HSBC HOLDINGS PLC
Form 6-K
May 11, 2009

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of

the Securities Exchange Act of 1934

For the month of May

HSBC Holdings plc

42nd Floor, 8 Canada Square, London E14 5HQ, England

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F).

Form 20-F X Form 40-F ......

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934).

Yes....... No X

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-..............).

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
March 31, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13

OR 15(d)

OF THE SECURITIES
AND
EXCHANGE ACT OF

1934

For the transition period

from
______
to

______

Commission file number 1-7436

HSBC USA Inc.
(Exact name of registrant as specified in its charter)

Maryland	**13-2764867**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**
452 Fifth Avenue, New York, New York	**10018**
(Address of principal executive offices)	**(Zip Code)**

(212) 525-5000
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes

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 Accelerated filer Non-accelerated filer **X** 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 Act). Yes

No **X**

At April 30, 2009, there were 711 shares of the registrant's Common Stock outstanding, all of which are owned by HSBC North America Inc.

HSBC USA Inc.

Form 10-Q
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PART I.
FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENT OF (LOSS) INCOME (UNAUDITED)

Three Months Ended March 31,	2009	2008
	(in millions)	
Interest income:		
Loans	**$1,546**	$1,488
Securities	**277**	302
Trading assets	**59**	158
Short-term investments	**24**	131
Other	**11**	83
Total interest income	**1,917**	2,162
Interest expense:		
Deposits	**313**	799
Short-term borrowings	**19**	99
Long-term debt	**237**	303
Total interest expense	**569**	1,201
Net interest income	**1,348**	961
Provision for credit losses	**1,174**	498
Net interest income after provision for credit	**174**	463

losses		
Other revenues (losses):		
Credit card fees	**357**	229
Other fees and commissions	**229**	162
Trust income	**32**	33
Trading (loss) revenue	**(154)**	(709)
Net other-than-temporary impairment losses (includes $116 million of total losses less $78 million of losses on securities available for sale, recognized in other comprehensive income at March 31, 2009)	**(38)**	-
Other securities gains, net	**47**	84
Servicing and other fees from HSBC affiliates	**34**	54
Residential mortgage banking revenue	**65**	38
Gain on instruments designated at fair value and related derivatives	**112**	57
Other income (loss)	**66**	(33)
Total other revenues (losses)	**750**	(85)
Operating expenses:		
Salaries and employee benefits	**291**	310
Support services from HSBC affiliates	**423**	290
Occupancy expense, net	**63**	64
Other expenses	**195**	156
Total operating expenses	**972**	820
(Loss) before income tax expense (benefit)	**(48)**	(442)
Income tax expense (benefit)	**41**	(164)
Net loss	**$(89)**	$(278)

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	March 31, 2009	December 31, 2008
	(in millions)	
Assets		
Cash and due from banks	$	$ 2,972

	2,478	
Interest bearing deposits with banks	**6,337**	15,940
Federal funds sold and securities purchased under agreements to resell	**15,660**	10,813
Trading assets	**28,872**	31,292
Securities available for sale	**22,981**	24,908
Securities held to maturity (fair value of $2,999 million and $2,935 million at March 31, 2009 and December 31, 2008, respectively)	**2,868**	2,875
Loans	**88,542**	81,113
Less - allowance for credit losses	**3,465**	2,397
Loans, net	**85,077**	78,716
Loans held for sale (includes $925 million and $874 million designated under fair value option at March 31, 2009 and December 31, 2008, respectively)	**4,710**	4,431
Properties and equipment, net	**558**	559
Intangible assets, net	**352**	374
Goodwill	**2,647**	2,647
Other assets	**9,229**	10,042
Total assets	**$ 181,769**	$ 185,569
Liabilities		
Debt:		
Deposits in domestic offices:		
Noninterest bearing	**$ 18,118**	$ 17,663
Interest bearing (includes $2,549 million and $2,293 million designated under fair value option at March 31, 2009 and December 31, 2008, respectively)	**66,115**	67,903
Deposits in foreign offices:		
Noninterest bearing	**1,170**	922
Interest bearing	**29,927**	32,550
Total deposits	**115,330**	119,038
Short-term borrowings	**9,806**	10,495
Long-term debt (includes $2,526 million and $2,627 million designated under fair value option at March 31, 2009 and December 31, 2008, respectively)	**25,197**	22,089
Total debt	**150,333**	151,622
Trading liabilities	**12,764**	16,323
Interest, taxes and other liabilities	**4,885**	4,907
Total liabilities	**167,982**	172,852
Shareholders' equity		
Preferred stock	**1,565**	1,565
Common shareholder's equity:		
Common stock ($5 par; 150,000,000 shares authorized; 711 and 709 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively)	**-**	-
Additional paid-in capital	**12,761**	11,694
Retained earnings	**152**	245

Accumulated other comprehensive loss	**(691)**	(787)
Total common shareholder's equity	**12,222**	11,152
Total shareholders' equity	**13,787**	12,717
Total liabilities and shareholders' equity	**$ 181,769**	$ 185,569

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

Three Months Ended March 31,	**2009**	**2008**
	(in millions)	
Preferred stock		
Balance at beginning and end of period	**$ 1,565**	$ 1,565
Common stock		
Balance at	**-**	-

beginning and end of period		
Additional paid-in capital		
Balance at beginning of period	**11,694**	8,123
Capital contributions from parent	**1,067**	1,010
Employee benefit plans and other	**-**	-
Balance at end of period	**12,761**	9,133
Retained		

earnings		
Balance at beginning of period	**245**	1,901
Adjustment to initially apply fair value measurement and fair value option accounting, under SFAS 157 and 159, net of tax	**-**	113
Adjustment	**<u>15</u>**	<u>-</u>
to		

initially apply FSP SFAS 115-2 and 124-2, net of tax		
Balance at beginning of period, as adjusted	**260**	2,014
Net (loss)	**(89)**	(278)
Cash dividends declared on preferred stock	**(19)**	(23)
Balance at end	**152**	1,713

of period		
Accumulated other comprehensive (loss)		
Balance at beginning of period	**(787)**	(352)
Adjustment to initially apply FSP SFAS 115-2 and 124-2, net of tax	**(15)**	-
	(802)	(352)
Balance at beginning of		

period, as adjusted		
Net change in unrealized gains (losses), net of tax on:		
Securities available for sale not other-than-temporarily impaired	**79**	(21)
Other-than-temporarily impaired securities available for sale (includes $116 million of total losses less $38 million of losses recognized in other revenues (losses))	**(50)**	-
Derivatives classified as cash flow hedges	**76**	(39)
Unrecognized	**6**	8

actuarial gains, transition obligation and prior service costs relating to pension and postretirement benefits, net of tax		
Foreign currency translation adjustments, net of tax	**-**	2
Other comprehensive	**111**	(50)

income (loss), net of tax		
Balance at end of period	**(691)**	(402)
Total shareholders' equity	**$ 13,787**	$ 12,009
Comprehensive income (loss)		
Net loss	**$ (89)**	$ (278)
Other comprehensive income (loss), net of tax	**111**	(50)
Comprehensive income (loss)	**$ 22**	$ (328)

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

Three Months Ended March 31	2009	2008
	(in millions)	
Cash flows from operating activities		
Net loss	**$(89)**	$(278)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and deferred	**227**	(92)

taxes		
Provision for credit losses	**1,174**	498
Other-than-temporarily impaired available for sale securities	**38**	-
Net change in other assets and liabilities	**892**	(2,033)
Net change in loans held for sale	**(233)**	522
Loans attributable to		

tax refund anticipation loans program:		
Originations of loans	**(9,000)**	(12,552)
Sales of loans to HSBC Finance, including premium	**8,989**	12,530
Net change in trading assets and liabilities	**(1,508)**	-
Mark-to-market on financial instruments	**(121)**	2,405

designated at fair value and related derivatives		
Net change in fair value of derivatives and hedged items	**(763)**	6
Net cash (used in) provided by operating activities	**(394)**	1,006
Cash flows		

from investing activities		
Net change in interest bearing deposits with banks	**9,603**	297
Net change in federal funds sold and securities purchased under agreements to resell	**(4,847)**	(71)
Securities available for		

sale:		
Purchases of securities available for sale	**(4,444)**	(5,492)
Proceeds from sales of securities available for sale	**3,064**	11
Proceeds from maturities of securities available for sale	**3,454**	2,200
Securities held to maturity:		
Purchases	**(59)**	(125)

of securities held to maturity		
Proceeds from maturities of securities held to maturity	**66**	153
Change in loans:		
Originations, net of collections	**9,902**	7,408
Loans purchased from HSBC Finance	**(4,599)**	(5,161)
Bulk	**(8,821)**	-
purchase of		

loans from HSBC Finance		
Loans sold to third parties	**1,824**	-
Net cash used for acquisitions of properties and equipment	**(17)**	(24)
Other, net	**345**	75
Net cash (used in) investing activities	**5,471**	(729)
Cash flows		

from financing activities		
Net change in deposits	**(3,747)**	3,972
Net change in short-term borrowings	**(689)**	(1,555)
Change in long-term debt:		
Issuance of long-term debt	**303**	365
Repayment of long-term debt	**(2,486)**	(4,086)
Capital contribution from parent	**1,067**	1,010
Dividends	**(19)**	(23)

paid		
Net cash provided by (used in) financing activities	**(5,571)**	(317)
Net change in cash and due from banks	**(494)**	(40)
Cash and due from banks at beginning of period	**2,972**	3,567
Cash and	**$2,478**	$3,527

due from banks at end of period		
Supplemental disclosure of non-cash flow investing activities		
Trading securities pending settlement	**$(368)**	$1,634
Assumption of indebtedness from HSBC Finance related to the	**$6,077**	$-

bulk

loan

purchase

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

HSBC USA Inc. is an indirect wholly owned subsidiary of HSBC North America Holdings Inc. ("HSBC North America"), which is an indirect wholly owned subsidiary of HSBC Holdings plc ("HSBC"). The accompanying unaudited interim consolidated financial statements of HSBC USA Inc. and its subsidiaries (collectively "HUSI"), including its principal subsidiary HSBC Bank USA, National Association ("HSBC Bank USA"), have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X, as well as in accordance with predominate practices within the banking industry. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods have been made. HSBC USA Inc. may also be referred to in this Form 10-Q as "we," "us" or "our." These unaudited interim consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2008 (the "2008 Form 10-K"). Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

The preparation of financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates. Interim results should not be considered indicative of results in future periods.

During the first quarter of 2009, we adopted Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133" and FASB Staff Position (FSP) SFAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments." In addition, we early adopted FSP SFAS 115-2 and 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" as well as FSP SFAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly" effective January 1, 2009. See Note 20, "New Accounting Pronouncements" for further details and related impact.

2. Restructuring Activities

We continue to review our expense base in an effort to create a more streamlined organization, reduce expense growth and provide for future business initiatives. This review includes improving workforce management, consolidating certain functions where appropriate and increasing the use of global resourcing initiatives. The following summarizes the changes in the severance accrual relating to these activities during the three months ended March 31, 2009 and 2008:

	2009	2008
	(in millions)	
Balance at January 1,	**$19**	$12
Costs recorded during the period	**1**	3
Costs paid during the period	**(6)**	(7)
Balance at March 31,	**$14**	$8

Also in November 2008, we announced that we would exit the wholesale/correspondent channel of our Residential Mortgage business and focus our attention on our retail sales channel. In connection with this decision, we recorded expense of $3 million relating to one-time termination benefits of which approximately $2 million were paid during the first quarter of 2009. No additional charges relating to this decision are anticipated in future periods.

3. Trading Assets and Liabilities

Trading assets and liabilities are summarized in the following table.

	March 31, 2009	**December 31, 2008**
	(in millions)	
Trading assets:		
U.S. Treasury	**$271**	$27
U.S. Government agency	**246**	271
U.S. Government sponsored enterprises(1)	**197**	521
Asset backed securities	**1,555**	1,698
Corporate and	**2,034**	1,614

foreign bonds		
Other securities	**766**	982
Precious metals	**5,552**	4,905
Fair value of derivatives	**18,251**	21,274
	$28,872	$31,292
Trading liabilities:		
Securities sold, not yet purchased	**$361**	$406
Payables for precious metals	**2,137**	1,599
Fair value of derivatives	**10,266**	14,318
	$12,764	$16,323

(1) Includes mortgage backed securities of $133 million and $328 million issued or guaranteed by the Federal National Mortgage Association (FNMA) and $64 million and $193 million issued or guaranteed by the Federal Home Loan Mortgage Corporation (FHLMC) at March 31, 2009 and December 31, 2008, respectively.

At March 31, 2009 and December 31, 2008, the fair value of derivatives included in trading assets have been reduced by $5.5 billion and $6.1 billion, respectively, relating to amounts recognized for the obligation to return cash collateral received under master netting agreements with derivative counterparties, consistent with the reporting requirements of FASB Staff Position No. FIN 39-1, Amendment of FASB Interpretation No. 39 ("FSP FIN 39-1").

At March 31, 2009 and December 31, 2008, the fair value of derivatives included in trading liabilities have been reduced by $13.0 billion and $11.8 billion, respectively, relating to amounts recognized for the right to reclaim cash collateral paid under master netting agreements with derivative counterparties, consistent with the reporting requirements of FSP FIN 39-1.

4. Securities

The amortized cost and fair value of the securities available for sale and securities held to maturity portfolios are summarized in the following tables.

March 31, 2009	Amortized Cost	Non-Credit Loss Component of OTTI Securities Recorded in AOCI	Unrealized Gains Recorded in AOCI	Unrealized Losses Recorded in AOCI	Fair Value
			(in millions)		
Securities available for sale:					
U.S. Treasury	$2,251	$-	$107	$(6)	$2,352
U.S. Government sponsored enterprises:(1)					
Mortgage-backed securities	7,411	-	203	(28)	7,586
Direct agency obligations	323	-	5	(1)	327
U.S. Government agency issued					

or guaranteed:					
Mortgage-backed securities	**2,632**	**-**	**93**	**(1)**	**2,724**
Collateralized mortgage obligations	**3,447**	**-**	**66**	**(1)**	**3,512**
Direct agency obligations	**778**	**-**	**26**	**(1)**	**803**
Obligations of U.S. states and political subdivisions	**724**	**-**	**5**	**(18)**	**711**
Asset backed securities collateralized by:					
Residential mortgages	**1,350**	**(27)**	**1**	**(341)**	**983**
Commercial mortgages	**985**	**-**	**1**	**(189)**	**797**
Home equity	**794**	**(51)**	**-**	**(423)**	**320**
Auto	**127**	**-**	**-**	**(26)**	**101**
Student	**39**	**-**	**-**	**(9)**	**30**

loans					
Other	**27**	**-**	**1**	**-**	**28**
Other domestic debt securities	**993**	**-**	**6**	**(12)**	**987**
Foreign debt securities	**1,044**	**-**	**9**	**(5)**	**1,048**
Equity securities(2)	**672**	**-**	**-**	**-**	**672**
Total available-for-sale securities	**$23,597**	**$(78)**	**$523**	**$(1,061)**	**$22,981**
Securities held to maturity:					
U.S. Government sponsored enterprises:(3)					
Mortgage-backed securities	**$1,899**	**$-**	**$124**	**$-**	**$2,023**
U.S. Government agency issued or guaranteed:					
Mortgage-backed securities	**130**	**-**	**12**	**-**	**142**
Collateralized mortgage	**358**	**-**	**23**		**381**

obligations					
Obligations of U.S. states and political subdivisions	**209**	**-**	**9**	**(2)**	**216**
Asset backed securities collateralized by:					
Residential mortgages	**188**	**-**	**-**	**(35)**	**153**
Foreign debt securities	**84**	**-**	**-**	**-**	**84**
Total held-to-maturity securities	**$2,868**	**$-**	**$168**	**$(37)**	**$2,999**

December 31, 2008	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
		(in millions)		
Securities available for sale:				

U.S. Treasury	$3,544	$154	$(12)	$3,686
U.S. Government sponsored enterprises(1)	11,271	187	(96)	11,362
U.S. Government agency issued or guaranteed	5,746	135	(6)	5,875
Obligations of U.S. states and political subdivisions	699	2	(31)	670
Asset-backed securities	3,462	-	(987)	2,475
Other domestic debt securities	144	7	(7)	144
Foreign debt securities	641	13	(9)	645
Equity	52	-	(1)	51

securities(2)				
Total	$25,559	$498	$(1,149)	$24,908
Securities held to maturity:				
U.S. Government sponsored enterprises(3)	$1,892	$73	$(7)	$1,958
U.S. Government agency issued or guaranteed	495	23	(2)	516
Obligations of U.S. states and political subdivisions	217	8	(5)	220
Asset-backed securities	185	1	(31)	155
Foreign debt securities	86	-	-	86
Total	$2,875	$105	$(45)	$2,935

(1) Includes securities of $3.5 billion and $5.1 billion issued or guaranteed by the Federal National Mortgage Association (FNMA) at March 31, 2009 and December 31, 2008, respectively, and $3.9 billion and $5.9 billion issued or guaranteed by Federal Home Loan Mortgage Corporation (FHLMC) at March 31, 2009 and December 31, 2008, respectively.

(2) Includes securities issued by FNMA of $2 million at March 31, 2009 and December 31, 2008. Balances at March 31, 2009 and December 31, 2008 reflect other-than-temporary impairment charges of $203 million.

(3) Includes securities of $.7 billion issued or guaranteed by FNMA at March 31, 2009 and December 31, 2008, and $1.2 billion issued and guaranteed by FHLMC at March 31, 2009 and December 31, 2008.
A summary of gross unrealized losses and related fair values as of March 31, 2009 and December 31, 2008, classified as to the length of time the losses have existed follows:

	One Year or Less			**Greater Than One Year**		
March 31, 2009	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investment**	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investment**
			(dollars are in millions)			
Securities available for sale:						
U.S. Treasury	**3**	**$(6)**	**$1,102**	**-**	**$-**	**$-**
U.S. Government sponsored enterprises	**61**	**(3)**	**323**	**74**	**(26)**	**955**
U.S. Government agency issued or guaranteed	**31**	**(2)**	**254**	**41**	**(1)**	**91**

Obligations of U.S. states and political subdivisions	**11**	**(2)**	**59**	**64**	**(16)**	**445**
Asset backed securities	**15**	**(55)**	**175**	**140**	**(933)**	**1,979**
Other domestic debt securities	**3**	**(11)**	**66**	**2**	**(1)**	**9**
Foreign debt securities	**2**	**-**	**10**	**4**	**(5)**	**60**
Equity securities	**2**	**-**	**2**	**-**	**-**	**-**
Securities available for sale	**128**	**$(79)**	**$1,991**	**325**	**$(982)**	**$3,539**
Securities held to maturity:						
U.S. Government	**10**	**$-**	**$23**	**-**	**$-**	**$-**

sponsored enterprises						
U.S. Government agency issued or guaranteed	**99**	**-**	**3**	**-**	**-**	**-**
Obligations of U.S. states and political subdivisions	**45**	**(1)**	**27**	**6**	**(1)**	**8**
Asset backed securities	**-**	**-**	**-**	**12**	**(35)**	**146**
Securities held to maturity	**154**	**$(1)**	**$53**	**18**	**$(36)**	**$154**

	One Year or Less			**Greater Than One Year**		
December 31, 2008	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investment**	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investment**
			(dollars are in millions)			
Securities available						

for sale:						
U.S. Treasury	5	$(12)	$1,251	-	$-	$-
U.S. Government sponsored enterprises	136	(42)	1,361	101	(54)	2,295
U.S. Government agency issued or guaranteed	97	(1)	576	41	(5)	237
Obligations of U.S. states and political subdivisions	36	(7)	226	53	(24)	333
Asset backed securities	51	(419)	1,099	110	(568)	1,330
Other domestic debt securities	3	(6)	71	1	(1)	4
Foreign	1	-	5	5	(9)	97

debt securities						
Equity securities	2	(1)	-	-	-	-
Securities available for sale	331	$(488)	$4,589	311	$(661)	$4,296
Securities held to maturity:						
U.S. Government sponsored enterprises	18	$(2)	$113	7	$(5)	$132
U.S. Government agency issued or guaranteed	176	(2)	105	-	-	-
Obligations of U.S. states and political	54	(5)	48	5	-	3

subdivisions						
Asset backed securities	2	(10)	52	10	(21)	96
Securities held to maturity	250	$(19)	$318	22	$(26)	$231

Assessment for Other-Than-Temporary Impairment

On a quarterly basis, we perform an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered other-than-temporary impairment pursuant to FASB Staff Position No. SFAS 115-1 and SFAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("
FSP

SFAS
115-1 and 124-1"). A debt security is considered impaired if the fair value is less than its amortized cost basis at the reporting date. The accounting literature requires us to assess whether the unrealized loss is other-than-temporary. Prior to the adoption of FASB Staff Position No. SFAS 115-2 and SFAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" ("FSP SFAS 115-2 and 124-2"), unrealized losses that were determined to be temporary were recorded, net of tax, in other comprehensive income for available for sale securities, whereas unrealized losses related to held to maturity securities determined to be temporary were not recognized. Regardless of whether the security was classified as available for sale or held to maturity, unrealized losses that were determined to be other-than-temporary were recorded to earnings in their entirety. An unrealized loss was considered other than temporary if (i) it was not probable that the holder will collect all amounts due according to the contractual terms of the debt security, or (ii) the fair value was below the amortized cost of the debt security for a prolonged period of time and we did not have the positive intent and ability to hold the security until recovery or maturity.

We adopted
FSP

SFAS
115-2 and 124-2 effective January 1, 2009.
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SFAS
115-2 and 124-2, which amended
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SFAS
115-1 and 124-1, changed the recognition criteria and presentation of unrealized losses for available for sale and held to maturity debt securities that have suffered other-than-temporary impairment. Under

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SFAS
115-2 and 124-2, an unrealized loss is generally deemed to be other-than-temporary and a credit loss is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the debt security. As a result of our adoption of FSP SFAS 115-2 and 124-2, the credit loss component of an other-than-temporary impairment write-down is recorded as a component of
Net other-than-temporary impairment losses
in the accompanying consolidated statement of (loss) income, while the remaining portion of the impairment loss is recognized in other comprehensive income (loss), provided we do not intend to sell the underlying debt security and it is "more likely than not" that we will not have to sell the debt security prior to recovery.

For all securities held in the available for sale or held to maturity portfolio for which unrealized losses have existed for a period of time, we do not have the intention to sell, and believe we will not be required to sell the securities for contractual, regulatory or liquidity reasons as of the reporting date. Therefore, the non-credit portion of unrealized losses related to debt securities in these portfolios were recorded in other comprehensive income (loss). Debt securities issued by U.S. Treasury, U.S. Government agencies and government sponsored entities accounted for 75% of total available for sale and held to maturity securities as of March 31, 2009. Therefore, our assessment for credit loss was concentrated on private label asset backed securities for which we evaluate for credit losses on a quarterly basis. We considered the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover:

•

The length of time and the extent to which the fair value has been less than the amortized cost basis. In general, a cash flow based recovery analysis is performed when the fair value of the debt security is below its amortized cost by more than 20% on a cumulative basis;

•

The level of credit enhancement provided by the structure, which includes but is not limited to credit subordination positions, excess spread, overcollateralization, protective triggers and financial guarantees provided by monoline wraps;

•

Changes in the near term prospects of the issuer or underlying collateral of a security such as changes in default rates, loss severities given default and significant changes in prepayment assumptions;

•

The level of excessive cash flows generated from the underlying collateral supporting the principal and interest payments of the debt securities; and

•

Any adverse change to the credit conditions of the issuer, the monoline insurer or the security such as credit downgrades by the rating agencies.

•

The expected length of time and the extent of continuing financial guarantee to be provided by the monoline insurers after announcement of downgrade or restructure.

We use a standard, market-based valuation model to measure the credit loss for available for sale and held to maturity securities. The valuation model captures the composition of the underlying collateral and the cash flow structure of the security. Management develops inputs to the model based on external analyst reports and forecasts and internal credit assessments. Significant inputs to the model include delinquencies, credit spreads, collateral types and related contractual features, estimated rates of default, loss given default and prepayment assumptions. Using the inputs, the model estimates cash flows generated from the underlying collateral and distributes those cash flows to respective tranches of securities considering credit subordination and other credit enhancement features. The projected future cash flows attributable to the debt security held are discounted using the effective interest rates determined at the original acquisition date if the security bears a fixed rate of return. The discount rate is adjusted for the floating index rate for securities which bear a variable rate of return, such as LIBOR-based instruments.

The excess of amortized cost over the present value of expected future cash flows, which represents the credit loss of a debt security, was $38 million as of March 31, 2009. The excess of the present value of discounted cash flows over fair value, which represents the non-credit component of the unrealized loss, was $78 million as of March 31, 2009. Since we do not have the intention to sell the securities and have sufficient capital and liquidity to hold these securities until a recovery of the fair value occurs, only the credit loss component is reflected in earnings. The difference between the fair value estimate of the security and the present value of estimated future cash flows, which represents the non-credit component of the unrealized loss, is recorded, net of taxes, in other comprehensive income (loss).

The following table summarizes the roll-forward of credit losses on debt securities held by us for which a portion of an other-than-temporary impairment is recognized in other comprehensive income:

	March 31, 2009 (in millions)
Credit losses at the beginning of the period	$5
Credit losses related	38

to

securities

for

which

an

other-than-temporary

impairment

was

not

previously

recognized
Increase

in

credit

losses

for

which

an

other-than-temporary

impairment

was

previously

recognized -
Reductions -

of

credit

losses

recognized

prior

to

the

sale

of

securities
Reductions
of credit losses related to other than temporarily impaired securities for which we have recognized the non-credit loss in earnings because we have changed our intent not to sell or have to sell the security prior to recovery of amortized
cost -
Reductions -

of

credit

losses

for

increases

in

cash

flows

expected

to

be

collected

that

are

recognized

over the remaining life of the security	
Ending balance of credit losses on debt securities held for which a portion of an other-than-temporary impairment was recognized	$43

in

other

comprehensive

income

At March 31, 2009, we held 155 individual asset-backed securities in the available for sale portfolio, of which 37 were also wrapped by a monoline insurance company. The asset backed securities backed by a monoline wrap comprised $429 million of the total aggregate fair value of asset-backed securities of $2.2 billion at March 31, 2009. The gross unrealized losses on these securities was $432 million at March 31, 2009. During the quarter, two monoline insurers were downgraded and as a result, we did not take into consideration the financial guarantee from those monoline insurers associated with certain securities. As of March 31, 2009, some of the securities which were wrapped by the monoline insurance companies which were downgraded in the first quarter of 2009 were deemed to be other-than-temporarily impaired.

At December 31, 2008, we held 161 individual asset-backed securities in the available for sale portfolio of which 37 were also wrapped by a monoline insurance company. These asset backed securities backed by a monoline wrap comprised $629 million of the total aggregate fair value of asset-backed securities of $2.4 billion at December 31, 2008. The gross unrealized losses on these securities was $404 million at December 31, 2008. As of December 31, 2008, we deemed these securities to be temporarily impaired as our analysis of the structure and our credit analysis of the monoline insurer resulted in the conclusion that it was probable we would receive all contractual cash flows from our investment, including amounts to be paid by the investment grade monoline insurers.

Gross unrealized losses within the available-for-sale and held-to-maturity portfolios decreased overall primarily due to sales of securities, but increased for asset backed securities during the first quarter of 2009 as the impact of wider credit spreads and continued reduced liquidity in many markets was only partially offset by decreases in interest rates. We have reviewed our securities on which there is an unrealized loss in accordance with our accounting policies for other-than-temporary impairment described previously. During the first quarter of 2009, nine debt securities were determined to be other-than-temporarily impaired pursuant to
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SFAS
115-2 and 124-2. As a result, we recorded an other-than-temporary impairment charge of $116 million during the three months ended March 31, 2009 on these investments. Consistent with
FSP

SFAS
115-2 and 124-2, the credit loss component of the applicable debt securities totaling $38 million was recorded as a component of
Net

other-than-temporary impairment losses
in the accompanying consolidated statement of (loss) income, while the remaining non-credit portion of the impairment loss was recognized in other comprehensive income (loss).

We do not consider any other securities to be other-than-temporarily impaired as we expect to recover the amortized cost basis of these securities, do not intend to sell and do not have to sell these securities prior to recovery. However, additional other-than-temporary impairments may occur in future periods if the credit quality of the securities deteriorates.

The following table summarizes realized gains and losses on investment securities transactions attributable to available for sale and held to maturity securities.

	Gross Realized Gains	Gross Realized (Losses)	Net Realized (Losses) Gains
		(in millions)	
Three months ended March 31, 2009:			
Securities available for sale	**$61**	**$(52)**	**$9**
Securities held to maturity:			
Maturities, calls and mandatory redemptions	**-**	**-**	**-**
	$61	**$(52)**	**$9**
Year ended December 31,			

2008:			
Securities available for sale	$29	$(263)	$(234)
Securities held to maturity: Maturities, calls and mandatory redemptions	-	-	-
	$29	$(263)	$(234)

The amortized cost and fair values of securities available for sale and securities held to maturity at March 31, 2009, by contractual maturity are summarized in the table below. Expected maturities differ from contractual maturities because borrowers have the right to prepay obligations without prepayment penalties in certain cases. Securities available for sale amounts exclude equity securities as they do not have stated maturities. The table below also reflects the distribution of maturities of debt securities held at March 31, 2009, together with the approximate taxable equivalent yield of the portfolio. The yields shown are calculated by dividing annual interest income, including the accretion of discounts and the amortization of premiums, by the amortized cost of securities outstanding at March 31, 2009. Yields on tax-exempt obligations have been computed on a taxable equivalent basis using applicable statutory tax rates.

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
Taxable Equivalent Basis	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
				($ in millions)				
Available for sale:								

U.S. Treasury	$1,000	-%	$118	2.04%	$104	2.00%	$1,029	-%
U.S. Government sponsored enterprises	-	7.42	338	4.41	828	4.42	6,568	4.61
U.S. Government agency issued or guaranteed	-	-	8	4.52	282	4.94	6,560	3.22
Obligations of U.S. states and political subdivisions	-	-	-	-	207	5.02	517	5.01
Asset backed securities	-	-	231	3.75	174	3.88	2,878	3.79
Other domestic debt securities	24	3.86	866	2.30	-	-	103	6.80
Foreign debt securities	15	4.07	978	2.87	10	5.13	41	6.78

Total amortized cost	$1,039	0.15%	$2,539	2.93%	$1,605	4.38%	$17,696	3.73
Total fair value	$1,039		$2,524		$1,649		$17,097	
Held to maturity:								
U.S. Government sponsored enterprises	$-	7.44%	$21	6.06%	$28	6.17%	$1,850	5.87%
U.S. Government agency issued or guaranteed	-	7.19	1	7.41	6	8.85	481	6.34
Obligations of U.S. states and political subdivisions	13	5.76	37	5.11	33	4.73	126	5.11
Asset backed securities	-	-	-	-	-	-	188	5.80

Foreign debt securities	84	2.64	-	-	-	-	-	-
Total amortized cost	$97	3.08%	$59	5.49%	$67	5.71%	$2,645	5.91%
Total fair value	$97		$63		$73		$2,766	

Investments in FHLB stock, FRB stock, and MasterCard Class B shares of $164 million, $382 million and $28 million, respectively, were included in other assets at March 31, 2009. Investments in FHLB stock, FRB stock and MasterCard Class B shares of $209 million, $349 million and $29 million, respectively, were included in other assets at December 31, 2008.

5. Loans

Loans consisted of the following:

	March 31, 2009	December 31, 2008
	(in millions)	
Commercial loans:		
Construction and other real estate	**$8,811**	$8,885
Other commercial	**25,471**	28,544
Total commercial	**34,282**	37,429
Consumer loans:		
HELOC and home equity mortgages	**4,540**	4,549
Other residential mortgages	**15,437**	17,948
Private label cards	**15,623**	17,074
Credit cards	**14,024**	2,137
Auto finance	**3,037**	154
Other consumer	**1,599**	1,822
Total consumer	**54,260**	43,684
Total loans	**$88,542**	$81,113

Secured financings of $1.2 billion and $5.1 billion at March 31, 2009 are secured by $1.5 billion and $6.1 billion of private label cards and credit cards, respectively. Secured financings of $1.2 billion at December 31, 2008 were secured by $1.6 billion of private label cards.

Purchased Loan Portfolios:

In January 2009, we purchased the General Motors MasterCard receivable portfolio ("GM Portfolio") and the AFL-CIO Union Plus MasterCard/Visa receivable portfolio ("UP Portfolio") with an aggregate outstanding principal balance of $6.3 billion and $6.1 billion, respectively from HSBC Finance. The aggregate purchase price for the GM and UP Portfolios was $12.2 billion, which included the transfer of approximately $6.1 billion of indebtedness, resulting in a cash consideration of $6.1 billion. The purchase price was determined based on independent valuation opinions. HSBC Finance retained the customer relationships and by agreement we will purchase additional loan originations generated under existing and future accounts from HSBC Finance on a daily basis at fair market value. HSBC Finance will continue to service the GM and UP Portfolios for us for a fee. The loans purchased were subject to the requirements of AICPA Statement of Position 03-3, "Accounting for Certain Loans on Debt Securities Acquired in a Transfer," ("SOP 03-3") to the extent there was evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected and that the associated line of credit had been closed. The following table summarizes the outstanding loan balances, the cash flows expected to be collected and the fair value of the loans to which SOP 03-3 has been applied:

	GM Portfolio	UP Portfolio
	(in millions)	
Outstanding contractual receivable balance at acquisition	$355	$399
Cash flows expected to be collected at	164	167

acquisition
Basis

in

acquired

receivables

at

acquisition