April 4, 2007 FRB 2006 Supervisory Letter

Federal Reserve Bank of Richmond – Charlotte Office
Post Office Box 30248
Charlotte, North Carolina

April 4, 2007

Mr. G. Kennedy Thompson
President and Chief Executive Officer
Wachovia Corporation
301 South Tryon Street
Charlotte, North Carolina 28288-0100

Mr. Joseph Neubauer
Chairman of the Audit Committee
Wachovia Corporation
201 North Tryon Street
Charlotte, North Carolina 28288-0040

Dear Messrs. Thompson and Neubauer:

This letter conveys the Federal Reserve Bank of Richmond's annual supervisory assessment of Wachovia Corporation (Wachovia). The assessment considers the company's risk profile, the effectiveness of corporate governance, risk management practices, internal controls, and financial strength and assigns a supervisory rating for the consolidated organization. The supervisory rating is based on the results of our continuous monitoring efforts, regular discussions with management, horizontal reviews, and targeted examinations conducted during 2006. The findings of the targeted examinations were communicated to senior management through letters issued after the conclusion of each examination. In addition, we worked closely with the lead bank's primary supervisor and developed an understanding of the newly acquired thrift, GoldenWest Financial (GoldenWest), by meeting with thrift management and the Office of Thrift Supervision (OTS). With the company's significant retail brokerage activity and insurance businesses, we held regular meetings with the functional regulators and management in these businesses.

SUPERVISORY RATING

Wachovia continues to be assigned a composite supervisory rating of "2" reflecting its overall satisfactory condition. The same rating was accorded to each of the component ratings: risk management, financial condition, and the potential impact of the parent and non-bank subsidiaries on the depository institutions. Wachovia's overall rating is represented as follows:

R –Risk Management	F – Financial Condition	I – Impact on Bank Subsidiaries	C - Composite	(D) – Depository Institutions
2	2	2	2	(2)

Each of the component ratings, as well as the subcomponent ratings for Risk Management and Financial Condition, are discussed on the following pages.

OVERALL ASSESSMENT

The consolidated corporation continues to be operated in a sound manner. Board and senior management governance and oversight are satisfactory and continue to evolve with the growth and changing business profile of the company. The company has an effective enterprise risk management program that works closely with the business lines to establish both risk tolerances and strategies. The audit department remains in satisfactory condition. Internal controls are generally effective, although continued management attention is warranted towards IT/Operational risk internal controls. The assessment of operational internal controls remains fair or "3" as the efficacy of the four key remediation projects has not been validated by internal audit.

During 2006 management continued to make sound progress on a number of critical initiatives to improve the risk management and control environment of the firm. This included improving the infrastructure of the corporate investment bank (CIB) and increasing the staffing in the market risk management function. The company has devoted appropriate resources to the proximity risk issue and has developed a comprehensive plan for the Oxmoor data center. It is our expectation that funding for the build out of the Oxmoor data center will be approved by senior management in 2007. Also, we are satisfied with the performance of the compliance risk management function as the department is well positioned to monitor the risk associated with new acquisitions and business expansion.

Notwithstanding the noted improvements, the institution continues to face significant challenges going forward with the management of critical infrastructure projects. Despite the success of certain initiatives, other high profile projects have been delayed, redesigned, cancelled, and/or suffered cost overruns. Project execution challenges are further amplified by current and expected expansion plans. Wachovia altered its business mix with the acquisition of Golden West, significantly increasing the company's retail exposure and heightening merger integration risk. The company has stated it will maintain Golden West's people-dependent business model and expand the option adjustable rate mortgage (option ARM) product distribution across the legacy Wachovia franchise. To date, the merger has been executed with little disruption to normal business activities, but the significant systems and account conversions will occur in the fourth quarter of 2007. In addition to this domestic expansion, the company continues to grow internationally with the recent opening of a subsidiary bank in Ireland and further expansion into Asian markets. Wachovia is shifting from a large regional banking company with a commercial lending focus to a global financial services company with a greater retail risk concentration. The key supervisory issues noted below all revolve around supervising the heightened level of project execution risk and the need for management to be proactive in managing the infrastructure improvement projects. While the current management team appears well equipped to manage this high execution risk, the underlying issues require management's continued attention.

KEY SUPERVISORY ISSUES

Elevated Project Execution Risk and Monitoring Project Management:

Our supervisory focus is on the issue of execution risk. We are particularly concerned with inconsistent project management practices, the multitude of key projects, the recognized scarcity of experienced project management resources, and possible funding limitations given potential earnings pressures. Many of the projects have a direct impact on the strength of the company's risk management infrastructure and controls. These include the Oxmoor data center build out, the Basel II/RDS project, and CIB infrastructure improvements. We expect that the company will be proactive in managing current and future projects to limit execution risk by prioritizing investments appropriately.

Inconsistent project management performance was noted earlier in this letter, and management will need to be particularly vigilant to ensure that that the risk management infrastructure keeps pace with expansion plans and business needs. This concern is recognized by senior management and many projects receive significant attention. The company has an inventory of over 30 "must do" initiatives, which are defined as projects that cannot be deferred, are critical to a line of business or the enterprise, present significant reputational or financial risk, and/or may have an associated external commitment.

The inconsistency issue is further complicated and amplified by the limited number of qualified senior project managers and the company's desire to control costs. As with many organizations, there is a recognized scarcity of IT/Project management resources and this limitation will challenge the company's ability to execute effectively. Similar to many of its peers, Wachovia's margins will be pressured in 2007 with the flat yield curve environment. This challenge, coupled with the expectation for a return to more normal credit provisioning expenses, present earnings challenges for the company and the potential inclination to limit funding for certain projects. Accordingly, management needs to remain attentive to these infrastructure projects and provide appropriate funding.

With limited resources and numerous initiatives, the company will need to be proactive in identifying and addressing project management issues. In 2006, the Investment Review Board (IRB) began monitoring key projects and serves as a positive control process to insure oversight of end-to-end investment management decisions. While this process has led to greater accountability, management also recognizes the need to have an investment review process that insures future expenditures align with strategic needs. In particular, the company will need to carefully distribute project management resources given the continued growth of the franchise and potential funding constraints.

The Golden West Integration:

The integration of GoldenWest will present new challenges to the organization. The GoldenWest business model is highly dependent on judgmental processes that have allowed the company to offer its products to the full spectrum of borrowers yet limit credit losses. Wachovia management recognizes the importance of knowledge transfer to the continued success of the Golden West model, and this process will be emphasized during the integration given the potential that key managers of legacy GoldenWest could leave the company. Based on that "flight risk", talent retention efforts are also important.

RISK MATRIX

Wachovia's overall inherent risk profile remains moderate. Comments regarding our assessment of risk management have been integrated into the following discussion of the supervisory rating.

	Inherent	**Risk Management**
Overall	Moderate	Satisfactory
Credit	Moderate	Satisfactory
Market	Moderate	Satisfactory
Liquidity	Limited	Satisfactory
Operational	Considerable	Satisfactory
Legal/Compliance	Considerable	Satisfactory

RISK MANAGEMENT

Wachovia's risk management program remains satisfactory based on the firm's effective corporate-wide processes for identifying, measuring, monitoring and controlling risk.

Risk Management	**Satisfactory (2)**
Board and Senior Management Oversight	Satisfactory (2)
Policies, Procedures and Limits	Satisfactory (2)
Risk Monitoring and Management Information Systems	Satisfactory (2)
Internal Controls	Satisfactory (2)

Board and Senior Management Oversight

Board and senior management oversight is satisfactory. The rating continues to reflect active Board oversight with strong interaction evidenced in the company's business activities, risk management, and compliance practices. In 2006, there were some changes to the senior management team with CFO Wurtz and CIO Enos replacing seasoned leaders in the company. The management team effectively transitioned these key players into new roles with minimal impact to the corporation. CEO Thompson and his executive management team continue to provide capable, experienced leadership while also demonstrating a solid understanding of the risks facing the company. The Board committee structure effectively completed its oversight duties as evidenced by the work of the Risk Committee and Audit Committee. Senior level discussions were noted around emerging risks and industry issues in key senior management committees including the Senior Risk Committee, the Operating Committee, the Credit Risk Policy Committee, and ALCO. The business line leadership governance structure ensures ownership and accountability for risks and appropriately rewards risk mitigation practices. Enterprise-wide risk management is sufficiently aligned with key business lines. Appropriate attention continues to be centered on key risks including long standing IT/Operational risk weaknesses, strategic investment decisions, strengthening BSA compliance across all parts of the company, and reviewing new/complex product offerings.

Policies, Procedures and Limits

Policies and procedures across the financial institution are considered satisfactory. The company has established a conservative limit structure for credit, trading exposures, interest rate risk, and liquidity. In some areas, however, the updating of corporate policies has not kept pace with the business activity of the company. Throughout 2006, there were a significant number of relationships and some industry exceptions to the current credit capital guideline structure. Management is aware of the issues surrounding the credit capital limit exceptions and is reviewing the guidelines, which are dated given the growth in the company's capital base. While this process has been somewhat protracted, the reassessment is appropriate as the large number of exceptions makes it difficult to determine if the company is exceeding its risk tolerance.

Risk Monitoring and Management Information Systems

The institution's risk monitoring and management information systems (MIS) are satisfactory. Wachovia continues to demonstrate effective risk management oversight given the risk profile of the company. During 2006, our compliance monitoring and testing examination noted a satisfactory monitoring program while recommending consistent usage of the issues tracking database and the formalization of the issues escalation procedures. Firm-wide stress scenario analysis is still evolving. Risk reporting for interest rate, market, and liquidity risk include stress scenarios but specific credit event stress tests are only completed on an ad-hoc basis. While the current practice may be appropriate, additional consideration should be given to a more rigorous and frequent credit stress test regimen given the expectation of a return to a more normal credit loss environment. Operational risk metrics continue to evolve as management develops methodologies for quantifying top-of-the-house metrics.

Internal Controls

Corporate-wide internal controls are satisfactory. We note the improvement in the control environment, which is reflected in the results of internal audits, external reviews, and regulatory examinations. However, long-standing weaknesses with IT/Operational controls remain. It is expected that completion and validation of the four key IT remediation projects will address many of the weaknesses with operational internal controls. Data center risk has also been a longstanding concern, but we are satisfied with the company's progress on the issue and management's plans to utilize the third data center in Birmingham as a meaningful backup resource. Other control functions, including business line risk management and compliance, demonstrate a solid understanding of the risks facing the company. Internal audit remains satisfactory and it appears the selection of former controller Julian to replace retiring General Audit Schild is reasonable. Credit review continues to demonstrate its stature as an independent control function which helped reinforce the risk tolerance of the company. Credit risk portfolio hedging continues to be proactive by implementing measured credit risk mitigation activities. While not currently an issue, management should ensure that any future cost reduction and efficiency improvement targets do not affect the control functions in compliance, risk management, or audit.

FINANCIAL PERFORMANCE

Wachovia's Financial Condition rating is Satisfactory, or "2", unchanged from our assessment one year ago. Within the sub-components of this rating, we have lowered the Liquidity rating from "1" to "2" reflecting a shift in the funding structure to an increased reliance on wholesale funding subsequent to the GoldenWest acquisition.

Financial Performance	**Satisfactory (2)**
Asset Quality	Strong (1)
Earnings	Satisfactory (2)
Capital	Satisfactory (2)
Liquidity	Satisfactory (2)

Asset Quality

Asset quality remains strong, reflecting lower than peer levels of nonperforming and criticized assets. While charge-offs have increased moderately with the acquisition of WestCorp Financial, this increase was expected due to the subprime nature of the portfolio. Overall the firm's credit risk exposure is well diversified by industry and concentrations are not a supervisory concern. The acquisition of GoldenWest has lowered the average FICO score of the consumer portfolio with 20% of the acquired portfolio having a FICO score below 620 (the secondary market standard for subprime mortgages). This credit risk is offset by the emphasis on collateral coverage.

Earnings

Consolidated earnings are satisfactory. The acquisitions completed in 2006 supported strong annual earnings growth. However, the flattening yield curve environment led to a further contraction in net interest margin, which was compounded by an expansion of long term debt in anticipation of the GoldenWest acquisition. Provisioning for loan losses increased as a result of Westcorp charge-offs. The benefits of diversified noninterest income streams were seen during 2006, with improved capital market related revenues towards the close of the year compensating for some reduction in banking fee growth. Stronger revenues, including through acquisition, improved overhead efficiency ratios. Earnings relative to average assets and average equity improved on a year-on-year basis, but trended lower over the second half of the year and continue to lag peers.

Capital

Wachovia continues to maintain adequate capital, although its core capital ratios trended lower over the course of the year and continue to track below peer norms. In 2006, the corporation shifted the mix of regulatory capital by significantly increasing the level of tier 2 capital through subordinated debt issuance. The WITS issuance in the first quarter of 2006 lifted tier 1 capital, but the effect was more than offset by an active share re-purchase program. The company plans to adjust repurchase activity as necessary in 2007 to compensate for tier 1 capital requirements, including the reduction associated with prior leveraged leasing arrangements. The company has an economic capital model and granular analysis further supports the adequacy of the firm's capital base. The dividend payout is reasonable and consistent with the company's stable earnings stream.

Liquidity

The company's liquidity position has shifted with a greater emphasis on wholesale funding. The GoldenWest purchase resulted in an increase in borrowing from the Federal Home Loan Bank and the cash requirements of the purchase terms necessitated the issuance of long-term debt. As a result, traditional liquidity measures are lower that that in 2005 and the "2" rating reflects this change. Notwithstanding, the company's debt ratings have improved with the industry as a whole and current funding mix does not raise supervisory concerns.

IMPACT OF PARENT AND NON-BANK SUBSIDIARIES

The parent company and the non-bank subsidiaries present limited likelihood of a significant negative impact to the depository institutions and the Impact rating is "2". Although the parent company is less liquid due to the cash used to purchase GoldenWest, cash flow to meet funding needs is in excess of 12 months. Of the non-bank subsidiaries, the retail and wholesale broker dealers poses the highest degree of potential stress through losses or litigation costs. In our discussion with functional regulators and through knowledge gained from our continuous supervision program, it was noted that the control environment has improved in these businesses. Other parent investments including the private equity holdings pose little risk relative to the corporation as a whole.

In closing, thank you for your attention to the information in this letter. Should you have any questions or comments, please contact me at (704) 358-2558. In addition, please note that this letter contains confidential supervisory information and should be treated accordingly. As such, the contents of this letter are subject to the rules of the Board of Governors of the Federal Reserve System regarding disclosure of confidential information.

Sincerely,

Rich F. Westerkamp Jr.

Richard F. Westerkamp, Jr.
Assistant Vice President
Central Point of Contact

CC. Donald K. Truslow, Senior Executive Vice President and Chief Risk Officer
Thomas Wurtz, Senior Executive Vice President and Chief Financial Officer
Jerry Enos, Jr., Senior Executive Vice President and Head of Operations
Peter J. Schild, Senior Vice President, General Auditor
David Wilson, Office of the Comptroller of the Currency
Robert Burns, Federal Deposit Insurance Corporation

July 22, 2008 Federal Reserve Memo

THE FEDERAL RESERVE BANK OF RICHMOND
RICHMOND • BALTIMORE • CHARLOTTE

Post Office Box 30248 · Charlotte, NC 28230
Office 704·358·2100 · www.richmondfed.org

July 22, 2008

Mr. Lanty Smith
Chairman of the Board
Wachovia Corporation
301 South Tryon Street
Charlotte, North Carolina 28288-0100

Dear Mr. Smith,

This letter conveys our supervisory assessment of Wachovia Corporation (Wachovia) as of June 30, 2008, using the Federal Reserves' RFI/C (D) rating for bank holding companies. The rating is based on the results of our continuous supervision program over the past year which consists of monitoring activities conducted by a team of resident examiners and a series of targeted examinations. The assessment also leverages the examination work of other primary bank and functional regulators.

SUPERVISORY RATING

The overall condition of the corporation is considered "fair" and the RFI/C (D) rating is 332/3 (2).[1] The rating is based on weaknesses in risk management, including board and senior management oversight, management information systems (MIS) and risk monitoring, coupled with the weakened financial condition of the consolidated corporation, led by poor earnings, deteriorating asset quality, and a reduced capital cushion. Since our previous assessment, Wachovia has suffered large losses due to market disruption write-downs, required over provisions, and preventable execution errors. These execution losses were partially due to weaknesses in overall risk management and "top of the house" board and senior management oversight as supervision of certain investments was inadequate or controls were not effective in certain business lines. MIS and risk monitoring has not fully captured the risk inherent in the company's balance sheet and its varied business lines. Going forward, we expect the

[1] Rating 3 (Fair). BHCs in this group exhibit a combination of weaknesses in risk management practices and financial condition that range from fair to moderately severe. These companies are less resistant to the onset of adverse business conditions and would likely deteriorate if concerted action is not effective in correcting the areas of weakness. Consequently, these companies are vulnerable and require more than normal supervisory attention and financial surveillance. However, the risk management and financial capacity of the company, including the potential negative impact of the nondepository entities on the subsidiary depository institution(s), pose only a remote threat to its continued viability.

deterioration in consolidated asset quality and the associated provisions will continue to depress earnings, placing a continued strain on capital and liquidity.

In its current weakened condition, Wachovia is less resistant to the effects of the current adverse business environment and will require more than normal supervisory attention. To that end, this letter contains a number of Matters Requiring Immediate Attention.[2] Additionally, it is our intention to enter into an informal Memorandum of Understanding (MOU) with the board of directors to address corrective action needed.

SUMMARY SUPERVISORY RATINGS:

	6-30-08	12-31-06
Risk Management	3	2
Financial	3	2
Impact	2	2
Composite	3	2
Depository Institutions*	2	2

*reflects composite CAMELS rating for Wachovia Bank NA, the largest depository institution, as of June 30, 2007. Upon receipt of the June 30, 2008 report of examination, the rating will be adjusted as needed.

RISK MANAGEMENT - 3

We have downgraded our assessment of Wachovia's risk management from "satisfactory" to "fair" based on concerns with the efficacy of board and senior management oversight and the quality and flexibility of MIS and risk monitoring.

Board and Senior Management Oversight – Fair or "3"

Board of directors and senior management oversight is considered fair. This rating reflects our concerns about the oversight of senior management provided by the board of directors, the adequacy of risk management coverage, including its independence and stature, and the number of and management's response to the execution errors. Also, the board of directors and senior management have not always developed clearly defined risk tolerances for investing activities, limiting the effectiveness of risk management functions.

The board of directors has responsibility for ensuring that the culture and strategic direction established by senior management is appropriate. Many of the issues noted in this

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2 To improve the consistency and clarity of written communications, the Federal Reserve uses standardized terminology to differentiate among Matters Requiring Immediate Attention (MRIA), Matters Requiring Attention (MRA) and Observations. MRIAs are matters arising from supervisory activities that the Federal Reserve is requiring a banking organization to address immediately; MRIAs encompass the highest priority concerns and have the potential to pose significant risk to the organization's safety and soundness; MRIAs may represent significant instances of noncompliance with laws and regulations and or repeat criticisms that have escalated in importance due to insufficient attention or action by the banking organization. MRAs are matters that are important and that the Federal Reserve is expecting a banking organization to address; MRAs have a lower priority than MRIAs; and, must be addressed over time to preclude a significant issue. Observations are matters that are informative, advisory, or that suggest a means of improving performance or management of the operations of the organization; and, may be communicated in the report or conveyed informally.

correspondence are long-term in nature and they result from delayed investment decisions and a desire to have the business lines operate autonomously. The directorate has recently taken actions to improve governance and this process needs to continue to ensure the changes in overall culture are sustained and fulsome.

MRIA - Board of Directors Governance

To insure that its governance is appropriate, the board of directors must conduct an analysis to assess the effectiveness of Wachovia's corporate governance at the board, management, and committee levels. This analysis will assist in the development of management structures that are commensurate with the size, complexity, and business activities of Wachovia and assist in the development of effective risk management practices.

The current risk culture is a result of management's desire to use a decentralized approach to managing business line risk. This structure led to an environment with inconsistent and inadequate identification, escalation, and coverage of all the risk taking activities of the company. The market disruption revealed that leaders did not have a complete understanding of the risk inherent in certain investments and business lines. Examples include but are not limited to the level of subprime risk in the trading books and retained positions, the risk in certain nonbank investments including BluepointRE, and the concentration of subprime borrowers in the GoldenWest portfolio. These concerns are partially offset by some examples where the risk management processes functioned adequately both in the business lines and with the centralized corporate function. With trading book VaR limits, market risk management and the business lines effectively reduced exposures or obtained overlimit exceptions from the chief risk officer. Also, the corporate investment bank (CIB) took actions to limit risk and sold much of the super senior CDO positions in its active originate to distribute business model.

The lack of strong independent risk management functions also contributes to our concern with oversight, especially with investing outside the normal course of business. A particular concern shared by this Reserve Bank and noted in recent examinations completed by the OCC is the lack of strong independent risk management over the Treasury and Balance Sheet Management group. We understand management's desire to use treasury functions to take additional risk for yield or tax benefit where appropriate. This risk is usually taken in the form of structured transactions and/or other investments and many of these transactions have not performed as planned. Going forward, it is incumbent on risk management to insure that investments are made within the corporation's risk appetite and that potential downside risk is evaluated.

MRIA - Risk Management Adequacy Assessment

To strengthen risk management practices, management must conduct an independent assessment of the adequacy of risk management both as a centralized function and within the business lines. The assessment needs to review the level of independence, overall stature, and the ability to measure/monitor current risk exposures within all risk taking areas of the corporation. Particular emphasis should be placed on determining if all risk management functions are both sufficiently independent and enabled to discontinue business activities that are outside corporate risk tolerances. The review needs to include an assessment of the risk management systems to insure appropriate stress testing is completed to better understand risks that cross business lines. Specific areas of concern include but are not limited to investment decisions and commitments of capital outside the traditional trading books, including those made within the Treasury function; the monitoring of these non-traded investments during its life; and the setting of risk tolerances.

Until recently, senior management has not promoted a culture of accountability as clear responsibility for execution errors was not transparent. With the issues of the Payments Processing Corporation (PPC) agreement, the municipal bid rigging case, the Casa de Cambio investigation and associated foreign exchange trade failure, the Sagittarius documentation error, and the BOLI counterparty issue, increased prompt accountability could have limited the problems. The ability of management to increase accountability was further hampered by the lack of clear lines of authority.

MRIA - Execution Problems and Improved Accountability

To limit execution errors occurring across the various business lines, management must take actions to improve accountability. This process needs to include a review of execution errors to understand control weaknesses; the development of clear accountability standards for large investment decisions to insure that leaders in the business line and risk management are held accountable; and a review of compensation programs. The compensation review must insure that incentives established within compensation programs are aligned with the risk appetite of the company.

Finally, the rating of board and senior management oversight is also influenced by changes in leadership at the CEO level. Newly hired CEO Steel has a limited background in traditional banking and will have to gain this knowledge while changing the culture of the company.

Policies Procedures and Limits – Satisfactory or "2"

Policies, procedures, and limits generally worked effectively during the market disruption and as the market began to turn. Established limits helped management to note quickly the depth and serious nature of the market disruption. VaR limits and other trading controls worked adequately and appropriate attention/approval was given to overages. The company monitored counterparty limits, despite weaknesses in systems. To maintain credit exposures within limits, the company hedged certain exposures on specific counterparties. Accounting policies were conservative and the company was quick to recognize losses in their remaining exposures, especially in the CDO book. It is expected that policy limits will need to be adjusted to reflect the weakened financial condition of the company. Key areas include capital and liquidity policies and credit approval limits.

Risk Monitoring and Management Information Systems – Fair or "3"

Overall consolidated risk monitoring and MIS is fair. The corporation's MIS did not fully capture the risk profile of the company which contributed to less than effective risk identification. Also, management reporting contains minimal analytical narrative content relative to other peer institutions and key reports are often more line of business/product-focused which makes enterprise risk assessment cumbersome.

Exposure tracking systems were slow to produce complete and accurate information, especially with the monoline insurers and retained risk in certain CDO holdings. For the GoldenWest mortgage portfolio, MIS did not highlight the increased risk in the large portion of near or subprime borrowers as indicated by the FICO distribution. In CIB, both the level and types of subprime exposures were not tracked or considered adequately in risk/position reports. Counterparty credit systems were unable to measure exposures across multiple business lines without significant manual intervention. With liquidity MIS, reports did not capture several funding needs that arose during the stressed environment and these needs were not addressed in the contingency funding plan (CFP). Further, the production of consolidated liquidity MIS is not sufficiently automated, limiting management's ability to develop consolidated funding analysis promptly or to readily create nonstandard reporting during stressed periods. Many of these reporting deficiencies were issues known by management and investments in and projects to improve systems capabilities were delayed to the detriment of overall risk management.

The lack of comprehensive stress testing also contributed to weaknesses in overall MIS as analyses were not regularly presented or requested by the directorate or senior management. In addition, the board of directors did not sufficiently question business investment decisions and the lack of stress testing limited management's ability to identify potential risks across business lines. Stress testing across business lines is restricted given difficulties in aggregating exposures. Often, credit IT systems have not kept pace with the growth of the franchise or product offerings. The RDS central data repository is supposed to provide a substantial improvement in enterprise data aggregation and analytical flexibility, but the RDS project has been delayed. Ultimately, many of the issues listed above are due to management's decision to defer investments in systems.

MRIA Risk Monitoring and MIS

Management must take actions to improve overall MIS. Key areas to address include the inability to aggregate exposures in a prompt fashion and the limited analytical content of overall MIS. An assessment of the adequacy of systems feeding MIS is necessary to insure stress testing can be conducted effectively. An emphasis should be placed on limiting the number of manual processes required to complete consolidated MIS over key risks. Instances where manual processes are involved include, but are not limited, the production of consolidated liquidity reports, counterpart credit MIS, and aggregating CDO exposures.

Internal Controls – Satisfactory or "2"

Internal controls are satisfactory and we are pleased with the company's efforts to address long standing IT infrastructure issues. Since our 2006 letter which required a satisfactory plan to remediate the unacceptable level of proximity risk with the two Winston Salem data centers, progress on the Oxmoor data center conversion has been satisfactory. It is our expectation that this project will continue to receive adequate funding despite announced expense reduction efforts. The IT remediation projects are substantially complete, but distributed server access controls remain unresolved. Additionally, the control environment has benefited from a satisfactory audit program. In 2008, the company successfully transitioned to a new general auditor and it appears the stature of the department is improving. We have discussed further enhancements the audit department should make to help the organization improve risk identification. These include continuing to define and communicate audit's role as a reassurance function, not risk management or a first line of defense. It is expected that audit will become more proactive versus reactive in identifying weaknesses.

Elsewhere in this letter we note several execution errors and other apparent one-off situations that in aggregate may point to internal control weaknesses. If further evaluation indicates that these issues are systemic in nature, we will revise this rating.

FINANCIAL CONDITION - 3

The overall financial condition of the consolidated corporation is fair[3] and the weakened condition of the company is a direct result of the decline in earnings performance, the deterioration in consolidated asset quality, and the reduced capital cushion. While we are pleased that management has taken appropriate actions to increase capital, current projections for 2008 indicate the consolidated company will suffer losses that will erode the buffer provided by recently raised capital. Given this scenario, management must evaluate its capital plan. In addition, the deteriorating financial condition and the expectation that the company's credit rating will be downgraded will place additional stress on liquidity and, appropriately, management has reviewed its contingency funding planning (CFP). We have been briefed on management's extensive plans for potential liquidity needs in a stressed market and we are encouraged with these efforts. Nonetheless, we are highlighting the potential for downgrades of the liquidity component should current trends continue and/or should plans not prove effective.

Capital – 3

Management has taken the appropriate steps to ensure capital adequacy, but recent losses and revised capital projections highlight the vulnerability of the capital base to current business conditions and support a capital rating of fair. Since September 30, 2007, the company has raised significant capital funds to insure adequate capital. In December 2007 and January 2008 Wachovia raised a combined $5.8 billion in preferred capital and in April 2008 Wachovia raised an additional $8.0 billion of common and convertible equity. To preserve capital, the corporation has cut the dividend and is adopting strategies to limit asset growth. However, even after these actions, the tier 1 capital ratio is projected to be 7.8% at year-end 2008 versus the 9.0% projection for year-end in April. With rapidly changing earnings projections, the tier 1 capital ratio will continue to move closer to the "dated" pre-disruption policy limit of 7.5%. Required economic capital has grown also as the risk profile of the company has been increasing largely due increased credit risk. In addition, the required provision in 2009 will continue to strain capital ratios. As a result, we expect management to consider additional actions including further reducing its dividend and/or raising additional capital to ensure that the corporation maintains sufficient capital.

MRIA - Capital Planning

Management must update and maintain current capital policies and plans. We expect management to formally re-evaluate its current target level for the tier one capital ratio in light of the corporation's current condition and prospects for near term earnings and asset quality deterioration. In addition, the board of directors needs to update its capital adequacy plan to include capital triggers that if breached would require corrective action as well as providing the potential actions to be taken.

[3] Rating 3 (Fair). A rating of 3 indicates that the consolidated BHC exhibits a combination of weaknesses ranging from fair to moderately severe. The company has less than adequate financial strength stemming from one or more of the following: modest capital deficiencies, substandard asset quality, weak earnings, or liquidity problems. As a result, the BHC and its subsidiaries are less resistant to adverse business conditions. The financial condition of the BHC will likely deteriorate if concerted action is not taken to correct areas of weakness. The company's cash flow is sufficient to meet immediate obligations, but may not remain adequate if action is not taken to correct weaknesses. Consequently, the BHC is vulnerable and requires more than normal supervision. Overall financial strength and capacity are still such as to pose only a remote threat to the viability of the company.

Basel II compliance remains a concern as this project has remained in status "Red" for the past 12 months. The company has moved its implementation date back, leaving little cushion for an adequate parallel run of four quarters. We expect the corporation to enter the first transitional floor in April 2011 as required of banks designated as core when the final rule was adopted. Qualifying on time is critical as it indicates that the company has rigorous risk management practices and that its capital levels reflect a more granular estimate of its risk and thus will be an important signal to the market participants. Going forward, management will need to provide appropriate resources to insure key deadlines are met for Basel II qualification.

Asset Quality – 3

Consolidated asset quality is rated fair. Currently, concerns are centered in the GoldenWest mortgage portfolio and the commercial and residential real estate construction book, especially in the Florida market. Classified assets as a percentage of Tier 1 capital plus ALLL have increased led by rising classifications in loans to homebuilders and property developers. Given the current business environment, contagion to other portfolios is probable and as a result management needs to conduct stress/scenario analyses to dimension the extent of the potential losses embedded in the loan portfolio. The GoldenWest mortgage portfolio is quickly deteriorating and the cumulative loss rate is estimated in excess of 9%. Nonperforming assets (NPAs) for this portfolio are projected to increase to $11.4 billion by year-end 2008. In total NPAs for the consolidated company are expected to grow to $18.2 billion and will represent 3.71% of total outstanding loans and other real estate owned by year-end. Portfolio net loss rates are very dependent on the underlying value of residential real estate which is causing projected losses to increase as housing markets decline. The projected increase in nonperforming assets and loan losses will continue to negatively affect consolidated asset quality. To date, management has taken steps to increase collections and explored mitigation strategies. The extensive analysis recently developed to isolate risk exposures by FICO score, loan-to-value, and geography of the mortgage is a positive development. These efforts and further loss mitigation strategies will be necessary to lower credit risk. Management's actions to provide additional funds for loan loss reserves and the company's recognition of projected housing market declines in the reserve model are also appropriate.

MRIA – Asset Quality, Increased Stress Testing on High Risk Loan Portfolios, and Credit Risk Mitigation

To dimension the extent of potential write downs and to understand vulnerabilities, the company must periodically stress at risk portfolios and sub portfolios. The stress tests should encompass both regional concentrations and product concentrations. Once the stress tests are completed, mitigation strategies should be developed to reduce credit risk.

Earnings – 3

While the corporation was profitable in 2007, performance was below street expectations and historical norms due to significant write-downs associated with the market disruption booked in the fourth quarter. The company suffered losses of $707 million in the first quarter of 2008 and $2.7 billion in the second quarter. The second quarter loss does not include a goodwill impairment of $5.4 billion. Losses are primarily due to large provisions and there is little expectation for improvement in the near term. Budget projections show minimal net income for the remainder of 2008 and margins will be negatively affected by high funding costs related to deposit promotions. The loss for 2008 could exceed $3.0 billion which if realized will put this rating at risk of a further downgrade. Positive earnings are key to sustained capital adequacy and to instilling market confidence in the condition and management of the company.

Liquidity - 2

Consolidated liquidity is currently adequate to meet the funding needs of the corporation with available liquidity of approximately $150 billion in the form of Federal funds sold, un-pledged securities, and discount window pledged securities. Throughout the market disruption, management has opportunistically raised funds, maintained excess funds at the parent, and appropriately worked to minimize exposure to overnight funding markets. The liquidity position also continues to benefit from the corporation's large core deposit base. However, management is appropriately concerned with prolonged volatile markets and the potentially higher cost of issuing term debt. We recognize and are pleased by management's efforts to identify funding vulnerabilities and to assess available sources for meeting potential shortfalls. Nonetheless, we expect management to continue its efforts to maintain significant liquidity cushions, formalize the corporation's contingency funding plans, and to make additional improvements to its liquidity risk management processes, including ensuring sufficient management resources.

MRIA – Liquidity Management and Contingency Funding Plans (CFP)

Management must update and continually re-evaluate liquidity policies and plans. As required in our Liquidity Management target inspection letter dated June 23, 2008, management must update the corporation's CFP with an assessment of all potential funding needs and various scenarios that could negatively affect the corporation's access to both overnight and term funding. In addition, management must undertake a review of staffing in the treasury funds management group and address identified key man risk to ensure continual and appropriate management of liquidity across all key legal entities as well as on a consolidated basis.

IMPACT - 2

The likelihood that the parent or nonbank subsidiary will have a negative impact on the depository institution remains limited[4] but is increasing. The parent has acted as a source of strength to the depository institutions by raising capital funds and accessing the market for additional liquidity. Nonbank assets remain low relative to the size of the consolidated organization and nonbank activity has not required additional equity funds. The broker-dealers, the corporation's most significant nonbanks, have not required additional liquidity and are self-funded with repurchase agreements. However, the parent has experienced write-downs on its investment in an insurance subsidiary, purchased assets at a loss from a money market fund and another fund advised by a subsidiary, and provided liquidity support to another nonbank. These activities draw on parent company resources that would be otherwise available to support depository subsidiaries.

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[4] Rating 2 (Limited Likelihood of Significant Negative Impact). A rating of 2 indicates a limited likelihood that the nondepository entities of the BHC will have a significant negative impact on the subsidiary depository institution(s) due to the adequate financial condition of the nondepository entities, the satisfactory risk management practices within the parent nondepository entities, or the corporate structure of the BHC. The BHC maintains adequate capital allocation across the organization commensurate with associated risks. Intra-group exposures, including servicing agreements, are unlikely to undermine the financial condition of the subsidiary depository institution(s). Parent company cash flow is satisfactory and generally does not require excessive dividend payments from subsidiaries. The potential risks posed to the subsidiary depository institution(s) by strategic plans, the control environment, risk concentrations, or legal or reputational issues within the nondepository entities are modest and can be addressed in the normal course of business.

REQUIRED RESPONSE

At the August 2008 board of directors meeting we plan to discuss our assessment of the corporation. As discussed above, we will be presenting a Memorandum of Understanding, which the board of directors is expected to adopt with the Federal Reserve Bank of Richmond to address the MRIAs above. We will monitor progress with the items in the MOU on a quarterly basis by requiring regular submissions to ensure compliance with provisions in the agreement.

Thank you for your prompt attention to the contents of this letter. We would like to express our sincere appreciation for management's concerted efforts to fulfill the multiple information requests during these difficult times for the industry. Please note that this letter contains confidential material and should be treated accordingly by your organization. As such, the contents of this letter are subject to the rules of the Board of Governors of the Federal Reserve System regarding disclosure of confidential supervisory information[5]. If you have any questions, please feel free to contact me at (704) 358-2558.

Sincerely,

Richard F. Westerkamp, Jr.
Assistant Vice President
Central Point of Contact

cc. Joseph Neubauer, Chairman of the Audit Committee
Robert K. Steel, Chief Executive Officer
Dave Wilson OCC
Robert Burns FDIC
Nicholas Dyer, OTS

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July 27, 2008 Federal Reserve Memo

THE FEDERAL RESERVE BANK OF RICHMOND
RICHMOND ▪ BALTIMORE ▪ CHARLOTTE

Post Office Box 30248 · Charlotte, NC 28230
Office 704 · 358 · 2100 · www.richmondfed.org

INTEROFFICE MEMO

Date: September 27, 2008

To: Jennifer Burns, VP-LCBO

From: Elizabeth Gress, Senior Examiner 2, Market risk Team
John A. Beebe, Market Risk Team Leader

Subject: Wachovia Liability Structure

The following memo[1] outlines some key features of Wachovia's liability structure. It provides reference points for how their liabilities divide into major classes. This memo should be reviewed in conjunction with the Wachovia Large Funds Providers memo of the same date. Key information included in this memo include:

1. Deposit structure
2. Liability breakdown

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1. Deposit structure: According to SNL, Wachovia ($393 bn in deposits) was the third largest deposit holder in the United States as of the end of 2007, behind Bank of America ($663 bn) and JPMorgan ($440 bn). Wachovia had the fourth largest number of branches at 3,348. As of September 24, 2008, the deposit base breaks down as follows:

September 24 2008				
DDA	Sav & NOW	MM	Time	Total
$ 53,521	$ 74,785	$ 118,011	$ 133,267	$ 379,584

As of 9/24, they are reporting $26.8 bn in brokered deposits.

[1] This memo was constructed using various MIS reference reports. As a result there may be timing or data aggregation differences in some of the numbers. The differences are not significant in relation to the main themes of this memo.

Deposits by source/business line are as follows:

				Core Interest Bearing Deposits			
FDIC Sweep	AGE Sweep	Comm Sweeps	Int'l E$ Sweep	CIB	GBG	CMG	Wealth
29,832,752	22,949,731	12,773,000	7,066,000	9,302,532	254,751,870	50,673,913	11,460,425

2. The liability structure breaks down as follows:

Wachovia Liabilities Non Final Numbers: source G/L 9/24/2008		
Core Deposits		
DDA	$	53,521
Sav & NOW	$	74,785
Money Market	$	118,011
Time	$	133,267
Total Core Deposits	**$**	**379,584**
NonCore Deposits		
National Market Brokered CD	$	26,873
Foreign Deposits	$	24,365
Other	$	8,427
Total Noncore	**$**	**59,665**
Total Deposits	**$**	**439,249**
Short Term Borrowings		
Fed funds Purchased	$	15,129
Repos & Lent Securities	$	28,904
CP Paper	$	2,992
Other ST Borrowings	$	6,363
Total Short Term Borrowings	**$**	**53,946**
Trading Account Liabilities	$	86,893
Total Shorter Term Debt	**$**	**140,839**
Bank Long Term Debt		
Extendible Notes	$	5,300
CIB Borrowings	$	1,984
Senior Notes - Foreign	$	6,507
Medium Term Notes	$	35,486
Subordinated Notes	$	19,617
Total	$	68,895
FHLB Borrowings		
FHLB Borrowings	$	57,391
Corporate Long Term Debt		
Corporate Senior Notes	$	35,308
Corporate Sub Notes	$	2,007
Other Corporate Notes	$	1,250
Other Borrowings	$	17,752
Total Corporate	$	56,316
Trust Preferreds	$	58
Congress Notes (Canada affil)	$	374
Risk Mgt Derivatives	$	669
Total Long Term Debt	**$**	**183,704**
Equity		
Minority Interest	$	2,629
Equity	$	77,457
Total Equity	**$**	**80,086**
Total Liabiltities & Equity	**$**	**843,878**

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INTEROFFICE MEMO

Date: September 27, 2008

To: Jennifer Burns, VP-LCBO

From: John A. Beebe, Market Risk Team Leader

Subject: Wachovia Large Funds Providers

The following memo[1] outlines some key features of Wachovia's large funds providers, looking at the composition of these providers through various prisms to show their links with the financial system. Key systemic integration points include:

1. Fund holdings of Wachovia debt (Systemic risk-"break-the-buck")
2. Broker-dealer money markets (Systemic risk-market confidence)
3. Financial institutions

A key issue to consider under a Wachovia lead disruption is that they would more resemble a Bear Stearns or AIG case, where counterparties have not had time to reduce their exposure to Wachovia. This is unlike WaMu or even Lehman, which had long periods where investors had time to reduce exposure. Even in the latter two cases, the disruption to the liquidity markets has been severe.

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1. Fund holdings of WB liabilities represent a significant systemic risk. Based on the August 31, 2008 report, US Mutual funds hold $66.1 bn of WB's liabilities. This breaks down into the following debt types:
    a. Corporate Notes: $34.6 bn
    b. CDs: $10.1 bn
    c. Floaters: $7.5 bn
    d. Tender Option Bonds: $8.0 bn

[1] This memo was constructed using various MIS reference reports. As a result there may be timing or data aggregation differences in some of the numbers. The differences are not significant in relation to the main themes of this memo. Data for provider by Wachovia legal entity was not available.

Exposed Funds include[2]

2. US broker-dealers are also large investors in Wachovia with investments totaling $38.9 bn. The investment banking sector is already weak and exposed to low levels of confidence. Broker dealers could become even more reliant on Federal Reserve support programs, such as the PDCF, to support operations in the event of a Wachovia lead disruption. Wachovia liabilities on BD balance sheets include $23.9 bn in money markets[3], $5.7 bn in ABCP (VFCC), $4.3 bn in corp notes, and $2.0 bn in Tender option bonds.

3. Financial institution exposure to Wachovia is $15.4 bn, primarily in the form of corporate notes of $9.4 bn. Again, this is a weak sector exposed to already eroded confidence.

[2] The fund listing was done by large fund provider by name, not provider type. Other large fund providers may also have been included in the categorization, but that data wasn't readily available.
[3] The money market volume is notable in reference to WB liquidity, since it is likely to leave the company quickly should a Wachovia specific event occur.

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4. Breakdown of investors by investor type and product

WACHOVIA BANK and WACHOVIA CAPITAL MARKETS, LLC
All Products Combined
as of 08.31.2008

Stated as Combination BOOK VALUE/F

OUTSTANDING LIABILITIES
(MILLIONS)

	Low Floater	Tender Option Bonds	VFCC-CP	United Hamilton	Bank Notes	BKEL	CD	CDEL	Wachovia CP	Deposit Note	EUROS	Fed Funds (ON)	Fed Funds (Term)	Corporate Notes	MMDA	MMDEPGIC	PC	Loan Part	TDOA
Affiliate	513	(0)	-	-	20	-	503	165	-	-	344	-	-	10,102	-	-	-	1	-
Broker/Dealer(US)	364	2,012	5,663	685	622	-	1,338	26	0	1	-	-	-	4,298	23,944	-	-	-	-
Corporation/Companies(US)	1,016	100	959	60	220	-	1,915	1	3,842	-	3,214	41	-	6,800	-	2	0	-	-
Fed Govt & Agencies	1	-	-	-	-	-	1,385	-	-	-	-	12,500	250	841	-	-	-	-	-
Financial Institutions(FGN)	-	-	-	-	129	-	376	-	206	-	1,437	24	-	7,021	-	500	-	-	-
Financial Institutions(US)	1,577	236	-	-	2,477	-	642	0	-	-	9	808	225	9,388	-	-	-	-	-
Individual(US)	142	-	-	-	-	-	0	-	4	-	0	-	-	(0)	-	-	-	-	-
Mutual Funds(US)	7,481	8,043	4,121	1,255	206	-	10,108	-	250	-	16	-	-	34,607	-	-	-	-	-
Other(FGN)	96	131	1,388	-	-	-	104	(0)	11	-	871	-	-	4,121	-	-	-	-	-
Other(US)	(559)	90	-	-	4,908	30	50	159	11	-	41	-	-	12,112	-	-	-	-	-
State & Muncipalities	1	22	43	-	50	-	275	-	123	-	24	-	-	1,109	-	40	0	-	-
Trust	10	-	-	-	-	-	20	-	15	-	8	-	-	201	-	0	-	-	-
	10,639	10,633	12,175	2,000	8,631	30	16,717	352	4,462	1	5,965	13,374	475	90,600	23,944	542	0	1	-
	5.3%	5.3%	6.1%	1.0%	4.3%	0.0%	8.3%	0.2%	2.2%	0.0%	3.0%	6.7%	0.2%	45.2%	11.9%	0.3%	0.0%	0.0%	0.0%

* includes inventory and unidentified contras

Restricted- FR

September 28, 2008 Federal Reserve Memo

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: September 28, 2008

To: Board of Governors

From: Staff[1]

Subject: Considerations regarding invoking the systemic risk exception for Wachovia Bank, NA

Background

Wachovia Corporation ("Wachovia"), a financial holding company, provides commercial and retail banking services and other financial services in the United States and internationally. The company has a very large retail operation, offering households and businesses deposit and credit products. The company also provides a wide range of investment banking, private banking, and asset management services. The company is headquartered in Charlotte, North Carolina.

At the end of the second quarter, Wachovia Corp. had assets of $812 billion, making it the fourth largest banking organization in the United States in terms of assets.[2] Its main bank subsidiary is Wachovia Bank, NA, which had assets of $671 billion. Total assets of the insured depository institution subsidiaries of Wachovia Corp. are about $782 billion (about 95 percent of the holding company), with two thrift subsidiaries comprising about $105 billion. Wachovia's depository institution subsidiaries have more than 27 million deposit accounts. As of September 24, 2008, deposits of Wachovia's depository institution subsidiaries totaled $439 billion, including nearly $30 billion of foreign deposits.

[1] Monetary Affairs (Madigan, English, Nelson), Research and Statistics (Parkinson and Kwast), Banking Supervision and Regulation (Bailey, Stefansson, Wassom), Reserve Bank Operations (Marquardt, Stehm), and Legal (Alvarez, Fallon).

[2] All asset, deposit and capital data are as of June 30, 2008, unless otherwise stated. As of September 24, 2008, Wachovia Corp. had assets of $805 billion.

Wachovia reported tier 1 capital of $49 billion and tier 2 capital of $29 billion. The consolidated tier 1 capital ratio of Wachovia was 8.0 percent and the total risk-based capital ratio was 12.7 percent. The company reports a tangible net capital ratio of 5.1 percent. Wachovia Bank, NA reported tier 1 capital of $39 billion and tier 2 capital of about $23 billion, resulting in a tier 1 ratio of 7.3 percent and a total risk-based capital ratio of 11.6 percent.

Wachovia owns a very large retail-oriented broker-dealer network through Wachovia Securities and the recently acquired AG Edwards, Inc. Combined, these firms have more than 3,500 brokerage locations and employ approximately 15,000 registered representatives throughout the United States.

Recent difficulties

Over the first half of this year, Wachovia posted losses of $9.6 billion, reflecting writedowns on available-for-sale securities and high provisions for loan losses. In part the high provisions reflect losses on option ARM mortgages acquired in the 2006 purchase of Golden West Financial Corporation, a $125 billion OTS-regulated thrift holding company based in California.

Investors have become increasingly concerned about Wachovia's prospects in recent months as the outlook for home prices and mortgage credit quality has deteriorated. These concerns were reportedly reinforced last week by the FDIC's resolution of Washington Mutual, under which senior and subordinated debt holders at both the holding company and the insured depositories were not supported and face large losses. Market sentiment was bolstered for a time last week by the prospect of quick agreement and passage of legislation authorizing Treasury's Troubled Asset Relief Program (TARP). But as the legislative outlook for the TARP became uncertain late in the week, Wachovia's stock price tumbled and CDS spreads on five-year Wachovia debt surged to more than 1500 basis points on Friday. Wachovia reported that it was finding it difficult to obtain funding and was running down its liquidity reserves. It seems likely that very soon, possibly tomorrow, the firm will not be able to fund its operations.

Interdependencies

The firm is the third largest deposit holder in the United States. As of September 24, 2008, Wachovia reported $439 billion of domestic and foreign deposits including almost $12 billion from state and other political subdivisions. Total deposits include $30 billion of sweep accounts that are swept into accounts that are insured by the FDIC and $40 billion of other sweep accounts. Uninsured deposits total $183 billion, including $4 billion to foreign governments and central banks. Wachovia Bank, NA has $12.5 billion of borrowings outstanding in the Term Auction Facility (TAF) program and $57.4 billion in FHLB borrowings. Debt issued by Wachovia's depository institution subsidiaries is $68.9 billion, of which $19.6 billion is subordinated debt. The holding company has $56.3 billion of debt, of which $13 billion is subordinated debt. Commercial paper outstanding is $3 billion. Senior debt issued by the holding company is rated A1, while that of Wachovia Bank, NA is rated Aa2. Subordinated debt issued by the holding company is rated A2, and subordinated debt of Wachovia Bank, NA is Aa3.

The main financial entities exposed to Wachovia are given in table 1. Mutual funds are prominent among these counterparties; they hold $35 billion of notes among other obligations. The amount held by money market mutual funds is not clear.

In addition to being a market maker in the debt and equity markets, the firm is a large correspondent banker in Latin America and Asia. Wachovia's bank in Hong Kong is considered critically important by Hong Kong authorities. In the United States, Wachovia clears significant values over CHIPS and Fedwire and is a participant in the full range of systemically important clearing and settlement systems. Wachovia Bank, NA settles foreign exchange transactions through CLS as a third party and is a direct participant in the Fixed Income Clearing Corporation (FICC) for settling U.S. government securities, and is a settlement bank and participant in the Depository Trust Company (DTC). Its securities affiliates directly participate in FICC, DTC, NSCC and various derivatives clearing organizations. In addition, Wachovia processes the most trade-related SWIFT messages, significant ACH volumes, and as much as 30 percent of

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all checks drawn on the U.S. east coast. Thus, staff would expect some payment and settlement concerns with a Wachovia failure.

The firm's retail brokerage is the second largest in the United States in terms of client assets, with $1.12 trillion in client assets and $259 billion of assets under management. The firm's mutual fund company, Evergreen, is the 22nd largest in the US with $113 billion of fund assets.

Least-cost resolution

The FDIC has conducted a planning exercise for the failure of a bank much like Wachovia Bank, NA. The conclusion of the exercise was that the FDIC could likely resolve Wachovia Bank, NA through a least-cost resolution at zero cost to the Deposit Insurance Fund because there are sufficient uninsured obligations (including foreign deposits, senior debt, and subordinated debt) to absorb all of the bank's losses. Potential least-cost resolution options that would be available to the FDIC under the FDI Act would include a liquidation and deposit payoff. In addition, because of the substantial franchise value associated with Wachovia' businesses, there almost surely would be other least-cost resolution methods – such as an assisted acquisition after appointment of a receiver – that would satisfy the least-cost test and be less disruptive than a liquidation.

Nevertheless, given the forecasted size of the losses at Wachovia Bank, NA, it appears likely that any assisted transaction effected by the FDIC under a least-cost framework would require that the FDIC impose significant haircuts on subordinated debtholders of the bank and quite possibly senior note holders as well. In addition, absent invocation of the systemic risk exception, the FDIC is prohibited from using deposit insurance funds to benefit the senior or secured debtholders of the holding company.

Staff believes that a least-cost resolution of Wachovia Bank, NA would have significant adverse effects on financial markets. Term funding markets have been under considerable stress for more than a year, and these pressures increased greatly following the failure of Lehman Brothers, the difficulties at AIG, and the closing of WaMu. Libor rates have jumped more than 100 basis points since early September. Commercial paper rates have also risen dramatically, and the volume of financial paper outstanding has declined sharply. In both of these markets, the maturity of new issues has shortened a great deal as investors have become much less willing to lend beyond overnight. Concerns about actual and potential losses on financial institutions' obligations caused outflows from prime money market mutual funds (MMMFs) totaling nearly $400 billion over the past two weeks. Since these funds are normally substantial purchasers of commercial paper and short-term bank obligations, these outflows added to the pressures in those markets. More generally, investors appear to have become more concerned about the outlook for a number of U.S. banking organizations, putting downward pressure on their stock prices and upward pressure on their CDS spreads.

In this environment, a least-cost resolution of Wachovia Bank, NA, with no assistance provided to creditors of Wachovia and the potential for meaningful losses imposed on the debt of the bank, would almost surely have significant systemic consequences. A default by Wachovia and a partial payout to debtors of Wachovia Bank, NA would intensify liquidity pressures on other U.S. banks, which are extremely vulnerable to a loss of confidence by wholesale suppliers of funds. Investors would be concerned about direct exposures of other financial firms to Wachovia or Wachovia Bank, NA. Furthermore, the failure of Wachovia would lead investors to doubt the financial strength of other institutions that might be seen as similarly situated. Market participants are already concerned about National City Corp. Like that of Wachovia, National City's stock price fell sharply late last week, and its CDS spreads widened to levels higher than those of Wachovia. Other financial institutions that are seen as potentially weak – perhaps SunTrust or PNC– could also come under considerable pressure, particularly if the failure of Wachovia led to even greater dislocations in funding markets. Wachovia's sudden failure despite its solid regulatory capital position could also lead investors to reassess the riskiness of U.S. commercial banks more broadly, particularly given the current fragility of financial markets generally and the term funding markets for financial institutions.

In addition, if a least-cost resolution did not support foreign depositors (who are considered nondeposit, general creditors under the FDI Act), the resolution would imperil this significant source of funding for many major U.S. financial institutions.[3] More generally, given Wachovia's international presence, global liquidity pressures could increase and confidence in the dollar could decline. Moreover, losses on Wachovia and Wachovia Bank, NA paper could lead more money market mutual funds to "break the buck," accelerating runs on those and other money funds. The resulting liquidations of fund assets along with the further loss of confidence in financial institutions might well lead short-term funding markets to virtually shut down. Moreover, the individuals and businesses whose deposits have been swept into non-deposit investments or foreign deposits (e.g., at a Cayman branch) would find all or part of their funds unavailable and likely face losses. In the current environment, such an event could well shake the public confidence in bank deposits. All of these effects would likely cause investors to raise sharply their assessment of the risks of investing in similar (albeit smaller) regional banks, making it much less likely that those institutions would be able to raise capital and other funding.

Staff believes the consequences of a least-cost resolution would extend to the broader economy. The worsening of the financial turmoil that would result from a least-cost resolution of Wachovia Bank, NA would further undermine business and household confidence. In addition, with the liquidity of banking organizations further reduced and their funding costs increased, banking organizations would become even less willing to lend to businesses and households. These effects would contribute to weaker economic performance, higher unemployment, and reduced wealth, in each case materially.

Benefits and costs of using the systemic risk exception

If the systemic risk exception were invoked, staff believes that a resolution method could be designed that would avoid all or most of the adverse impacts discussed above. In particular, if all uninsured creditors of the insured depositories were fully

[3] Citibank, NA, for example, reported having approximately $478.8 billion in deposits in its foreign offices (including deposits held through Edge and Agreement corporations and international banking facilities).

protected and similar protections were provided to holding company creditors, the adverse effects would be mitigated substantially. While extending the protection only to senior creditors would presumably have some beneficial effect, allowing material losses on the subordinated debt of the bank or the holding company could still result in significant adverse effects in financial markets.

Use of the systemic risk exception, however, would involve some perhaps substantial costs.[4] The FDIC would suffer some direct losses from its protection of uninsured creditors at both the bank and, if desired, the holding company level. The size of these losses is unknown at this time, as is the potential impact of such losses on the FDIC's resources. In addition, moral hazard would be exacerbated and the potential for market discipline in the future reduced for the very largest depository institutions, especially if all holding company creditors were protected. Finally, if the systemic risk exception is invoked and used, the FDIC must "expeditiously" recover any losses incurred as a result of the use of the exception through one or more special assessments on insured depository institutions. Unlike normal deposit insurance assessments, these special assessments would be allocated across institutions based on average total assets (rather than deposits) and, thus, would hit larger banks proportionally harder than smaller depository institutions.

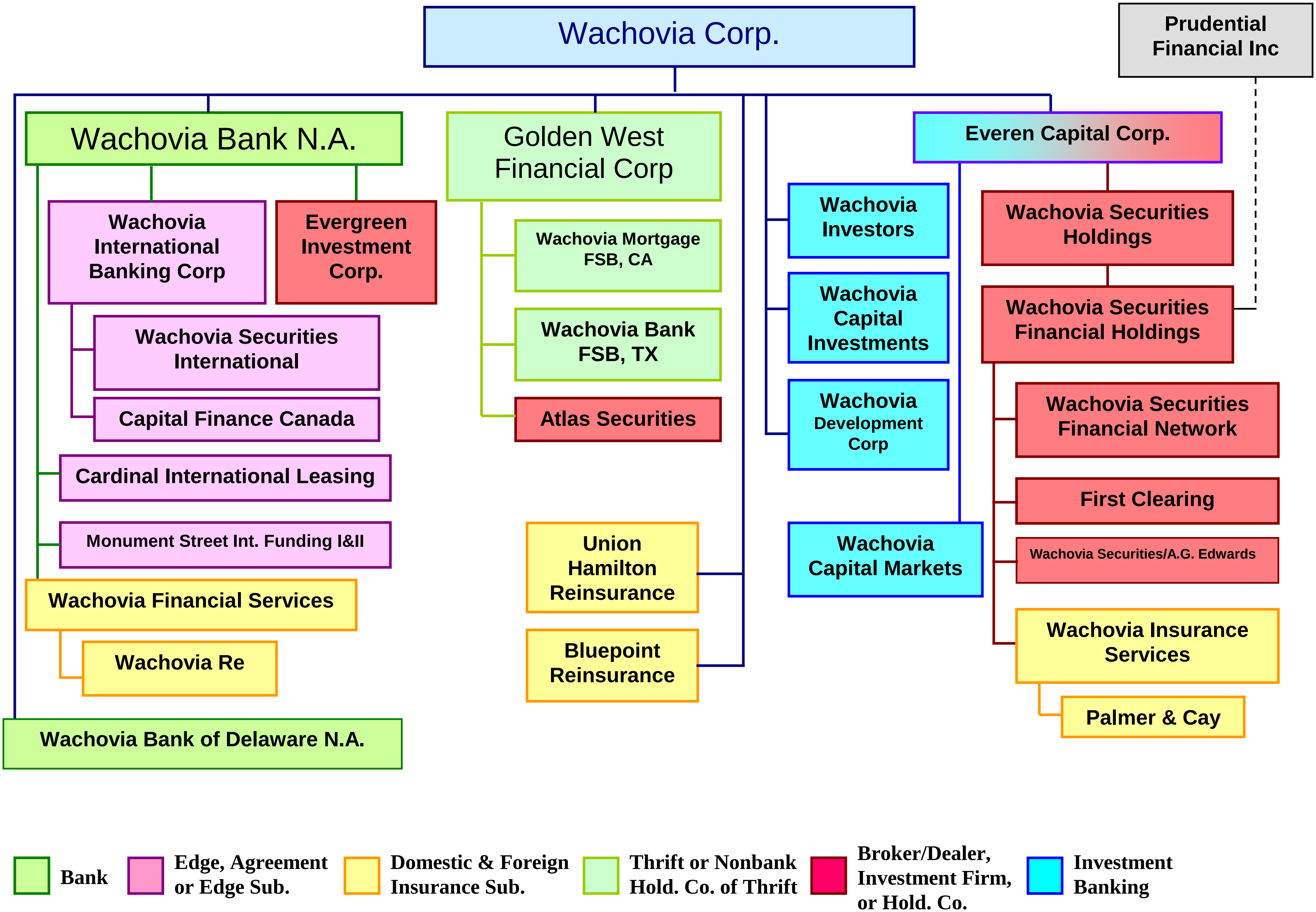
Conclusion

Staff believes that imposition of a least-cost resolution on Wachovia would almost surely have major systemic effects. Both financial stability and overall economic conditions would likely be adversely affected for the reasons discussed above. A non-least-cost resolution that protects all depository institution and holding company creditors would best ameliorate the adverse effects of the failure on financial markets and the real economy. At a minimum, senior creditors of the depository institutions and the bank holding company should be protected.

In creating the systemic risk exception, the Congress clearly envisioned that circumstances could arise in which the exception should be used. In view of the current intense financial strains which have already seriously impaired the functioning of the financial system, and the likely consequences for the financial system and the economy of a least-cost resolution of the fourth-largest commercial bank in the United States, the staff believes that circumstances such as the Congress envisioned are clearly present and that invocation of the systemic risk exception can readily be justified.

[4] Invoking the systemic risk exception does not lift the guidelines on discount window lending to troubled institutions established by the Federal Deposit Insurance Company Act (1991).

Restricted Controlled (FR)



August 4, 2008 OCC Letter and Exam

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THIS REPORT OF EXAMINATION IS STRICTLY CONFIDENTIAL

This Report of Examination is the property of the OCC, and its contents are strictly confidential. Unauthorized disclosure of the contents of this report, including component and composite ratings, is generally prohibited. However, when necessary or appropriate for bank business purposes, a national bank is allowed to disclose the Report of Examination to a person or organization officially connected with the bank as officer, director, employee, attorney, auditor, or independent auditor. Disclosure may also be made to the bank's holding company and, under certain conditions, to a consultant employed by the bank. These exceptions to the general prohibition on disclosure are described in OCC regulations, 12 CFR 4.37(b)(2). Any other disclosure of the Report of Examination or its contents without the OCC's prior approval is a violation of 12 CFR 4.37(b) and subject to criminal penalties in 18 USC 641 for conversion of U.S. Government property.

The information contained in this report is based on the books and records of the bank, on statements made to the examiner by directors, officers, and employees, and on information obtained from other sources believed to be reliable and presumed by the examiner to be correct. It is emphasized that this Report of Examination is not an audit of the bank and should not be construed as such. This examination does not relieve the directors of their responsibility for performing or providing for adequate audits of the bank.

Each director, in keeping with his or her responsibilities both to depositors and to shareholders, should thoroughly review this report. Subsequent to this review, the directors should sign the form attached to this report. If the Board is not in substantial agreement with the contents and conclusions of this report, a request should be made promptly for a conference between selected members of the Board and officers of the bank and representatives of the deputy comptroller to review these matters.

Name of Bank:	Wachovia Bank, N.A.
City, State:	Charlotte, North Carolina
Charter No:	1
Exam Cycle Ending:	June 30, 2008

All correspondence should be addressed to David K. Wilson, National Bank Examiner, Two Wachovia T16/NC0100, 301 S. Tryon St., Charlotte, NC 28288, with a copy to Michael L. Brosnan, Deputy Comptroller, Large Bank Supervision, Comptroller of the Currency, 250 E Street, S.W., Mail Stop 6-1, Washington, D.C., 20219.

Comptroller of the Currency
Administrator of National Banks

National Bank Examiners
Two Wachovia Center, 16th Floor/NC0100
301 South Tryon Street
Charlotte, North Carolina 28288-0100

August 4, 2008

Board of Directors
Wachovia Bank, N.A.
301 South College Street
40th Floor, Suite 4000
Charlotte, NC 28202-0005

Dear Board Members:

This Report of Examination (Report) summarizes conclusions reached by the OCC's examination staff from supervisory activities conducted for the Wachovia Corporation's lead national bank charter, Wachovia Bank, National Association (Wachovia). The time period covers July 1, 2007 through June 30, 2008, with financial information as of June 30, 2008. It also covers our CAMELS/ETCC ratings and Risk Assessments. During the past year, we conducted 36 examinations of specific bank activities and processes, with conclusions and recommendations communicated to management in individual Supervisory Letters. We also performed discovery work and ongoing supervision related to various lines of business and processes. While these activities did not result in Supervisory Letters, they influenced our overall conclusions and will assist us in appropriately targeting areas for future work.

In addition to this Report, we prepared separate Reports for the company's three other national bank charters (Wachovia Bank of Delaware, National Association; Delaware Trust Company, National Association; and Wachovia Card Services, National Association.) These legal entities facilitate general banking, trust activities, and credit card lending. Our assessments of these activities are contained in those Reports, and they influence certain ratings for the lead bank as some supporting activities are conducted from the lead charter. This Report contains conclusions with regard to our overall Risk Assessment and extends to findings related to company-wide processes that support activities in all charters.

The overall condition of Wachovia has deteriorated during the past year. As a result of the significant deterioration in the residential real estate and commercial real estate portfolios and the continuing market disruption, Wachovia's earnings, present and future, have been severely impacted. Financial markets remain unstable, and credit losses are expected to increase substantially over the next year. In addition, recent regulatory and legal matters have also become public, which have further tarnished Wachovia's brand name and reputation and have highlighted weaknesses in Wachovia's Board oversight and management of risk.

As a result of the deteriorating condition of the bank, the overall composite rating for Wachovia Bank, N.A. has been downgraded to a "3." Management, Asset Quality, and Earnings are all rated "3" with Capital, Liquidity, and Sensitivity to Market Risk remaining "2" at this time. While the bank remains "well-capitalized" for Prompt Corrective Action purposes, asset quality deterioration and significant operating losses have put a strain on the bank's capital levels. Similarly, while the bank remains liquid, potential funding sources have become more restricted. Given market and bank volatility, the earnings, capital, and liquidity ratings continue to be evaluated and could be downgraded if further financial deterioration occurs. Additional details concerning the CAMELS ratings are provided in the ***Ratings*** section of this Report.

Because of the downgrade to a composite "3," we expect Wachovia's Board of Directors to enter into a Memorandum of Understanding with the OCC. Additionally, as will be explained in a forthcoming letter, since the bank is subject to the limitations on controlling or holding an interest in financial subsidiaries set forth in 12 U.S.C. § 24a and 12 C.F.R. § 5.39, its composite and management "3" ratings will require that the bank enter into an agreement with the OCC pursuant to 12 U.S.C. § 24a(e)(2 and 3) and 12 C.F.R. §§ 5.39(j)(1)(ii) and (iii).

Many of Wachovia's recent difficulties have stemmed from questionable strategic decisions and incomplete due diligence activities. In addition, the Board and management sometimes did not proactively respond to changing market and business conditions. This has led to high risk in several areas of the bank including the legacy Golden West portfolio, the residential commercial real estate portfolio, certain parts of Corporate and Investment Banking (CIB), and certain activities in Treasury and Balance Sheet Management. Wachovia lacked an atmosphere of credible challenge when the Golden West acquisition took place. When evaluating strategic decisions or new initiatives, the Board and management need to ensure that each initiative receives a thorough vetting and is adequately challenged to ensure that all risks are identified, evaluated, and addressed. In addition, the Board needs to clearly define the company's strategic direction and the Board's overall risk appetite. Appropriate policies, procedures and practices should be in place to provide clear guidance regarding acceptable risk exposure levels, and strategic decisions should be consistent with achieving this desired risk profile.

It is also incumbent upon the Board to ensure executive management builds a strong management structure that promotes a corporate culture that is balanced and transparent, instills discipline and accountability, and emphasizes strong risk management practices. Management of risk throughout Wachovia continues to be one of our top supervisory concerns. The market disruption, concerns identified during recent examinations, and several of the regulatory issues being investigated have highlighted the need for Wachovia to strengthen the identification, escalation, prioritization, and management of risk. This includes enhancing a business culture that promotes accountability and clearly establishes a risk framework where the line of business owns and manages the risk with the Risk Management Unit having clear authority and responsibility to approve, disapprove, or escalate risk. Disagreements between line of business management and risk management should be escalated to the Chief Risk Officer.

The significant deterioration in the legacy Golden West portfolio, and its associated Other Real Estate Owned, is the primary reason for the decline in overall asset quality for Wachovia. The commercial residential building portfolio and general weaknesses across all of the portfolios have, to a lesser extent, also contributed to the deterioration. Loan losses and nonperforming assets (NPAs) have reached levels that are of concern. The rate of increase is rapid, and there are no signs of stabilization. Management in the near term needs to continue to focus on credit risk reduction and, on a longer term basis, improving credit risk aggregation and portfolio risk governance.

With the continuing deterioration of Wachovia, management has enacted its Liquidity Crisis Management plan and is taking steps to build liquidity to meet potential stress events. Because of the heightened sensitivity of the market to Wachovia's financial condition, more formal liquidity and capital planning processes are needed. These programs are critical to ensure that Wachovia is proactive in addressing potential events which could impact its' viability.

Recently, the Board acknowledged many of these weaknesses, and has taken a more active oversight role at Wachovia. The Board hired a new CEO on July 9, 2008; contracted with an outside consulting firm to assist in an evaluation of Wachovia's risk management practices, culture, and corporate governance structure; tightened underwriting and eliminated the negative amortization feature for the Pick-a-Pay product; and commenced actions to generate, protect, and preserve capital. These actions, as well as, recent actions taken to hold people accountable represent positive steps toward improving Wachovia's overall condition. Further details about the corporate oversight/management of risk, credit risk, and liquidity and capital planning issues are discussed in the ***Matters Requiring Attention*** (MRA) section of this Report. The Board needs to ensure that these issues receive appropriate attention and actions taken to fully address them are clearly outlined in the response to this Report.

Regulatory and legal matters continue to also negatively impact Wachovia's reputation in the market. On April 24, 2008, Wachovia Bank, N.A., through its Board, entered into a Formal Agreement (Agreement) with the OCC to improve internal controls and risk management systems related to the bank's acceptance of remotely created checks (RCC's). This includes provisions for consumer education, and further requires the bank to reimburse consumers harmed by the bank's relationships with certain telemarketers and third-party payment processors that used RCC's. To date, Wachovia is making progress in complying with this Agreement, and management has provided all required submissions in a timely manner. The OCC plans to evaluate this information for its sufficiency and quality during a targeted examination scheduled to commence August 4, 2008. Further detail addressing Wachovia's compliance with this Agreement is provided in the ***Appendix*** of this Report. In addition to this regulatory matter, Wachovia continues to be subject to other legal and regulatory investigations that may expose the bank to additional reputation risk, compliance risk, civil money penalties, and possible criminal/civil litigation. These include the municipal bid rigging matter, Auction Rate Securities issues, and Anti-Money Laundering (AML) concerns related to Wachovia's former relationships with certain *casas de cambio*.

In addition to the items highlighted above, we have supervisory concerns in several other areas. These include Basel II implementation, Bank Secrecy Act (BSA)/AML activities, IT Risk Remediation, and the use of Spreadsheets and End-User Computing Tools. Management continues to be responsive to these issues, and action plans are either in place or in process of being developed to address our concerns. Details about these are provided in the ***Other Supervisory Concerns*** section of the Report.

In addition to the CAMELS rating changes, the overall risk profile of Wachovia has now increased to "High". Strategic, Reputation, Credit, Liquidity, Price, Transaction and BSA/AML risks are all considered "High", while the remaining risks (IRR and Compliance Risks) remain "Moderate" and Foreign Currency Exchange risk remains "Low." These risk ratings are designed to provide a forward-looking view of the institution's risk profile. A detailed listing of the bank's Risk Assessment ratings, along with a description of recent changes, is located in the ***Risk Assessment Summary*** section of this Report. We continue to closely monitor all of these risk categories for additional changes.

We extend our thanks to management and staff for their openness and ongoing cooperation. We welcome your questions and comments regarding this Report and other supervisory communications. Please provide a written response by September 30, 2008 to this Report that confirms Board and management's commitment and action plan for addressing the Matters Requiring Attention.

Sincerely,

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David K. Wilson
Examiner-In-Charge
Large Bank Supervision

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Michael L. Brosnan
Deputy Comptroller
Large Bank Supervision

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APPENDIX

MATTERS REQUIRING ATTENTION (MRA)

Corporate Oversight/Management of Risk

Concerns identified during recent examinations, market disruption events and regulatory investigations have highlighted the need for greater oversight and direction from the Board as well as improved risk management across Wachovia. Many of Wachovia's problems in the past year have resulted from questionable strategic decisions including the acquisition of Golden West, the expansion of risk within the Bank Owned Life Insurance (BOLI) portfolio, and the banking of questionable telemarketer related entities. These decisions were not thoroughly vetted to identify and evaluate present and future risk prior to their approval. In addition, the Board and management have been slow to react to changing market and business conditions. Underwriting and default management deficiencies within the legacy Golden West portfolio were not addressed in a timely manner until they manifested themselves in increasing problem assets. This resulted in an even higher risk profile for Wachovia. Going forward, the Board and management need to be more proactive in their oversight of risk. The Board also needs to clearly define the company's strategic direction and the Board's overall desired risk profile.

Wachovia's present risk culture and decentralized approach lends itself to an environment with inconsistent identification, escalation, prioritization, and management of risk. Wachovia needs a strong risk culture that enforces strong accountability and ensures management makes all risk-taking activities transparent to appropriate risk and control partners. Risks should be comprehensively analyzed and escalated appropriately. In addition, management of risk should be conducted at the line of business level, and the Risk Management unit should have clear authority and responsibility to approve, disapprove, or escalate risk.

Treasury and Balance Sheet Management is a specific area that needs a robust risk management function. Additional details are provided elsewhere in this report.

In response to the continuing deterioration in the bank, management has recently implemented its Liquidity Crisis Management plan and is taking steps to build liquidity to meet potential stress events. Because of the heightened sensitivity of the market to Wachovia's financial condition, these programs are critical to ensure that Wachovia is proactive in addressing potential events which could impact the bank's viability. The Board needs to ensure that management continues its course to refine and formalize these plans as well as provide regular updates to the Board. We discussed needed enhancements in the Liquidity section below.

In summary, the following actions are needed:

- Develop a clearly defined strategic plan;
- Develop a clear, well-defined desired risk profile with clear risk tolerance levels;
- Develop a formal action plan to address how you will achieve the desired risk profile;
- Develop a uniform process for thoroughly vetting strategic decisions;
- Define clear roles and responsibilities for line of business management and Risk Management personnel that promotes accountability;
- Adopt a consistent process for identifying, prioritizing, and escalating risk issues;

- Enhance risk reporting to ensure it quantitatively measures and monitors risks so risks can be meaningfully aggregated at the corporate level;
- Institute a robust Treasury Risk Management function;
- Continue to enhance formal liquidity management processes; and
- Formalize stress testing processes for capital.

Credit Risk

Management in the near term needs to continue to focus on proactively seeking opportunities to reduce credit risk. Problematic strategic decisions in the past have put management in a tenuous situation – its immediate missions are to timely identify problem assets and improve asset quality in a poor economic and illiquid environment. To this end, we acknowledge that management is taking action by tightening underwriting standards, standardizing qualification and documentation requirements for residential loan workouts, and investigating alternatives to sell or not renew loans. Management should place particular emphasis on loans over the established household level limit. Specifically, management should:

- Develop aggregate reporting that tracks this risk reduction and establishes goals and asset quality targets for the short (6 months) and intermediate term (12-24 months).
- Continue and accelerate actions to meet the above targets, including:
  - Working with troubled residential real estate borrowers while also adhering to safe and sound banking practices that include timely and proper recognition of nonaccruals, Troubled Debt Restructurings, and losses; and
  - Proactively reducing long-term risk via refinances of Pick-a-Pay mortgages into amortizing product using proprietary or government-sponsored programs and/or asset sales.
- Develop improved credit risk aggregation and portfolio governance processes and more clearly establish tools to enforce credit risk tolerances across the corporation, including:
  - Formalizing warehouse/pipeline risk limits relative to capital or earnings at risk;
  - Coordinating hedges across business areas;
  - Increasing servicing and collection efforts; and
  - Adhering to house limit hold levels.

OTHER SUPERVISORY CONCERNS

In addition to the concerns highlighted above, we also have supervisory concerns in the following areas:

Basel II Implementation **-** The overall Basel program remains “deficient” (red status) with various work streams either behind schedule or lacking approved integrated work plans. Retail modeling remains behind schedule, and management needs to build more models than they previously anticipated. The Risk Data Strategy (RDS) has missed target completion dates, and Regulatory Capital Calculations and Reporting has key dependencies on projects which are behind schedule.

The recently completed Horizontal IRB Review indicates that the bank’s progress toward Basel compliance lags its peers with respect to the Retail work stream. While the bank’s progress is also slow in some areas of Wholesale, most of the other mandatory banks are also experiencing similar difficulties regarding Basel compliance. Wachovia continues to make progress in the Basel AMA areas. However, management is actively developing and implementing changes to incorporate a consistent methodology for the identification, reporting, and aggregation of Business Environment Internal Control Factors (BEICF), as well as enhanced operational risk reporting and a “new” capital model that includes multiple units of measure.

Currently, the Basel Project Management Office (PMO) is coordinating efforts around the creation, review, and approval of the Regulatory Plan, which must be approved by the Board of Directors by October 1, 2008. The plan will include objective, measurable milestones, and will describe the resources that the bank has budgeted and that are available to implement the plan. Management’s present timeline calls for the start of parallel run on October 1, 2009. Basel II Final Rule requires mandatory banks to start their parallel run no later than April 1, 2010, to ensure that they commence a first floor period start date by April 1, 2011. The Basel program’s history is one of not meeting target dates. This is a source of concern as the bank’s current schedule leaves limited cushion for additional slippage in key projects.

BSA/AML – The Wachovia BSA/AML compliance program satisfies regulatory requirements prescribed in 12 CFR 21.21; however, certain aspects of the program need further attention. These areas include CIB AML processes and the need to complete the Currency Transaction Report back-filing project. We continue to review Wachovia’s activities related to certain *casas de cambio*. Although Wachovia exited the foreign currency exchange business, an investigation is underway for potential money laundering activities and the OCC has started an examination to review related controls and monitoring processes. We will continue to review other aspects of the BSA/AML program including the oversight changes that are underway in terms of the reporting structure, management, and risk assessment for BSA/AML activities.

IT Risk Remediation **-** While IT risk remains high, management continues to make good progress in addressing the various IT Risk Remediation projects for access control deficiencies, data center proximity risk (DCPR), and vendor management. Management is in the process of resolving risk exposures for developer's access to distributed production servers, and is executing Phase II of the DCPR strategy. This includes application analysis, build-out of the third data center, and testing of scenarios and critically bound applications. Remediation efforts for both access and DCPR are expected to extend into the fourth quarter of 2009.

The Global Supplier Management & Outsourcing/Offshoring (GSMO) Group continues to strengthen governance and internal controls over the vendor management program. These efforts are expected to continue throughout 2008. GSMO has developed a risk-based vendor management program leveraging off Wachovia's Operational Risk process. Enterprise-wide vendor management will remain a vulnerable function until all aspects of the governance and internal controls structure are in place and vendor managers are fully trained.

Spreadsheets and End-User Computing Tools (EUCTs) – During late 2006, we identified the need for an integrated and effective enterprise-wide governance plan to identify use of spreadsheets and EUCTs activity. Since that time, management has developed a Draft Enterprise Spreadsheet Governance Rollout Plan. Management has determined the highest risk areas, and plans to roll out a solution to those higher risk areas in 2008. These areas include Treasury and Planning, and Corporate Accounting and Reporting. CIB continues with its roll out of the Prodiance tool and has made good progress on implementation. The OCC will continue to monitor the CIB and Enterprise-wide solutions for controlling spreadsheet risk.

RATINGS*

	Exam Date June 30, 2008	Prior Exam June 30, 2007	Prior Exam June 30, 2006
Composite Uniform Financial Institution Rating	3	2	2
Component Ratings:			
Capital	2	2	2
Asset Quality	3	2	2
Management	3	2	2
Earnings	3	2	2
Liquidity – Asset/Liability Management	2	1	1
Sensitivity to Market Risk	2	2	2
Uniform Rating System for Information Technology	2	2	2
Composite Uniform Interagency Trust Rating	2	2	2
Uniform Interagency Consumer Compliance Rating	2	2	2
Community Reinvestment Act Rating	Outstanding	Outstanding	Outstanding

***Refer to the OCC Bank Supervision Process Handbook issued September 2007 for a description of the CAMELS and Specialty Ratings.**

Composite Rating – 3

The overall condition of Wachovia Bank, N.A. has deteriorated and exhibits weaknesses in Management, Asset Quality, and Earnings that are of supervisory concern. The overall composite ("CAMELS") rating is a "3" under the FFIEC Uniform Financial Institutions Rating System,[1] and the overall risk profile is "High." Management of risk throughout Wachovia needs improvement, and the Board and management have been slow to react to risks that have arisen from changing market and business conditions. Asset quality is less than satisfactory, and credit risk is high as a result of continued deterioration over the last 12 months. Earnings are poor, and the trend has been negative. The bank's capital ratios are acceptable at this time. However, Wachovia now has limited options for raising capital, if needed. While liquidity levels remain sufficient, liquidity risk is "High" as funding pressures have persisted and are likely to increase as a result of the on-going market disruption and investor concern. Wachovia's sensitivity to market risk remains acceptable.

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[1] A 3 rating indicates some supervisory concern(s) in one or more of the component areas. The concern(s) may range from moderate to severe; however, the magnitude of the deficiencies generally will not cause a component to be rated more severely than 4. Management may lack the ability or willingness to effectively address weaknesses within appropriate time frames. Banks in this group generally are less capable of withstanding business fluctuations and are more vulnerable to outside influences than those institutions rated a composite 1 or 2. Also, significant noncompliance with laws and regulations may exist. Risk management practices may be less than satisfactory relative to the bank's size, complexity, and risk profile. These banks require more than normal supervision, which may include formal or informal enforcement actions. Failure appears unlikely, however, given the overall strength and financial capacity of these banks.

Capital Rating – 2
At this time, capital is rated a "2," and the bank is within the "well-capitalized" level for Prompt Corrective Action (PCA) purposes. Wachovia's capital levels are projected to remain adequate through year-end 2008 and into 2009. However, the financial condition of the bank has deteriorated and it is difficult to determine when the main driver of poor earnings, the bank's residential credit portfolio, will stabilize. If financial deterioration continues and other capital preservation efforts are not successful, the capital rating will likely be downgraded during the third quarter. Options to raise capital are more limited because they would likely be highly expensive and/or dilutive, and investors may have less of an appetite for more Wachovia debt or equity. In an effort to preserve capital, the Board further cut dividends in July 2008, to $0.05 per share which will save approximately $700 million in capital per quarter. Other major venues to maintain capital ratios include reducing expenses, deferring capital consuming initiatives, restricting asset growth, or selling assets. Management is estimating that these strategies will benefit Tier 1 capital by more than $5 billion by year-end 2009. In the past two months, management approved a plan to reduce total risk-weighted assets and balance sheet usage by $20 billion by year-end 2008. Project Stanley was recently implemented to address capital. Formal reporting to the Board on this project is needed. We also continue to closely monitor projected earnings and credit loss levels and have asked management to submit a more formal capital projection with appropriate stress scenarios.

Although capital levels declined in 2007 and first quarter 2008 due to asset write-downs and credit losses, Wachovia Corporation bolstered capital levels by issuing $15 billion in Tier 1 eligible instruments since December 2007. Wachovia Corporation's Total capital and Tier 1 capital at June 30, 2008 were approximately 12.9% and 8%, respectively. Bank Tier 1 capital stands at 7.2%, leverage capital at 6.26%, and Total Capital at 11.46%. Wachovia's capital levels were projected to deteriorate through year-end 2008 and into 2009; however, the company further cut the dividend in conjunction with the 2Q earnings announcement, which should improve projected ratios.

The Board needs to ensure that a formal stress testing process is implemented to identify potential drains on capital levels and the avenues available to address these concerns. Although capital models are updated monthly based on balance sheet forecasts, management has not prepared ongoing stress scenarios to determine risk to capital levels if the corporate forecast is not realized. Stress scenarios should include unexpected growth in assets and off-balance sheet contingencies as well as decreased earnings. This analysis should also contain trigger levels for additional capital issuance, cutting common dividends, and stopping or slowing asset growth.

Asset Quality Rating – 3
Asset quality is less than satisfactory and rated "3". This represents a downgrade from the previous "2" rating. Asset quality measures deteriorated significantly over the last 12 months and credit risk continues to increase. Aggregate credit risk is "High," with the quantity of risk rated "High" and the quality of risk management rated "Satisfactory," although weakness exist in the risk management function. The direction of risk remains increasing. The aggregate and quantity of risk ratings represent downgrades from the previous "Moderate" level rating.

All asset quality metrics continue to worsen as they are coming off the pristine levels of recent years. Continued deterioration is most evident in consumer mortgages, residential builders and indirect autos, with other portfolios showing milder weakness. While current lagging indicators appear manageable, losses, delinquencies and criticized assets are projected to reach levels that are concerning. Quarterly loan losses have gone from 0.14% as of June 30, 2007 to 1.1% as of June 30, 2008. Based upon preliminary numbers, Criticized and Classified asset commitments for the bank now represent approximately 49% and 33% of Tier 1 capital plus the ALLL. NPAs also show clear increasing trends since year-end 2006. They have gone from 0.18% as of year-end 2006 to 2.44% as of June 30, 2008. NPAs are forecast to increase into 2009 and are currently projected to exceed 4% at that time.

The level of the ALLL is adequate at this time. Management appropriately increased the ALLL from 1.04% as of June 30, 2007 to 2.24% as of June 30, 2008, given the increasing portfolio risk. We will conduct a detailed review of the ALLL level and the effectiveness of the methodology in the current stressed environment starting in August 2008. Management has already made changes in the retail loss modeling in an attempt to better capture inherent risks in the legacy Golden West portfolio. Management needs to maintain a conservative approach when establishing the ALLL level given continued deterioration and difficulty in forecasting defaults and loss severities.

Three related factors have caused a dramatic worsening in asset quality. First, the significant decline in the consumer housing markets caused losses in the Pick-a-Pay portfolio and residential building related commercial portfolio. Second, the 2007 credit market disruption caused significant market losses as assets (leveraged loan/CMBS warehouses, subprime securities, etc.) were written down. This disruption also required the bank to add several assets to the balance sheet that were originally intended for distribution or off-balance sheet vehicles. Lastly, the general economic slowdown has caused a milder deterioration across virtually all other loan portfolios.

Retail Credit

The general issues described above have had a greater negative impact on the retail portfolio. Retail asset quality is less than satisfactory, has deteriorated substantially in the past year, and has shown no signs of stabilization. Aggregate retail credit risk is “High” as compared to “Moderate” one year ago.

In the past year, total consumer NPAs have increased from $1.7 billion or .66% of total consumer loans at June 30, 2007 to $8.5 billion or 3.11% at June 30, 2008. Quarterly consumer loan losses similarly increased from $122 million or 0.29% of total consumer loans for the second quarter of 2007 to $854 million or 1.26% for the second quarter of 2008. Consumer NPAs and loan losses are forecast to further increase well into 2009.

The legacy Golden West’s Pick-a-Pay portfolio (and its associated Other Real Estate Owned) is Wachovia’s largest class of distressed assets. It constitutes a highly disproportionate share of consumer NPAs and loan losses. This portfolio, which is concentrated heavily in the distressed California and Florida markets, has deteriorated much more rapidly than projected. As a result, management is frequently revising its projected credit loss and NPAs levels upward and very large provisions are being made to cover these losses. For the first six months of 2008, Golden West net charge-offs were $748 million compared to only $5.7 million for the same prior-year period. As of June 30, 2008, Golden West NPAs were $7.1 billion compared to only $1.2 billion a year earlier. Latest projections indicate that Golden West NPAs will likely be at least $12 billion, or 10% of the portfolio by year-end 2008. The Bank holds about 46% of the legacy Golden West portfolio on its books, and the Bank's portfolio represents about 50% of the NPAs and losses. Many of these loans had sub-prime characteristics with FICO scores below the industry accepted sub-prime level of 620. In addition, low documentation loans were not properly controlled. These practices were at odds with the largely conservative practices of legacy Wachovia, but management did not address them until it was obvious that the Golden West portfolio was highly problematic.

As discussed earlier, the corporate organization lacked an atmosphere of credible challenge when the Golden West acquisition took place and shortly thereafter. By necessity, this credible challenge aspect is now present. Consumer risk management is now taking the lead in making residential real estate loss mitigation programs uniform across the company. Risk management has also tightened underwriting practices across the mortgage portfolio including the Pick-a-Pay products. Similarly, management was conservative when they began treating some skip-a-pay credits as nonaccrual loans. We support this treatment until greater controls and transparency is implemented around this process. All of these actions are considered as positive steps to improve the quality of the residential real estate portfolio. Please refer to the Asset Quality MRA for detail on actions that management should continue to stress.

The indirect auto portfolio is of secondary concern. Wachovia acquired this portfolio in 2006 from Westcorp. While the business is profitable and coincident indicators are within industry norms, the portfolio is showing signs of deterioration. Full year 2008 losses are projected to be $660 million, or 2.6% of outstandings with many being sub-prime customers. Production of new loans has exceeded expectations for much of 2008, which is contrary to industry trends. Our concern is that management has not integrated the indirect business into the corporate risk structure. All other retail credit businesses have a separate risk function outside of the lines of business that report up to Chief Consumer Risk Officer Nole. However, the indirect operation was permitted to keep the legacy structure of Westcorp where the risk function is imbedded in the line of business. As part of the outside consultant's review of overall risk management, they should address whether this risk management structure is a sound method to control risk.

Commercial Credit

Commercial credit quality remains satisfactory. Clear weaknesses are present in the residential building related portfolio within Real Estate Finance (REFs), but the remaining portfolios show a milder deterioration. The general bank and investment bank portfolio asset quality levels, excluding housing related REFs, are returning to historical norms and remain manageable at this time. Despite current satisfactory performance, large potential risks to asset quality exist in the income-producing commercial real estate and leveraged loan portfolios. These incremental risks combined with existing consumer and residential building weakness would severely stress capital and earnings. Management is taking actions to mitigate this risk by continuing to sell leveraged loan exposures and conducting an in-depth review of the commercial real estate portfolio.

As noted above, management needs to continue to focus on credit risk aggregation and portfolio governance processes across the corporation. As an example, household level exceptions consistently showed an increasing trend over the last 2 years and warehouse/pipeline risk limits were not always formalized or measured relative to capital or earnings at risk. Also, hedging activities provided mixed risk mitigation because they occur in a number of areas and were not always well-correlated to specific risks. Management also needs to continue to focus on risk rating accuracy and the need for heightened servicing. These are critical for accurate and timely risk identification.

As noted above, commercial credit weakness is centered in residential building related borrowers. The dramatic slow down and price reductions in consumer housing is causing rapid deterioration in this $12 billion portfolio. Our examination of this area in first quarter 2008 and the recent shared national credit examination confirmed continued significant deterioration in these credits, which are difficult to workout. Over 34% of this portfolio was criticized as of April 2008. NPAs have increased above 11% and losses are projected to exceed 2.5% in 2008.

The market disruption caused management to keep or bring approximately $25 billion in assets with credit risk onto its books. These assets were from off-balance sheet structures (Atlas, VFCC) or from areas that historically originated assets for distribution (leveraged lending, CMBS, structured products). At this time, credit risk in these assets is satisfactory, and returns are generally good since most assets were booked at a discounted value. However, some assets that were transferred from available for sale (AFS) to held for investment, especially in the "opportunistic portfolio", are showing continued stress with approximately $460 million in temporary impairments.

Management reduced exposures to AFS assets in various real estate warehouses and leveraged loan mandated commitments. These exposures are now less than $6 billion from a high of approximately $33 billion in June 2007. The significant write-downs taken on these assets were generally a result of the market's perception of the risk/return rather than deterioration in the underlying fundamentals of the company. Hedging activities off-set some of these losses but were not always correlated well. Underwriting on these assets was weak which presents a potential future asset quality issue if the economy continues to slow. Many of these credits were underwritten based on aggressive growth projections and hold levels now significantly exceed house limits.

Lastly, the bank's potential "indirect" exposure to monoline insurers warrants continued monitoring. Management is working on methodologies to attempt to quantify this potential exposure. As a result of this work, management has established reserves which we will review in more detail at our upcoming counterparty credit examination.

Management Rating – 3

Recent market events as well as legal and regulatory issues have raised concerns with the quality and effectiveness of Wachovia's management team, as well as Board oversight. As a result, management is being downgraded from a "2" rating to a "3" rating. Corporate oversight and management of risk, as detailed in the ***Matters Requiring Attention*** section of this Report, need strengthening. Questionable strategic decisions and insufficiently proactive oversight has led to many of Wachovia's problems. In addition, the Board has not provided clear guidance regarding acceptable risk exposure levels, and has not ensured that appropriate policies, procedures and practices have been established.

Corporate governance structure and practices are in the process of being strengthened. While the overall corporate governance committee framework is appropriate, execution remains an area of concern. Management of risk needs improvement. In particular, management should strengthen the identification, escalation, control and measurement of risk including having a clear risk culture where management of risk is performed at the line of business level with the Risk Management Unit having clear authority to approve, disapprove, or escalate risk. While the Risk-related Corporate Governance Initiative (RRCGI), which commenced in 2006, addresses some of these concerns, additional efforts are needed. Management has engaged an independent consulting firm to evaluate Wachovia's risk management and corporate governance practices.

While the overall internal control environment remains satisfactory, deterioration has been noted in recent months as operational losses have increased. Significant and unexpected losses have occurred in the past year due to process breakdowns identified during the market disruption. In addition, legal and regulatory matters have increased substantially, thus exposing the bank to possible future losses and increased litigation costs.

Wachovia's internal audit function remains satisfactory. The Audit Committee and new Chief Auditor, David Julian, have continued to elevate Audit's stature within Wachovia. Chief Auditor Julian has articulated a "new" vision for Audit that provides for a more flexible program that reacts to current market conditions and looks more horizontally across the organization to identify risk governance and control weaknesses. Management continues to take timely and appropriate action to address the internal control weaknesses identified by Audit.

The compliance management process includes substantial resources allocated to implement and monitor compliance with the various laws, rulings, regulations, policies and procedures. Compliance policies and processes are sound. While the overall BSA/AML compliance program complies with regulatory requirements, BSA/AML related incidents such as the *casas de cambio* case, continue to occur that raise some concerns over the program's overall effectiveness.

Earnings Rating – 3
The earnings component continues to warrant a "3" rating. Wachovia earnings have been poor over the past two quarters as the market disruption and significant deterioration in the housing market has continued. Earnings have steadily deteriorated over the past four quarters with Wachovia suffering significant losses in the last two quarters. As of June 30, 2008, Wachovia reported an operating earnings loss for negative earnings per share of $1.27. Year-to-date operating losses have totaled $3.4 billion. In addition, the bank took a $6.1 billion charge for goodwill impairment during second quarter 2008. Management's forecast of a rebound in earnings has thus far not materialized as loan delinquencies and charge-offs continue to increase and provision expense remains elevated. Provision expenses are expected to remain elevated throughout 2008, at a minimum.

Management has aggressively taken large provisions in excess of charge-offs the last two quarters in an effort to stay on top of potential credit losses, most of which are from the Pick-a-Pay portfolio. Management changed their retail loss modeling as they build their allowance in anticipation of higher expected losses.

Market disruption losses continue to negatively impact Wachovia's earnings. Year-to-date, market disruption related charges (excluding provision expenses) have totaled $5 billion mostly centered in CIB trading and in the parent segment.

The overall quality of earnings varies based on the segment. Unfortunately, poor earnings in the CIB and mortgage area have overwhelmed the profitable units. On a positive note, with the exception of these two areas, segment earnings in Capital Management, Wealth Management and the General Bank Group (excluding Golden West) have remained fairly stable. Wachovia has launched several initiatives in June with a goal of building and preserving liquidity. While these actions are necessary, they will likely result in lower forward-looking earnings performance. Latest earnings projections for full year 2008 indicate that Wachovia will experience an operating loss of approximately $2.7 billion. However, earnings projections to date have been unreliable and have frequently been adjusted downward as the bank's condition has deteriorated. The earnings rating may further be downgraded if positive earnings are not restored in the near future.

Liquidity Rating – 2
Liquidity continues to be rated a "2". The market disruption and continued earnings deterioration have reduced funding opportunities and raised funding costs for Wachovia. While Wachovia's liquidity is presently adequate, the market is focused on the company's condition and potential events, which could trigger a loss of confidence in the bank and further reduce funding opportunities. Some large fund providers are already limiting Wachovia exposure. All major credit agencies have downgraded Wachovia's credit rating one notch as expected following the earnings announcement on July 22, 2008. We are closely monitoring the liquidity position and the appropriateness of the current liquidity rating in light of projected losses, credit downgrades and future potential loss of funding availability.

Liquidity management during the disruption has thus far been satisfactory. Management has conducted formal scenario analyses to assess funding needs under two increasingly severe credit downgrade scenarios. These scenarios reflect significant funding needs and management has instituted appropriate plans to address these needs. Additionally, to ensure that Wachovia's stressed liquidity needs are met, management has activated the bank's contingent funding plan and is taking steps to build liquidity to meet potential stress events. Actions taken to date include: initiating new retail and wholesale deposit promotions, placing hard caps on assets of various business lines to more carefully management balance sheet growth and redirecting all investment pay downs into U.S. Treasury securities. Additionally, management has established a centralized communication response team to deal with inquiries from interested parties, including its retail branch management team and the media.

Because of the heightened sensitivity of the market to Wachovia's financial condition, these programs are critical to ensure that Wachovia is proactive in addressing potential events which could impact the bank's viability. The Board needs to ensure that management continues its course to refine and formalize these plans as well as provide regular updates to the Board. Needed enhancements are discussed in the next paragraph.

Over the past year, the Treasury Funding staff was able to adapt the existing Stress Scenarios and Contingency Funding identification process to account for the current market disruption. Wachovia has historically used this more informal communication system to identify potentially non-legally binding liquidity demands from affiliates and subsidiaries. However, Asset Liability Management Committee (ALCO) now needs to be more formalized and integrated into liquidity management policies. Additionally, management needs to revise the description of stress scenarios to reflect changes recently made to incorporate experiences and observations from the market disruption. While some affiliates and subsidiaries of the holding company operate under a self-funding model, reputation risk may require the parent company or the bank to support them under extreme circumstances. Management needs to ensure that Stress and Contingency funding planning processes are comprehensive and identify entities in the consolidated company that could place a demand on parent or bank funding. Assessment of the funding risk should include contingent liabilities that are legally binding, as well as products or lines of business that the entity would support during a crisis because of reputation risk.

Liquidity risk is "High" as the on-going market disruption has reduced availability of unsecured term funding and raised funding costs. The market's appetite for securitizable assets has significantly diminished. As a result of the reduced availability of funding in the term debt market and loan growth, which has exceeded core deposit growth, wholesale funding levels have increased. Funding gap risk is high, as under a severe scenario, significant gaps could occur. Management is taking steps to address these gaps.

Wholesale funding reliance represents 32.7% of total assets as of May 31, 2008, up from 30.8% at year-end. Wholesale funding providers are currently reviewing, and cutting, in some cases, or limiting their exposure to Wachovia. Wachovia has active borrowing relationships with three FHLBs which represent a concentration, and in aggregate they fund 7% of assets. Wachovia's retail deposit base has been stable and remains a strong source of potential liquidity; a recently announced retail deposit promotion targeting CDs and money market deposits has been successful.

Investor concern is evidenced by Wachovia's credit default swap (CDS) spreads, which remain higher than many of its peer banks, and its depressed stock price. As of quarter-end, Wachovia 5-year CDS traded more than 70 basis points (bps) higher than Citibank, which was its closest peer. Cash bonds spreads have risen both on an absolute and relative basis; as of mid-June, the option adjusted spreads for various tenors of senior holding company debt was trading at 100 – 175 bps higher than JPMorgan Chase and Bank of America.

Sensitivity to Market Risk Rating – 2

A rating of "2" remains appropriate. Interest rate risk remains "Moderate." Short-term earnings sensitivity has increased to a moderate level over the past year, but is expected to remain stable for the near term. As of June 30, 2008, the level of short-term interest rate risk is relatively low at -1.7% liability sensitive for an up 200 basis point ramp over the next twelve months. The rolling 12-month view shows sensitivity migrating to -3.4% (liability sensitive) by second quarter 2009, before replacement of discretionary hedging decisions. Long-term interest rate risk, as measured by EVE (Economic Value of Equity), has remained at moderate levels since March 2005.

Although risk management is considered satisfactory, some control systems continue to have weaknesses. Model validation is an area which continues to need attention. Model validation has not always been completed prior to model implementation, as management has not historically integrated model validation into its project planning. Management is implementing a project to convert EVE modeling to BancWare and model validation is part of the project planning. All material model assumption changes need to be documented and reviewed by appropriate Committees.

Management continues to be able to achieve the bank's targeted net interest income (NII) levels without exceeding policy limits for interest rate risk (IRR). They have identified the scenarios where they are most vulnerable and execute hedges when the benefits outweigh the cost of hedging the risk. A volatile yield curve and resulting shifts in new loan production mix continues to challenge the Forecasting area's modeling and hedging skills. The addition of the Golden West merger along with the volatility of retail deposit growth and increases in fixed rate loan products has added significant complexity to the risk management process.

Trading activities, in aggregate and quantity, reflect a high level of sensitivity to market risk. Origination volumes have slowed dramatically and outright positions, while volatile, have slowly reduced. Hedging has not been as effective as the basis between instruments dislocated. Life to date market disruption losses are approximately $5 billion, but were significantly less in the second quarter 2008. Trading Risk remains centered in Extend Stay Holdings (ESH), Leveraged Loan Commitments, and the Tender Option Bond (TOB) municipal book. The corporate-wide one-day management Value-at-Risk (VaR) stands at $41.3 million as of June 27, 2008.

Management has significantly reduced aged inventory through sales or designating these as held to maturity assets. Trading stress tests results are also showing reduced risk levels, and trading growth plans remain on hold as management reassesses and reorganizes the business.

Treasury and Balance Sheet Management price risk is high and increasing; however, this risk has not been readily transparent. Recent significant losses in BOLI did not coincide with management disclosures of risk to ALCO or regulators. This lack of transparency has led us to question the validity of management disclosures on other Treasury risks. Management is in process of building a formal Treasury Risk Management function.

Overall risk management of price risk remains satisfactory. While we have significant concerns with Treasury Risk Management, CIB houses the majority of price risk and these processes are satisfactory. CIB has a good price risk management function consisting of a satisfactory price risk model, market risk oversight personnel and adequate reporting. However, control systems are now weak. In particular, certain large transactions lacked the appropriate, detailed review to assess, identify and control risk. Failure to ensure accuracy of a single Credit Default Swap (CDS) agreement resulted in nearly a $500 million loss. Failure to correctly book two trades resulted in a net gain of $35 million. MIS aggregation of positions has also been an issue during market disruption. Other issues exist with technology and modeling. While overall price verification processes in CIB are satisfactory, staffing, documentation and testing of these positions needs improvement.

Information Technology (IT) Rating – 2

Overall, the Operations & Technology Group (OTG) along with the various governance committees provide appropriate oversight through its identification, monitoring and controlling of significant IT risks. For the most part, IT management resolves internal audit and regulatory issues in the normal course of business. Major Risk Remediation projects for access control deficiencies, DCPR, and vendor management are generally receiving appropriate attention. However, the stress on earnings will impact current and interim spending, which could have an adverse impact on major projects, and could raise the risk of losing key personnel. To date, the impacts have been project reprioritization and extending project completion dates. The Investment Review process continues to provide governance over project approvals and resource prioritization to ensure efficiency and completion on project goals.

Technology Risk Management and overall operational risk management control efforts continue to develop and season. However, the immaturity of the processes requires us to be more cautious in our reliance on internal findings. Corporate standards and the quality of documentation need improvement. General reporting is adequate, but improved risk assessment aggregation is needed. Operational risk management practices also need improvement to ensure compliance with Basel II AMA. Management is taking appropriate steps to address these issues.

Support and Delivery activities are satisfactory. With the exception of line of business applications, annual disaster recovery and business continuity testing demonstrates the ability to recover systems. The bank is working to improve proximity risk and pandemic escalation procedures. Logical and physical data center security over critical IT platforms is satisfactory. Management's completion of the ISR3 remediation efforts has improved the overall security posture of the corporation.

Trust Rating – 2

The administration of fiduciary activities at Wachovia remains fundamentally sound. Executive management is experienced and committed to the growth of asset management activities as part of the bank's diversified strategic plan. Management appropriately addresses regulatory findings and is responsive to recommendations from audit and regulatory authorities.

Operational controls are effective and corporate level control functions, including Internal Audit and Corporate Compliance, provide effective oversight for risk identification. Corporate Risk Management processes are satisfactory, relative to the bank's size and risk profile, and continue to be enhanced to respond to the growing complexities of this business. Compliance with applicable laws, regulations, and accepted standards of fiduciary conduct is satisfactory. Fiduciary issues identified in control assessment reports and Internal Audit reports reflect matters that can be addressed in the normal course of business.

Asset management practices are satisfactory. Policies and practices governing asset management are adequate and fiduciary investment decisions are appropriate. Management's use of an open architecture investment platform provides greater transparency to fiduciary clients and is supported by a reasoned due diligence process.

Fiduciary activities at Wachovia are profitable, and when combined with the remaining asset management business lines, contribute significantly to corporate net operating income. Executive management continues to make reasoned decisions to acquire selected trust business lines and focus resources toward areas seen as growth opportunities.

Consumer Compliance Rating – 2

Wachovia reflects a satisfactory level of compliance with consumer protection laws and regulations. Overall compliance risk is "Moderate" and increasing with some aspects reflecting high risk. BSA/AML risk is "High." The BSA/AML compliance program satisfies regulatory requirements, but still needs attention in certain areas. More details are noted in the ***Other Supervisory Concerns*** section of this Report.

The corporate oversight process includes substantial resources allocated to implement and monitor compliance with the various laws, rulings, regulations, policies and procedures. While the inherent volume of risk in this large and diversified bank is high, the compliance risk management structure helps to minimize risk. Our supervisory efforts will continue to monitor recent changes within the compliance management structure, including the oversight for BSA/AML activities.

The Wachovia BSA/AML compliance program satisfies regulatory requirements, and provides for: 1) a system of internal controls to ensure ongoing compliance; 2) independent testing of

BSA/AML compliance; 3) a BSA compliance officer; and 4) a training program for appropriate personnel. The system of internal controls includes policies, procedures and processes that identify high risk products, services and customers with updates designed to account for changes. Senior Vice President Soto has been designated the BSA/AML officer responsible for ongoing oversight of the program, and the Internal Audit BSA/AML function is the primary source for independent testing. An adequate training program exists which includes comprehensive training at the enterprise-wide level, and specific risks are considered when designing training at the individual lines of business.

Our fair lending examination found no evidence of illegal discriminatory practices; fair lending risk management is generally satisfactory. The examination identified the need to improve risk management and assessments of broker-generated loans.

Community Reinvestment Act Rating – 1
Bank performance to help meet community credit needs reflects a rating of "Outstanding". The evaluation of Wachovia performance is reflected in the CRA Public Disclosures (lead bank and Delaware issued in early 2008 and late 2007). This rating reflects the efforts by management to effectively determine credit, investment, and service needs of the defined assessment areas. Management has also taken meaningful actions to address those needs, especially for low- and moderate-income individuals and geographies, as well as for small businesses. We found that Wachovia has complied with the requirements of the implementing regulation (12 C.F.R. 25) for the public notice and public file.

RISK ASSESSMENT SUMMARY

RISK PROFILE	QUANTITY OF RISK	QUALITY OF RISK MANAGEMENT	AGGREGATE RISK	DIRECTION
Strategic	----	----	High	**Increasing**
Reputation	----	----	**High**	Increasing
Credit	**High**	Satisfactory	**High**	Increasing
Interest Rate	Moderate	Satisfactory	Moderate	Increasing
Liquidity	**High**	**Satisfactory**	**High**	Increasing
Price	**High**	Satisfactory	**High**	Stable
Foreign Currency Translation	Low	Satisfactory	Low	Stable
Transaction	High	Satisfactory	High	Stable
Compliance	Moderate	Satisfactory	Moderate	Increasing

	QUANTITY OF RISK	QUALITY OF RISK MANAGEMENT	AGGREGATE RISK	DIRECTION
BSA/AML	High	Satisfactory	High	Stable

**Bold font indicates a change from the June 30, 2007 Report of Examination.*

	AGGREGATE RISK
Internal Control	Satisfactory
Audit	Satisfactory

Strategic Risk – High

Strategic risk is "High" and increasing due to the continued impact of the market disruption. Wachovia's problems are being magnified by questionable strategic decisions, lack of due diligence, and incomplete vetting of the risks associated with strategic decisions. The Board has now acknowledged that the Golden West acquisition was a mistake. Strategic efforts are now focused on generating, protecting and preserving capital. The market disruption has significantly impacted Wachovia's structured products business and will have a significant continuing profitability impact until markets are re-established or new revenue sources are identified. At this point, Wachovia is strategically pulling back from this business and has recently announced staff reductions in CIB. Wachovia is also exiting the wholesale mortgage origination business, which will result in additional personnel cuts. International expansion activities have slowed and reduced in scale in many cases. On the domestic front, the western branch expansion plans into

California, Nevada, and Arizona, along with the opening of branches in Texas, will continue, but at a slower pace. Major cost containment initiatives, instituted in late second quarter 2008 will likely have an impact on Wachovia's strategic initiatives.

Reputation Risk – High
Wachovia's Reputation Risk is now considered "High" and increasing. Primary driver of the rating is the recently poor earnings performance compounded by market disruption and its impact on Wachovia's earnings, stock price and overall reputation. The market now perceives Wachovia as a troubled institution. Wachovia's reputation continues to be negatively impacted by the acquisition of legacy Golden West in 2006 and the significant decline in the mortgage lending business. Wachovia has been subject to ongoing negative media attention as a result of its poor earnings results; the issuance of the Formal Agreement with fines/restitution charges for the Payment Processing Center, LLC (PPC) relationship; the Department of Justice (DOJ) investigation into *casas de cambio* activities involving alleged money laundering of drug proceeds; the DOJ investigation into municipal bond rigging; regulatory investigations into auction rate securities; the markdown on its Sale-in, Lease-out (SILO) transactions; and the BOLI earnings charge.

Credit Risk – High
Aggregate credit risk is "High," with the quantity of risk rated "High" and the quality of risk management rated satisfactory, although weaknesses exist in the risk management function. The direction of risk remains increasing. The aggregate and quantity ratings represent downgrades from the previous moderate level rating. Underwriting, strategic, external and quantity of credit risk factors are now all considered high. Asset quality metrics continue to worsen and are considered less than satisfactory as they are coming off the pristine levels of recent years. Continued deterioration is most evident in consumer mortgages, residential builders and indirect autos with other portfolios showing milder weakness. While current lagging indicators appear manageable, losses, delinquencies and criticized assets are projected to reach levels that are of concern.

Management is taking action to mitigate this increasing credit risk. They are addressing several self identified weaknesses and increased the depth of risk management portfolio analysis. Policy, personnel and control system factors are satisfactory, although risk management processes remain weak. Management needs better ways to aggregate risk across the corporation. Management also lacked proactive processes to identify risk in the legacy Golden West acquired portfolio. The market disruptions revealed the need for improved processes to measure, monitor, and control risk in the structured products area and the need for a more formalized process to aggregate and control pipeline distribution risks primarily in leveraged lending, Commercial Mortgage-Backed Securities (CMBS) and structured products.

The slumping housing market and broader economic slowdown continue to cause asset quality deterioration. These credit risk indicators have yet to stabilize and support the continued increasing direction of risk.

Interest Rate Risk (IRR) – Moderate
Interest Rate Risk remains "Moderate" and increasing, as noted in the Market Sensitivity rating earlier in the Report. Management has used a number of strategies, including active positioning with derivative and cash instruments to change the company's net exposure. Because of the uncertainty around future rates, management has decided to hold exposures steady and opportunistically replace hedges over time.

Management of IRR exposures remains satisfactory due to experienced staff and their ability to adapt to changing market conditions. Due to earnings volatility, management has recommended to ALCO that short term IRR be measured as a percentage of net interest income (NII) with a policy limit of 3.5% of projected 12 month NII. Historical analysis shows that this is a reasonable limit. Modifications to the BancWare system are still needed to properly model Golden West products. EVE modeling is being implemented under a separate project phase and will be evaluated in the fourth quarter 2008. Management has taken steps to address previous concerns regarding the lack of formal project management.

Liquidity Risk – High
Liquidity risk in aggregate is being raised to "High" due to the company's financial deterioration and investors and the market's concerns about Wachovia. Wachovia, as compared to other financial institutions, has more expensive term funding and reduced availability. All major credit agencies have downgraded Wachovia's credit rating one notch as expected following the earnings announcement on July 22, 2008. The Net Funding Gap risk has been raised to high, given the significant funding gaps which could occur in a severe funding scenario.

Liquidity management remains satisfactory; management is taking action to build and retain liquid assets. Wachovia recently produced two stress scenarios in order to assess and plan for the impact of a potential credit downgrade to better deal with this environment. The contingency funding plan has been activated to build liquidity in light of negative perceptions and potential customer and investor panic. Wachovia has established a centralized communication response team to deal with inquiries from interested parties, including its retail branch management team and the media. As noted under the Liquidity rating earlier in this Report, given the critical condition of Wachovia's Liquidity position, the Board needs to ensure that funding continues to be actively monitored, and actions are taken to strengthen liquidity. Formal reporting to the Board is also needed.

In management's stress scenarios, the moderate scenario reflects sufficient liquidity. Under the severe scenario, Wachovia reflects significant funding gaps. Management has put in place strategies to reduce funding gaps presented in these scenarios.

Price Risk - Moderate
Aggregate Price Risk remains "High", with the quantity of risk "High" and the direction stable. While CIB trading risk is decreasing, Treasury and Balance Sheet Management risk is increasing, primarily due to the increase in BOLI risk. The overall direction of price risk remains stable. We continue to be concerned with the lack of transparency of some Treasury and

Balance Sheet Management risks; however, we note that management is developing a plan to address these issues.

Treasury and Balance Sheet Management price risk is high and increasing. Treasury takes a significant level of risk which has not been readily transparent. In particular, the recent significant losses in BOLI do not coincide with management disclosures of risk to ALCO or regulators. This lack of transparency has led us to question the validity of management disclosures on other Treasury risks. Management is in process of building a formal Treasury Risk Management function.

CIB Trading activities, in aggregate and quantity, reflect a high but decreasing level of risk. The market disruption has led to increased profit and loss (PNL) volatility and limited liquidity, resulting in an increased level of risk. However, marked to market positions continue to decrease. Trading Risk remains centered in ESH, Leveraged Loan Commitments, and the TOB municipal book. The corporate-wide one-day management VaR stands at $41.3 million as of June 27, 2008. Management has significantly reduced aged inventory through sales or designating these as held to maturity assets. Trading stress tests results are also showing reduced risk levels, and trading growth plans remain on hold as management reassesses and reorganizes the business.

Overall risk management of price risk remains satisfactory. While we have significant concerns with Treasury Risk Management, CIB houses the majority of price risk and these processes are satisfactory.

Treasury and Balance Sheet risk management processes are weak. We noted significant weaknesses in BOLI processes and controls. Processes are weak due to the inadequacy of risk measurement systems to capture risks inherent in the transactions. Additionally, the adequacy of independent measurement and analysis of risk under a variety of scenarios was inadequate. Management information is also misleading, as significant losses were not disclosed in MIS to ALCO or the regulators. Control systems are also weak as risk-monitoring and control functions failed to detect these issues in a timely manner.

CIB Market Risk Management is satisfactory; however, control systems are now considered weak. In particular, certain large transactions lacked the appropriate, detailed review to assess, identify and control risk. MIS aggregation of positions has also been an issue during market disruption. While overall price verification processes in CIB are satisfactory, staffing, documentation and testing of these positions needs improvement. Other issues exist with technology and modeling.

Foreign Currency Translation Risk - Low
This risk remains very low. Residual risk is limited to the translation of net operating income from foreign operations.

Transaction Risk – High

Transaction risk is considered "High" and stable. The quantity of transaction risk is "High" primarily due to growth in the volume, type, and complexity of transactions. Products and services continue to grow as does the bank's reliance on automation for support and delivery. Operational risk governance continues to expand and improve.

On April 24, 2008, Wachovia entered into a Formal Agreement with the OCC for the purpose of improving internal controls and risk management systems related to the bank's acceptance of remotely created checks (RCC's). Treasury Services Risk Management is leading several governance initiatives including development of guidelines for unacceptable uses of RCC's and account underwriting procedures. Risk management enhancements are also being implemented in order to monitor RCC usage and detect and investigate potential fraud. We will evaluate the sufficiency of these corrective actions via target examination and ongoing monitoring activities.

Corporate Financial Governance continues to track corrective actions related to the risk of unauthorized access to financial systems and control weaknesses surrounding spreadsheets used in the preparation of financial reports. Significant progress is noted in the remediation of these weaknesses. We will continue to monitor management's efforts to sustain revised control frameworks in each area.

Management completed the majority of the issues related to the Corporate Information Security (CIS) remediation work which has led to improvements in the bank's information security profile. Internal audit continues to validate the effectiveness of corrective actions and sustainability of controls. Additionally, controls over developer access to distributed systems are being addressed under the Distributed Systems Access Control project.

Management continues to appropriately address the DCPR issue identified several years ago. In the past year, the DCPR project was extended due to the A.G. Edwards Inc. merger integration. Management does not anticipate reaching an "acceptable" level of risk until late 2009. The Phase 1 Pilot has been completed, and Phase II has been initiated. Successful completion of Phase II will enable the bank to achieve acceptable proximity risk reduction. We will continue to closely monitor management's implementation efforts and execution risks through all project phases.

Governance processes and internal controls for managing domestic vendors have not been effective. However, management continues to make progress toward implementing governance and internal controls for managing domestic vendors. Management is in process of implementing an end-to-end vendor management governance and control process to address these weaknesses. Vendor risk will remain high until the new procedures are fully implemented and the employees trained. This is expected by year-end 2008.

The direction of Transaction Risk remains stable. We will continue to monitor a number of activities that could increase this risk. Offshoring, the A.G. Edwards, Inc. conversion, expanding domestic and international presence, and the impact of budgetary constraints could impact future transaction risk ratings. Also, we plan to monitor OTG's transformation to its new operating model. The new operating model better aligns with business strategy changes and will enable IT to deliver high quality products, services and support. Ineffective execution in this new model could cause transaction risks to increase.

Compliance Risk – Moderate
The aggregate compliance risk of "Moderate" reflects the strength of risk management systems, processes, and personnel to mitigate inherent risks associated with operations in a company as large and diversified as Wachovia. Overall compliance policies and processes are sound. The level of compliance with consumer protection laws and regulations, including fair lending regulations, is also satisfactory. CRA ratings for the lead bank and the Delaware bank are "Outstanding."

Compliance management has resources available to successfully incorporate the company's ongoing expansion of territory and product offerings. The increased risk from additional products, services, and geographies is mitigated to a great extent by the demonstrated success of Wachovia.

In 2008, the OCC met several times with management regarding efforts to comply with one aspect of Advisory Letter 2003-3 - "Avoiding Predatory and Abusive Lending Practices in Brokered and Purchased Loans." Specifically, the bank needs a process for review of written agreements between borrowers and brokers to ensure that the agreements conspicuously disclose the fees to be paid to the broker for services; contain a specific request for such broker services at that fee; and include a signed and dated acknowledgement of receipt by the consumer before the broker commences services. The bank should also retain copies of this documentation. Management has committed that all Wachovia units which utilize brokers for loan production will be in compliance by July 31, 2008. In addition, management has committed that all loans purchased will also comply by that same date. The OCC will test for compliance at a later date, but this should be less of an issue since Wachovia is exiting the wholesale origination business.

BSA/AML – High
Aggregate BSA/AML risk, a component of Compliance Risk, remains "High" and reflects inherent risk associated with the volume and diversity of products and services, operating locations (domestic and foreign), and the broad customer base of Wachovia for varied transactions. The Currency Transaction Report (CTR) back-filing issues remain outstanding as a result of poor past practices in CTR exemption processes; but significant progress has been made to remediate this matter. While the Wachovia BSA/AML compliance program satisfies regulatory requirements overall, additional efforts are needed in some lines of business to ensure the optimum level of consistency in risk assessment and management.

Internal Controls – Satisfactory
Overall, Wachovia's system of internal controls provides reasonable assurance that business units achieve their stated objectives and produce reliable financial reports. Recent market disruption events and legal and regulatory issues have highlighted the need for stronger management of risk throughout Wachovia. Clearer roles and responsibilities, consistent

identification and escalation of risk issues, and a robust Treasury Risk Management function are needed. Recent operational/process breakdowns within the Treasury and CIB areas have resulted in significant and unexpected losses.

Risk assessment processes exist in most areas of the bank, although these processes are inconsistent. Management's decentralized approach lends itself to an environment with inconsistent identification, escalation, and management of risk. Risks are being identified, but not consistently prioritized and escalated, when needed. Management is in the process of developing a more consistent methodology for the identification, reporting, and aggregating of operational risks.

Accounting information and communication systems are satisfactory, and financial reporting controls continue to receive scrutiny via the Corporate Financial Governance Office (CFG). While Wachovia's Sarbanes-Oxley program is effective, our recent examination and a recent internal audit of this area have identified the need for improved oversight and monitoring. Policies and procedures are in place to control risk of inaccurate financial reporting.

Audit continues to be effective in identifying control weaknesses throughout the company. Control remediation efforts are adequately tracked with improving trends noted in the timeliness of audit validation of "management closed" control issues.

Internal Audit – Satisfactory

Wachovia's internal audit (Audit) function remains "Satisfactory." The Audit Committee and new Chief Auditor have elevated Audit's stature within Wachovia. Audit Committee oversight and support is appropriate, and audit management/processes, reporting, and staffing are all satisfactory. Audit issues are appropriately escalated to senior management and the Audit Committee, and management is taking timely and appropriate action to address internal control weaknesses.

Chief Auditor Julian has outlined a new vision and direction for Audit that provides for a more flexible program that reacts to current market conditions and looks more horizontally across the organization to identify risk governance and control weaknesses. Audit leadership is encouraged to continue in these efforts and also to continue towards providing more explicit opinions on Wachovia's overall risk profile and quality of risk management within the lines of business, as well as, on an enterprise-wide basis.

The IT Audit function continues to be an area needing improvement. While progress has been made in the past year to improve overall quality, additional efforts are needed to ensure that a sustainable program is in place to provide effective IT Audit coverage. Audit leadership is addressing this issue.

APPENDIX

Compliance with Formal Agreement

Overall Status

Management and the Board have made satisfactory progress addressing the requirements and deliverables specified in the Agreement. This includes formation of a Compliance Committee to monitor and coordinate the bank's adherence to the provisions of the Agreement. All required submissions have been received in a timely manner including those related to governance processes, restitution plans, risk management enhancements, and education programs. Because the Agreement was only recently signed, it is too early in the process to assess full compliance.

The OCC plans to evaluate the sufficiency of the policies, procedures, and plans submitted pursuant to the Agreement during an examination scheduled to commence August 4, 2008. This will include evaluating the operating effectiveness of control systems underpinning the newly implemented policies. Specifics of the Agreement are outlined below.

Article I - No Requirements

Article II - Compliance Committee and Quarterly Progress Reporting

Status: In compliance.

The Compliance Committee held its first meeting May 22, 2008, and delivered its written report to the Board on May 27, 2008. Committee composition is consistent with the terms of the Agreement, and the Committee charter is in place addressing meeting frequencies and required reporting timeframes. The Committee's first progress report was provided to the OCC on June 6, 2008.

Future Actions: The next Compliance Committee progress report is due by October 10, 2008.

Article III - Consumer Restitution

Status: In Progress.

The bank established and funded a segregated deposit account on May 9, 2008, setting aside $125 million for consumer restitution. The bank contracted with Rust Consulting Inc. to develop and execute a Restitution Plan (Plan) consistent with the terms of the Agreement. The bank's Plan was submitted to the OCC on June 6, 2008.

Future Actions: The OCC will evaluate the Plan during an examination scheduled to commence August 4, 2008. The Plan calls for written status reports to be provided to OCC on August 15, 2008; September 29, 2008; January 27, 2009; April 27, 2009; and October 26, 2009.

Other Matters: On June 5, 2008, the United States Attorney for Eastern District of Pennsylvania submitted to United States Magistrate Timothy Rice proposed revisions to the restitution plan originally specified in the Permanent Injunction against PPC dated February 12, 2007. The proposed revisions entail a direct reimbursement methodology thereby eliminating the claims process specified in the original ruling. The Court has not yet ruled on this proposal.

Article IV - Consumer Education and Reserve
Status: In progress.
The bank established and funded a segregated deposit account on May 9, 2008, setting aside $8.9 million for consumer education. The bank submitted a Consumer Education Plan to the OCC on June 6, 2008.

Future Actions: The OCC will evaluate the Consumer Education Plan during an examination scheduled to commence August 4, 2008.

Article V - Policies and Procedures for Acceptance of Remotely Created Checks (RCC)
Status: In progress.
On June 6, 2008, the bank submitted written policies, procedures or standards applicable to its banking relationships with customers who regularly deposit RCC. These documents include policies entitled "High Risk Reputation Industries" and "Remotely Created Checks", related procedures, and training materials.

Future Actions: The OCC will evaluate the submitted policies for required content and operating effectiveness during an examination scheduled to commence August 4, 2008.

Article VI - Due Diligence and Underwriting
Status: In progress.
On June 6, 2008, the bank submitted due diligence and underwriting standards for covered RCC depositors.

Future Actions: The OCC will evaluate the submitted standards for required content and operating effectiveness during an examination scheduled to commence August 4, 2008.

Article VII - Risk Management
Status: In progress.
On June 6, 2008, the bank submitted copies of procedures currently in place for monitoring RCC depositors and return rates. On June 20, 2008, the bank submitted a Case Management Plan providing a high level overview of steps being taken to improve case management system functionality. Authorization for Treasury Services Risk Management to unilaterally close accounts was implemented in 2007.

Future Actions: The OCC will evaluate the submitted policies, project plans, and revised risk management procedures for operating effectiveness during an examination scheduled to commence August 4, 2008.

Article VIII - Consumer Protection
Status: In progress.
The bank will review the accounts of its RCC depositors for compliance with the policies submitted pursuant to this Agreement after supervisory non-objection to the revised policies is received. The bank submitted a certification dated June 4, 2008, indicating it has discovered no

Covered RCC Depositor relationships with tiered pricing arrangements, non-standard agreements designed to limit the bank's liability for any damages, or arising from the customer's activities at the bank related to consumer transactions. The bank submitted a certification dated June 17, 2008, indicating annual compliance training for employees has been enhanced. Copies of revised training material were provided on June 20, 2008.

Future Actions: The OCC will evaluate the materials submitted pursuant to this Article during an examination scheduled to commence August 4, 2008.

Article IX - Relationships with Other Covered RCC Depositors

On May 5, 2008, the bank submitted a certification relating to a diligent search for other telemarketers or payment processors for telemarketers that used RCCs. A list of these depository relationships was provided at that time. A revised list was submitted June 19, 2008.

Future Actions: None anticipated.

Article X - No Requirements

Article XI - No Requirements

Signatures of Directors

We, the undersigned directors of Wachovia Corporation, Charlotte, NC have personally reviewed the contents of this Report of Examination for Wachovia Bank, National Association, dated June 30, 2008.

NAMES:	SIGNATURES:	DATES:
Lanty L. Smith (Chairman)		
John D. Baker II		
Peter C. Browning		
John T. Casteen, III		
Jerry Gitt		
William H. Goodwin, Jr.		
Maryellen C. Herringer		
Robert A. Ingram		
Donald M. James		
Mackey J. McDonald		
Joseph Neubauer		
Timothy D. Proctor		
Earnest S. Rady		
Van L. Richey		
Ruth G. Shaw		
Robert K. Steel		
Donna Davis Young		

NOTE: This form should remain attached to the Report of Examination and be retained in the institution's file for review during subsequent examinations. The signature of committee members will suffice only if the committee includes outside directors and a resolution has been passed by the full Board delegating the review to such committee.

September 29, 2008 FDIC Memo to the Board

September 29, 2008

MEMORANDUM: The Board of Directors

THROUGH: Mitchell L. Glassman, Director Mitchell L. Glassman
Division of Resolutions and Receiverships

Sandra L. Thompson, Director
Division of Supervision and Consumer Protection

FROM: James R. Wigand, Deputy Director
Franchise and Asset Marketing Branch
Division of Resolutions and Receiverships

Herbert J. Held, Assistant Director
Franchise and Asset Marketing Branch
Division of Resolutions and Receiverships

SUBJECT: Wachovia Bank, National Association, Charlotte, North Carolina
Wachovia Mortgage, FSB, North Las Vegas, Nevada
Wachovia Bank, FSB, Houston, Texas
Wachovia Bank of Delaware, National Association, Wilmington, DE
Wachovia Card Services, National Association, Atlanta, Georgia

Wachovia Corporation (Bank Holding Company) Information
(As of June 30, 2008):
Total Assets: $781,883,478,000
Total Deposits (including Foreign): $475,172,374,000
Uninsured Deposits: $157,100,000,000
Foreign Deposits: $53,170,000,000
Tier 1 Leverage/Total Risk Based (Lead Bank): 6.27%/11.58%

UFIR Rating (Lead Bank): 3-3-3-4-5-2/3 (9/28/08 Interim Downgrade)

Recommendation

Staff recommends that the Board find that the failure of Wachovia Corporation and its affiliate banks and thrifts would have serious adverse effects on economic conditions and financial stability. Its failure would seriously and negatively affect already disrupted credit markets, including short-term interbank lending, counterparty relationships in Qualified Financial Contract markets, and bank senior and subordinated debt markets, and would further disrupt the related markets in derivative products and other markets. Staff recommends that the Board accept the bid of Citigroup, Inc., as the least costly available method of dealing with this systemic risk, and that the Board authorize staff to take all steps needed to implement this decision. Based on preliminary information, staff estimates no loss to the Deposit Insurance Fund.

Executive Summary

Wachovia Bank, NA (Bank) is a nationally chartered bank founded in 1879 that is wholly owned by Wachovia Corporation, a financial holding company regulated by the Federal Reserve. The Bank is the fourth largest bank in the country and the predominant legal entity within Wachovia Corporation, representing 83 percent of consolidated holding company assets. The insured legal entities of Wachovia Corporation consist of three national banks and two Federal savings banks. Other significant holding company subsidiaries include Wachovia Capital Markets, LLC, and Wachovia Securities, LLC. The Bank operates approximately 3,400 banking centers in 21 states, primarily along the eastern and gulf coasts and in California, and engages in foreign activities. The risk profile of the Bank is declining rapidly because of deteriorating liquidity and poor quality assets. Liquidity has reached crisis proportions, such that the Bank is unable to meet its obligations. Most recently, on Friday, September 26, 2008, the Bank was unable to roll $1.1 billion of its asset backed commercial paper. More short term obligations are due this week that the Bank will likely be unable to pay and there are an estimated $157.1 billion in uninsured deposits.

The company's rapidly deteriorating financial condition is due largely to its portfolio of pay-option ARM products, commercial real estate portfolio, and weakened liquidity position. On Friday September 26, 2008, market acceptance of Wachovia liabilities ceased as the company's stock plunged, credit default swap spreads widened in excess of 1,400 points (to over 2,000 points), some parties declined to advance the Bank overnight funds, and counterparties advised that they would require greater collateralization on any transactions with the Bank.

Citigroup, Inc., and Wells Fargo performed due diligence in an attempt to acquire the Banks in a private transaction; however, neither were able to reach definitive agreements. The FDIC entered into negotiations with Citigroup and Wells Fargo on September 28, 2008. Both Banks submitted open bank assistance bids to the FDIC on September 28, 2008; however, only the Citigroup proposal resulted in serious negotiations.

Based on the analysis of Citigroup's proposal, staff recommends accepting the Citigroup, Inc. bid to resolve the five insured depository institutions and to resolve the systemic risk posed by a possible failure of Wachovia Corporation and its affiliate banks and thrifts.

Supervisory History and Condition

Condition

Unless the Bank immediately attracts a merger partner, the FDIC and other regulators project that the Bank will likely be unable to pay obligations or meet expected deposit outflows.

The FDIC and the OCC anticipate a number of funding outflows during the week beginning September 29, 2008. Near-term funding outflows include:

- Maturing asset-backed commercial paper, which is not expected to be placed with external parties and, therefore, will need to be funded by the Bank;
- Maturing repurchase agreements, which are not expected to be placed with external parties and, therefore, will need to be funded by the Bank;
- Maturing Variable Rate Demand Notes supported by liquidity facilities/letters of credit issued by the Bank which are not expected to be placed and will be put to the Bank;
- The loss of overnight sweep deposit representing large commercial deposits;
- The loss of a substantial portion of money swept from retail brokerage accounts maintained with affiliated entities; and
- An assumed 1.5 percent daily deposit run-off, which is based on recent experience by other large insured institutions experiencing extreme stress.

Wachovia Bank, N.A. Liquidity Analysis	9/26/08
($BN)	
Overnight FFS	8.0
Federal Reserve	2.6
T-Bills & Term CP	10.0
Less: Overnight FFP	-3.5
Cash Equivalents	**17.1**
Discount Window (Post Haircut)	52.0
Unpledged Securities (Pre-Haircut)	29.0
FHLB	5.0
Available Sources	**86.0**
Total Cash Equivalents & Sources	**103.1**

FDIC Stress Scenario ($BN)	10/7/08
Total Cash Equivalents & Sources	**103.1**
Less: Actual Maturity & Stress	
1. 1.5% Daily Deposit Outflow	-42.0
2. Corporate Sweeps 100% outflow	-12.0
3. Retail Brokerage Outflow	-30.0
4. VRDN Maturity & Stress	-15.8
5. Maturing Debt	-9.7
6. ABCP (VFCC) Maturity	-3.3
7. Maturing Repo Agreements	-2.7
	-12.4

Potentially available funding sources considered in the above analysis include $17 billion in liquid assets, $52 billion of "after-haircut" borrowing capacity based on collateral already posted with the Federal Reserve, $29 billion in unencumbered securities, and $5 billion of available funding from the Federal Home Loan Bank. Additional eligible collateral for pledging totals $117 billion and is comprised of $97 billion in commercial loans and $20 billion in consumer loans that are not pay option ARMs.

Uninsured deposits are reported at $157.1 billion as of June 30, 2008, with $76 billion comprised of corporate, non-time deposits that are considered highly sensitive. This could result in deposit outflows greater than the 1.5 percent daily withdrawals included in the FDIC stress scenario depicted above.

Supervisory History

The insured legal entities of Wachovia Corporation are shown in the table below.

Entities (6/30/08)	Assets	Deposits	CAMELS	Exam Date
Wachovia Bank, N.A.	670,639	450,929	2-3-3-3-2-2/3 [a]	6/30/08
Wachovia Mortgage, FSB	76,795	18,009	3-3-2-4-2-1/3	4/30/08 Offsite
Wachovia Bank, FSB	27,992	2,809	3-3-2-4-2-1/3	4/30/08 Offsite
Wachovia Card Services, N.A.	2,224	0	2-2-2-2-2-2/2	6/30/08
Wachovia Bank of Delaware, N.A.	4,814	4,175	2-2-2-2-2-2/2	6/30/08

(a) 9/28/08 - OCC downgraded Capital to a 3, Earnings to a 4, and Liquidity to a 5

Wachovia Bank, NA

The Bank is subject to a continuous examination program by the Office of the Comptroller of the Currency (OCC). The June 30, 2008, OCC examination of the Bank resulted in a composite rating downgrade to a "3." The following table displays the Bank's historical examination and financial data:

Wachovia Bank, N.A.	6/30/08 OCC	6/30/07 OCC	6/30/06 OCC	6/30/05 OCC
UFIR	2-3-3-3-2-2/3 [a]	2-2-2-2-1-2/2	2-2-2-2-1-2/2	2-2-2-2-1-2/2
Classifications/T1+ALLL	33%	9%	10%	13%
Enforcement Action	MOU	None	None	None
Financial Data	**6/30/2008**	**12/31/2007**	**12/31/2006**	**12/31/2005**
Total Assets	$670,639,000	$653,269,000	$518,123,000	$472,143,000
Total Loans	$413,994,000	$413,349,000	$302,764,000	$262,173,000
Total Deposits	$450,929,000	$458,186,000	$353,234,000	$33,780,000
Tier 1 Leverage Ratio	6.27%	6.71%	6.66%	6.26%
Total Risk Based Capital Ratio	11.58%	11.45%	10.90%	10.70%
Option ARM's/Tier 1+ALLL	138%	146%	0%	0%
Brokered Deposits to Total Deposits	10.98%	8.97%	10.20%	11.48%

(a) 9/28/08 - OCC downgraded Capital to a 3, Earnings to a 4, and Liquidity to a 5

The Bank operates under a Memorandum of Understanding issued in August 2008 that addresses weaknesses cited in the most recent OCC report of examination.

On October 12, 2007, the Bank acquired from Wachovia Mortgage FSB and Wachovia Bank FSB (formerly World Savings Bank FSB and World Savings Bank Texas FSB, respectively) all of those institutions' retail deposits totaling $76 billion. The Bank also acquired almost $90 billion dollars in assets, including approximately $65 billion in pay-option ARM mortgage loans. The pay-option ARM portfolio is concentrated in the California and Florida markets, which represent approximately 60 percent and 10 percent of the total portfolio, respectively. Since the loans were transferred, significant declines in home prices, combined with the effects of previously lax collateral-based underwriting by the World Savings Bank entities, led to serious deterioration in the pay-option ARM portfolio; rising nonperforming loan levels and the need for considerable provisions to the allowance for loan and lease losses resulted in quarterly losses. During the week of September 22, 2008, the Bank increased its cumulative loss estimates for the pay option ARM portfolio from 12 percent to 20 percent. The pay-option portfolio represents approximately 138 percent of capital and reserves.

The Bank's former chief executive officer, Ken Thompson, was removed on June 2, 2008, and Robert Steel was selected as his replacement on July 9, 2008. The Bank's chief financial officer and chief risk officer were also subsequently replaced. These actions to replace senior management failed to dispel market concerns regarding the Bank's condition.

Wachovia Mortgage FSB and Wachovia Bank FSB

The two thrifts retain almost $70 billion in residential mortgage exposure, which consists almost entirely of pay option ARMs sharing the same risk characteristics as the pay-option ARM portfolio in the Bank. During the first and second quarters of 2008, both thrifts required substantial capital contributions from Wachovia Corporation in order to maintain capital ratios at satisfactory levels.

Wachovia Bank of Delaware NA and Wachovia Card Services

Wachovia Bank of Delaware NA represents a more traditional institution with no pay-option ARM exposure. Likewise, Wachovia Card Services is a recently formed credit card lending operation.

<u>Marketing</u>

An electronic data room was established by the Banks for potential buyers to perform due diligence. No proposals were accepted.

On September 28, 2008, FDIC staff began discussions with Citigroup and Wells Fargo, both of which submitted bids to the FDIC on the same day. Both bids sought open bank assistance from the FDIC. The Wells Fargo bid requires that the FDIC cover potential losses on a pool up to $127.3 billion in assets (includes $80.7 billion funded). Wells Fargo assumes the first $2 billion in losses on the pool of assets, following which the FDIC will share in the losses at the rate of 80 percent. Wells Fargo proposed that total FDIC loss exposure be capped at $20 billion. Staff estimated this proposal would cost the FDIC between $5.6 billion ~~million~~ to $7.2 billion. *

The Citigroup bid requests that the FDIC provide loss sharing on a $312 billion pool of assets. Losses would be shared as follows: (i) the first $30.0 billion of losses in the pool, Citigroup assumes 100 percent, and (ii) Citigroup assumes $4 billion a year of losses for three years. Additionally, FDIC will receive face value of $12 billion in preferred stock and warrants.

Wachovia Corporation submitted an open bank assistance proposal. Approximately $200 billion of the Bank's loans would receive FDIC credit protection, of which the Bank would provide $25 billion of first loss protection. In return, Wachovia would issue to FDIC, $10 billion of preferred stock and warrants on common shares.

Considering current market conditions, staff estimates the Citigroup transaction could result in aggregate losses ranging from approximately $35 to $52 billion. However, based upon the terms of the Citigroup proposal, these losses would be absorbed by Citigroup and result in no loss to the Deposit Insurance Fund.

All proposals submitted required some form of regulatory capital relief from their primary federal regulators.

Systemic Risk

Given the forecasted size of the losses at Wachovia Bank NA, it appears likely that any transaction effected by the FDIC under a least-cost framework would require the FDIC to impose significant losses on the Bank's subordinated debt-holders and, possibly, senior note holders. In addition, absent invocation of the systemic risk exception available under the FDI Act, the FDIC is prohibited from using deposit insurance funds to benefit senior or secured debt-holders of a company.

However, staff believes that a least-cost resolution of Wachovia Bank NA would have significant adverse effects on economic conditions and the financial markets. Term funding markets have been under considerable stress for more than a year, and these pressures have increased greatly following the failure of Lehman Brothers, the difficulties at AIG, and the closing of Washington Mutual. LIBOR rates have increased more than 100 basis points since early September; commercial paper rates have also risen dramatically, and the volume of financial paper outstanding has declined sharply. In both of these markets, the maturity of new issues has shortened a great deal as investors have become much less willing to lend beyond overnight. Concerns about actual and potential losses on financial institutions' obligations have caused outflows from prime money market mutual funds totaling nearly $400 billion over the past two weeks. Since these funds are normally substantial purchasers of commercial paper and short-term bank obligations, these outflows have added to the pressures in those markets. More generally, investors appear to have become more concerned about the outlook of a number of U.S. banking organizations, putting downward pressure on their stock prices and upward pressure on their collateralized debt security spreads.

In this environment, a least-cost resolution of Wachovia Bank NA with no assistance to creditors and the potential for meaningful losses imposed on the Bank's debt would be expected to have significant systemic consequences. A default by Wachovia Corporation and a partial payout to debtors of Wachovia Bank NA would intensify liquidity pressures on other U.S. banks, which are extremely vulnerable to a loss of confidence by wholesale suppliers of funds. Investors would likely be concerned about direct exposures of other financial firms to Wachovia Corporation or Wachovia Bank NA. Furthermore, the failure of Wachovia Corporation would lead investors to doubt the financial strength of other institutions that might be seen as similarly situated. Wachovia's sudden failure could also lead investors to reassess the risk in U.S. commercial banks more broadly, particularly given the current fragility of financial markets generally and the term funding markets for financial institutions.

In addition, if a least-cost resolution did not support foreign depositors (who are considered non-deposit, general creditors under the FDI Act); the resolution could imperil this significant source of funding for other U.S. financial institutions. More generally, given Wachovia's international presence, global liquidity pressures could increase and confidence in the dollar could decline. Further, losses on Wachovia Corporation and Wachovia Bank NA paper could lead more money market mutual funds to "break the buck," accelerating runs on those and other money funds. The resulting liquidations of fund assets, along with the further loss of confidence in financial institutions, might well lead short-term funding markets to virtually cease. Moreover, the individuals and businesses whose deposits have been swept into non-deposit investments or foreign deposits (e.g., at a Cayman branch) would find all or part of their funds unavailable and likely face losses. In the current environment, such an event could shake the public's confidence in bank deposits. All of these effects would likely cause investors to sharply raise their assessment of the risks of investing in similar (albeit smaller) regional banks, making it much less likely that those institutions would be able to raise capital and other funding.

Staff believes the consequences of a least-cost resolution could extend to the broader economy. The financial turmoil that could result from a least-cost resolution of Wachovia Bank NA and the likely consequent failure of Wachovia Corporation would further undermine business and household confidence. In addition, with the liquidity of banking organizations further reduced and their funding costs increased, banking organizations would become even less willing to lend to businesses and households. These effects would contribute to weaker economic performance, further damage financial markets, and have other material negative effects.

Conclusion

Staff believes that the imposition of a least-cost resolution on Wachovia would almost surely have major systemic effects. Both financial stability and overall economic conditions would likely be adversely affected for the reasons discussed above. A resolution that protects all depository institution and holding company creditors would best mitigate the adverse effects of the failure on the financial markets and the broader economy.

In creating the systemic risk exception, Congress clearly envisioned that circumstances could arise in which the exception should be used. In view of the current intense financial strains, as well as the likely consequences to the general economy and financial system of a least-cost resolution of the fourth-largest commercial bank in the United States, staff believes that circumstances such as Congress envisioned are clearly present and that invocation of the systemic risk exception is justified. Staff further believes that the Citigroup proposal represents the least cost alternative available for dealing with this systemic risk.

Other Information

If you have any questions concerning this case, please call Herbert Held at extension 8-7329, or Sharon Yore at extension 8-7336.

This recommendation is prepared by:

Sharon Yore
Franchise and Asset Marketing
DRR - Washington

This recommendation is supported by:

George French
Deputy Director, DSC

John V Thomas for
Sara A. Kelsey
General Counsel

RESOLUTION - Citibank

WHEREAS, staff has advised the Board of Directors ("Board") of the Federal Deposit Insurance Corporation ("FDIC") that Wachovia Bank, National Association, Charlotte, North Carolina, Wachovia Mortgage, FSB, North Las Vegas, Nevada, Wachovia Bank of Delaware, National Association, Wilmington, Delaware, Wachovia Bank, FSB, Houston, Texas, and Wachovia Card Services, National Association, Atlanta Georgia ("Banks"), are in danger of default; and

WHEREAS, the Division of Resolutions and Receiverships ("DRR") has solicited bids from financial institutions for the resolution of the Banks; and

WHEREAS, DRR has received no closed bank proposals for the resolution of the Banks from other financial institutions; and

WHEREAS, a proposal for the resolution of the Banks without the appointment of the FDIC as receiver has been received from Citigroup, Inc., New York, New York ("Citi"), which involves the merger or consolidation of the Banks with another insured depository institution or the sale of any or all of the assets of the Banks or the assumption of any or all of the Banks' liabilities by another insured depository institution, or the acquisition of the stock of the Banks, any of which would benefit the shareholders of the Banks and except under limited circumstances is precluded by Section 11(a) (4)(C) of the Federal Deposit Insurance Act, as amended ("Act"), 12 U.S.C. 1821(a) (4)(C); and

WHEREAS, the Board has been advised that the Citi bid will be less costly than the other bid received and that it represents the least costly of the available methods of resolving the systemic risks presented by the failure of the Banks; and

WHEREAS, staff has presented to the Board information indicating the liquidation of the Banks under Section 11 of the Act, 12 U.S.C. 1821, would have serious adverse effects on economic conditions or financial stability; and

WHEREAS, staff has advised that assistance to the Banks under Section 13(c) of the Act, 12 USC 1823(c)(1), without the appointment of the FDIC as receiver will avoid or mitigate the serious adverse effects on economic conditions or financial stability; and

WHEREAS, staff has advised that severe financial conditions exist which threaten the stability of a significant number of insured depository institutions or of insured depository institutions possessing significant financial resources and the Banks are insured depository institutions under such threat of instability.

NOW, THEREFORE, BE IT RESOLVED, that by the vote of at least two-thirds of the members of the Board, the Board finds that the liquidation of the Banks, as well as the likely consequent failure of Wachovia Corporation, would have serious adverse effects on economic conditions or financial stability and would create systemic risk to the credit markets.

BE IT FURTHER RESOLVED, that by the vote of at least two-thirds of the members of the Board, the Board finds that the proposal received from Citi which involves the merger or consolidation of the Banks with another insured depository institution or the sale of any or all of the assets of the Banks or the assumption of any or all of the Banks' liabilities by another insured depository institution, or the acquisition of the stock of the Banks and which requires the provision of assistance under Section 13(c)(2) of the Act, 12 USC 1823(c)(2), in the form of loans to, deposits in, the purchase of assets or securities of, the assumption of liabilities of, guarantees against loss to, or contributions to, the Banks or their acquiror will mitigate the serious adverse effects on economic conditions or financial stability that would be caused by the Banks' failure.

BE IT FURTHER RESOLVED, that severe financial conditions exist which threaten the stability of a significant number of insured depository institutions or of insured depository institutions possessing significant financial resources and the Banks are insured depository institutions under such threat of instability and that the Board takes this action in order to lessen the risk to the Corporation, and systemic risks, posed by the Banks, and that the proposal by Citi will do so in the least costly of all available methods..

BE IT FURTHER RESOLVED, the Board hereby authorizes the Chairman, or her designee, to provide the written recommendation to the Secretary of the Treasury specified under Section 13(c)(4) (G)(i) of the Act, 12 USC 1823(c)(4)(G)(i).

BE IT FURTHER RESOLVED, the Board hereby authorizes the Director, DRR, or his designee, and all other FDIC staff to take all appropriate action to implement the provision of assistance authorized hereunder, including but not limited to: credit support in the form of loan guarantees, the purchase of warrants, and loss sharing; and to take any other action necessary and appropriate in connection with this matter.

September 29, 2008 FDIC Meeting Minutes

Minutes

of

The Meeting of the Board of Directors

of the

Federal Deposit Insurance Corporation

By Conference Call

Closed to Public Observation

September 29, 2008 - 6:04 A.M.

At 6:04 A.M. on Monday, September 29, 2008, the Chairman called a special meeting of the Board of Directors of the Federal Deposit Insurance Corporation which was held by means of a telephone conference call.

Sheila C. Bair, Chairman of the Board of Directors; Martin J. Gruenberg, Vice Chairman of the Board of Directors; Thomas J. Curry, Director (Appointive); John C. Dugan, Director (Comptroller of the Currency); John M. Reich, Director (Director, Office of Thrift Supervision); John F. Bovenzi, Deputy to the Chairman and Chief Operating Officer; Jason C. Cave, Acting Deputy to the Chairman; Jesse O. Villarreal, Chief of Staff; Barbara A. Ryan, Deputy to the Vice Chairman; Lisa K. Roy, Deputy to the Director (Appointive); Claude A. Rollin, Deputy to the Director (Director, Office of Thrift Supervision); Sandra L. Thompson, Director, Division of Supervision and Consumer Protection; Arthur J. Murton, Director, Division of Insurance and Research; Mitchell L. Glassman, Director, Division of Resolutions and Receiverships; Andrew S. Gray, Director, Office of Public Affairs; and Robert E. Feldman, Executive Secretary, participated in the meeting.

Also participating in the meeting were: Christopher J. Spoth, John H. Corston, Donald R. Hamm, and Patricia A. Colohan, from the Division of Supervision and Consumer Protection; John V. Thomas, Richard T. Aboussie, and David N. Wall, from the Legal Division; Miguel D. Browne, from the Division of Insurance and Research; James R. Wigand, Herbert J. Held, and Sharon L. Yore, from the Division of Resolutions and Receiverships; and William F. Harral, from the Division of Information Technology.

Julie L. Williams, First Senior Deputy Comptroller and Chief Counsel, Office of the Comptroller of the Currency, also participated in the meeting.

Chairman Bair presided at the meeting; Mr. Feldman acted as Secretary of the meeting.

Chairman Bair called the meeting to order. Vice Chairman Gruenberg then moved that the Board of Directors determine that Corporation business required its consideration of the matters which were to be the subject of the meeting on less than seven days' notice to the public; that no earlier notice of the meeting was practicable; that the public interest did not require consideration of the matters which were to be the subject of the meeting in a meeting open to public observation; and that the matters could be considered in a meeting closed to public observation by authority of subsections (c)(4), (c)(6), (c)(8), (c)(9)(A)(ii), and (c)(9)(B) of the "Government in the Sunshine Act" (5 U.S.C. 552b((c)(4), (c)(6), (c)(8), (9)(A)(ii), and (c)(9)(B)). Chairman Bair seconded the motion and, with Director Dugan, Director Curry, and Director Reich concurring, the motion was carried.

James R. Wigand, Deputy Director, Franchise and Asset Marketing Branch, Division of Resolutions and Receiverships ("DRR"), advised the Board that the prospective failure of Wachovia Corporation, Charlotte, North Carolina, and its affiliate banks and thrifts—Wachovia Bank, National Association, Charlotte, North Carolina ("Wachovia Bank, N.A."); Wachovia Mortgage, FSB, North Las Vegas, Nevada; Wachovia Bank of Delaware, National Association, Wilmington, Delaware; Wachovia Bank, FSB, Houston, Texas; and Wachovia Card Services, National Association, Atlanta, Georgia—would have serious adverse effects on economic conditions and financial stability. He continued, observing that Wachovia Corporation's failure would seriously and negatively affect already disrupted credit markets, including short-term interbank lending, counterparty relations in Qualified Financial Contract markets, and bank senior and subordinated debt markets, and would further disrupt the related markets in derivative products and other markets. As a consequence, Mr. Wigand set forth staff's recommendation that the Board accept the bid of Citigroup Inc. as the least costly available method of dealing with this systemic risk, and that the Board authorize staff to take all steps needed to implement the decision. He indicated to the Board that, based on preliminary information, staff estimates no loss to the Deposit Insurance Fund as a result of the transaction.

John H. Corston, Associate Director, Large Institutions and Analysis Branch, Complex Financial Institutions, Division of Supervision and Consumer Protection, informed the Board that Wachovia Bank, N.A. is a nationally chartered bank founded in 1879 that is wholly owned by Wachovia Corporation, a financial holding company regulated by the Board of Governors of the Federal Reserve System; that Wachovia Bank, N.A., is the fourth largest bank in the country and the predominant legal entity within Wachovia Corporation, representing 83 percent of consolidated holding company assets; that the insured legal entities of Wachovia Corporation consist of three national banks and two Federal savings banks; that other significant holding company subsidiaries include Wachovia Capital Markets, LLC, and Wachovia Securities, LLC; that Wachovia Bank, N.A., operates approximately 3,400 banking centers in 21 states, primarily along the eastern and gulf coasts and in California, and engages in foreign activities; that the risk profile of Wachovia Bank, N.A., is declining rapidly because of deteriorating liquidity and poor quality assets; that liquidity has reached crisis proportions, such that the Wachovia Bank, N.A., is unable to meet its obligations; that, most recently, on Friday, September 26, 2008, Wachovia Bank, N.A., was unable to roll $1.1 billion of its asset-backed commercial paper; that more short-term obligations are due this week that Wachovia Bank, N.A., will likely be unable to pay; and that there are an estimated $157.1 billion in uninsured deposits. He concluded his portion of the presentation by informing the Board that the company's rapidly deteriorating financial condition is due largely to its portfolio of pay-option ARM products, commercial real estate portfolio, and weakened liquidity position; and that, on Friday, September 26, 2008, market acceptance of Wachovia Corporation's liabilities ceased as the company's stock plunged, credit default swap spreads widened in excess of 1,400 points (to over 2,000 points), some parties declined to advance Wachovia Bank, N.A., overnight funds, and counterparties advised that they would require greater collateralization on any transactions with the Bank.

Next, Miguel D. Browne, Associate Director, Division of Information and Research, informed the Board that, given the forecasted size of the losses at Wachovia Bank, N.A., it appears likely that any transaction effected by the Corporation under a least-cost framework would require the Corporation to impose significant losses on the Wachovia Bank, N.A.'s subordinated debt-holders and, possibly, senior note holders. In addition, he said, absent invocation of the systemic risk exception available under the Federal Deposit Insurance Act, the Corporation is prohibited from using deposit insurance funds to benefit senior or secured debt-holders of a company.

Mr. Browne then said, however, that staff believes that a least-cost resolution of Wachovia Bank, N.A., would have significant adverse effects on economic conditions and the financial markets; that term funding markets have been under considerable stress for more than a year, and these pressures have increased greatly following the failure of Lehman Brothers, the difficulties at AIG, and the closing of Washington Mutual Bank, Henderson, Nevada; that LIBOR rates have increased more than 100 basis points since early September; that commercial paper rates have also risen dramatically; and that the volume of financial paper outstanding has declined sharply. In both of these markets, Mr. Browne stated, the maturity of new issues has shortened a great deal as investors have become much less willing to lend beyond overnight. Mr. Browne continued, observing that concerns about actual and potential losses on financial institutions' obligations have caused outflows from prime money market mutual funds totaling nearly $400 billion over the past two weeks; that, since these funds are normally substantial purchasers of commercial paper and short-term bank obligations, these outflows have added to the pressures in those markets; and that, more generally, investors appear to have become more concerned about the outlook of a number of U.S. banking organizations, putting downward pressure on their stock prices and upward pressure on their collateralized debt security spreads.

Mr. Browne said that, in the current environment, a least-cost resolution of Wachovia Bank, N.A., with no assistance to creditors and the potential for meaningful losses imposed on Wachovia Bank, N.A.'s debt would be expected to have significant systemic consequences. A default by Wachovia Corporation and a partial payout to debtors of Wachovia Bank, N.A., he said, would intensify liquidity pressures on other U.S. banks, which are extremely vulnerable to a loss of confidence by wholesale suppliers of funds. Furthermore, Mr. Browne said that investors would likely be concerned about direct exposures of other financial firms to Wachovia Corporation or Wachovia Bank, N.A.; that the failure of Wachovia Corporation would lead investors to doubt the financial strength of other institutions that might be seen as similarly situated; and that Wachovia's sudden failure could also lead investors to reassess the risk in U.S. commercial banks more broadly, particularly given the current fragility of financial markets generally and the term funding markets for financial institutions.

In addition, Mr. Browne stated that, if a least-cost resolution did not support foreign depositors (who are considered non-deposit, general creditors under the Federal Deposit Insurance Act), the resolution could imperil this significant source of funding for other U.S. financial institutions. More generally, he said that, given Wachovia's international presence, global liquidity pressures could increase and confidence in the dollar could decline. Further, Mr. Browne said that losses on Wachovia Corporation and Wachovia Bank, N.A., paper could lead more money market mutual funds to "break the buck," accelerating runs on those and other money funds. The resulting liquidations of fund assets, said Mr. Browne, along with the further loss of confidence in financial institutions, might well lead short-term funding markets to virtually cease. Moreover, he said, the individuals and businesses whose deposits have been swept into non-deposit investments or foreign deposits (e.g., at a Cayman branch) would find all or part of their funds unavailable and likely face losses. In the current environment, such an event could shake the public's confidence in bank deposits, Mr. Browne said, and, as a consequence, all of these effects would likely cause investors to sharply raise their assessment of the risks of investing in similar (albeit smaller) regional banks, making it much less likely that those institutions would be able to raise capital and other funding.

Mr. Browne set out staff's belief that the consequences of a least-cost resolution could extend to the broader economy. The financial turmoil that could result from a least-cost resolution of Wachovia Bank, N.A., and the likely consequent failure of Wachovia Corporation, he said, would further undermine business and household confidence. In addition, with the liquidity of banking organizations further reduced and their funding costs increased, Mr. Browne stated that banking organizations would become even less willing to lend to businesses and households, and that these effects would contribute to weaker economic performance, further damage financial markets, and have other material negative effects.

Then, Mr. Browne expressed to the Board staff's conclusion that the imposition of a least-cost resolution on Wachovia Bank, N.A., would almost surely have major systemic effects. He said that both financial stability and overall economic conditions would likely be adversely affected for the reasons discussed above. Conversely, Mr. Browne stated that a resolution that protects all depository institution and holding company creditors would best mitigate the adverse effects of the failure on the financial markets and the broader economy.

Mr. Browne expressed the view that, in creating the systemic risk exception, Congress clearly envisioned that circumstances could arise in which the exception should be used. In view of the current intense financial strains, as well as the likely consequences to the general economy and financial system of a least-cost resolution of the fourth-largest commercial bank in the United States, he affirmed that staff believes that circumstances such as Congress envisioned are clearly present and that invocation of the systemic risk exception is justified. As a result, he said, staff further believes that the Citigroup Inc. proposal represents the least cost alternative available for dealing with this systemic risk.

Herbert J. Held, Assistant Director, Institution Sales Unit, Franchise and Asset Marketing Branch, DRR, then informed the Board that, on September 28, 2008, Corporation staff began discussions with Citigroup Inc., New York, New York, and Wells Fargo & Company ("Wells Fargo"), both of which submitted bids to the Corporation on the same day. Both bids, he said, sought open bank assistance from the Corporation. Mr. Held stated that the Wells Fargo bid would require that the Corporation cover potential losses on a pool up to $127.3 billion in assets (includes $80.7 billion funded); that Wells Fargo would assume the first $2 billion in losses on the pool of assets, following which the Corporation will share in the losses at the rate of 80 percent; and that total Corporation loss exposure be capped at $20 billion. He set out staff's estimate that this proposal would cost the Corporation between $5.6 million to $7.2 billion.

The Citigroup Inc. bid, Mr. Held said, requests that the Corporation provide loss sharing on a $312 billion pool of assets, with losses to be shared as follows: (i) the first $30.0 billion of losses in the pool are to be assumed by Citigroup Inc. 100 percent, and (ii) Citigroup Inc. is to assume $4 billion a year of losses for three years. Additionally, Mr. Held said that the Corporation will receive face value of $12 billion in preferred stock and warrants.

Mr. Held said that Wachovia Corporation had submitted an open bank assistance proposal. Approximately $200 billion of the Wachovia Bank, N.A.'s loans, he stated, would receive credit protection from the Corporation, of which the Bank would provide

$25 billion of first loss protection. In return, Mr. Held said that Wachovia Corporation would issue to Corporation $10 billion of preferred stock and warrants on common shares. Considering current market conditions, Mr. Held informed the Board that staff estimates the Citigroup Inc. transaction could result in aggregate losses ranging from approximately $35 to $52 billion. However, based upon the terms of the Citigroup Inc. proposal, Mr. Held said that staff also held the view that these losses would be absorbed by Citigroup Inc. and result in no loss to the Deposit Insurance Fund.

Following staff's presentation, Vice Chairman Gruenberg noted the significance of the proposal and observed that this will be the Board's first exercise of the systemic risk exception provided by Congress to the Corporation in the Federal Deposit Insurance Corporation Improvement Act of 1991. He indicated that the staff proposal was the best of a set of undesirable options, but noted that approving the proposal would be an appropriate action in the face of extraordinary times. Director Curry agreed with Vice Chairman Gruenberg and observed that all of the elements for the systemic risk exception are amply supported in the case submitted by staff to the Board and by the circumstances both at Wachovia Corporation and external conditions within the economy at large.

Director Dugan also noted the extraordinary times and said that it was remarkable that this situation has been reached because the insured depository institution subsidiaries of Wachovia Corporation are, in many ways, a quite viable, attractive franchise. However, he said that they simply could not withstand the liquidity shock that it was facing because of the extraordinary circumstances in the markets. He indicated that the proposal sets out a clear example of the need for the systemic risk exception and that the views of the Board of Governors of the Federal Reserve System and the Department of the Treasury the prior two days confirmed that. Director Dugan commended staff for doing a very good job of developing the proposal over a very short time. As did Vice Chairman Gruenberg and Director Curry, he also observed that this was the best option among competing offers and would result in no cost to the Corporation.

Then, in response to a question from Director Reich, Mr. Wigand indicated that Citigroup Inc.'s proposal requires the approval of the shareholders of Wachovia Corporation, and that it is for a dollar per share purchase price of the stock.

John V. Thomas, Deputy General Counsel, Supervision Branch, Legal Division, then informed Director Reich that the Corporation may not benefit equity holders when resolving troubled financial institutions unless a systemic risk determination is made, and that is why such a determination is necessary in order to effectuate this transaction. In addition, Mr. Thomas said that all of the senior subordinated debt holders are being assumed in the transaction.

Director Reich then inquired whether litigation risk could come about from the fact that equity and debt holders were wiped out in the acquisition of Washington Mutual Bank, Henderson, Nevada, by JPMorgan Chase, National Association, Columbus, Ohio, facilitated by the Corporation just on September 25, 2008. Mr. Thomas responded that no one has a right to a systemic risk determination. Director Reich then asked whether there is any exposure to the depository institutions industry for a special assessment. Mr. Thomas responded that, if the current projection of no cost to the Corporation for the instant transaction holds up, there will be no special assessment. On the other hand, Mr. Thomas said that if it turns out that there is a cost from the transaction as a result of the systemic risk finding, then the industry would be assessed on assets minus equity rather than on deposits. Chairman Bair then added that the Department of the Treasury has already agreed that, if there are any losses attendant with the transaction, it will separately fund those so that the Corporation's cash balance would not be depleted in any way. She said that this was in contrast to the Department of Treasury's usual rule that the Corporation must spend down its entire cash balance before the Corporation can borrow from the Treasury. She expressed her thought that it would probably be remote that the Corporation would suffer any losses from the transaction, given the sizable first loss position that Citigroup Inc. has taken, but she said that it was especially important that the Department of the Treasury has agreed to fund the losses separately in that it has vigorously advocated the transaction.

In response to Director Reich's question whether any other large depositor institution failures might require resolution within the next several weeks, Chairman Bair responded that National City Bank, Cleveland, Ohio, is being watched closely. Director Dugan added that, if anything were to happen to National City Bank shortly, it would be a liquidity-based issued, not a capital-based issue as in the instant case. He added that it is difficult to predict what direction National

City Bank will take given the current financial "storm" affecting the country.

Chairman Bair then agreed with Vice Chairman Gruenberg that the staff proposal was one of several not-very-good options. She noted the importance of the fact that the Board of Governors of the Federal Reserve System and the Department of the Treasury had acted quickly to find a systemic risk exception. She also observed how important that outcome was to the Office of the Comptroller of the Currency. She then said that she has acquiesced in the systemic risk exception decision based on the input of her colleagues and the fact that the Federal Deposit Insurance Act gives multiple decision makers a say in this process. She said, however, that she was not completely comfortable with that decision, but that the Corporation needed to move forward with it because of the tenuous position in which the insured depository institution subsidiaries of Wachovia Corporation find themselves. Chairman Bair commended staff for going above and beyond the usual challenges of the job in that staff did not know until approximately 5:00 p.m. the previous day that the transaction would be done on an open bank assistance basis. However, she noted that, while markets move quickly, the lack of time put staff in a bind, making for a very difficult night because of the requirement that a resolution was needed by morning.

Then, in accordance with the recommendation of staff and on motion of Vice Chairman Gruenberg, seconded by Director Dugan, concurred in by Director Curry, Director Reich, and Chairman Bair, the Board adopted the following resolution:

(1) finding, by the vote of at least two-thirds of the members of the Board, that the liquidation of the insured depository institution subsidiaries of Wachovia Corporation ("Banks"), as well as the likely consequent failure of Wachovia Corporation, would have serious adverse effects on economic conditions or financial stability and would create systemic risk to the credit markets;

(2) finding, by the vote of at least two-thirds of the members of the Board, that the proposal received from Citigroup Inc. which involves the merger or consolidation of the Banks with another insured depository institution or the sale of any or all of the assets of the Banks or the assumption of any or all of the Banks' liabilities by another insured

depository institution, or the acquisition of the stock of the Banks and which requires the provision of assistance under section 13(c)(2) of the Federal Deposit Insurance Act, 12 U.S.C. § 1823(c)(2), in the form of loans to, deposits in, the purchase of assets or securities of, the assumption of liabilities of, guarantees against loss to, or contributions to, the Banks or their acquirer will mitigate the serious adverse effects on economic conditions or financial stability that would be caused by the Banks' failure;

(3) finding that severe financial conditions exist which threaten the stability of a significant number of insured depository institutions or of insured depository institutions possessing significant financial resources and the Banks are insured depository institutions under such threat of instability and that the Board takes this action in order to lessen the risk to the Corporation, and systemic risks, posed by the Banks, and that the proposal by Citigroup Inc. will do so in the least costly of all available methods;

(4) authorizing the Chairman, or her designee, to provide the written recommendation to the Secretary of the Treasury specified under section 13(c)(4)(G)(i) of the Federal Deposit Insurance Act, 12 U.S.C. § 1823(c)(4)(G)(i); and

(5) authorizing the Director, DRR, or his designee, and all other Corporation staff to take all appropriate action to implement the provision of assistance authorized hereunder, including but not limited to: credit support in the form of loan guarantees, the purchase of warrants, and loss sharing, and to take any other action necessary and appropriate in connection with this matter:

WHEREAS, staff has advised the Board of Directors ("Board") of the Federal Deposit Insurance Corporation ("FDIC") that Wachovia Bank, National Association, Charlotte, North Carolina, Wachovia Mortgage, FSB, North Las Vegas, Nevada, Wachovia Bank of Delaware, National Association, Wilmington, Delaware, Wachovia Bank, FSB, Houston, Texas, and Wachovia Card Services, National Association, Atlanta, Georgia ("Banks"), are in danger of default; and

WHEREAS, the Division of Resolutions and Receiverships ("DRR") has solicited bids from financial institutions for the resolution of the Banks; and

WHEREAS, DRR has received no closed bank proposals for the resolution of the Banks from other financial institutions; and

WHEREAS, a proposal for the resolution of the Banks without the appointment of the FDIC as receiver has been received from Citigroup Inc., New York, New York ("Citi"), which involves the merger or consolidation of the Banks with another insured depository institution or the sale of any or all of the assets of the Banks or the assumption of any or all of the Banks' liabilities by another insured depository institution, or the acquisition of the stock of the Banks, any of which would benefit the shareholders of the Banks and except under limited circumstances is precluded by section 11(a)(4)(C) of the Federal Deposit Insurance Act, as amended ("Act"), 12 U.S.C. § 1821(a)(4)(C); and

WHEREAS, the Board has been advised that the Citi bid will be less costly than the other bid received and that it represents the least costly of the available methods of resolving the systemic risks presented by the failure of the Banks; and

WHEREAS, staff has presented to the Board information indicating the liquidation of the Banks under section 11 of the Act, 12 U.S.C. § 1821, would have serious adverse effects on economic conditions or financial stability; and

WHEREAS, staff has advised that assistance to the Banks under section 13(c) of the Act, 12 U.S.C. § 1823(c)(1), without the appointment of the FDIC as receiver will avoid or mitigate the serious adverse effects on economic conditions or financial stability; and

WHEREAS, staff has advised that severe financial conditions exist which threaten the stability of a significant number of insured depository institutions or of insured depository institutions possessing significant financial resources and the Banks are insured depository institutions under such threat of instability.

NOW, THEREFORE, BE IT RESOLVED, that by the vote of at least two-thirds of the members of the Board, the Board finds that the liquidation of the Banks, as well as the likely consequent failure of Wachovia Corporation, would have serious adverse effects on economic conditions or financial stability and would create systemic risk to the credit markets.

BE IT FURTHER RESOLVED, that by the vote of at least two-thirds of the members of the Board, the Board finds that the proposal received from Citi which involves the merger or consolidation of the Banks with another insured depository institution or the sale of any or all of the assets of the Banks or the assumption of any or all of the Banks' liabilities by another insured depository institution, or the acquisition of the stock of the Banks and which requires the provision of assistance under section 13(c)(2) of the Act, 12 U.S.C. § 1823(c)(2), in the form of loans to, deposits in, the purchase of assets or securities of, the assumption of liabilities of, guarantees against loss to, or contributions to, the Banks or their acquirer will mitigate the serious adverse effects on economic conditions or financial stability that would be caused by the Banks' failure.

BE IT FURTHER RESOLVED, that severe financial conditions exist which threaten the stability of a significant number of insured depository institutions or of insured depository institutions possessing significant financial resources and the Banks are insured depository institutions under such threat of instability and that the Board takes this action in order to lessen the risk to the FDIC, and systemic risks, posed by the Banks, and that the proposal by Citi will do so in the least costly of all available methods.

BE IT FURTHER RESOLVED, the Board hereby authorizes the Chairman, or her designee, to provide the written recommendation to the Secretary of the

Treasury specified under section 13(c)(4)(G)(i) of the Act, 12 U.S.C. § 1823(c)(4)(G)(i).

BE IT FURTHER RESOLVED, the Board hereby authorizes the Director, DRR, or his designee, and all other FDIC staff to take all appropriate action to implement the provision of assistance authorized hereunder, including but not limited to: credit support in the form of loan guarantees, the purchase of warrants, and loss sharing; and to take any other action necessary and appropriate in connection with this matter.

[EXECUTIVE SECRETARY'S NOTE: On Monday, September 29, 2008, as a result of the Board's action earlier that day, Citigroup Inc. agreed to acquire the banking operations of Wachovia Corporation, Charlotte, North Carolina, in a transaction facilitated by the Corporation and concurred with by the Board of Governors or the Federal Reserve System and the Secretary of the Treasury in consultation with the President, resulting in all depositors being fully protected and the expectation that there will be no cost to the Deposit Insurance Fund. Citigroup Inc. will acquire the bulk of Wachovia Corporation's assets and liabilities on an open bank basis with assistance from the Corporation, including five depositor institutions: Wachovia Bank, National Association, Charlotte, North Carolina, Wachovia Mortgage, FSB, North Las Vegas, Nevada, Wachovia Bank of Delaware, National Association, Wilmington, Delaware, Wachovia Bank, FSB, Houston, Texas, and Wachovia Card Services, National Association, Atlanta, Georgia. Wachovia Corporation will continue to own AG Edwards and Evergreen. The Corporation has entered into a loss sharing arrangement on a pre-identified pool of loans, with Citigroup Inc. to absorb up to $42 billion of losses on a $312 billion pool of loans and the Corporation to absorb losses beyond that; and Citigroup has granted the Corporation $12 billion in preferred stock and warrants to compensate the Corporation for bearing the risk.]

Documents and materials relevant to the Board's consideration of the foregoing are marked an exhibit for identification, are filed in the jacket of this meeting, and, by reference, are made a part of these minutes and the permanent files of the Board of Directors.

There being no further business, the meeting was adjourned.

Executive Secretary

September 29, 2008 FDIC Meeting Transcript

UNITED STATES OF AMERICA

FEDERAL DEPOSIT INSURANCE CORPORATION

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BOARD OF DIRECTORS

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MEETING
CLOSED SESSION

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MONDAY
SEPTEMBER 29, 2008

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The Board convened at 6:00 a.m. in the Federal Deposit Insurance Corporation Board Room at 550 17th Street, N.W., Washington, D.C., Sheila C. Bair, Chairman, presiding.

PRESENT:

SHEILA C. BAIR, Chairman

MARTIN J. GRUENBERG, Vice Chairman

THOMAS J. CURRY, Director

JOHN C. DUGAN, Comptroller of the Currency

JOHN M. REICH, Director, Office of Thrift Supervision

STAFF PRESENT:

Miguel Bran
John H. Corston
Herbert J. Held
Jim Wigand

P R O C E E D I N G S

CHAIRMAN BAIR: Okay. I have no gavel, so we'll just begin this morning the meeting.

(laughter.)

CHAIRMAN BAIR: Okay. I'd like to call the meeting to order. I need a Sunshine motion.

MR. : I move.

CHAIRMAN BAIR: May I have a second? I'll second. All in favor, say aye.

[Chorus of ayes]

CHAIRMAN BAIR: The motion's agreed to. No summary agenda. There's one item on the discussion agenda. It is a memorandum and resolution relating to Wachovia Bank, National Association, Charlotte, North Carolina, and its affiliate insured depository institutions.

Jim Wigand, John Corston, Miguel Bran and Herb Held will present the case.

MR. WIGAND: Good morning, Madam

Chairman, members of the Board. We're here to present a recommendation that the Board find that the respective failure of Wachovia Corporation and its affiliates, banks and thrifts, would have serious adverse effects on economic conditions and financial stability. Its failure would seriously and negatively affect already-disrupted credit markets, including short-term interbank lending, counterparty relationships and qualified financial contract markets, and bank senior subordinated debt markets and would further disrupt the related markets and derivative products in other markets.

Staff recommends that the Board accept the bid of Citigroup as the least costly available method, mitigating systemic risk, and that the Board authorize staff to take all steps needed to implement this decision.

Based on preliminary information, staff estimates that there will be no expected loss to the Deposit Insurance Fund for this transaction.

MR. CORSTON: Wachovia Bank is a nationally-chartered bank. It's wholly-owned by Wachovia Corporation. The bank is the fourth largest bank in the country and is the predominant legal entity within Wachovia Corporation representing 83 percent of consolidated holding company assets. The insured legal entities of Wachovia Corporation consist of three national banks and two federal savings banks. The bank operates approximately 3400 banking centers in 21 states.

The risk profile of the bank is declining rapidly because of deteriorating liquidity and poor quality assets, and liquidity has reached crisis proportions.

The company's rapidly deteriorating financial condition is due largely to its portfolio of pay option ARM products, commercial real estate portfolio, and weakened liquidity position.

On Friday, September 26, market acceptance of Wachovia liability ceased as the company's stock plunged, credit default swap spreads widened, some parties declined to advance the bank overnight funds, and counterparties advised that they would require greater collateralization on any transactions with the bank.

Unless the bank immediately attracts a merger partner, the FDIC and other regulators project the bank will likely be unable to pay obligations or meet expected deposit outputs.

Miguel.

MR. BRAN: Thanks, John. Staff recommends the Board find the least-cost resolution of Wachovia and its affiliate banks and thrifts, and they'd have serious adverse effects on economic conditions and financial stability, and would seriously disrupt an already moribund credit market.

The least-costly resolution would likely be a purchase and assumption after the FDIC was appointed receiver. I'd like to first describe some of the economic and financial circumstances we find ourselves in in September 2008.

Short-term funding mechanisms in interbank lending are under considerable strain. This pressure is increasing following the failure of Lehman Brothers, the difficulties of AIG, the closing of WaMu. Libor has jumped a 100 basis points in the last three weeks. Commercial paper rates have risen dramatically. And this has all led to a strained liquidity position for many banks and has resulted in downward pressure on stock prices and upward pressure on credit default swap prices.

All of these effects would likely cause investors to rise sharply their assessments of the risks of investing in similar, albeit smaller regional banks, making it much less likely that those institutions would be able to raise capital and other funding.

The potential also exists for the harm to extend to the broader economy. It could undermine business and household confidence and also cause banks to become less willing to lend to businesses and households.

If the systemic risk exception were invoked, staff believes that the transaction described --

[Teleconference is interrupted.]

MR. : [inaudible] is now joining.

CHAIRMAN BAIR: Who joined?

MS. : Hello. This is Julie Williams [ph].

CHAIRMAN BAIR: okay.

MR. BRAN: -- described in this Board case would avoid all or most of the adverse impacts discussed previously. Use of the systemic risk exception may involve cost. The FDIC could suffer some losses from protection of certain asset pools, although the expectation is not. The size of the losses is not known and, as described by Mr. Wigand, is likely to be zero.

In addition, moral hazard will be exacerbated and the potential for market discipline in the future would be reduced for the very largest depository institutions.

In conclusion, staff believes the imposition of a least-cost resolution on Wachovia would almost surely have major systemic effects. Both financial stability and overall economic condition would likely be adversely affected for the reasons already discussed.

Staff believes we have recommended the least-costly alternative, one where equity holders take significant losses, albeit not wiped out. A least-cost resolution that protects most creditors would best ameliorate the adverse effects of a failure on financial markets and the real economy.

In creating the systemic risk exception, the Congress clearly envisioned that circumstances could arise in which the exception should be used. In view of the current intense financial strains which have already seriously impaired the functioning of the financial system and the likely consequences for the financial system and the economy of a least-cost resolution of the fourth largest commercial bank in the United States, staff believes that the circumstances such as Congress envisioned are clearly present and that invocation of the systemic risk exception is justified. Thank you.

Herb.

MR. HELD: An electronic data room was established by the bank in order to allow potential buyers to perform due diligence. However, there were no proposals submitted on an open basis.

On September 28th, the FDIC staff began discussions with Citigroup and Wells Fargo, both of which submitted bids the same day. Both bids sought open bank assistance from the FDIC.

The Wells Fargo bid required the FDIC to cover potential losses on a pool of up to $137.3 billion in assets, of which 80.7 billion has been funded. Wells Fargo would assume the first $2 billion of losses, and thereafter, losses would be shared, 80 percent for FDIC and 20 percent for Wells.

Our analysis of this proposal estimated the cost to be between 5.6 and 7.2 billion dollars. Our exposure in the transaction was capped at $20 billion net.

The Citi bid, Citigroup bid requested that FDIC provide loss-share (audio drops for about a second) on a $312 billion pool. Losses would be shared first. The first $30 billion of losses would be absorbed by Citigroup. Then Citigroup would absorb $4 billion in losses a year for the next three years and after that, FDIC would absorb all the losses. These would be partially offset or, we think, wholly offset by $12 billion of preferred stock transference, which FDIC would receive at the closing of the transaction.

We -- our analysis of the (audio breakup) group portfolio indicates that losses range between 35 and (audio breakup) billion dollars. And even under the most severe scenario, there would be no cost to the DIF fund.

In addition, Wachovia Corporation itself submitted a proposal for open-bank assistance, and it required a pool of $200 billion of loans to have credit protection from the FDIC, and the Wachovia would cover the first $25 billion in losses, and the FDIC would receive $10 billion in preferred stock and warrants.

Based on our analysis, the proposal from Citigroup is no cost, and is clearly the better of these proposals.

MR. : Now just for a point of clarification, that is making an assumption of the estimated high-end loss of the range of losses. It would appear that the cushion available with the transaction with City would still not result in a loss to the Deposit Insurance Fund, but, you know, once again, you know, we have the range of estimates there, and the point estimate is certainly within the range of the absorption amount (audio breakup) provided by Citi.

CHAIRMAN BAIR: Okay. Thank you.

Vice Chairman Gruenberg.

VICE CHAIRMAN GRUENBERG: Thank you, Madam Chairman. I will say, this is a momentous proposal that's being placed before the Board. It will be the first exercise by the Board of the systemic risk exception that was provided in the Federal Deposit Insurance

Corporation Improvement Act of 1991.

It is a decision, it seems to me, we reach reluctantly, and in some sense, we don't have a desirable option in front of us, but among the options available, this is perhaps the best.

So it's the least bad, perhaps, of a set of undesirable options, and in that regard we're facing extraordinary times, and this is the appropriate action for us to take at this time, and I'm prepared to support this case.

CHAIRMAN BAIR: Thank you.

Director Curry.

DIRECTOR CURRY: I agree with the vice chairman. It's -- sadly, all the elements of the systemic risk has seemed to be amply supported by the case and the circumstances both at Wachovia, and external conditions within the economy at large. So I am also prepared to vote in favor of this.

CHAIRMAN BAIR: Director Dugan.

DIRECTOR DUGAN: Thank you, Madam Chairman. I think these are absolutely extraordinary time. I think it's remarkable that we've come to this situation where an institution like Wachovia, which, in many ways, is a quite viable, attractive franchise, just couldn't withstand the liquidity shock that it was facing because of the extraordinary circumstances in markets. I think that this is a clear example of the need for the systemic risk exception, certainly with the view of the Federal Reserve and Treasury Department, and discussions that we've had over the weekend, I don't think we have any choice. I'd say I want to commend staff. I think they did a very good job of putting this together in a very short period of time, and I think among the competing offers, this was the best option, and one that (audio breakup) no cost to the FDIC fund. It certainly helps them, and I support the resolution.

CHAIRMAN BAIR: Director Reich.

DIRECTOR REICH: Thank you, Madam Chairman. There's a lot that I don't know, unfortunately. I heard staff indicate that equity holders would take significant losses, though not wiped out, and I guess I'd like to know what, what that means. Could somebody --

CHAIRMAN BAIR: Do you want to take that, Jim.

MR. WIGAND: The proposal that Citicorp is tendering, and of course it has to be approved by the shareholders of Wachovia, is for a dollar per share purchase price of the stock.

MR. POLAKOFF: What does the FDI Act require with respect to treatment of equity holders?

MR. : John Thomas is coming to the table.

MR. THOMAS: It requires that (audio breakup) probably not benefit equity holders unless there is a systemic determination. That's why a systemic determination is necessary in this case in order to do this transaction.

I would add, I think in addition to the dollar a share, there would be some assets left behind in the holding company, but the --

MR. WIGAND: That's correct.

MR. THOMAS: -- bulk of its debt would be assumed. I think Citi's guessing about $2 or 2.60 a share value for stock. That's their guess. It's not ours.

MR. : And what about the debt holders, the subordinated debt, senior debt?

MR. : In all cases the senior subordinated debt holders are being assumed in the transaction.

MR. POLAKOFF: How do we -- what do we think we're doing, or how will litigation risk be affected -- now I'm thinking of WaMu -- equity and debt holders that were wiped out. Are we -- do we run the risk of increased litigation risk for --

MR. : No one has a right, a legal right to a systemic risk determination and being bailed out. I think the answer is this does not change that risk. It may change the risk whether someone sues. It will not change the risk where there's any significant loss, risk of loss in that litigation. Any time somebody sees money, you may get a law suit; but it does not change the legal risk.

MR. : Is there any exposure to the industry for a special assessment?

MR. : If it turns out that the transaction actually does cost more than a simple closing of the institutions here would cost, and right now it looks like a zero cost -- our best estimate, zero cost. If that's true, there'll be no special assessment. If it turns out that there is a cost from doing the systemic finding, and doing the transaction this way, then the industry would be assessed, and they're assessed based on assets minus equity rather than on deposits.

CHAIRMAN BAIR: Treasury's also agreed if there are any losses attendant with this transaction, they will separately fund those, so that our cash balance wouldn't be depleted in any way, and hopefully our reserve balance*.. I guess that's still "up in the air." What do they -- as an accounting matter we could do that.

MR. : Does that -- when you say that they would separately fund the losses, does that mean that the industry would not be assessed, or --

CHAIRMAN BAIR: No. Unfortunately, with our statute, there's a special assessment for any costs associated, or losses associated with a systemic risk exception. But the usual rule for Treasury is that we have to spend down our entire balance before the will allow us to borrow from them. In this case, they've agreed to fund any, any losses that we might suffer in connection with this transaction, so that we would not have to -- it would not deplete our cash balance.

I don't think that's going to happen. I think that the -- at least given --I think staff is right, that it's probably remote that we will suffer any losses under this, given the sizeable first loss position that Citi has taken.

But it was important to me, especially since Treasury are the ones vigorously pushing this, that they agree to separately fund those losses if we do incur them. And we're trying, we're still trying to determine whether they could give us some type of language that would allow us not to have to reserve against those losses if they should occur.

In other words, they would just fund them immediately as they occurred so it wouldn't impact our DIF balance. But we're not talking about that. We haven't worked that out yet.

MR.   : Are we anticipating any other possibility of a large failure within the next couple weeks?

CHAIRMAN BAIR: Well, I know John Dugan, he might have some thoughts on that. We're watching that Citi closely. I think we need to have more discussions with OCC. I'm not aware on the staff. John, do you have anything?

DIRECTOR DUGAN: What I would say is if it happens, it will be a liquidity-based issue, not a capital-based issue like this one, and it'll depend on how markets react, and we'll -- institutions have been taking precautions but in the financial storm that we're in, it's difficult to predict what direction it will take for the particular institution which Sheila just mentioned or other institutions, whether supervised by us or others.

CHAIRMAN BAIR: Okay. Any more questions, John?

MR. : I think that's it, Sheila. Thank you.

CHAIRMAN BAIR: Thank you.

Well, i think this is, you know, as Marty said, one option of a lot of not-very-good options. I would note for the record, that both the Treasury and the Federal Reserve Board "weighed in" early on for us to provide a systemic risk exception. In fact, the Federal Reserve Board, several hours ago, voted on a systemic risk exception before we'd even acted. So they clearly, both pressed for this, and I know it was important to the OCC as well.

I have acquiesced in that decision based on the input of my colleagues, and the fact the statute gives multiple decision makers a say in this process.

I'm not completely comfortable with it but we need to move forward with something, clearly, because this institution is in a tenuous situation.

I would like to very much thank and commend the staff for really going above and beyond a very -- you know, usual challenges of the job. We did not really know, until 5:00 o'clock yesterday afternoon, that this was not going to get done on an open bank and assisted basis, and it really put us in a bind. So it is what it is, markets move quickly, and we just take the balls as they come, or pitched at us. But it was a very difficult night and a resolution that is a resolution, and we needed a resolution that, whether it's the best resolution I don't know.

So with that, I will -- may I have a motion with respect to Wachovia Bank.

MR. : I move.

CHAIRMAN BAIR: And may I have a second.

MR. : Second.

CHAIRMAN BAIR: All in favor say aye.

[Chorus of ayes]

CHAIRMAN BAIR: The motion's agreed to. That concludes the discussion agenda. Thank you, gentlemen, for all getting up so early, and John, in your case staying up all night. And if there's no more business, we'll conclude the meeting. Thank you.

(Whereupon, the closed meeting was concluded)

September 29, 2008 FDIC Board Resolution

FEDERAL DEPOSIT INSURANCE CORPORATION

CERTIFIED COPY OF RESOLUTION OF THE BOARD OF DIRECTORS

I, Robert E. Feldman, Executive Secretary of the Federal Deposit Insurance Corporation, do hereby certify that the attached is a true and correct copy of a resolution duly adopted at a meeting of the Board of Directors of said Corporation, regularly called and held on the 29th day of September, 2008, at which a quorum was present, and that the same has not been amended or rescinded and is now in full force and effect.

(SEAL)

IN WITNESS WHEREOF, I have hereunto subscribed my name and caused the seal of the Corporation to be affixed hereto, in the City of Washington and District of Columbia, this 29th day of September, 2008.

076709

Executive Secretary
Federal Deposit Insurance Corporation

RESOLUTION

WHEREAS, staff has advised the Board of Directors ("Board") of the Federal Deposit Insurance Corporation ("FDIC") that Wachovia Bank, National Association, Charlotte, North Carolina, Wachovia Mortgage, FSB, North Las Vegas, Nevada, Wachovia Bank of Delaware, National Association, Wilmington, Delaware, Wachovia Bank, FSB, Houston, Texas, and Wachovia Card Services, National Association, Atlanta, Georgia ("Banks"), are in danger of default; and

WHEREAS, the Division of Resolutions and Receiverships ("DRR") has solicited bids from financial institutions for the resolution of the Banks; and

WHEREAS, DRR has received no closed bank proposals for the resolution of the Banks from other financial institutions; and

WHEREAS, a proposal for the resolution of the Banks without the appointment of the FDIC as receiver has been received from Citigroup Inc., New York, New York ("Citi"), which involves the merger or consolidation of the Banks with another insured depository institution or the sale of any or all of the assets of the Banks or the assumption of any or all of the Banks' liabilities by another insured depository institution, or the acquisition of the stock of the Banks, any of which would benefit the shareholders of the Banks and except under limited circumstances is precluded by section 11(a)(4)(C) of the Federal Deposit Insurance Act, as amended ("Act"), 12 U.S.C. § 1821(a)(4)(C); and

WHEREAS, the Board has been advised that the Citi bid will be less costly than the other bid received and that it represents the least costly of the available methods of resolving the systemic risks presented by the failure of the Banks; and

WHEREAS, staff has presented to the Board information indicating the liquidation of the Banks under section 11 of the Act, 12 U.S.C. § 1821, would have serious adverse effects on economic conditions or financial stability; and

WHEREAS, staff has advised that assistance to the Banks under section 13(c) of the Act, 12 U.S.C. § 1823(c)(1), without the appointment of the FDIC as receiver will avoid or mitigate the serious adverse effects on economic conditions or financial stability; and

WHEREAS, staff has advised that severe financial conditions exist which threaten the stability of a significant number of insured depository institutions or of insured depository institutions possessing significant financial resources and the Banks are insured depository institutions under such threat of instability.

NOW, THEREFORE, BE IT RESOLVED, that by the vote of at least two-thirds of the members of the Board, the Board finds that the liquidation of the Banks, as well as the likely consequent failure of Wachovia Corporation, would have serious adverse effects on economic conditions or financial stability and would create systemic risk to the credit markets.

BE IT FURTHER RESOLVED, that by the vote of at least two-thirds of the members of the Board, the Board finds that the proposal received from Citi which involves the merger or consolidation of the Banks with another insured depository institution or the sale of any or all of the assets of the Banks or the assumption of any or all of the Banks' liabilities by another insured depository institution, or the acquisition of the stock of the Banks and which requires the provision of assistance under section 13(c)(2) of the Act, 12 U.S.C. § 1823(c)(2), in the form of loans to, deposits in, the purchase of assets or securities of, the assumption of liabilities of, guarantees against loss to, or contributions to, the Banks or their acquirer will mitigate the serious adverse effects on economic conditions or financial stability that would be caused by the Banks' failure.

BE IT FURTHER RESOLVED, that severe financial conditions exist which threaten the stability of a significant number of insured depository institutions or of insured depository institutions possessing significant financial resources and the Banks are insured depository institutions under such threat of instability and that the Board takes this action in order to lessen the risk to the FDIC, and systemic risks, posed by the Banks, and that the proposal by Citi will do so in the least costly of all available methods.

BE IT FURTHER RESOLVED, the Board hereby authorizes the Chairman, or her designee, to provide the written recommendation to the Secretary of the Treasury specified under section 13(c)(4)(G)(i) of the Act, 12 U.S.C. § 1823(c)(4)(G)(i).

BE IT FURTHER RESOLVED, the Board hereby authorizes the Director, DRR, or his designee, and all other FDIC staff to take all appropriate action to implement the provision of assistance authorized hereunder, including but not limited to: credit support in the form of loan guarantees, the purchase of warrants, and loss sharing; and to take any other action necessary and appropriate in connection with this matter.