KEYCORP /NEW/
Form 10-Q
August 03, 2015
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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 June 30, 2015

Commission File Number 001-11302

Exact name of registrant as specified in its charter:

Ohio	**34-6542451**

State or other jurisdiction of incorporation or organization	**I.R.S. Employer 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	840,860,998 Shares
Title of class	**Outstanding at July 30, 2015**

KEYCORP

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PART II. OTHER INFORMATION

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	June 30, 2015 (Unaudited)	December 31, 2014	June 30, 2014 (Unaudited)
ASSETS			
Cash and due from banks	**$ 693**	$ 653	$ 604
Short-term investments	**3,222**	4,269	3,176
Trading account assets	**674**	750	890
Securities available for sale	**14,244**	13,360	12,224
Held-to-maturity securities (fair value: $4,992, $4,974, and $5,154)	**5,022**	5,015	5,233
Other investments	**703**	760	899
Loans, net of unearned income of $657, $682, and $709	**58,264**	57,381	55,600
Less: Allowance for loan and lease losses	**796**	794	814
Net loans	**57,468**	56,587	54,786
Loans held for sale	**835**	734	435
Premises and equipment	**788**	841	844
Operating lease assets	**296**	330	306
Goodwill	**1,057**	1,057	979
Other intangible assets	**83**	101	108
Corporate-owned life insurance	**3,502**	3,479	3,438
Derivative assets	**536**	609	549
Accrued income and other assets (including $1 of consolidated LIHTC guaranteed funds VIEs, see Note 9) [(a)]	**3,314**	2,952	3,090
Discontinued assets (including $179 of portfolio loans held for sale at fair value)	**2,169**	2,324	4,237
Total assets	**$ 94,606**	$ 93,821	$ 91,798
LIABILITIES			
Deposits in domestic offices:			
NOW and money market deposit accounts	**$ 36,024**	$ 34,536	$ 33,637
Savings deposits	**2,370**	2,371	2,450
Certificates of deposit ($100,000 or more)	**2,032**	2,040	2,743
Other time deposits	**3,105**	3,259	3,505
Total interest-bearing deposits	**43,531**	42,206	42,335
Noninterest-bearing deposits	**26,640**	29,228	24,781
Deposits in foreign office interest-bearing	**498**	564	683
Total deposits	**70,669**	71,998	67,799

Federal funds purchased and securities sold under repurchase agreements	**444**	575	1,213
Bank notes and other short-term borrowings	**528**	423	521
Derivative liabilities	**560**	784	451
Accrued expense and other liabilities	**1,537**	1,621	1,400
Long-term debt	**10,267**	7,875	8,213
Discontinued liabilities		3	1,680
Total liabilities	**84,005**	83,279	81,277
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 2,900,234, 2,904,839, and 2,904,839 shares	290	291	291
Common shares, $1 par value; authorized 1,400,000,000 shares; issued 1,016,969,905, 1,016,969,905, and 1,016,969,905 shares	**1,017**	1,017	1,017
Capital surplus	**3,898**	3,986	3,987
Retained earnings	**8,614**	8,273	7,950
Treasury stock, at cost (173,362,345, 157,566,493, and 140,147,398 shares)	**(2,884)**	(2,681)	(2,452)
Accumulated other comprehensive income (loss)	**(345)**	(356)	(289)
Key shareholders equity	**10,590**	10,530	10,504
Noncontrolling interests	**11**	12	17
Total equity	**10,601**	10,542	10,521
Total liabilities and equity	**$ 94,606**	$ 93,821	$ 91,798

(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 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 June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
INTEREST INCOME				
Loans	**$ 532**	$ 526	**$ 1,055**	$ 1,045
Loans held for sale	**12**	5	**19**	9
Securities available for sale	**72**	71	**142**	143
Held-to-maturity securities	**24**	23	**48**	45
Trading account assets	**5**	7	**10**	13
Short-term investments	**2**	1	**4**	2
Other investments	**5**	6	**10**	12
Total interest income	**652**	639	**1,288**	1,269
INTEREST EXPENSE				
Deposits	**26**	31	**52**	63
Federal funds purchased and securities sold under repurchase agreements				1
Bank notes and other short-term borrowings	**2**	2	**4**	4
Long-term debt	**40**	33	**77**	65
Total interest expense	**68**	66	**133**	133
NET INTEREST INCOME	**584**	573	**1,155**	1,136
Provision for credit losses	**41**	12	**76**	16
Net interest income after provision for credit losses	**543**	561	**1,079**	1,120
NONINTEREST INCOME				
Trust and investment services income	**111**	94	**220**	192
Investment banking and debt placement fees	**141**	99	**209**	183
Service charges on deposit accounts	**63**	66	**124**	129
Operating lease income and other leasing gains	**24**	35	**43**	64
Corporate services income	**43**	41	**86**	83
Cards and payments income	**47**	43	**89**	81
Corporate-owned life insurance income	**30**	28	**61**	54
Consumer mortgage income	**4**	2	**7**	4
Mortgage servicing fees	**9**	11	**22**	26
Net gains (losses) from principal investing	**11**	27	**40**	51
Other income [(a)]	**5**	9	**24**	23
Total noninterest income	**488**	455	**925**	890
NONINTEREST EXPENSE				
Personnel	**408**	389	**797**	777
Net occupancy	**66**	68	**131**	132
Computer processing	**42**	41	**80**	79
Business services and professional fees	**42**	41	**75**	82

Equipment		**22**		24		**44**		48
Operating lease expense		**12**		10		**23**		20
Marketing		**15**		13		**23**		18
FDIC assessment		**8**		6		**16**		12
Intangible asset amortization		**9**		9		**18**		19
OREO expense, net		**1**		1		**3**		2
Other expense		**86**		85		**170**		162
Total noninterest expense		**711**		687		**1,380**		1,351
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		**320**		329		**624**		659
Income taxes		**84**		76		**158**		168
INCOME (LOSS) FROM CONTINUING OPERATIONS		**236**		253		**466**		491
Income (loss) from discontinued operations, net of taxes of $2, ($16), $5, and ($14) (see Note 11)		**3**		(28)		**8**		(24)
NET INCOME (LOSS)		**239**		225		**474**		467
Less: Net income (loss) attributable to noncontrolling interests		**1**		6		**3**		6
NET INCOME (LOSS) ATTRIBUTABLE TO KEY	**$**	**238**	$	219	**$**	**471**	$	461
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**230**	$	242	**$**	**452**	$	474
Net income (loss) attributable to Key common shareholders		**233**		214		**460**		450
Per common share:								
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.27**	$	.28	**$**	**.53**	$	.54
Income (loss) from discontinued operations, net of taxes				(.03)		**.01**		(.03)
Net income (loss) attributable to Key common shareholders [(b)]		**.28**		.24		**.54**		.51
Per common share assuming dilution:								
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.27**	$	.27	**$**	**.52**	$	.53
Income (loss) from discontinued operations, net of taxes				(.03)		**.01**		(.03)
Net income (loss) attributable to Key common shareholders [(b)]		**.27**		.24		**.53**		.51
Cash dividends declared per common share	**$**	**.075**	$	.065	**$**	**.14**	$	.12
Weighted-average common shares outstanding (000)		**839,454**		875,298		**843,992**		879,986
Effect of convertible preferred stock				20,602				
Effect of common share options and other stock awards		**6,858**		6,237		**7,695**		6,698
Weighted-average common shares and potential common shares outstanding (000) [(c)]		**846,312**		902,137		**851,687**		886,684

(a)

For each of the three months ended June 30, 2015, and June 30, 2014, net securities gains (losses) totaled less than $1 million. For the three months ended June 30, 2015, and June 30, 2014, we did not have any impairment losses related to securities.

(b) EPS may not foot due to rounding.

(c) Assumes conversion of common share options and other stock awards and/or convertible 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 June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Net income (loss)	**$ 239**	$ 225	**$ 474**	$ 467
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) on securities available for sale, net of income taxes of ($31), $17, $2, and $34	**(51)**	28	**4**	57
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of ($10), $4, $9, and $3	**(17)**	5	**15**	4
Foreign currency translation adjustments, net of income taxes of $0, $4, ($8), and $0		(1)	**(13)**	(3)
Net pension and postretirement benefit costs, net of income taxes of $2, $1, $3, and $3	**2**	3	**5**	5
Total other comprehensive income (loss), net of tax	**(66)**	35	**11**	63
Comprehensive income (loss)	**173**	260	**485**	530
Less: Comprehensive income attributable to noncontrolling interests	**1**	6	**3**	6
Comprehensive income (loss) attributable to Key	**$ 172**	$ 254	**$ 482**	$ 524

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, 2013	2,905	890,724	$ 291	$ 1,017	$ 4,022	$ 7,606	$ (2,281)	$ (352)	$ 17
Net income (loss)						461			6
Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of $34								57	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $3								4	
Foreign currency translation adjustments, net of income taxes of $0								(3)	
Net pension and postretirement benefit costs, net of income taxes of $3								5	
Deferred compensation					2				
Cash dividends declared on common shares ($.12 per share)						(106)			
Cash dividends declared on Noncumulative Series A Preferred Stock ($3.875 per share)						(11)			
Common shares repurchased		(17,669)					(236)		
Common shares reissued (returned) for stock options and other employee benefit plans		3,768			(37)		65		
									(6)

Net contribution from (distribution to) noncontrolling interests									
BALANCE AT JUNE 30, 2014	2,905	876,823	$ 291	$ 1,017	$ 3,987	$ 7,950	$ (2,452)	$ (289)	$ 17
BALANCE AT DECEMBER 31, 2014	2,905	859,403	$ 291	$ 1,017	$ 3,986	$ 8,273	$ (2,681)	$ (356)	$ 12
Net income (loss)						471			3
Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of $2								**4**	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $9								**15**	
Foreign currency translation adjustments, net of income taxes of ($8)								**(13)**	
Net pension and postretirement benefit costs, net of income taxes of $3								**5**	
Deferred compensation					**12**				
Cash dividends declared on common shares ($.14 per share)						**(119)**			
Cash dividends declared on Noncumulative Series A Preferred Stock ($3.875 per share)						**(11)**			
Common shares repurchased		**(22,881)**					**(325)**		
Series A Preferred Stock exchanged for common shares	**(5)**	**33**	**(1)**				**1**		
Common shares reissued (returned) for stock options and other employee benefit plans		**7,053**			**(100)**		**121**		
Net contribution from (distribution to) noncontrolling interests									**(4)**
	2,900	**843,608**	**$ 290**	**$ 1,017**	**$ 3,898**	**$ 8,614**	**$ (2,884)**	**$ (345)**	**$ 11**

BALANCE AT JUNE 30, 2015	

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Cash Flows (Unaudited)

in millions	Six months ended June 30, 2015	2014
OPERATING ACTIVITIES		
Net income (loss)	**$ 474**	$ 467
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for credit losses	**76**	16
Provision (credit) for losses on LIHTC guaranteed funds		(6)
Depreciation, amortization and accretion expense, net	**116**	109
Increase in cash surrender value of corporate-owned life insurance	**(50)**	(48)
Stock-based compensation expense	**33**	21
FDIC reimbursement (payments), net of FDIC expense	**(1)**	
Deferred income taxes (benefit)	**(27)**	9
Proceeds from sales of loans held for sale	**3,726**	1,570
Originations of loans held for sale, net of repayments	**(3,756)**	(1,359)
Net losses (gains) on sales of loans held for sale	**(55)**	(40)
Net losses (gains) from principal investing	**(40)**	(51)
Net losses (gains) and writedown on OREO	**2**	2
Net losses (gains) on leased equipment	**(9)**	(34)
Net securities losses (gains)	**1**	
Net losses (gains) on sales of fixed assets	**2**	1
Net decrease (increase) in trading account assets	**76**	(152)
Other operating activities, net	**(509)**	(242)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**59**	263
INVESTING ACTIVITIES		
Net decrease (increase) in short-term investments, excluding acquisitions	**1,047**	2,414
Purchases of securities available for sale	**(2,451)**	(1,175)
Proceeds from sales of securities available for sale	**11**	
Proceeds from prepayments and maturities of securities available for sale	**1,547**	1,382
Proceeds from prepayments and maturities of held-to-maturity securities	**566**	391
Purchases of held-to-maturity securities	**(575)**	(869)
Purchases of other investments	**(20)**	(26)
Proceeds from sales of other investments	**77**	167
Proceeds from prepayments and maturities of other investments	**5**	1
Net decrease (increase) in loans, excluding acquisitions, sales and transfers	**(1,128)**	(1,269)
Proceeds from sales of portfolio loans	**67**	67
Proceeds from corporate-owned life insurance	**26**	18
Purchases of premises, equipment, and software	**(17)**	(30)
Proceeds from sales of premises and equipment		1
Proceeds from sales of OREO	**10**	10
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**(835)**	1,082
FINANCING ACTIVITIES		

Net increase (decrease) in deposits, excluding acquisitions		**(1,329)**		(1,463)
Net increase (decrease) in short-term borrowings		**(26)**		(143)
Net proceeds from issuance of long-term debt		**2,750**		608
Payments on long-term debt		**(141)**		(26)
Repurchase of common shares		**(325)**		(236)
Net proceeds from reissuance of common shares		**17**		19
Cash dividends paid		**(130)**		(117)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		**816**		(1,358)
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS		**40**		(13)
CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD		**653**		617
CASH AND DUE FROM BANKS AT END OF PERIOD	**$**	**693**	$	604
Additional disclosures relative to cash flows:				
Interest paid	**$**	**128**	$	133
Income taxes paid (refunded)		**90**		82
Noncash items:				
Reduction of secured borrowing and related collateral	**$**	**103**	$	32
Loans transferred to portfolio from held for sale				10
Loans transferred to held for sale from portfolio		**16**		5
Loans transferred to OREO		**12**		9

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 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 2014 Form 10-K refer to our Form 10-K for the year ended December 31, 2014, which was filed with the U.S. Securities and Exchange Commission and is available on its website (www.sec.gov) and on our website (www.key.com/ir).

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.
BHCs: Bank holding companies.
Board: KeyCorp Board of Directors.
CCAR: Comprehensive Capital Analysis and Review.
CMBS: Commercial mortgage-backed securities.
CMO: Collateralized mortgage obligation.
Common shares: KeyCorp common shares, $1 par value.
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
EBITDA: Earnings before interest, taxes, depreciation, and amortization.
EPS: Earnings per share.
ERM: Enterprise risk management.
EVE: Economic value of equity.
FASB: Financial Accounting Standards Board.
FDIC: Federal Deposit Insurance Corporation.
Federal Reserve: Board of Governors of the Federal Reserve System.
FHLMC: Federal Home Loan Mortgage Corporation.
LCR: Liquidity coverage ratio.
LIBOR: London Interbank Offered Rate.
LIHTC: Low-income housing tax credit.
Moody s: Moody s Investor Services, Inc.
MRM: Market Risk Management group.
N/A: Not applicable.
NASDAQ: The NASDAQ Stock Market LLC.
N/M: Not meaningful.
NOW: Negotiable Order of Withdrawal.
NYSE: New York Stock Exchange.
OCC: Office of the Comptroller of the Currency.
OCI: Other comprehensive income (loss).
OREO: Other real estate owned.
OTTI: Other-than-temporary impairment.
PBO: Projected benefit obligation.
PCI: Purchased credit impaired.
S&P: Standard and Poor s Ratings Services, a Division of The McGraw-Hill Companies, Inc.
SEC: U.S. Securities and Exchange Commission.
Series A Preferred Stock: KeyCorp s 7.750% Noncumulative Perpetual Convertible Preferred Stock, Series A.
SIFIs: Systemically important financial institutions, including BHCs with total consolidated assets of at least $50 billion and nonbank financial companies designated by FSOC for supervision by the Federal Reserve.

FNMA: Federal National Mortgage Association, or Fannie Mae.
FSOC: Financial Stability Oversight Council.
GAAP: U.S. generally accepted accounting principles.
GNMA: Government National Mortgage Association.
ISDA: International Swaps and Derivatives Association.
KAHC: Key Affordable Housing Corporation.
KEF: Key Equipment Finance.
KREEC: Key Real Estate Equity Capital, Inc.
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.

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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.

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 (principal investing entities and Real Estate Capital line of business) 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 2014 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 2015

Troubled debt restructurings. In August 2014, the FASB issued new accounting guidance that clarifies how to account for certain government-guaranteed mortgage loans upon foreclosure. This accounting guidance was effective for reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us) and could be implemented using either a modified retrospective method or a prospective method. Early adoption was permitted. We elected to implement the new accounting guidance using a prospective approach. The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations.

Transfers and servicing of financial assets. In June 2014, the FASB issued new accounting guidance that applies secured borrowing accounting to repurchase-to-maturity transactions and linked repurchase financings and expands disclosure requirements. This accounting guidance was effective for interim and annual reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us) and was implemented using a cumulative-effect approach to transactions outstanding as of the effective date with no adjustment to prior periods. The disclosure for secured borrowings will be presented for annual periods beginning after December 15, 2014, and has been presented for interim periods beginning after March 15, 2015 (June 30, 2015, for us). Early adoption was not permitted. The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations.

Discontinued operations. In April 2014, the FASB issued new accounting guidance that revises the criteria for determining when disposals should be reported as discontinued operations and modifies the disclosure requirements. This accounting guidance was effective prospectively for reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us). Early adoption was permitted. The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations.

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Investments in qualified affordable housing projects. In January 2014, the FASB issued new accounting guidance that modifies the conditions that must be met to make an election to account for investments in qualified affordable housing projects using the proportional amortization method or the practical expedient method to the proportional amortization method. This accounting guidance was effective retrospectively for reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us). Early adoption was permitted. We elected to amortize our LIHTCs under the practical expedient method to the proportional amortization method. As our LIHTCs were previously accounted for under the effective yield method and related amortization expense was previously classified as income taxes in our Consolidated Statements of Income, the adoption of this accounting guidance did not have a material effect on our financial condition or results of operations. We provide additional information regarding our LIHTCs in Note 9.

Troubled debt restructurings. In January 2014, the FASB issued new accounting guidance that clarifies the definition of when an in substance repossession or foreclosure occurs for purposes of creditor reclassification of residential real estate collateralized consumer mortgage loans by derecognizing the loan and recognizing the collateral asset. This accounting guidance was effective for reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us) and could be implemented using either a modified retrospective method or prospective method. Early adoption was permitted. We elected to implement the new accounting guidance using a prospective approach. The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations. We provide the disclosure related to consumer residential mortgages required by this new accounting guidance in Note 4 (Asset Quality).

Accounting Guidance Pending Adoption at June 30, 2015

Fair value measurement. In May 2015, the FASB issued new disclosure guidance that eliminates the requirement to categorize investments measured using the net asset value practical expedient in the fair value hierarchy table. Entities will be required to disclose the fair value of investments measured using the net asset value practical expedient so that financial statement users can reconcile amounts reported in the fair value hierarchy table to amounts reported on the balance sheet. This disclosure will be presented for interim and annual reporting periods beginning after December 15, 2015 (March 31, 2016, for us) on a retrospective basis. Early adoption is permitted. The adoption of this disclosure guidance will not affect our financial condition or results of operations.

Cloud computing fees. In April 2015, the FASB issued new accounting guidance that clarifies a customer s accounting for fees paid in a cloud computing arrangement. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and can be implemented using either a prospective method or a retrospective method. Early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

Imputation of interest. In April 2015, the FASB issued new accounting guidance that requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and should be implemented using a retrospective method. Early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

Consolidation. In February 2015, the FASB issued new accounting guidance that changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The new guidance amends the current accounting guidance to address limited partnerships and similar legal entities, certain investment funds, fees paid to a decision maker or service provider, and the impact of fee arrangements and related parties on the primary beneficiary determination. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and should be implemented using a modified retrospective basis. Retrospective application to all relevant prior periods and early adoption is permitted. We are currently evaluating the impact that this accounting guidance may have on our financial condition or results of operations.

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Derivatives and hedging. In November 2014, the FASB issued new accounting guidance that clarifies how current guidance should be interpreted when evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. An entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, when evaluating the nature of a host contract. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and should be implemented using a modified retrospective basis. Retrospective application to all relevant prior periods and early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

Going concern. In August 2014, the FASB issued new accounting guidance that requires management to perform interim and annual assessments of an entity s ability to continue as a going concern within one year of the date the financial statements are issued. Disclosure is required when conditions or events raise substantial doubt about an entity s ability to continue as a going concern. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us). Early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

Consolidation. In August 2014, the FASB issued new accounting guidance that clarifies how to measure the financial assets and the financial liabilities of a consolidated collateralized financing entity. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and can be implemented using either a retrospective method or a cumulative-effect approach. Early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

Stock-based compensation. In June 2014, the FASB issued new accounting guidance that clarifies how to account for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and can be implemented using either a retrospective method or a prospective method. Early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

Revenue recognition. In May 2014, the FASB issued new accounting guidance that revises the criteria for determining when to recognize revenue from contracts with customers and expands disclosure requirements. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us) and can be implemented using either a retrospective method or a cumulative-effect approach. In July 2015, the FASB agreed to defer implementation of the new revenue recognition accounting guidance by one year; the FASB has not yet issued the guidance regarding the deferral of the effective date. Based on the FASB s decision, the accounting guidance would be effective for interim and annual reporting periods beginning after December 15, 2017 (effective January 1, 2018, for us). Under the issued accounting guidance, early adoption is not permitted; however, the FASB agreed to allow early adoption with the decision to defer the effective date for the accounting guidance. We have elected to implement this new accounting guidance using a cumulative-effect approach. Our preliminary analysis suggests that the adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations. There are many aspects of this new accounting guidance that are still being interpreted, and the FASB has recently proposed updates to certain aspects of the guidance. Therefore, the results of our materiality analysis may change based on the conclusions reached as to the application of the new guidance.

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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.

Our basic and diluted earnings per common share are calculated as follows:

	Three months ended June 30,		**Six months ended June 30,**	
dollars in millions, except per share amounts	**2015**	**2014**	**2015**	**2014**
EARNINGS				
Income (loss) from continuing operations	**$ 236**	$ 253	**$ 466**	$ 491
Less: Net income (loss) attributable to noncontrolling interests	**1**	6	**3**	6
Income (loss) from continuing operations attributable to Key	**235**	247	**463**	485
Less: Dividends on Series A Preferred Stock	**5**	5	**11**	11
Income (loss) from continuing operations attributable to Key common shareholders	**230**	242	**452**	474
Income (loss) from discontinued operations, net of taxes [(a)]	**3**	(28)	**8**	(24)
Net income (loss) attributable to Key common shareholders	**$ 233**	$ 214	**$ 460**	$ 450
WEIGHTED-AVERAGE COMMON SHARES				
Weighted-average common shares outstanding (000)	**839,454**	875,298	**843,992**	879,986
Effect of convertible preferred stock		20,602		
Effect of common share options and other stock awards	**6,858**	6,237	**7,695**	6,698
Weighted-average common shares and potential common shares outstanding (000) [(b)]	**846,312**	902,137	**851,687**	886,684

EARNINGS PER COMMON SHARE

Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.27**	$	.28	**$**	**.53**	$	.54
Income (loss) from discontinued operations, net of taxes [a]				(.03)		**.01**		(.03)
Net income (loss) attributable to Key common shareholders [c]		**.28**		.24		**.54**		.51
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**$**	**.27**	$	.27	**$**	**.52**	$	.53
Income (loss) from discontinued operations, net of taxes [a]				(.03)		**.01**		(.03)
Net income (loss) attributable to Key common shareholders assuming dilution [c]		**.27**		.24		**.53**		.51

(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) Assumes conversion of common share options and other stock awards and/or convertible preferred stock, as applicable.

(c) 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	June 30, 2015	December 31, 2014	June 30, 2014
Commercial, financial and agricultural [(a)]	**$ 29,285**	$ 27,982	$ 26,327
Commercial real estate:			
Commercial mortgage	**7,874**	8,047	7,946
Construction	**1,254**	1,100	1,047
Total commercial real estate loans	**9,128**	9,147	8,993
Commercial lease financing [(b)]	**4,010**	4,252	4,241
Total commercial loans	**42,423**	41,381	39,561
Residential prime loans:			
Real estate residential mortgage	**2,252**	2,225	2,189
Home equity:			
Key Community Bank	**10,296**	10,366	10,379
Other	**236**	267	300
Total home equity loans	**10,532**	10,633	10,679
Total residential prime loans	**12,784**	12,858	12,868
Consumer other Key Community Bank	**1,595**	1,560	1,514
Credit cards	**753**	754	718
Consumer other:			
Marine	**673**	779	888
Other	**36**	49	51
Total consumer other	**709**	828	939
Total consumer loans	**15,841**	16,000	16,039
Total loans [(c)] [(d)]	**$ 58,264**	$ 57,381	$ 55,600

(a) Loan balances include $89 million, $88 million, and $94 million of commercial credit card balances at June 30, 2015, December 31, 2014, and June 30, 2014, respectively.

(b) Commercial lease financing includes receivables held as collateral for a secured borrowing of $191 million, $302 million, and $375 million at June 30, 2015, December 31, 2014, and June 30, 2014, respectively. Principal reductions are based on the cash payments received from these related receivables. Additional information pertaining to this secured borrowing is included in Note 18 (Long-Term Debt) beginning on page 202 of our 2014 Form 10-K.

(c)

At June 30, 2015, total loans include purchased loans of $125 million, of which $12 million were PCI loans. At December 31, 2014, total loans include purchased loans of $138 million, of which $13 million were PCI loans. At June 30, 2014, total loans include purchased loans of $151 million, of which $15 million were PCI loans.

(d) Total loans exclude loans of $2 billion at June 30, 2015, $2.3 billion at December 31, 2014, and $4.2 billion at June 30, 2014, related to the discontinued operations of the education lending business. Additional information pertaining to these loans is provided in Note 11 (Acquisitions and Discontinued Operations).

Our loans held for sale are summarized as follows:

in millions	**June 30, 2015**	December 31, 2014	June 30, 2014
Commercial, financial and agricultural	**$ 217**	$ 63	$ 181
Real estate commercial mortgage	**576**	638	221
Commercial lease financing	**7**	15	10
Real estate residential mortgage	**35**	18	23
Total loans held for sale [(a)]	**$ 835**	$ 734	$ 435

(a) Total loans held for sale exclude loans held for sale of $179 million at June 30, 2015, related to the discontinued operations of the education lending business. Additional information pertaining to these loans is provided in Note 11.

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

in millions	**June 30, 2015**	December 31, 2014	June 30, 2014
Balance at beginning of the period	**$ 1,649**	$ 784	$ 401
New originations	**1,650**	2,465	978
Transfers from (to) held to maturity, net	**6**	2	(8)
Loan sales	**(2,466)**	(2,516)	(934)
Loan draws (payments), net	**(4)**	(1)	(2)
Balance at end of period [(a)]	**$ 835**	$ 734	$ 435

(a) Total loans held for sale exclude loans held for sale of $179 million at June 30, 2015, related to the discontinued operations of the education lending business. Additional information pertaining to these loans is provided in Note 11.

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4. Asset Quality

We assess the credit quality of the loan portfolio by monitoring net credit losses, levels of nonperforming assets and delinquencies, and credit quality ratings as defined by management.

Nonperforming loans are loans for which we do not accrue interest income, and include commercial and consumer loans and leases, as well as current year TDRs and nonaccruing TDR loans from prior years. Nonperforming loans do not include loans held for sale or PCI loans. Nonperforming assets include nonperforming loans, nonperforming loans held for sale, OREO, and other nonperforming assets.

Our nonperforming assets and past due loans were as follows:

in millions	**June 30, 2015**	**December 31, 2014**	**June 30, 2014**
Total nonperforming loans [a], [b]	**$ 419**	$ 418	$ 396
Nonperforming loans held for sale			1
OREO [c]	**20**	18	12
Other nonperforming assets	**1**		1
Total nonperforming assets	**$ 440**	$ 436	$ 410
Nonperforming assets from discontinued operations education lending [d]	**$ 6**	$ 11	$ 19
Restructured loans included in nonperforming loans	**$ 170**	$ 157	$ 142
Restructured loans with an allocated specific allowance [e]	**79**	82	59
Specifically allocated allowance for restructured loans [f]	**36**	34	30
Accruing loans past due 90 days or more	**$ 66**	$ 96	$ 83
Accruing loans past due 30 through 89 days	**181**	235	274

(a) Loan balances exclude $12 million, $13 million, and $15 million of PCI loans at June 30, 2015, December 31, 2014, and June 30, 2014, respectively.
(b) Includes carrying value of consumer residential mortgage loans in the process of foreclosure of approximately $116 million at June 30, 2015.
(c) Includes carrying value of foreclosed residential real estate of approximately $15 million at June 30, 2015.
(d) Restructured loans of approximately $19 million, $17 million, and $18 million are included in discontinued operations at June 30, 2015, December 31, 2014, and June 30, 2014, respectively. See Note 11 (Acquisitions and Discontinued Operations) for further discussion.
(e) Included in individually impaired loans allocated a specific allowance.
(f) 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 2012 acquisition date, the estimated gross contractual amount receivable of all PCI loans totaled $41 million. The estimated cash flows not expected to be collected (the nonaccretable amount) were $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 June 30, 2015, the outstanding unpaid principal balance and carrying value of all PCI loans was $18 million and $12 million, respectively. Changes in the accretable yield during the first six months of 2015 included accretion and net reclassifications of less than $1 million, resulting in an ending balance of $5 million at June 30, 2015.

At June 30, 2015, the approximate carrying amount of our commercial nonperforming loans outstanding represented 76% of their original contractual amount owed, total nonperforming loans outstanding represented 80% of their original contractual amount owed, and nonperforming assets in total were carried at 80% of their original contractual amount owed.

At June 30, 2015, our 20 largest nonperforming loans totaled $120 million, representing 29% of total loans on nonperforming status. At June 30, 2014, our 20 largest nonperforming loans totaled $55 million, representing 14% of total loans on nonperforming status.

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Nonperforming loans and loans held for sale reduced expected interest income by $8 million for the six months ended June 30, 2015, and $16 million for the year ended December 31, 2014.

The following tables set forth a further breakdown of individually impaired loans as of June 30, 2015, December 31, 2014, and June 30, 2014:

June 30, 2015 *in millions*	Recorded Investment [a]	Unpaid Principal Balance [b]	Specific Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial, financial and agricultural	$ 9	$ 56		$ 15
Commercial real estate:				
Commercial mortgage	10	14		12
Construction	7	7		7
Total commercial real estate loans	17	21		19
Total commercial loans	26	77		34
Real estate residential mortgage	22	22		22
Home equity:				
Key Community Bank	60	60		61
Other	2	2		2
Total home equity loans	62	62		63
Consumer other:				
Marine	1	1		1
Total consumer other	1	1		1
Total consumer loans	85	85		86
Total loans with no related allowance recorded	111	162		120
With an allowance recorded:				
Commercial, financial and agricultural	73	86	$ 24	67
Commercial real estate:				
Commercial mortgage	6	7	1	6
Total commercial real estate loans	6	7	1	6
Total commercial loans	79	93	25	73
Real estate residential mortgage	33	33	5	33
Home equity:				

Key Community Bank	**53**	**53**	**17**	**51**
Other	**10**	**10**	**2**	**11**
Total home equity loans	**63**	**63**	**19**	**62**
Consumer other Key Community Bank	**3**	**3**		**3**
Credit cards	**3**	**3**		**3**
Consumer other:				
Marine	**40**	**40**	**3**	**40**
Other	**2**	**2**		**2**
Total consumer other	**42**	**42**	**3**	**42**
Total consumer loans	**144**	**144**	**27**	**143**
Total loans with an allowance recorded	**223**	**237**	**52**	**216**
Total	**$ 334**	**$ 399**	**$ 52**	**$ 336**

(a) The Recorded Investment 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, 2014 *in millions*	**Recorded Investment** [(a)]	**Unpaid Principal Balance** [(b)]	**Specific Allowance**	**Average Recorded Investment**
With no related allowance recorded:				
Commercial, financial and agricultural	$ 6	$ 17		$ 8
Commercial real estate:				
Commercial mortgage	15	20		19
Construction	5	6		7
Total commercial real estate loans	20	26		26
Total commercial loans	26	43		34
Real estate residential mortgage	24	24		30
Home equity:				
Key Community Bank	62	63		63
Other	1	1		2
Total home equity loans	63	64		65
Consumer other:				
Marine	2	2		2
Total consumer other	2	2		2
Total consumer loans	89	90		97
Total loans with no related allowance recorded	115	133		131
With an allowance recorded:				
Commercial, financial and agricultural	37	37	$ 9	28
Commercial real estate:				
Commercial mortgage	6	6	2	6
Construction	3	3	1	2
Total commercial real estate loans	9	9	3	8
Total commercial loans	46	46	12	36
Real estate residential mortgage	31	31	5	25
Home equity:				
Key Community Bank	46	46	16	43
Other	11	11	2	11
Total home equity loans	57	57	18	54
Consumer other Key Community Bank	4	4		3
Credit cards	4	4		4
Consumer other:				
Marine	43	43	5	45

Other		2		2				2
Total consumer other		45		45		5		47
Total consumer loans		141		141		28		133
Total loans with an allowance recorded		187		187		40		169
Total	$	302	$	320	$	40	$	300

(a) The Recorded Investment 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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June 30, 2014 *in millions*	**Recorded Investment** [a]	**Unpaid Principal Balance** [b]	**Specific Allowance**	**Average Recorded Investment**
With no related allowance recorded:				
Commercial, financial and agricultural	$ 12	$ 18		$ 23
Commercial real estate:				
Commercial mortgage	23	28		23
Construction	6	17		6
Total commercial real estate loans	29	45		29
Total commercial loans	41	63		52
Real estate residential mortgage	25	25		26
Home equity:				
Key Community Bank	66	66		68
Other	2	2		2
Total home equity loans	68	68		70
Consumer other:				
Marine	2	2		2
Total consumer other	2	2		2
Total consumer loans	95	95		98
Total loans with no related allowance recorded	136	158		150
With an allowance recorded:				
Commercial, financial and agricultural	5	7	$ 3	6
Commercial real estate:				
Commercial mortgage	2	3	1	2
Construction				
Total commercial real estate loans	2	3	1	2
Total commercial loans	7	10	4	8
Real estate residential mortgage	29	29	5	28
Home equity:				
Key Community Bank	37	37	15	36
Other	11	11	3	11
Total home equity loans	48	48	18	47
Consumer other Key Community Bank	3	3		3
Credit cards	4	4		4
Consumer other:				
Marine	48	48	5	49

Other	1	1		1
Total consumer other	49	49	5	50
Total consumer loans	133	133	28	132
Total loans with an allowance recorded	140	143	32	140
Total	$ 276	$ 301	$ 32	$ 290

(a) The Recorded Investment 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 six months ended June 30, 2015, and June 30, 2014, interest income recognized on the outstanding balances of accruing impaired loans totaled $3 million and $4 million, respectively.

At June 30, 2015, aggregate restructured loans (accrual and nonaccrual loans) totaled $300 million, compared to $270 million at December 31, 2014, and $266 million at June 30, 2014. We added $73 million in restructured loans during the first six months of 2015, which were offset by $43 million in payments and charge-offs.

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A further breakdown of TDRs included in nonperforming loans by loan category as of June 30, 2015, follows:

June 30, 2015 *dollars in millions*	**Number of Loans**	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	**12**	**$ 74**	**$ 58**
Commercial real estate:			
Real estate commercial mortgage	**12**	**32**	**8**
Total commercial real estate loans	**12**	**32**	**8**
Total commercial loans	**24**	**106**	**66**
Real estate residential mortgage	**352**	**21**	**21**
Home equity:			
Key Community Bank	**1,076**	**77**	**70**
Other	**117**	**3**	**3**
Total home equity loans	**1,193**	**80**	**73**
Consumer other Key Community Bank	**28**	**1**	**1**
Credit cards	**289**	**2**	**2**
Consumer other:			
Marine	**104**	**8**	**7**
Other	**21**	**1**	
Total consumer other	**125**	**9**	**7**
Total consumer loans	**1,987**	**113**	**104**
Total nonperforming TDRs	**2,011**	**219**	**170**
Prior-year accruing: [(a)]			
Commercial, financial and agricultural	**14**	**6**	**3**
Commercial real estate:			
Real estate commercial mortgage	**1**	**2**	**1**
Total commercial real estate loans	**1**	**2**	**1**
Total commercial loans	**15**	**8**	**4**
Real estate residential mortgage	**491**	**36**	**36**
Home equity:			
Key Community Bank	**807**	**48**	**42**
Other	**331**	**10**	**8**
Total home equity loans	**1,138**	**58**	**50**

Consumer other Key Community Bank	**48**	**2**	**2**
Credit cards	**489**	**3**	**2**
Consumer other:			
Marine	**419**	**60**	**34**
Other	**73**	**2**	**2**
Total consumer other	**492**	**62**	**36**
Total consumer loans	**2,658**	**161**	**126**
Total prior-year accruing TDRs	**2,673**	**169**	**130**
Total TDRs	**4,684**	**$ 388**	**$ 300**

(a) All TDRs that were restructured prior to January 1, 2015, and are fully accruing.

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A further breakdown of TDRs included in nonperforming loans by loan category as of December 31, 2014, follows:

December 31, 2014 *dollars in millions*	**Number of Loans**	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	14	$ 25	$ 23
Commercial real estate:			
Real estate commercial mortgage	10	38	13
Real estate construction	1	5	
Total commercial real estate loans	11	43	13
Total commercial loans	25	68	36
Real estate residential mortgage	453	27	27
Home equity:			
Key Community Bank	1,184	79	72
Other	158	4	4
Total home equity loans	1,342	83	76
Consumer other Key Community Bank	37	2	1
Credit cards	290	2	2
Consumer other:			
Marine	206	17	14
Other	38	1	1
Total consumer other	244	18	15
Total consumer loans	2,366	132	121
Total nonperforming TDRs	2,391	200	157
Prior-year accruing: [(a)]			
Commercial, financial and agricultural	20	6	3
Commercial real estate:			
Real estate commercial mortgage	1	2	1
Total commercial real estate loans	1	2	1
Total commercial loans	21	8	4
Real estate residential mortgage	381	29	29
Home equity:			
Key Community Bank	674	41	36
Other	310	9	8

Total home equity loans	984	50	44
Consumer other Key Community Bank	45	2	2
Credit cards	514	4	2
Consumer other:			
Marine	373	54	31
Other	67	2	1
Total consumer other	440	56	32
Total consumer loans	2,364	141	109
Total prior-year accruing TDRs	2,385	149	113
Total TDRs	4,776	$ 349	$ 270

(a) All TDRs that were restructured prior to January 1, 2014, and are fully accruing.

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A further breakdown of TDRs included in nonperforming loans by loan category as of June 30, 2014, follows:

June 30, 2014 *dollars in millions*	**Number of Loans**	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	24	$ 20	$ 10
Commercial real estate:			
Real estate commercial mortgage	11	40	14
Real estate construction	3	15	2
Total commercial real estate loans	14	55	16
Total commercial loans	38	75	26
Real estate residential mortgage	521	34	34
Home equity:			
Key Community Bank	1,086	68	64
Other	126	4	3
Total home equity loans	1,212	72	67
Consumer other Key Community Bank	33	1	1
Credit cards	60		
Consumer other:			
Marine	207	15	13
Other	36	1	1
Total consumer other	243	16	14
Total consumer loans	2,069	123	116
Total nonperforming TDRs	2,107	198	142
Prior-year accruing: [(a)]			
Commercial, financial and agricultural	32	7	3
Commercial real estate:			
Real estate commercial mortgage	4	17	9
Total commercial real estate loans	4	17	9
Total commercial loans	36	24	12
Real estate residential mortgage	287	21	21
Home equity:			
Key Community Bank	759	43	39
Other	322	10	8

Total home equity loans	1,081		53		47
Consumer other Key Community Bank	54		2		2
Credit cards	653		5		3
Consumer other:					
Marine	428		60		37
Other	73		2		2
Total consumer other	501		62		39
Total consumer loans	2,576		143		112
Total prior-year accruing TDRs	2,612		167		124
Total TDRs	4,719	$	365	$	266

(a) All TDRs that were restructured prior to January 1, 2014, and are fully accruing.

We classify loan modifications as TDRs when a borrower is experiencing financial difficulties and we have granted a concession without commensurate financial, structural, or legal consideration. All commercial and consumer loan TDRs, regardless of size, are individually evaluated for impairment to determine the probable loss content and are assigned a specific loan allowance if deemed appropriate. This designation has the effect of moving the loan from the general reserve methodology (i.e., collectively evaluated) to the specific reserve methodology (i.e., individually evaluated) and may impact the ALLL through a charge-off or increased loan loss provision. These components affect the ultimate allowance level. Additional information regarding TDRs for discontinued operations is provided in Note 11.

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. During the three months ended June 30, 2015, there were no significant commercial loan TDRs, and 65 consumer loan TDRs with a combined recorded investment of $3 million that experienced payment defaults from modifications resulting in TDR status during 2014. During the three months ended June 30, 2014, there were no significant commercial loan TDRs, and 107 consumer loan TDRs with a combined recorded investment of $4 million that experienced payment defaults from modifications resulting in TDR status during 2013. As TDRs are individually evaluated for impairment under the specific reserve methodology, subsequent defaults do not generally have a significant additional impact on the ALLL.

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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 the borrower s financial needs. Our concession types are primarily interest rate reductions, forgiveness of principal, and other modifications. The commercial TDR other concession category includes modification of loan terms, covenants, or conditions. The consumer TDR other concession category primarily includes those borrowers debts that are discharged through Chapter 7 bankruptcy and have not been formally re-affirmed.

The following table shows the post-modification outstanding recorded investment by concession type for our commercial and consumer accruing and nonaccruing TDRs and other selected financial data.

in millions	**June 30, 2015**	December 31, 2014	June 30, 2014
Commercial loans:			
Interest rate reduction	**$ 60**	$ 13	$ 27
Forgiveness of principal	**2**	2	5
Other	**8**	25	6
Total	**$ 70**	$ 40	$ 38
Consumer loans:			
Interest rate reduction	**$ 142**	$ 140	$ 139
Forgiveness of principal	**4**	4	4
Other	**84**	86	85
Total	**$ 230**	$ 230	$ 228
Total commercial and consumer TDRs [(a)]	**$ 300**	$ 270	$ 266
Total loans	**58,264**	57,381	55,600

(a) Commitments outstanding to lend additional funds to borrowers whose loan terms have been modified in TDRs are $8 million, $5 million, and $1 million at June 30, 2015, December 31, 2014, and June 30, 2014, 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 beginning on page 116 of our 2014 Form 10-K.

At June 30, 2015, approximately $57.6 billion, or 98.8%, of our total loans were current, compared to $56.6 billion, or 98.7%, at December 31, 2014, and $54.8 billion, or 98.6%, at June 30, 2014. At June 30, 2015, total past due loans and nonperforming loans of $666 million represented approximately 1.2% of total loans, compared to $749 million, or 1.3%, at December 31, 2014, and $753 million, or 1.4% at June 30, 2014.

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The following aging analysis of past due and current loans as of June 30, 2015, December 31, 2014, and June 30, 2014, provides further information regarding Key s credit exposure.

June 30, 2015 *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	**$ 29,137**	**$ 26**	**$ 5**	**$ 17**	**$ 100**	**$ 148**		**$ 29,285**
Commercial real estate:								
Commercial mortgage	**7,823**	**6**	**2**	**17**	**26**	**51**		**7,874**
Construction	**1,242**				**12**	**12**		**1,254**
Total commercial real estate loans	**9,065**	**6**	**2**	**17**	**38**	**63**		**9,128**
Commercial lease financing	**3,967**	**20**	**3**	**2**	**18**	**43**		**4,010**
Total commercial loans	**$ 42,169**	**$ 52**	**$ 10**	**$ 36**	**$ 156**	**$ 254**		**$ 42,423**
Real estate residential mortgage	**$ 2,155**	**$ 13**	**$ 3**	**$ 3**	**$ 67**	**$ 86**	**$ 11**	**$ 2,252**
Home equity:								
Key Community Bank	**10,043**	**43**	**22**	**11**	**176**	**252**	**1**	**10,296**
Other	**221**	**4**	**2**	**1**	**8**	**15**		**236**
Total home equity loans	**10,264**	**47**	**24**	**12**	**184**	**267**	**1**	**10,532**
Consumer other Key Community Bank	**1,577**	**8**	**3**	**6**	**1**	**18**		**1,595**
Credit cards	**735**	**5**	**3**	**8**	**2**	**18**		**753**
Consumer other:								
Marine	**651**	**10**	**3**	**1**	**8**	**22**		**673**
Other	**35**				**1**	**1**		**36**
Total consumer other	**686**	**10**	**3**	**1**	**9**	**23**		**709**
Total consumer loans	**$ 15,417**	**$ 83**	**$ 36**	**$ 30**	**$ 263**	**$ 412**	**$ 12**	**$ 15,841**
Total loans	**$ 57,586**	**$ 135**	**$ 46**	**$ 66**	**$ 419**	**$ 666**	**$ 12**	**$ 58,264**

December 31, 2014 *in millions*	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 and Greater Days Past**	**Nonperforming Loans**	**Total Past Due and Nonperforming**	**Purchased Credit Impaired**	**Total Loans**

				Due		Loans		
LOAN TYPE								
Commercial, financial and agricultural	$ 27,858	$ 19	$ 14	$ 32	$ 59	$ 124		$ 27,982
Commercial real estate:								
Commercial mortgage	7,981	6	10	16	34	66		8,047
Construction	1,084	2		1	13	16		1,100
Total commercial real estate loans	9,065	8	10	17	47	82		9,147
Commercial lease financing	4,172	30	21	11	18	80		4,252
Total commercial loans	$ 41,095	$ 57	$ 45	$ 60	$ 124	$ 286		$ 41,381
Real estate residential mortgage	$ 2,111	$ 12	$ 7	$ 4	$ 79	$ 102	$ 12	$ 2,225
Home equity:								
Key Community Bank	10,098	46	22	14	185	267	1	10,366
Other	249	5	2	1	10	18		267
Total home equity loans	10,347	51	24	15	195	285	1	10,633
Consumer other Key Community Bank	1,541	9	3	5	2	19		1,560
Credit cards	733	6	4	9	2	21		754
Consumer other:								
Marine	746	11	5	2	15	33		779
Other	46	1		1	1	3		49
Total consumer other	792	12	5	3	16	36		828
Total consumer loans	$ 15,524	$ 90	$ 43	$ 36	$ 294	$ 463	$ 13	$ 16,000
Total loans	$ 56,619	$ 147	$ 88	$ 96	$ 418	$ 749	$ 13	$ 57,381

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June 30, 2014 *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	$ 26,212	$ 52	$ 11	$ 15	$ 37	$ 115		$ 26,327
Commercial real estate:								
Commercial mortgage	7,855	18	15	19	38	90	$ 1	7,946
Construction	1,029	2	2	5	9	18		1,047
Total commercial real estate loans	8,884	20	17	24	47	108	1	8,993
Commercial lease financing	4,186	32	4	4	15	55		