US BANCORP \DE\
Form 10-Q
November 02, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from (not applicable)

Commission file number 1-6880

U.S. BANCORP

(Exact name of registrant as specified in its charter)

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

800 Nicollet Mall

Minneapolis, Minnesota 55402

(Address of principal executive offices, including zip code)

651-466-3000

(Registrant s telephone number, including area code)

(not applicable)

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

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

YES NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

YES NO

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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.

Class	Outstanding as of October 31, 2018
Common Stock, $0.01 Par Value	1,616,092,910 shares

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

This quarterly report on Form 10-Q contains forward-looking statements about U.S. Bancorp. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are based on the information available to, and assumptions and estimates made by, management as of the date hereof. These forward-looking statements cover, among other things, anticipated future revenue and expenses and the future plans and prospects of U.S. Bancorp. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated. Deterioration in general business and economic conditions or turbulence in domestic or global financial markets could adversely affect U.S. Bancorp s revenues and the values of its assets and liabilities, reduce the availability of funding to certain financial institutions, lead to a tightening of credit and increase stock price volatility. Stress in the commercial real estate markets, as well as a downturn in the residential real estate markets, could cause credit losses and deterioration in asset values. In addition, changes to statutes, regulations, or regulatory policies or practices could affect U.S. Bancorp in substantial and unpredictable ways. U.S. Bancorp s results could also be adversely affected by changes in interest rates; deterioration in the credit quality of its loan portfolios or in the value of the collateral securing those loans; deterioration in the value of its investment securities; legal and regulatory developments; litigation; increased competition from both banks and non-banks; changes in the level of tariffs and other trade policies of the United

States and its global trading partners; changes in customer behavior and preferences; breaches in data security; effects of mergers and acquisitions and related integration; effects of critical accounting policies and judgments; and management s ability to effectively manage credit risk, market risk, operational risk, compliance risk, strategic risk, interest rate risk, liquidity risk and reputational risk.

For discussion of these and other risks that may cause actual results to differ from expectations, refer to U.S. Bancorp s Annual Report on Form 10-K for the year ended December 31, 2017, on file with the Securities and Exchange Commission, including the sections entitled Corporate Risk Profile and Risk Factors contained in Exhibit 13, and all subsequent filings with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934. However, factors other than these also could adversely affect U.S. Bancorp s results, and the reader should not consider these factors to be a complete set of all potential risks or uncertainties. Forward-looking statements speak only as of the date hereof, and U.S. Bancorp undertakes no obligation to update them in light of new information or future events.

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Table 1 Selected Financial Data

(Dollars and Shares in Millions, Except Per Share Data)	Three Months Ended September 30 2018	Three Months Ended September 30 2017	Percent Change	Nine Months Ended September 30 2018	Nine Months Ended September 30 2017	Percent Change
Condensed Income Statement						
Net interest income	$ 3,251	$ 3,176	2.4%	$ 9,616	$ 9,205	4.5%
Taxable-equivalent adjustment (a)	30	51	(41.2)	88	152	(42.1)
Net interest income (taxable-equivalent basis) (b)	3,281	3,227	1.7	9,704	9,357	3.7
Noninterest income	2,408	2,331	3.3	7,079	6,900	2.6
Securities gains (losses), net	10	9	11.1	25	47	(46.8)
Total net revenue	5,699	5,567	2.4	16,808	16,304	3.1
Noninterest expense	3,044	2,998	1.5	9,184	8,891	3.3
Provision for credit losses	343	360	(4.7)	1,011	1,055	(4.2)
Income before taxes	2,312	2,209	4.7	6,613	6,358	4.0
Income taxes and taxable-equivalent adjustment	490	640	(23.4)	1,351	1,791	(24.6)
Net income	1,822	1,569	16.1	5,262	4,567	15.2
Net (income) loss attributable to noncontrolling interests	(7)	(6)	(16.7)	(22)	(31)	29.0
Net income attributable to U.S. Bancorp	$ 1,815	$ 1,563	16.1	$ 5,240	$ 4,536	15.5
Net income applicable to U.S. Bancorp common shareholders	$ 1,732	$ 1,485	16.6	$ 5,007	$ 4,302	16.4
Per Common Share						
Earnings per share	$ 1.06	$ .89	19.1%	$ 3.05	$ 2.56	19.1%
Diluted earnings per share	1.06	.88	20.5	3.04	2.55	19.2
Dividends declared per share	.37	.30	23.3	.97	.86	12.8
Book value per share (c)	27.35	25.98	5.3			
Market value per share	52.81	53.59	(1.5)			
Average common shares outstanding	1,629	1,672	(2.6)	1,641	1,683	(2.5)
Average diluted common shares outstanding	1,633	1,678	(2.7)	1,645	1,689	(2.6)
Financial Ratios						
Return on average assets	1.58%	1.38%		1.54%	1.36%	
Return on average common equity	15.5	13.6		15.2	13.4	
Net interest margin (taxable-equivalent basis) (a)	3.15	3.14		3.14	3.09	
Efficiency ratio (b)	53.5	53.9		54.7	54.7	
Net charge-offs as a percent of average loans outstanding	.46	.47		.48	.49	
Average Balances						
Loans	$ 281,065	$ 277,626	1.2%	$ 279,699	$ 275,454	1.5%

Loans held for sale	3,109	3,935	(21.0)	3,262	3,457	(5.6)
Investment securities (d)	113,547	111,832	1.5	113,873	111,325	2.3
Earning assets	415,177	408,825	1.6	413,246	404,031	2.3
Assets	456,916	450,630	1.4	455,241	446,049	2.1
Noninterest-bearing deposits	77,192	81,964	(5.8)	78,546	81,808	(4.0)
Deposits	330,121	335,151	(1.5)	333,159	331,610	.5
Short-term borrowings	22,186	15,505	43.1	21,881	14,423	51.7
Long-term debt	39,701	35,544	11.7	36,400	35,697	2.0
Total U.S. Bancorp shareholders equity	50,138	48,819	2.7	49,433	48,342	2.3

	September 30, 2018	December 31, 2017	
Period End Balances			
Loans	$ 281,461	$ 280,432	.4%
Investment securities	110,958	112,499	(1.4)
Assets	464,607	462,040	.6
Deposits	331,178	347,215	(4.6)
Long-term debt	40,894	32,259	26.8
Total U.S. Bancorp shareholders equity	50,375	49,040	2.7
Asset Quality			
Nonperforming assets	$ 1,004	$ 1,200	(16.3)%
Allowance for credit losses	4,426	4,417	.2
Allowance for credit losses as a percentage of period-end loans	1.57%	1.58%	
Capital Ratios			
Basel III standardized approach:			
Common equity tier 1 capital	9.0%	9.3%	
Tier 1 capital	10.6	10.8	
Total risk-based capital	12.6	12.9	
Leverage	9.0	8.9	
Common equity tier 1 capital to risk-weighted assets for the Basel III advanced approaches	11.8	12.0	
Tangible common equity to tangible assets (b)	7.7	7.6	
Tangible common equity to risk-weighted assets (b)	9.3	9.4	
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented standardized approach (b)		9.1	
Common equity tier 1 capital to risk-weighted assets estimated for the Basel III fully implemented advanced approaches (b)		11.6	

(a) Based on federal income tax rates of 21 percent for 2018 and 35 percent for 2017, for those assets and liabilities whose income or expense is not included for federal income tax purposes.

(b) See Non-GAAP Financial Measures beginning on page 30.
(c) Calculated as U.S. Bancorp common shareholders equity divided by common shares outstanding at end of the period.
(d) Excludes unrealized gains and losses on available-for-sale investment securities and any premiums or discounts recorded related to the transfer of investment securities at fair value from available-for-sale to held-to-maturity.

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Management s Discussion and Analysis

OVERVIEW

Earnings Summary U.S. Bancorp and its subsidiaries (the Company) reported net income attributable to U.S. Bancorp of $1.8 billion for the third quarter of 2018, or $1.06 per diluted common share, compared with $1.6 billion, or $0.88 per diluted common share, for the third quarter of 2017. Return on average assets and return on average common equity were 1.58 percent and 15.5 percent, respectively, for the third quarter of 2018, compared with 1.38 percent and 13.6 percent, respectively, for the third quarter of 2017.

Total net revenue for the third quarter of 2018 was $132 million (2.4 percent) higher than the third quarter of 2017, reflecting a 2.4 percent increase in net interest income (1.7 percent on a taxable-equivalent basis) and a 3.3 percent increase in noninterest income. The increase in net interest income from the third quarter of 2017 was mainly a result of the impact of rising interest rates, earning assets growth, and higher yields on the reinvestment of securities, partially offset by higher rates on deposits and funding mix changes. The noninterest income increase was driven by strong growth in payment services revenue and trust and investment management fees, along with an increase in other noninterest income, partially offset by decreases in mortgage banking revenue and commercial products revenue.

Noninterest expense in the third quarter of 2018 was $46 million (1.5 percent) higher than the third quarter of 2017, primarily due to increased compensation expense related to supporting business growth and compliance programs, merit increases, and variable compensation related to revenue growth, higher employee benefits expense, and higher technology and communications expense in support of business growth. Partially offsetting these increases was lower other noninterest expense driven by lower costs related to tax-advantaged projects, lower Federal Deposit Insurance Corporation (FDIC) insurance expense, a reduction in mortgage servicing costs, and lower pension related costs.

The provision for credit losses for the third quarter of 2018 of $343 million was $17 million (4.7 percent) lower than the third quarter of 2017. Net charge-offs in the third quarter of 2018 were $328 million, compared with $330 million in the third quarter of 2017. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Net income attributable to U.S. Bancorp for the first nine months of 2018 was $5.2 billion, or $3.04 per diluted common share, compared with $4.5 billion, or $2.55 per diluted common share, for the first nine months of 2017. Return on average assets and return on average common equity were 1.54 percent and 15.2 percent, respectively, for the first nine months of 2018, compared with 1.36 percent and 13.4 percent, respectively, for the first nine months of 2017.

Total net revenue for the first nine months of 2018 was $504 million (3.1 percent) higher than the first nine months of 2017, reflecting a 4.5 percent increase in net interest income (3.7 percent on a taxable-equivalent basis) and a 2.3 percent increase in noninterest income. The increase in net interest income from a year ago was mainly a result of the impact of rising interest rates, earnings assets growth, and higher yields on the reinvestment of securities, partially offset by higher rates on deposits and funding mix changes. The noninterest income increase was driven by strong growth in payment services revenue and trust and investment management fees, along with increases in other noninterest income and ATM processing services revenue, partially offset by decreases in mortgage banking revenue and commercial products revenue.

Noninterest expense in the first nine months of 2018 was $293 million (3.3 percent) higher than the first nine months of 2017, primarily due to increased compensation expense related to supporting business growth and compliance programs, merit increases, and variable compensation related to revenue growth, higher employee benefits expense, and higher technology and communications expense in support of business growth. Partially offsetting these increases was lower other noninterest expense driven by lower costs related to tax-advantaged projects, lower FDIC insurance expense, a reduction in mortgage servicing costs, and lower pension related costs.

The provision for credit losses for the first nine months of 2018 of $1.0 billion was $44 million (4.2 percent) lower than the first nine months of 2017. Net charge-offs were $1.0 billion in both the first nine months of 2018 and 2017. Refer to Corporate Risk

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Table 2 Noninterest Income

(Dollars in Millions)	Three Months Ended September 30 2018	2017	Percent Change	Nine Months Ended September 30 2018	2017	Percent Change
Credit and debit card revenue	$ 344	$ 318	8.2%	$ 1,019	$ 947	7.6%
Corporate payment products revenue	169	150	12.7	481	427	12.6
Merchant processing services	392	377	4.0	1,142	1,112	2.7
ATM processing services	85	77	10.4	254	223	13.9
Trust and investment management fees	411	380	8.2	1,210	1,128	7.3
Deposit service charges	198	187	5.9	563	538	4.6
Treasury management fees	146	153	(4.6)	451	466	(3.2)
Commercial products revenue	216	240	(10.0)	670	730	(8.2)
Mortgage banking revenue	174	213	(18.3)	549	632	(13.1)
Investment products fees	47	42	11.9	140	128	9.4
Securities gains (losses), net	10	9	11.1	25	47	(46.8)
Other	226	194	16.5	600	569	5.4
Total noninterest income	$ 2,418	$ 2,340	3.3%	$ 7,104	$ 6,947	2.3%

Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

STATEMENT OF INCOME ANALYSIS

Net Interest Income Net interest income, on a taxable-equivalent basis, was $3.3 billion in the third quarter and $9.7 billion in the first nine months of 2018, representing increases of $54 million (1.7 percent) and $347 million (3.7 percent), respectively, over the same periods of 2017. The increases were principally driven by the impact of rising interest rates, earning assets growth, and higher yields on securities, partially offset by changes in loan mix, higher rates on deposits and changes in funding mix, as well as the impact of the Tax Cuts and Jobs Act (tax reform) enacted by Congress in late 2017 which reduced the taxable-equivalent adjustment benefit related to tax exempt assets, and higher interest recoveries in the prior year. Average earning assets were $6.4 billion (1.6 percent) higher in the third quarter and $9.2 billion (2.3 percent) higher in the first nine months of 2018, compared with the same periods of 2017, reflecting increases in loans, investment securities and other earning assets. The net interest margin, on a taxable-equivalent basis, in the third quarter and first nine months of 2018 was 3.15 percent and 3.14 percent, respectively, compared with 3.14 percent and 3.09 percent in the third quarter and first nine months of 2017, respectively. The increases in the net interest margin from the same periods of the prior year were primarily due to higher interest rates, partially offset by higher funding costs, changes in loan mix, and the impact of tax reform. Refer to the Consolidated Daily Average Balance Sheet and Related Yields and Rates tables for further information on net interest income.

Average total loans in the third quarter and first nine months of 2018 were $3.4 billion (1.2 percent) and $4.2 billion (1.5 percent) higher, respectively, than the same periods of 2017, due to growth in residential mortgages, commercial loans and credit card loans. In addition, average other retail loans were also higher in the first nine months of 2018, compared to the same period of the prior year. The increases were driven by higher demand for loans from new and existing customers. These increases were partially offset by a decrease in commercial real estate loans due to disciplined underwriting and customers paying down balances over the past year, as well as a decrease in loans covered by loss sharing agreements with the FDIC, a run-off portfolio.

Average investment securities in the third quarter and first nine months of 2018 were $1.7 billion (1.5 percent) and $2.5 billion (2.3 percent) higher, respectively, than the same periods of 2017, primarily due to purchases of U.S. Treasury, mortgage-backed and state and political securities, net of prepayments and maturities.

Average total deposits were $5.0 billion (1.5 percent) lower in the third quarter and $1.5 billion (0.5 percent) higher in the first nine months of 2018, respectively, compared to the same periods of 2017. Average noninterest-bearing deposits for the third quarter and first nine months of 2018 decreased $4.8 billion (5.8 percent) and $3.3 billion (4.0 percent), respectively, from the same periods of 2017, primarily due to decreases in business deposits within Corporate and Commercial Banking, and trust balances within Wealth Management and Investment Services. Average total savings deposits for the third quarter and first nine months of 2018 were $1.9 billion (0.9 percent) and $54 million lower, respectively, than the same periods of 2017, driven by decreases in Corporate and Commercial Banking, and Wealth Management and Investment Services balances,

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Table 3 Noninterest Expense

	Three Months Ended September 30			Nine Months Ended September 30		
(Dollars in Millions)	2018	2017	Percent Change	2018	2017	Percent Change
Compensation	$ 1,529	$ 1,440	6.2%	$ 4,594	$ 4,247	8.2%
Employee benefits	294	268	9.7	923	843	9.5
Net occupancy and equipment	270	258	4.7	797	760	4.9
Professional services	96	104	(7.7)	274	305	(10.2)
Marketing and business development	106	92	15.2	314	291	7.9
Technology and communications	247	227	8.8	724	667	8.5
Postage, printing and supplies	84	82	2.4	244	244	
Other intangibles	41	44	(6.8)	120	131	(8.4)
Other	377	483	(21.9)	1,194	1,403	(14.9)
Total noninterest expense	$ 3,044	$ 2,998	1.5%	$ 9,184	$ 8,891	3.3%
Efficiency ratio (a)	53.5%	53.9%		54.7%	54.7%	

a) See Non-GAAP Financial Measures beginning on page 30.

partially offset by increases in Consumer and Business Banking balances. The declines in Corporate and Commercial Banking total savings balances reflect expected run-off related to the business merger of a large financial customer. Average time deposits for the third quarter and first nine months of 2018 increased $1.7 billion (4.6 percent) and $4.9 billion (14.9 percent), respectively, over the same periods of 2017. The increases were largely related to those deposits managed as an alternative to other funding sources such as wholesale borrowing, based largely on relative pricing and liquidity characteristics.

Provision for Credit Losses The provision for credit losses for the third quarter and first nine months of 2018 decreased $17 million (4.7 percent) and $44 million (4.2 percent), respectively, from the same periods of 2017. Net charge-offs decreased $2 million (0.6 percent) and $4 million (0.4 percent) in the third quarter and first nine months of 2018, respectively, compared with the same periods of the prior year, primarily due to lower commercial loan and residential mortgage net charge-offs, partially offset by higher credit card loan net charge-offs. Refer to Corporate Risk Profile for further information on the provision for credit losses, net charge-offs, nonperforming assets and other factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for credit losses.

Noninterest Income Noninterest income was $2.4 billion in the third quarter and $7.1 billion in the first nine months of 2018, representing increases of $78 million (3.3 percent) and $157 million (2.3 percent), respectively, compared with the same periods of 2017. The increases from a year ago reflected strong growth in payment services revenue and trust and investment management fees, along with increases in other noninterest income and ATM processing services revenue. These increases were partially offset by lower mortgage banking revenue and commercial products revenue, which were impacted by industry trends in these revenue categories. The increase in payment services revenue reflected higher credit and debit card revenue, corporate payment products revenue, and merchant processing services revenue, all driven by higher sales volumes. Trust and investment management fees increased due to business growth and favorable market conditions. ATM processing services revenue increased due to higher transaction volumes.

Other noninterest income increased in the third quarter of 2018, compared to the third quarter of 2017, primarily due to higher equity investment income and tax-advantaged project syndication revenue. Other noninterest income increased in the first nine months of 2018, compared with the same period of the prior year, primarily due to higher tax-advantaged project syndication revenue. The decrease in mortgage banking revenue was primarily due to lower mortgage production and the adverse impact on gain on sale margins due to excess capacity in the industry in the near term. The decrease in commercial products revenue was primarily due to lower corporate bond underwriting fees and loan syndication fees. Commercial products revenue further decreased in the first nine months of 2018, compared with the same period of the prior year, due to lower trading revenue.

Noninterest Expense Noninterest expense was $3.0 billion in the third quarter and $9.2 billion in the first nine months of 2018, representing increases of $46 million (1.5 percent) and $293 million (3.3 percent) over the same periods of 2017. The increases from a year ago were primarily due to higher personnel costs and technology and communications expense, partially offset by lower other noninterest expense. Compensation expense increased principally due to the impact of hiring to support business growth and compliance programs, merit increases, and higher variable compensation related to business production. Employee benefits expense increased primarily due to increased medical costs and staffing, while technology and communications expense increased primarily due to technology investment initiatives. Other noninterest expense decreased due to lower costs related to tax-advantaged projects, lower FDIC insurance expense, a reduction in mortgage servicing costs and lower pension-related costs as a result of contributions to the Company s pension plans in 2017.

Income Tax Expense The provision for income taxes was $460 million (an effective rate of 20.2 percent) for the third quarter and $1.3 billion (an effective rate of 19.4 percent) for the first nine months of 2018, compared with $589 million (an effective rate of 27.3 percent) and $1.6 billion (an effective rate of 26.4 percent) for the same periods of 2017. The lower 2018 tax rates reflect tax reform enacted in late 2017. For further information on income taxes, refer to Note 11 of the Notes to Consolidated Financial Statements.

BALANCE SHEET ANALYSIS

Loans The Company s loan portfolio was $281.5 billion at September 30, 2018, compared with $280.4 billion at December 31, 2017, an increase of $1.1 billion (0.4 percent). The increase was driven by higher residential mortgages and commercial loans, partially offset by lower other retail loans, commercial real estate loans, credit card loans and covered loans.

Residential mortgages held in the loan portfolio increased $3.1 billion (5.2 percent) at September 30, 2018, compared with December 31, 2017, as origination activity more than offset the effect of customers paying down balances in the first nine months of 2018. Residential mortgages originated and placed in the Company s loan portfolio include well-secured jumbo mortgages and branch-originated first lien home equity loans to borrowers with high credit quality.

Commercial loans increased $1.7 billion (1.8 percent) at September 30, 2018, compared with December 31, 2017, reflecting higher demand from new and existing customers.

Other retail loans decreased $1.3 billion (2.2 percent) at September 30, 2018, compared with December 31, 2017, reflecting the sale of the Company s federally guaranteed student loans during the first nine months of 2018, along with decreases in auto loans and home equity loans. Partially offsetting these decreases were increases in installment and retail leasing loans.

Commercial real estate loans decreased $497 million (1.2 percent) at September 30, 2018, compared with December 31, 2017, primarily the result of continued disciplined underwriting and customers paying down balances.

Credit card loans decreased $311 million (1.4 percent) at September 30, 2018, compared with December 31, 2017, primarily the result of customers paying down balances.

Covered loans decreased $1.7 billion (55.1 percent) at September 30, 2018, compared with December 31, 2017, reflecting the transfer of $1.3 billion of covered residential mortgage loans from the loan portfolio to loans held for sale at the end of the third quarter of 2018.

The Company generally retains portfolio loans through maturity; however, the Company s intent may change over time based upon various factors such as ongoing asset/liability management activities, assessment of product profitability, credit risk, liquidity needs, and capital implications. If the Company s intent or ability to hold an existing portfolio loan changes, it is transferred to loans held for sale.

Loans Held for Sale Loans held for sale, consisting of residential mortgages and other loans to be sold in the secondary market, were $4.5 billion at September 30, 2018, compared with $3.6 billion at December 31, 2017. The increase in loans held for sale was principally due to the transfer of $1.3 billion of covered residential mortgage loan balances to loans held for sale at the end of the third quarter of 2018. This increase was partially offset by a decrease in originated residential mortgage loans held for sale (MLHFS) balances due to a lower level of mortgage loan closings in the third quarter of 2018. Almost all of the residential mortgage loans the Company originates or purchases for sale follow guidelines that allow the loans to be sold into existing, highly liquid secondary markets; in particular in government agency transactions and to government-sponsored enterprises (GSEs).

Investment Securities Investment securities totaled $111.0 billion at September 30, 2018, compared with $112.5 billion at December 31, 2017. The $1.5 billion (1.4 percent) decrease was primarily due to a $1.4 billion unfavorable change in net unrealized gains (losses) on available-for-sale investment securities.

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Table 4 Investment Securities

	Available-for-Sale				Held-to-Maturity			
At September 30, 2018 (Dollars in Millions)	Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (e)	Amortized Cost	Fair Value	Weighted-Average Maturity in Years	Weighted-Average Yield (e)
U.S. Treasury and Agencies								
Maturing in one year or less	$ 3,028	$ 3,016	.4	1.26%	$ 650	$ 646	.7	1.73%
Maturing after one year through five years	16,490	15,935	3.0	1.70	2,912	2,755	4.4	1.64
Maturing after five years through ten years	658	630	7.6	2.85	1,550	1,475	5.7	2.10
Maturing after ten years								
Total	$ 20,176	$ 19,581	2.8	1.67%	$ 5,112	$ 4,876	4.3	1.79%
Mortgage-Backed Securities (a)								
Maturing in one year or less	$ 69	$ 69	.4	3.83%	$ 36	$ 36	.8	2.51%
Maturing after one year through five years	13,644	13,074	4.4	2.09	15,158	14,479	4.0	2.03
Maturing after five years through ten years	23,195	22,574	6.3	2.63	25,348	24,544	6.3	2.67
Maturing after ten years	2,583	2,598	14.4	3.18	360	361	14.0	3.06
Total	$ 39,491	$ 38,315	6.2	2.48%	$ 40,902	$ 39,420	5.5	2.43%
Asset-Backed Securities (a)								
Maturing in one year or less	$	$		%	$	$		%
Maturing after one year through five years	402	408	3.6	3.49	3	4	3.3	2.90
Maturing after five years through ten years					2	3	6.4	3.00
Maturing after ten years						1	17.0	2.84
Total	$ 402	$ 408	3.6	3.49%	$ 5	$ 8	4.4	2.93%
Obligations of State and Political Subdivisions (b) (c)								
Maturing in one year or less	$ 238	$ 242	.6	5.70%	$	$	.2	6.24%
Maturing after one year through five years	583	587	3.5	4.62	1	1	3.4	6.67
Maturing after five years through ten years	3,886	3,818	8.2	4.37	5	6	7.5	2.01
Maturing after ten years	2,140	1,961	19.0	4.11				
Total	$ 6,847	$ 6,608	10.9	4.35%	$ 6	$ 7	7.0	2.55%
Other								
Maturing in one year or less	$	$		%	$ 9	$ 9	.1	3.21%

Maturing after one year through five years			12	12	1.2	3.08
Maturing after five years through ten years						
Maturing after ten years						
Total	$	$				