COMERICA INC /NEW/
Form 10-Q
July 29, 2014
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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 June 30, 2014

Or

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

For the transition period from to

Commission file number 1-10706

Comerica Incorporated
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	38-1998421 (I.R.S. Employer Identification No.)

Comerica Bank Tower
1717 Main Street, MC 6404
Dallas, Texas 75201
(Address of principal executive offices)
(Zip Code)
(214) 462-6831
(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 ý No o

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

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.

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
$5 par value common stock:
Outstanding as of July 25, 2014: 180,825,973 shares

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS
Comerica Incorporated and Subsidiaries

(in millions, except share data)	June 30, 2014	December 31, 2013
	(unaudited)	
ASSETS		
Cash and due from banks	$1,226	$1,140
Interest-bearing deposits with banks	2,668	5,311
Other short-term investments	109	112
Investment securities available-for-sale	9,534	9,307
Commercial loans	30,986	28,815
Real estate construction loans	1,939	1,762
Commercial mortgage loans	8,747	8,787
Lease financing	822	845
International loans	1,352	1,327
Residential mortgage loans	1,775	1,697
Consumer loans	2,261	2,237
Total loans	47,882	45,470
Less allowance for loan losses	(591)	(598)
Net loans	47,291	44,872
Premises and equipment	562	594
Accrued income and other assets	3,935	3,888
Total assets	$65,325	$65,224
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Noninterest-bearing deposits	$24,774	$23,875
Money market and interest-bearing checking deposits	22,555	22,332
Savings deposits	1,731	1,673
Customer certificates of deposit	4,962	5,063
Foreign office time deposits	148	349
Total interest-bearing deposits	29,396	29,417
Total deposits	54,170	53,292
Short-term borrowings	176	253
Accrued expenses and other liabilities	990	986
Medium- and long-term debt	2,620	3,543
Total liabilities	57,956	58,074
Common stock - $5 par value:		
Authorized - 325,000,000 shares		
Issued - 228,164,824 shares	1,141	1,141
Capital surplus	2,175	2,179
Accumulated other comprehensive loss	(304)	(391)

Retained earnings	6,520	6,318
Less cost of common stock in treasury - 47,194,492 shares at 6/30/14 and 45,860,786 shares at 12/31/13	(2,163)	(2,097)
Total shareholders' equity	7,369	7,150
Total liabilities and shareholders' equity	$65,325	$65,224

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)
Comerica Incorporated and Subsidiaries

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per share data)	2014	2013	2014	2013
INTEREST INCOME				
Interest and fees on loans	$385	$388	$761	$778
Interest on investment securities	53	52	108	105
Interest on short-term investments	3	3	7	6
Total interest income	441	443	876	889
INTEREST EXPENSE				
Interest on deposits	11	15	22	30
Interest on medium- and long-term debt	14	14	28	29
Total interest expense	25	29	50	59
Net interest income	416	414	826	830
Provision for credit losses	11	13	20	29
Net interest income after provision for credit losses	405	401	806	801
NONINTEREST INCOME				
Service charges on deposit accounts	54	53	108	108
Fiduciary income	45	44	89	87
Commercial lending fees	23	22	43	43
Card fees	19	18	38	35
Letter of credit fees	15	16	29	32
Bank-owned life insurance	11	10	20	19
Foreign exchange income	12	9	21	18
Brokerage fees	4	4	9	9
Net securities (losses) gains	—	(2)	1	(2)
Other noninterest income	37	48	70	86
Total noninterest income	220	222	428	435
NONINTEREST EXPENSES				
Salaries and benefits expense	240	245	487	496
Net occupancy expense	39	39	79	78
Equipment expense	15	15	29	30
Outside processing fee expense	30	30	58	58
Software expense	25	22	47	44
Litigation-related expense	3	1	6	4
FDIC insurance expense	8	8	16	17
Advertising expense	5	6	11	12
Other noninterest expenses	39	50	77	93
Total noninterest expenses	404	416	810	832
Income before income taxes	221	207	424	404
Provision for income taxes	70	64	134	127
NET INCOME	151	143	290	277
Less income allocated to participating securities	2	2	4	4
Net income attributable to common shares	$149	$141	$286	$273
Earnings per common share:				
Basic	$0.83	$0.77	$1.59	$1.48
Diluted	0.80	0.76	1.54	1.46

Comprehensive income	172	15	377	152
Cash dividends declared on common stock	36	32	71	64
Cash dividends declared per common share	0.20	0.17	0.39	0.34

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)
Comerica Incorporated and Subsidiaries

	Common Stock						
(in millions, except per share data)	Shares Outstanding	Amount	Capital Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Shareholders' Equity
BALANCE AT DECEMBER 31, 2012	188.3	$1,141	$2,162	$ (413)	$5,928	$(1,879)	$6,939
Net income	—	—	—	—	277	—	277
Other comprehensive loss, net of tax	—	—	—	(125)	—	—	(125)
Cash dividends declared on common stock ($0.34 per share)	—	—	—	—	(64)	—	(64)
Purchase of common stock	(4.1)	—	—	—	—	(146)	(146)
Net issuance of common stock under employee stock plans	1.0	—	(19)	—	(17)	45	9
Share-based compensation	—	—	18	—	—	—	18
Other	—	—	(1)	—	—	1	—
BALANCE AT JUNE 30, 2013	185.2	$1,141	$2,160	$ (538)	$6,124	$(1,979)	$6,908
BALANCE AT DECEMBER 31, 2013	182.3	$1,141	$2,179	$ (391)	$6,318	$(2,097)	$7,150
Net income	—	—	—	—	290	—	290
Other comprehensive income, net of tax	—	—	—	87	—	—	87
Cash dividends declared on common stock ($0.39 per share)	—	—	—	—	(71)	—	(71)
Purchase of common stock	(3.0)	—	—	—	—	(141)	(141)
Net issuance of common stock under employee stock plans	1.6	—	(25)	—	(17)	74	32
Share-based compensation	—	—	22	—	—	—	22
Other	—	—	(1)	—	—	1	—
BALANCE AT JUNE 30, 2014	180.9	$1,141	$2,175	$ (304)	$6,520	$(2,163)	$7,369

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
Comerica Incorporated and Subsidiaries

	Six Months Ended June 30,	
(in millions)	2014	2013
OPERATING ACTIVITIES		
Net income	$290	$277
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	20	29
Provision (benefit) for deferred income taxes	(13)	26
Depreciation and amortization	61	62
Net periodic defined benefit cost	19	44
Share-based compensation expense	22	18
Net amortization of securities	5	18
Accretion of loan purchase discount	(22)	(18)
Net securities (gains) losses	(1)	2
Net (gains) losses on foreclosed property	(2)	5
Excess tax benefits from share-based compensation arrangements	(6)	(2)
Net change in:		
Trading securities	5	4
Accrued income receivable	(1)	(5)
Accrued expenses payable	(60)	(35)
Other, net	29	(169)
Net cash provided by operating activities	346	256
INVESTING ACTIVITIES		
Investment securities available-for-sale:		
Maturities and redemptions	825	1,761
Purchases	(940)	(1,355)
Net change in loans	(2,422)	563
Proceeds from sales of foreclosed property	9	29
Net increase in premises and equipment	(31)	(42)
Sales of Federal Home Loan Bank stock	41	41
Other, net	1	5
Net cash (used in) provided by investing activities	(2,517)	1,002
FINANCING ACTIVITIES		
Net change in:		
Deposits	763	(636)
Short-term borrowings	(77)	21
Medium- and long-term debt:		
Maturities and redemptions	(1,256)	(1,055)
Issuances	349	—
Common stock:		
Repurchases	(141)	(146)
Cash dividends paid	(65)	(61)
Issuances under employee stock plans	36	12
Excess tax benefits from share-based compensation arrangements	6	2
Other, net	(1)	(4)
Net cash used in financing activities	(386)	(1,867)
Net decrease in cash and cash equivalents	(2,557)	(609)

Cash and cash equivalents at beginning of period	6,451	4,534
Cash and cash equivalents at end of period	$3,894	$3,925
Interest paid	$50	$61
Income taxes and tax-related interest paid	110	22
Noncash investing and financing activities:		
Loans transferred to other real estate	11	9

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries

NOTE 1 - BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Organization

The accompanying unaudited consolidated financial statements were prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation were included. The results of operations for the six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. Certain items in prior periods were reclassified to conform to the current presentation. For further information, refer to the consolidated financial statements and footnotes thereto included in the Annual Report of Comerica Incorporated and Subsidiaries (the Corporation) on Form 10-K for the year ended December 31, 2013.

Allowance for Credit Losses

In the second quarter 2014, the Corporation enhanced the approach used to determine the standard reserve factors used in estimating the allowance for credit losses, which had the effect of capturing certain elements in the standard reserve component that had formerly been included in the qualitative assessment. The impact of the change was largely neutral to the total allowance for loan losses at June 30, 2014. However, because standard reserves are allocated to the segments at the loan level, while qualitative reserves are allocated at the portfolio level, the impact of the methodology change on the allowance of each segment reflected the characteristics of the individual loans within each segment's portfolio, causing segment reserves to increase or decrease accordingly.

Recently Adopted Accounting Pronouncement

Effective January 1, 2014, the Corporation early adopted Accounting Standards Update (ASU) No. 2014-01, “Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects,” an amendment to GAAP which enables companies that invest in affordable housing projects that qualify for the low-income housing tax credit (LIHTC) to elect to use the proportional amortization method if certain conditions are met. Under the proportional amortization method, the initial investment cost of the project is amortized in proportion to the amount of tax credits and other benefits received, with the results of the investment presented on a net basis as a component of the provision for income taxes. Previously, LIHTC investments were accounted for under the cost or equity method, and the amortization was recorded as a reduction to other noninterest income, with the tax credits and other benefits received recorded as a component of the provision for income taxes. The Corporation believes the proportional amortization method better represents the economics of LIHTC investments and provides users with a better understanding of the returns from such investments than the cost or equity method.

The cumulative effect of the retrospective application of the change in amortization method was a $3 million decrease to both "accrued income and other assets" and "retained earnings" on the consolidated balance sheets as of January 1, 2013. The unaudited consolidated financial statements have been retrospectively adjusted to reflect the prior period effect of the adoption of the amendment, which resulted in increases of $14 million and $27 million to both "other noninterest income" and "provision for income taxes" for the three- and six-month periods ended June 30, 2013, respectively. The adoption of ASU 2014-01 had no effect on net income or earnings per common share for any period presented.

See Note 6 to these unaudited consolidated financial statements for additional information regarding LIHTC and other tax credit investments.

Pending Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606),” (ASU 2014-09), which is intended to improve and converge the financial reporting requirements for revenue contracts with customers. Previous GAAP comprised broad revenue recognition concepts along with numerous industry-specific requirements. The new guidance establishes a five-step model which entities must follow to recognize revenue and removes inconsistencies and weaknesses in existing guidance. ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2016, and must be retrospectively applied. Entities will have the option of presenting prior periods as impacted by the new guidance or presenting the cumulative effect of initial application along with supplementary disclosures. Early adoption is prohibited. The Corporation is currently evaluating the impact of adopting ASU 2014-09.

In June 2014, the FASB issued ASU No. 2014-12, “Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period,” (ASU 2014-12). The new guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for annual and interim periods beginning after December 15, 2015, with early adoption permitted. The Corporation's current accounting treatment of

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performance conditions for employees who are or become retirement eligible prior to the achievement of the performance target are consistent with ASU 2014-12, and as such does not expect the new guidance to have a material effect on the Corporation's financial condition and results of operations. The Corporation expects to prospectively adopt ASU 2014-12 in the first quarter 2015.

NOTE 2 – FAIR VALUE MEASUREMENTS

The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The determination of fair values of financial instruments often requires the use of estimates. In cases where quoted market values in an active market are not available, the Corporation uses present value techniques and other valuation methods to estimate the fair values of its financial instruments. These valuation methods require considerable judgment and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used.

Fair value is an estimate of the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (i.e., not a forced transaction, such as a liquidation or distressed sale) between market participants at the measurement date. However, the calculated fair value estimates in many instances cannot be substantiated by comparison to independent markets and, in many cases, may not be realizable in a current sale of the financial instrument.

Trading securities, investment securities available-for-sale, derivatives and deferred compensation plan liabilities are recorded at fair value on a recurring basis. Additionally, from time to time, the Corporation may be required to record other assets and liabilities at fair value on a nonrecurring basis, such as impaired loans, other real estate (primarily foreclosed property), nonmarketable equity securities and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve write-downs of individual assets or application of lower of cost or fair value accounting.

The Corporation categorizes assets and liabilities recorded at fair value on a recurring or nonrecurring basis and the estimated fair value of financial instruments not recorded at fair value on a recurring basis into a three-level hierarchy, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1	Valuation is based upon quoted prices for identical instruments traded in active markets.
Level 2	Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
Level 3	Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The Corporation generally utilizes third-party pricing services to value Level 1 and Level 2 trading securities and investment securities available-for-sale, as well as certain derivatives designated as fair value hedges. Management reviews the methodologies and assumptions used by the third-party pricing services and evaluates the values provided, principally by comparison with other available market quotes for similar instruments and/or analysis based on internal models using available third-party market data. The Corporation may occasionally adjust certain values provided by the third-party pricing service when management believes, as the result of its review, that the adjusted price most appropriately reflects the fair value of the particular security.

Following are descriptions of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, as well as a description of the methods and significant assumptions used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis. The descriptions include an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

Transfers of assets or liabilities between levels of the fair value hierarchy are recognized at the beginning of the reporting period, when applicable.

Cash and due from banks, federal funds sold and interest-bearing deposits with banks

Due to their short-term nature, the carrying amount of these instruments approximates the estimated fair value. As such, the Corporation classifies the estimated fair value of these instruments as Level 1.

Trading securities and associated deferred compensation plan liabilities

Trading securities include securities held for trading purposes as well as assets held related to employee deferred compensation plans. Trading securities and associated deferred compensation plan liabilities are recorded at fair value on a recurring basis and included in “other short-term investments” and “accrued expenses and other liabilities,” respectively, on the consolidated balance sheets. Level 1 trading securities include assets related to employee deferred compensation plans, which are invested in mutual funds, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and other securities traded on an active exchange, such as the New York Stock Exchange. Deferred compensation plan liabilities represent the fair value of the obligation to the employee, which corresponds to the fair value of the invested assets. Level 2 trading securities include municipal bonds and residential mortgage-backed securities issued by U.S. government-sponsored entities and corporate debt securities. The methods used to value trading securities are the same as the methods used to value investment securities available-for-sale, discussed below.

Loans held-for-sale

Loans held-for-sale, included in “other short-term investments” on the consolidated balance sheets, are recorded at the lower of cost or fair value. Loans held-for-sale may be carried at fair value on a nonrecurring basis when fair value is less than cost. The fair value is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Corporation classifies both loans held-for-sale subjected to nonrecurring fair value adjustments and the estimated fair value of loans held-for sale as Level 2.

Investment securities available-for-sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include residential mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored entities and corporate debt securities. The fair value of Level 2 securities was determined using quoted prices of securities with similar characteristics, or pricing models based on observable market data inputs, primarily interest rates, spreads and prepayment information.

Securities classified as Level 3 represent securities in less liquid markets requiring significant management assumptions when determining fair value. Auction-rate securities comprise Level 3 investment securities available-for-sale. Due to the lack of a robust secondary auction-rate securities market with active fair value indicators, fair value for all periods presented was determined using an income approach based on a discounted cash flow model. The discounted cash flow model utilizes two significant inputs: discount rate and workout period. The discount rate was calculated using credit spreads of the underlying collateral or similar securities plus a liquidity risk premium. The liquidity risk premium was derived from the rate at which various types of similar auction-rate securities had been redeemed or sold. The workout period was based on an assessment of publicly available information on efforts to re-establish functioning markets for these securities and the Corporation's own redemption experience. Significant increases in any of these inputs in isolation would result in a significantly lower fair value. The Corporate Development Department, with appropriate oversight and approval provided by senior management, is responsible for determining the valuation methodology for auction-rate securities and for updating significant inputs based on changes to the factors discussed above. Valuation results, including an analysis of changes to the valuation methodology and significant inputs, are provided to senior management for review on a quarterly basis.

Loans

The Corporation does not record loans at fair value on a recurring basis. However, the Corporation may establish a specific allowance for an impaired loan based on the fair value of the underlying collateral. Such loan values are reported as nonrecurring fair value measurements. Collateral values supporting individually evaluated impaired loans are evaluated quarterly. When management determines that the fair value of the collateral requires additional adjustments, either as a result of non-current appraisal value or when there is no observable market price, the Corporation classifies the impaired loan as Level 3. The Special Assets Group is responsible for performing quarterly credit quality reviews for all impaired loans as part of the quarterly allowance for loan losses process overseen by the Chief Credit Officer, during which valuation adjustments to updated collateral values are determined.

The Corporation discloses fair value estimates for loans. The estimated fair value is determined based on characteristics such as loan category, repricing features and remaining maturity, and includes prepayment and credit loss estimates. For variable rate business loans that reprice frequently, the estimated fair value is based on carrying values adjusted for estimated credit losses inherent in the portfolio at the balance sheet date. For other business loans and retail loans, fair values are estimated using a discounted cash flow model that employs a discount rate that reflects the Corporation's current pricing for loans with similar characteristics and remaining maturity, adjusted by an amount for estimated credit losses inherent in the portfolio at the balance sheet date. The rates take into account the expected yield curve, as well as an adjustment for prepayment risk, when applicable. The Corporation classifies the estimated fair value of loans held for investment as Level 3.

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Notes to Consolidated Financial Statements (unaudited)
Comerica Incorporated and Subsidiaries

Customers’ liability on acceptances outstanding and acceptances outstanding
Customers' liability on acceptances outstanding is included in "accrued income and other assets" and acceptances outstanding are included in "accrued expenses and other liabilities" on the consolidated balance sheets. Due to their short-term nature, the carrying amount of these instruments approximates the estimated fair value. As such, the Corporation classifies the estimated fair value of these instruments as Level 1.
Derivative assets and derivative liabilities
Derivative instruments held or issued for risk management or customer-initiated activities are traded in over-the-counter markets where quoted market prices are not readily available. Fair value for over-the-counter derivative instruments is measured on a recurring basis using internally developed models that use primarily market observable inputs, such as yield curves and option volatilities. The Corporation manages credit risk on its derivative positions based on whether the derivatives are being settled through a clearinghouse or bilaterally with each counterparty. For derivative positions settled on a counterparty-by-counterparty basis, the Corporation calculates credit valuation adjustments, included in the fair value of these instruments, on the basis of its relationships at the counterparty portfolio/master netting agreement level. These credit valuation adjustments are determined by applying a credit spread for the counterparty or the Corporation, as appropriate, to the total expected exposure of the derivative after considering collateral and other master netting arrangements. These adjustments, which are considered Level 3 inputs, are based on estimates of current credit spreads to evaluate the likelihood of default. The Corporation assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Corporation classifies its over-the-counter derivative valuations in Level 2 of the fair value hierarchy. Examples of Level 2 derivative instruments are interest rate swaps and energy derivative and foreign exchange contracts.
Warrants which contain a net exercise provision or a non-contingent put right embedded in the warrant agreement are accounted for as derivatives and recorded at fair value on a recurring basis using a Black-Scholes valuation model. The Black-Scholes valuation model utilizes five inputs: risk-free rate, expected life, volatility, exercise price, and the per share market value of the underlying company. The Corporation holds a portfolio of warrants for generally nonmarketable equity securities with a fair value of $4 million at June 30, 2014, included in "accrued income and other assets" on the consolidated balance sheets. These warrants are primarily from non-public technology companies obtained as part of the loan origination process. The Corporate Development Department is responsible for the warrant valuation process, which includes reviewing all significant inputs for reasonableness, and for providing valuation results to senior management. Increases in any of these inputs in isolation, with the exception of exercise price, would result in a higher fair value. Increases in exercise price in isolation would result in a lower fair value. The Corporation classifies warrants accounted for as derivatives as Level 3.
The Corporation also holds a derivative contract associated with the 2008 sale of its remaining ownership of Visa Inc. (Visa) Class B shares. Under the terms of the derivative contract, the Corporation will compensate the counterparty primarily for dilutive adjustments made to the conversion factor of the Visa Class B to Class A shares based on the ultimate outcome of litigation involving Visa. Conversely, the Corporation will be compensated by the counterparty for any increase in the conversion factor from anti-dilutive adjustments. At June 30, 2014, the fair value of the contract was a liability of $2 million. The recurring fair value of the derivative contract is based on unobservable inputs consisting of management's estimate of the litigation outcome, timing of litigation settlements and payments related to the derivative. Significant increases in the estimate of litigation outcome and the timing of litigation settlements in isolation would result in a significantly higher liability fair value. Significant increases in payments related to the derivative in isolation would result in a significantly lower liability fair value. The Corporation classifies the derivative liability as Level 3.
Nonmarketable equity securities
The Corporation has a portfolio of indirect (through funds) private equity and venture capital investments with a carrying value and unfunded commitments of $12 million and $5 million, respectively, at June 30, 2014. These funds

generally cannot be redeemed and the majority are not readily marketable. Distributions from these funds are received by the Corporation as a result of the liquidation of underlying investments of the funds and/or as income distributions. It is estimated that the underlying assets of the funds will be liquidated over a period of up to 16 years. Recently issued federal regulations may require the Corporation to sell certain of these funds prior to liquidation. The investments are accounted for either on the cost or equity method and are individually reviewed for impairment on a quarterly basis by comparing the carrying value to the estimated fair value. These investments may be carried at fair value on a nonrecurring basis when they are deemed to be impaired and written down to fair value. Where there is not a readily determinable fair value, the Corporation estimates fair value for indirect private equity and venture capital investments based on the net asset value, as reported by the fund, after indication that the fund adheres to applicable fair value measurement guidance. For those funds where the net asset value is not reported by the fund, the Corporation derives the fair value of the fund by estimating the fair value of each underlying investment in the fund. In addition to using qualitative information about each underlying investment, as provided by the fund, the Corporation gives consideration to information pertinent to the specific nature of the debt or equity investment, such as relevant market conditions, offering prices, operating results, financial conditions, exit strategy and other qualitative information, as available. The lack of an independent source to validate fair value estimates, including the impact of future capital calls and transfer restrictions, is an inherent limitation in the valuation process. On a quarterly basis, the Corporate Development Department is responsible, with appropriate oversight and approval provided by senior management, for performing the valuation procedures and updating significant inputs, as are primarily provided by the underlying fund's management. The Corporation classifies fair value measurements of nonmarketable equity securities as Level 3. Commitments to fund additional investments in nonmarketable equity securities recorded at fair value on a nonrecurring basis were not significant at June 30, 2014 or December 31, 2013.

The Corporation also holds restricted equity investments, primarily Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) stock. Restricted equity securities are not readily marketable and are recorded at cost (par value) in "accrued income and other assets" on the consolidated balance sheets and evaluated for impairment based on the ultimate recoverability of the par value. No significant observable market data for these instruments is available. The Corporation considers the profitability and asset quality of the issuer, dividend payment history and recent redemption experience when determining the ultimate recoverability of the par value. The Corporation’s investment in FHLB stock totaled $7 million and $48 million at June 30, 2014 and December 31, 2013, respectively, and its investment in FRB stock totaled $85 million at both June 30, 2014 and December 31, 2013. The Corporation believes its investments in FHLB and FRB stock are ultimately recoverable at par. Therefore, the carrying amount for these restricted equity investments approximates fair value. The Corporation classifies the estimated fair value of such investments as Level 1.

Other real estate

Other real estate is included in “accrued income and other assets” on the consolidated balance sheets and includes primarily foreclosed property. Foreclosed property is initially recorded at fair value, less costs to sell, at the date of foreclosure, establishing a new cost basis. Subsequently, foreclosed property is carried at the lower of cost or fair value, less costs to sell. Other real estate may be carried at fair value on a nonrecurring basis when fair value is less than cost. Fair value is based upon independent market prices, appraised value or management's estimate of the value of the property. The Special Assets Group obtains updated independent market prices and appraised values, as required by state regulation or deemed necessary based on market conditions, and determines if additional write-downs are necessary. On a quarterly basis, senior management reviews all other real estate and determines whether the carrying values are reasonable, based on the length of time elapsed since receipt of independent market price or appraised value and current market conditions. When management determines that the fair value of other real estate requires additional adjustments, either as a result of a non-current appraisal or when there is no observable market price, the Corporation classifies the other real estate as Level 3.

Deposit liabilities

The estimated fair value of checking, savings and certain money market deposit accounts is represented by the amounts payable on demand. The estimated fair value of term deposits is calculated by discounting the scheduled cash flows using the period-end rates offered on these instruments. As such, the Corporation classifies the estimated fair value of deposit liabilities as Level 2.

Short-term borrowings

The carrying amount of federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings approximates the estimated fair value. As such, the Corporation classifies the estimated fair value of short-term borrowings as Level 1.

Medium- and long-term debt

The carrying value of variable-rate FHLB advances approximates the estimated fair value. The estimated fair value of the Corporation's remaining variable- and fixed-rate medium- and long-term debt is based on quoted market values when available. If quoted market values are not available, the estimated fair value is based on the market values of debt with similar characteristics. The Corporation classifies the estimated fair value of medium- and long-term debt as Level 2.

Credit-related financial instruments

Credit-related financial instruments include unused commitments to extend credit and letters of credit. These instruments generate ongoing fees which are recognized over the term of the commitment. In situations where credit losses are probable, the Corporation records an allowance. The carrying value of these instruments included in "accrued expenses and other liabilities" on the consolidated balance sheets, which includes the carrying value of the deferred fees plus the related allowance, approximates the estimated fair value. The Corporation classifies the estimated fair value of credit-related financial instruments as Level 3.

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ASSETS AND LIABLILITIES RECORDED AT FAIR VALUE ON A RECURRING BASIS
The following tables present the recorded amount of assets and liabilities measured at fair value on a recurring basis as of June 30, 2014 and December 31, 2013.

(in millions)	Total	Level 1	Level 2	Level 3	
June 30, 2014					
Trading securities:					
Deferred compensation plan assets	$96	$96	$—	$—	
Equity and other non-debt securities	2	2	—	—	
Residential mortgage-backed securities (a)	3	—	3	—	
State and municipal securities	1	—	1	—	
Corporate debt securities	1	—	1	—	
Total trading securities	103	98	5	—	
Investment securities available-for-sale:					
U.S. Treasury and other U.S. government agency securities	65	65	—	—	
Residential mortgage-backed securities (a)	9,141	—	9,141	—	
State and municipal securities	23	—	—	23	(b)
Corporate debt securities	55	—	54	1	(b)
Equity and other non-debt securities	250	132	—	118	(b)
Total investment securities available-for-sale	9,534	197	9,195	142	
Derivative assets:					
Interest rate contracts	344	—	344	—	
Energy derivative contracts	153	—	153	—	
Foreign exchange contracts	20	—	20	—	
Warrants	4	—	—	4	
Total derivative assets	521	—	517	4	
Total assets at fair value	$10,158	$295	$9,717	$146	
Derivative liabilities:					
Interest rate contracts	$115	$—	$115	$—	
Energy derivative contracts	151	—	151	—	
Foreign exchange contracts	20	—	20	—	
Other	2	—	—	2	
Total derivative liabilities	288	—	286	2	
Deferred compensation plan liabilities	96	96	—	—	
Total liabilities at fair value	$384	$96	$286	$2	

(a) Residential mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.
(b) Auction-rate securities.

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(in millions)	Total	Level 1	Level 2	Level 3	
December 31, 2013					
Trading securities:					
Deferred compensation plan assets	$96	$96	$—	$—	
Equity and other non-debt securities	7	7	—	—	
Residential mortgage-backed securities (a)	2	—	2	—	
State and municipal securities	3	—	3	—	
Total trading securities	108	103	5	—	
Investment securities available-for-sale:					
U.S. Treasury and other U.S. government agency securities	45	45	—	—	
Residential mortgage-backed securities (a)	8,926	—	8,926	—	
State and municipal securities	22	—	—	22	(b)
Corporate debt securities	56	—	55	1	(b)
Equity and other non-debt securities	258	122	—	136	(b)
Total investment securities available-for-sale	9,307	167	8,981	159	
Derivative assets:					
Interest rate contracts	380	—	380	—	
Energy derivative contracts	105	—	105	—	
Foreign exchange contracts	15	—	15	—	
Warrants	3	—	—	3	
Total derivative assets	503	—	500	3	
Total assets at fair value	$9,918	$270	$9,486	$162	
Derivative liabilities:					
Interest rate contracts	$133	$—	$133	$—	
Energy derivative contracts	102	—	102	—	
Foreign exchange contracts	14	—	14	—	
Other	2	—	—	2	
Total derivative liabilities	251	—	249	2	
Deferred compensation plan liabilities	96	96	—	—	
Total liabilities at fair value	$347	$96	$249	$2	

(a) Residential mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.
(b) Auction-rate securities.

There were no transfers of assets or liabilities recorded at fair value on a recurring basis into or out of Level 1, Level 2 and Level 3 fair value measurements during each of the three- and six-month periods ended June 30, 2014 and 2013.

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The following table summarizes the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three- and six-month periods ended June 30, 2014 and 2013.

(in millions)	Balance at Beginning of Period	Net Realized/Unrealized Gains (Losses) (Pretax) Recorded in Earnings: Realized	Net Realized/Unrealized Gains (Losses) (Pretax) Recorded in Earnings: Unrealized	Recorded in Other Comprehensive Income	Sales	Balance at End of Period
Three Months Ended June 30, 2014						
Investment securities available-for-sale:						
State and municipal securities (a)	$23	$—	$—	$—	$—	$23
Corporate debt securities (a)	1	—	—	—	—	1
Equity and other non-debt securities (a)	118	—	—	1 (b)	(1)	118
Total investment securities available-for-sale	142	—	—	1 (b)	(1)	142
Derivative assets:						
Warrants	3	4 (d)	—	—	(3)	4
Derivative liabilities:						
Other	2	—	—	—	—	2
Three Months Ended June 30, 2013						
Investment securities available-for-sale:						
State and municipal securities (a)	$23	$—	$—	$2 (b)	$—	$25
Corporate debt securities (a)	1	—	—	—	—	1
Equity and other non-debt securities (a)	153	—	—	(7) (b)	—	146
Total investment securities available-for-sale	177	—	—	(5) (b)	—	172
Derivative assets:						
Warrants	3	—	1 (d)	—	(1)	3
Derivative liabilities:						
Other	1	—	(2) (c)	—	—	3
Six Months Ended June 30, 2014						
Investment securities available-for-sale:						
State and municipal securities (a)	$22	$—	$—	$1 (b)	$—	$23
Corporate debt securities (a)	1	—	—	—	—	1
Equity and other non-debt securities (a)	136	1 (c)	—	6 (b)	(25)	118
Total investment securities available-for-sale	159	1 (c)	—	7 (b)	(25)	142
Derivative assets:						
Warrants	3	4 (d)	1 (d)	—	(4)	4
Derivative liabilities:						
Other	2	—	—	—	—	2
Six Months Ended June 30, 2013						
Investment securities available-for-sale:						
State and municipal securities (a)	$23	$—	$—	$2 (b)	$—	$25
Corporate debt securities (a)	1	—	—	—	—	1
Equity and other non-debt securities (a)	156	—	—	(6) (b)	(4)	146
Total investment securities	180	—	—	(4) (b)	(4)	172

available-for-sale						
Derivative assets:						
Warrants	3	1 (d)	1 (d)	—	(2)	3
Derivative liabilities:						
Other	1	—	(2) (c)	—	—	3

(a) Auction-rate securities.

(b) Recorded in "net unrealized gains (losses) on investment securities available-for-sale" in other comprehensive income.

(c) Realized and unrealized gains and losses due to changes in fair value recorded in "net securities gains" on the consolidated statements of comprehensive income.

(d) Realized and unrealized gains and losses due to changes in fair value recorded in "other noninterest income" on the consolidated statements of comprehensive income.

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ASSETS AND LIABILITIES RECORDED AT FAIR VALUE ON A NONRECURRING BASIS

The Corporation may be required, from time to time, to record certain assets and liabilities at fair value on a nonrecurring basis. These include assets that are recorded at the lower of cost or fair value that were recognized at fair value below cost at the end of the period. All assets recorded at fair value on a nonrecurring basis were classified as Level 3 at June 30, 2014 and December 31, 2013 and are presented in the following table. No liabilities were recorded at fair value on a nonrecurring basis at June 30, 2014 and December 31, 2013.

(in millions)	Level 3
June 30, 2014	
Loans:	
Commercial	$10
Real estate construction	17
Commercial mortgage	68
Total loans	95
Nonmarketable equity securities	1
Other real estate	1
Total assets at fair value	$97
December 31, 2013	
Loans:	
Commercial	$43
Real estate construction	20
Commercial mortgage	61
International	4
Total loans	128
Nonmarketable equity securities	2
Other real estate	5
Total assets at fair value	$135

Level 3 assets recorded at fair value on a nonrecurring basis at June 30, 2014 and December 31, 2013 included loans for which a specific allowance was established based on the fair value of collateral and other real estate for which fair value of the properties was less than the cost basis. For both asset classes, the unobservable inputs were the additional adjustments applied by management to the appraised values to reflect such factors as non-current appraisals and revisions to estimated time to sell. These adjustments are determined based on qualitative judgments made by management on a case-by-case basis and are not quantifiable inputs, although they are used in the determination of fair value.

The following table presents quantitative information related to the significant unobservable inputs utilized in the Corporation's Level 3 recurring fair value measurement as of June 30, 2014 and December 31, 2013. The Corporation's Level 3 recurring fair value measurements include auction-rate securities where fair value is determined using an income approach based on a discounted cash flow model. The inputs in the table below reflect management's expectation of continued illiquidity in the secondary auction-rate securities market due to a lack of market activity for the issuers remaining in the portfolio, a lack of market incentives for issuer redemptions, and the expectation for a continuing low interest rate environment. The June 30, 2014 workout periods reflect management's view that short-term interest rates could begin to rise in 2015.

		Discounted Cash Flow Model Unobservable Input	
	Fair Value (in millions)	Discount Rate	Workout Period (in years)
June 30, 2014			
State and municipal securities (a)	$23	3% - 10%	1 - 3.5

Equity and other non-debt securities (a)	118	4% - 8%	1 - 2.5
December 31, 2013			
State and municipal securities (a)	$22	5% - 10%	3 - 4
Equity and other non-debt securities (a)	136	5% - 8%	2 - 3

(a) Auction-rate securities.

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ESTIMATED FAIR VALUES OF FINANCIAL INSTRUMENTS NOT RECORDED AT FAIR VALUE ON A RECURRING BASIS

The Corporation typically holds the majority of its financial instruments until maturity and thus does not expect to realize many of the estimated fair value amounts disclosed. The disclosures also do not include estimated fair value amounts for items that are not defined as financial instruments, but which have significant value. These include such items as core deposit intangibles, the future earnings potential of significant customer relationships and the value of trust operations and other fee generating businesses. The Corporation believes the imprecision of an estimate could be significant.

The carrying amount and estimated fair value of financial instruments not recorded at fair value in their entirety on a recurring basis on the Corporation's consolidated balance sheets are as follows:

	Carrying	Estimated Fair Value			
(in millions)	Amount	Total	Level 1	Level 2	Level 3
June 30, 2014					
Assets					
Cash and due from banks	$1,226	$1,226	$1,226	$—	$—
Interest-bearing deposits with banks	2,668	2,668	2,668	—	—
Loans held-for-sale	6	6	—	6	—
Total loans, net of allowance for loan losses (a)	47,291	47,236	—	—	47,236
Customers' liability on acceptances outstanding	10	10	10	—	—
Nonmarketable equity securities (b)	12	19	—	—	19
Restricted equity investments	92	92	92	—	—
Liabilities					
Demand deposits (noninterest-bearing)	24,774	24,774	—	24,774	—
Interest-bearing deposits	24,434	24,434	—	24,434	—
Customer certificates of deposit	4,962	4,955	—	4,955	—
Total deposits	54,170	54,163	—	54,163	—
Short-term borrowings	176	176	176	—	—
Acceptances outstanding	10	10	10	—	—
Medium- and long-term debt	2,620	2,593	—	2,593	—
Credit-related financial instruments	(94)	(94)	—	—	(94)
December 31, 2013					
Assets					
Cash and due from banks	$1,140	$1,140	$1,140	$—	$—
Interest-bearing deposits with banks	5,311	5,311	5,311	—	—
Loans held-for-sale	4	4	—	4	—
Total loans, net of allowance for loan losses (a)	44,872	44,801	—	—	44,801
Customers' liability on acceptances outstanding	11	11	11	—	—
Nonmarketable equity securities (b)	12	19	—	—	19
Restricted equity investments	133	133	133	—	—
Liabilities					
Demand deposits (noninterest-bearing)	23,875	23,875	—	23,875	—
Interest-bearing deposits	24,354	24,354	—	24,354	—
Customer certificates of deposit	5,063	5,055	—	5,055	—
Total deposits	53,292	53,284	—	53,284	—
Short-term borrowings	253	253	253	—	—
Acceptances outstanding	11	11	11	—	—
Medium- and long-term debt	3,543	3,540	—	3,540	—

Credit-related financial instruments	(88)	(88)	—	—	(88)

(a) Included \$95 million and \$128 million of impaired loans recorded at fair value on a nonrecurring basis at June 30, 2014 and December 31, 2013, respectively.

(b) Included \$1 million and \$2 million of nonmarketable equity securities recorded at fair value on a nonrecurring basis at June 30, 2014 and December 31, 2013, respectively.

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NOTE 3 - INVESTMENT SECURITIES

A summary of the Corporation's investment securities available-for-sale follows:

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2014				
U.S. Treasury and other U.S. government agency securities	$65	$—	$—	$65
Residential mortgage-backed securities (a)	9,129	125	113	9,141
State and municipal securities	24	—	1	23
Corporate debt securities	55	—	—	55
Equity and other non-debt securities	253	—	3	250
Total investment securities available-for-sale (b)	$9,526	$125	$117	$9,534
December 31, 2013				
U.S. Treasury and other U.S. government agency securities	$45	$—	$—	$45
Residential mortgage-backed securities (a)	9,023	91	188	8,926
State and municipal securities	24	—	2	22
Corporate debt securities	56	—	—	56
Equity and other non-debt securities	266	1	9	258
Total investment securities available-for-sale (b)	$9,414	$92	$199	$9,307

(a) Residential mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.

(b) Included auction-rate securities at amortized cost and fair value of $145 million and $142 million, respectively, as of June 30, 2014 and $169 million and $159 million, respectively, as of December 31, 2013.

A summary of the Corporation's investment securities available-for-sale in an unrealized loss position as of June 30, 2014 and December 31, 2013 follows:

(in millions)	Temporarily Impaired Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or more Fair Value	12 Months or more Unrealized Losses		Total Fair Value	Total Unrealized Losses	
June 30, 2014								
Residential mortgage-backed securities (a)	$911	$5	$3,408	$108		$4,319	$113	
State and municipal securities (b)	—	—	22	1		22	1	
Corporate debt securities (b)	—	—	1	—	(c)	1	—	(c)
Equity and other non-debt securities (b)	—	—	131	3		131	3	
Total impaired securities	$911	$5	$3,562	$112		$4,473	$117	
December 31, 2013								
Residential mortgage-backed securities (a)	$5,825	$187	$11	$1		$5,836	$188	
State and municipal securities (b)	—	—	22	2		22	2	
Corporate debt securities (b)	—	—	1	—	(c)	1	—	(c)
Equity and other non-debt securities (b)	—	—	148	9		148	9	
Total impaired securities	$5,825	$187	$182	$12		$6,007	$199	

(a)

Residential mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.

(b) Auction-rate securities.

(c) Unrealized losses less than $0.5 million.

At June 30, 2014, the Corporation had 155 securities in an unrealized loss position with no credit impairment, including 90 residential mortgage-backed securities, 46 equity and other non-debt auction-rate preferred securities, 17 state and municipal auction-rate securities, one corporate auction-rate debt security and one mutual fund. As of June 30, 2014, approximately 89 percent of the aggregate par value of auction-rate securities have been redeemed or sold since acquisition, of which approximately 95 percent were redeemed at or above cost. The unrealized losses for these securities resulted from changes in market interest rates and liquidity. The Corporation ultimately expects full collection of the carrying amount of these securities, does not intend to sell the securities in an unrealized loss position, and it is not more-likely-than-not that the Corporation will be required to sell the securities in an unrealized loss position prior to recovery of amortized cost. The Corporation does not consider these securities to be other-than-temporarily impaired at June 30, 2014.

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Sales, calls and write-downs of investment securities available-for-sale resulted in the following gains and losses recorded in "net securities (losses) gains" on the consolidated statements of comprehensive income, computed based on the adjusted cost of the specific security.

	Six Months Ended June 30,	
(in millions)	2014	2013
Securities gains	$1	$—
Securities losses (a)	—	(2)
Net securities (losses) gains	$1	$(2)

(a) Charges related to a derivative contract tied to the conversion rate of Visa Class B shares.

The following table summarizes the amortized cost and fair values of debt securities by contractual maturity. Securities with multiple maturity dates are classified in the period of final maturity. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(in millions)		
June 30, 2014	Amortized Cost	Fair Value
Contractual maturity		
Within one year	$154	$154
After one year through five years	287	289
After five years through ten years	294	306
After ten years	8,538	8,535
Subtotal	9,273	9,284
Equity and other non-debt securities	253	250
Total investment securities available-for-sale	$9,526	$9,534

Included in the contractual maturity distribution in the table above were auction-rate securities with a total amortized cost and fair value of $24 million and $23 million, respectively. Auction-rate securities are long-term, floating rate instruments for which interest rates are reset at periodic auctions. At each successful auction, the Corporation has the option to sell the security at par value. Additionally, the issuers of auction-rate securities generally have the right to redeem or refinance the debt. As a result, the expected life of auction-rate securities may differ significantly from the contractual life. Also included in the table above were residential mortgage-backed securities with total amortized cost and fair value of $9.1 billion. The actual cash flows of mortgage-backed securities may differ from contractual maturity as the borrowers of the underlying loans may exercise prepayment options.

At June 30, 2014, investment securities with a carrying value of $3.3 billion were pledged where permitted or required by law to secure $2.1 billion of liabilities, primarily public and other deposits of state and local government agencies and derivative instruments.

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NOTE 4 – CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES
The following table presents an aging analysis of the recorded balance of loans.

(in millions)	Loans Past Due and Still Accruing 30-59 Days	60-89 Days	90 Days or More	Total	Nonaccrual Loans	Current Loans (c)	Total Loans
June 30, 2014							
Business loans:							
Commercial	$12	$26	$—	$38	$72	$30,876	$30,986
Real estate construction:							
Commercial Real Estate business line (a)	—	—	—	—	18	1,583	1,601
Other business lines (b)	25	—	—	25	1	312	338
Total real estate construction	25	—	—	25	19	1,895	1,939
Commercial mortgage:							
Commercial Real Estate business line (a)	5	2	—	7	57	1,712	1,776
Other business lines (b)	19	8	5	32	99	6,840	6,971
Total commercial mortgage	24	10	5	39	156	8,552	8,747
Lease financing	—	—	—	—	—	822	822
International	—	—	1	1	—	1,351	1,352
Total business loans	61	36	6	103	247	43,496	43,846
Retail loans:							
Residential mortgage	9	2	—	11	45	1,719	1,775
Consumer:							
Home equity	7	2	1	10	32	1,532	1,574
Other consumer	1	—	—	1	2	684	687
Total consumer	8	2	1	11	34	2,216	2,261
Total retail loans	17	4	1	22	79	3,935	4,036
Total loans	$78	$40	$7	$125	$326	$47,431	$47,882
December 31, 2013							
Business loans:							
Commercial	$36	$17	$4	$57	$81	$28,677	$28,815
Real estate construction:							
Commercial Real Estate business line (a)	—	—	—	—	20	1,427	1,447
Other business lines (b)	—	—	—	—	1	314	315
Total real estate construction	—	—	—	—	21	1,741	1,762
Commercial mortgage:							
Commercial Real Estate business line (a)	9	1	—	10	51	1,617	1,678
Other business lines (b)	27	6	4	37	105	6,967	7,109
Total commercial mortgage	36	7	4	47	156	8,584	8,787
Lease financing	—	—	—	—	—	845	845
International	—	—	3	3	4	1,320	1,327
Total business loans	72	24	11	107	262	41,167	41,536
Retail loans:							
Residential mortgage	15	3	—	18	53	1,626	1,697

Consumer:							
Home equity	6	2	—	8	33	1,476	1,517
Other consumer	4	1	5	10	2	708	720
Total consumer	10	3	5	18	35	2,184	2,237
Total retail loans	25	6	5	36	88	3,810	3,934
Total loans	$97	$30	$16	$143	$350	$44,977	$45,470

(a) Primarily loans to real estate developers.

(b) Primarily loans secured by owner-occupied real estate.

(c) Included purchased credit-impaired (PCI) loans with a total carrying value of $3 million at June 30, 2014 and $5 million at December 31, 2013.

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The following table presents loans by credit quality indicator, based on internal risk ratings assigned to each business loan at the time of approval and subjected to subsequent reviews, generally at least annually, and to pools of retail loans with similar risk characteristics.

	Internally Assigned Rating				
(in millions)	Pass (a)	Special Mention (b)	Substandard (c)	Nonaccrual (d)	Total
June 30, 2014					
Business loans:					
Commercial	$29,547	$600	$ 767	$ 72	$30,986
Real estate construction:					
Commercial Real Estate business line (e)	1,560	23	—	18	1,601
Other business lines (f)	337	—	—	1	338
Total real estate construction	1,897	23	—	19	1,939
Commercial mortgage:					
Commercial Real Estate business line (e)	1,609	63	47	57	1,776
Other business lines (f)	6,555	129	188	99	6,971
Total commercial mortgage	8,164	192	235	156	8,747
Lease financing	818	2	2	—	822
International	1,334	9	9	—	1,352
Total business loans	41,760	826	1,013	247	43,846
Retail loans:					
Residential mortgage	1,721	3	6	45	1,775
Consumer:					
Home equity	1,532	3	7	32	1,574
Other consumer	681	3	1	2	687
Total consumer	2,213	6	8	34	2,261
Total retail loans	3,934	9	14	79	4,036
Total loans	$45,694	$835	$ 1,027	$ 326	$47,882
December 31, 2013					
Business loans:					
Commercial	$27,470	$590	$ 674	$ 81	$28,815
Real estate construction:					
Commercial Real Estate business line (e)	1,399	13	15	20	1,447
Other business lines (f)	314	—	—	1	315
Total real estate construction	1,713	13	15	21	1,762
Commercial mortgage:					
Commercial Real Estate business line (e)	1,474	92	61	51	1,678
Other business lines (f)	6,596	145	263	105	7,109
Total commercial mortgage	8,070	237	324	156	8,787
Lease financing	841	3	1	—	845
International	1,298	7	18	4	1,327
Total business loans	39,392	850	1,032	262	41,536
Retail loans:					
Residential mortgage	1,635	3	6	53	1,697
Consumer:					
Home equity	1,475	4	5	33	1,517
Other consumer	708	3	7	2	720

Total consumer	2,183	7	12	35	2,237
Total retail loans	3,818	10	18	88	3,934
Total loans	$43,210	$860	$ 1,050	$ 350	$45,470

(a) Includes all loans not included in the categories of special mention, substandard or nonaccrual.

(b) Special mention loans are accruing loans that have potential credit weaknesses that deserve management’s close attention, such as loans to borrowers who may be experiencing financial difficulties that may result in deterioration of repayment prospects from the borrower at some future date.

(c) Substandard loans are accruing loans that have a well-defined weakness, or weaknesses, such as loans to borrowers who may be experiencing losses from operations or inadequate liquidity of a degree and duration that jeopardizes the orderly repayment of the loan. Substandard loans also are distinguished by the distinct possibility of loss in the future if these weaknesses are not corrected. PCI loans are included in the substandard category. This category is generally consistent with the "substandard" category as defined by regulatory authorities.

(d) Nonaccrual loans are loans for which the accrual of interest has been discontinued. For further information regarding nonaccrual loans, refer to the Nonperforming Assets subheading in Note 1 - Basis of Presentation and Accounting Policies - on page F-58 in the Corporation's 2013 Annual Report. A significant majority of nonaccrual loans are generally consistent with the "substandard" category and the remainder are generally consistent with the "doubtful" category as defined by regulatory authorities.

(e) Primarily loans to real estate developers.

(f) Primarily loans secured by owner-occupied real estate.

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The following table summarizes nonperforming assets.

(in millions)	June 30, 2014	December 31, 2013
Nonaccrual loans	$326	$350
Reduced-rate loans (a)	21	24
Total nonperforming loans	347	374
Foreclosed property	13	9
Total nonperforming assets	$360	$383

(a) Reduced-rate business loans totaled $4 million at both June 30, 2014 and December 31, 2013, and reduced-rate retail loans totaled $17 million and $20 million at June 30, 2014 and December 31, 2013, respectively.

Allowance for Credit Losses

The following table details the changes in the allowance for loan losses and related loan amounts.

(in millions)	2014 Business Loans	Retail Loans	Total	2013 Business Loans	Retail Loans	Total
Three Months Ended June 30						
Allowance for loan losses:						
Balance at beginning of period	$530	$64	$594	$544	$73	$617
Loan charge-offs	(24)	(4)	(28)	(30)	(5)	(35)
Recoveries on loans previously charged-off	15	4	19	15	3	18
Net loan charge-offs	(9)	—	(9)	(15)	(2)	(17)
Provision for loan losses	7	(1)	6	13	—	13
Balance at end of period	$528	$63	$591	$542	$71	$613
Six Months Ended June 30						
Allowance for loan losses:						
Balance at beginning of period	$531	$67	$598	$552	$77	$629
Loan charge-offs	(51)	(7)	(58)	(64)	(9)	(73)
Recoveries on loans previously charged-off	31	6	37	27	5	32
Net loan charge-offs	(20)	(1)	(21)	(37)	(4)	(41)
Provision for loan losses	17	(3)	14	27	(2)	25
Balance at end of period	$528	$63	$591	$542	$71	$613
As a percentage of total loans	1.21%	1.55%	1.23%	1.30%	1.91%	1.35%
June 30						
Allowance for loan losses:						
Individually evaluated for impairment	$39	$—	$39	$56	$—	$56
Collectively evaluated for impairment	489	63	552	486	71	557
Total allowance for loan losses	$528	$63	$591	$542	$71	$613
Loans:						
Individually evaluated for impairment	$215	$45	$260	$314	$42	$356

Collectively evaluated for impairment	43,631	3,988	47,619	41,390	3,688	45,078
PCI loans (a)	—	3	3	20	5	25
Total loans evaluated for impairment	$43,846	$4,036	$47,882	$41,724	$3,735	$45,459

(a) No allowance for loan losses was required for PCI loans at June 30, 2014 and 2013.

Changes in the allowance for credit losses on lending-related commitments, included in "accrued expenses and other liabilities" on the consolidated balance sheets, are summarized in the following table.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2014	2013	2014	2013
Balance at beginning of period	$37	$36	$36	$32
Provision for credit losses on lending-related commitments	5	—	6	4
Balance at end of period	$42	$36	$42	$36

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Individually Evaluated Impaired Loans
The following table presents additional information regarding individually evaluated impaired loans.

	Recorded Investment In:				
(in millions)	Impaired Loans with No Related Allowance	Impaired Loans with Related Allowance	Total Impaired Loans	Unpaid Principal Balance	Related Allowance for Loan Losses
June 30, 2014					
Business loans:					
Commercial	$3	$58	$61	$92	$11
Real estate construction:					
Commercial Real Estate business line (a)	—	18	18	21	2
Other business lines (b)	—	—	—	1	—
Total real estate construction	—	18	18	22	2
Commercial mortgage:					
Commercial Real Estate business line (a)	7	55	62	106	12
Other business lines (b)	2	70	72	96	14
Total commercial mortgage	9	125	134	202	26
International	2	—	2	2	—
Total business loans	14	201	215	318	39
Retail loans:					
Residential mortgage	30	—	30	35	—
Consumer:					
Home equity	10	—	10	15	—
Other consumer	5	—	5	5	—
Total consumer	15	—	15	20	—
Total retail loans (c)	45	—	45	55	—
Total individually evaluated impaired loans	$59	$201	$260	$373	$39
December 31, 2013					
Business loans:					
Commercial	$10	$64	$74	$121	$26
Real estate construction:					
Commercial Real Estate business line (a)	—	20	20	24	3
Other business lines (b)	—	1	1	1	—
Total real estate construction	—	21	21	25	3
Commercial mortgage:					
Commercial Real Estate business line (a)	—	60	60	104	12
Other business lines (b)	1	63	64	90	15
Total commercial mortgage	1	123	124	194	27
International	—	4	4	4	1
Total business loans	11	212	223	344	57
Retail loans:					
Residential mortgage	35	—	35	42	—
Consumer:					
Home equity	12	—	12	17	—
Other consumer	4	—	4	12	—

Total consumer	16	—	16	29	—
Total retail loans (c)	51	—	51	71	—
Total individually evaluated impaired loans	$62	$212	$274	$415	$57

(a) Primarily loans to real estate developers.
(b) Primarily loans secured by owner-occupied real estate.
(c) Individually evaluated retail loans had no related allowance for loan losses, primarily due to policy changes which resulted in direct write-downs of restructured retail loans.

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The following table presents information regarding average individually evaluated impaired loans and the related interest recognized. Interest income recognized for the period primarily related to reduced-rate loans.

	Individually Evaluated Impaired Loans			
	2014		2013	
(in millions)	Average Balance for the Period	Interest Income Recognized for the Period	Average Balance for the Period	Interest Income Recognized for the Period
Three Months Ended June 30				
Business loans:				
Commercial	$56	$—	$103	$1
Real estate construction:				
Commercial Real Estate business line (a)	17	—	26	—
Commercial mortgage:				
Commercial Real Estate business line (a)	63	—	87	—
Other business lines (b)	71	1	119	1
Total commercial mortgage	134	1	206	1
International	2	—	—	—
Total business loans	209	1	335	2
Retail loans:				
Residential mortgage	31	—	33	—
Consumer loans:				
Home equity	12	—	5	—
Other consumer	4	—	4	—
Total consumer	16	—	9	—
Total retail loans	47	—	42	—
Total individually evaluated impaired loans	$256	$1	$377	$2
Six Months Ended June 30				
Business loans:				
Commercial	$62	$—	$108	$2
Real estate construction:				
Commercial Real Estate business line (a)	18	—	26	—
Commercial mortgage:				
Commercial Real Estate business line (a)	62	—	91	—
Other business lines (b)	70	2	120	1
Total commercial mortgage	132	2	211	1
Lease financing	—	—	1	—
International	2	—	—	—
Total business loans	214	2	346	3
Retail loans:				
Residential mortgage	32	—	35	—
Consumer:				
Home equity	12	—	6	—
Other consumer	4	—	4	—
Total consumer	16	—	10	—
Total retail loans	48	—	45	—
	$262	$2	$391	$3

Total individually evaluated impaired loans

(a) Primarily loans to real estate developers.
(b) Primarily loans secured by owner-occupied real estate.

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Troubled Debt Restructurings

The following tables detail the recorded balance at June 30, 2014 and 2013 of loans considered to be TDRs that were restructured during the three- and six-month periods ended June 30, 2014 and 2013, by type of modification. In cases of loans with more than one type of modification, the loans were categorized based on the most significant modification.

	2014			2013			
	Type of Modification			Type of Modification			
(in millions)	Principal Deferrals (a)	Interest Rate Reductions	Total Modifications	Principal Deferrals (a)	Interest Rate Reductions	AB Note Restructures (b)	Total Modifications
Three Months Ended June 30							
Business loans:							
Commercial	$—	$ —	$ —	$4	$ —	$ 9	$ 13
Commercial mortgage:							
Commercial Real Estate business line (c)	—	—	—	5	—	—	5
Other business lines (d)	—	—	—	5	—	—	5
Total commercial mortgage	—	—	—	10	—	—	10
Total business loans	—	—	—	14	—	9	23
Retail loans:							
Residential mortgage	—	—	—	1 (e)	1	—	2
Consumer:							
Home equity	—	1	1	1 (e)	1	—	2
Total retail loans	—	1	1	2	2	—	4
Total loans	$—	$ 1	$ 1	$16	$ 2	$ 9	$ 27
Six Months Ended June 30							
Business loans:							
Commercial	$1	$ —	$ 1	$11	$ —	$ 9	$