Discover Financial Services
Form 10-Q
October 28, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

x	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended September 30, 2014
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from to

Commission File Number 001-33378
DISCOVER FINANCIAL SERVICES
(Exact name of registrant as specified in its charter)

Delaware	36-2517428
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2500 Lake Cook Road, Riverwoods, Illinois 60015	(224) 405-0900
(Address of principal executive offices, including zip code)	(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

As of October 24, 2014, there were 453,479,765 shares of the registrant's Common Stock, par value $0.01 per share, outstanding.

DISCOVER FINANCIAL SERVICES
Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2014
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Except as otherwise indicated or unless the context otherwise requires, “Discover Financial Services,” “Discover,” “DFS,” “we,” “us,” “our,” and “the Company” refer to Discover Financial Services and its subsidiaries.
We own or have rights to use the trademarks, trade names and service marks that we use in conjunction with the operation of our business, including, but not limited to: Discover®, PULSE®, Cashback Bonus®, Discover Cashback Checking℠, Discover® More® Card, Discover it®, Discover® Motiva℠ Card, Discover® Open Road® Card, Discover® Network and Diners Club International®. All other trademarks, trade names and service marks included in this quarterly report on Form 10-Q are the property of their respective owners.

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements
DISCOVER FINANCIAL SERVICES
Condensed Consolidated Statements of Financial Condition

	September 30, 2014 (unaudited)	December 31, 2013
	(dollars in millions, except share amounts)	
Assets		
Cash and cash equivalents	$7,382	$ 6,554
Restricted cash	103	182
Investment securities:		
Available-for-sale (amortized cost of $3,881 and $4,900 at September 30, 2014 and December 31, 2013, respectively)	3,913	4,931
Held-to-maturity (fair value of $82 and $58 at September 30, 2014 and December 31, 2013, respectively)	82	60
Total investment securities	3,995	4,991
Loan receivables:		
Mortgage loans held for sale, measured at fair value	148	148
Loan portfolio:		
Credit card	53,699	53,150
Other	9,731	8,295
Purchased credit-impaired loans	3,788	4,178
Total loan portfolio	67,218	65,623
Total loan receivables	67,366	65,771
Allowance for loan losses	(1,644)	(1,648)
Net loan receivables	65,722	64,123
Premises and equipment, net	661	654
Goodwill	284	284
Intangible assets, net	177	185
Other assets	2,272	2,367
Total assets	$80,596	$ 79,340
Liabilities and Stockholders' Equity		
Deposits:		
Interest-bearing deposit accounts	$45,177	$ 44,766
Non-interest bearing deposit accounts	205	193
Total deposits	45,382	44,959
Short-term borrowings	139	140
Long-term borrowings	20,918	20,474
Accrued expenses and other liabilities	2,856	2,958
Total liabilities	69,295	68,531
Commitments, contingencies and guarantees (Notes 8, 11 and 12)		
Stockholders' Equity:		
Common stock, par value $0.01 per share; 2,000,000,000 shares authorized; 558,160,815 and 555,349,629 shares issued at September 30, 2014 and December 31, 2013, respectively	5	5
Preferred stock, par value $0.01 per share; 200,000,000 shares authorized; 575,000 shares issued or outstanding and aggregate liquidation preference of $575 at September 30, 2014	560	560

and December 31, 2013		
Additional paid-in capital	3,775	3,687
Retained earnings	11,182	9,611
Accumulated other comprehensive loss	(70)	(68)
Treasury stock, at cost; 102,763,441 and 83,105,578 shares at September 30, 2014 and December 31, 2013, respectively	(4,151)	(2,986)
Total stockholders' equity	11,301	10,809
Total liabilities and stockholders' equity	$ 80,596	$ 79,340

The table below presents the carrying amounts of certain assets and liabilities of Discover Financial Services' consolidated variable interest entities (VIEs) which are included in the condensed consolidated statements of financial condition above. The assets in the table below include those assets that can only be used to settle obligations of the consolidated VIEs. The liabilities in the table below include third-party liabilities of consolidated VIEs only, and exclude intercompany balances that eliminate in consolidation. The liabilities also exclude amounts for which creditors have recourse to the general credit of Discover Financial Services.

	September 30, 2014 (unaudited)	December 31, 2013
	(dollars in millions)	
Assets		
Restricted cash	$ 100	$ 179
Credit card loan receivables	$ 29,505	$ 31,112
Purchased credit-impaired loans	$ 2,038	$ 2,248
Allowance for loan losses allocated to securitized loan receivables	$ (800)	$ (861)
Other assets	$ 37	$ 34
Liabilities		
Long-term borrowings	$ 16,276	$ 16,986
Accrued interest payable	$ 10	$ 9

See Notes to the Condensed Consolidated Financial Statements.

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DISCOVER FINANCIAL SERVICES
Condensed Consolidated Statements of Income

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
	(unaudited)			
	(dollars in millions, except per share amounts)			
Interest income:				
Credit card loans	$1,613	$1,513	$4,710	$4,427
Other loans	291	255	848	730
Investment securities	17	16	50	55
Other interest income	5	3	14	10
Total interest income	1,926	1,787	5,622	5,222
Interest expense:				
Deposits	153	169	457	539
Short-term borrowings	—	1	1	3
Long-term borrowings	135	108	374	331
Total interest expense	288	278	832	873
Net interest income	1,638	1,509	4,790	4,349
Provision for loan losses	354	333	986	732
Net interest income after provision for loan losses	1,284	1,176	3,804	3,617
Other income:				
Discount and interchange revenue, net	295	276	876	847
Protection products revenue	78	90	239	266
Loan fee income	85	78	248	235
Transaction processing revenue	46	46	136	146
Gain on investments	—	—	4	3
Gain on origination and sale of mortgage loans	19	25	57	127
Other income	29	38	90	122
Total other income	552	553	1,650	1,746
Other expense:				
Employee compensation and benefits	320	292	928	867
Marketing and business development	182	174	519	528
Information processing and communications	87	81	258	244
Professional fees	111	97	322	302
Premises and equipment	23	21	68	60
Other expense	104	118	313	355
Total other expense	827	783	2,408	2,356
Income before income tax expense	1,009	946	3,046	3,007
Income tax expense	365	353	1,127	1,139
Net income	$644	$593	$1,919	$1,868
Net income allocated to common stockholders	$630	$579	$1,878	$1,826
Basic earnings per common share	$1.37	$1.20	$4.03	$3.73
Diluted earnings per common share	$1.37	$1.20	$4.02	$3.72
Dividends declared per common share	$0.24	$0.20	$0.68	$0.40

See Notes to the Condensed Consolidated Financial Statements.

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DISCOVER FINANCIAL SERVICES
Condensed Consolidated Statements of Comprehensive Income

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
	(unaudited) (dollars in millions)			
Net income	$644	$593	$1,919	$1,868
Other comprehensive income (loss), net of taxes				
Unrealized (loss) gain on securities available for sale, net of tax	(9)	4	1	(38)
Unrealized gain (loss) on cash flow hedges, net of tax	12	(7)	(2)	—
Foreign currency translation adjustments, net of tax	(1)	1	(1)	1
Other comprehensive income (loss)	2	(2)	(2)	(37)
Comprehensive income	$646	$591	$1,917	$1,831

See Notes to the Condensed Consolidated Financial Statements.

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DISCOVER FINANCIAL SERVICES
Condensed Consolidated Statements of Changes in Stockholders' Equity

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
	(unaudited) (dollars in millions, shares in thousands)								
Balance at December 31, 2012	575	$560	553,351	$5	$ 3,598	$7,472	$ (72)	$(1,690)	$ 9,873
Net income	—	—	—	—	—	1,868	—	—	1,868
Other comprehensive loss	—	—	—	—	—	—	(37)	—	(37)
Purchases of treasury stock	—	—	—	—	—	—	—	(950)	(950)
Common stock issued under employee benefit plans	—	—	51	—	2	—	—	—	2
Common stock issued and stock-based compensation expense	—	—	1,875	—	71	—	—	—	71
Dividends — common stock	—	—	—	—	—	(197)	—	—	(197)
Dividends — preferred stock	—	—	—	—	—	(28)	—	—	(28)
Balance at September 30, 2013	575	$560	555,277	$5	$ 3,671	$9,115	$ (109)	$(2,640)	$ 10,602
Balance at December 31, 2013	575	$560	555,350	$5	$ 3,687	$9,611	$ (68)	$(2,986)	$ 10,809
Net income	—	—	—	—	—	1,919	—	—	1,919
Other comprehensive loss	—	—	—	—	—	—	(2)	—	(2)
Purchases of treasury stock	—	—	—	—	—	—	—	(1,165)	(1,165)
Common stock issued under employee benefit plans	—	—	45	—	3	—	—	—	3
Common stock issued and stock-based compensation expense	—	—	2,766	—	85	—	—	—	85
Dividends — common stock	—	—	—	—	—	(320)	—	—	(320)

Dividends — preferred stock	—	—	—	—	—	(28)	—	—	(28)
Balance at September 30, 2014	575	$560	558,161	$5	$ 3,775	$11,182	$ (70)	$(4,151)	$ 11,301

See Notes to the Condensed Consolidated Financial Statements.
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DISCOVER FINANCIAL SERVICES
Condensed Consolidated Statements of Cash Flows

	For the Nine Months Ended September 30,	
	2014	2013
	(unaudited) (dollars in millions)	
Cash flows from operating activities		
Net income	$1,919	$1,868
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	986	732
Deferred income taxes	76	154
Depreciation and amortization on premises and equipment	93	83
Amortization of deferred revenues	(160)	(143)
Other depreciation and amortization	181	164
Accretion of accretable yield on acquired loans	(198)	(205)
Gain on investments	(4)	(3)
Loss on equity method and other investments	19	13
Gain on origination and sale of loans	(57)	(127)
Stock-based compensation expense	46	45
Proceeds from sale of mortgage loans originated for sale	1,962	3,553
Net principal disbursed on mortgage loans originated for sale	(1,903)	(3,201)
Changes in assets and liabilities:		
Increase in other assets	(94)	(112)
Decrease in accrued expenses and other liabilities	(40)	(286)
Net cash provided by operating activities	2,826	2,535
Cash flows from investing activities		
Maturities and sales of available-for-sale investment securities	1,395	1,364
Purchases of available-for-sale investment securities	(390)	(258)
Maturities of held-to-maturity investment securities	9	27
Purchases of held-to-maturity investment securities	(31)	(1)
Net principal disbursed on loans originated for investment	(2,243)	(752)
Purchases of loan receivables	—	(136)
Purchases of other investments	(42)	(76)
Decrease in restricted cash	79	107
Purchases of premises and equipment	(102)	(177)
Net cash (used for) provided by investing activities	(1,325)	98
Cash flows from financing activities		
Net decrease in short-term borrowings	(1)	(246)
Proceeds from issuance of securitized debt	3,849	3,250
Maturities and repayment of securitized debt	(4,590)	(3,537)
Proceeds from issuance of other long-term borrowings	1,147	1,248
Payment of contingent consideration for purchase of net assets of a business, at fair value	—	(9)
Proceeds from issuance of common stock	4	12
Purchases of treasury stock	(1,165)	(950)
Net increase in deposits	431	932
Dividends paid on common and preferred stock	(348)	(294)

Net cash (used for) provided by financing activities	(673)	406
Net increase in cash and cash equivalents	828	3,039
Cash and cash equivalents, at beginning of period	6,554	2,584
Cash and cash equivalents, at end of period	$7,382	$5,623

See Notes to the Condensed Consolidated Financial Statements.

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Notes to the Condensed Consolidated Financial Statements
(unaudited)
1. Background and Basis of Presentation
Description of Business
Discover Financial Services ("DFS" or the "Company") is a direct banking and payment services company. The Company is a bank holding company under the Bank Holding Company Act of 1956 as well as a financial holding company under the Gramm-Leach-Bliley Act and therefore is subject to oversight, regulation and examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). Through its Discover Bank subsidiary, a Delaware state-chartered bank, the Company offers its customers credit card loans, private student loans, personal loans, home equity loans and deposit products. Through its Discover Home Loans, Inc. subsidiary, the Company offers its customers home loans. Through its DFS Services LLC subsidiary and its subsidiaries, the Company operates the Discover Network, the PULSE network ("PULSE") and Diners Club International ("Diners Club"). The Discover Network is a payment transaction processing network for Discover branded credit cards and credit, debit and prepaid cards, issued by third parties, which the Company refers to as network partners. PULSE operates an electronic funds transfer network, providing financial institutions issuing debit cards on the PULSE network with access to ATMs domestically and internationally, as well as point-of-sale terminals at retail locations throughout the U.S. for debit card transactions. Diners Club is a global payments network of licensees that issue Diners Club branded charge cards and/or provide card acceptance services.
The Company's business segments are Direct Banking and Payment Services. The Direct Banking segment includes consumer banking and lending products, specifically Discover branded credit cards issued to individuals and small businesses on the Discover Network and other consumer products and services, including private student loans, personal loans, home loans, home equity loans, prepaid cards and other consumer lending and deposit products. The majority of Direct Banking revenues relate to interest income earned on the segment's loan products. Additionally, the Company's credit card products generate substantially all revenues related to discount and interchange, protection products and loan fee income.
The Payment Services segment includes PULSE, Diners Club and the Company's network partners business, which includes credit, debit and prepaid cards issued on the Discover Network by third parties. This segment also includes the business operations of Diners Club Italy, which primarily consist of issuing Diners Club charge cards. The majority of Payment Services revenues relate to transaction processing revenue from PULSE and royalty and licensee revenue (included in other income) from Diners Club.
Basis of Presentation
The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, the financial statements reflect all adjustments which are necessary for a fair presentation of the results for the interim period. All such adjustments are of a normal, recurring nature. The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and related disclosures. These estimates are based on information available as of the date of the condensed consolidated financial statements. The Company believes that the estimates used in the preparation of the condensed consolidated financial statements are reasonable. Actual results could differ from these estimates. These interim condensed consolidated financial statements should be read in conjunction with the Company's 2013 audited consolidated financial statements filed with the Company's annual report on Form 10-K for the calendar year ended December 31, 2013.
Recently Issued Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance in this update supersedes existing revenue recognition requirements in Topic 605, Revenue Recognition, including an assortment of transaction-specific and industry-specific rules. The ASU establishes a principles-based model under which revenue from a contract is

allocated to the distinct performance obligations within the contract and recognized in income as each performance obligation is satisfied. ASU Topic 606 does not apply to rights or obligations associated with financial instruments (for example, interest income from loans or investments, or interest expense on debt), and therefore the Company’s net interest income should not be affected. The Company’s revenue from discount and interchange, protection products, transaction processing and certain fees are within the scope of these rules. Management has not yet completed its evaluation of the impact, if any, of the new guidance on these revenues. The new revenue recognition model will become effective for the Company on January 1, 2017. Upon adoption in 2017, the Company will record an adjustment to retained earnings as of the beginning of the year of initial application, which can be either the earliest comparative period presented, with all periods presented under the new rules, or January 1, 2017, without restating prior periods presented. Management has not yet determined which transition reporting option it will apply.

In January 2014, the FASB issued ASU No. 2014-01, Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. This standard will permit a reporting entity to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under this new method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). This treatment will replace the effective yield method currently permitted for certain investments of this kind. The Company has not historically utilized the effective yield method, and as a result, implementation of this ASU will not impact the Company’s accounting for its investments in qualified affordable housing projects unless a subsequent election is made to apply it. In addition to establishing the conditions under which the proportional amortization method can be used, the ASU calls for additional disclosures that will enable the reader to understand the nature of the investment and the effect of its measurement and related tax credits on the company’s financial position and results of operations. The new guidance is effective for annual reporting periods beginning after December 15, 2014 and interim periods within those periods, with early adoption permitted. The standard will require additional disclosure about the nature of the Company's affordable housing investments, but unless the Company subsequently elects to apply the proportional amortization model, the new guidance will have no effect on the Company’s financial condition, results of operations or cash flows.

2. Investments

The Company’s investment securities consist of the following (dollars in millions):

	September 30, 2014	December 31, 2013
U.S. Treasury securities(1)	$ 1,335	$ 2,058
U.S. government agency securities	1,038	1,561
States and political subdivisions of states	10	15
Other securities:		
Credit card asset-backed securities of other issuers	—	6
Residential mortgage-backed securities - Agency(2)	1,612	1,351
Total other securities	1,612	1,357
Total investment securities	$ 3,995	$ 4,991

(1) Includes $15 million and $9 million of U.S. Treasury securities that have been pledged as swap collateral in lieu of cash as of September 30, 2014 and December 31, 2013, respectively.

(2) Consists of residential mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae.

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The amortized cost, gross unrealized gains and losses and fair value of available-for-sale and held-to-maturity investment securities are as follows (dollars in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At September 30, 2014				
Available-for-Sale Investment Securities(1)				
U.S. Treasury securities	$1,318	$16	$—	$1,334
U.S. government agency securities	1,022	16	—	1,038
Residential mortgage-backed securities - Agency	1,541	6	(6)	1,541
Total available-for-sale investment securities	$3,881	$38	$(6)	$3,913
Held-to-Maturity Investment Securities(2)				
U.S. Treasury securities(3)	$1	$—	$—	$1
States and political subdivisions of states	10	—	—	10
Residential mortgage-backed securities - Agency(4)	71	—	—	71
Total held-to-maturity investment securities	$82	$—	$—	$82
At December 31, 2013				
Available-for-Sale Investment Securities(1)				
U.S. Treasury securities	$2,030	$27	$—	$2,057
U.S. government agency securities	1,535	26	—	1,561
Credit card asset-backed securities of other issuers	6	—	—	6
Residential mortgage-backed securities - Agency	1,329	—	(22)	1,307
Total available-for-sale investment securities	$4,900	$53	$(22)	$4,931
Held-to-Maturity Investment Securities(2)				
U.S. Treasury securities(3)	$1	$—	$—	$1
States and political subdivisions of states	15	—	(1)	14
Residential mortgage-backed securities - Agency(4)	44	—	(1)	43
Total held-to-maturity investment securities	$60	$—	$(2)	$58

(1) Available-for-sale investment securities are reported at fair value.
(2) Held-to-maturity investment securities are reported at amortized cost.
(3) Amount represents securities pledged as collateral to a government-related merchant for which transaction settlement occurs beyond the normal 24-hour period.
(4) Amounts represent residential mortgage-backed securities that were classified as held-to-maturity as they were entered into as a part of the Company's community reinvestment initiatives.

The following table provides information about investment securities with aggregate gross unrealized losses and the length of time that individual investment securities have been in a continuous unrealized loss position (dollars in millions):

	Number of Securities in a Loss Position	Less than 12 months		More than 12 months	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At September 30, 2014					
Available-for-Sale Investment Securities					
Residential mortgage-backed securities - Agency	16	$370	$(1)	$480	$(5)
At December 31, 2013					

Available-for-Sale Investment Securities					
Residential mortgage-backed securities - Agency	23	$1,097	$(20)	$48	$(2)
Held-to-Maturity Investment Securities					
State and political subdivisions of states	4	$8	$(1)	$3	$—
Residential mortgage-backed securities - Agency	2	$40	$(1)	$—	$—

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The Company records gains and losses on investment securities in other income when investments are sold or liquidated, when the Company believes an investment is other than temporarily impaired prior to the disposal of the investment, or in certain other circumstances. Gains and losses on sales of available-for-sale investment securities are calculated using the specific identification method and are recorded entirely in earnings. The Company records unrealized gains and losses on its available-for-sale investment securities in other comprehensive income. Other-than-temporary impairment for investments is calculated using the specific identification method. No gains or losses related to other-than-temporary impairments were recorded during the three and nine months ended September 30, 2014 and 2013.

The following table provides information about proceeds related to maturities and redemptions of investment securities and proceeds from sales, recognized gains and losses and net unrealized gains and losses on available-for-sale securities (dollars in millions):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Proceeds related to maturities or redemptions of investment securities	$65	$94	$184	$672
Proceeds from the sales of available-for-sale investment securities, comprised of U.S. Treasury securities and U.S. government agency securities	$—	$—	$1,220	$719
Gains on sales of available-for-sale investment securities	$—	$—	$4	$2
Net unrealized (losses) gains recorded in other comprehensive income, before-tax	$(15)	$6	$1	$(61)
Net unrealized (losses) gains recorded in other comprehensive income, after-tax	$(9)	$4	$1	$(38)

Maturities of available-for-sale debt securities and held-to-maturity debt securities at the end of the period are provided in the table below (dollars in millions):

	One Year or Less	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years	Total
At September 30, 2014					
Available-for-Sale—Amortized Cost[1]					
U.S. Treasury securities	$567	$751	$—	$—	$1,318
U.S. government agency securities	401	621	—	—	1,022
Residential mortgage-backed securities - Agency	—	—	520	1,021	1,541
Total available-for-sale investment securities	$968	$1,372	$520	$1,021	$3,881
Held-to-Maturity—Amortized Cost[2]					
U.S. Treasury securities	$1	$—	$—	$—	$1
State and political subdivisions of states	—	—	—	10	10
Residential mortgage-backed securities - Agency	—	—	—	71	71
Total held-to-maturity investment securities	$1	$—	$—	$81	$82
Available-for-Sale—Fair Values[1]					
U.S. Treasury securities	$571	$763	$—	$—	$1,334
U.S. government agency securities	406	632	—	—	1,038
Residential mortgage-backed securities - Agency	—	—	519	1,022	1,541

Total available-for-sale investment securities	$977	$1,395	$519	$1,022	$3,913
Held-to-Maturity—Fair Values(2)					
U.S. Treasury securities	$1	$—	$—	$—	$1
State and political subdivisions of states	—	—	—	10	10
Residential mortgage-backed securities - Agency	—	—	—	71	71
Total held-to-maturity investment securities	$1	$—	$—	$81	$82

(1) Available-for-sale investment securities are reported at fair value.
(2) Held-to-maturity investment securities are reported at amortized cost.

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Other Investments

As a part of the Company's community reinvestment initiatives, the Company has made equity investments in certain limited partnerships and limited liability companies that finance the construction and rehabilitation of affordable rental housing, as well as stimulate economic development in low to moderate income communities. These investments are accounted for using the equity method of accounting, and are recorded within other assets, and the related commitment for future investments is recorded in accrued expenses and other liabilities within the statement of financial condition. The portion of each investment's operating results allocable to the Company is recorded in other expense within the condensed consolidated statement of income. The Company earns a return primarily through the receipt of tax credits allocated to the affordable housing projects and the community revitalization projects. These investments are not consolidated as the Company does not have a controlling financial interest in the entities. As of September 30, 2014 and December 31, 2013, the Company had outstanding investments in these entities of $317 million and $308 million, respectively, and related contingent liabilities of $44 million and $52 million, respectively.

3. Loan Receivables

The Company has three loan portfolio segments: credit card loans, other loans and purchased credit-impaired ("PCI") student loans, as well as mortgage loans held for sale.

The Company's classes of receivables within the three portfolio segments are depicted in the table below (dollars in millions):

	September 30, 2014	December 31, 2013
Mortgage loans held for sale[(1)]	$ 148	$ 148
Loan portfolio:		
Credit card loans:		
Discover card[(2)]	53,503	52,952
Discover business card	196	198
Total credit card loans	53,699	53,150
Other loans:		
Personal loans	4,830	4,191
Private student loans	4,706	3,969
Other	195	135
Total other loans	9,731	8,295
Purchased credit-impaired loans[(3)]	3,788	4,178
Total loan portfolio	67,218	65,623
Total loan receivables	67,366	65,771
Allowance for loan losses	(1,644)	(1,648)
Net loan receivables	$ 65,722	$ 64,123

(1) Substantially all mortgage loans held for sale are pledged as collateral against the warehouse line of credit used to fund consumer residential loans.

(2) Amounts include $20.2 billion underlying investors’ interest in trust debt at September 30, 2014 and December 31, 2013, and $9.3 billion and $10.9 billion in seller's interest at September 30, 2014 and December 31, 2013, respectively. See Note 4: Credit Card and Student Loan Securitization Activities for further information.

(3) Amounts include $2.0 billion and $2.2 billion of loans pledged as collateral against the notes issued from the Student Loan Corporation ("SLC") securitization trusts at September 30, 2014 and December 31, 2013. See Note 4: Credit Card and Student Loan Securitization Activities. Of the remaining $1.8 billion and $2.0 billion at September 30, 2014 and December 31, 2013, respectively, that were not pledged as collateral, approximately $23 million and $22 million, respectively, represents loans eligible for reimbursement through an indemnification claim. Discover Bank must purchase such loans from the trust before a claim may be filed.

Credit Quality Indicators

The Company regularly reviews its collection experience (including delinquencies and net charge-offs) in determining its allowance for loan losses. Credit card and closed-end consumer loan receivables are placed on non-accrual status upon receipt of notification of the bankruptcy or death of a customer or suspected fraudulent activity on an account. Upon completion of the fraud investigation, non-fraudulent credit card and closed-end consumer loan receivables may resume accruing interest.

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Information related to the delinquent and non-accruing loans in the Company's loan portfolio, which excludes loans held for sale, is shown below by each class of loan receivables except for PCI student loans, which is shown under the heading "— Purchased Credit-Impaired Loans" (dollars in millions):

	30-89 Days Delinquent	90 or More Days Delinquent	Total Past Due	90 or More Days Delinquent and Accruing	Total Non-accruing[(1)]
At September 30, 2014					
Credit card loans:					
Discover card[(2)]	$479	$439	$918	$401	$ 164
Discover business card	1	1	2	1	1
Total credit card loans	480	440	920	402	165
Other loans:					
Personal loans[(3)]	26	10	36	9	5
Private student loans (excluding PCI)[(4)]	61	24	85	24	—
Other	—	2	2	—	24
Total other loans (excluding PCI)	87	36	123	33	29
Total loan receivables (excluding PCI)	$567	$476	$1,043	$435	$ 194
At December 31, 2013					
Credit card loans:					
Discover card[(2)]	$464	$445	$909	$406	$ 154
Discover business card	1	2	3	2	1
Total credit card loans	465	447	912	408	155
Other loans:					
Personal loans[(3)]	21	8	29	8	5
Private student loans (excluding PCI)[(4)]	48	18	66	18	—
Other	1	2	3	—	40
Total other loans (excluding PCI)	70	28	98	26	45
Total loan receivables (excluding PCI)	$535	$475	$1,010	$434	$ 200

(1) The Company estimates that the gross interest income that would have been recorded in accordance with the original terms of non-accruing credit card loans was $7 million for the three months ended September 30, 2014 and 2013 and was $20 million and $22 million for the nine months ended September 30, 2014 and 2013, respectively. The Company does not separately systematically compute the amount of gross interest income that would have been recorded in accordance with the original terms of loans. This amount was estimated based on customers' quarterly average balances and rates prior to non-accrual status.

(2) Consumer credit card loans that are 90 or more days delinquent and accruing interest include $40 million and $41 million of loans accounted for as troubled debt restructurings at September 30, 2014 and December 31, 2013, respectively.

(3) Personal loans that are 90 or more days delinquent and accruing interest include $2 million of loans accounted for as troubled debt restructurings at September 30, 2014 and December 31, 2013.

(4) Private student loans that are 90 or more days delinquent and accruing interest include $4 million and $3 million of loans accounted for as troubled debt restructurings at September 30, 2014 and December 31, 2013, respectively.

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Net Charge-offs

The Company's net charge-offs include the principal amount of loans charged off less principal recoveries and exclude charged-off interest and fees, recoveries of interest and fees and fraud losses. Charged-off and recovered interest and fees are recorded in interest income and loan fee income, respectively, which is effectively a reclassification of the loan loss provision, while fraud losses are recorded in other expense. Credit card loan receivables are charged off at the end of the month during which an account becomes 180 days contractually past due. Personal loans and private student loans, which are closed-end consumer loan receivables, are generally charged off at the end of the month during which an account becomes 120 days contractually past due. Generally, customer bankruptcies and probate accounts are charged off at the end of the month 60 days following the receipt of notification of the bankruptcy or death but not later than the 180-day or 120-day contractual time frame.

Information related to the net charge-offs in the Company's loan portfolio, which excludes loans held for sale, is shown below by each class of loan receivables except for PCI student loans, which is shown under the heading "—Purchased Credit-Impaired Loans" (dollars in millions):

	For the Three Months Ended September 30,			
	2014		2013	
	Net Charge-offs	Net Charge-off Rate	Net Charge-offs	Net Charge-off Rate
Credit card loans:				
Discover card	$288	2.16 %	$257	2.05 %
Discover business card	1	1.82 %	1	2.12 %
Total credit card loans	289	2.16 %	258	2.05 %
Other loans:				
Personal loans	23	1.92 %	20	2.01 %
Private student loans (excluding PCI)	12	1.14 %	12	1.33 %
Other	—	0.60 %	1	2.35 %
Total other loans (excluding PCI)	35	1.50 %	33	1.65 %
Net charge-offs as a percentage of total loans (excluding PCI)	$324	2.06 %	$291	2.00 %
Net charge-offs as a percentage of total loans (including PCI)	$324	1.94 %	$291	1.86 %

	For the Nine Months Ended September 30,			
	2014		2013	
	Net Charge-offs	Net Charge-off Rate	Net Charge-offs	Net Charge-off Rate
Credit card loans:				
Discover card	$880	2.27 %	$827	2.25 %
Discover business card	3	1.75 %	4	2.31 %
Total credit card loans	883	2.27 %	831	2.25 %
Other loans:				
Personal loans	66	1.98 %	58	2.18 %
Private student loans (excluding PCI)	40	1.25 %	32	1.25 %
Other	1	0.88 %	1	1.72 %
Total other loans (excluding PCI)	107	1.58 %	91	1.66 %
Net charge-offs as a percentage of total loans (excluding PCI)	$990	2.16 %	$922	2.17 %
	$990	2.03 %	$922	2.01 %

Net charge-offs as a percentage of total loans (including
PCI)

As part of credit risk management activities, on an ongoing basis the Company reviews information related to the performance of a customer’s account with the Company as well as information from credit bureaus, such as FICO or other credit scores, relating to the customer’s broader credit performance. FICO scores are generally obtained at origination of the account and are refreshed monthly or quarterly thereafter to assist in predicting customer behavior. Historically, the Company has noted that a significant proportion of delinquent accounts have FICO scores below 660.

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The following table provides the most recent FICO scores available for the Company's customers as a percentage of each class of loan receivables:

	Credit Risk Profile by FICO Score	
	660 and Above	Less than 660 or No Score
At September 30, 2014		
Discover card	83 %	17 %
Discover business card	92 %	8 %
Personal loans	97 %	3 %
Private student loans (excluding PCI)(1)	95 %	5 %
At December 31, 2013		
Discover card	83 %	17 %
Discover business card	92 %	8 %
Personal loans	97 %	3 %
Private student loans (excluding PCI)(1)	95 %	5 %

(1) PCI loans are discussed under the heading "— Purchased Credit-Impaired Loans."

For private student loans, additional credit risk management activities include monitoring the amount of loans in forbearance. Forbearance allows borrowers experiencing temporary financial difficulties, but still willing to make payments, the ability to temporarily suspend payments. Eligible borrowers have a lifetime cap on forbearance of 12 months. At September 30, 2014 and December 31, 2013, there were $44 million and $110 million of private student loans, including PCI, in forbearance, respectively. In addition, at September 30, 2014 and December 31, 2013, there were 0.8% and 1.9% of private student loans in forbearance as a percentage of student loans in repayment and forbearance, respectively. At September 30, 2014, the dollar amount of loans in forbearance and loans in forbearance as a percentage of private student loans in repayment and forbearance were lower when compared to December 31, 2013 due to the implementation of temporary reduced payment programs, which normally consist of a reduction of the minimum payment for a period of no longer than 12 months at a time. Loans in these programs are not considered to be in forbearance.

Allowance for Loan Losses

The Company maintains an allowance for loan losses at an appropriate level to absorb probable losses inherent in the loan portfolio. The Company considers the collectibility of all amounts contractually due on its loan receivables, including those components representing interest and fees. Accordingly, the allowance for loan losses represents the estimated uncollectible principal, interest and fee components of loan receivables. The allowance is evaluated monthly and is maintained through an adjustment to the provision for loan losses. Charge-offs of principal amounts of loans outstanding are deducted from the allowance and subsequent recoveries of such amounts increase the allowance. Charge-offs of loan balances representing unpaid interest and fees result in a reversal of interest and fee income, respectively, which is effectively a reclassification of provision for loan losses.

The Company bases its allowance for loan losses on several analyses that help estimate incurred losses as of the balance sheet date. While the Company's estimation process includes historical data and analysis, there is a significant amount of judgment applied in selecting inputs and analyzing the results produced by the models to determine the allowance. The Company uses a migration analysis to estimate the likelihood that a loan will progress through the various stages of delinquency. The Company uses other analyses to estimate losses incurred on non-delinquent accounts. The considerations in these analyses include past performance, risk management techniques applied to various accounts, historical behavior of different account vintages, economic conditions, recent trends in delinquencies, bankruptcy filings, account collection management, policy changes, account seasoning, loan volume and amounts, payment rates and forecasting uncertainties. The Company primarily estimates its allowance for loan losses on a pooled basis, which includes loans that are delinquent and/or no longer accruing interest and/or certain loans that have defaulted from a loan modification program, as discussed below under the section entitled "— Troubled Debt Restructurings." Certain other loans, including non-performing Diners Club licensee loans, are individually evaluated for impairment.

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The following tables provide changes in the Company's allowance for loan losses (dollars in millions):

	For the Three Months Ended September 30, 2014				
	Credit Card	Personal Loans	Student Loans	Other	Total
Balance at beginning of period	$1,359	$109	$128	$18	$1,614
Additions:					
Provision for loan losses	318	22	16	(2)	354
Deductions:					
Charge-offs	(400)	(26)	(14)	—	(440)
Recoveries	111	3	2	—	116
Net charge-offs	(289)	(23)	(12)	—	(324)
Balance at end of period	$1,388	$108	$132	$16	$1,644

	For the Three Months Ended September 30, 2013				
	Credit Card	Personal Loans	Student Loans	Other	Total
Balance at beginning of period	$1,360	$98	$82	$16	$1,556
Additions:					
Provision for loan losses	291	28	14	—	333
Deductions:					
Charge-offs	(381)	(21)	(13)	(1)	(416)
Recoveries	123	1	1	—	125
Net charge-offs	(258)	(20)	(12)	(1)	(291)
Balance at end of period	$1,393	$106	$84	$15	$1,598

	For the Nine Months Ended September 30, 2014				
	Credit Card	Personal Loans	Student Loans	Other	Total
Balance at beginning of period	$1,406	$112	$113	$17	$1,648
Additions:					
Provision for loan losses	865	62	59	—	986
Deductions:					
Charge-offs	(1,223)	(74)	(44)	(1)	(1,342)
Recoveries	340	8	4	—	352
Net charge-offs	(883)	(66)	(40)	(1)	(990)
Balance at end of period	$1,388	$108	$132	$16	$1,644

	For the Nine Months Ended September 30, 2013				
	Credit Card	Personal Loans	Student Loans	Other	Total
Balance at beginning of period	$1,613	$99	$75	$1	$1,788
Additions:					
Provision for loan losses	611	65	41	15	732
Deductions:					
Charge-offs	(1,220)	(63)	(34)	(1)	(1,318)
Recoveries	389	5	2	—	396
Net charge-offs	(831)	(58)	(32)	(1)	(922)
Balance at end of period	$1,393	$106	$84	$15	$1,598

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Net charge-offs of principal are recorded against the allowance for loan losses, as shown in the table above. Information regarding net charge-offs of interest and fee revenues on credit card and other loans is as follows (dollars in millions):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest and fees accrued subsequently charged off, net of recoveries (recorded as a reduction of interest income)	$69	$66	$211	$213
Fees accrued subsequently charged off, net of recoveries (recorded as a reduction to other income)	$16	$14	$50	$44

The following tables provide additional detail of the Company's allowance for loan losses and recorded investment in its loan portfolio (which excludes loans held for sale) by impairment methodology (dollars in millions):

	Credit Card	Personal Loans	Student Loans	Other Loans	Total
At September 30, 2014					
Allowance for loans evaluated for impairment as:					
Collectively evaluated for impairment in accordance with ASC 450-20	$1,228	$103	$94	$2	$1,427
Evaluated for impairment in accordance with ASC 310-10-35(1)(2)	160	5	10	14	189
Acquired with deteriorated credit quality, evaluated in accordance with ASC 310-30	—	—	28	—	28
Total allowance for loan losses	$1,388	$108	$132	$16	$1,644
Recorded investment in loans evaluated for impairment as:					
Collectively evaluated for impairment in accordance with ASC 450-20	$52,654	$4,779	$4,672	$133	$62,238
Evaluated for impairment in accordance with ASC 310-10-35(1)(2)	1,045	51	34	62	1,192
Acquired with deteriorated credit quality, evaluated in accordance with ASC 310-30	—	—	3,788	—	3,788
Total recorded investment	$53,699	$4,830	$8,494	$195	$67,218
At December 31, 2013					
Allowance for loans evaluated for impairment as:					
Collectively evaluated for impairment in accordance with ASC 450-20	$1,218	$109	$76	$1	$1,404
Evaluated for impairment in accordance with ASC 310-10-35(1)(2)	188	3	9	16	216
Acquired with deteriorated credit quality, evaluated in accordance with ASC 310-30	—	—	28	—	28
Total allowance for loan losses	$1,406	$112	$113	$17	$1,648
Recorded investment in loans evaluated for impairment as:					
Collectively evaluated for impairment in accordance with ASC 450-20	$52,027	$4,160	$3,941	$56	$60,184

Evaluated for impairment in accordance with ASC 310-10-35[(1)(2)]	1,123	31	28	79	1,261
Acquired with deteriorated credit quality, evaluated in accordance with ASC 310-30	—	—	4,178	—	4,178
Total recorded investment	$53,150	$4,191	$8,147	$135	$65,623

(1) Loan receivables evaluated for impairment in accordance with ASC 310-10-35 include credit card loans, personal loans and student loans collectively evaluated for impairment in accordance with ASC Subtopic 310-40, Receivables, which consists of modified loans accounted for as troubled debt restructurings. Other loans are individually evaluated for impairment and generally do not represent troubled debt restructurings.

(2) The unpaid principal balance of credit card loans was $883 million and $900 million at September 30, 2014 and December 31, 2013, respectively. The unpaid principal balance of personal loans was $51 million and $31 million at September 30, 2014 and December 31, 2013, respectively. The unpaid principal balance of student loans was $33 million and $26 million at September 30, 2014 and December 31, 2013, respectively. All loans accounted for as troubled debt restructurings have a related allowance for loan losses.

Troubled Debt Restructurings

The Company has internal loan modification programs that provide relief to credit card, personal loan and student loan borrowers who are experiencing financial hardship. The internal loan modification programs include both temporary and permanent programs which vary by product. External loan modification programs are also available for credit card and personal loans. Credit card, personal and student loans that have permanent, and certain temporary, modifications, as well as certain grants of student loan forbearance, are considered to be individually impaired. In addition, loans that defaulted or graduated from modification programs or forbearance are considered to be individually impaired. As a result, the above mentioned loans are considered troubled debt restructurings and are accounted for in accordance with ASC Subtopic 310-40, Troubled Debt Restructurings by Creditors.

For credit card customers, the temporary hardship program primarily consists of a reduced minimum payment and an interest rate reduction, both lasting for a period no longer than 12 months. The permanent workout program involves changing the structure of the loan to a fixed payment loan with a maturity no longer than 60 months and reducing the interest rate on the loan. The permanent modification program does not normally provide for the forgiveness of unpaid principal, but may allow for the reversal of certain unpaid interest or fee assessments. The Company also makes loan modifications for customers who request financial assistance through external sources, such as a consumer credit counseling agency program (referred to here as external programs). These loans typically receive a reduced interest rate but continue to be subject to the original minimum payment terms and do not normally include waiver of unpaid principal, interest or fees.

To assist student loan borrowers who are experiencing temporary financial difficulties but are willing to resume making payments, the Company may offer hardship forbearance periods of up to 12 months over the life of the loan. The Company does not anticipate significant shortfalls in the contractual amount due for borrowers using a first hardship forbearance period as the historical performance of these borrowers is not significantly different from the overall portfolio. However, when a borrower is 30 or more days delinquent and granted a second hardship forbearance period, the forbearance is considered a troubled debt restructuring. In addition, the Company offers temporary reduced payment programs, which normally consist of a reduction of the minimum payment for a period of no longer than 12 months at a time. When a student loan borrower is enrolled in the temporary reduced payment program for 12 months or fewer over the life of the loan, the modification is not considered a troubled debt restructuring. However, when a borrower is enrolled in the temporary reduced payment program for more than 12 months over the life of the loan, the modification is considered a troubled debt restructuring.

For personal loan customers, in certain situations the Company offers various payment programs, including temporary and permanent programs. The temporary programs normally consist of a reduction of the minimum payment for a period of no longer than 12 months with the option of a final balloon payment required at the end of the loan term or an extension of the maturity date with the total term not exceeding nine years. Further, in certain circumstances the interest rate on the loan is reduced. The permanent program involves changing the terms of the loan in order to pay off the outstanding balance over a longer term and also in certain circumstances reducing the interest rate on the loan. Similar to the temporary programs, the total term may not exceed nine years. The Company also allows loan modifications for customers who request financial assistance through external sources, similar to the credit card customers discussed above. Payments are modified based on the new terms agreed upon with the credit counseling agency. Personal loans included in temporary and permanent programs are accounted for as troubled debt restructurings. Beginning in first quarter of 2014, loan modifications through external sources are accounted for as troubled debt restructurings.

The Company monitors borrower performance after using payment programs or forbearance and the Company believes the programs help to prevent defaults and are useful in assisting customers experiencing financial difficulties. The Company plans to continue to use payment programs and forbearance and, as a result, expects to have additional loans classified as troubled debt restructurings in the future.

Loans classified as troubled debt restructurings are recorded at their present value with impairment measured as the difference between the loan balance and the discounted present value of cash flows expected to be collected. Consistent with the Company’s measurement of impairment of modified loans on a pooled basis, the discount rate used for credit card loans in internal programs is the average current annual percentage rate applied to non-impaired credit card loans, which approximates what would have applied to the pool of modified loans prior to impairment. The discount rate used for credit card loans in external programs reflects a rate that is consistent with rates offered to cardmembers not in a program that have similar risk characteristics. For student and personal loans, the discount rate used is the average contractual rate prior to modification.

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Interest income from loans accounted for as troubled debt restructurings is accounted for in the same manner as other accruing loans. Cash collections on these loans are allocated according to the same payment hierarchy methodology applied to loans that are not in such programs.
Additional information about modified loans classified as troubled debt restructurings is shown below (dollars in millions):

	Average recorded investment in loans	Interest income recognized during period loans were impaired(1)	Gross interest income that would have been recorded with original terms(2)
For the Three Months Ended September 30, 2014			
Credit card loans			
Modified credit card loans(3)	$248	$11	$1
Internal programs	$449	$3	$15
External programs	$353	$7	$4
Personal loans	$49	$2	$—
Student loans(4)	$33	$1	N/A
For the Three Months Ended September 30, 2013			
Credit card loans			
Modified credit card loans(3)	$263	$12	$—
Internal programs	$457	$2	$17
External programs	$447	$9	$3
Personal loans	$27	$1	$1
Student loans(4)	$22	$—	N/A
For the Nine Months Ended September 30, 2014			
Credit card loans			
Modified credit card loans(3)	$251	$34	$3
Internal programs	$452	$9	$46
External programs	$374	$21	$10
Personal loans	$46	$4	$1
Student loans(4)	$31	$2	N/A
For the Nine Months Ended September 30, 2013			
Credit card loans			
Modified credit card loans(3)	$271	$37	$2
Internal programs	$473	$7	$50
External programs	$477	$28	$8
Personal loans	$24	$2	$1
Student loans(4)	$20	$1	N/A

(1) The Company does not separately track interest income on loans in modification programs. Amounts shown are estimated by applying an average interest rate to the average loans in the various modification programs.
(2) The Company does not separately track the amount of gross interest income that would have been recorded if the loans in modification programs had not been restructured and interest had instead been recorded in accordance with the original terms. Amounts shown are estimated by applying the difference between the average interest rate earned on non-impaired credit card loans and the average interest rate earned on loans in the modification

programs to the average loans in the modification programs.

(3) This balance is considered impaired, but is excluded from the internal and external program amounts reflected in this table. Represents credit card loans that were modified in troubled debt restructurings, but are no longer enrolled in troubled debt restructuring program due to noncompliance with the terms of the modification or successful completion of a program.

(4) Student loan customers who have been granted a forbearance are not given interest rate reductions.

In order to evaluate the primary financial effects that resulted from credit card loans entering into a loan modification program during the three and nine months ended September 30, 2014 and 2013, the Company quantified the amount by which interest and fees were reduced during the periods. During the three months ended September 30, 2014 and 2013, the Company forgave approximately $11 million and $10 million, respectively, of interest and fees as a result of accounts

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entering into a credit card loan modification program. During the nine months ended September 30, 2014 and 2013, the Company forgave approximately $30 million of interest and fees as a result of accounts entering into a credit card loan modification program.

The following table provides information on loans that entered a loan modification program during each period (dollars in millions):

	For the Three Months Ended September 30,			
	2014		2013	
	Number of Accounts	Balances	Number of Accounts	Balances
Accounts that entered a loan modification program during the period:				
Credit card:				
Internal programs	12,115	$80	10,671	$67
External programs	8,203	$42	8,665	$47
Personal loans	980	$12	665	$8
Student loans	393	$6	292	$5

	For the Nine Months Ended September 30,			
	2014		2013	
	Number of Accounts	Balances	Number of Accounts	Balances
Accounts that entered a loan modification program during the period:				
Credit card:				
Internal programs	35,199	$232	30,149	$190
External programs	24,458	$128	26,652	$144
Personal loans	2,512	$30	1,618	$20
Student loans	1,045	$15	590	$12

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The following table presents the carrying value of loans that experienced a payment default during the period that had been modified in a troubled debt restructuring during the 15 months preceding the end of each period (dollars in millions):

	For the Three Months Ended September 30,			
	2014		2013	
	Number of Accounts	Aggregated Outstanding Balances Upon Default	Number of Accounts	Aggregated Outstanding Balances Upon Default
Troubled debt restructurings that subsequently defaulted:				
Credit card:				
Internal programs(1)(2)	2,488	$15	1,778	$11
External programs(1)(2)	1,874	$8	2,178	$9
Personal loans(2)	118	$2	74	$1
Student loans(3)	286	$4	214	$4

	For the Nine Months Ended September 30,			
	2014		2013	
	Number of Accounts	Aggregated Outstanding Balances Upon Default	Number of Accounts	Aggregated Outstanding Balances Upon Default
Troubled debt restructurings that subsequently defaulted:				
Credit card:				
Internal programs(1)(2)	7,282	$44	7,170	$45
External programs(1)(2)	5,440	$23	6,399	$27
Personal loans(2)	321	$4	159	$2
Student loans(3)	820	$12	405	$9

(1) The outstanding balance upon default is the loan balance at the end of the month prior to default. Terms revert back to the pre-modification terms for customers who default from a temporary program and charging privileges remain revoked in most cases.
(2) A customer defaults from a modification program after two consecutive missed payments.
(3) Student loan defaults have been defined as loans that are 60 or more days delinquent.

Of the account balances that defaulted as shown above for the three months ended September 30, 2014 and 2013, approximately 34% and 33%, respectively, of the total balances charged off at the end of the month in which they defaulted. Of the account balances that defaulted as shown above for the nine months ended September 30, 2014 and 2013, approximately 36% and 42%, respectively, of the total balances charged off at the end of the month in which they defaulted. For accounts that have defaulted from a loan modification program and have not subsequently charged off, the balances are included in the allowance for loan loss analysis discussed above under "— Allowance for Loan Losses."

Purchased Credit-Impaired Loans

Purchased loans with evidence of credit deterioration since origination for which it is probable that not all contractually required payments will be collected are considered impaired at acquisition and are reported as PCI loans. The private student loans acquired in the SLC transaction as well as the additional private student loan portfolio acquired from Citibank, comprise the Company's only PCI loans at September 30, 2014 and December 31, 2013. Total PCI student loans had an outstanding balance of $4.1 billion and $4.6 billion, including accrued interest, and a related carrying amount of $3.8 billion and $4.2 billion as of September 30, 2014 and December 31, 2013, respectively.

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The following table provides changes in accretable yield for the acquired loans during each period (dollars in millions):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Balance at beginning of period	$1,450	$1,952	$1,580	$2,072
Accretion into interest income	(64)	(66)	(198)	(205)
Other changes in expected cash flows	—	(1)	4	18
Balance at end of period	$1,386	$1,885	$1,386	$1,885

Periodically, the Company updates the estimate of cash flows expected to be collected based on management's latest expectations of future credit losses, borrower prepayments and certain other assumptions that affect cash flows. The Company recorded no provision expense during the three and nine months ended September 30, 2014 and 2013. The allowance for PCI loan losses at September 30, 2014 and December 31, 2013 was $28 million. For the three months ended September 30, 2014, there were no changes in other cash flow assumptions. For the nine months ended September 30, 2014, changes in other cash flow assumptions resulted in an increase in accretable yield primarily related to change in borrower prepayments. While there were no changes to overall credit loss assumptions during the nine months ended September 30, 2013, changes to other cash flow expectations during nine months ended September 30, 2013 resulted in the changes to accretable yield reflected in the table above. Changes to accretable yield are recognized prospectively as an adjustment to yield over the remaining life of the pools.

At September 30, 2014, the 30 or more days delinquency and 90 or more days delinquency rates on PCI student loans (which includes loans not yet in repayment) were 2.36% and 0.78%, respectively. At December 31, 2013, the 30 or more days delinquency and 90 or more days delinquency rates on PCI student loans (which includes loans not yet in repayment) were 2.33% and 0.80%, respectively. These rates include private student loans that are greater than 120 days delinquent that are covered by an indemnification agreement or insurance arrangements through which the Company expects to recover a substantial portion of the loan. The net charge-off rate on PCI student loans was 0.63% and 1.09% for the three months ended September 30, 2014 and 2013, respectively, and 0.63% and 1.33% for the nine months ended September 30, 2014 and 2013, respectively. The decrease in net charge-off rate on PCI student loans is primarily due to seasoning of the portfolio and introduction of the temporary interest-only programs, which reduce the borrower's minimum payment for a period of no longer than 12 months at a time.

Mortgage Loans Held For Sale

The Company originates all of its residential real estate loans, except for home equity loans, with the intent to sell them in the secondary market. Loans held for sale consist primarily of residential first mortgage loans that are secured by residential real estate throughout the United States. Mortgage loans are funded through a warehouse line of credit and are recorded at fair value. Changes in the fair value of mortgage loans are recorded through other income prior to the sale of the loans to investors. The gain or loss on the sale of loans is recognized on the date the loans are sold and is based on the difference between the sale proceeds received and the carrying value of the loans, adjusted for the impact of the related hedges. See Note 14: Derivatives and Hedging Activities for further discussion of the mortgage loan related hedging activities. The Company sells its loans on a servicing released basis in which the Company gives up the right to service the loans.

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The following table provides a summary of the initial unpaid principal balance of mortgage loans sold during each period, by type of loan (dollars in millions):

	For the Three Months Ended September 30,			
	2014		2013	
	Amount	%	Amount	%
Conforming(1)	$704	90.03 %	$705	77.64 %
FHA(2)	64	8.18	202	22.25
Jumbo(3)	11	1.41	1	0.11
VA(4)	3	0.38	—	—
Total	$782	100.00 %	$908	100.00 %

	For the Nine Months Ended September 30,			
	2014		2013	
	Amount	%	Amount	%
Conforming(1)	$1,723	90.16 %	$2,208	64.50 %
FHA(2)	161	8.42	1,214	35.47
Jumbo(3)	24	1.26	1	0.03
VA(4)	3	0.16	—	—
Total	$1,911	100.00 %	$3,423	100.00 %

(1) Conforming loans are loans that conform to Government Sponsored Enterprises guidelines.
(2) FHA loans are loans that are insured by the Federal Housing Administration and are typically made to borrowers with low down payments. The initial loan amount must be within certain limits.
(3) Jumbo loans are loans with an initial amount larger than the limits set by a Government Sponsored Enterprise.
(4) VA loans are loans that are insured by and conform to the Department of Veteran Affairs guidelines.

The following table represents the loans held for sale by type of loan (dollars in millions):

	September 30, 2014		December 31, 2013	
	Amount	%	Amount	%