Discover Financial Services
Form 10-Q
July 30, 2013

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 June 30, 2013
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 S 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 S 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 S

As of July 24, 2013, there were 483,787,663 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 June 30, 2013
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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

	June 30, 2013 (unaudited)	December 31, 2012
	(dollars in millions, except share amounts)	
Assets		
Cash and cash equivalents	$5,744	$ 2,584
Restricted cash	537	290
Investment securities:		
Available-for-sale (amortized cost of $4,825 and $6,031 at June 30, 2013 and December 31, 2012, respectively)	4,872	6,145
Held-to-maturity (fair value of $70 and $89 at June 30, 2013 and December 31, 2012, respectively)	71	87
Total investment securities	4,943	6,232
Loan receivables:		
Mortgage loans held for sale, measured at fair value	275	355
Loan portfolio:		
Credit card	49,791	51,135
Other	7,203	6,406
Purchased credit-impaired loans	4,434	4,702
Total loan portfolio	61,428	62,243
Total loan receivables	61,703	62,598
Allowance for loan losses	(1,556)	(1,788)
Net loan receivables	60,147	60,810
Premises and equipment, net	607	538
Goodwill	284	286
Intangible assets, net	191	189
Other assets	2,491	2,562
Total assets	$74,944	$ 73,491
Liabilities and Stockholders' Equity		
Deposits:		
Interest-bearing deposit accounts	$42,423	$ 42,077
Non-interest bearing deposit accounts	145	136
Total deposits	42,568	42,213
Short-term borrowings	262	327
Long-term borrowings	18,033	17,666
Accrued expenses and other liabilities	3,633	3,412
Total liabilities	64,496	63,618
Commitments, contingencies and guarantees (Notes 9, 12, and 13)		
Stockholders' Equity:		
Common stock, par value $0.01 per share; 2,000,000,000 shares authorized; 554,994,351 and 553,350,975 shares issued at June 30, 2013 and December 31, 2012, 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 June 30, 2013 and December 31, 2012	560	560

Additional paid-in capital	3,650	3,598
Retained earnings	8,629	7,472
Accumulated other comprehensive loss	(107)	(72)
Treasury stock, at cost; 69,449,866 and 55,489,104 shares at June 30, 2013 and December 31, 2012, respectively	(2,289)	(1,690)
Total stockholders’ equity	10,448	9,873
Total liabilities and stockholders’ equity	$74,944	$ 73,491

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.

	June 30, 2013 (unaudited)	December 31, 2012
	(dollars in millions)	
Assets		
Restricted cash	$531	$ 280
Credit card loan receivables	33,039	34,782
Purchased credit-impaired loans	2,392	2,539
Allowance for loan losses allocated to securitized loan receivables	(916)	(1,110)
Other assets	31	29
Liabilities		
Long-term borrowings	$15,548	$ 15,933
Accrued interest payable	9	11

See Notes to Condensed Consolidated Financial Statements.

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DISCOVER FINANCIAL SERVICES
Condensed Consolidated Statements of Income

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
	(unaudited)			
	(dollars in millions, except per share amounts)			
Interest income:				
Credit card loans	$1,463	$1,411	$2,914	$2,825
Other loans	241	210	475	415
Investment securities	19	21	39	39
Other interest income	4	4	7	8
Total interest income	1,727	1,646	3,435	3,287
Interest expense:				
Deposits	184	210	370	434
Short-term borrowings	1	—	2	—
Long-term borrowings	112	122	223	247
Total interest expense	297	332	595	681
Net interest income	1,430	1,314	2,840	2,606
Provision for loan losses	240	262	399	346
Net interest income after provision for loan losses	1,190	1,052	2,441	2,260
Other income:				
Discount and interchange revenue, net	308	273	571	513
Protection products revenue	88	102	176	205
Loan fee income	76	78	157	159
Transaction processing revenue	47	56	100	105
Gain on investments	—	—	3	—
Gain on origination and sale of mortgage loans	51	7	102	7
Other income	41	36	84	74
Total other income	611	552	1,193	1,063
Other expense:				
Employee compensation and benefits	285	253	575	499
Marketing and business development	185	121	354	249
Information processing and communications	85	71	163	143
Professional fees	101	108	205	212
Premises and equipment	20	19	39	37
Other expense	144	186	237	290
Total other expense	820	758	1,573	1,430
Income before income tax expense	981	846	2,061	1,893
Income tax expense	379	321	786	718
Net income	$602	$525	$1,275	$1,175
Net income allocated to common stockholders	$588	$520	$1,247	$1,164
Basic earnings per share	$1.20	$0.99	$2.53	$2.21
Diluted earnings per share	$1.20	$0.99	$2.52	$2.21
Dividends declared per share	$0.20	$0.10	$0.20	$0.20

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 June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
	(unaudited) (dollars in millions)			
Net income	$602	$525	$1,275	$1,175
Other comprehensive (loss) income, net of taxes				
Unrealized (loss) gain on securities available for sale, net of tax	(31)	15	(42)	7
Unrealized gain (loss) on cash flow hedges, net of tax	8	—	7	(2)
Unrealized pension and post-retirement plan gain, net of tax	—	—	—	1
Other comprehensive (loss) income	(23)	15	(35)	6
Comprehensive income	$579	$540	$1,240	$1,181

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						
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
	(unaudited) (dollars in millions, shares in thousands)								
Balance at December 31, 2011	—	$—	549,958	$ 5	$ 3,515	$5,351	$ (49)	$(464)	$ 8,358
Net income	—	—	—	—	—	1,175	—	—	1,175
Other comprehensive income	—	—	—	—	—	—	6	—	6
Purchases of treasury stock	—	—	—	—	—	—	—	(540)	(540)
Common stock issued under employee benefit plans	—	—	28	—	1	—	—	—	1
Common stock issued and stock-based compensation expense	—	—	2,397	—	44	—	—	—	44
Dividends declared—common stock	—	—	—	—	—	(104)	—	—	(104)
Balance at June 30, 2012	—	$—	552,383	$ 5	$ 3,560	$6,422	$ (43)	$(1,004)	$ 8,940
Balance at December 31, 2012	575	$560	553,351	$ 5	$ 3,598	$7,472	$ (72)	$(1,690)	$ 9,873
Net income	—	—	—	—	—	1,275	—	—	1,275
Other comprehensive loss	—	—	—	—	—	—	(35)	—	(35)
Purchases of treasury stock	—	—	—	—	—	—	—	(599)	(599)
Common stock issued under employee benefit plans	—	—	36	—	2	—	—	—	2
Common stock issued and stock-based compensation expense	—	—	1,607	—	50	—	—	—	50
Dividends declared — common and Series B preferred stock	—	—	—	—	—	(118)	—	—	(118)
Balance at June 30, 2013	575	$560	554,994	$ 5	$ 3,650	$8,629	$ (107)	$(2,289)	$ 10,448

See Notes to the Condensed Consolidated Financial Statements.

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DISCOVER FINANCIAL SERVICES
Condensed Consolidated Statements of Cash Flows

	For the Six Months Ended June 30,	
	2013	2012
	(unaudited) (dollars in millions)	
Cash flows from operating activities		
Net income	$1,275	$1,175
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	399	346
Deferred income taxes	163	127
Depreciation and amortization on premises and equipment	56	47
Amortization of deferred revenues	(94)	(101)
Other depreciation and amortization	107	82
Accretion of accretable yield on acquired loans	(139)	(154)
Gain on investments	(3)	—
Loss on equity method and other investments	8	5
Gain on origination and sale of loans	(102)	(7)
Stock-based compensation expense	31	21
Proceeds from sale of mortgage loans originated for sale	2,618	—
Net principal disbursed on mortgage loans originated for sale	(2,445)	(98)
Changes in assets and liabilities:		
Increase in other assets	(86)	(66)
Increase in accrued expenses and other liabilities	299	135
Net cash provided by operating activities	2,087	1,512
Cash flows from investing activities		
Maturities and sales of available-for-sale investment securities	1,280	1,025
Purchases of available-for-sale investment securities	(89)	(1,319)
Maturities of held-to-maturity investment securities	17	4
Purchases of held-to-maturity investment securities	(1)	(1)
Proceeds from sale of student loans held for sale	—	268
Net principal disbursed on loans originated for investment	578	532
Purchases of loan receivables	(136)	(261)
Purchase of net assets of a business	—	(49)
Purchases of other investments	(53)	(20)
Proceeds from sale of other investments	—	—
Increase in restricted cash	(247)	(596)
Proceeds from sale of premises and equipment	—	1
Purchases of premises and equipment	(117)	(63)
Net cash provided by investing activities	1,232	(479)
Cash flows from financing activities		
Net (decrease) increase in short-term borrowings	(109)	96
Proceeds from issuance of securitized debt	2,700	3,449
Maturities and repayment of securitized debt	(3,103)	(2,241)
Premium paid on debt exchange	—	(114)
Proceeds from issuance of other long-term borrowings	750	—
Repayment of long-term borrowings and bank notes	—	(5)
Payment of contingent consideration for purchase of net assets of a business, at fair value	(9)	—

Proceeds from issuance of common stock	7	15
Purchases of treasury stock	(601)	(540)
Net increase in deposits	393	2,150
Dividends paid on common and preferred stock	(187)	(107)
Net cash (used for) provided by financing activities	(159)	2,703
Net increase in cash and cash equivalents	3,160	3,736
Cash and cash equivalents, at beginning of period	2,584	2,335
Cash and cash equivalents, at end of period	$5,744	$6,071
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest expense	$521	$640
Income taxes, net of income tax refunds	$798	$655
Non-cash investing and financing transactions:		
Initial fair value of contingent consideration to be paid for purchase of net assets of a business	$—	$9
Assumption of debt by buyer related to loans sold	$—	$425

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, 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 card 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, 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.

Change in Fiscal Year End. On December 3, 2012, the Company's board of directors approved a change in the Company’s fiscal year end from November 30 to December 31 of each year. This fiscal year change was effective January 1, 2013. As a result of the change, the Company had a one month transition period in December 2012. The unaudited results for the one month ended December 31, 2012 and 2011 are included in the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2013. The audited results for the one month ended December 31, 2012 and the unaudited results for the one month ended December 31, 2011 will be included in the Company’s annual report on Form 10-K for the year ending December 31, 2013.

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 2012 audited consolidated financial statements filed with the Company’s annual report on Form 10-K for the fiscal year ended November 30, 2012. Beginning with the 2012 Form 10-K, the Company began reporting all dollar amounts in millions. In certain circumstances, this change in rounding resulted in prior year disclosures being removed.

Recently Issued Accounting Pronouncements. In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-10, Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. The standard permits the Fed Funds Effective Swap Rate to be used as a benchmark interest rate for hedge accounting purposes. The new guidance is effective for hedging relationships entered into on or after July 17, 2013 and is not expected to have a material effect on the Company’s financial condition, results of operations or cash flows.

In July 2012, the FASB issued ASU No. 2012-02, Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. ASU 2012-02 applies to long-lived intangible assets, other than goodwill, that are not subject to amortization on the basis that they have indefinite useful lives. This standard is intended to simplify impairment testing by adding a qualitative review step to assess whether the required quantitative impairment analysis that exists today is necessary. Under the new standard, a company will not be required to calculate the fair value of the intangible asset unless it concludes, based on the qualitative assessment, that it is more likely than not that the fair value of that asset is less than its book value. If such a decline in fair value is deemed more likely than not to have occurred, then the quantitative impairment test that exists under current GAAP must be completed; otherwise, the asset is deemed to be not impaired and no further testing is required until the next annual test date (or sooner if conditions or events before that date raise concerns of potential impairment of the asset). The amended impairment guidance does not affect the manner in which fair value is determined. The new guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company's non-amortizable intangibles consist of $155 million of acquired trade names and other assets primarily associated with Diners Club. Because this standard impacts the impairment analysis only, it will have no effect on the Company's financial condition, results of operations or cash flows.

2. Business Combinations

Acquisition of Diners Club Italia S.r.l. ("Diners Club Italy") and Dinit d.o.o. ("Dinit"). On May 21, 2013, through its Discover Financial Services (UK) Limited subsidiary, the Company acquired Diners Club Italy and its wholly-owned subsidiary Dinit to support business operations and the Company's global payments strategy. The cash consideration paid for the acquisition was one euro. Subsequent to the purchase, a capital infusion of approximately €45 million (approximately $58 million) was executed primarily to settle outstanding debt. The primary assets acquired as part of the purchase were charge card receivables of approximately $34 million, which were recorded in the Payment Services segment. Since the acquisition date, the results of operations and cash flows from Diners Club Italy and Dinit have been included in the Company's consolidated results of operations and cash flows, and did not have a material impact to the Company.

Acquisition of the net assets of Home Loan Center, Inc. On June 6, 2012, through its Discover Home Loans, Inc. subsidiary, the Company acquired substantially all of the operating and related assets and certain liabilities of Home Loan Center, Inc. ("Home Loan Center"), a subsidiary of Tree.com, Inc., adding a residential mortgage lending component to the Company's direct banking business. In exchange for the net assets acquired, the Company paid an aggregate of $49 million, including payments made prior to the closing that were applied to the closing price. A portion of such amount is being held in escrow pending Home Loan Center's ability to discharge certain contingent liabilities related to loans previously sold to secondary market investors. These contingent liabilities were not assumed by the Company. During the second quarter of 2013, an additional $10 million of purchase price due on the first anniversary of the closing was paid as certain conditions were satisfied. Since the acquisition date, the results of operations and cash flows of Discover Home Loans, Inc. have been included in the Company's consolidated results of operations and cash flows.

3. Investments

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

	June 30, 2013	December 31, 2012
U.S. Treasury securities	$2,068	$2,460
U.S. government agency securities	1,570	2,233

States and political subdivisions of states	24	34
Other securities:		
Credit card asset-backed securities of other issuers	41	151
Residential mortgage-backed securities - Agency [(1)]	1,240	1,354
Total other securities	1,281	1,505
Total investment securities	$4,943	$6,232

(1) 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 June 30, 2013				
Available-for-Sale Investment Securities [1]				
U.S. Treasury securities	$2,036	$31	$—	$2,067
U.S. government agency securities	1,540	30	—	1,570
Credit card asset-backed securities of other issuers	40	1	—	41
Residential mortgage-backed securities - Agency	1,209	—	(15)	1,194
Total available-for-sale investment securities	$4,825	$62	$(15)	$4,872
Held-to-Maturity Investment Securities [2]				
U.S. Treasury securities [3]	$1	$—	$—	$1
States and political subdivisions of states	24	—	(1)	23
Residential mortgage-backed securities - Agency [4]	46	—	—	46
Total held-to-maturity investment securities	$71	$—	$(1)	$70
At December 31, 2012				
Available-for-Sale Investment Securities [1]				
U.S. Treasury securities	$2,413	$46	$—	$2,459
U.S. government agency securities	2,187	46	—	2,233
Credit card asset-backed securities of other issuers	149	2	—	151
Residential mortgage-backed securities - Agency	1,282	20	—	1,302
Total available-for-sale investment securities	$6,031	$114	$—	$6,145
Held-to-Maturity Investment Securities [2]				
U.S. Treasury securities [3]	$1	$—	$—	$1
States and political subdivisions of states	34	—	—	34
Residential mortgage-backed securities - Agency [4]	52	2	—	54
Total held-to-maturity investment securities	$87	$2	$—	$89

(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 as of June 30, 2013 (dollars in millions). There were no material securities in a loss position as of December 31, 2012.

	Number of Securities in a Loss Position	Less than 12 months		More than 12 months	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At June 30, 2013					
Available-for-Sale Investment Securities					
Residential mortgage-backed securities - Agency	21	$1,125	$15	$—	$—

Held-to-Maturity Investment Securities					
State and political subdivisions of states	4	$16	$1	$1	$—

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The Company received $269 million and $588 million of proceeds related to maturities, redemptions, or liquidation of investment securities during the three months ended June 30, 2013 and 2012, respectively, and $578 million and $1.0 billion during the six months ended June 30, 2013 and 2012, respectively.

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. Proceeds from the sales of available-for-sale investment securities, comprised of U.S. Treasury securities and U.S. government agency securities, were $719 million during the six months ended June 30, 2013. The Company recognized gains on investments of $3 million during this period, which were recorded entirely in earnings. These gains were driven primarily by gains on sales of available-for-sale investment securities of $2 million, which were calculated using the specific identification method. There were no gains or losses related to sales of investment securities during the three months ended June 30, 2013 or the three and six months ended June 30, 2012. There were no gains or losses related to other than temporary impairments during the three and six months ended June 30, 2013 or 2012.

The Company records unrealized gains and losses on its available-for-sale investment securities in other comprehensive income. For the three months ended June 30, 2013 and 2012, the Company recorded net unrealized losses of $51 million ($31 million after tax) and net unrealized gains of $24 million ($15 million after tax), respectively, in other comprehensive income. For the six months ended June 30, 2013 and 2012, the Company recorded net unrealized losses of $67 million ($42 million after tax) and net unrealized gains of $12 million ($7 million after tax), respectively, in other comprehensive income.

Maturities of available-for-sale debt securities and held-to-maturity debt securities at June 30, 2013 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
Available-for-sale—Amortized Cost[1]					
U.S. Treasury securities	$540	$1,496	$—	$—	$2,036
U.S. government agency securities	131	1,409	—	—	1,540
Credit card asset-backed securities of other issuers	40	—	—	—	40
Residential mortgage-backed securities - Agency	—	—	347	862	1,209
Total available-for-sale investment securities	$711	$2,905	$347	$862	$4,825
Held-to-maturity—Amortized Cost[2]					
U.S. Treasury securities	$1	$—	$—	$—	$1
State and political subdivisions of states	1	1	—	22	24
Residential mortgage-backed securities - Agency[3]	—	—	—	46	46
Total held-to-maturity investment securities	$2	$1	$—	$68	$71
Available-for-sale—Fair Values[1]					
U.S. Treasury securities	$542	$1,525	$—	$—	$2,067
U.S. government agency securities	131	1,439	—	—	1,570
Credit card asset-backed securities of other issuers	41	—	—	—	41
Residential mortgage-backed securities - Agency	—	—	344	850	1,194
Total available-for-sale investment securities	$714	$2,964	$344	$850	$4,872
Held-to-maturity—Fair Values[2]					
U.S. Treasury securities	$1	$—	$—	$—	$1
State and political subdivisions of states	1	1	—	21	23
Residential mortgage-backed securities - Agency[3]	—	—	—	46	46
Total held-to-maturity investment securities	$2	$1	$—	$67	$70

(1) Available-for-sale investment securities are reported at fair value.

(2) Held-to-maturity investment securities are reported at amortized cost.

(3) 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.

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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 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 June 30, 2013 and December 31, 2012, the Company had outstanding investments in these entities of $280 million and $259 million, respectively, and related contingent liabilities of $72 million and $79 million, respectively.

4. Loan Receivables

The Company has three portfolio segments: credit card loans, other loans and purchased credit-impaired ("PCI") student loans. Within these portfolio segments, the Company has classes of receivables which are depicted in the table below (dollars in millions):

	June 30, 2013	December 31, 2012
Mortgage loans held for sale (1)	$275	$355
Loan portfolio:		
Credit card loans:		
Discover card (2)	49,584	50,929
Discover business card	207	206
Total credit card loans	49,791	51,135
Other loans:		
Personal loans	3,630	3,296
Private student loans	3,447	3,072
Other	126	38
Total other loans	7,203	6,406
PCI student loans (3)	4,434	4,702
Total loan portfolio	61,428	62,243
Total loan receivables	61,703	62,598
Allowance for loan losses	(1,556)	(1,788)
Net loan receivables	$60,147	$60,810

(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 $18.3 billion and $18.8 billion underlying investors' interest in trust debt at June 30, 2013 and December 31, 2012, respectively, and $14.8 billion and $16.0 billion in seller's interest at June 30, 2013 and December 31, 2012, respectively. See Note 5: Credit Card and Student Loan Securitization Activities for further information.

(3) Amounts include $2.4 billion and $2.5 billion of loans pledged as collateral against the notes issued from the Student Loan Corporation (SLC) securitization trusts at June 30, 2013 and December 31, 2012, respectively. See Note 5: Credit Card and Student Loan Securitization Activities. Of the remaining $2.0 billion and $2.2 billion at June 30, 2013 and December 31, 2012, respectively, that were not pledged as collateral, approximately $19 million and $17 million represent loans eligible for reimbursement through an indemnification claim, respectively. 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 nonaccrual 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, credit card and closed-end consumer loan receivables may resume accruing interest.

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Information related to the delinquencies and 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):

Delinquent and Non-Accruing Loans:

	30-89 Days Delinquent	90 or More Days Delinquent	Total Past Due	90 or More Days Delinquent and Accruing	Total Non-accruing[1]
At June 30, 2013					
Credit card loans:					
Discover card [2]	$390	$396	$786	$351	$ 163
Discover business card	1	2	3	2	1
Total credit card loans	391	398	789	353	164
Other loans:					
Personal loans [3]	16	7	23	5	5
Private student loans (excluding PCI) [4]	35	13	48	9	4
Other	—	1	1	—	31
Total other loans (excluding PCI)	51	21	72	14	40
Total loan receivables (excluding PCI)	442	419	861	367	204
At December 31, 2012					
Credit card loans:					
Discover card [2]	$455	$458	$913	$407	$ 183
Discover business card	2	2	4	2	1
Total credit card loans	457	460	917	409	184
Other loans:					
Personal loans [3]	18	8	26	7	4
Private student loans (excluding PCI) [4]	28	9	37	7	2
Other	—	1	1	—	2
Total other loans (excluding PCI)	46	18	64	14	8
Total loan receivables (excluding PCI)	503	478	981	423	192

(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 and $8 million for the three months ended June 30, 2013 and 2012, respectively, and was $15 million and $16 million for the six months ended June 30, 2013 and 2012, respectively. The Company does not separately track 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' current balances and most recent rates.

(2) Consumer credit card loans that are 90 or more days delinquent and accruing interest include $41 million and $52 million of loans accounted for as troubled debt restructurings at June 30, 2013 and December 31, 2012, respectively.

(3) Personal loans that are 90 or more days delinquent and accruing interest include $1 million and $2 million of loans accounted for as troubled debt restructurings at June 30, 2013 and December 31, 2012, respectively.

(4) Private student loans that are 90 or more days delinquent and accruing interest include $2 million of loans accounted for as troubled debt restructurings at each of June 30, 2013 and December 31, 2012.

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Net Charge-offs. The Company's net charge-offs include the principal amount of losses 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. 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.

Net Charge-Offs:

	For the Three Months Ended June 30,					
	2013			2012		
	Net Charge-offs	Net Charge-off Rate		Net Charge-offs	Net Charge-off Rate	
Credit card loans:						
Discover card	$284	2.34	%	$312	2.72	%
Discover business card	2	2.14	%	2	3.45	%
Total credit card loans	286	2.34	%	314	2.72	%
Other loans:						
Personal loans	19	2.24	%	17	2.25	%
Private student loans (excluding PCI)	13	1.58	%	4	0.73	%
Total other loans (excluding PCI)	32	1.83	%	21	1.54	%
Net charge-offs as a percentage of total loans (excluding PCI)	$318	2.27	%	$335	2.60	%
Net charge-offs as a percentage of total loans (including PCI)	$318	2.10	%	$335	2.37	%

	For the Six Months Ended June 30,					
	2013			2012		
	Net Charge-offs	Net Charge-off Rate		Net Charge-offs	Net Charge-off Rate	
Credit card loans:						
Discover card	$570	2.35	%	$648	2.81	%
Discover business card	3	2.40	%	4	3.69	%
Total credit card loans	573	2.35	%	652	2.82	%
Other loans:						
Personal loans	38	2.27	%	34	2.40	%
Private student loans (excluding PCI)	20	1.21	%	7	0.60	%
Total other loans (excluding PCI)	58	1.67	%	41	1.56	%
Net charge-offs as a percentage of total loans (excluding PCI)	$631	2.26	%	$693	2.68	%
Net charge-offs as a percentage of total loans (including PCI)	$631	2.09	%	$693	2.44	%

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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. 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 June 30, 2013				
Discover card	83	%	17	%
Discover business card	92	%	8	%
Personal loans	97	%	3	%
Private student loans (excluding PCI) [(1)]	95	%	5	%
At December 31, 2012				
Discover card	83	%	17	%
Discover business card	91	%	9	%
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 and willing to make payments the ability to temporarily suspend payments. Eligible borrowers have a lifetime cap on forbearance of 12 months. At June 30, 2013 and December 31, 2012, there were $118 million and $183 million of loans in forbearance, respectively. In addition, at June 30, 2013 and December 31, 2012, there were 2.1% and 3.4% of private student loans in forbearance as a percentage of student loans in repayment and forbearance, respectively. At December 31, 2012, the dollar amount of loans in forbearance and loans in forbearance as a percentage of private student loans in repayment and forbearance were higher due to administrative forbearances that were offered to certain customers impacted by Hurricane Sandy.

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 loan balances used in the migration analysis represent all amounts contractually due and, as a result, the migration analysis captures principal, interest and fee components in estimating uncollectible accounts. 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, current 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 "- Impaired Loans and Troubled Debt Restructurings." Certain other loans, including non-performing Diners Club licensee loans, are not represented in our migration analysis and are individually evaluated for impairment.

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The following tables provide changes in the Company’s allowance for loan losses for the three months ended June 30, 2013 and 2012 and the six months ended June 30, 2013 and 2012, respectively (dollars in millions):

	For the Three Months Ended June 30, 2013				
	Credit Card	Personal Loans	Student Loans	Other	Total
Balance at beginning of period	$1,453	$97	$83	$1	$1,634
Additions:					
Provision for loan losses	193	20	12	15	240
Deductions:					
Charge-offs	(417)	(22)	(14)	—	(453)
Recoveries	131	3	1	—	135
Net charge-offs	(286)	(19)	(13)	—	(318)
Balance at end of period	$1,360	$98	$82	$16	$1,556

	For the Three Months Ended June 30, 2012				
	Credit Card	Personal Loans	Student Loans	Other	Total
Balance at beginning of period	$1,822	$91	$58	$—	$1,971
Additions:					
Provision for loan losses	231	16	14	1	262
Deductions:					
Charge-offs	(463)	(18)	(4)	—	(485)
Recoveries	149	1	—	—	150
Net charge-offs	(314)	(17)	(4)	—	(335)
Balance at end of period	$1,739	$90	$68	$1	$1,898

	For the Six Months Ended June 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	320	37	27	15	399
Deductions:					
Charge-offs	(839)	(42)	(21)	—	(902)
Recoveries	266	4	1	—	271
Net charge-offs	(573)	(38)	(20)	—	(631)
Balance at end of period	$1,360	$98	$82	$16	$1,556

	For the Six Months Ended June 30, 2012				
	Credit Card	Personal Loans	Student Loans	Other	Total
Balance at beginning of period	$2,101	$85	$59	$—	$2,245
Additions:					
Provision for loan losses	290	39	16	1	346
Deductions:					
Charge-offs	(953)	(36)	(7)	—	(996)
Recoveries	301	2	—	—	303
Net charge-offs	(652)	(34)	(7)	—	(693)

Balance at end of period	$1,739	$90	$68	$1	$1,898

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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 June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Interest and fees accrued subsequently charged off, net of recoveries (recorded as a reduction of interest income)	$70	$87	$147	$186
Fees accrued subsequently charged off, net of recoveries (recorded as a reduction to other income)	$14	$17	$30	$36

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 June 30, 2013					
Allowance for loans evaluated for impairment as:					
Collectively evaluated for impairment in accordance with ASC 450-20	$1,148	$95	$77	$—	$1,320
Evaluated for impairment in accordance with ASC 310-10-35 (1)(2)	212	3	5	16	236
Acquired with deteriorated credit quality, evaluated in accordance with ASC 310-30	—	—	—	—	—
Total allowance for loan losses	$1,360	$98	$82	$16	$1,556
Recorded investment in loans evaluated for impairment as:					
Collectively evaluated for impairment in accordance with ASC 450-20	$48,604	$3,605	$3,426	$41	$55,676
Evaluated for impairment in accordance with ASC 310-10-35 (1)(2)	1,187	25	21	85	1,318
Acquired with deteriorated credit quality, evaluated in accordance with ASC 310-30	—	—	4,434	—	4,434
Total recorded investment	$49,791	$3,630	$7,881	$126	$61,428
At December 31, 2012					
Allowance for loans evaluated for impairment as:					
Collectively evaluated for impairment in accordance with ASC 450-20	$1,433	$95	$71	$1	$1,600
Evaluated for impairment in accordance with ASC 310-10-35 (1)(2)	180	4	4	—	188
Acquired with deteriorated credit quality, evaluated in accordance with ASC 310-30	—	—	—	—	—
Total allowance for loan losses	$1,613	$99	$75	$1	$1,788
Recorded investment in loans evaluated for impairment as:					
Collectively evaluated for impairment in accordance with ASC 450-20	$49,826	$3,275	$3,056	$38	$56,195
Evaluated for impairment in accordance with ASC 310-10-35 (1)(2)	1,309	21	16	—	1,346
Acquired with deteriorated credit quality, evaluated in accordance with ASC 310-30	—	—	4,702	—	4,702

Total recorded investment	$51,135	$3,296	$7,774	$38	$62,243

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

(2) The unpaid principal balance of credit card loans was $1.0 billion and $1.1 billion at June 30, 2013 and December 31, 2012, respectively. The unpaid principal balance of personal loans was $25 million and $21 million at June 30, 2013 and December 31, 2012, respectively. The unpaid principal balance of student loans was $20 million and $15 million at June 30, 2013 and December 31, 2012, respectively. All loans accounted for as troubled debt restructurings have a related allowance for loan losses.

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Impaired Loans and Troubled Debt Restructurings. Permanent and certain temporary modification programs for credit card loans as well as loans that defaulted or graduated from modification programs, certain grants of student loan forbearance and certain modifications to personal loans as well as those that defaulted or graduated from modification programs are considered troubled debt restructurings and are accounted for in accordance with ASC 310-40, Troubled Debt Restructurings by Creditors. Generally, loans included in a loan modification program are considered to be individually impaired and are accounted for as troubled debt restructurings. The Company has both internal and external loan modification programs that provide relief to credit card and personal loan borrowers who are experiencing financial hardship. The internal loan modification programs include both temporary and permanent programs.

For our 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 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 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 forbearance period as the historical performance of these borrowers is not significantly different from the overall portfolio. However, when a delinquent borrower is granted a second forbearance period, the forbearance is considered a troubled debt restructuring.

For personal loan customers, the Company offers two temporary programs which normally consist of a reduction of the minimum payment for a period of no longer than 12 months with a final balloon payment required at the end of the loan term. In addition, the temporary APR reduction program also provides an interest rate reduction for up to 12 months. The permanent programs involve changing the terms of the loan in order to pay off the outstanding balance over the new term for a period no longer than 4 years. The total term, including both the original and renegotiated terms, generally does not exceed 9 years. The Company offers another permanent program which modifies the interest rate along with the term of the loan. The Company also allows loan modifications for personal loan customers who request financial assistance through external sources, similar to credit card customers discussed above. Payments are modified based on the new terms agreed upon with the credit counseling agency. Personal loans modified through temporary and permanent internal programs are accounted for as troubled debt restructurings.

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 it applies 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 lower risk cardmembers. 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 June 30, 2013			
Credit card loans			
Modified credit card loans (3)	$270	$12	$1
Internal programs	$470	$2	$16
External programs	$476	$9	$2
Personal loans (4)	$24	$—	N/A
Student loans (4)	$20	$1	N/A
For the Three Months Ended June 30, 2012			
Credit card loans			
Modified credit card loans (3)	$268	$12	$—
Internal programs	$568	$5	$18
External programs	$602	$12	$2
Personal loans (4)	$14	$1	N/A
Student loans (4)	$9	$—	N/A
For the Six Months Ended June 30, 2013			
Credit card loans			
Modified credit card loans (3)	$275	$25	$2
Internal programs	$480	$5	$33
External programs	$492	$19	$5
Personal loans (4)	$23	$1	N/A
Student loans (4)	$19	$1	N/A
For the Six Months Ended June 30, 2012			
Credit card loans			
Modified credit card loans (3)	$272	$24	$1
Internal programs	$569	$9	$36
External programs	$617	$26	$4
Personal loans (4)	$13	$1	N/A
Student loans (4)	$8	$—	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 that have subsequently reverted back to the loans' pre-modification payment terms either due to noncompliance with the terms of the modification or successful completion of a temporary modification program.

(4) For personal loan customers in modification programs, gross interest income that would have been recorded with original terms is not significant for accounts in which there was an APR reduction. Student loan customers who have been granted a forbearance are not given interest rate reductions.

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In order to evaluate the primary financial effects which resulted from credit card loans entering into a loan modification program during the three and six months ended June 30, 2013 and 2012, the Company quantified the amount by which interest and fees were reduced during the period. During the three months ended June 30, 2013 and 2012, the Company forgave approximately $9 million and $11 million, respectively, of interest and fees as a result of accounts entering into a credit card loan modification program. During the six months ended June 30, 2013 and 2012, the Company forgave approximately $20 million and $23 million, respectively, 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 the period (dollars in millions):

	For the Three Months Ended June 30,			
	2013		2012	
	Number of Accounts	Balances	Number of Accounts	Balances
Accounts that entered a loan modification program during the period:				
Credit card:				
Internal programs	9,076	$57	12,515	$85
External programs	8,456	$45	9,802	$54
Personal loans	510	$6	453	$6
Student loans	126	$3	127	$3

	For the Six Months Ended June 30,			
	2013		2012	
	Number of Accounts	Balances	Number of Accounts	Balances
Accounts that entered a loan modification program during the period:				
Credit card:				
Internal programs	19,478	$123	27,665	$191
External programs	17,987	$97	20,752	$117
Personal loans	953	$12	877	$11
Student loans	298	$7	240	$5

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The following table presents the carrying value of loans that experienced a payment default during the three months ended June 30, 2013 and 2012 and the six months ended June 30, 2013 and 2012 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 June 30,			
	2013		2012	
	Number of Accounts	Aggregated Outstanding Balances Upon Default	Number of Accounts	Aggregated Outstanding Balances Upon Default
Troubled debt restructurings that subsequently defaulted:				
Credit card (1)(2)(3):				
Internal programs	2,512	$16	3,984	$27
External programs	1,970	$8	2,314	$11
Personal loans (2)	61	$1	42	$1
Student loans (4)	56	$2		