KEYCORP /NEW/
Form 10-Q
October 31, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2013

Commission File Number 1-11302

Exact name of registrant as specified in its charter:

Ohio	**34-6542451**
State or other jurisdiction of	**I.R.S. Employer**

incorporation or organization	**Identification Number:**
127 Public Square, Cleveland, Ohio	**44114-1306**
Address of principal executive offices:	**Zip Code:**

(216) 689-3000

Registrant s telephone number, including area code:

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

Indicate by check mark whether the registrant 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 ¨

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Shares with a par value of $1 each	896,671,849 Shares
Title of class	**Outstanding at October 29, 2013**

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KEYCORP

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Throughout the Notes to Consolidated Financial Statements (Unaudited) and Management s Discussion & Analysis of Financial Condition & Results of Operations, we use certain acronyms and abbreviations as defined in Note 1 (Basis of Presentation) that begins on page 10.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets

in millions, except per share data	**September 30, 2013 (Unaudited)**	**December 31, 2012**	**September 30, 2012 (Unaudited)**
ASSETS			
Cash and due from banks	**$ 748**	$ 584	$ 973
Short-term investments	**3,535**	3,940	2,208
Trading account assets	**806**	605	663
Securities available for sale	**12,606**	12,094	11,962
Held-to-maturity securities (fair value: $4,730, $3,992 and $4,212)	**4,835**	3,931	4,153
Other investments	**1,007**	1,064	1,106
Loans, net of unearned income of $827, $957 and $980	**53,597**	52,822	51,419
Less: Allowance for loan and lease losses	**868**	888	888
Net loans	**52,729**	51,934	50,531
Loans held for sale	**699**	599	628
Premises and equipment	**890**	965	942
Operating lease assets	**293**	288	290
Goodwill	**979**	979	979
Other intangible assets	**137**	171	182
Corporate-owned life insurance	**3,384**	3,333	3,309
Derivative assets	**475**	693	771
Accrued income and other assets (including $24 of consolidated LIHTC guaranteed funds VIEs, see Note 9) [(a)]	**2,747**	2,774	2,853
Discontinued assets (including $2,158 of consolidated education loan securitization trust VIEs (see Note 9) and $148 of loans in portfolio at fair value) [(a)]	**4,838**	5,282	5,400
Total assets	**$ 90,708**	$ 89,236	$ 86,950
LIABILITIES			
Deposits in domestic offices:			
NOW and money market deposit accounts	**$ 33,132**	$ 32,380	$ 30,573
Savings deposits	**2,489**	2,433	2,393
Certificates of deposit ($100,000 or more)	**2,698**	2,879	3,226
Other time deposits	**3,833**	4,575	4,941
Total interest-bearing	**42,152**	42,267	41,133
Noninterest-bearing	**25,778**	23,319	22,486
Deposits in foreign office interest-bearing	**605**	407	569
Total deposits	**68,535**	65,993	64,188
Federal funds purchased and securities sold under repurchase agreements	**1,455**	1,609	1,746
Bank notes and other short-term borrowings	**466**	287	388
Derivative liabilities	**450**	584	657
Accrued expense and other liabilities	**1,375**	1,387	1,205
Long-term debt	**6,154**	6,847	6,119
Discontinued liabilities (including $2,037 of consolidated education loan securitization trust VIEs at fair value, see Note 9) [(a)]	**2,037**	2,220	2,368

Total liabilities	**80,472**	78,927	76,671
EQUITY			
Preferred stock, $1 par value, authorized 25,000,000 shares:			
7.75% Noncumulative Perpetual Convertible Preferred Stock, Series A, $100 liquidation preference; authorized 7,475,000 shares; issued 2,904,839, 2,904,839 and 2,904,839 shares	**291**	291	291
Common shares, $1 par value; authorized 1,400,000,000 shares; issued 1,016,969,905, 1,016,969,905 and 1,016,969,905 shares	**1,017**	1,017	1,017
Capital surplus	**4,029**	4,126	4,118
Retained earnings	**7,431**	6,913	6,762
Treasury stock, at cost (119,148,654, 91,201,285 and 80,775,030)	**(2,193)**	(1,952)	(1,868)
Accumulated other comprehensive income (loss)	**(369)**	(124)	(69)
Key shareholders equity	**10,206**	10,271	10,251
Noncontrolling interests	**30**	38	28
Total equity	**10,236**	10,309	10,279
Total liabilities and equity	**$ 90,708**	$ 89,236	$ 86,950

(a) The assets of the VIEs can only be used by the particular VIE and there is no recourse to Key with respect to the liabilities of the consolidated LIHTC or education loan securitization trust VIEs.

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Income (Unaudited)

dollars in millions, except per share amounts	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
INTEREST INCOME				
Loans	**$ 532**	$ 538	**$ 1,619**	$ 1,592
Loans held for sale	**5**	5	**14**	15
Securities available for sale	**76**	93	**236**	314
Held-to-maturity securities	**22**	21	**60**	50
Trading account assets	**5**	4	**15**	15
Short-term investments	**1**	1	**4**	4
Other investments	**6**	9	**23**	27
Total interest income	**647**	671	**1,971**	2,017
INTEREST EXPENSE				
Deposits	**37**	60	**124**	208
Federal funds purchased and securities sold under repurchase agreements	**1**	1	**2**	3
Bank notes and other short-term borrowings	**2**	1	**5**	5
Long-term debt	**29**	37	**98**	138
Total interest expense	**69**	99	**229**	354
NET INTEREST INCOME	**578**	572	**1,742**	1,663
Provision (credit) for loan and lease losses	**28**	109	**111**	172
Net interest income (expense) after provision for loan and lease losses	**550**	463	**1,631**	1,491
NONINTEREST INCOME				
Trust and investment services income	**100**	94	**295**	280
Investment banking and debt placement fees	**86**	83	**249**	217
Service charges on deposit accounts	**73**	74	**213**	212
Operating lease income and other leasing gains	**43**	66	**85**	176
Corporate services income	**44**	39	**132**	127
Cards and payments income	**43**	37	**122**	97
Corporate-owned life insurance income	**26**	26	**87**	86
Consumer mortgage income	**3**	11	**16**	29
Net gains (losses) from principal investing	**17**	11	**32**	70
Other income [(a)]	**24**	77	**82**	123
Total noninterest income	**459**	518	**1,313**	1,417
NONINTEREST EXPENSE				
Personnel	**414**	399	**1,211**	1,148
Net occupancy	**66**	65	**202**	191
Computer processing	**38**	42	**116**	126
Business services and professional fees	**37**	48	**109**	136
Equipment	**25**	27	**78**	80
Operating lease expense	**14**	13	**37**	45
Marketing	**16**	18	**33**	48
FDIC assessment	**7**	7	**23**	23
Intangible asset amortization on credit cards	**8**	6	**23**	6
Other intangible asset amortization	**4**	3	**11**	5
Provision (credit) for losses on lending-related commitments	**3**	(8)	**11**	(2)
OREO expense, net	**1**	1	**5**	14

Other expense	**83**	91	**249**	264
Total noninterest expense	**716**	712	**2,108**	2,084
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	**293**	269	**836**	824
Income taxes	**59**	51	**201**	178
INCOME (LOSS) FROM CONTINUING OPERATIONS	**234**	218	**635**	646
Income (loss) from discontinued operations, net of taxes of $21, $1, $29, and $9 (see Note 11)	**37**	3	**45**	16
NET INCOME (LOSS)	**271**	221	**680**	662
Less: Net income (loss) attributable to noncontrolling interests	**(1)**	2		7
NET INCOME (LOSS) ATTRIBUTABLE TO KEY	**$ 272**	$ 219	**$ 680**	$ 655
Income (loss) from continuing operations attributable to Key common shareholders	**$ 229**	$ 211	**$ 618**	$ 623
Net income (loss) attributable to Key common shareholders	**266**	214	**663**	639
Per common share:				
Income (loss) from continuing operations attributable to Key common shareholders	**$ .25**	$ .23	**$ .68**	$ .66
Income (loss) from discontinued operations, net of taxes	**.04**		**.05**	.02
Net income (loss) attributable to Key common shareholders [(b)]	**.29**	.23	**.73**	.68
Per common share assuming dilution:				
Income (loss) from continuing operations attributable to Key common shareholders	**$ .25**	$ .22	**$ .67**	$ .66
Income (loss) from discontinued operations, net of taxes	**.04**		**.05**	.02
Net income (loss) attributable to Key common shareholders [(b)]	**.29**	.23	**.72**	.67
Cash dividends declared per common share	**$ .055**	$ .05	**$ .16**	$ .13
Weighted-average common shares outstanding (000)	**901,904**	936,223	**911,918**	943,378
Weighted-average common shares and potential common shares outstanding (000) [(c)]	**928,854**	940,764	**917,579**	947,582

(a) For the three months ended September 30, 2013 and 2012, we did not have any impairment losses related to securities.
(b) EPS may not foot due to rounding.
(c) Assumes conversion of stock options and/or Series A Preferred Stock, as applicable.
See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Comprehensive Income (Unaudited)

in millions	Three months ended September 30, 2013	2012	Nine months ended September 30, 2013	2012
Net income (loss)	**$ 271**	$ 221	**$ 680**	$ 662
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) on securities available for sale, net of income taxes of ($48), ($17), ($135) and ($48)	**(81)**	(28)	**(228)**	(81)
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $6, $12, ($17) and $17	**10**	20	**(29)**	28
Foreign currency translation adjustments, net of income taxes	**2**	9	**(12)**	5
Net pension and postretirement benefit costs, net of income taxes	**18**	2	**24**	7
Total other comprehensive income (loss), net of tax	**(51)**	3	**(245)**	(41)
Comprehensive income (loss)	**220**	224	**435**	621
Less: Comprehensive income attributable to noncontrolling interests	**(1)**	2		7
Comprehensive income (loss) attributable to Key	**$ 221**	$ 222	**$ 435**	$ 614

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Changes in Equity (Unaudited)

	Key Shareholders Equity								
dollars in millions, except per share amounts	Preferred Shares Outstanding (000)	Common Shares Outstanding (000)	Preferred Stock	Common Shares	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests
BALANCE AT DECEMBER 31, 2011	2,905	953,008	$ 291	$ 1,017	$ 4,194	$ 6,246	$ (1,815)	$ (28)	$ 17
Net income (loss)						655			7
Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of ($48)								(81)	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $17								28	
Foreign currency translation adjustments, net of income taxes								5	
Net pension and postretirement benefit costs, net of income taxes								7	
Deferred compensation					10				
Cash dividends declared on common shares ($.13 per share)						(123)			
Cash dividends declared on Noncumulative Series A Preferred Stock ($5.8125 per share)						(16)			
Common shares repurchased		(20,107)					(163)		
Common shares reissued (returned) for stock options and other employee benefit plans		3,294			(86)		110		
Net contribution from (distribution to) noncontrolling interests									4
BALANCE AT SEPTEMBER 30, 2012	2,905	936,195	$ 291	$ 1,017	$ 4,118	$ 6,762	$ (1,868)	$ (69)	$ 28
BALANCE AT DECEMBER 31, 2012	2,905	925,769	$ 291	$ 1,017	$ 4,126	$ 6,913	$ (1,952)	$ (124)	$ 38
Net income (loss)						**680**			
Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of ($135)								**(228)**	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of ($17)								**(29)**	
Foreign currency translation adjustments, net of income taxes								**(12)**	
Net pension and postretirement benefit costs, net of income taxes								**24**	
Deferred compensation					**3**				
Cash dividends declared on common shares ($.16 per share)						**(145)**			
Cash dividends declared on Noncumulative Series A Preferred Stock ($5.8125 per share)						**(17)**			
Common shares repurchased		**(33,940)**					**(375)**		
Common shares reissued (returned) for stock options and other employee benefit plans		**5,992**			**(100)**		**134**		
Net contribution from (distribution to) noncontrolling interests									**(8)**
BALANCE AT SEPTEMBER 30, 2013	**2,905**	**897,821**	**$ 291**	**$ 1,017**	**$ 4,029**	**$ 7,431**	**$ (2,193)**	**$ (369)**	**$ 30**

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Cash Flows (Unaudited)

in millions	Nine months ended September 30, 2013	2012
OPERATING ACTIVITIES		
Net income (loss)	$ **680**	$ 662
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision (credit) for loan and lease losses	**111**	172
Provision (credit) for losses on lending-related commitments	**11**	(2)
Provision (credit) for losses on LIHTC guaranteed funds	**4**	
Depreciation, amortization and accretion expense, net	**147**	162
Stock-based compensation expense	**27**	38
FDIC (payments) net of FDIC expense	**296**	19
Deferred income taxes (benefit)	**(4)**	36
Proceeds from sales of loans held for sale	**3,821**	3,737
Originations of loans held for sale, net of repayments	**(3,779)**	(3,507)
Net losses (gains) on sales of loans held for sale	**(91)**	(93)
Net losses (gains) from principal investing	**(32)**	(70)
Net losses (gains) and writedown on OREO	**5**	12
Net losses (gains) on leased equipment	**(36)**	(109)
Net losses (gains) on sales of fixed assets	**9**	
Net decrease (increase) in trading account assets	**(201)**	(40)
Other operating activities, net	**52**	(369)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**1,020**	648
INVESTING ACTIVITIES		
Cash received (used) in acquisitions, net of cash acquired	**817**	866
Proceeds from sale of Victory	**72**	
Gain on sale of Victory	**(92)**	
Net decrease (increase) in short-term investments	**405**	1,311
Purchases of securities available for sale	**(4,628)**	(232)
Proceeds from sales of securities available for sale	**29**	1
Proceeds from prepayments and maturities of securities available for sale	**3,725**	4,159
Proceeds from prepayments and maturities of held-to-maturity securities	**667**	437
Purchases of held-to-maturity securities	**(1,572)**	(2,481)
Purchases of other investments	**(30)**	(48)
Proceeds from sales of other investments	**39**	17
Proceeds from prepayments and maturities of other investments	**82**	134
Net decrease (increase) in loans, excluding acquisitions, sales and transfers	**(1,077)**	(1,342)
Proceeds from sales of portfolio loans	**150**	207
Purchases of premises and equipment	**(60)**	(101)
Proceeds from sales of premises and equipment	**8**	1
Proceeds from sales of other real estate owned	**19**	55
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**(1,446)**	2,984
FINANCING ACTIVITIES		
Net increase (decrease) in deposits, excluding acquisitions	**1,605**	184
Net increase (decrease) in short-term borrowings	**26**	86
Net proceeds from issuance of long-term debt	**1,013**	59
Payments on long-term debt	**(1,540)**	(3,381)
Repurchase of Common Shares	**(375)**	(163)
Net proceeds from reissuance of Common Shares	**22**	2
Tax benefits in excess of reorganized compensation costs for share-based payment	**1**	
Cash dividends paid	**(162)**	(139)

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		**590**		(3,352)
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS		**164**		280
CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD		**584**		693
CASH AND DUE FROM BANKS AT END OF PERIOD	$	**748**	$	973
Additional disclosures relative to cash flows:				
Interest paid	$	**271**	$	302
Income taxes paid (refunded)		**114**		39
Noncash items:				
Assets acquired	$	**41**	$	1,194
Liabilities assumed				2,059
Loans transferred to portfolio from held for sale		**2**		41
Loans transferred to held for sale from portfolio		**53**		80
Loans transferred to other real estate owned		**16**		32

See Notes to Consolidated Financial Statements (Unaudited).

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Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

As used in these Notes, references to Key, we, our, us and similar terms refer to the consolidated entity consisting of KeyCorp and its subsidiaries. KeyCorp refers solely to the parent holding company, and KeyBank refers to KeyCorp s subsidiary, KeyBank National Association.

The acronyms and abbreviations identified below are used in the Notes to Consolidated Financial Statements (Unaudited) as well as in the Management s Discussion & Analysis of Financial Condition & Results of Operations. You may find it helpful to refer back to this page as you read this report.

References to our 2012 Form 10-K refer to our Form 10-K for the year ended December 31, 2012, that has been filed with the U.S. Securities and Exchange Commission and is available on its website (www.sec.gov) or on our website (www.key.com/ir).

ABO: Accumulated benefit obligation.
AICPA: American Institute of Certified Public Accountants.
ALCO: Asset/Liability Management Committee.
ALLL: Allowance for loan and lease losses.
A/LM: Asset/liability management.
AOCI: Accumulated other comprehensive income (loss).
APBO: Accumulated postretirement benefit obligation.
Austin: Austin Capital Management, Ltd.
BHCA: Bank Holding Company Act of 1956, as amended.
BHCs: Bank holding companies.
CCAR: Comprehensive Capital Analysis and Review.
CFPB: Bureau of Consumer Financial Protection.
CFTC: Commodities Futures Trading Commission.
CMBS: Commercial mortgage-backed securities.
CMO: Collateralized mortgage obligation.
Common Shares: Common Shares, $1 par value.
CPP: Capital Purchase Program of the U.S. Treasury.
DIF: Deposit Insurance Fund of the FDIC.
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
ERISA: Employee Retirement Income Security Act of 1974.
ERM: Enterprise risk management.
EVE: Economic value of equity.
FASB: Financial Accounting Standards Board.
FDIA: Federal Deposit Insurance Act, as amended.
FDIC: Federal Deposit Insurance Corporation.
Federal Reserve: Board of Governors of the Federal Reserve System.
FHFA: Federal Housing Finance Agency.
FHLMC: Federal Home Loan Mortgage Corporation.
FINRA: Financial Industry Regulatory Authority.
FNMA: Federal National Mortgage Association.
FOMC: Federal Open Market Committee of the Federal Reserve Board.
FSOC: Financial Stability Oversight Council.
FVA: Fair value of pension plan assets.
GAAP: U.S. generally accepted accounting principles.
GNMA: Government National Mortgage Association.
HUD: U.S. Department of Housing and Urban Development.
IRS: Internal Revenue Service.
ISDA: International Swaps and Derivatives Association.
KAHC: Key Affordable Housing Corporation.
LIBOR: London Interbank Offered Rate.
LIHTC: Low-income housing tax credit.
LILO: Lease in, lease out transaction.
Moody s: Moody s Investor Services, Inc.
MSRs: Mortgage servicing rights.
N/A: Not applicable.
NASDAQ: The NASDAQ Stock Market LLC.
N/M: Not meaningful.
NOW: Negotiable Order of Withdrawal.
NPR: Notice of proposed rulemaking.
NYSE: New York Stock Exchange.
OCC: Office of the Comptroller of the Currency.
OCI: Other comprehensive income (loss).
OFR: Office of Financial Research of the U.S. Department of Treasury.
OREO: Other real estate owned.
OTTI: Other-than-temporary impairment.
QSPE: Qualifying special purpose entity.
PBO: Projected benefit obligation.
PCCR: Purchased credit card relationship.
PCI: Purchased credit impaired.
S&P: Standard and Poor s Ratings Services, a Division of The McGraw-Hill Companies, Inc.
SCAP: Supervisory Capital Assessment Program administered by the Federal Reserve.
SEC: U.S. Securities & Exchange Commission.
Series A Preferred Stock: KeyCorp s 7.750% Noncumulative Perpetual Convertible Preferred Stock, Series A.
SIFIs: Systemically important financial companies, including BHCs with total consolidated assets of at least $50 billion and nonbank financial companies designated by FSOC for supervision by the Federal Reserve.
SILO: Sale in, lease out transaction.
SPE: Special purpose entity.
TDR: Troubled debt restructuring.
TE: Taxable equivalent.
U.S. Treasury: United States Department of the Treasury.
VaR: Value at risk.
VEBA: Voluntary Employee Beneficiary Association.
Victory: Victory Capital Management and/or Victory Capital Advisors.
VIE: Variable interest entity.
XBRL: eXtensible Business Reporting Language.

The consolidated financial statements include the accounts of KeyCorp and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Some previously reported amounts have been reclassified to conform to current reporting practices.

The consolidated financial statements include any voting rights entities in which we have a controlling financial interest. In accordance with the applicable accounting guidance for consolidations, we consolidate a VIE if we have: (i) a variable interest in the entity; (ii) the power to direct activities of the VIE that most significantly impact the entity s economic performance; and (iii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE (i.e., we are considered to be the primary beneficiary). Variable interests can include equity interests, subordinated debt, derivative contracts, leases, service agreements, guarantees, standby letters of credit, loan commitments, and other contracts, agreements and financial instruments. See Note 9 (Variable Interest Entities) for information on our involvement with VIEs.

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We use the equity method to account for unconsolidated investments in voting rights entities or VIEs if we have significant influence over the entity s operating and financing decisions (usually defined as a voting or economic interest of 20% to 50%, but not controlling). Unconsolidated investments in voting rights entities or VIEs in which we have a voting or economic interest of less than 20% generally are carried at cost. Investments held by our registered broker-dealer and investment company subsidiaries (primarily principal investments) are carried at fair value.

We believe that the unaudited consolidated interim financial statements reflect all adjustments of a normal recurring nature and disclosures that are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full year. The interim financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our 2012 Form 10-K.

In preparing these financial statements, subsequent events were evaluated through the time the financial statements were issued. Financial statements are considered issued when they are widely distributed to all shareholders and other financial statement users, or filed with the SEC.

Offsetting Derivative Positions

In accordance with the applicable accounting guidance, we take into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts held with a single counterparty on a net basis, and to offset the net derivative position with the related cash collateral when recognizing derivative assets and liabilities. Additional information regarding derivative offsetting is provided in Note 7 (Derivatives and Hedging Activities).

Accounting Guidance Adopted in 2013

Benchmark interest rate. In July 2013, the FASB issued new accounting guidance allowing entities to designate the Federal Funds Effective Swap Rate (which is the Overnight Index Swap rate, or OIS rate, in the U.S.) as a benchmark interest rate, in addition to U.S. Treasury and LIBOR rates, for hedge accounting purposes. This new accounting guidance was effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013 (effective July 17, 2013, for us). Note 7 (Derivatives and Hedging Activities) provides information regarding our use of derivatives and hedge accounting.

Reporting of amounts reclassified out of AOCI. In February 2013, the FASB issued new accounting guidance that requires reclassifications of amounts out of AOCI to be reported in a new format. It does not require the reporting of any information that is not currently required to be disclosed under existing GAAP. This accounting guidance was effective prospectively for reporting periods beginning after December 15, 2012 (effective January 1, 2013, for us). The disclosures required by this accounting guidance are provided in Note 16 (Accumulated Other Comprehensive Income).

Testing indefinite-lived intangible assets for impairment. In July 2012, the FASB issued new accounting guidance that simplifies how an entity tests indefinite-lived intangible assets other than goodwill for impairment. It permits an entity to first assess qualitative factors to determine whether further testing for impairment of indefinite-lived intangible assets other than goodwill is required. This accounting guidance was effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 (January 1, 2013, for us). The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations.

Offsetting disclosures. In December 2011, the FASB issued new accounting guidance that requires an entity to disclose information about offsetting and related arrangements to enable financial statement users to understand the effect of those arrangements on the entity s financial position. In January 2013, the FASB issued new accounting guidance that clarified the scope of the guidance to include derivatives, repurchase and reverse repurchase agreements, and securities lending and borrowing transactions. This accounting guidance was effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods (effective January 1, 2013, for us). Information about our offsetting and related arrangements is provided in Note 12 (Securities Financing Activities).

Accounting Guidance Pending Adoption at September 30, 2013

Presentation of unrecognized tax benefits. In July 2013, the FASB issued new accounting guidance that requires unrecognized tax benefits to be presented as a decrease in a net operating loss, similar tax loss or tax credit carryforward if certain criteria are met. This accounting guidance will be applied prospectively to unrecognized tax benefits that exist at the effective date. It will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 (effective January 1, 2014, for us). Early adoption and/or retrospective application are permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

Investment companies. In June 2013, the FASB issued new accounting guidance that modifies the criteria used in defining an investment company. It also sets forth certain measurement and disclosure requirements for an investment company. This accounting guidance will be effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013 (effective January 1, 2014, for us). Early application is prohibited. We are currently evaluating the impact this accounting guidance may have on our financial condition or results of operations.

Liquidation basis of accounting. In April 2013, the FASB issued new accounting guidance that specifies when and how an entity should prepare its financial statements using the liquidation basis of accounting when liquidation is imminent as defined in the guidance and describes the related disclosures that should be made. This new accounting guidance will be effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein (effective January 1, 2014, for us). Entities should apply the requirements prospectively from the day that liquidation becomes imminent. Early adoption is permitted.

Reporting of cumulative translation adjustments upon the derecognition of certain investments. In March 2013, the FASB issued new accounting guidance that addresses the accounting for the cumulative translation adjustment when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. This accounting guidance will be effective prospectively for reporting periods beginning after December 15, 2013 (effective January 1, 2014, for us). The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

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2. Earnings Per Common Share

Basic earnings per share is the amount of earnings (adjusted for dividends declared on our preferred stock) available to each common share outstanding during the reporting periods. Diluted earnings per share is the amount of earnings available to each common share outstanding during the reporting periods adjusted to include the effects of potentially dilutive common shares. Potentially dilutive common shares include incremental shares issued for the conversion of our convertible Series A Preferred Stock, stock options, and other stock-based awards. Potentially dilutive common shares are excluded from the computation of diluted earnings per share in the periods where the effect would be antidilutive. For diluted earnings per share, net income available to common shareholders can be affected by the conversion of our convertible Series A Preferred Stock. Where the effect of this conversion would be dilutive, net income available to common shareholders is adjusted by the amount of preferred dividends associated with our Series A Preferred Stock. For the three months ended September 30, 2013, weighted-average common shares and potential common shares outstanding included 20.6 million shares associated with the conversion of our Series A Preferred Stock and 6.4 million shares associated with common share options and other stock awards.

Our basic and diluted earnings per Common Share are calculated as follows:

dollars in millions, except per share amounts	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
EARNINGS				
Income (loss) from continuing operations	**$ 234**	$ 218	**$ 635**	$ 646
Less: Net income (loss) attributable to noncontrolling interests	**(1)**	2		7
Income (loss) from continuing operations attributable to Key	**235**	216	**635**	639
Less: Dividends on Series A Preferred Stock	**6**	5	**17**	16
Income (loss) from continuing operations attributable to Key common shareholders	**229**	211	**618**	623
Income (loss) from discontinued operations, net of taxes [a]	**37**	3	**45**	16
Net income (loss) attributable to Key common shareholders	**$ 266**	$ 214	**$ 663**	$ 639
WEIGHTED-AVERAGE COMMON SHARES				
Weighted-average common shares outstanding (000)	**901,904**	936,223	**911,918**	943,378
Effect of dilutive convertible preferred stock, common share options and other stock awards (000)	**26,950**	4,541	**5,661**	4,204
Weighted-average common shares and potential common shares outstanding (000)	**928,854**	940,764	**917,579**	947,582
EARNINGS PER COMMON SHARE				
Income (loss) from continuing operations attributable to Key common shareholders	**$ .25**	$ .23	**$ .68**	$ .66
Income (loss) from discontinued operations, net of taxes [a]	**.04**		**.05**	.02
Net income (loss) attributable to Key common shareholders [b]	**.29**	.23	**.73**	.68
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**$ .25**	$ .22	**$ .67**	$ .66
Income (loss) from discontinued operations, net of taxes [a]	**.04**		**.05**	.02
Net income (loss) attributable to Key common shareholders assuming dilution [b]	**.29**	.23	**.72**	.67

(a)

In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In February 2013, we decided to sell Victory to a private equity fund. As a result of these decisions, we have accounted for these businesses as discontinued operations. For further discussion regarding the income (loss) from discontinued operations see Note 11 (Acquisitions and Discontinued Operations).

(b) EPS may not foot due to rounding.

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3. Loans and Loans Held for Sale

Our loans by category are summarized as follows:

in millions	September 30, 2013	December 31, 2012	September 30, 2012
Commercial, financial and agricultural [(a)]	$ **24,317**	$ 23,242	$ 21,979
Commercial real estate:			
Commercial mortgage	**7,544**	7,720	7,529
Construction	**1,058**	1,003	1,067
Total commercial real estate loans	**8,602**	8,723	8,596
Commercial lease financing	**4,550**	4,915	4,960
Total commercial loans	**37,469**	36,880	35,535
Residential prime loans:			
Real estate residential mortgage	**2,198**	2,174	2,138
Home equity:			
Key Community Bank	**10,285**	9,816	9,768
Other	**353**	423	409 [(d)]
Total home equity loans	**10,638**	10,239	10,177
Total residential prime loans	**12,836**	12,413	12,315
Consumer other Key Community Bank	**1,440**	1,349	1,313
Credit cards	**698**	729	710
Consumer other:			
Marine	**1,083**	1,358	1,448
Other	**71**	93	98
Total consumer other	**1,154**	1,451	1,546
Total consumer loans	**16,128**	15,942	15,884
Total loans [(b) (c)]	$ **53,597**	$ 52,822	$ 51,419

(a) September 30, 2013, December 31, 2012, and September 30, 2012 loan balances include $96 million, $90 million, and $88 million of commercial credit card balances, respectively.

(b) Excluded at September 30, 2013, December 31, 2012, and September 30, 2012, are loans in the amount of $4.7 billion, $5.2 billion, and $5.3 billion, respectively, related to the discontinued operations of the education lending business.

(c) September 30, 2013 loan balance includes purchased loans of $176 million of which $18 million were PCI loans. December 31, 2012 loan balance includes purchased loans of $217 million of which $23 million were PCI loans. September 30, 2012 loan balance includes purchased loans of $231 million of which $25 million were PCI loans.

(d) This loan category was impacted by $45 million in net loan charge-offs taken during the third quarter of 2012 related to updated regulatory guidance.

Our loans held for sale are summarized as follows:

in millions	September 30, 2013	December 31, 2012	September 30, 2012

Commercial, financial and agricultural	$ **68**	$ 29	$ 13
Real estate commercial mortgage	**608**	477	484
Real estate construction			10
Commercial lease financing		8	4
Real estate residential mortgage	**23**	85	117
Total loans held for sale	$ **699**	$ 599	$ 628

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Our quarterly summary of changes in loans held for sale as follows:

in millions	September 30, 2013	December 31, 2012	September 30, 2012
Balance at beginning of the period	**$ 402**	$ 628	$ 656
New originations	**1,467**	1,686	1,280
Transfers from held to maturity, net	**15**	38	13
Loan sales	**(1,181)**	(1,747)	(1,311)
Loan draws (payments), net	**(4)**	(4)	(9)
Transfers to OREO / valuation adjustments		(2)	(1)
Balance at end of period	**$ 699**	$ 599	$ 628

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4. Asset Quality

We manage our exposure to credit risk by closely monitoring loan performance trends and general economic conditions. An indicator of potential credit losses is the level of nonperforming assets and past due loans.

Our nonperforming assets and past due loans were as follows:

in millions	September 30, 2013	December 31, 2012	September 30, 2012
Total nonperforming loans [a], [b]	**$ 541**	$ 674	$ 653
Nonperforming loans held for sale	**13**	25	19
OREO	**15**	22	29
Other nonperforming assets	**10**	14	17
Total nonperforming assets	**$ 579**	$ 735	$ 718
Nonperforming assets from discontinued operations education lending [c]	**$ 23**	$ 20	$ 22
Restructured loans included in nonperforming loans [a]	**$ 228**	$ 249	$ 217
Restructured loans with an allocated specific allowance [d]	**104**	114	78
Specifically allocated allowance for restructured loans [e]	**46**	33	31
Accruing loans past due 90 days or more	**$ 90**	$ 78	$ 89
Accruing loans past due 30 through 89 days	**288**	424	354

(a) December 31, 2012 and September 30, 2012 loan balance includes $72 million and $38 million of current, paying as originally agreed, secured loans respectively, that were discharged through Chapter 7 bankruptcy and not formally re-affirmed, as addressed in updated regulatory guidance issued in the third quarter of 2012. Such loans have been designated as nonperforming and TDRs.

(b) September 30, 2013, December 31, 2012 and September 30, 2012 loan balances exclude $18 million, $23 million and $25 million of PCI loans, respectively.

(c) Includes approximately $11 million, $3 million and $3 million of restructured loans at September 30, 2013, December 31, 2012 and September 30, 2012, respectively. See Note 11 (Acquisitions and Discontinued Operations) for further discussion.

(d) Included in individually impaired loans allocated a specific allowance.

(e) Included in allowance for individually evaluated impaired loans.

We evaluate purchased loans for impairment in accordance with the applicable accounting guidance. Purchased loans that have evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that all contractually required payments will not be collected are deemed PCI and initially recorded at fair value without recording an allowance for loan losses. At the date of acquisition, the estimated gross contractual amount receivable of PCI loans totaled $41 million. The estimated cash flows not expected to be collected (the nonaccretable amount) was $11 million, and the accretable amount was approximately $5 million. The difference between the fair value and the cash flows expected to be collected from the purchased loans is accreted to interest income over the remaining term of the loans.

At September 30, 2013, the outstanding unpaid principal balance and carrying value of all PCI loans was $25 million and $18 million, respectively. Changes in the accretable yield during 2013 included accretion of $1 million and net reclassifications of $1 million, resulting in an ending balance of $5 million at September 30, 2013.

At September 30, 2013, the approximate carrying amount of our commercial nonperforming loans outstanding represented 61% of their original contractual amount, total nonperforming loans outstanding represented 74% of their original contractual amount owed, and nonperforming assets in total were carried at 72% of their original contractual amount.

At September 30, 2013, our twenty largest nonperforming loans totaled $119 million, representing 22% of total loans on nonperforming status from continuing operations. At September 30, 2012, the twenty largest nonperforming loans totaled $202 million, representing 31% of total loans on nonperforming status.

Nonperforming loans and loans held for sale reduced expected interest income by $18 million for the nine months ended September 30, 2013, and $25 million for the year ended December 31, 2012.

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The following tables set forth a further breakdown of individually impaired loans as of September 30, 2013, December 31, 2012 and September 30, 2012:

September 30, 2013 *in millions*	**Recorded Investment** (a)	**Unpaid Principal Balance** (b)	**Specific Allowance**	**Average Recorded Investment**
With no related allowance recorded:				
Commercial, financial and agricultural	$ 58	$ 116		$ 74
Commercial real estate:				
Commercial mortgage	43	80		66
Construction	41	124		45
Total commercial real estate loans	84	204		111
Total commercial loans with no related allowance recorded	142	320		185
Real estate residential mortgage	16	16		16
Home equity:				
Key Community Bank	69	69		69
Other	2	2		2
Total home equity loans	71	71		71
Consumer other:				
Marine	3	3		3
Total consumer other	3	3		3
Total consumer loans	90	90		90
Total loans with no related allowance recorded	232	410		275
With an allowance recorded:				
Commercial, financial and agricultural	50	51	$ 17	36
Commercial real estate:				
Commercial mortgage	3	3	1	4
Construction	3	13		2
Total commercial real estate loans	6	16	1	6
Total commercial loans with an allowance recorded	56	67	18	42
Real estate residential mortgage	20	20	6	20
Home equity:				
Key Community Bank	33	33	10	32
Other	11	11	2	10
Total home equity loans	44	44	12	42
Consumer other Key Community Bank	3	3		3
Credit cards	6	6	1	5
Consumer other:				
Marine	49	49	10	50
Other	1	1		1

Total consumer other		50		50		10		51
Total consumer loans		123		123		29		121
Total loans with an allowance recorded		179		190		47		163
Total	$	411	$	600	$	47	$	438

(a) The Recorded Investment in impaired loans represents the face amount of the loan increased or decreased by applicable accrued interest, net deferred loan fees and costs, and unamortized premium or discount, and reflects direct charge-offs. This amount is a component of total loans on our consolidated balance sheet.

(b) The Unpaid Principal Balance represents the customer s legal obligation to us.

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December 31, 2012 *in millions*	Recorded Investment [a]	Unpaid Principal Balance [b]	Specific Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial, financial and agricultural	$ 32	$ 64		$ 60
Commercial real estate:				
Commercial mortgage	89	142		95
Construction	48	182		39
Total commercial real estate loans	137	324		134
Total commercial loans with no related allowance recorded	169	388		194
Real estate residential mortgage	21	21		10
Home equity:				
Key Community Bank	65	65		33
Other	3	3		1
Total home equity loans	68	68		34
Total consumer loans	89	89		44
Total loans with no related allowance recorded	258	477		238
With an allowance recorded:				
Commercial, financial and agricultural	33	42	$ 12	48
Commercial real estate:				
Commercial mortgage	7	7	1	51
Construction				6
Total commercial real estate loans	7	7	1	57
Total commercial loans with an allowance recorded	40	49	13	105
Real estate residential mortgage	17	17	1	8
Home equity:				
Key Community Bank	22	22	11	11
Other	9	9	1	5
Total home equity loans	31	31	12	16
Consumer other Key Community Bank	2	2	2	1
Credit cards	2	2		1
Consumer other:				
Marine	60	60	7	30
Other	1	1		1
Total consumer other	61	61	7	31
Total consumer loans	113	113	22	57
Total loans with an allowance recorded	153	162	35	162
Total	$ 411	$ 639	$ 35	$ 400

(a) The Recorded Investment in impaired loans represents the face amount of the loan increased or decreased by applicable accrued interest, net deferred loan fees and costs, and unamortized premium or discount, and reflects direct charge-offs. This amount is a component of total loans on our consolidated balance sheet.
(b) The Unpaid Principal Balance represents the customer s legal obligation to us.

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September 30, 2012 *in millions*	Recorded Investment [a]	Unpaid Principal Balance [b]	Specific Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial, financial and agricultural	$ 57	$ 118		$ 58
Commercial real estate:				
Commercial mortgage	106	182		109
Construction	42	203		47
Total commercial real estate loans	148	385		156
Total commercial loans with no related allowance recorded	205	503		214
Real estate residential mortgage				1
Home equity:				
Key Community Bank	45	45		23
Other	2	2		1
Total home equity loans	47	47		24
Consumer other Key Community Bank	1	1		1
Consumer other:				
Marine	4	4		2
Total consumer other	4	4		2
Total consumer loans	52	52		28
Total loans with no related allowance recorded	257	555		242
With an allowance recorded:				
Commercial, financial and agricultural	35	45	$ 12	39
Commercial real estate:				
Commercial mortgage	31	32	7	44
Construction				2
Total commercial real estate loans	31	32	7	46
Total commercial loans with an allowance recorded	66	77	19	85
Real estate residential mortgage	18	18	1	17
Home equity:				
Key Community Bank	20	20	10	16
Other	8	8	1	7
Total home equity loans	28	28	11	23
Consumer other Key Community Bank	2	2	1	2
Consumer other:				
Marine	56	56	7	53
Other	1	1		1
Total consumer other	57	57	7	54
Total consumer loans	105	105	20	96

Total loans with an allowance recorded	171	182	39	181
Total	$ 428	$ 737	$ 39	$ 423

(a) The Recorded Investment in impaired loans represents the face amount of the loan increased or decreased by applicable accrued interest, net deferred loan fees and costs, and unamortized premium or discount, and reflects direct charge-offs. This amount is a component of total loans on our consolidated balance sheet.

(b) The Unpaid Principal Balance represents the customer s legal obligation to us.

For the nine months ended September 30, 2013, and 2012, interest income recognized on the outstanding balances of accruing impaired loans totaled $5 million and $4 million, respectively.

At September 30, 2013, aggregate restructured loans (accrual, nonaccrual and held-for-sale loans) totaled $349 million, compared to $320 million at December 31, 2012, and $323 million at September 30, 2012. We added $143 million in restructured loans during the first nine months of 2013, which were offset by $114 million in payments and charge-offs.

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A further breakdown of TDRs included in nonperforming loans by loan category as of September 30, 2013, follows:

September 30, 2013 *dollars in millions*	**Number of loans**	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	39	$ 96	$ 63
Commercial real estate:			
Real estate commercial mortgage	14	51	17
Real estate construction	6	19	4
Total commercial real estate loans	20	70	21
Total commercial loans	59	166	84
Real estate residential mortgage	401	24	24
Home equity:			
Key Community Bank	1,677	89	85
Other	237	6	6
Total home equity loans	1,914	95	91
Consumer other Key Community Bank	40	2	1
Credit cards	689	5	5
Consumer other:			
Marine	346	42	22
Other	46	1	1
Total consumer other	392	43	23
Total consumer loans	3,436	169	144
Total nonperforming TDRs	3,495	335	228
Prior-year accruing [(a)]			
Commercial, financial and agricultural	68	9	4
Commercial real estate:			
Real estate commercial mortgage	3	17	12
Real estate construction	1	23	35
Total commercial real estate loans	4	40	47
Total commercial loans	72	49	51
Real estate residential mortgage	118	13	13
Home equity:			
Key Community Bank	162	18	17
Other	214	6	6
Total home equity loans	376	24	23
Consumer other Key Community Bank	32	1	1
Credit cards	267	2	2
Consumer other:			
Marine	276	32	30
Other	56	1	1

Total consumer other	332		33		31
Total consumer loans	1,125		73		70
Total prior-year accruing TDRs	1,197		122		121
Total TDRs	4,692	$	457	$	349

(a) All TDRs that were restructured prior to January 1, 2013, and are fully accruing.

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A further breakdown of TDRs included in nonperforming loans by loan category as of December 31, 2012, follows:

December 31, 2012 *dollars in millions*	**Number of loans**	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	82	$ 76	$ 39
Commercial real estate:			
Real estate commercial mortgage	15	62	25
Real estate construction	8	53	33
Total commercial real estate loans	23	115	58
Total commercial loans	105	191	97
Real estate residential mortgage	372	28	28
Home equity:			
Key Community Bank	1,577	87	82
Other	322	9	8
Total home equity loans	1,899	96	90
Consumer other Key Community Bank	28	1	1
Credit cards	405	3	3
Consumer other:			
Marine	251	30	29
Other	34	1	1
Total consumer other	285	31	30
Total consumer loans	2,989	159	152
Total nonperforming TDRs	3,094	350	249
Prior-year accruing [(a)]			
Commercial, financial and agricultural	122	12	6
Commercial real estate:			
Real estate commercial mortgage	4	22	15
Total commercial real estate loans	4	22	15
Total commercial loans	126	34	21
Real estate residential mortgage	101	10	10
Home equity:			
Key Community Bank	76	5	5
Other	84	3	3
Total home equity loans	160	8	8
Consumer other Key Community Bank	16		
Consumer other:			
Marine	117	31	31
Other	43	1	1
Total consumer other	160	32	32

Total consumer loans	437		50		50
Total prior-year accruing TDRs	563		84		71
Total TDRs	3,657	$	434	$	320

(a) All TDRs that were restructured prior to January 1, 2012, and are fully accruing.

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A further breakdown of TDRs included in nonperforming loans by loan category as of September 30, 2012, follows:

September 30, 2012 *dollars in millions*	Number of loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	91	$ 107	$ 54
Commercial real estate:			
Real estate commercial mortgage	18	47	29
Real estate construction	8	53	30
Total commercial real estate loans	26	100	59
Total commercial loans	117	207	113
Real estate residential mortgage	70	7	7
Home equity:			
Key Community Bank	1,804	89	58
Other	486	11	7
Total home equity loans	2,290	100	65
Consumer other Key Community Bank	125	2	2
Consumer other:			
Marine	491	33	28
Other	91	2	2
Total consumer other	582	35	30
Total consumer loans	3,067	144	104
Total nonperforming TDRs	3,184	351	217
Prior-year accruing [(a)]			
Commercial, financial and agricultural	152	15	7
Commercial real estate:			
Real estate commercial mortgage	7	71	45
Real estate construction	1	15	
Total commercial real estate loans	8	86	45
Total commercial loans	160	101	52
Real estate residential mortgage	108	11	11
Home equity:			
Key Community Bank	86	6	6
Other	95	3	3
Total home equity loans	181	9	9
Consumer other Key Community Bank	20		
Consumer other:			
Marine	126	32	32
Other	51	2	2
Total consumer other	177	34	34

Total consumer loans	486		54		54
Total prior-year accruing TDRs	646		155		106
Total TDRs	3,830	$	506	$	323

(a) All TDRs that were restructured prior to January 1, 2012, and are fully accruing.

We classify loan modifications as TDRs when a borrower is experiencing financial difficulties and we have granted a concession to the borrower without commensurate financial, structural, or legal consideration. All commercial and consumer loan TDRs, regardless of size, are evaluated for impairment individually to determine the probable loss content and are assigned a specific loan allowance if deemed appropriate. The financial effects of TDRs are reflected in the components that make up the allowance for loan and lease losses in either the amount of a charge-off or the loan loss provision. These components affect the ultimate allowance level. Additional information regarding TDRs for discontinued operations is provided in Note 11 (Acquisitions and Discontinued Operations).

Commercial loan TDRs are considered defaulted when principal and interest payments are 90 days past due. Consumer loan TDRs are considered defaulted when principal and interest payments are more than 60 days past due. There were 138 consumer loan TDRs with a combined recorded investment of $7 million that have experienced payment defaults during the three months ended September 30, 2013 compared to 127 consumer TDRs with a combined recorded investment of $5 million during the three months ended June 30, 2013 from modifications resulting in TDR status during 2012. There were no significant payment defaults during the first nine months of 2013 arising from commercial loans that were designated as TDRs during 2012.

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Our loan modifications are handled on a case by case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet our client s financial needs. Our concession types are primarily interest rate reductions, forgiveness of principal and other modifications. Other loan term modifications for consumer TDRs include concessions determined to have been made as defined in updated regulatory guidance issued in the third quarter of 2012.

The following table shows the concession types for our commercial and consumer accruing and nonaccruing TDRs and other selected financial data.

dollars in millions	**September 30, 2013**	December 31, 2012	September 30, 2012
Commercial loans:			
Interest rate reduction	**$ 104**	$ 104	$ 145
Forgiveness of principal	**5**	7	7
Other modification of loan terms	**26**	7	14
Total	**$ 135**	$ 118	$ 166
Consumer loans:			
Interest rate reduction	**$ 110**	$ 122	$ 92
Forgiveness of principal	**5**	6	7
Other modification of loan terms	**99**	74	58
Total	**$ 214**	$ 202	$ 157
Total commercial and consumer TDRs [(a)]	**$ 349**	$ 320	$ 323
Total loans	**53,597**	52,822	51,419

(a) Commitments outstanding to lend additional funds to borrowers whose terms have been modified in TDRs are $26 million, $32 million, and $47 million at September 30, 2013, December 31, 2012, and September 30, 2012, respectively.

Our policies for determining past due loans, placing loans on nonaccrual, applying payments on nonaccrual loans and resuming accrual of interest for our commercial and consumer loan portfolios are disclosed in Note 1 (Summary of Significant Accounting Policies) under the heading Nonperforming Loans on page 120 of our 2012 Form 10-K. Pursuant to regulatory guidance issued in January 2012, the above-mentioned policy for nonperforming loans was revised effective for the second quarter of 2012. Beginning in the second quarter of 2012, any second lien home equity loan with an associated first lien that is 120 days or more past due or in foreclosure or for which the first mortgage delinquency timeframe is unknown, is reported as a nonperforming loan. This policy was implemented prospectively, and, therefore, prior periods were not restated or represented. As of September 30, 2013, in order to be consistent with other unsecured product treatment, the credit card loans nonaccrual policy was revised from 90 day past due status to placement on nonaccrual (and charge off) at 180 days past due.

At September 30, 2013, approximately $52.7 billion, or 98.3%, of our total loans are current. At September 30, 2013, total past due loans and nonperforming loans of $919 million represent approximately 1.7% of total loans.

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The following aging analysis as of September 30, 2013, December 31, 2012, and September 30, 2012, of past due and current loans provides further information regarding Key s credit exposure.

September 30, 2013 *in millions*	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 and Greater Days Past Due**	**Nonperforming Loans**	**Total Past Due and Nonperforming Loans**	**Purchased Credit Impaired**	**Total Loans**
LOAN TYPE								
Commercial, financial and agricultural	$ 24,161	$ 33	$ 9	$ 12	$ 102	$ 156		$ 24,317
Commercial real estate:								
Commercial mortgage	7,429	22	2	31	58	113	$ 2	7,544
Construction	1,038	3			17	20		1,058
Total commercial real estate loans	8,467	25	2	31	75	133	2	8,602
Commercial lease financing	4,472	41	7	8	22	78		4,550
Total commercial loans	$ 37,100	$ 99	$ 18	$ 51	$ 199	$ 367	$ 2	$ 37,469
Real estate residential mortgage	$ 2,045	$ 22	$ 9	$ 10	$ 98	$ 139	$ 14	$ 2,198
Home equity:								
Key Community Bank	9,994	50	29	12	198	289	2	10,285
Other	327	8	3	2	13	26		353
Total home equity loans	10,321	58	32	14	211	315	2	10,638
Consumer other Key Community Bank	1,419	8	5	6	2	21		1,440
Credit cards	675	7	4	8	4	23		698
Consumer other:								
Marine	1,034	17	6	1	25	49		1,083
Other	66	2	1		2	5		71