COMERICA INC /NEW/
Form 10-Q
October 30, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

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	38-1998421
(State or other jurisdiction of incorporation or organization)	(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 x 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 x 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 x	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 x

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 October 25, 2012: 190,344,108 shares

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COMERICA INCORPORATED AND SUBSIDIARIES

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements
CONSOLIDATED BALANCE SHEETS
Comerica Incorporated and Subsidiaries

(in millions, except share data)	September 30, 2012 (unaudited)	December 31, 2011	September 30, 2011 (unaudited)
ASSETS			
Cash and due from banks	$933	$982	$981
Interest-bearing deposits with banks	3,005	2,574	4,217
Other short-term investments	146	149	137
Investment securities available-for-sale	10,569	10,104	9,732
Commercial loans	27,460	24,996	23,113
Real estate construction loans	1,392	1,533	1,648
Commercial mortgage loans	9,559	10,264	10,539
Lease financing	837	905	927
International loans	1,277	1,170	1,046
Residential mortgage loans	1,495	1,526	1,643
Consumer loans	2,174	2,285	2,309
Total loans	44,194	42,679	41,225
Less allowance for loan losses	(647)	(726)	(767)
Net loans	43,547	41,953	40,458
Premises and equipment	625	675	685
Accrued income and other assets	4,489	4,571	4,678
Total assets	$63,314	$61,008	$60,888
LIABILITIES AND SHAREHOLDERS' EQUITY			
Noninterest-bearing deposits	$21,753	$19,764	$19,116
Money market and interest-bearing checking deposits	20,407	20,311	20,237
Savings deposits	1,589	1,524	1,771
Customer certificates of deposit	5,742	5,808	5,980
Other time deposits	—	—	45
Foreign office time deposits	486	348	303
Total interest-bearing deposits	28,224	27,991	28,336
Total deposits	49,977	47,755	47,452
Short-term borrowings	63	70	164
Accrued expenses and other liabilities	1,450	1,371	1,312
Medium- and long-term debt	4,740	4,944	5,009
Total liabilities	56,230	54,140	53,937
Common stock - $5 par value:			
Authorized - 325,000,000 shares			
Issued - 228,164,824 shares	1,141	1,141	1,141
Capital surplus	2,153	2,170	2,162
Accumulated other comprehensive loss	(253)	(356)	(230)

Retained earnings	5,831	5,546	5,471
Less cost of common stock in treasury - 36,790,174 shares at 9/30/12, 30,831,076 shares at 12/31/11 and 29,238,425 shares at 9/30/11	(1,788)	(1,633)	(1,593)
Total shareholders’ equity	7,084	6,868	6,951
Total liabilities and shareholders’ equity	$63,314	$61,008	$60,888

See notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per share data)	2012	2011	2012	2011
INTEREST INCOME				
Interest and fees on loans	$400	$405	$1,219	$1,149
Interest on investment securities	57	54	179	170
Interest on short-term investments	3	4	9	9
Total interest income	460	463	1,407	1,328
INTEREST EXPENSE				
Interest on deposits	17	24	54	69
Interest on medium- and long-term debt	16	16	49	50
Total interest expense	33	40	103	119
Net interest income	427	423	1,304	1,209
Provision for credit losses	22	35	63	126
Net interest income after provision for credit losses	405	388	1,241	1,083
NONINTEREST INCOME				
Service charges on deposit accounts	53	53	162	156
Fiduciary income	39	37	116	115
Commercial lending fees	22	22	71	64
Letter of credit fees	19	19	54	55
Card fees	12	17	35	47
Foreign exchange income	9	11	29	30
Bank-owned life insurance	10	10	30	27
Brokerage fees	5	5	14	17
Net securities gains	—	12	11	18
Other noninterest income	28	15	92	81
Total noninterest income	197	201	614	610
NONINTEREST EXPENSES				
Salaries	192	192	582	565
Employee benefits	61	53	181	153
Total salaries and employee benefits	253	245	763	718
Net occupancy expense	40	44	121	122
Equipment expense	17	17	50	49
Outside processing fee expense	27	25	79	74
Software expense	23	22	67	65
Merger and restructuring charges	25	33	33	38
FDIC insurance expense	9	8	29	35
Advertising expense	7	7	21	21
Other real estate expense	2	5	6	19
Other noninterest expenses	46	57	161	151
Total noninterest expenses	449	463	1,330	1,292
Income before income taxes	153	126	525	401
Provision for income taxes	36	28	134	104
NET INCOME	117	98	391	297
Less income allocated to participating securities	1	1	4	3
Net income attributable to common shares	$116	$97	$387	$294
Earnings per common share:				

Basic	$0.61	$0.51	$2.00	$1.63
Diluted	0.61	0.51	2.00	1.61
Comprehensive income	165	176	494	456
Cash dividends declared on common stock	29	20	78	55
Cash dividends declared per common share	0.15	0.10	0.40	0.30

See notes to consolidated financial statements.

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

(in millions, except per share data)	Common Stock Shares Outstanding	Common Stock Amount	Capital Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Shareholders' Equity
BALANCE AT DECEMBER 31, 2010	176.5	$1,019	$1,481	$ (389)	$5,247	$(1,565)	$5,793
Net income	—	—	—	—	297	—	297
Other comprehensive income, net of tax	—	—	—	159	—	—	159
Cash dividends declared on common stock ($0.30 per share)	—	—	—	—	(55)	—	(55)
Purchase of common stock	(2.7)	—	—	—	—	(75)	(75)
Acquisition of Sterling Bancshares, Inc.	24.3	122	681	—	—	—	803
Net issuance of common stock under employee stock plans	0.8	—	(29)	—	(18)	47	—
Share-based compensation	—	—	29	—	—	—	29
BALANCE AT SEPTEMBER 30, 2011	198.9	$1,141	$2,162	$ (230)	$5,471	$(1,593)	$6,951
BALANCE AT DECEMBER 31, 2011	197.3	$1,141	$2,170	$ (356)	$5,546	$(1,633)	$6,868
Net income	—	—	—	—	391	—	391
Other comprehensive income, net of tax	—	—	—	103	—	—	103
Cash dividends declared on common stock ($0.40 per share)	—	—	—	—	(78)	—	(78)
Purchase of common stock	(7.1)	—	—	—	—	(215)	(215)
Net issuance of common stock under employee stock plans	1.2	—	(48)	—	(28)	62	(14)
Share-based compensation	—	—	29	—	—	—	29
Other	—	—	2	—	—	(2)	—
BALANCE AT SEPTEMBER 30, 2012	191.4	$1,141	$2,153	$ (253)	$5,831	$(1,788)	$7,084

See notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
(in millions)	2012	2011
OPERATING ACTIVITIES		
Net income	$391	$297
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	63	126
Provision for deferred income taxes	69	52
Depreciation and amortization	100	90
Share-based compensation expense	29	29
Net amortization of securities	35	27
Accretion of loan purchase discount	(58)	(27)
Net securities gains	(11)	(18)
Excess tax benefits from share-based compensation arrangements	(1)	(1)
Net change in:		
Trading securities	14	14
Accrued income receivable	3	2
Accrued expenses payable	(21)	1
Other, net	132	164
Net cash provided by operating activities	745	756
INVESTING ACTIVITIES		
Investment securities available-for-sale:		
Maturities and redemptions	2,817	1,757
Sales	—	773
Purchases	(3,194)	(3,007)
Net change in loans	(1,620)	819
Cash and cash equivalents acquired in acquisition of Sterling Bancshares, Inc.	—	721
Sales of Federal Home Loan Bank stock	3	33
Proceeds from sales of indirect private equity and venture capital funds	1	33
Other, net	(30)	(91)
Net cash (used in) provided by investing activities	(2,023)	1,038
FINANCING ACTIVITIES		
Net change in:		
Deposits	2,141	2,898
Short-term borrowings	(7)	12
Medium- and long-term debt:		
Repayments	(193)	(1,464)
Common stock:		
Repurchases	(215)	(75)
Cash dividends paid	(69)	(53)
Excess tax benefits from share-based compensation arrangements	1	1
Other, net	2	2
Net cash provided by financing activities	1,660	1,321
Net increase in cash and cash equivalents	382	3,115
Cash and cash equivalents at beginning of period	3,556	2,083
Cash and cash equivalents at end of period	$3,938	$5,198

Interest paid	$101	$113
Income taxes, tax deposits and tax-related interest paid	38	48
Noncash investing and financing activities:		
Loans transferred to other real estate	31	41
Net noncash assets acquired in stock acquisition of Sterling Bancshares, Inc.	—	82

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
The accompanying unaudited consolidated financial statements were prepared in accordance with 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 nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. 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, 2011.
Beginning in the second quarter 2012, the Corporation presents the provision for loan losses and the provision for credit losses on lending-related commitments together as the "provision for credit losses" on the consolidated statements of comprehensive income. Prior period amounts were reclassified to conform to the current presentation.
Allowance for Loan Losses
In the first quarter 2012, the Corporation implemented enhancements to the methodology used for determining standard reserve factors for business loans not individually evaluated, which resulted in a $25 million increase to the allowance for loan losses in the first quarter 2012. The enhancements included (a) estimating probability of default and loss given default from a national perspective, in addition to a market-by-market basis, and (b) expanding the time horizon of historical, migration-based probability of default and loss given default experience used to develop the standard reserve factors for each internal risk rating.
Nonperforming Assets
In the second quarter of 2012, the Corporation modified its residential mortgage and home equity nonaccrual policy. Under the new policy, residential mortgage and home equity loans are generally placed on nonaccrual status once they become 90 days past due (previously no later than 180 days past due).
In addition, effective second quarter 2012, the Corporation placed on nonaccrual status certain current junior lien home equity loans in which the Corporation holds and services the senior position, when full collection of the senior position is in doubt. In the third quarter 2012, the Corporation applied the same policy to junior lien home equity loans held by the Corporation for which the senior liens are serviced by others.
In the third quarter 2012, in connection with recently issued regulatory guidance, the Corporation further modified its nonaccrual and charge-off policy regarding Chapter 7 bankruptcy residential mortgage and consumer loans for which the court has discharged the borrower's obligation and the borrower has not reaffirmed the debt. Effective September 30, 2012, such loans are placed on nonaccrual status and written down to estimated collateral value, without regard to the actual payment status of the loan, and are classified as troubled debt restructurings (TDRs). These modifications resulted in $4 million of write-downs and $8 million of nonaccrual TDRs. Of the $8 million of nonaccrual TDRs, $6 million were previously considered nonaccrual loans, therefore the net increase to nonperforming assets was $2 million.
Recently Adopted Accounting Standards
In the first quarter 2012, the Corporation adopted amendments to GAAP which revise the presentation of comprehensive income in the financial statements. As a result, the Corporation presents on an interim basis the components of net income and a total for comprehensive income in one continuous consolidated statement of comprehensive income and will present on an annual basis the components of net income and other comprehensive income in two separate, but consecutive statements. Information on the components of other comprehensive income is provided on an interim basis in Note 8 to these unaudited financial statements.
In the first quarter 2012, the Corporation adopted an amendment to GAAP which generally aligns the principles of fair value measurements with International Financial Reporting Standards (IFRS) and requires expanded disclosures. The adoption of the amendment had no impact on the Corporation's financial condition or results of operations. The required disclosures are provided in Note 2 to these unaudited financial statements.

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 and investment securities, 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

Securities held for trading purposes 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 securities held for trading purposes 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. Securities classified as Level 3 include securities in less liquid markets and securities not rated by a credit agency. 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

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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. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available or the market is deemed to be inactive at the measurement date, an adjustment to the quoted prices may be necessary. In some circumstances, the Corporation may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate to estimate an instrument's fair value. 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, of which the substantial majority is auction-rate securities, represent securities in less liquid markets requiring significant management assumptions when determining fair value. 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 observed liquidity premiums based on auction-rate securities valuations performed by third parties and incorporated the rate at which the various types of similar auction-rate securities had been redeemed or sold since acquisition in 2008. 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. As of September 30, 2012, approximately 82 percent of the aggregate auction-rate securities par value had been redeemed or sold since acquisition. Significant increases in any of these inputs in isolation would result in a significantly lower fair value. Additionally, as the discount rate incorporates the liquidity risk premium, a change in an assumption used for the liquidity risk premium would be accompanied by a directionally similar change in the discount rate. The Corporate Development Department 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. On an annual basis, an independent third party verifies the fair value by reviewing the appropriateness of the discounted cash flow model and its significant inputs.

Loans

The Corporation does not record loans at fair value on a recurring basis. However, periodically, the Corporation records nonrecurring adjustments to the carrying value of loans based on fair value measurements. Loans for which it is probable that payment of interest or principal will not be made in accordance with the contractual terms of the original loan agreement are considered impaired, which are reported as nonrecurring fair value measurements when a specific allowance for the impaired loan is established based on the fair value of collateral. 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 provides fair value estimates for loans not recorded at fair value. 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 reflect 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.

Customers' liability on acceptances outstanding and acceptances outstanding
The carrying amount of these instruments approximates the estimated fair value, due to their short-term nature. 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 for its over-the-counter derivative positions on a counterparty-by-counterparty basis and 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.
The Corporation holds a portfolio of warrants for generally nonmarketable equity securities with a fair value of $3 million at September 30, 2012. These warrants are primarily from high technology, non-public companies obtained as part of the loan origination process. 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 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. 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. On July 13, 2012, Visa announced it had reached an agreement in principle to settle the multi-district interchange litigation which pertains to its Class B shares. The announcement of this settlement did not have a material impact in the fair value of the Corporation's liability.
Nonmarketable equity securities
The Corporation has a portfolio of indirect (through funds) private equity and venture capital investments with a carrying value of $14 million at September 30, 2012. 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 17 years. The investments are accounted for 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 Corporation's percentage ownership in the net asset value of the entire fund, 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 both nonmarketable equity securities subjected to nonrecurring fair value adjustments and the estimated fair value of nonmarketable equity securities not recorded at fair value in their entirety on a recurring basis as Level 3. Commitments to fund additional investments in nonmarketable equity securities recorded at fair value on a nonrecurring basis were $1 million at both September 30, 2012 and December 31, 2011, respectively.

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) 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 $89 million and $92 million at September 30, 2012 and December 31, 2011, respectively, and its investment in FRB stock totaled $85 million at both September 30, 2012 and December 31, 2011, respectively. The Corporation believes its investments in FHLB and FRB stock are ultimately recoverable at par.

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. Other real estate carried at fair value based on an observable market price or a current appraised value is classified by the Corporation as Level 2. 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.

Loan servicing rights

Loan servicing rights with a carrying value of $2 million at September 30, 2012, included in “accrued income and other assets” on the consolidated balance sheets and primarily related to Small Business Administration loans, are subject to impairment testing. Loan servicing rights may be carried at fair value on a nonrecurring basis when impairment testing indicates that the fair value of the loan servicing rights is less than the recorded value. A valuation model is used for impairment testing on a quarterly basis, which utilizes a discounted cash flow model, using interest rates and prepayment speed assumptions currently quoted for comparable instruments and a discount rate determined by management. On a quarterly basis, the Accounting Department is responsible for performing the valuation procedures and updating significant inputs, which are primarily obtained from available third-party market data, with appropriate oversight and approval provided by senior management. If the valuation model reflects a value less than the carrying value, loan servicing rights are adjusted to fair value through a valuation allowance as determined by the model. As such, the Corporation classifies loan servicing rights 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.

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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 standby and commercial 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.
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 September 30, 2012 and December 31, 2011.

(in millions)	Total	Level 1	Level 2	Level 3
September 30, 2012				
Trading securities:				
Deferred compensation plan assets	$88	$88	$—	$—
State and municipal securities	11	—	11	—
Corporate debt securities	1	—	1	—
Other securities	1	1	—	—
Total trading securities	101	89	12	—
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	20	20	—	—
Residential mortgage-backed securities (a)	10,155	—	10,155	—
State and municipal securities (b)	23	—	—	23
Corporate debt securities:				
Auction-rate debt securities	1	—	—	1
Other corporate debt securities	58	—	58	—
Equity and other non-debt securities:				
Auction-rate preferred securities	204	—	—	204
Money market and other mutual funds	108	108	—	—
Total investment securities available-for-sale	10,569	128	10,213	228
Derivative assets:				
Interest rate contracts	597	—	597	—
Energy derivative contracts	188	—	188	—
Foreign exchange contracts	26	—	26	—
Warrants	3	—	—	3
Total derivative assets	814	—	811	3
Total assets at fair value	$11,484	$217	$11,036	$231
Derivative liabilities:				
Interest rate contracts	$247	$—	$247	$—
Energy derivative contracts	187	—	187	—
Foreign exchange contracts	22	—	22	—

Total derivative liabilities	456	—	456	—
Deferred compensation plan liabilities	88	88	—	—
Total liabilities at fair value	$544	$88	$456	$—

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

(b) Primarily auction-rate securities.

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(in millions)	Total	Level 1	Level 2	Level 3
December 31, 2011				
Trading securities:				
Deferred compensation plan assets	$90	$90	$—	$—
Residential mortgage-backed securities (a)	2	—	2	—
Other government-sponsored enterprise securities	9	—	9	—
State and municipal securities	12	—	12	—
Corporate debt securities	1	—	1	—
Other securities	1	1	—	—
Total trading securities	115	91	24	—
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	20	20	—	—
Residential mortgage-backed securities (a)	9,512	—	9,512	—
State and municipal securities (b)	24	—	—	24
Corporate debt securities:				
Auction-rate debt securities	1	—	—	1
Other corporate debt securities	46	—	46	—
Equity and other non-debt securities:				
Auction-rate preferred securities	408	—	—	408
Money market and other mutual funds	93	93	—	—
Total investment securities available-for-sale	10,104	113	9,558	433
Derivative assets:				
Interest rate contracts	602	—	602	—
Energy derivative contracts	115	—	115	—
Foreign exchange contracts	40	—	40	—
Warrants	3	—	—	3
Total derivative assets	760	—	757	3
Total assets at fair value	$10,979	$204	$10,339	$436
Derivative liabilities:				
Interest rate contracts	$253	$—	$253	$—
Energy derivative contracts	115	—	115	—
Foreign exchange contracts	35	—	35	—
Other	6	—	—	6
Total derivative liabilities	409	—	403	6
Deferred compensation plan liabilities	90	90	—	—
Total liabilities at fair value	$499	$90	$403	$6

(a) Residential mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.
(b) Primarily 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 the three- and nine-month periods ended September 30, 2012 and 2011.

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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 nine-month periods ended September 30, 2012 and 2011.

		Net Realized/Unrealized Gains (Losses)						
		Recorded in Earnings		Recorded in Other Comprehensive Income (Pre-tax)				
(in millions)	Balance at Beginning of Period	Realized	Unrealized		Purchases	Sales	Settlements	Balance at End of Period
Three Months Ended September 30, 2012								
Investment securities available-for-sale:								
State and municipal securities (a)	$ 24	$—	$ —	$ (1) (b)	$ —	$—	$ —	$ 23
Auction-rate debt securities	1	—	—	—	—	—	—	1
Auction-rate preferred securities (c)	215	1	—	—	—	(12)	—	204
Total investment securities available-for-sale (c)	240	1	—	(1) (b)	—	(12)	—	228
Derivative assets:								
Warrants (d)	3	—	—	—	—	—	—	3
Derivative liabilities:								
Other (c)	—	(1)	—	—	—	—	(1)	—
Three Months Ended September 30, 2011								
Trading securities:								
State and municipal securities	$ 2	$—	$ —	$—	$ 1	$ (2)	$ —	$ 1
Investment securities available-for-sale:								
State and municipal securities (a)	26	—	—	—	—	(3)	—	23
Auction-rate debt securities	1	—	—	—	—	—	—	1
Other corporate debt securities	1	—	—	—	—	—	(1)	—
Auction-rate preferred securities (c)	437	2	—	8 (b)	—	(38)	—	409
Total investment securities available-for-sale (c)	465	2	—	8 (b)	—	(41)	(1)	433
Derivative assets:								
Warrants (d)	8	3	(1)	—	—	(5)	—	5
Derivative liabilities:								
Other (c)	1	(1)	—	—	—	—	(1)	1

(a) Primarily 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 (losses)" 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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(in millions)	Balance at Beginning of Period	Net Realized/Unrealized Gains (Losses) Recorded in Earnings Realized	Unrealized	Recorded in Other Comprehensive Income (Pre-tax)		Purchases	Sales	Settlements	Balance at End of Period
Nine Months Ended September 30, 2012									
Investment securities available-for-sale:									
State and municipal securities (a)	$ 24	$—	$ —	$—		$—	$ (1)	$ —	$ 23
Auction-rate debt securities	1	—	—	—		—	—	—	1
Auction-rate preferred securities (c)	408	12	—	11	(b)	—	(227)	—	204
Total investment securities available-for-sale (c)	433	12	—	11	(b)	—	(228)	—	228
Derivative assets:									
Warrants (d)	3	3	1	—		—	(4)	—	3
Derivative liabilities:									
Other (c)	6	(1)	—	—		—	—	(7)	—
Nine Months Ended September 30, 2011									
Trading securities:									
State and municipal securities	$ —	$—	$ —	$—		$ 3	$ (2)	$ —	$ 1
Other securities	1	—	—	—		—	(1)	—	—
Total trading securities	1	—	—	—		3	(3)	—	1
Investment securities available-for-sale:									
State and municipal securities (a)	39	—	—	—		—	(16)	—	23
Auction-rate debt securities	1	—	—	—		—	—	—	1
Other corporate debt securities	1	—	—	—		—	—	(1)	—
Auction-rate preferred securities (c)	570	9	—	5	(b)	—	(175)	—	409
Total investment securities available-for-sale (c)	611	9	—	5	(b)	—	(191)	(1)	433
Derivative assets:									
Warrants (d)	7	10	—	—		—	(12)	—	5
Derivative liabilities:									
Other (c)	1	(1)	(1)	—		—	—	(2)	1

(a) Primarily 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 (losses)" 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 September 30, 2012 and December 31, 2011 and are presented in the following table. No liabilities were recorded at fair value on a nonrecurring basis at September 30, 2012 and December 31, 2011.

(in millions)	Level 3
September 30, 2012	
Loans:	
Commercial	$87
Real estate construction	42
Commercial mortgage	203
Lease financing	3
Total loans	335
Nonmarketable equity securities	1
Other real estate	12
Loan servicing rights	2
Total assets at fair value	$350
December 31, 2011	
Loans:	
Commercial	$164
Real estate construction	87
Commercial mortgage	302
Lease financing	3
International	8
Total loans	564
Nonmarketable equity securities	1
Other real estate	29
Loan servicing rights	3
Total assets at fair value	$597

The following table presents quantitative information related to the significant unobservable inputs utilized in the Corporation's Level 3 recurring fair value measurements as of September 30, 2012. No liabilities were recorded as Level 3 at September 30, 2012.

		Discounted Cash Flow Model Unobservable Input	
September 30, 2012	Fair Value (in millions)	Discount Rate	Workout Period (in years)
State and municipal securities (a)	$23	6% - 10%	4 - 6
Equity and other non-debt securities:			
Auction-rate preferred securities	204	3% - 7%	2 - 4

(a) Primarily auction-rate securities.

Level 3 assets recorded at fair value on a nonrecurring basis at September 30, 2012 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.

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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
September 30, 2012					
Assets					
Cash and due from banks	$933	$933	$933	$—	$—
Interest-bearing deposits with banks	3,005	3,005	3,005	—	—
Loans held-for-sale	45	45	—	45	—
Total loans, net of allowance for loan losses (a)	43,547	43,831	—	—	43,831
Customers' liability on acceptances outstanding	22	22	22	—	—
Nonmarketable equity securities (b)	14	24	—	—	24
Restricted equity investments	174	174	174	—	—
Liabilities					
Demand deposits (noninterest-bearing)	21,753	21,753	—	21,753	—
Interest-bearing deposits	22,482	22,482	—	22,482	—
Customer certificates of deposit	5,742	5,746	—	5,746	—
Total deposits	49,977	49,981	—	49,981	—
Short-term borrowings	63	63	63	—	—
Acceptances outstanding	22	22	22	—	—
Medium- and long-term debt	4,740	4,695	—	4,695	—
Credit-related financial instruments	(116)	(116)	—	—	(116)
December 31, 2011					
Assets					
Cash and due from banks	$982	$982	$982	$—	$—
Interest-bearing deposits with banks	2,574	2,574	2,574	—	—
Loans held-for-sale	34	34	—	34	—
Total loans, net of allowance for loan losses (a)	41,953	42,233	—	—	42,233
Customers' liability on acceptances outstanding	22	22	22	—	—
Nonmarketable equity securities (b)	16	27	—	—	27
Restricted equity investments	177	177	177	—	—
Liabilities					
Demand deposits (noninterest-bearing)	19,764	19,764	—	19,764	—
Interest-bearing deposits	22,183	22,183	—	22,183	—
Customer certificates of deposit	5,808	5,809	—	5,809	—
Total deposits	47,755	47,756	—	47,756	—
Short-term borrowings	70	70	70	—	—

Acceptances outstanding	22	22	22	—	—
Medium- and long-term debt	4,944	4,794	—	4,794	—
Credit-related financial instruments	(101)	(101)	—	—	(101)

(a) Included $335 million and $564 million of impaired loans recorded at fair value on a nonrecurring basis at September 30, 2012 and December 31, 2011, respectively.

(b) Included $1 million of nonmarketable equity securities recorded at fair value on a nonrecurring basis at both September 30, 2012 and December 31, 2011.

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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
September 30, 2012				
U.S. Treasury and other U.S. government agency securities	$20	$—	$—	$20
Residential mortgage-backed securities (a)	9,832	323	—	10,155
State and municipal securities (b)	28	—	5	23
Corporate debt securities:				
Auction-rate debt securities	1	—	—	1
Other corporate debt securities	58	—	—	58
Equity and other non-debt securities:				
Auction-rate preferred securities	208	—	4	204
Money market and other mutual funds	108	—	—	108
Total investment securities available-for-sale	$10,255	$323	$9	$10,569
December 31, 2011				
U.S. Treasury and other U.S. government agency securities	$20	$—	$—	$20
Residential mortgage-backed securities (a)	9,289	224	1	9,512
State and municipal securities (b)	29	—	5	24
Corporate debt securities:				
Auction-rate debt securities	1	—	—	1
Other corporate debt securities	46	—	—	46
Equity and other non-debt securities:				
Auction-rate preferred securities	423	—	15	408
Money market and other mutual funds	93	—	—	93
Total investment securities available-for-sale	$9,901	$224	$21	$10,104

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

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A summary of the Corporation's investment securities available-for-sale in an unrealized loss position as of September 30, 2012 and December 31, 2011 follows:

(in millions)	Temporarily Impaired Less than 12 months Fair Value	Unrealized Losses	12 months or more Fair Value	Unrealized Losses		Total Fair Value	Unrealized Losses	
September 30, 2012								
State and municipal securities (b)	$—	$—	$23	$5		$23	$5	
Corporate debt securities:								
Auction-rate debt securities	—	—	1	—	(c)	1	—	(c)
Equity and other non-debt securities:								
Auction-rate preferred securities	—	—	204	4		204	4	
Total impaired securities	$—	$—	$228	$9		$228	$9	
December 31, 2011								
Residential mortgage-backed securities (a)	$249	$1	$—	$—		$249	$1	
State and municipal securities (b)	—	—	24	5		24	5	
Corporate debt securities:								
Auction-rate debt securities	—	—	1	—	(c)	1	—	(c)
Equity and other non-debt securities:								
Auction-rate preferred securities	88	1	320	14		408	15	
Total impaired securities	$337	$2	$345	$19		$682	$21	

(a) Residential mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.
(b) Primarily auction-rate securities.
(c) Unrealized losses less than $0.5 million.

At September 30, 2012, the Corporation had 89 securities in an unrealized loss position with no credit impairment, including 66 auction-rate preferred securities, 22 state and municipal auction-rate securities and one auction-rate debt security. 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 September 30, 2012.

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

(in millions)	Nine Months Ended September 30, 2012	2011
Securities gains	$12	$21
Securities losses (a)	(1)	(3)
Total net securities gains	$11	$18

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

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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.

	September 30, 2012	
(in millions)	Amortized Cost	Fair Value
Contractual maturity		
Within one year	$90	$91
After one year through five years	974	988
After five years through ten years	119	121
After ten years	8,756	9,057
Subtotal	9,939	10,257
Equity and other nondebt securities:		
Auction-rate preferred securities	208	204
Money market and other mutual funds	108	108
Total investment securities available-for-sale	$10,255	$10,569

Included in the contractual maturity distribution in the table above were auction-rate securities with a total amortized cost and fair value of $27 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 a total amortized cost and fair value of $9.8 billion and $10.2 billion, respectively. 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 September 30, 2012, investment securities with a carrying value of $2.7 billion were pledged where permitted or required by law to secure $2.0 billion of liabilities, primarily public and other deposits of state and local government agencies and derivative instruments.

NOTE 4 – CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

The following table summarizes nonperforming assets.

(in millions)	September 30, 2012	December 31, 2011
Nonaccrual loans	$665	$860
Reduced-rate loans (a)	27	27
Total nonperforming loans	692	887
Foreclosed property	63	94
Total nonperforming assets	$755	$981

(a) Reduced-rate business loans totaled $8 million and reduced-rate retail loans totaled $19 million at both September 30, 2012 and December 31, 2011.

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The following table presents an aging analysis of the recorded balance of loans.

(in millions)	Loans Past Due and Still Accruing				Nonaccrual Loans	Current Loans (c)
	30-59 Days	60-89 Days	90 Days or More	Total		