

Economic Update

Prepared For

North Atlanta GSCPA

January 15, 2009

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Financial Risk Management

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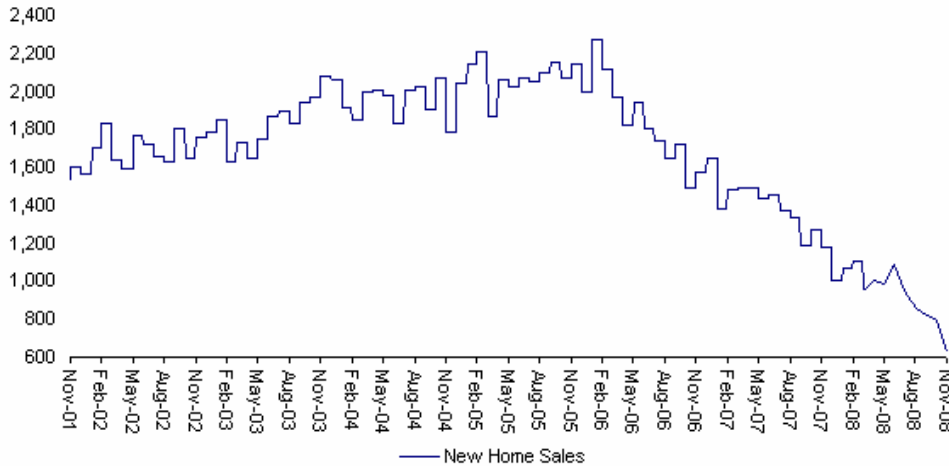
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How We Got Here...

In January of 2006, new home sales peaked and began a rapid decline...

New Home Sales (000s)
Last 7 Years



...while commodity prices continued to soar to never before seen levels...

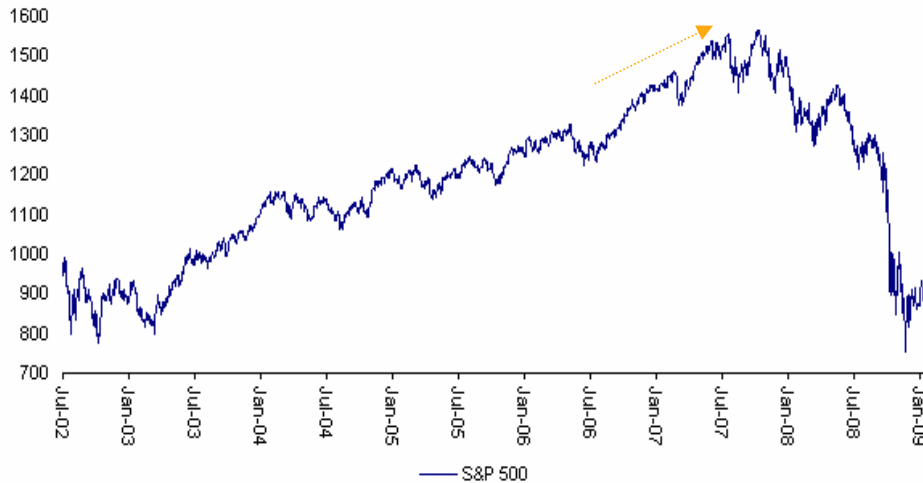
Price
Commodity Price Index
Last 7 Years



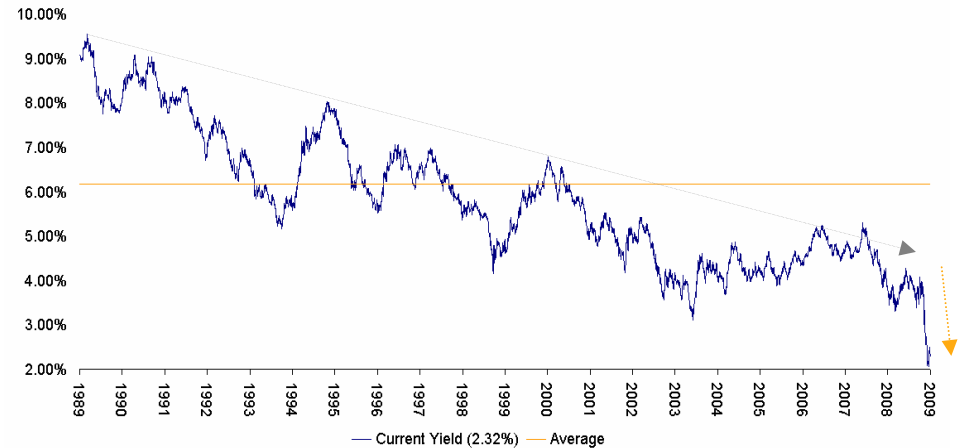
Equities, bonds, real estate, commodities...the bubble grew across all asset classes until mid-2008, the bust was quick and violent....except in Treasuries...

...rates continued to plummet to all-time lows...

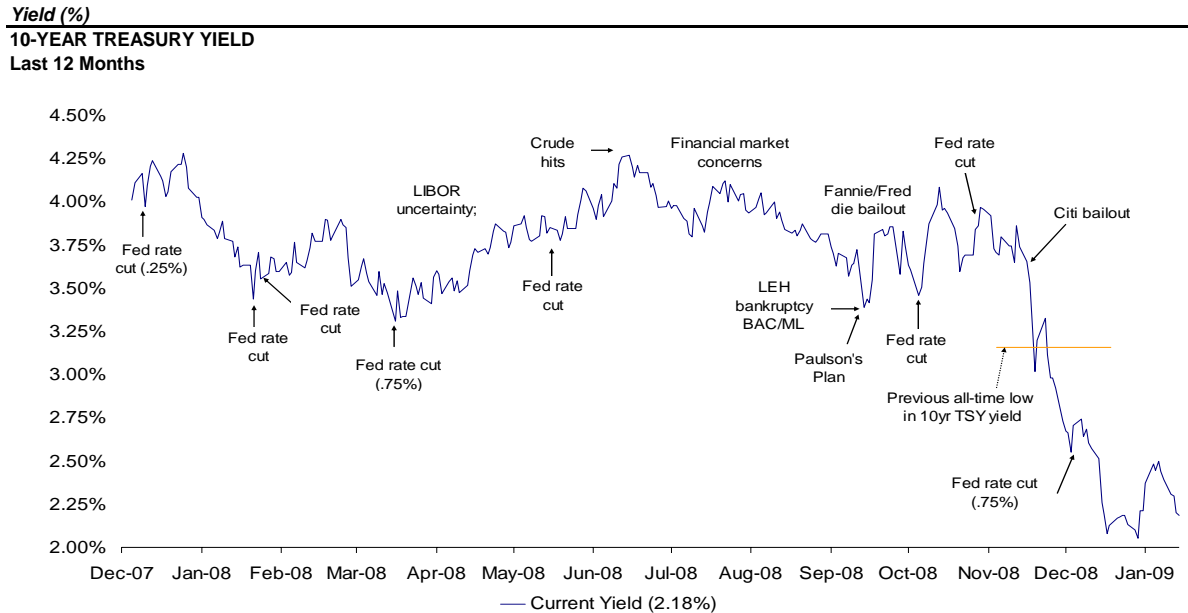
S&P 500
Last 7 Years



Yield (%)
10-YEAR TREASURY YIELD
Last 20 Years



Trends in Interest Rates



- In early 2008, the sub-prime crisis bled into the general housing market and began hitting Wall Street firms, causing the collapse of Bear Stearns in mid-March.
- The market recovered this spring and rates rose substantially amid speculation the worst was behind us.
- Additional financial market concerns emerged this summer and volatility returned amid the Fannie/Freddie bailout, bankruptcies and mergers of Wall Street stalwarts.
- To combat seizing credit markets, the Fed announced multiple initiatives intended to restore liquidity to the market and eventually the U.S. Treasury drafted and Congress passed the TARP.
- Recently, continued deterioration of the economy and historic Fed action have pushed long term rates to new historic lows.

Treasury Bailout Program Overview

On October 14, Treasury Department, Federal Reserve and FDIC officials outlined first steps in implementing the \$700BN treasury relief plan.

- Crafted jointly by the Treasury Department, the Federal Reserve and the FDIC, the revised economic stability plan is designed to encourage lending between institutions and restore confidence in the financial market
- Key elements of the plan include:

Government Purchase of Preferred Securities

- Proposed investment of \$250BN (funds to be appropriated from recently approved “bailout” bill)
 - ✓ Initial investment of \$125BN will be spread across 8 institutions
 - ✓ Non-voting senior preferred shares are callable after three (3) years and pay an annual dividend of 5% for the first five (5) years and 9% thereafter
 - ✓ Warrant coverage equal to 15%
 - ✓ Minimum investment is 1% of risk weighted assets and maximum investment is 3% of risk weighted assets or \$25BN
 - ✓ Controls on executive compensation including limiting tax deductibility and a clawback on any compensation based on materially inaccurate financial statements

Government Guarantee of Senior Unsecured Debt

- FDIC guaranteeing senior unsecured debt issued on or before June 30, 2009
 - ✓ Includes promissory notes, commercial paper, interbank funding and unsecured portions of secured debt
 - ✓ Coverage only provided through June 30, 2012, even if the liability has not matured
 - ✓ Issuer cost of 75 bps on the debt issued under this program
- Participants can also purchase deposit insurance coverage on non-interest bearing deposit transaction accounts that exceed the \$250,000 cap
 - ✓ Cost to institutions is an additional 10 bps on current deposit insurance
- All FDIC institutions covered at no cost for 30-days, but must then opt out of programs to assure no further assessments

Under all programs, enhanced supervision for participating institutions will occur regarding growth and risk-taking

Government Purchase of Preferred Securities Overview

Purchase of Preferred Equity Stakes in Major Financial Institutions

- Total proposed investment of \$250BN (funds to be appropriated from recently approved “bailout” bill)
 - ✓ Initial investment of \$125BN will be spread across 8 institutions, with other institutions being announced in upcoming weeks

 Bank of America.



Bank of America - \$25BN

 STATE STREET.

State Street Corp. - \$2BN



Wells Fargo & Co - \$25BN

 Morgan Stanley

Morgan Stanley - \$10BN

 Goldman Sachs

Goldman Sachs - \$10BN



Citigroup - \$25BN



THE BANK OF NEW YORK MELLON

Bank of New York - \$3BN

 JPMorgan

JPMorgan Chase - \$25BN

- Security is non-voting senior preferred shares that is callable after three (3) years and pays an annual dividend of 5% for the first five (5) years and 9% thereafter
 - ✓ Warrant coverage equal to 15% of senior preferred investment with 10 year term and strike price to be determined based on 20-day trailing average share price at issuance
 - ✓ No dividend eligibility for junior or common stock if dividend payment on the senior preferred securities is missed
 - ✓ Securities are callable at par after 3 years but institutions looking to redeem must redeem with common or other form of Tier 1 qualifying securities
- Firms in program must adopt Treasury's standards on executive pay and corporate governance such as forfeiting tax deductibility of executive compensation above \$500,000
- Treasury is accepting applications until November 14, 2008 and banks considering applying for the securities should focus on ensuring that they have the following:
 - ✓ A current shelf filing for mixed securities
 - ✓ Blank common and preferred securities available for issuance
 - ✓ Shareholder approval to issue common stock for warrant coverage
- Minimum investment is 1% of risk weighted assets and maximum investment is the lesser of 3% of risk weighted assets or \$25BN

Government Purchase of Preferred Securities Overview - Continued

Secondary Purchase of Preferred Equity Stakes in Major Financial Institutions

- Total proposed investment of \$250BN (funds to be appropriated from recently approved “bailout” bill)
 - ✓ Secondary investment of \$125BN will be spread across 15 institutions, with other institutions being announced in upcoming weeks. The following noteworthy banks tapped the program on October 27th

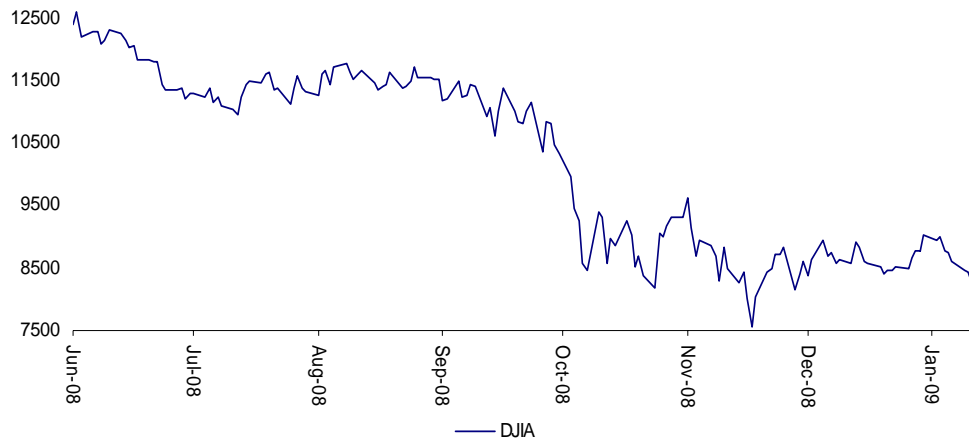


- Initial market reaction was positive as the additional capital will increase the banks' tier 1 capital ratio and place the banks in a stronger position to take advantage of opportunities
 - ✓ Bill Gross, manager of the world's biggest bond fund at Pacific Investment Management Co., said “We like the ones that are submitting applications: Key Bank and Regions and a host of others that are large enough and well capitalized enough to be admitted to the club”
 - ✓ "Our participation in the Capital Purchase Program enhances SunTrust's already solid capital position and will permit us to further expand our business and take advantage of growth opportunities," said James M. Wells III, Chairman, President and CEO

Fear Fuels Flight to Quality

Dow Jones Industrial Average

Since June 1

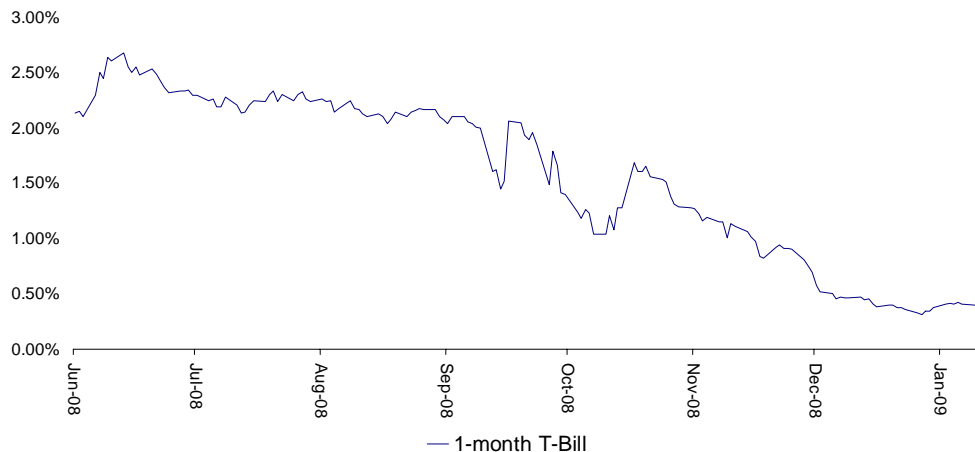


- Money has flowed out of the stock market and into Treasuries as investors seek the safety of US government T-Bills.
- The “flight to quality” has pushed fixed rates in the US to historically low levels.
- The continuous barrage of negative economic news continues to push investors toward the safety of Treasuries pushing yields near zero on short-term bills.

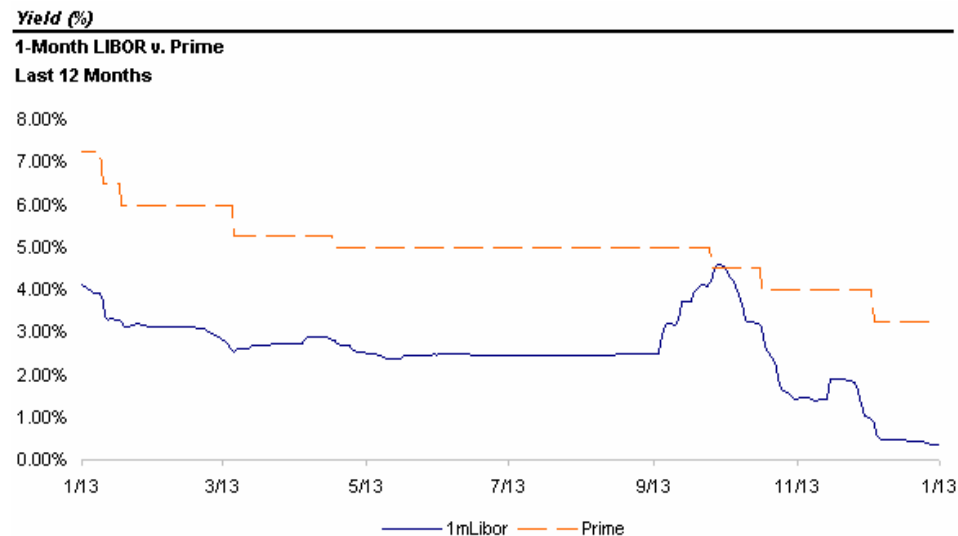
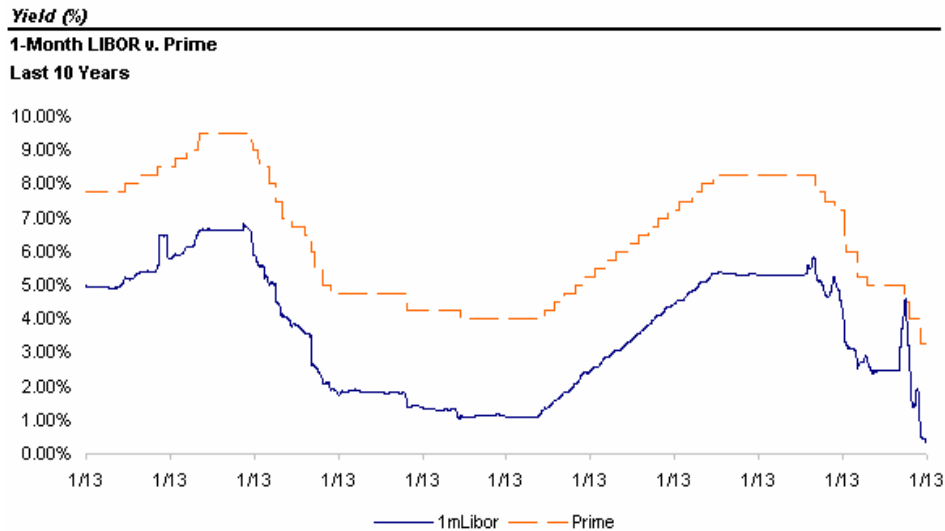
Yield (%)

1-Month T-Bill

Since June 1



Floating US Rates: 1 Month LIBOR vs. Prime



- LIBOR – rate at which banks lend to each other on an unsecured basis. Resets daily.
- Prime – consumer lending rate. Resets with FOMC moves.
- The Fed cuts its Target Fed Funds rate and Prime declines accordingly
- Even as the Fed “cuts rates”, LIBOR – the market driven rate – rose as fearful banks essentially shut down the inter-bank lending market
- As the government introduced acronym after acronym of “assistance” to financial institutions, LIBOR normalized and is now at a record low
- Still, banks remain reluctant to lend, and credit markets have undergone fundamental repricing, reflected in the following examples...

U.S. Corporate Credit Market Snapshot – Select Recent Transactions

- New issue bond market activity is increasing, however investors are demanding a significant premium for providing new liquidity.

Date	Issuer	Sector	Security	Amount (\$MM)	Moody's	S&P	Coupon	Maturity	Issue Spread T + (bps)	LIBOR Equivalent	Selected Previous Issuance: Spread / Date / Comment		
12/9	E.I. Du Pont de Nemours	Industrial	Notes	\$1,000	A2	A	5.875%	1/15/2014	+437	L+339	+168(L+76)	Jul-08	---
12/9	SunTrust Bank	Finance	FDIC Guaranteed	\$2,000	Aaa	AAA	3.000%	11/16/2011	+198	L+84	---	---	---
12/9	FPL Group Capital	Finance	Notes	\$450	A2	A-	7.875%	12/15/2015	+597	L+519	+188(L+96)	Jun-08	5y
12/9	Morgan Stanley	Finance	FDIC Guaranteed	\$2,500	Aaa	AAA	2.900%	12/1/2010	+180	L+68	---	---	---
12/8	Regions Bank	Finance	FDIC Guaranteed	\$1,750	Aaa	AAA	3.250%	12/9/2011	+203	L+92	---	---	---
12/8	Regions Bank	Finance	FDIC Guaranteed	\$1,000	Aaa	AAA	2.750%	12/10/2010	+183	L+65	---	---	---
12/8	Cox Communications	Technology	Notes	\$600	Baa3	BBB-	9.375%	1/15/2019	+675	L+649	+220(L+156)	May-08	---
12/8	Shell International Finance	Finance	Sr. Notes	\$2,750	Aa1	AA+	6.375%	12/15/2038	+325	L+286	+68(L+15)	Mar-07	10y
12/8	Wisconsin Electric Power	Utility	Notes	\$250	A1	A-	6.250%	12/1/2015	+425	L+352	+300(L+200)	Sep-08	7y
12/5	JPMorgan Chase	Finance	FDIC Guaranteed	\$1,250	Aaa	AAA	2.625%	12/1/2010	+171	L+49	---	---	---
12/5	Harvard President & Fellows	Education	Bonds	\$500	Aaa	AAA	6.500%	1/15/2039	+338	L+307	+140(L+88)	Jan-08	---
12/5	Harvard President & Fellows	Education	Bonds	\$500	Aaa	AAA	6.000%	1/15/2019	+338	L+307	---	---	---
12/5	Harvard President & Fellows	Education	Bonds	\$500	Aaa	AAA	5.000%	1/15/2014	+335	L+237	+110(L+38)	Jan-08	---
12/4	General Elec Capital Corp	Finance	FDIC Guaranteed	\$3,500	Aaa	AAA	3.000%	12/9/2011	+212	L+101	---	---	---
12/4	Central Illinois Light	Utility	Sr. Secured	\$150	Baa2	BBB+	8.875%	12/15/2013	+735	L+634	+144(L+90)	Oct-06	10y
12/3	Royal Bank of Scotland	Finance	Govt Liquidity Gtd	\$2,500	Aaa	AAA	3.000%	12/9/2011	+200	L+89	---	---	---
12/3	Wells Fargo Co	Finance	FDIC Guaranteed	\$3,000	Aaa	AAA	3.000%	12/9/2011	+195	L+84	---	---	---
12/3	Potomac Electric Power	Utility	FMBs	\$250	Baa1	BBB+	7.900%	12/15/2038	+463	L+424	+245(L+179)	Nov-07	---
12/2	Caterpillar Inc	Industrial	Notes	\$250	A2	A	8.250%	12/15/2038	+510	L+549	+97(L+39)	Aug-06	---
12/2	Caterpillar Inc	Industrial	Notes	\$900	A2	A	7.900%	12/15/2018	+525	L+503	+77(L+20)	Aug-06	---
12/2	Caterpillar Inc	Industrial	Notes	\$350	A2	A	7.000%	12/15/2013	+535	L+449	+63(L+23)	Jun-05	---
12/2	Citigroup	Finance	FDIC Guaranteed	\$3,750	Aaa	AAA	2.875%	12/9/2011	+188	L+84	---	---	---
12/2	Hewlett-Packard Co	Technology	Notes	\$2,000	A2	A	6.125%	3/1/2014	+460	L+374	+157(L+65)	Feb-08	5y
12/2	Con Edison Co of New York	Utility	Sr. Unsecured	\$600	A1	A-	7.125%	12/1/2018	+450	L+428	+82(L+34)	Nov-06	---
12/1	Wisconsin Public Service	Utility	FMBs	\$125	Aa3	A+	6.375%	12/1/2015	+435	L+363	+140(L+108)	Nov-07	10y
12/1	Bank of America	Finance	FDIC Guaranteed	\$6,750	---	AAA	3.125%	6/15/2012	+201	L+105	---	---	---
11/26	JPMorgan Chase	Finance	FDIC Guaranteed	\$5,000	Aaa	AAA	3.125%	12/1/2011	+178	L+76	---	---	---
11/26	Morgan Stanley	Finance	FDIC Guaranteed	\$2,500	Aaa	AAA	3.250%	12/1/2011	+186	L+84	---	---	---
11/26	Morgan Stanley	Finance	FDIC Guaranteed	\$2,250	Aaa	AAA	2.900%	12/1/2010	+180	L+74	---	---	---
11/25	Dominion Resources	Utility	Sr. Notes	\$600	Baa2	A-	8.875%	1/15/2019	+679	L+664	+220(L+150)	Jun-08	10y
11/25	Burlington Northern	Transport	Sr. Unsecured	\$500	Baa1	BBB	7.000%	2/1/2014	+500	L+421	+220(L+145)	Mar-08	10y
11/25	Goldman Sachs	Finance	FDIC Guaranteed	\$5,000	Aaa	AAA	3.250%	6/15/2012	+200	L+113	---	---	---
11/24	Public Service Electric & Gas	Utility	FMBs	\$275	A3	A-	6.330%	11/1/2013	+413	L+314	+75(L+2)	Jan-96	30y
11/20	Nordic Investment Bank	Finance	Notes	\$1,000	Aaa	AAA	2.375%	12/15/2011	+150	L+33	+55(L-12)	Jan-08	---
11/19	DCP Midstream	Energy Services	Notes	\$250	Baa2	BBB+	9.700%	12/1/2013	+768	L+670	+210(L+149)	Sep-07	30y
11/18	Verizon Wireless	Technology	Notes	\$2,250	A2	A	8.500%	11/15/2018	+513	L+483	---	---	---
11/18	Verizon Wireless	Technology	Notes	\$1,250	A2	A	7.375%	11/15/2013	+538	L+435	---	---	---
11/18	Noble Corp	Utility	Guaranteed	\$250	A-	A-	7.375%	3/15/2014	+525	L+422	+88(L+37)	May-06	---
11/18	Southern California Gas	Utility	FMBs	\$250	A1	A+	5.500%	3/15/2014	+332	L+229	+60(L+10)	Dec-03	7y
11/18	Kroger	Consumer	Sr. Notes	\$600	Baa2	BBB-	7.500%	1/15/2014	+535	L+432	+268(L+186)	Mar-07	---
11/18	Delmarva Power & Light	Utility	FMBs	\$250	Baa1	A-	6.400%	12/1/2013	+420	L+317	+100(L+56)	May-08	10y
11/18	Sempra Energy	Utility	Sr. Unsecured	\$500	Baa1	BBB+	9.800%	2/15/2019	+619	L+589	+215(L+141)	Jun-08	10y
11/18	Sempra Energy	Utility	Sr. Unsecured	\$250	Baa1	BBB+	8.900%	11/15/2013	+670	L+568	---	---	---
11/17	British Sky Broadcasting	Technology	Guaranteed	\$600	Baa2	BBB	9.500%	11/15/2018	+588	L+555	+240(L+173)	Feb-08	---
11/14	Southwestern Public Service	Utility	Sr. Notes	\$250	Baa1	BBB+	8.750%	12/1/2018	+516	L+483	+100(L+46)	Oct-06	---

Source: Bloomberg

Where We're Headed...Government Spending...Up, Up, and Away!!!

Follow the \$8.5 trillion: Breakdown of the government's rescue funds

FEDERAL RESERVE PROGRAMS	Maximum commitment	Tapped so far
Commercial paper program Buys short-term notes from companies, which use the proceeds to pay bills	\$1.8 trillion	\$271 billion
Term auction facility Provides a negotiated rate for banks to borrow from the Fed	\$900 billion	\$415 billion
Other assets	\$606 billion	\$606 billion
Finance company debt purchases Buys debt issued or backed by government-chartered housing-finance companies including Fannie Mae and Freddie Mac in an effort to reduce their debt costs and thereby lower mortgage rates	\$600 billion	\$0
Money market investor funding facility Buys assets from financial companies to bolster money-market mutual funds	\$540 billion	\$0
Citigroup bailout The Fed agreed to guarantee \$291 billion of Citigroup's toxic assets	\$291 billion	\$291 billion
Term securities lending Allows financial firms to borrow Treasury bonds in exchange for collateral	\$250 billion	\$190 billion
Term asset-backed loan facility Lends money to owners of top-rated securities that are backed by school, car, credit-card and small business loans	\$200 billion	\$0
Other credit extensions Loan to American International Group	\$123 billion	\$87 billion
Discount window Lends directly to commercial banks	\$92 billion	\$92 billion
Commercial paper program 2 Lends to banks so they can buy commercial paper from mutual funds	\$62 billion	\$62 billion
Discount window 2 Lends directly to all financial firms, including securities firms	\$50 billion	\$50 billion
Bear Stearns assets The Fed guaranteed \$29 billion of the firm's assets when JPMorgan Chase bought it	\$29 billion	\$27 billion
Overnight loans Makes one-day loans to banks based on collateral	\$10 billion	\$10 billion
Secondary credit Lends at higher interest rates when collateral is weaker	\$118 million	\$118 million
Federal Reserve total	\$5.5 trillion	\$2.1 trillion

Where We're Headed...Government Spending...Up, Up, and Away!!!

FEDERAL DEPOSIT INSURANCE CORP. PROGRAMS	Maximum commitment	Tapped so far
Loan guarantees Takes the risk out of bank-to-bank lending	\$1.4 trillion	\$0
Guarantee to GE Capital Supports the lending arm of General Electric	\$139 billion	\$139 billion
Citigroup bailout FDIC agreed to guarantee \$10 billion of Citigroup's toxic assets	\$10 billion	\$10 billion
Federal Deposit Insurance Corp. total	\$1.5 trillion	\$149 billion
TREASURY DEPARTMENT PROGRAMS	Maximum commitment	Tapped so far
Troubled Asset Relief Program Approved by Congress	\$700 billion	\$375 billion
Stimulus package Checks mailed to taxpayers last spring	\$168 billion	\$168 billion
Treasury Exchange Stabilization Fund Buys and sells short-term notes to moderate fluctuations in foreign currency exchange rates	\$50 billion	\$50 billion
Tax breaks for banks	\$29 billion	\$29 billion
Treasury Department total	\$1.1 trillion	\$597 billion
FEDERAL HOUSING ADMINISTRATION PROGRAM	Maximum commitment	Tapped so far
Hope for Homeowners Provides loan guarantees for struggling mortgage borrowers	\$300 billion	\$300 billion
Federal Housing Administration total	\$300 billion	\$300 billion
U.S. Government total	\$8.5 trillion	\$3.2 trillion

Sources: Federal Reserve; Federal Deposit Insurance Corporation; Federal Housing Administration; Treasury Department

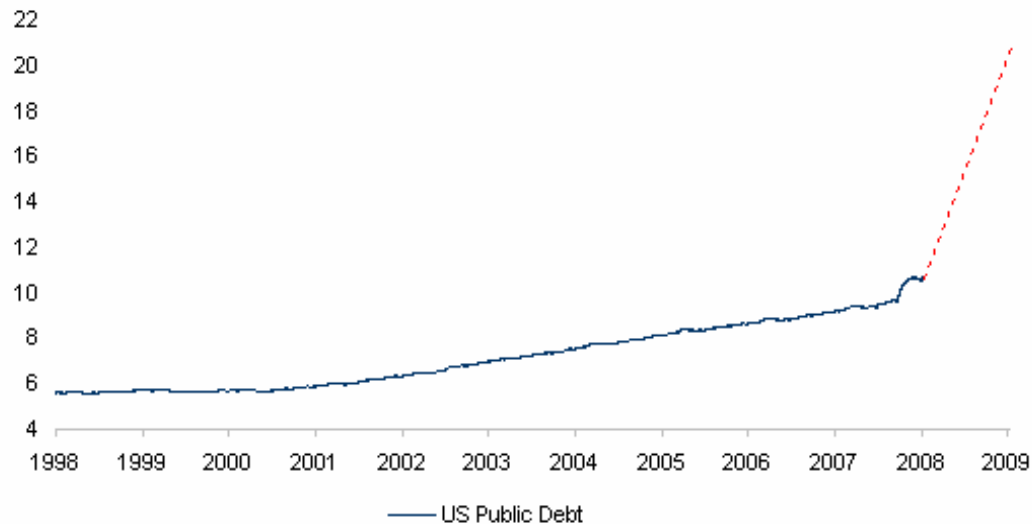
Bloomberg

Where We're Headed...Government Spending...Up, Up, and Away!!!

in Trillions (\$)

US Public Debt

Last 10 Years



Tuesday – Jan. 13

- The US Treasury reported a deficit of \$485 billion for 1st Quarter of fiscal 2009, more than the deficit for all of 2008
- If purchasing (GSE) assets does not produce the intended effect of lowering mortgage rates enough, Bernanke said the Fed is still “considering” buying Treasuries to bring rates down further.

- Baseline Budget - \$1 trillion
- Federal Reserve - \$5.25+ trillion
- US Treasury - \$1.75+ trillion
- FDIC - \$1.85+ trillion
- Obama’s Economic Stimulus Package
 - ~\$1 trillion divided between
 - States
 - Infrastructure
 - Tax Cuts
- As the economy recovers in late 2009 and 2010, private borrowing will increase, in addition to public borrowing already planned.
- Inflationary concerns become very real
- Fed must fight inflation concerns with trying to keep rates low as the economy rebounds

Questions?

Summary Points

- Government spending will dominate the next 12-18 months in attempting to spur economic activity
 - Will another round of \$1,000 stimulus checks do any good?
 - How fast can infrastructure spending spur economic growth?
- The regulatory system is broken, and will have to be fixed once the crisis is over. Particularly “too big to fail” firms will be subject to intense scrutiny.
- Energy prices will likely stabilize around \$40-60/bbl in crude oil.
- Real estate still struggling to recover over the next 12 months.
 - Good time to get in...if you don't have something to sell
 - Problems in residential bleed into commercial real estate throughout 2009.
- Stocks recover in late 2009 – historically a leading indicator of economic conditions/recovery

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