STATE STREET CORP
Form 10-Q
November 05, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2008

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File No. 001-07511

STATE STREET CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts (State or other jurisdiction of incorporation)	**04-2456637** (I.R.S. Employer Identification No.)
One Lincoln Street **Boston, Massachusetts** (Address of principal executive office)	**02111** (Zip Code)

617-786-3000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares of State Street s common stock outstanding on October 27, 2008 was 431,953,026.

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STATE STREET CORPORATION

Quarterly Report on Form 10-Q for the Quarterly Period Ended September 30, 2008

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

GENERAL

State Street Corporation is a financial holding company headquartered in Boston, Massachusetts. Through its subsidiaries, including its principal bank subsidiary, State Street Bank and Trust Company, which we refer to as State Street Bank, State Street Corporation provides a full range of products and services to meet the needs of institutional investors worldwide. Unless otherwise indicated or unless the context requires otherwise, all references in this Management s Discussion and Analysis to State Street, we, us, our or similar terms mean State Street Corporation and its subsidiaries on a consolidated basis. All references in this Form 10-Q to the parent company are to State Street Corporation. At September 30, 2008, we had consolidated total assets of $285.56 billion, consolidated total deposits of $150.87 billion, consolidated total shareholders equity of $13.06 billion and employed 28,950.

Our customers include mutual funds and other collective investment funds, corporate and public retirement plans, insurance companies, foundations, endowments and other investment pools, and investment managers. Our two lines of business, Investment Servicing and Investment Management, provide products and services including custody, recordkeeping, daily pricing and administration, shareholder services, foreign exchange, brokerage and other trading services, securities finance, deposit and short-term investment facilities, loan and lease financing, investment manager and hedge fund manager operations outsourcing, performance, risk and compliance analytics, investment research and investment management, including passive and active U.S. and non-U.S. equity and fixed-income strategies. We had $14.05 trillion of assets under custody and $1.69 trillion of assets under management at September 30, 2008. Financial information about our business lines is provided later in the Line of Business Information section of this Management s Discussion and Analysis.

This Management s Discussion and Analysis is part of our Quarterly Report on Form 10-Q filed with the SEC, and updates the Management s Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2007, which we refer to as the 2007 Form 10-K, and in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008 and June 30, 2008. We previously filed these reports with the SEC. You should read the financial information in this Management s Discussion and Analysis and elsewhere in this Form 10-Q in conjunction with the financial information contained in those reports, and in conjunction with the risk factors discussion provided in our Current Report on Form 8-K dated October 15, 2008. Certain previously reported amounts have been reclassified to conform to current period classifications as presented in this Form 10-Q.

We prepare our consolidated financial statements in accordance with United States generally accepted accounting principles, which we refer to as GAAP, and which require management to make judgments in the application of its accounting policies that involve significant estimates and assumptions about the effect of matters that are inherently uncertain. Accounting policies considered relatively more significant in this respect are accounting for the fair value of financial instruments, special purpose entities, goodwill and income taxes. Additional information about these accounting policies is included in the Significant Accounting Estimates section of Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2007 Form 10-K. No significant changes were made to these accounting policies during the first nine months of 2008.

Certain financial information provided in this Management s Discussion and Analysis has been prepared on both a GAAP basis and an operating basis. Management measures and compares certain financial information on an operating basis, as it believes this presentation supports meaningful comparisons from period to period and the analysis of comparable financial trends with respect to State Street s normal ongoing business operations. Management believes that operating-basis financial information, which reports revenue from non-taxable sources

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

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on a fully taxable-equivalent basis and excludes the impact of revenue and expenses outside of the normal course of our business, facilitates an investor s understanding and analysis of State Street s underlying financial performance and trends in addition to financial information prepared in accordance with GAAP.

RECENT GOVERNMENT ACTIONS

Capital Purchase Program

On October 14, 2008, the U.S. Department of the Treasury announced its capital purchase program designed to encourage U.S. financial institutions to build capital to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy. Under this program, Treasury will purchase up to $250 billion of shares of senior preferred stock from qualifying U.S. financial institutions. The minimum and maximum subscription amounts available to a participating financial institution are 1% of its risk-weighted assets and the lesser of $25 billion or 3% of its risk-weighted assets, respectively.

We and eight other large financial institutions entered into commitments to participate in this program, and on October 28, 2008, we issued 20,000 shares of our Series B fixed-rate cumulative perpetual preferred stock, $100,000 liquidation preference per share, and a warrant to purchase 5,576,208 shares of our common stock at an exercise price of $53.80 per share, to Treasury, and received total aggregate proceeds of $2 billion.

The preferred shares, which qualify as tier 1 regulatory capital, will pay cumulative quarterly dividends at a rate of 5% per year for the first five years, and 9% per year thereafter. The preferred shares are non-voting, other than class voting rights on certain matters that could adversely affect the shares. We can redeem the preferred shares at par after December 15, 2011. Prior to this date, we can only redeem the preferred shares at par in an amount up to the cash proceeds (minimum $500 million) from qualifying equity offerings of any tier 1-eligible perpetual preferred or common stock. Any redemption is subject to the consent of the Board of Governors of the Federal Reserve System. Until October 28, 2011, or such earlier time as the preferred stock has been redeemed or transferred by Treasury, we will not, without Treasury s consent, be permitted to increase the dividend per share on our common stock or repurchase our common stock.

The warrant is immediately exercisable, and has a 10-year term. The exercise price of $53.80 per share was based upon the average of the closing prices of our common stock during the 20-trading day period ended October 10, 2008, the last trading day prior to our election to participate in the program. The exercise price and number of shares subject to the warrant are both subject to anti-dilution adjustments. Treasury has agreed not to exercise voting power with respect to any shares of our common stock issued upon exercise of the warrant. If we receive aggregate gross cash proceeds of at least $2 billion from one or more qualifying equity offerings of tier 1-eligible perpetual preferred or common stock on or prior to December 31, 2009, the number of shares of common stock underlying the warrant then held by Treasury will be reduced by one-half of the original number of shares, considering all adjustments, underlying the warrant.

The proceeds from the issuance will be allocated on a relative fair value basis between the preferred shares and the warrant. The preferred shares and the warrant will both be classified in shareholders equity in our consolidated statement of condition. The issuance, including dividends, is expected to result in a reduction of basic and diluted earnings per common share.

We issued the preferred shares and the warrant in a private placement exempt from the SEC s registration requirements, and will file a registration statement covering the preferred shares, the warrant and the shares of

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common stock underlying the warrant. Neither the preferred shares nor the warrant are subject to any contractual restrictions on transfer, except that Treasury may only transfer or exercise an aggregate of one-half of the warrant shares prior to December 31, 2009, unless State Street has received gross proceeds from qualified equity offerings that are at least equal to the $2 billion initially received from Treasury. During the period that Treasury holds any of the preferred shares, the warrant or any shares of our common stock issuable upon exercise of the warrant, we are subject to certain restrictions on the compensation of our senior executive officers.

Commercial Paper Funding Facility

On October 7, 2008, the Federal Reserve Board announced the creation of the Commercial Paper Funding Facility, referred to as the CPFF, to complement its existing credit facilities. The CPFF is intended to assist in providing liquidity to the term funding markets by providing eligible domestic issuers of commercial paper with a source of back-up liquidity. The CPFF will facilitate the issuance of term commercial paper by eligible issuers through the formation of a special purpose vehicle that will purchase three-month unsecured and asset-backed commercial paper directly from the issuers.

The CPFF is intended to increase investor demand for commercial paper and reduce the risk that eligible issuers will not be able to repay investors by rolling over their commercial paper obligations. The increased demand should encourage investors to engage in term lending in the commercial paper market and enhance the ability of financial intermediaries to facilitate credit.

We have elected not to participate in the CPFF at this time. However, we may participate in the CPFF in the future. In October 2008, we were hired to administer the CPFF and provide custody services with respect to commercial paper purchased by the special purpose vehicle from issuers.

Asset-Backed Commercial Paper Money Market Mutual Funds Liquidity Facility

In September 2008, the Federal Reserve Bank of Boston instituted the Asset-Backed Commercial Paper Money Market Mutual Funds Liquidity Facility, referred to as the AMLF. The AMLF was designed to assist in restoring liquidity to the asset-backed commercial paper markets and assist registered money market mutual funds in maintaining adequate liquidity to meet investor redemption demand. The AMLF will be available until January 30, 2009, unless extended by the Board of Governors of the Federal Reserve, and allows a depository institution or bank holding company to borrow funds on a non-recourse basis from the Federal Reserve Bank s discount window at fixed interest rates to fund purchases of qualifying asset-backed commercial paper from an eligible money market mutual fund or other eligible entity under certain conditions. The term of the borrowing must equal the maturity of the eligible asset-backed commercial paper collateralizing the borrowing. The terms of the AMLF permit exclusion of the assets from regulatory leverage and risk-based capital calculations, since the borrowings are extended on a non-recourse basis and, as a result, there is no credit or market risk exposure to us on the assets.

We participated in the AMLF during the third quarter of 2008 to provide liquidity to certain eligible unaffiliated money market mutual funds, and as of September 30, 2008, we carried asset-backed commercial paper of $76.66 billion purchased under this facility, with corresponding outstanding borrowings totaling $76.63 billion, in our consolidated balance sheet. As of September 30, 2008, the aggregate securities we held in connection with our participation in the AMLF included approximately $1.63 billion of eligible asset-backed commercial paper issued by the State Street-administered asset-backed commercial paper conduits. During the third quarter of 2008, we earned net interest revenue of approximately $8 million by earning a spread between the yield we earned on the securities and the rate we paid on the borrowings.

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Additional information with respect to our participation in the AMLF is provided in note 6 to the consolidated financial statements included in this Form 10-Q.

FORWARD-LOOKING STATEMENTS

This Form 10-Q, particularly this Management s Discussion and Analysis, contains statements that are considered forward looking statements within the meaning of United States securities laws. In addition, management may make other written or oral communications from time to time that contain forward-looking statements. Forward-looking statements, including statements about industry trends, management s future expectations and other matters that do not relate strictly to historical facts, are based on assumptions by management, and are often identified by such forward-looking terminology as expect, look, believe, anticipate, estimate, seek, may, will, trend, target, and goal or s variations of such terms.

Forward-looking statements are subject to various risks and uncertainties, which change over time, are based on management s expectations and assumptions at the time the statements are made, and are not guarantees of future results. Management s expectations and assumptions, and the continued validity of the forward-looking statements, are subject to change due to a broad range of factors affecting the national and global economies, the equity, debt, currency and other financial markets, as well as factors specific to State Street and its subsidiaries, including State Street Bank. Forward-looking statements may include, among other things, statements about our confidence in our strategies and our expectations about financial performance, market growth, market and regulatory trends and developments, acquisitions and divestitures, new technologies, services and opportunities, and earnings.

Factors that could cause changes in the expectations or assumptions on which forward-looking statements are based include, but are not limited to:

- The financial strength of the counterparties with which we or our customers do business and with which we have investment or financial exposure;

- The liquidity of the U.S. and international securities markets, particularly the markets for fixed-income securities, and the liquidity requirements of our customers;

- Potential changes to the competitive environment due to the effects of consolidation, regulation and perceptions of State Street as a suitable service provider or counterparty;

- The level and volatility of interest rates, particularly in the U.S., Europe and the Asia/Pacific region; and the performance and volatility of securities, credit, currency and other markets in the U.S. and internationally;

- Economic conditions and monetary and other governmental actions designed to address the level and volatility of interest rates and the volatility of securities, currency and other markets in the U.S. and internationally;

- Our ability to measure the fair value of securities in our investment securities portfolio and in the asset-backed commercial paper conduits we administer, particularly given current market conditions for many of these securities;

The credit quality and credit agency ratings of the securities in our investment securities portfolio, a deterioration or downgrade of which could lead to other-than-temporary impairment of the respective securities and the recognition of an impairment loss, the maintenance of credit agency ratings for our debt obligations as well as the level of credibility of credit agency ratings;

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Our ability to attract non-interest bearing deposits and other low-cost funds;

The possibility that changes in accounting rules, market conditions or asset performance may require any off-balance sheet activities, including the asset-backed commercial paper conduits we administer, to be consolidated into our financial statements, requiring the recognition of unrealized losses, if any;

The results of litigation and similar disputes and, in particular, the effect that current or potential litigation may have on our reputation and State Street Global Advisors , or SSgA s, reputation, and our ability to attract and retain customers; and the possibility that the ultimate costs of the legal exposure associated with certain of SSgA s actively managed fixed-income strategies may exceed or be below the level of the related reserve, in view of the uncertainties of the timing and outcome of litigation and the amounts involved;

The possibility of further developments of the nature that previously gave rise to the legal exposure associated with certain of SSgA s actively managed fixed-income and other investment strategies;

Our ability to integrate acquisitions into our business, including the acquisition of Investors Financial Services Corp., or Investors Financial;

The performance and demand for the products and services we offer, including the level and timing of withdrawals from our collective investment products;

The enactment of legislation and changes in regulation and enforcement that impact us and our customers, as well as the effects of legal and regulatory proceedings, including litigation;

Our ability to continue to achieve growth in revenue, control expenses and attract the capital necessary to achieve our business goals and comply with regulatory requirements;

Our ability to navigate systemic risks and control operating risks;

Our ability to obtain quality and timely services from third parties with which we contract;

Trends in the globalization of investment activity and the growth on a worldwide basis in financial assets and the resulting sovereign and monetary policy risks;

Trends in governmental and corporate pension plans and savings rates;

Changes in accounting standards and practices, including changes in the interpretation of existing standards, that impact our consolidated financial statements; and

Changes in tax legislation and in the interpretation of existing tax laws by U.S. and non-U.S. tax authorities that impact the amount of taxes due.

Therefore, actual outcomes and results may differ materially from what is expressed in our forward-looking statements and from our historical financial results due to the factors discussed above and elsewhere in this Form 10-Q or disclosed in our other SEC filings. Forward-looking statements should not be relied upon as representing our expectations or beliefs as of any time subsequent to the time this Form 10-Q is filed with the SEC. State Street undertakes no obligation to revise the forward-looking statements contained in this Form 10-Q to reflect events after the time it is filed with the SEC. The factors discussed above and elsewhere in this Form 10-Q are not intended to be a complete summary of all risks and uncertainties that may affect our businesses. Though we strive to monitor and mitigate risk, we cannot anticipate all potential economic, operational and financial developments that may adversely impact our operations and our financial results.

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Forward-looking statements should not be viewed as predictions, and should not be the primary basis upon which investors evaluate State Street. Any investor in State Street should consider all risks and uncertainties disclosed in this Form 10-Q and in our other SEC filings, including our reports on Form 10-K and Form 8-K, which are accessible on the SEC s website at *www.sec.gov* or on our website at *www.statestreet.com.*

OVERVIEW OF FINANCIAL RESULTS

	Quarters Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions, except per share amounts)	2008	2007	% Change	2008	2007[1]	% Change
Total fee revenue	**$ 1,899**	$ 1,799	6%	**$ 5,866**	$ 4,706	25%
Net interest revenue[2]	**525**	464	13	**1,807**	1,174	54
Gains (Losses) related to investment securities, net	**(3)**	(23)		**(3)**	(23)	
Gain on sale of CitiStreet, net of exit and other associated costs	**350**			**350**		
Total revenue	**2,771**	2,240	24	**8,020**	5,857	37
Total operating expenses[3][4]	**1,925**	1,689	14	**5,540**	4,260	30
Income before income tax expense	**846**	551	54	**2,480**	1,597	55
Income tax expense	**369**	193		**925**	559	
Net income	**$ 477**	$ 358	33	**$ 1,555**	$ 1,038	50
Earnings per share[5]:						
Basic	**$ 1.11**	$ .92	21	**$ 3.82**	$ 2.95	29
Diluted	**1.09**	.91	20	**3.78**	2.91	30
Average shares outstanding (in thousands):						
Basic	**430,872**	386,843		**407,186**	352,410	
Diluted	**435,030**	392,150		**411,204**	356,695	
Cash dividends declared	**.24**	.22		**.71**	.65	
Return on shareholders equity	**13.6%**	12.6%		**16.8%**	15.9%	

(1) Nine months ended September 30, 2007 include results of the Investors Financial business, which State Street acquired on July 2, 2007, for the quarter ended September 30, 2007.

(2) Quarter and nine months ended September 30, 2008 include a $98 million cumulative reduction of net interest revenue related to SILO leveraged lease transactions.

(3) Quarter and nine months ended September 30, 2008 include merger and integration costs of $30 million and $88 million, respectively, and quarter and nine months ended September 30, 2007 each include $141 million, recorded in connection with the acquisition of Investors Financial.

(4) Quarter and nine months ended September 30, 2008 include a $200 million provision for estimated net exposure on an indemnification obligation associated with collateralized repurchase agreements.

(5) Quarter and nine months ended September 30, 2008 reflect the issuance of 40.5 million shares of common stock in a public offering on June 3, 2008.

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Highlights of Financial Results

Third quarter 2008 net income of $477 million increased 33%, and diluted earnings per share of $1.09 increased 20%, from net income of $358 million and diluted earnings per share of $.91 for the third quarter of 2007. Net income was $1.56 billion and diluted earnings per share were $3.78 for the first nine months of 2008, compared to $1.04 billion and $2.91, respectively, for the first nine months of 2007. Results for the 2008 periods included the following significant items outside of the ordinary course of our business.

- We participated in the Federal Reserve Bank of Boston s AMLF, instituted by the Federal Reserve in September 2008, which was designed to assist registered money market mutual funds in maintaining adequate liquidity to meet investor redemption demand, and earned $8 million of pre-tax net interest revenue related to this program during the third quarter of 2008 (see note 6 to the consolidated financial statements for additional information);

- During the third quarter of 2008, the IRS issued a standard settlement offer to taxpayers that have entered into SILO leveraged leases. We did not accept the offer and continue to pursue our appeal rights within the IRS. In consideration of the terms of the offer and the context in which it was issued, we revised our projection of the timing and amount of tax cash flows from the leases and recalculated the recognition of lease-related revenue over the leases terms from their inception. This recalculation resulted in a cumulative reduction of net interest revenue of $98 million and the accrual of income tax expense of $39 million for the third quarter of 2008 (see note 8 to the consolidated financial statements for additional information);

- We completed the sale of our 50% joint venture interest in CitiStreet in July 2008, and recognized a $350 million pre-tax gain, which was net of exit and other costs associated with the sale (see note 2 to the consolidated financial statements for additional information);

- We recorded $30 million and $88 million of merger and integration costs during the third quarter and first nine months of 2008, respectively, associated with our July 2007 acquisition of Investors Financial; and

- During the third quarter of 2008, we recorded a $200 million provision to recognize our estimated net exposure related to an indemnification obligation associated with collateralized repurchase agreements with an affiliate of Lehman Brothers Holdings Inc. (see note 8 to the consolidated financial statements for additional information).

Comparing the third quarter of 2008 to the third quarter of 2007, our total revenue grew 24% to $2.77 billion, reflective of the CitiStreet gain and the growth of certain of our existing businesses. Total fee revenue was up 6%, with increases in servicing fees (up 3%), trading services revenue (up 13%) and securities finance revenue (up 49%). Management fees and processing fees and other revenue declined 13% and 19%, respectively, compared to the third quarter of 2007.

The increase in servicing fee revenue resulted from the impact of increased business from new and existing customers, partly offset by the impact of lower average equity market valuations. Management fees decreased due to declines in month-end equity market valuations and performance fees. Both servicing fees and management fees are sensitive to changes in market valuations, particularly equity valuations, as our fees are based, in part, on levels of assets under custody, administration or management. Trading services revenue, particularly foreign exchange trading revenue, benefited from a 51% increase in currency volatility. The increase

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in securities finance revenue was primarily driven by wider average credit spreads, which were partly offset by lower volumes of securities on loan caused by lower equity market valuations and shorter loan durations. Some institutional investors have suspended or withdrawn from securities lending programs, which is anticipated to continue to result in lower volumes of securities on loan during the fourth quarter of 2008. Processing fees and other revenue declined as a result of a lower level of fees and lower revenue from joint ventures.

Net interest revenue increased 13% for the third quarter of 2008 compared to the prior-year third quarter, or 14% on a fully taxable-equivalent basis ($550 million compared to $481 million, reflecting tax-equivalent adjustments of $25 million and $17 million, respectively), with a related increase in net interest margin of 10 basis points. These increases were primarily due to the impact of Federal Reserve reductions in interest rates during 2008 and an increase in customer deposits. If the additional net interest revenue of $8 million from our participation in the AMLF and the $98 million reduction of net interest revenue related to SILO leveraged leases are excluded, net interest revenue for the third quarter of 2008 was $640 million ($550 million less $8 million plus $98 million), an increase of 33% compared to $481 million for the third quarter of 2007.

Total operating expenses increased 14% over the prior-year quarter. Operating expenses for the third quarter of 2008 and 2007 included $30 million and $141 million, respectively, of merger and integration costs associated with the acquisition of Investors Financial and, for the third quarter of 2008, included a $200 million charge to provide for our estimated net exposure to customers on an indemnification obligation associated with collateralized repurchase agreements with an affiliate of Lehman Brothers Holdings Inc. The increase in total operating expenses resulted primarily from the provision for the indemnification obligation. If the provision for the indemnification obligation and the merger and integration costs associated with the Investors Financial acquisition are excluded, total operating expenses increased to $1.695 billion ($1.925 billion less $30 million and $200 million) from $1.548 billion ($1.689 billion less $141 million), or 9.5%, primarily due to increased staffing levels to support new business and higher benefits costs.

With growth in total revenue exceeding the growth in total expenses in the quarterly and year-to-date comparisons, we achieved positive operating leverage for both periods. Operating leverage represents the difference between the growth rate of total revenue and the growth rate of total expenses.

Our Investment Servicing business line continued to generate new business. During the third quarter of 2008, we generated approximately $280 billion of new business in assets to be serviced, for which we will provide various services including accounting, fund administration, custody, foreign exchange, transition management, currency management, securities finance, transfer agency, performance analytics, compliance reporting and monitoring, hedge fund servicing and private equity administration, and investment manager operations outsourcing. With respect to this new business, we will earn fee revenue in future periods as we service the assets.

At September 30, 2008, we had aggregate assets under custody of $14.05 trillion, which decreased $1.25 trillion, or 8%, from $15.30 trillion at December 31, 2007, and decreased $1.10 trillion, or 7%, from $15.15 trillion at September 30, 2007. At September 30, 2008, we had aggregate assets under management of $1.69 trillion, which decreased from $1.98 trillion at December 31, 2007 and $2.00 trillion at September 30, 2007. The decreases in assets under custody and assets under management from December 31, 2007 to September 30, 2008 were caused primarily by the continued instability in the financial markets and resulting declines in asset valuations.

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Our effective income tax rate for the third quarter of 2008 was 43.7%, compared to 35% in the 2007 quarter, and 33.7% for full-year 2007. The increase in the effective rate for 2008 was primarily the result of the net tax impact of the significant items described previously under Highlights of Financial Results.

CONSOLIDATED RESULTS OF OPERATIONS

This section discusses our consolidated results of operations for the third quarter and first nine months of 2008 compared to the same periods in 2007, and should be read in conjunction with the consolidated financial statements and accompanying condensed notes included in this Form 10-Q.

TOTAL REVENUE

	Quarters Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	**2008**	**2007**	**% Change**	**2008**	**2007**	**% Change**
Fee revenue:						
Servicing fees	**$ 966**	$ 937	3%	**$ 2,903**	$ 2,421	20%
Management fees	**261**	299	(13)	**819**	844	(3)
Trading services	**363**	320	13	**1,049**	800	31
Securities finance	**246**	165	49	**901**	425	112
Processing fees and other	**63**	78	(19)	**194**	216	(10)
Total fee revenue	**1,899**	1,799	6	**5,866**	4,706	25
Net interest revenue:						
Interest revenue	**1,027**	1,383	(26)	**3,452**	3,758	(8)
Interest expense	**502**	919				