

June 17, 2009

Research Update:

Regions Financial Corp. Rating Lowered To 'BBB+/A-2'; Outlook Negative

Primary Credit Analyst:

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

Secondary Credit Analyst:

Catherine Mattson, New York (1) 212-438-7392; catherine_mattson@standardandpoors.com

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Research Update:

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Overview

- We feel Regions' credit quality will likely deteriorate and credit losses increase, given the weak economic environment.
- We lowered our counterparty credit rating on Regions to 'BBB+/A-2' from 'A/A-1'.
- We expect further deterioration in credit quality, especially given Regions' geographic footprint.

Rating Action

On June 17, 2009, Standard & Poor's Ratings Services lowered its counterparty credit rating on Regions Financial Corp. to 'BBB+/A-2' from 'A/A-1'. The outlook is negative. We also lowered our long-term rating on the company's primary subsidiary, Regions Bank to 'A-/A-2' from 'A+/A-1'. All ratings were removed from CreditWatch Negative, where they were placed May 4, 2009.

Rationale

The downgrade largely results from our assessment of the company's reduced profitability and deteriorating credit quality as per our recent stress testing. The downgrade follows an industry review and the publication of our recent criteria on stress testing and U.S. banks (see Related Research below). We expect Regions' pro-forma tangible capital ratios to decline as a result of increasing credit losses, although recent capital raises offer a cushion, in our view. We particularly view negatively the deterioration in Regions' loan portfolio, notably within its construction and home-equity second-lien loan portfolios, which have significant exposures in the Southeast.

The downgrade also reflects the notable deterioration in Regions' loan portfolio, which has been hurt by the company's fairly large exposures in the Southeast. To illustrate, nonperforming assets (NPAs) and 90-days past-due loans rose to 3.24% at March 31, 2009, from 2.33% at year-end 2008 and 1.73% a year ago. Specifically, we expect the highest losses within its construction and land loan portfolios, which represented about 12.3% of total loans at March 31, and within its home-equity second-lien loan portfolio.

Regions' construction loan portfolio, more than half of which is residential, is, in our view, large relative to certain peers', which has also contributed to the deterioration in asset quality in recent quarters. We also view negatively the significant decline in the allowance relative to total NPAs in recent quarters. However, we view positively the company's proactive efforts to reduce its loan exposures to both homebuilders and condominiums in recent quarters.

In our view, profitability has also been weak, and should remain so given

our expectation of increased credit losses. To illustrate, net income declined to \$77 million (before preferred dividends) in first-quarter 2009, down from \$337 million in first-quarter 2008. First-quarter results benefited from strong mortgage production, which we believe is not sustainable. We expect net interest margins to remain relatively stable in 2009, but expect the company to post net losses during the next several quarters due to elevated loan-loss provisions. Still, the ratings are supported, in our view, by Regions' good earnings power, which should help absorb higher loan-loss provisions, which we expect.

Although Regions fared relatively poorly in our credit stress testing, the firm was able to raise more than \$2 billion in capital thus far in the second quarter, consisting of \$1.84 billion in common shares and \$287.5 million of new 10% mandatory convertible preferred shares. These capital issuances substantially satisfy the \$2.5 billion Tier 1 common equity requirement prescribed by the Federal Reserve's Supervisory Capital Assessment Program. We expect the remainder of required funds to be raised primarily through security and asset sales and liability-management transactions. We estimate that these actions would increase Region's tangible capital ratio to about 7.1% on a pro-forma basis as of March 31. However, we expect some pressure on capital ratios during the next several quarters given the elevated loan losses we expect, but view capital as adequate for the current ratings.

Outlook

The negative outlook reflects our belief that the rating will remain under pressure given our economic outlook. If credit quality or operating performance deteriorates beyond our current expectations, we could lower the rating further. However, if the company returns to profitability earlier than we currently expect, as a result of stabilizing credit quality, then we could raise the ratings.

Related Research

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

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Regions Financial Corp.		
Counterparty Credit Rating	BBB+/Negative/A-2	A/Watch Neg/A-1
Senior Unsecured	BBB+	A/Watch Neg
Subordinated	BBB	A-/Watch Neg
Preferred Stock	BB+	BBB/Watch Neg
Commercial Paper	A-2	A-1/Watch Neg

Regions Bank

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Union Planters Bank, N.A.		
Counterparty Credit Rating	A-/Negative/A-2	A+/Watch Neg/A-1
Certificate Of Deposit		
Local Currency	A-/A-2	A+/Watch Neg/A-2
Regions Asset Management Co. Inc.		
Preferred Stock	BBB-	BBB+/Watch Neg
Regions Bank		
Subordinated	BBB+	A/Watch Neg
Regions Financing Trust II		
Junior Subordinated	BB+	BBB/Watch Neg
Regions Financing Trust III		
Union Planters Capital Trust A		
Union Planters Preferred Funding Corp.		
Preferred Stock	BB+	BBB/Watch Neg
Union Planters Bank, N.A.		
Subordinated	BBB+	A/Watch Neg
Ratings Affirmed		
Regions Bank		
Senior Unsecured	AAA	

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