US BANCORP \DE\
Form 10-Q
November 06, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**

SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**

SECURITIES EXCHANGE ACT OF 1934
For the transition period from (not applicable)

Commission file number 1-6880

U.S. BANCORP

(Exact name of registrant as specified in its charter)

Delaware	**41-0255900**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

800 Nicollet Mall

Minneapolis, Minnesota 55402

(Address of principal executive offices, including zip code)

651-466-3000

(Registrant s telephone number, including area code)

(not applicable)

(Former name, former address and former fiscal year, if changed since last report)

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, and (2) has been subject to such filing requirements for the past 90 days.

YES þ NO ¨

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

YES þ 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 þ	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ¨ NO þ

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

Class	Outstanding as of October 31, 2014
Common Stock, $.01 Par Value	1,789,386,385 shares

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Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995.

This quarterly report on Form 10-Q contains forward-looking statements about U.S. Bancorp. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are based on the information available to, and assumptions and estimates made by, management as of the date hereof. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of U.S. Bancorp. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated. A reversal or slowing of the current moderate economic recovery or another severe contraction could adversely affect U.S. Bancorp s revenues and the values of its assets and liabilities. Global financial markets could experience a recurrence of significant turbulence, which could reduce the availability of funding to certain financial institutions and lead to a tightening of credit, a reduction of business activity, and increased market volatility. Continued stress in the commercial real estate markets, as well as a delay or failure of recovery in the residential real estate markets could cause additional credit losses and deterioration in asset values. In addition, U.S. Bancorp s business and financial performance is likely to be negatively impacted by recently enacted and future legislation and regulation. U.S. Bancorp s results could also be adversely affected by deterioration in general business and economic conditions; changes in interest rates; deterioration in the credit quality of its loan portfolios or in the value of the collateral securing those loans; deterioration in the value of securities held in its investment securities portfolio; legal and regulatory developments; increased competition from both banks and non-banks; changes in customer behavior and preferences; breaches in data security; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management s ability to effectively manage credit risk, residual value risk, market risk, operational risk, compliance risk, strategic risk, interest rate risk, liquidity risk and reputational risk.

For discussion of these and other risks that may cause actual results to differ from expectations, refer to U.S. Bancorp s Annual Report on Form 10-K for the year ended December 31, 2013, on file with the Securities and Exchange Commission, including the sections entitled Risk Factors and Corporate Risk Profile contained in Exhibit 13, and all subsequent filings with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934. However, factors other than these also could adversely affect U.S. Bancorp s results, and the reader should not consider these factors to be a complete set of all potential risks or uncertainties. Forward-looking statements speak only as of the date hereof, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.

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Table 1 Selected Financial Data

(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Percent Change	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Percent Change
Condensed Income Statement						
Net interest income (taxable-equivalent basis) (a)	$ 2,748	$ 2,714	1.3%	$ 8,198	$ 8,095	1.3%
Noninterest income	2,245	2,180	3.0	6,792	6,610	2.8
Securities gains (losses), net	(3)	(3)		2	8	(75.0)
Total net revenue	4,990	4,891	2.0	14,992	14,713	1.9
Noninterest expense	2,614	2,565	1.9	7,911	7,592	4.2
Provision for credit losses	311	298	4.4	941	1,063	(11.5)
Income before taxes	2,065	2,028	1.8	6,140	6,058	1.4
Taxable-equivalent adjustment	56	56		167	168	(.6)
Applicable income taxes	523	542	(3.5)	1,566	1,629	(3.9)
Net income	1,486	1,430	3.9	4,407	4,261	3.4
Net (income) loss attributable to noncontrolling interests	(15)	38	*	(44)	119	*
Net income attributable to U.S. Bancorp	$ 1,471	$ 1,468	.2	$ 4,363	$ 4,380	(.4)
Net income applicable to U.S. Bancorp common shareholders	$ 1,405	$ 1,400	.4	$ 4,163	$ 4,163	
Per Common Share						
Earnings per share	$ .78	$ .76	2.6%	$ 2.30	$ 2.26	1.8%
Diluted earnings per share	.78	.76	2.6	2.29	2.25	1.8
Dividends declared per share	.245	.230	6.5	.720	.655	9.9
Book value per share	21.38	19.31	10.7			
Market value per share	41.83	36.58	14.4			
Average common shares outstanding	1,798	1,832	(1.9)	1,809	1,844	(1.9)
Average diluted common shares outstanding	1,807	1,843	(2.0)	1,819	1,854	(1.9)
Financial Ratios						
Return on average assets	1.51%	1.65%		1.56%	1.67%	
Return on average common equity	14.5	15.8		14.7	16.0	
Net interest margin (taxable-equivalent basis) (a)	3.16	3.43		3.26	3.45	
Efficiency ratio (b)	52.4	52.4		52.8	51.6	
Net charge-offs as a percent of average loans outstanding	.55	.57		.57	.68	
Average Balances						
Loans	$ 243,867	$ 229,362	6.3%	$ 240,098	$ 225,682	6.4%
Loans held for sale	3,552	4,965	(28.5)	2,811	6,659	(57.8)
Investment securities (c)	93,141	74,988	24.2	87,687	74,303	18.0
Earning assets	346,422	315,060	10.0	336,287	313,663	7.2
Assets	385,823	352,161	9.6	375,047	351,048	6.8
Noninterest-bearing deposits	74,126	68,264	8.6	72,274	67,183	7.6
Deposits	271,008	252,368	7.4	263,662	248,284	6.2
Short-term borrowings	30,961	27,495	12.6	30,362	27,736	9.5
Long-term debt	26,658	19,226	38.7	24,864	21,968	13.2
Total U.S. Bancorp shareholders equity	43,132	39,936	8.0	42,498	39,675	7.1

	September 30, 2014	December 31, 2013	
Period End Balances			
Loans	$ 245,591	$ 235,235	4.4%
Investment securities	96,905	79,855	21.4
Assets	391,284	364,021	7.5
Deposits	273,097	262,123	4.2
Long-term debt	30,768	20,049	53.5
Total U.S. Bancorp shareholders equity	43,141	41,113	4.9
Asset Quality			
Nonperforming assets	$ 1,923	$ 2,037	(5.6)
Allowance for credit losses	4,414	4,537	(2.7)
Allowance for credit losses as a percent of period-end loans	1.80%	1.93%	
Capital Ratios			

Common equity tier 1 capital (d)	9.7%	9.4%(e)
Tier 1 capital (d)	11.3	11.2
Total risk-based capital (d)	13.6	13.2
Leverage (d)	9.4	9.6
Common equity tier 1 capital to risk-weighted assets for the Basel III transitional advanced approaches	12.4	
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented standardized approach (e)	9.0	8.8
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented advanced approaches (e)	11.8	
Tangible common equity to tangible assets (e)	7.6	7.7
Tangible common equity to risk-weighted assets (e)	9.3	9.1

* *Not meaningful.*

(a) *Presented on a fully taxable-equivalent basis utilizing a tax rate of 35 percent.*

(b) *Computed as noninterest expense divided by the sum of net interest income on a taxable-equivalent basis and noninterest income excluding net securities gains (losses).*

(c) *Excludes unrealized gains and losses on available-for-sale investment securities and any premiums or discounts recorded related to the transfer of investment securities at fair value from available-for-sale to held-to-maturity.*

(d) *September 30, 2014, calculated under the Basel III transitional standardized approach; December 31, 2013, calculated under Basel I.*

(e) *See Non-GAAP Financial Measures beginning on page 33.*

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Management s Discussion and Analysis

OVERVIEW

Earnings Summary U.S. Bancorp and its subsidiaries (the Company) reported net income attributable to U.S. Bancorp of $1.5 billion for the third quarter of 2014, or $.78 per diluted common share, compared with $1.5 billion, or $.76 per diluted common share, for the third quarter of 2013. Return on average assets and return on average common equity were 1.51 percent and 14.5 percent, respectively, for the third quarter of 2014, compared with 1.65 percent and 15.8 percent, respectively, for the third quarter of 2013.

Total net revenue, on a taxable-equivalent basis, for the third quarter of 2014 was $99 million (2.0 percent) higher than the third quarter of 2013, reflecting a 1.3 percent increase in net interest income and a 3.0 percent increase in noninterest income. The increase in net interest income from a year ago was the result of an increase in average earning assets and continued growth in lower cost core deposit funding, partially offset by a decrease in the net interest margin. The noninterest income increase was primarily due to higher revenue in most fee businesses, partially offset by lower mortgage banking revenue.

Noninterest expense in the third quarter of 2014 was $49 million (1.9 percent) higher than the third quarter of 2013, primarily due to higher compensation expense, reflecting the impact of merit increases, acquisitions and higher staffing for risk, compliance and internal audit activities.

The provision for credit losses for the third quarter of 2014 of $311 million was $13 million (4.4 percent) higher than the third quarter of 2013. Net charge-offs in the third quarter of 2014 were $336 million, compared with $328 million in the third quarter of 2013. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Net income attributable to U.S. Bancorp for the first nine months of 2014 was $4.4 billion, or $2.29 per diluted common share, compared with $4.4 billion, or $2.25 per diluted common share for the first nine months of 2013. Return on average assets and return on average common equity were 1.56 percent and 14.7 percent, respectively, for the first nine months of 2014, compared with 1.67 percent and 16.0 percent, respectively, for the first nine months of 2013. The results for the first nine months of 2014 included a second quarter $214 million gain related to the sale of Visa Inc. Class B common stock (Visa sale), offset by a $200 million settlement with the U.S. Department of Justice to resolve an investigation relating to the endorsement of mortgage loans under the Federal Housing Administration s insurance program (FHA DOJ settlement). Together, these two items had no impact on diluted earnings per common share.

Total net revenue, on a taxable-equivalent basis, for the first nine months of 2014 was $279 million (1.9 percent) higher than the first nine months of 2013, primarily reflecting a 1.3 percent increase in net interest income and a 2.7 percent increase in noninterest income. The increase in net interest income from a year ago was the result of an increase in average earning assets and continued growth in lower cost core deposit funding, partially offset by a decrease in the net interest margin. The noninterest income increase was primarily due to higher revenue in most fee businesses and the Visa sale, partially offset by lower mortgage banking revenue.

Noninterest expense in the first nine months of 2014 was $319 million (4.2 percent) higher than the first nine months of 2013, primarily due to the FHA DOJ settlement and higher compensation expense.

The provision for credit losses for the first nine months of 2014 of $941 million was $122 million (11.5 percent) lower than the first nine months of 2013. Net charge-offs in the first nine months of 2014 were $1.0 billion, compared with $1.2 billion in the first nine months of 2013. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Acquisitions In June 2014, the Company acquired the Chicago-area branch banking operations of the Charter One Bank franchise (Charter One) owned by RBS Citizens Financial Group. The acquisition included Charter One s retail branch network, small business operations and select middle market relationships. The Company acquired approximately $969 million of loans and $4.8 billion of deposits with this transaction.

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STATEMENT OF INCOME ANALYSIS

Net Interest Income Net interest income, on a taxable-equivalent basis, was $2.7 billion in the third quarter and $8.2 billion in the first nine months of 2014, or increases of $34 million (1.3 percent) and $103 million (1.3 percent), respectively, compared with the same periods of 2013. The increases were the result of growth in average earning assets and lower cost core deposit funding, partially offset by lower rates on new loans and investment securities and lower loan fees. Average earning assets were $31.4 billion (10.0 percent) higher in the third quarter and $22.6 billion (7.2 percent) higher in the first nine months of 2014, compared with the same periods of 2013, driven by increases in loans and investment securities, partially offset by decreases in loans held for sale. The net interest margin, on a taxable-equivalent basis, in the third quarter and first nine months of 2014 was 3.16 percent and 3.26 percent, respectively, compared with 3.43 percent and 3.45 percent in the third quarter and first nine months of 2013, respectively. The decreases from the same periods of the prior year primarily reflected lower reinvestment rates on investment securities, as well as growth in the investment portfolio at lower average rates, lower loan fees due to the wind down of the short-term, small dollar advance product, Checking Account Advance (CAA), and strong growth in lower rate commercial loans, partially offset by lower funding costs. Refer to the Consolidated Daily Average Balance Sheet and Related Yields and Rates tables for further information on net interest income.

Average total loans for the third quarter and first nine months of 2014 were $14.5 billion (6.3 percent) and $14.4 billion (6.4 percent) higher, respectively, than the same periods of 2013, driven by growth in commercial loans, residential mortgages, commercial real estate loans, credit card loans and other retail loans. These increases were driven by higher demand for loans from new and existing customers. The increases were partially offset by a decline in loans covered by loss sharing agreements with the Federal Deposit Insurance Corporation (FDIC). Average loans acquired in FDIC-assisted transactions that are covered by loss sharing agreements with the FDIC (covered loans) decreased $2.5 billion (25.6 percent) in the third quarter and $2.6 billion (24.9 percent) in the first nine months of 2014, compared with the same periods of 2013, respectively.

Average investment securities in the third quarter and first nine months of 2014 were $18.2 billion (24.2 percent) and $13.4 billion (18.0 percent) higher, respectively, than the same periods of 2013, primarily due to purchases of U.S. government agency-backed securities, net of prepayments and maturities, in preparation for final liquidity coverage ratio regulatory requirements.

Average total deposits for the third quarter and first nine months of 2014 were $18.6 billion (7.4 percent) and $15.4 billion (6.2 percent) higher, respectively, than the same periods of 2013. Average noninterest-bearing deposits for the third quarter and first nine months of 2014 were $5.9 billion (8.6 percent) and $5.1 billion (7.6 percent) higher, respectively, than the same periods of the prior year, reflecting growth in Consumer and Small Business Banking, Wholesale Banking and Commercial Real Estate, and corporate trust balances, as well as the impact of the Charter One acquisition. Average total savings deposits for the third quarter and first nine months of 2014 were $19.0 billion (14.0 percent) and $14.2 billion (10.5 percent) higher, respectively, than the same periods of 2013, reflecting growth in Consumer and Small Business Banking, Wholesale Banking and Commercial Real Estate and corporate trust balances, as well as the impact of the Charter One acquisition. Average time deposits less than $100,000 for the third quarter and first nine months of 2014 were $1.5 billion (11.6 percent) and $1.9 billion (14.8 percent) lower, respectively, than the same periods of 2013, due to maturities. Average time deposits greater than $100,000 for the third quarter and first nine months of 2014 were $4.8 billion (13.6 percent) and $2.0 billion (6.0 percent) lower, respectively, than the same periods of the prior year, primarily due to declines in Consumer and Small Business Banking and broker-dealer balances. Time deposits greater than $100,000 are managed as an alternative to other funding sources, such as wholesale borrowing, based largely on relative pricing and liquidity characteristics.

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Table 2 Noninterest Income

(Dollars in Millions)	Three Months Ended September 30, 2014	2013	Percent Change	Nine Months Ended September 30, 2014	2013	Percent Change
Credit and debit card revenue	$ 251	$ 244	2.9%	$ 749	$ 702	6.7%
Corporate payment products revenue	195	192	1.6	550	540	1.9
Merchant processing services	387	371	4.3	1,127	1,091	3.3
ATM processing services	81	83	(2.4)	241	248	(2.8)
Trust and investment management fees	315	280	12.5	930	842	10.5
Deposit service charges	185	180	2.8	513	493	4.1
Treasury management fees	136	134	1.5	409	408	.2
Commercial products revenue	209	207	1.0	635	616	3.1
Mortgage banking revenue	260	328	(20.7)	774	1,125	(31.2)
Investment products fees	49	46	6.5	142	133	6.8
Securities gains (losses), net	(3)	(3)		2	8	(75.0)
Other	177	115	53.9	722	412	75.2
Total noninterest income	$ 2,242	$ 2,177	3.0%	$ 6,794	$ 6,618	2.7%

Provision for Credit Losses The provision for credit losses for the third quarter and first nine months of 2014 increased $13 million (4.4 percent) and decreased $122 million (11.5 percent), respectively, compared with the same periods of 2013. Net charge-offs increased $8 million (2.4 percent) and decreased $127 million (11.0 percent) in the third quarter and first nine months of 2014, respectively, compared with the same periods of the prior year, reflecting higher commercial loan charge-offs and lower recoveries in commercial real estate in the current year, offset by improvements in residential mortgages and home equity and second mortgages. The provision for credit losses was lower than net charge-offs by $25 million in the third quarter and $85 million in the first nine months of 2014, compared with $30 million in the third quarter and $90 million in the first nine months of 2013. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Noninterest Income Noninterest income was $2.2 billion in the third quarter and $6.8 billion in the first nine months of 2014, reflecting increases of $65 million (3.0 percent) and $176 million (2.7 percent), respectively, compared with the same periods of 2013. The increases over a year ago were principally due to increases in a majority of fee revenue categories, partially offset by reductions in mortgage banking revenue. Trust and investment management fees increased, reflecting account growth, improved market conditions and business expansion. Merchant processing services revenue was higher as a result of increases in fee-based product revenue and higher volumes, partially offset by lower rates. Credit and debit card revenue and corporate payment products revenue increased primarily due to higher transaction volumes. Deposit service charges were higher due to account growth, the Charter One acquisition and pricing changes. Other income increased, reflecting higher equity investment income and retail leasing revenue. Other income further increased in the first nine months of 2014, compared with the same period of the prior year, due to the second quarter 2014 Visa sale. In addition, commercial products revenue for the first nine months of 2014 increased compared with the same period of the prior year, principally due to higher syndication fees on tax-advantaged projects and higher bond underwriting fees, partially offset by lower standby letters of credit fees. The decrease in mortgage banking revenue in the third quarter of 2014, compared with the third quarter of 2013, was principally due to an unfavorable change in the valuation of mortgage servicing rights (MSRs), net of hedging activities. The decrease in mortgage banking revenue in the first nine months of 2014, compared with the same period of the prior year, was primarily due to lower origination and sales revenue.

Noninterest Expense Noninterest expense was $2.6 billion in the third quarter and $7.9 billion in the first nine months of 2014, reflecting increases of $49 million (1.9 percent) and $319 million (4.2 percent), respectively, compared with the same periods of 2013. The increases over a year ago were the result of higher compensation expense, reflecting the impact of merit increases, acquisitions and higher staffing for risk, compliance and internal audit activities (partially offset by lower employee benefits expense driven by lower pension costs), higher net occupancy and equipment expense due to business initiatives and higher maintenance costs, higher professional services expense due mainly to mortgage servicing-related project costs, and higher other expense reflecting the Charter One merger integration and mortgage servicing-related expenses, partially offset by lower tax-advantaged project costs in the current year as a result of the first quarter of 2014 adoption of new

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Table 3 Noninterest Expense

(Dollars in Millions)	Three Months Ended September 30, 2014	2013	Percent Change	Nine Months Ended September 30, 2014	2013	Percent Change
Compensation	$ 1,132	$ 1,088	4.0%	$ 3,372	$ 3,268	3.2%
Employee benefits	250	278	(10.1)	796	865	(8.0)
Net occupancy and equipment	249	240	3.8	739	709	4.2
Professional services	102	94	8.5	282	263	7.2
Marketing and business development	78	85	(8.2)	253	254	(.4)
Technology and communications	219	214	2.3	644	639	.8
Postage, printing and supplies	81	76	6.6	242	230	5.2
Other intangibles	51	55	(7.3)	148	167	(11.4)
Other	452	435	3.9	1,435	1,197	19.9
Total noninterest expense	$ 2,614	$ 2,565	1.9%	$ 7,911	$ 7,592	4.2%
Efficiency ratio (a)	52.4%	52.4%		52.8%	51.6%	

(a) Computed as noninterest expense divided by the sum of net interest income on a taxable-equivalent basis and noninterest income excluding securities gains (losses), net.

accounting guidance for certain affordable housing tax credit investments. In addition, other expense further increased in the first nine months of 2014, compared with the same period of 2013, due to the second quarter 2014 FHA DOJ settlement.

Income Tax Expense The provision for income taxes was $523 million (an effective rate of 26.0 percent) for the third quarter and $1.6 billion (an effective rate of 26.2 percent) for the first nine months of 2014, compared with $542 million (an effective rate of 27.5 percent) and $1.6 billion (an effective rate of 27.7 percent) for the same periods of 2013. For further information on income taxes, refer to Note 12 of the Notes to Consolidated Financial Statements.

BALANCE SHEET ANALYSIS

Loans The Company s loan portfolio was $245.6 billion at September 30, 2014, compared with $235.2 billion at December 31, 2013, an increase of $10.4 billion (4.4 percent). The increase was driven primarily by increases in commercial loans, commercial real estate loans, other retail loans and residential mortgages, including the Charter One acquisition, partially offset by lower credit card and covered loans.

Commercial loans and commercial real estate loans increased $8.8 billion (12.6 percent) and $1.0 billion (2.6 percent), respectively, at September 30, 2014, compared with December 31, 2013, reflecting higher demand from new and existing customers.

Other retail loans, which include retail leasing, home equity and second mortgages and other retail loans, increased $1.3 billion (2.6 percent) at September 30, 2014, compared with December 31, 2013. The increase was driven by higher auto and installment loans, home equity and second mortgages, and the Charter One acquisition, partially offset by lower student loan balances.

Residential mortgages held in the loan portfolio increased $801 million (1.6 percent) at September 30, 2014, compared with December 31, 2013. Residential mortgages originated and placed in the Company s loan portfolio are primarily well-secured jumbo mortgages and branch-originated first lien home equity loans to borrowers with high credit quality. The Company generally retains portfolio loans through maturity; however, the Company s intent may change over time based upon various factors such as ongoing asset/liability management activities, assessment of product profitability, credit risk, liquidity needs, and capital implications. If the Company s intent or ability to hold an existing portfolio loan changes, the loan is transferred to loans held for sale.

Credit card loans decreased $163 million (.9 percent) at September 30, 2014, compared with December 31, 2013, primarily the result of customers paying down balances.

Loans Held for Sale Loans held for sale, consisting primarily of residential mortgages to be sold in the secondary market, were $3.9 billion at September 30, 2014, compared with $3.3 billion at December 31, 2013. The increase in loans held for sale was principally due to the higher level of mortgage loan closings.

Almost all of the residential mortgage loans the Company originates or purchases for sale follow guidelines that allow the loans to be sold into existing, highly liquid secondary markets; in particular in government agency transactions and to government-sponsored enterprises (GSEs).

Investment Securities Investment securities totaled $96.9 billion at September 30, 2014, compared with $79.9 billion at December 31, 2013. The $17.0 billion (21.4 percent) increase reflected $16.6 billion of net investment purchases, primarily U.S. government agency-backed securities in preparation for final liquidity coverage ratio regulatory requirements, and a

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Table 4 Investment Securities

At September 30, 2014 (Dollars in Millions)	Available-for-Sale Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (e)	Held-to-Maturity Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (e)
U.S. Treasury and Agencies								
Maturing in one year or less	$ 27	$ 27	.3					