

June 17, 2009

Research Update:

BB&T Corp. Downgraded To 'A' From 'A+'; Outlook Stable

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Overview

- We see more banking industry risk and increased earnings and asset-quality pressure on BB&T.
- We have lowered our ratings on BB&T Corp.
- We expect BB&T to emerge from the credit cycle in sound financial condition and in a strong competitive position.

Rating Action

On June 17, 2009, Standard & Poor's Ratings Services lowered its long-term counterparty credit rating on BB&T Corp. to 'A' from 'A+'. We also lowered our counterparty credit rating on its lead bank, Branch Banking & Trust Co. to 'A+/A-1' from 'AA-/A-1+'. Both the holding company and the bank are removed from CreditWatch Negative, where they were placed May 4, 2009. The outlook is stable.

Rationale

Our downgrade of BB&T is based on our expectation that asset quality and earnings will remain under pressure through 2010 due to the weakness in the large loan book to regional home builders. Nevertheless, we expect BB&T to continue to perform better than regional bank peers and to emerge from this credit cycle with an improved competitive position in its home markets.

The downgrade is consistent with our review of U.S. banks and our reassessment of industry risk within the financial services industry. Specifically, we believe the banking system's credit outlook will continue to deteriorate as a result of the tepid economic environment and weak housing markets.

Tangible capital ratios are strong and compare well to large bank peers'. We expect capital ratios to continue to support the ratings. BB&T not only passed the U.S. government's stress test, but also performed well in our own proprietary stress tests. In addition, the holding company has demonstrated its financial flexibility by raising \$1.1 billion of common equity and \$1.0 billion of medium-term notes, not guaranteed by the FDIC. BB&T is using the proceeds to repay \$3.1 billion of Troubled Asset Relief Program preferred stock.

BB&T's credit issues emanate from the real estate-centric nature of its core banking franchise, in our opinion. We estimate the highest risk segments of BB&T's loan portfolio, which total \$21.6 billion, to be residential and commercial land development and construction, nonprime mortgages, and home equity loans and lines of credit in underperforming regions of the southeast. Within these sectors, the most immediate risk is the \$7.5 billion of loans for

the development and construction of single-family residential properties. BB&T's modest presence in Florida limits this risk, in our view.

Asset quality, which deteriorated sharply during the past 12 months, will likely continue to weaken in 2009. So far, BB&T's loan quality is relatively better than the rest of the industry. The nonperforming assets (NPA) ratio, which includes 90+ days past due, at 3.1% on March 31, 2009, is much higher than in the past, but still below that of peers. We expect the NPA ratio to remain elevated through 2010 as the company's strategy is to work with borrowers and quickly take possession of real estate collateral. This strategy, however, runs the risk of leaving BB&T saddled with the costs of holding a large portfolio of unmarketable properties if the real estate markets continue to fall.

We expect higher loan-loss provisions and costs related to foreclosed properties to put more pressure on profitability through the remainder of 2009 and into 2010. A variety of noninterest fee revenue--particularly insurance commissions--supports overall profitability metrics. Still, the ratings consider a reduction in profitability through 2010.

Outlook

The stable outlook incorporates our base-case scenario that BB&T's asset quality will continue to deteriorate in 2009, but our expectation that the bank will remain profitable on a quarterly basis. If the housing markets deteriorate further such that the bank needs to take sizable charges to unload repossessed properties, thereby generating net operating losses, or if NPAs increase materially relative to tangible common equity, we are likely to lower the ratings. Although we expect the bank to emerge from the credit cycle relatively unscathed, we do not see any ratings upgrade potential in the near term.

Related Research

- "Credit Stress Testing For Financial Institutions," April 29, 2009
- "Risk-Adjusted Capital Framework For Financial Institutions," April 21, 2009
- "Stress Testing U.S. Financial Institutions," April 29, 2009

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
BB&T Corp.		
Counterparty Credit Rating	A/Stable/A-1	A+/Watch Neg/A-1

Ratings Affirmed; CreditWatch Action

	To	From
BB&T Corp.		
Commercial Paper	A-1	A-1/Watch Neg

Downgraded; CreditWatch/Outlook Action

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	To	From
Branch Banking & Trust Co.		
Counterparty Credit Rating	A+/Stable/A-1	AA-/Watch Neg/A-1+
Certificate Of Deposit		
Local Currency	A+/A-1	AA-/Watch Neg/A-1+
Subordinated	A	A+/Watch Neg
Commercial Paper	A-1	A-1+/Watch Neg
BB&T Corp.		
Senior Unsecured	A	A+/Watch Neg
Subordinated	A-	A/Watch Neg
BB&T Capital Trust I		
Preferred Stock	BBB	BBB+/Watch Neg
BB&T Capital Trust II		
Preferred Stock	BBB	BBB+/Watch Neg
BB&T Capital Trust IV		
Junior Subordinated	BBB	BBB+/Watch Neg

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