STANDARD
&POOR'S

RATINGSDIRECT®

June 17, 2009

Research Update:

U.S. Bancorp Downgraded To 'A+/A-1' From 'AA/A-1+'; Outlook Stable

Primary Credit Analyst:
Tanya Azarchs, New York (1) 212-438-7365;tanya_azarchs@standardandpoors.com

Secondary Credit Analyst:
John K Bartko, C.P.A., New York (1) 212-438-7368;john_bartko@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Research

Ratings List

Research Update:

U.S. Bancorp Downgraded To 'A+/A-1' From 'AA/A-1+'; Outlook Stable

Overview

- We do not believe U.S. Bancorp (USB) will be immune to the greater cyclicality that we currently foresee for the industry.
- We lowered our rating on USB to 'A+/A-1' and removed it from CreditWatch Negative.
- USB's capital levels support a rating that is currently among the highest in the industry.

Rating Action

On June 17, 2009, Standard & Poor's Ratings Services downgraded USB to 'A+/A-1' from 'AA/A-1+'. We also lowered our counterparty credit ratings on related entities to 'AA-/A-1+' from 'AA+/A-1+' and removed them from CreditWatch Negative, where they were placed May 4, 2009. The outlook is stable.

Rationale

The downgrade follows an industry review and publication of our recent criteria on stress testing and U.S. banks. We believe that USB will continue to outperform its peer group of large regional and large complex banks as a result of its relatively lower-risk business mix and growth strategy. However, we now expect the economic cycle and its impact on loan quality to be more severe than we originally thought. We believe the mounting credit costs could weigh on USB's earnings prospects, though we expect ratings at this time to remain at the upper range of the generally lower ratings of the industry as a whole.

The bank's strengths, as reflected in our own and the Federal Reserve's stress testing results, indicate that USB does not need further capital to absorb expected losses under our current assumptions of a stress scenario. The perception of its strength should be further solidified as USB frees itself of government support.

USB's results, although they have deteriorated in the current challenging economic environment (pretax profit margin of 17% for the first quarter), have generally remained better than peers'. In our view, this is largely a function of a broad array of fee-based revenue sources and a lower-risk loan portfolio. Preprovision income is a relatively healthy 52% of revenues. Nevertheless, we recognize the possibility that margins could be completely eroded by provisioning expenses as the credit cycle unfolds.

USB's asset quality is deteriorating rapidly, consistent with the deterioration in housing-related industries. We expect credit costs to rise substantially through at least 2009 as losses mount and the bank is forced to raise reserves. In addition, certain securities holdings have suffered value declines that may need to be recognized in earnings at some point. After the issue of $2.8 billion of common equity, we estimate the bank's tangible common equity-to-risk-weighted assets ratio to be about 5.4%. A reduced common dividend also limits potential capital erosion. Nevertheless, we expect a relatively high level of losses to constrain capital rebuild somewhat through 2010.

Outlook

We believe USB's asset quality will likely deteriorate further but, in our view, will be better in each of its major sector categories than peer banks'. We have factored into our analysis the possibility that credit costs could even temporarily overwhelm the strong underlying earnings. Ratings should therefore remain stable unless USB's strong business position or above-average underlying profit-generating ability becomes impaired. For an upgrade, we would need to be convinced that industry risk and capital levels had permanently improved.

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
U.S. Bancorp		
Counterparty Credit Rating	A+/Stable/A-1	AA/Watch Neg/A-1+
Senior Unsecured	A+	AA/Watch Neg
Subordinated	A	AA-/Watch Neg
Preferred Stock	BBB+	A/Watch Neg
Commercial Paper	A-1	A-1+/Watch Neg
U.S. Bank National Association		
Certificate Of Deposit		
Local Currency	AA-/A-1+	AA+/Watch Neg/A-1+
Firstar Realty LLC		
USB Capital IX		
USB Capital VI		
USB Capital VII		
USB Capital VIII		
USB Capital X		
USB Capital XI		
USB Capital XII		
USB Realty Corp		

Preferred Stock	BBB+	A/Watch Neg
U.S. Bank National Association		
Subordinated	A+	AA/Watch Neg

Downgraded; CreditWatch/Outlook Action

	To	From
U.S. Bank National Association		
U.S. Bank National Association, ND		
Counterparty Credit Rating	AA-/Stable/A-1+	AA+/Watch Neg/A-1+

Ratings Affirmed

U.S. Bank National Association		
Commercial Paper	A-1+	

Complete ratings information is available to RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Find a Rating.