

COMERICA INC /NEW/
Form 10-Q
July 27, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

Or

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

For the transition period from _____ to _____
Commission file number 1-10706

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

Delaware	38-1998421
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Comerica Bank Tower	
1717 Main Street, MC 6404	
Dallas, Texas 75201	
(Address of principal executive offices)	
(Zip Code)	
(214) 462-6831	
(Registrant's telephone number, including area code)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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 ☒ 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.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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

\$5 par value common stock:

Outstanding as of July 24, 2015: 177,928,704 shares

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COMERICA INCORPORATED AND SUBSIDIARIES

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

Comerica Incorporated and Subsidiaries

(in millions, except share data)	June 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Cash and due from banks	\$1,148	\$1,026
Interest-bearing deposits with banks	4,817	5,045
Other short-term investments	119	99
Investment securities available-for-sale	8,267	8,116
Investment securities held-to-maturity	1,952	1,935
Commercial loans	32,723	31,520
Real estate construction loans	1,795	1,955
Commercial mortgage loans	8,674	8,604
Lease financing	786	805
International loans	1,420	1,496
Residential mortgage loans	1,865	1,831
Consumer loans	2,478	2,382
Total loans	49,741	48,593
Less allowance for loan losses	(618)	(594)
Net loans	49,123	47,999
Premises and equipment	541	532
Accrued income and other assets	3,978	4,434
Total assets	\$69,945	\$69,186
LIABILITIES AND SHAREHOLDERS' EQUITY		
Noninterest-bearing deposits	\$28,167	\$27,224
Money market and interest-bearing checking deposits	23,786	23,954
Savings deposits	1,841	1,752
Customer certificates of deposit	4,367	4,421
Foreign office time deposits	99	135
Total interest-bearing deposits	30,093	30,262
Total deposits	58,260	57,486
Short-term borrowings	56	116
Accrued expenses and other liabilities	1,265	1,507
Medium- and long-term debt	2,841	2,675
Total liabilities	62,422	61,784
Common stock - \$5 par value:		
Authorized - 325,000,000 shares		
Issued - 228,164,824 shares	1,141	1,141
Capital surplus	2,158	2,188

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Accumulated other comprehensive loss	(396) (412)
Retained earnings	6,908	6,744	
Less cost of common stock in treasury - 49,803,515 shares at 6/30/15 and 49,146,225 shares at 12/31/14	(2,288) (2,259)
Total shareholders' equity	7,523	7,402	
Total liabilities and shareholders' equity	\$69,945	\$69,186	
See notes to consolidated financial statements.			

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

Comerica Incorporated and Subsidiaries

(in millions, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
INTEREST INCOME				
Interest and fees on loans	\$389	\$385	\$767	\$761
Interest on investment securities	52	53	105	108
Interest on short-term investments	3	3	7	7
Total interest income	444	441	879	876
INTEREST EXPENSE				
Interest on deposits	11	11	22	22
Interest on medium- and long-term debt	12	14	23	28
Total interest expense	23	25	45	50
Net interest income	421	416	834	826
Provision for credit losses	47	11	61	20
Net interest income after provision for credit losses	374	405	773	806
NONINTEREST INCOME				
Service charges on deposit accounts	56	54	111	108
Fiduciary income	48	45	95	89
Commercial lending fees	22	23	47	43
Card fees	72	22	139	45
Letter of credit fees	13	15	26	29
Bank-owned life insurance	10	11	19	20
Foreign exchange income	9	12	19	21
Brokerage fees	5	4	9	9
Net securities (losses) gains	—	—	(2) 1
Other noninterest income	26	34	53	63
Total noninterest income	261	220	516	428
NONINTEREST EXPENSES				
Salaries and benefits expense	251	240	504	487
Net occupancy expense	39	39	77	79
Equipment expense	13	15	26	29
Outside processing fee expense	85	30	162	58
Software expense	24	25	47	47
Litigation-related expense	(30) 3	(29) 6
FDIC insurance expense	9	8	18	16
Advertising expense	6	5	12	11
Other noninterest expenses	39	39	78	77
Total noninterest expenses	436	404	895	810
Income before income taxes	199	221	394	424
Provision for income taxes	64	70	125	134
NET INCOME	135	151	269	290
Less income allocated to participating securities ¹		2	3	4
Net income attributable to common shares	\$134	\$149	\$266	\$286
Earnings per common share:				
Basic	\$0.76	\$0.83	\$1.51	\$1.59
Diluted	0.73	0.80	1.46	1.54

Comprehensive income	109	172	285	377
Cash dividends declared on common stock	37	36	73	71
Cash dividends declared per common share	0.21	0.20	0.41	0.39
See notes to consolidated financial statements.				

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

Comerica Incorporated and Subsidiaries

(in millions, except per share data)	Common Stock		Accumulated		Retained Earnings	Treasury Stock	Total Shareholders' Equity
	Shares Outstanding	Amount	Capital Surplus	Other Comprehensive Loss			
BALANCE AT DECEMBER 31, 2013	182.3	\$1,141	\$2,179	\$ (391)	\$6,318	\$(2,097)	\$7,150
Net income	—	—	—	—	290	—	290
Other comprehensive income, net of tax	—	—	—	87	—	—	87
Cash dividends declared on common stock (\$0.39 per share)	—	—	—	—	(71)	—	(71)
Purchase of common stock	(3.0)	—	—	—	—	(141)	(141)
Net issuance of common stock under employee stock plans	1.6	—	(25)	—	(17)	74	32
Share-based compensation	—	—	22	—	—	—	22
Other	—	—	(1)	—	—	1	—
BALANCE AT JUNE 30, 2014	180.9	\$1,141	\$2,175	\$ (304)	\$6,520	\$(2,163)	\$7,369
BALANCE AT DECEMBER 31, 2014	179.0	\$1,141	\$2,188	\$ (412)	\$6,744	\$(2,259)	\$7,402
Net income	—	—	—	—	269	—	269
Other comprehensive income, net of tax	—	—	—	16	—	—	16
Cash dividends declared on common stock (\$0.41 per share)	—	—	—	—	(73)	—	(73)
Purchase of common stock	(2.5)	—	—	—	—	(115)	(115)
Purchase and retirement of warrants	—	—	(10)	—	—	—	(10)
Net issuance of common stock under employee stock plans	0.9	—	(23)	—	(10)	43	10
Net issuance of common stock for warrants	1.0	—	(21)	—	(22)	43	—
Share-based compensation	—	—	24	—	—	—	24
BALANCE AT JUNE 30, 2015	178.4	\$1,141	\$2,158	\$ (396)	\$6,908	\$(2,288)	\$7,523

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Comerica Incorporated and Subsidiaries

	Six Months Ended June 30,	
(in millions)	2015	2014
OPERATING ACTIVITIES		
Net income	\$269	\$290
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	61	20
Benefit for deferred income taxes	(25)	(13)
Depreciation and amortization	60	61
Net periodic defined benefit cost	23	19
Share-based compensation expense	24	22
Net amortization of securities	8	5
Accretion of loan purchase discount	(4)	(22)
Net securities losses (gains)	2	(1)
Net gains on sales of foreclosed property	(1)	(2)
Excess tax benefits from share-based compensation arrangements	(3)	(6)
Net change in:		
Trading securities	—	5
Accrued income receivable	(4)	(1)
Accrued expenses payable	(83)	(60)
Other, net	67	29
Net cash provided by operating activities	394	346
INVESTING ACTIVITIES		
Investment securities available-for-sale:		
Maturities and redemptions	842	825
Sales	37	—
Purchases	(1,055)	(940)
Investment securities held-to-maturity:		
Maturities and redemptions	153	—
Purchases	(166)	—
Net change in loans	(1,188)	(2,422)
Proceeds from sales of foreclosed property	5	9
Net increase in premises and equipment	(54)	(31)
Sales of Federal Home Loan Bank stock	—	41
Other, net	2	1
Net cash used in investing activities	(1,424)	(2,517)
FINANCING ACTIVITIES		
Net change in:		
Deposits	971	763
Short-term borrowings	(60)	(77)
Medium- and long-term debt:		
Maturities and redemptions	(306)	(1,256)
Issuances	497	349
Common stock:		
Repurchases	(115)	(141)
Cash dividends paid	(72)	(65)
Issuances under employee stock plans	18	36

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Purchase and retirement of warrants	(10) —	
Excess tax benefits from share-based compensation arrangements	3	6	
Other, net	(2) (1)
Net cash provided by (used in) financing activities	924	(386)
Net decrease in cash and cash equivalents	(106) (2,557)
Cash and cash equivalents at beginning of period	6,071	6,451	
Cash and cash equivalents at end of period	\$5,965	\$3,894	
Interest paid	\$45	\$50	
Income tax (refunds received) paid	(11) 110	
Noncash investing and financing activities:			
Loans transferred to other real estate	4	11	
Loans transferred from portfolio to held-for-sale	19	—	
See notes to consolidated financial statements.			

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

NOTE 1 - BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Organization

The accompanying unaudited consolidated financial statements were prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation were included. The results of operations for the six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. Certain items in prior periods were reclassified to conform to the current presentation. For further information, refer to the consolidated financial statements and footnotes thereto included in the Annual Report of Comerica Incorporated and Subsidiaries (the Corporation) on Form 10-K for the year ended December 31, 2014.

Revenue Recognition

In the first quarter 2015, the Corporation entered into a new contract for an existing debit card program. Guidance provided in Accounting Standards Code 605-45, "Principal Agent Considerations," indicates whether revenue should be reported gross or net for this type of arrangement. Management assessed various principal versus agent indicators provided in the guidance and concluded that the Corporation bears the risks and rewards of providing the services for the card program based on the new contract terms and, therefore, gross presentation of revenues and expenses is appropriate. This change in presentation resulted in increases of \$44 million and \$88 million to both "card fees" in noninterest income and "outside processing fee expense" in noninterest expenses for the three- and six-month periods ended June 30, 2015, respectively.

Recently Adopted Accounting Pronouncements

Effective January 1, 2015, the Corporation prospectively adopted Accounting Standards Update (ASU) No. 2014-04, "Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure," (ASU 2014-04), which clarifies when an in-substance foreclosure or repossession of residential real estate property occurs, requiring a creditor to reclassify the loan to other real estate. According to ASU 2014-04, a consumer mortgage loan should be reclassified to other real estate either upon the creditor obtaining legal title to the real estate collateral or when the borrower voluntarily conveys all interest in the real estate property to the creditor through a deed in lieu of foreclosure or similar legal agreement. ASU 2014-04 also clarifies that a creditor that has obtained legal title to a foreclosed property should not delay reclassification when a borrower has a legal right of redemption for a period of time. The Corporation's existing accounting treatment is consistent with the new guidance, and therefore the adoption of ASU 2014-04 had no impact to the Corporation's financial condition and results of operations. Disclosures required by ASU 2014-04 are provided in Note 4.

Also effective January 1, 2015, the Corporation prospectively adopted ASU No. 2014-12, "Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period," (ASU 2014-12). The new guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The Corporation's current accounting treatment of performance conditions for employees who are or become retirement eligible prior to the achievement of the performance target is consistent with ASU 2014-12, and as such the adoption of ASU 2014-12 had no impact to the Corporation's financial condition and results of operations.

In the second quarter 2015, the Corporation early adopted ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30)," which amends the presentation of debt issuance costs in the balance sheet as a direct deduction from the carrying amount of the related debt liability rather than as a deferred charge. The new guidance was retrospectively applied, which resulted in a decrease of \$4 million to both "accrued income and other assets" and "medium- and long-term debt" on the consolidated balance sheets as of December 31, 2014. Unamortized debt issuance costs

deducted from the carrying amount of medium- and long-term debt totaled \$6 million at June 30, 2015.

Pending Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," (ASU 2014-09), which is intended to improve and converge the financial reporting requirements for revenue contracts with customers. Previous GAAP comprised broad revenue recognition concepts along with numerous industry-specific requirements. The new guidance establishes a five-step model which entities must follow to recognize revenue and removes inconsistencies and weaknesses in existing guidance. The guidance under ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2017 and must be retrospectively applied. Entities will have the option of presenting

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

prior periods as impacted by the new guidance or presenting the cumulative effect of initial application along with supplementary disclosures. Early adoption is permitted, but not before annual and interim periods beginning after December 15, 2016. The Corporation is currently evaluating the impact of adopting ASU 2014-09.

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis," (ASU 2015-02), which makes targeted amendments to the considerations applied by reporting entities when determining if a legal entity should be consolidated, including placing more emphasis on risk of loss when determining a controlling financial interest. Low-income housing tax credit investments that meet the criteria for the proportional amortization method are not impacted by these amendments. ASU 2015-02 is effective for annual and interim periods beginning after December 15, 2015, and must be retrospectively applied. Early adoption is permitted. The Corporation is currently evaluating the impact of adopting ASU 2015-02.

In April 2015, the FASB issued ASU 2015-05, "Goodwill and Other - Internal-Use Software (Subtopic 350-40)," (ASU 2015-05), which defines specific criteria entities must apply to determine if a cloud computing arrangement includes an in-substance software license. The result of the assessment will direct the entity to apply either software licensing or service contract guidance to record the related costs. ASU 2015-05 is effective for annual and interim periods beginning after December 15, 2015, and can be prospectively or retrospectively applied. Early adoption is permitted. The Corporation does not expect the adoption to have a material effect on its financial condition and results of operations.

In May 2015, the FASB issued ASU 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)," (ASU 2015-07) which amends disclosure requirements for entities that utilize net asset value per share (or its equivalent) to measure fair value as a practical expedient. The update eliminates the requirement to classify these investments within the fair value hierarchy and instead requires disclosure of sufficient information about these investments to permit reconciliation of the fair value of investments categorized within the fair value hierarchy to the investments presented in the consolidated balance sheet. ASU 2015-07 is effective for annual and interim periods beginning after December 15, 2015 and must be applied retrospectively. Early adoption is permitted. The adoption of ASU 2015-07 will have no impact on the Corporation's financial condition or results of operations.

NOTE 2 – FAIR VALUE MEASUREMENTS

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

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

Refer to Note 1 to the consolidated financial statements in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014 for further information about the fair value hierarchy, descriptions of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, as well as a description of the methods and significant assumptions used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis. When credit valuation adjustments are significant to the overall fair value of a derivative, the Corporation classifies the over-the-counter derivative valuation in Level 3 of the fair value hierarchy; otherwise, over-the-counter derivative valuations are classified in Level 2.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

ASSETS AND LIABILITIES RECORDED AT FAIR VALUE ON A RECURRING BASIS

The following tables present the recorded amount of assets and liabilities measured at fair value on a recurring basis as of June 30, 2015 and December 31, 2014.

(in millions)	Total	Level 1	Level 2	Level 3	
June 30, 2015					
Trading securities:					
Deferred compensation plan assets	\$94	\$94	\$—	\$—	
Equity and other non-debt securities	1	1	—	—	
Investment securities available-for-sale:					
U.S. Treasury and other U.S. government agency securities	732	732	—	—	
Residential mortgage-backed securities (a)	7,262	—	7,262	—	
State and municipal securities	23	—	—	23	(b)
Corporate debt securities	47	—	46	1	(b)
Equity and other non-debt securities	203	132	—	71	(b)
Total investment securities available-for-sale	8,267	864	7,308	95	
Derivative assets:					
Interest rate contracts	284	—	282	2	
Energy derivative contracts	349	—	349	—	
Foreign exchange contracts	36	—	36	—	
Warrants	3	—	—	3	
Total derivative assets	672	—	667	5	
Total assets at fair value	\$9,034	\$959	\$7,975	\$100	
Derivative liabilities:					
Interest rate contracts	\$90	\$—	\$90	\$—	
Energy derivative contracts	348	—	348	—	
Foreign exchange contracts	31	—	31	—	
Other	1	—	—	1	
Total derivative liabilities	470	—	469	1	
Deferred compensation plan liabilities	94	94	—	—	
Total liabilities at fair value	\$564	\$94	\$469	\$1	

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

(b) Auction-rate securities.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

(in millions)	Total	Level 1	Level 2	Level 3	
December 31, 2014					
Trading securities:					
Deferred compensation plan assets	\$94	\$94	\$—	\$—	
Investment securities available-for-sale:					
U.S. Treasury and other U.S. government agency securities	526	526	—	—	
Residential mortgage-backed securities (a)	7,274	—	7,274	—	
State and municipal securities	23	—	—	23	(b)
Corporate debt securities	51	—	50	1	(b)
Equity and other non-debt securities	242	130	—	112	(b)
Total investment securities available-for-sale	8,116	656	7,324	136	
Derivative assets:					
Interest rate contracts	328	—	328	—	
Energy derivative contracts	527	—	527	—	
Foreign exchange contracts	39	—	39	—	
Warrants	4	—	—	4	
Total derivative assets	898	—	894	4	
Total assets at fair value	\$9,108	\$750	\$8,218	\$140	
Derivative liabilities:					
Interest rate contracts	\$102	\$—	\$102	\$—	
Energy derivative contracts	525	—	525	—	
Foreign exchange contracts	34	—	34	—	
Other	1	—	—	1	
Total derivative liabilities	662	—	661	1	
Deferred compensation plan liabilities	94	94	—	—	
Total liabilities at fair value	\$756	\$94	\$661	\$1	

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

(b) Auction-rate securities.

There were no transfers of assets or liabilities recorded at fair value on a recurring basis into or out of Level 1, Level 2 and Level 3 fair value measurements during each of the three- and six-month periods ended June 30, 2015 and 2014.

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Notes to Consolidated Financial Statements (unaudited)

Comerica Incorporated and Subsidiaries

The following table summarizes the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three- and six-month periods ended June 30, 2015 and 2014.

(in millions)	Balance at Beginning of Period	Net Realized/Unrealized Gains (Losses) (Pretax)				Recorded in Other Comprehensive Income	Recorded in Sales	Balance at End of Period
		Realized	Unrealized					
Three Months Ended June 30, 2015								
Investment securities available-for-sale:								
State and municipal securities (a)	\$ 23	\$—	\$—		\$—		\$—	\$ 23
Corporate debt securities (a)	1	—	—		—		—	1
Equity and other non-debt securities (a)	71	—	—		—		—	71
Total investment securities available-for-sale	95	—	—		—		—	95
Derivative assets:								
Interest rate contracts	11	—	(9)	(d)	—		—	2
Warrants	3	1	(d) —		—		(1)	3
Derivative liabilities:								
Other	1	—	—		—		—	1
Three Months Ended June 30, 2014								
Investment securities available-for-sale:								
State and municipal securities (a)	\$ 23	\$—	\$—		\$—		\$—	\$ 23
Corporate debt securities (a)	1	—	—		—		—	1
Equity and other non-debt securities (a)	118	—	—		1	(b)	(1)	118
Total investment securities available-for-sale	142	—	—		1	(b)	(1)	142
Derivative assets:								
Warrants	3	4	(d) —		—		(3)	4
Derivative liabilities:								
Other	2	—	—		—		—	2
Six Months Ended June 30, 2015								
Investment securities available-for-sale:								
State and municipal securities (a)	\$ 23	\$—	\$—		\$—		\$—	\$ 23
Corporate debt securities (a)	1	—	—		—		—	1
Equity and other non-debt securities (a)	112	(2)	(c) —		1	(b)	(40)	71
Total investment securities available-for-sale	136	(2)	(c) —		1	(b)	(40)	95
Derivative assets:								
Interest rate contracts	—	—	2	(d)	—		—	2
Warrants	4	1	(d) (1)	(d)	—		(1)	3
Derivative liabilities:								
Other	1	—	—		—		—	1
Six Months Ended June 30, 2014								
Investment securities available-for-sale:								
State and municipal securities (a)	\$ 22	\$—	\$—		\$ 1	(b)	\$—	\$ 23
Corporate debt securities (a)	1	—	—		—		—	1
Equity and other non-debt securities (a)	136	1	(c) —		6	(b)	(25)	118
Total investment securities available-for-sale	159	1	(c) —		7	(b)	(25)	142

Derivative assets:

Warrants	3	4	(d) 1	(d) —	(4) 4
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Derivative liabilities:

Other	2	—	—	—	— 2
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(a) Auction-rate securities.

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

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

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

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Comerica Incorporated and Subsidiaries

ASSETS AND LIABILITIES RECORDED AT FAIR VALUE ON A NONRECURRING BASIS

The Corporation may be required, from time to time, to record certain assets and liabilities at fair value on a nonrecurring basis. These include assets that are recorded at the lower of cost or fair value that were recognized at fair value below cost at the end of the period. All assets recorded at fair value on a nonrecurring basis were classified as Level 3 at June 30, 2015 and December 31, 2014 and are presented in the following table. No liabilities were recorded at fair value on a nonrecurring basis at June 30, 2015 and December 31, 2014.

(in millions)	Level 3
June 30, 2015	
Loans:	
Commercial	\$18
Commercial mortgage	12
International	8
Total loans	38
Nonmarketable equity securities	1
Other real estate	4
Total assets at fair value	\$43
December 31, 2014	
Loans:	
Commercial	\$38
Commercial mortgage	26
Total loans	64
Nonmarketable equity securities	2
Other real estate	2
Total assets at fair value	\$68

Level 3 assets recorded at fair value on a nonrecurring basis at June 30, 2015 and December 31, 2014 included loans for which a specific allowance was established based on the fair value of collateral and other real estate for which fair value of the properties was less than the cost basis. For both asset classes, the unobservable inputs were the additional adjustments applied by management to the appraised values to reflect such factors as non-current appraisals and revisions to estimated time to sell. These adjustments are determined based on qualitative judgments made by management on a case-by-case basis and are not quantifiable inputs, although they are used in the determination of fair value.

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

	Fair Value (in millions)	Discounted Cash Flow Model Unobservable Input	
		Discount Rate	Workout Period (in years)
June 30, 2015			
State and municipal securities (a)	\$23	3% - 8%	1 - 2
Equity and other non-debt securities (a)	71	4% - 8%	1
December 31, 2014			

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State and municipal securities (a)	\$23	3% - 9%	1 - 3
Equity and other non-debt securities (a)	112	4% - 8%	1 - 2
(a) Auction-rate securities.			

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Comerica Incorporated and Subsidiaries

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

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

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

(in millions)	Carrying Amount	Estimated Fair Value Total	Level 1	Level 2	Level 3
June 30, 2015					
Assets					
Cash and due from banks	\$ 1,148	\$ 1,148	\$ 1,148	\$—	\$—
Interest-bearing deposits with banks	4,817	4,817	4,817	—	—
Investment securities held-to-maturity	1,952	1,946	—	1,946	—
Loans held-for-sale	25	25	—	25	—
Total loans, net of allowance for loan losses (a)	49,123	49,009	—	—	49,009
Customers' liability on acceptances outstanding	8	8	8	—	—
Nonmarketable equity securities (b)	11	18	—	—	18
Restricted equity investments	92	92	92	—	—
Liabilities					
Demand deposits (noninterest-bearing)	28,167	28,167	—	28,167	—
Interest-bearing deposits	25,726	25,726	—	25,726	—
Customer certificates of deposit	4,367	4,357	—	4,357	—
Total deposits	58,260	58,250	—	58,250	—
Short-term borrowings	56	56	56	—	—
Acceptances outstanding	8	8	8	—	—
Medium- and long-term debt	2,841	2,835	—	2,835	—
Credit-related financial instruments	(95)	(95)	—	—	(95)
December 31, 2014					
Assets					
Cash and due from banks	\$ 1,026	\$ 1,026	\$ 1,026	\$—	\$—
Interest-bearing deposits with banks	5,045	5,045	5,045	—	—
Investment securities held-to-maturity	1,935	1,933	—	1,933	—
Loans held-for-sale	5	5	—	5	—
Total loans, net of allowance for loan losses (a)	47,999	47,932	—	—	47,932
Customers' liability on acceptances outstanding	10	10	10	—	—
Nonmarketable equity securities (b)	11	18	—	—	18
Restricted equity investments	92	92	92	—	—
Liabilities					
Demand deposits (noninterest-bearing)	27,224	27,224	—	27,224	—
Interest-bearing deposits	25,841	25,841	—	25,841	—
Customer certificates of deposit	4,421	4,411	—	4,411	—
Total deposits	57,486	57,476	—	57,476	—
Short-term borrowings	116	116	116	—	—

Acceptances outstanding	10	10	10	—	—	
Medium- and long-term debt	2,675	2,681	—	2,681	—	
Credit-related financial instruments	(85) (85) —	—	(85)

(a) Included \$38 million and \$64 million of impaired loans recorded at fair value on a nonrecurring basis at June 30, 2015 and December 31, 2014, respectively.

(b) Included \$1 million and \$2 million of nonmarketable equity securities recorded at fair value on a nonrecurring basis at June 30, 2015 and December 31, 2014, respectively.

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Comerica Incorporated and Subsidiaries

NOTE 3 - INVESTMENT SECURITIES

A summary of the Corporation's investment securities follows:

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2015				
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	\$729	\$4	\$1	\$732
Residential mortgage-backed securities (a)	7,200	106	44	7,262
State and municipal securities	24	—	1	23
Corporate debt securities	47	—	—	47
Equity and other non-debt securities	201	2	—	203
Total investment securities available-for-sale (b)	\$8,201	\$112	\$46	\$8,267
Investment securities held-to-maturity (c):				
Residential mortgage-backed securities (a)	\$1,952	\$2	\$8	\$1,946
December 31, 2014				
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government agency securities	\$526	\$—	\$—	\$526
Residential mortgage-backed securities (a)	7,192	122	40	7,274
State and municipal securities	24	—	1	23
Corporate debt securities	51	—	—	51
Equity and other non-debt securities	242	1	1	242
Total investment securities available-for-sale (b)	\$8,035	\$123	\$42	\$8,116
Investment securities held-to-maturity (c):				
Residential mortgage-backed securities (a)	\$1,935	\$—	\$2	\$1,933

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

(b) Included auction-rate securities at amortized cost and fair value of \$95 million as of June 30, 2015 and \$137 million and \$136 million, respectively, as of December 31, 2014.

The amortized cost of investment securities held-to-maturity included net unrealized losses of \$19 million at (c) June 30, 2015 and \$23 million at December 31, 2014 related to securities transferred to available-for-sale, which are included in accumulated other comprehensive loss.

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A summary of the Corporation's investment securities in an unrealized loss position as of June 30, 2015 and December 31, 2014 follows:

(in millions)	Temporarily Impaired		12 Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2015						
U.S. Treasury and other U.S. government agency securities	\$212	\$1	\$—	\$—	\$212	\$1
Residential mortgage-backed securities (b)	1,637	15	2,188	59	3,825	74
State and municipal securities (c)	—	—	23	1	23	1
Corporate debt securities (c)	—	—	1	—	(a) 1	— (a)
Total temporarily impaired securities	\$1,849	\$16	\$2,212	\$60	\$4,061	\$76
December 31, 2014						
U.S. Treasury and other U.S. government agency securities	\$298	\$— (a)	\$—	\$—	\$298	\$— (a)
Residential mortgage-backed securities (b)	626	3	3,112	71	3,738	74
State and municipal securities (c)	—	—	22	1	22	1
Corporate debt securities (c)	—	—	1	—	(a) 1	— (a)
Equity and other non-debt securities (c)	—	—	112	1	112	1
Total temporarily impaired securities	\$924	\$3	\$3,247	\$73	\$4,171	\$76

(a) Unrealized losses less than \$0.5 million.

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

(c) Auction-rate securities.

At June 30, 2015, the Corporation had 112 securities in an unrealized loss position with no credit impairment, including 93 residential mortgage-backed securities, 17 state and municipal auction-rate securities, one corporate auction-rate debt security and one U.S. Treasury security. As of June 30, 2015, approximately 93 percent of the aggregate par value of auction-rate securities have been redeemed or sold since acquisition, of which approximately 92 percent were redeemed at or above cost. The unrealized losses for these securities resulted from changes in market interest rates and liquidity. The Corporation ultimately expects full collection of the carrying amount of these securities, does not intend to sell the securities in an unrealized loss position, and it is not more-likely-than-not that the Corporation will be required to sell the securities in an unrealized loss position prior to recovery of amortized cost. The Corporation does not consider these securities to be other-than-temporarily impaired at June 30, 2015.

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

(in millions)	Six Months Ended June 30,	
	2015	2014
Securities gains	\$—	\$1
Securities losses	(2) —
Net securities (losses) gains	\$(2) \$1

There were no securities gains or losses for both the three-month periods ended June 30, 2015 and 2014.

The following table summarizes the amortized cost and fair values of debt securities by contractual maturity.

Securities with multiple maturity dates are classified in the period of final maturity. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(in millions)	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
June 30, 2015				
Contractual maturity				
Within one year	\$78	\$78	\$—	\$—
After one year through five years	710	712	—	—
After five years through ten years	883	923	—	—
After ten years	6,329	6,351	1,952	1,946
Subtotal	8,000	8,064	1,952	1,946
Equity and other non-debt securities	201	203		
Total investment securities	\$8,201	\$8,267	\$1,952	\$1,946

Included in the contractual maturity distribution in the table above were residential mortgage-backed securities available-for-sale with total amortized cost and fair value of \$7.2 billion and \$7.3 billion, respectively, and residential mortgage-backed securities held-to-maturity with a total amortized cost and fair value of \$2.0 billion and \$1.9 billion, respectively. The actual cash flows of mortgage-backed securities may differ from contractual maturity as the borrowers of the underlying loans may exercise prepayment options.

At June 30, 2015, investment securities with a carrying value of \$2.8 billion were pledged where permitted or required by law to secure \$2.2 billion of liabilities, primarily public and other deposits of state and local government agencies and derivative instruments.

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Comerica Incorporated and Subsidiaries

NOTE 4 – CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

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

(in millions)	Loans Past Due and Still Accruing				Nonaccrual Loans	Current Loans	Total Loans
	30-59 Days	60-89 Days	90 Days or More	Total			
June 30, 2015							
Business loans:							
Commercial	\$45	\$3	\$7	\$55	\$186	\$32,482	\$32,723
Real estate construction:							
Commercial Real Estate business line (a)	2	—	—	2	—	1,500	1,502
Other business lines (b)	—	—	8	8	1	284	293
Total real estate construction	2	—	8	10	1	1,784	1,795
Commercial mortgage:							
Commercial Real Estate business line (a)	3	—	—	3	18	1,907	1,928
Other business lines (b)	14	5	2	21	59		