STANDARD & POOR'S

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Research Update:

Comerica Inc. Ratings Lowered To 'A-/A-2' From 'A/A-1'; Outlook Negative

Primary Credit Analyst:
Robert Hansen, CFA, New York (1) 212-438-7402;robert_hansen@standardandpoors.com

Secondary Credit Analyst:
Rian M Pressman, CFA, New York (1) 212-438-2574;rian_pressman@standardandpoors.com

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Overview

- We believe industry risk is now higher and expect the company to experience higher credit losses and lower profitability.
- The company has a weaker core funding profile than its peers, which we view negatively in the current environment.
- As part of our review of U.S. banks, we lowered Comerica Inc.'s long-term counterparty credit rating to 'A-/A-2' from 'A/A-1'. The outlook is negative.
- We expect further modest deterioration in Comerica Inc.'s credit quality coupled with additional losses in 2009, given the weak economic environment.

Rating Action

On June 17, 2009, Standard & Poor's Ratings Services lowered its long-term counterparty credit rating on Comerica Inc. to 'A-/A-2' from 'A/A-1'. The outlook on the long-term rating is negative. At the same time, we lowered our rating on the company's preferred shares to 'BBB-' from 'BBB'. We also lowered our ratings on the company's primary subsidiary, Comerica Bank, to 'A/A-1' from 'A+/A-1'. All ratings were removed from CreditWatch, where they were placed on May 4, 2009, in conjunction with our ongoing review of U.S. banks.

Rationale

The rating action largely results from our analysis of Comerica's credit quality, which we believe will continue to weaken, reducing profitability. The rating downgrade also reflects our view of the company's weaker core funding profile relative to bank peers. We believe Comerica's capital levels and quality offset these negative factors, are better than those of its peers, and are supportive of the rating.

This rating action is consistent with our ongoing reassessment of the financial services industry. Specifically, we believe that the banking system's credit outlook will continue to weaken and that the economic environment will remain tepid. At the same time, the housing and manufacturing sectors continue to decline along with a decline in household wealth, which is leading to a slowdown in consumer spending.

In this regard, Comerica's loan portfolio has weakened--albeit at a slow pace, and we anticipate further deterioration within its commercial real estate and automotive loan portfolios. To illustrate, the ratio of nonperforming assets (NPAs) to total loans and foreclosed property rose to 2.20% as of March 31, 2009, from 1.94% at year-end 2008, a smaller sequential increase than many peers. The company's exposures in the Midwest (mostly

Michigan) and in the West (mostly California) are fairly large, which we view cautiously in our ratings assessment. We expect a modest increase in loan losses within Comerica's diversified national dealer services business (8% of total loans) and its automotive manufacturer loan portfolio (3%), given the challenges faced by the automotive industry, but view favorably the bank's prudent lending policies and good loan performance thus far. Comerica's construction loan portfolio--less than half of which is residential--is smaller than those of certain peers, tempering the deterioration in asset quality in recent quarters.

Alongside credit quality weakening, we believe the bank's profitability is subdued. In addition to higher loan loss provisions, net interest income growth has been muted. Specifically, net income declined to $9 million, before preferred dividends, in first-quarter 2009, down from $109 million in first-quarter 2008. However, we think the bank's significant reduction in noninterest expenses, bolstered by recent significant reductions in headcount, is a positive factor. We expect that net income will be modest over the next few quarters due to elevated loan loss provisions, but should improve in 2010.

We view Comerica's liquidity as strong overall. However, the company's core funding is lower than many of its bank peers. We view wholesale funding, particularly in the current environment, as somewhat weaker than core deposit funding. For instance, the company's ratio of loans to deposits was about 141% in first-quarter 2009 by our calculation--generally higher than similarly rated peers. Likewise, the ratio of customer deposits to total funds was only 57%, below peers. Secured borrowings at the Federal Home Loan Bank (FHLB) of Dallas, which have increased significantly to about $8 billion as of March 31, 2009, provide, in our view, a cost effective source of liquidity. We think the bank's available borrowing capacity remains significant at the FHLB of Dallas. Although approved to do so, the company has chosen not to issue any debt under the Federal Deposit Insurance Corp.'s Temporary Liquidity Guarantee Program (TLGP), given tepid loan demand and other more attractive financing alternatives.

On the positive side, Comerica has exhibited strong capital ratios, in our view, and fared favorably in our recently released credit stress testing methodology and criteria (see Related Research below). We believe that loan losses will not erode common equity capital to the point that additional capital would become necessary. However, tangible capital levels have declined modestly in recent quarters. The company's tangible common equity ratio declined to 7.27% as of March 31, 2009, down from 7.62% a year earlier. Our view of Comerica's capital levels also take into consideration the segment and geographic diversification in its loan portfolio. The company recently reduced the dividend on its common shares, which should allow it to retain about $170 million per year--a favorable outcome from a credit perspective.

Outlook

The negative outlook reflects our belief that the rating will remain under pressure in the current fiscal environment. Specifically, we believe that the banking system's credit outlook will continue to weaken and that the economic environment will remain tepid. We expect further modest deterioration in Comerica's credit quality, coupled with the likelihood for additional losses in 2009, given the weak economic conditions. However, if credit quality, profitability, or capital ratios deteriorate beyond our current expectations, we could lower the rating further. Conversely, if overall profitability and credit quality improve materially, then we could raise the ratings. However, we believe that an upgrade is less likely, given our general economic outlook.

Related Research

- "Risk-Adjusted Capital Framework For Financial Institutions," April 21, 2009
- "Stress Testing U.S. Financial Institutions," April 29, 2009.
- "Credit Stress Testing For Financial Institutions," April 29, 2009.
- "Research Update: Comerica Inc. 'A/A-1' Rating Placed On CreditWatch Negative," May 4, 2009.
- "Comerica Inc.," Sept. 29, 2008.

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Comerica Inc.		
Counterparty Credit Rating	A-/Negative/A-2	A/Watch Neg/A-1
Comerica Bank, Detroit, MI		
Counterparty Credit Rating	A/Negative/A-1	A+/Watch Neg/A-1
Comerica Bank, Detroit, MI		
Certificate Of Deposit		
Local Currency	A/A-1	A+/Watch Neg/A-1
Comerica Inc.		
Senior Unsecured	A-	A/Watch Neg
Subordinated	BBB+	A-/Watch Neg
Preferred Stock	BBB-	BBB/Watch Neg
Commercial Paper	A-2	A-1/Watch Neg
Comerica Bank, Detroit, MI		
Subordinated	A-	A/Watch Neg
Comerica Capital Trust II		
Preferred Stock	BBB-	BBB/Watch Neg

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