	0.60	0.75	1.06
Interest expense	14,534	26,466	27,600	29,590	28,376	25,483	3.69	3.31	3.55	4.25	5.16	6.02
Interest expense on other liabilities	14,534	26,466	27,600	29,590	28,376	25,483	3.69	3.31	3.55	4.25	5.16	6.02
Net interest income	3,067	9,137	9,498	8,886	6,992	3,699	0.78	1.14	1.22	1.28	1.27	0.87
Operating noninterest income	904	1,436	(298)	1,841	711	2,706	0.23	0.18	(0.04)	0.26	0.13	0.64
Fees and commissions	792	1,541	1,990	1,792	1,527	1,267	0.20	0.19	0.26	0.26	0.28	0.30
Underwriting/corporate finance fees	72	159	352	276	135	15	0.02	0.02	0.05	0.04	0.02	0.00
Other fees and	720	1,382	1,638	1,516	1,392	1,252	0.18	0.17	0.21	0.22	0.25	0.30

commissions (net)												
Trading gains	49	(335)	(2,781)	(259)	(1,045)	1,234	0.01	(0.04)	(0.36)	(0.04)	(0.19)	0.29
Securities trading income	287	(348)	(1,114)	1,812	191	492	0.07	(0.04)	(0.14)	0.26	0.03	0.12
Other trading income	(238)	13	(1,667)	(2,071)	(1,236)	742	(0.06)	0.00	(0.21)	(0.30)	(0.22)	0.18
Other market -sensitive income	N.A.	N.A.	0	0	0	59	N.A.	N.A.	0.00	0.00	0.00	0.01
Other noninterest income	63	230	493	308	229	146	0.02	0.03	0.06	0.04	0.04	0.03
Operating revenues	3,971	10,573	9,200	10,727	7,703	6,405	1.01	1.32	1.18	1.54	1.40	1.51
Noninterest expenses	1,062	2,228	2,211	1,737	1,360	1,156	0.27	0.28	0.28	0.25	0.25	0.27
Personnel expenses	394	758	624	593	537	433	0.10	0.09	0.08	0.09	0.10	0.10
Premises	27	60	52	42	35	35	0.01	0.01	0.01	0.01	0.01	0.01
Other noninterest expense	641	1,410	1,535	1,102	788	688	0.16	0.18	0.20	0.16	0.14	0.16
Net operating income before loss provisions	2,909	8,345	6,989	8,990	6,343	5,249	0.74	1.04	0.90	1.29	1.15	1.24
Credit loss provisions (net new)	47	143	10	128	32	79	0.01	0.02	0.00	0.02	0.01	0.02
Specific loan and country risk loan provisions	47	143	10	128	32	79	0.01	0.02	0.00	0.02	0.01	0.02
Net operating income after loss provisions	2,862	8,202	6,979	8,862	6,311	5,170	0.73	1.03	0.90	1.27	1.15	1.22
Net gain on derivatives/hedging	(747)	(4,475)	39	5,941	(1,857)	N.A.	(0.19)	(0.56)	0.01	0.85	(0.34)	N.A.
Pretax profit	2,115	3,727	7,018	14,803	4,454	5,170	0.54	0.47	0.90	2.12	0.81	1.22
Tax expense/credit	471	900	2,202	4,713	1,339	1,504	0.12	0.11	0.28	0.68	0.24	0.36
Income tax	471	900	2,202	4,713	1,339	1,504	0.12	0.11	0.28	0.68	0.24	0.36
Net income before minority interest	1,644	2,827	4,816	10,090	3,115	3,666	0.42	0.35	0.62	1.45	0.57	0.87
Net income before extraordinary	1,644	2,827	4,816	10,090	3,115	3,666	0.42	0.35	0.62	1.45	0.57	0.87
Extraordinary Income	0	0	0	0	43	0	0.00	0.00	0.00	0.00	0.01	0.00
Net income after extraordinary	1,644	2,827	4,816	10,090	3,158	3,666	0.42	0.35	0.62	1.45	0.57	0.87
	<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>						
<b>Asset Quality</b>												
Nonperforming assets	0	741	10,656	10,036	7,460	5,510						
Nonaccrual loans	N.A.	N.A.	21	47	44	1,909						
Restructured loans	0	0	2,370	2,164	1,617	747						
Repossessed/other real estate owned	0	741	795	594	447	348						
Loans in arrears but accruing	0	0	7,470	7,231	5,352	2,506						
Net charge-offs	N.A.	140	105	87	37	94						
<b>Average balance sheet</b>												
Average customer loans	663,786	662,413	625,040	546,694	444,680	354,278						
Average earning assets	735,318	736,550	730,317	667,488	527,245	396,640						
Average assets	787,585	799,312	777,849	696,675	550,199	422,991						

Average interest-bearing liabilities	723,850	735,655	702,655	622,032	506,381	401,220						
Average common equity	27,026	26,788	26,800	20,875	13,335	9,986						
Average adjusted assets	787,585	799,312	777,849	696,675	550,199	422,991						

\*Data as of June 30, 2005. Ratios annualized where appropriate. N.A.--Not available. Certain raw data items used within the above financial spreads have been obtained from SNL Financial LC.

Table 3 Ratio Analysis						
	--Year ended Dec. 31--					
	2005*	2004	2003	2002	2001	2000
<b>Segment Analysis</b>						
Customer loans (gross)	(0.41)	0.61	11.98	17.10	30.50	19.44
Loss reserves	(12.28)	(42.13)	11.30	71.84	(69.16)	(3.19)
Adjusted assets	(3.82)	(1.03)	6.81	17.34	39.58	18.78
Tangible common equity	8.20	6.75	16.39	56.44	39.33	17.80
Total equity	4.20	(0.57)	0.50	59.65	32.26	28.74
Operating revenues	(24.88)	14.92	(14.24)	39.26	20.27	57.95
Noninterest expense	(4.67)	0.77	27.29	27.72	17.65	38.61
Net operating income before provisions	(30.28)	19.40	(22.26)	41.73	20.84	62.96
Loan loss provisions	(34.27)	1330.00	(92.19)	300.00	(59.49)	31.67
Net operating income after provisions	(30.21)	17.52	(21.25)	40.42	22.07	63.56
Pretax profit	13.50	(46.89)	(52.59)	232.35	(13.85)	63.56
Net income	16.31	(41.30)	(52.27)	223.92	(15.03)	65.28
	2005*	2004	2003	2002	2001	2000
<b>PROFITABILITY (%)</b>						
<b>Interest Margin Analysis</b>						
Net interest income (taxable equiv.)/avg. earning assets	0.83	1.24	1.30	1.33	1.33	0.93
Net interest spread	0.77	1.24	1.15	1.01	1.10	1.01
Interest income (taxable equiv.)/avg. earning assets	4.79	4.83	5.08	5.76	6.71	7.36
Interest expense/avg. interest-bearing liabilities	4.02	3.60	3.93	4.76	5.60	6.35
<b>Revenue Analysis</b>						
Net interest income/revenues	77.24	86.42	103.24	82.84	90.77	57.75
Fee income/revenues	19.94	14.57	21.63	16.71	19.82	19.78
Market-sensitive income/revenues	1.23	(3.17)	(30.23)	(2.41)	(13.57)	20.19
Noninterest income/revenues	22.77	13.58	(3.24)	17.16	9.23	42.25
Personnel expense/revenues	9.92	7.17	6.78	5.53	6.97	6.76
Noninterest expense/revenues	26.74	21.07	24.03	16.19	17.66	18.05
Noninterest expense/revenues less investment gains	26.74	21.07	24.03	16.19	17.66	18.22

Expense less amortization of intangibles/revenues	26.74	21.07	24.03	16.19	17.66	18.05
Expense less all amortizations/revenues	26.74	21.07	24.03	16.19	17.66	18.05
Net operating income before provision/revenues	73.26	78.93	75.97	83.81	82.34	81.95
Net operating income after provisions/revenues	72.07	77.58	75.86	82.61	81.93	80.72
New loan loss provisions/revenues	1.18	1.35	0.11	1.19	0.42	1.23
Pretax profit/revenues	53.26	35.25	76.28	138.00	57.82	80.72
Tax/pretax profit	22.27	24.15	31.38	31.84	30.06	29.09
Net income/revenues	41.40	26.74	52.35	94.06	40.44	57.24
	<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>OTHER RETURNS</b>						
Net income/avg. assets + securitized assets	0.27	0.18	0.32	0.73	0.24	0.30
Cash earnings/avg. tang. common equity (ROE) (%)	10.64	8.92	17.44	49.32	21.65	33.72
	<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>FUNDING AND LIQUIDITY (%)</b>						
Total loans/customer deposits + long-term funds	143.81	138.25	138.82	130.34	150.94	139.79
Customer loans (net)/assets (adj.)	85.01	83.56	82.19	78.39	78.56	83.97
	<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>CAPITALIZATION (%)</b>						
Adjusted common equity/adjusted assets	4.04	3.81	3.53	3.24	2.43	2.44
Adjusted common equity/adjusted assets + securitization	4.04	1.84	1.82	1.65	1.23	0.87
Adjusted common equity/customer loans (net)	4.76	4.56	4.30	4.13	3.09	2.90
Internal capital generation/prior year's equity	12.32	6.63	14.53	61.52	20.11	36.18
Adjusted total equity/adjusted assets	4.65	4.40	4.13	3.88	3.16	3.20
Adjusted total equity/adjusted assets + securitizations	4.65	2.13	2.13	1.97	1.59	1.15
Common dividend payout ratio	0.00	31.95	15.61	6.20	19.22	13.56
	<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>ASSET QUALITY (%)</b>						
New loan loss provisions/avg. customer loans (net)	0.01	0.02	0.00	0.02	0.01	0.02
Net charge-offs/avg. customer loans (net)	N.A.	0.02	0.02	0.02	0.01	0.03
Residential real estate NCOs	0.00	0.02	0.02	0.02	0.01	0.03
Commercial real estate NCOs	0.00	0.00	0.02	(0.00)	(0.01)	(0.02)
Loan loss reserves/customer loans (gross)	0.02	0.02	0.03	0.03	0.02	0.09
Gen. loan loss reserves/customer loans (net of specifics)	0.02	0.02	0.03	0.03	0.02	0.09

Nonperforming assets (NPA)/customer loans + ORE	0.00	0.11	1.61	1.70	1.48	1.43
NPA (excl. delinquencies)/customer loans + ORE	0.00	0.11	0.48	0.48	0.42	0.78
Net NPA/mortgage loans (net) + securitized + ORE	(0.02)	0.04	0.74	0.75	0.65	0.43
Net NPA/customer loans (net) + ORE	(0.02)	0.09	1.58	1.67	1.46	1.34
NPA (net specifics)/customer loans (net specifics)	0.00	0.11	1.61	1.70	1.48	1.43
Loan loss reserves/NPA (gross)	N.M.	15.38	1.85	1.76	1.38	6.06
*Data as of June 30, 2005. Ratios annualized where appropriate. N.A.--Not available. N.M.--Not meaningful. Certain raw data items used within the above financial spreads have been obtained from SNL Financial LC.						

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