SCHWAB CHARLES CORP
Form 10-Q
August 06, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

Commission File Number: 1-9700

THE CHARLES SCHWAB CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	94-3025021
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

211 Main Street, San Francisco, CA 94105

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (415) 667-7000

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 T No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes T No £

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes £ No T

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

1,284,909,433 shares of $.01 par value Common Stock
Outstanding on July 24, 2013

THE CHARLES SCHWAB CORPORATION

Quarterly Report on Form 10-Q

For the Quarter Ended June 30, 2013

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Part I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

THE CHARLES SCHWAB CORPORATION

Condensed Consolidated Statements of Income

(In millions, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Revenues				
Asset management and administration fees	$ 572	$ 496	$ 1,124	$ 980
Interest revenue	499	497	996	969
Interest expense	(26)	(39)	(54)	(77)
Net interest revenue	473	458	942	892
Trading revenue	235	219	458	462
Other	59	121	115	167
Provision for loan losses	1	(4)	(5)	(4)
Net impairment losses on securities [1]	(3)	(7)	(7)	(25)
Total net revenues	1,337	1,283	2,627	2,472
Expenses Excluding Interest				
Compensation and benefits	494	446	1,030	911
Professional services	106	93	205	189
Occupancy and equipment	77	80	154	156
Advertising and market development	67	57	141	124
Communications	56	55	110	113
Depreciation and amortization	51	48	102	96
Other	74	72	142	138
Total expenses excluding interest	925	851	1,884	1,727
Income before taxes on income	412	432	743	745
Taxes on income	156	157	281	275
Net Income	256	275	462	470
Preferred stock dividends	23	14	31	14
Net Income Available to Common Stockholders	$ 233	$ 261	$ 431	$ 456
Weighted-Average Common Shares Outstanding — Diluted	1,288	1,274	1,285	1,273

Earnings Per Common Share — Basic	$ .18	$ .20	$ .33	$ .36
Earnings Per Common Share — Diluted	$ .18	$ .20	$ .33	$ .36

(1) Net impairment losses on securities include total other-than-temporary impairment losses of $2 million and $12 million, net of $(1) million and $5 million reclassified from or recognized in other comprehensive income, for the three months ended June 30, 2013 and 2012, respectively. Net impairment losses on securities include total other-than-temporary impairment losses of $2 million and $14 million, net of $(5) million and $(11) million reclassified from other comprehensive income, for the six months ended June 30, 2013 and 2012, respectively.

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Condensed Consolidated Statements of Comprehensive (Loss) Income

(In millions)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net Income	$ 256	$ 275	$ 462	$ 470
Other comprehensive (loss) income, before tax:				
Change in net unrealized gain on securities available for sale:				
Net unrealized (loss) gain	(477)	119	(480)	208
Reclassification of impairment charges included in net impairment losses on securities	3	7	7	25
Other reclassifications included in other revenue	(3)	(1)	(3)	(1)
Other	-	-	1	-
Other comprehensive (loss) income, before tax	(477)	125	(475)	232
Income tax effect	180	(47)	180	(86)
Other comprehensive (loss) income, net of tax	(297)	78	(295)	146
Comprehensive (Loss) Income	$ (41)	$ 353	$ 167	$ 616

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Condensed Consolidated Balance Sheets

(In millions, except per share and share amounts)

(Unaudited)

	June 30, 2013	December 31, 2012
Assets		
Cash and cash equivalents	$ 6,234	$ 12,663
Cash and investments segregated and on deposit for regulatory purposes (including resale agreements of $18,214 at June 30, 2013 and $19,325 at December 31, 2012)	27,011	28,469
Receivables from brokers, dealers, and clearing organizations	395	333
Receivables from brokerage clients — net	12,825	13,458
Other securities owned — at fair value	488	636
Securities available for sale	48,414	46,123
Securities held to maturity (fair value — $25,288 at June 30, 2013 and $18,732 at December 31, 2012)	25,818	18,194
Loans to banking clients — net	11,732	10,726
Equipment, office facilities, and property — net	711	675
Goodwill	1,231	1,228
Intangible assets — net	290	319
Other assets	758	813
Total assets	$ 135,907	$ 133,637
Liabilities and Stockholders' Equity		
Deposits from banking clients	$ 84,345	$ 79,377
Payables to brokers, dealers, and clearing organizations	2,150	1,068
Payables to brokerage clients	36,852	40,330
Accrued expenses and other liabilities	1,210	1,641
Long-term debt	1,630	1,632
Total liabilities	126,187	124,048
Stockholders' equity:		
Preferred stock — $.01 par value per share; aggregated liquidation preference of $885 at both June 30, 2013 and December 31, 2012	867	865
Common stock — 3 billion shares authorized; $.01 par value per share; 1,487,543,446 shares issued	15	15

Additional paid-in capital	3,932	3,881
Retained earnings	8,830	8,554
Treasury stock, at cost — 203,545,769 shares at June 30, 2013 and 210,014,305 shares at December 31, 2012	(3,927)	(4,024)
Accumulated other comprehensive income	3	298
Total stockholders’ equity	9,720	9,589
Total liabilities and stockholders’ equity	$ 135,907	$ 133,637

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Condensed Consolidated Statement of Cash Flows

(In millions)

(Unaudited)

	Six Months Ended June 30, 2013	2012
Cash Flows from Operating Activities		
Net income	$ 462	$ 470
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Provision for loan losses	5	4
Net impairment losses on securities	7	25
Stock-based compensation	59	54
Depreciation and amortization	102	96
Premium amortization, net, on securities available for sale and securities held to maturity	92	98
Other	20	1
Originations of loans held for sale	-	(435)
Proceeds from sales of loans held for sale	-	505
Net change in:		
Cash and investments segregated and on deposit for regulatory purposes	1,458	3,311
Receivables from brokers, dealers, and clearing organizations	(62)	(86)
Receivables from brokerage clients	631	(885)
Other securities owned	148	168
Other assets	16	49
Payables to brokers, dealers, and clearing organizations	662	212
Payables to brokerage clients	(3,478)	(3,656)
Accrued expenses and other liabilities	42	(163)
Net cash provided by (used for) operating activities	164	(232)
Cash Flows from Investing Activities		
Purchases of securities available for sale	(12,587)	(14,114)
Proceeds from sales of securities available for sale	3,004	1,323
Principal payments on securities available for sale	7,017	6,904
Purchases of securities held to maturity	(9,914)	(3,029)
Principal payments on securities held to maturity	2,413	2,566

Net increase in loans to banking clients	(976)	(62)
Purchase of equipment, office facilities, and property	(111)	(76)
Other investing activities	2	-
Net cash used for investing activities	(11,152)	(6,488)
Cash Flows from Financing Activities		
Net change in deposits from banking clients	4,968	5,403
Repayment of commercial paper	(300)	-
Repayment of long-term debt	(3)	(3)
Net proceeds from preferred stock offerings	-	864
Dividends paid	(184)	(154)
Proceeds from stock options exercised and other	81	20
Other financing activities	(3)	-
Net cash provided by financing activities	4,559	6,130
Decrease in Cash and Cash Equivalents	(6,429)	(590)
Cash and Cash Equivalents at Beginning of Period	12,663	8,679
Cash and Cash Equivalents at End of Period	$ 6,234	$ 8,089
Supplemental Cash Flow Information		
Cash paid during the period for:		
Interest	$ 51	$ 74
Income taxes	$ 277	$ 221
Non-cash investing activities:		
Securities purchased during the period but settled after period end	$ 420	$ 22

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Notes to Condensed Consolidated Financial Statements

(Tabular Amounts in Millions, Except Per Share Data, Ratios, or as Noted)

(Unaudited)

1. Introduction and Basis of Presentation

The Charles Schwab Corporation (CSC) is a savings and loan holding company engaged, through its subsidiaries, in securities brokerage, banking, money management, and financial advisory services. Charles Schwab & Co., Inc. (Schwab) is a securities broker-dealer with over 300 domestic branch offices in 45 states, as well as a branch in each of the Commonwealth of Puerto Rico and London, U.K. In addition, Schwab serves clients in Hong Kong through one of CSC's subsidiaries. Other subsidiaries include Charles Schwab Bank (Schwab Bank), a federal savings bank, and Charles Schwab Investment Management, Inc. (CSIM), the investment advisor for Schwab's proprietary mutual funds, which are referred to as the Schwab Funds®, and for Schwab's exchange-traded funds, which are referred to as the Schwab ETFs™.

The accompanying unaudited condensed consolidated financial statements include CSC and its majority-owned subsidiaries (collectively referred to as the Company). Intercompany balances and transactions have been eliminated. These condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (U.S.), which require management to make certain estimates and assumptions that affect the reported amounts in the accompanying financial statements. Certain estimates relate to other-than-temporary impairment of securities available for sale and securities held to maturity, valuation of goodwill, allowance for loan losses, and legal and regulatory reserves. Actual results may differ from those estimates. These condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the periods presented. These adjustments are of a normal recurring nature. Certain prior period amounts have been reclassified to conform to the 2013 presentation. The Company's results for any interim period are not necessarily indicative of results for a full year or any other interim period. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, as updated by the Company's Current Report on Form 8-K filed on June 24, 2013, relating to the realignment of the Company's reportable segments.

The Company's significant accounting policies are included in note "2 – Summary of Significant Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, as updated by its Current Report on Form 8-K filed on June 24, 2013. There have been no significant changes to these accounting policies during the first half of 2013.

2. Securities Available for Sale and Securities Held to Maturity

The amortized cost, gross unrealized gains and losses, and fair value of securities available for sale and securities held to maturity are as follows:

June 30, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. agency mortgage-backed securities	$ 18,422	$ 202	$ 16	$ 18,608
Asset-backed securities	11,895	21	77	11,839
Corporate debt securities	8,306	39	26	8,319
Certificates of deposit	4,915	7	1	4,921
U.S. agency notes	3,740	-	105	3,635
Non-agency residential mortgage-backed securities	700	5	54	651
Commercial paper	160	-	-	160
Other securities	272	9	-	281
Total securities available for sale	$ 48,410	$ 283	$ 279	$ 48,414
Securities held to maturity:				
U.S. agency mortgage-backed securities	$ 24,887	$ 184	$ 643	$ 24,428
Other securities	931	-	71	860
Total securities held to maturity	$ 25,818	$ 184	$ 714	$ 25,288

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Notes to Condensed Consolidated Financial Statements

(Tabular Amounts in Millions, Except Per Share Data, Ratios, or as Noted)

(Unaudited)

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. agency mortgage-backed securities	$ 20,080	$ 396	$ -	$ 20,476
Asset-backed securities	8,104	62	2	8,164
Corporate debt securities	6,197	61	2	6,256
Certificates of deposit	6,150	12	1	6,161
U.S. agency notes	3,465	2	3	3,464
Non-agency residential mortgage-backed securities	796	2	65	733
Commercial paper	574	-	-	574
Other securities	278	17	-	295
Total securities available for sale	$ 45,644	$ 552	$ 73	$ 46,123
Securities held to maturity:				
U.S. agency mortgage-backed securities	$ 17,750	$ 558	$ 19	$ 18,289
Other securities	444	-	1	443
Total securities held to maturity	$ 18,194	$ 558	$ 20	$ 18,732

A summary of securities with unrealized losses, aggregated by category and period of continuous unrealized loss, is as follows:

June 30, 2013	Less than 12 months Fair Value	Unrealized Losses	12 months or longer Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Securities available for sale:						
U.S agency mortgage-backed securities	$ 2,416	$ 16	$ -	$ -	$ 2,416	$ 16
Asset-backed securities	8,704	70	481	7	9,185	77
Corporate debt securities	2,555	25	250	1	2,805	26
Certificates of deposit	774	1	-	-	774	1
U.S. agency notes	3,635	105	-	-	3,635	105
Non-agency residential mortgage-backed securities	181	5	401	49	582	54
Total	$ 18,265	$ 222	$ 1,132	$ 57	$ 19,397	$ 279
Securities held to maturity:						

U.S. agency mortgage-backed securities	$ 16,315	$ 643	$ -	$ -	$ 16,315	$ 643
Other securities	760	71	-	-	760	71
Total	$ 17,075	$ 714	$ -	$ -	$ 17,075	$ 714
Total securities with unrealized losses [1]	$ 35,340	$ 936	$ 1,132	$ 57	$ 36,472	$ 993

[1] The number of investment positions with unrealized losses totaled 238 for securities available for sale and 135 for securities held to maturity.

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Notes to Condensed Consolidated Financial Statements

(Tabular Amounts in Millions, Except Per Share Data, Ratios, or as Noted)

(Unaudited)

December 31, 2012	Less than 12 months Fair Value	Unrealized Losses	12 months or longer Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Securities available for sale:						
Asset-backed securities	$ -	$ -	$ 801	$ 2	$ 801	$ 2
Corporate debt securities	878	2	-	-	878	2
Certificates of deposit	599	1	-	-	599	1
U.S. agency notes	2,102	3	-	-	2,102	3
Non-agency residential mortgage-backed securities	46	1	549	64	595	65
Total	$ 3,625	$ 7	$ 1,350	$ 66	$ 4,975	$ 73
Securities held to maturity:						
U.S. agency mortgage-backed securities	$ 2,680	$ 19	$ -	$ -	$ 2,680	$ 19
Other securities	240	1	-	-	240	1
Total	$ 2,920	$ 20	$ -	$ -	$ 2,920	$ 20
Total securities with unrealized losses (1)	$ 6,545	$ 27	$ 1,350	$ 66	$ 7,895	$ 93

(1) The number of investment positions with unrealized losses totaled 139 for securities available for sale and 24 for securities held to maturity.

Non-agency residential mortgage-backed securities include securities collateralized by loans that are considered to be “Prime” (defined as loans to borrowers with a Fair Isaac Corporation (FICO) credit score of 620 or higher at origination), and “Alt-A” (defined as Prime loans with reduced documentation at origination). Based on the Company’s cash flow projections, management determined that it does not expect to recover all of the amortized cost of certain of its Alt-A and Prime residential mortgage-backed securities and therefore determined that these securities were other-than-temporarily impaired (OTTI). Because the Company does not intend to sell these securities and it is not “more likely than not” that the Company will be required to sell these securities, the Company recognized an impairment charge equal to the securities’ expected credit losses of $3 million and $7 million during the second quarter and first half of 2013, respectively. The expected credit losses were measured as the difference between the present value of expected cash flows and the amortized cost of the securities. Further deterioration in the performance of the underlying loans in the Company’s non-agency residential mortgage-backed securities portfolio could result in the recognition of additional impairment losses.

The following table is a rollforward of the amount of credit losses recognized in earnings for OTTI securities held by the Company during the period for which a portion of the impairment was recognized in or reclassified from other comprehensive (loss) income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Balance at beginning of period	$ 163	$ 145	$ 159	$ 127
Credit losses recognized into current period earnings on debt securities for which an other-than-temporary impairment was not previously recognized	1	4	1	5
Credit losses recognized into current period earnings on debt securities for which an other-than-temporary impairment was previously recognized	2	3	6	20
Balance at end of period	$ 166	$ 152	$ 166	$ 152

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Notes to Condensed Consolidated Financial Statements

(Tabular Amounts in Millions, Except Per Share Data, Ratios, or as Noted)

(Unaudited)

The maturities of securities available for sale and securities held to maturity at June 30, 2013, are as follows:

	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
Securities available for sale:					
U.S. agency mortgage-backed securities [1]	$ -	$ 122	$ 3,974	$ 14,512	$ 18,608
Asset-backed securities	-	856	1,060	9,923	11,839
Corporate debt securities	2,234	6,085	-	-	8,319
Certificates of deposit	3,028	1,893	-	-	4,921
U.S. agency notes	-	1,781	1,854	-	3,635
Non-agency residential mortgage-backed securities [1]	-	2	3	646	651
Commercial paper	160	-	-	-	160
Other securities	-	-	-	281	281
Total fair value	$ 5,422	$ 10,739	$ 6,891	$ 25,362	$ 48,414
Total amortized cost	$ 5,412	$ 10,773	$ 6,888	$ 25,337	$ 48,410
Securities held to maturity:					
U.S. agency mortgage-backed securities [1]	$ -	$ -	$ 11,458	$ 12,970	$ 24,428
Other securities	-	100	334	426	860
Total fair value	$ -	$ 100	$ 11,792	$ 13,396	$ 25,288
Total amortized cost	$ -	$ 100	$ 12,219	$ 13,499	$ 25,818

[1] Mortgage-backed securities have been allocated to maturity groupings based on final contractual maturities. Actual maturities will differ from final contractual maturities because borrowers on a certain portion of loans underlying these securities have the right to prepay their obligations.

Proceeds and gross realized gains (losses) from sales of securities available for sale are as follows:

	Three Months Ended	Six Months Ended

	June 30,		June 30,	
	2013	2012	2013	2012
Proceeds	$ 3,004	$ 1,073	$ 3,004	$ 1,323
Gross realized gains	$ 3	$ 2	$ 3	$ 2
Gross realized losses	$ -	$ -	$ -	$ -

3.Loans to Banking Clients and Related Allowance for Loan Losses

The composition of loans to banking clients by loan segment is as follows:

	June 30, 2013	December 31, 2012
Residential real estate mortgages	$ 7,470	$ 6,507
Home equity lines of credit	3,125	3,287
Personal loans secured by securities	1,166	963
Other	28	25
Total loans to banking clients [1]	11,789	10,782
Allowance for loan losses	(57)	(56)
Total loans to banking clients – net	$ 11,732	$ 10,726

[1] All loans are evaluated for impairment by loan segment.

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Notes to Condensed Consolidated Financial Statements

(Tabular Amounts in Millions, Except Per Share Data, Ratios, or as Noted)

(Unaudited)

The Company has commitments to extend credit related to unused home equity lines of credit (HELOCs), personal loans secured by securities, and other lines of credit, which totaled $5.5 billion and $5.4 billion at June 30, 2013, and December 31, 2012, respectively.

Changes in the allowance for loan losses were as follows:

Three Months Ended	June 30, 2013			June 30, 2012		
	Residential real estate mortgages	Home equity lines of credit	Total	Residential real estate mortgages	Home equity lines of credit	Total
Balance at beginning of period	$ 40	$ 19	$ 59	$ 37	$ 13	$ 50
Charge-offs	(1)	(1)	(2)	(1)	(2)	(3)
Recoveries	-	1	1	-	-	-
Provision for loan losses	1	(2)	(1)	(2)	6	4
Balance at end of period	$ 40	$ 17	$ 57	$ 34	$ 17	$ 51

Six Months Ended	June 30, 2013			June 30, 2012		
	Residential real estate mortgages	Home equity lines of credit	Total	Residential real estate mortgages	Home equity lines of credit	Total
Balance at beginning of period	$ 36	$ 20	$ 56	$ 40	$ 14	$ 54
Charge-offs	(3)	(3)	(6)	(4)	(4)	(8)
Recoveries	1	1	2	1	-	1
Provision for loan losses	6	(1)	5	(3)	7	4
Balance at end of period	$ 40	$ 17	$ 57	$ 34	$ 17	$ 51

Included in the loan portfolio are nonaccrual loans totaling $43 million and $48 million at June 30, 2013 and December 31, 2012, respectively. There were no loans accruing interest that were contractually 90 days or more past due at June 30, 2013 or December 31, 2012. Nonperforming assets, which include nonaccrual loans and other real estate owned, totaled $46 million and $54 million at June 30, 2013 and December 31, 2012, respectively. Troubled debt restructurings were not material at June 30, 2013 or December 31, 2012.

In 2012, Schwab Bank launched a co-branded loan origination program for Schwab Bank clients (the Program) with Quicken Loans, Inc. (Quicken® Loans®). Pursuant to the Program, Quicken Loans originates and services first lien residential real estate mortgage loans (First Mortgages) and HELOCs for Schwab Bank clients. Under the Program, Schwab Bank purchases certain First Mortgages and HELOCs that are originated by Quicken Loans. Schwab Bank sets the underwriting guidelines and pricing for all loans it intends to purchase for its portfolio. Schwab Bank purchased First Mortgages of $928 million and $515 million during the second quarters of 2013 and 2012, respectively, and $2.2 billion and $586 million during the first halves of 2013 and 2012, respectively. The First Mortgages purchased under the Program are included in the First mortgages loan class in the tables below.

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Notes to Condensed Consolidated Financial Statements

(Tabular Amounts in Millions, Except Per Share Data, Ratios, or as Noted)

(Unaudited)

The delinquency analysis by loan class is as follows:

June 30, 2013	Current	30-59 days past due	60-89 days past due	>90 days past due and other nonaccrual loans	Total past due	Total loans
Residential real estate mortgages:						
First mortgages	$ 7,259	$ 14	$ 1	$ 27	$ 42	$ 7,301
Purchased first mortgages	162	2	-	5	7	169
Home equity lines of credit	3,108	4	3	10	17	3,125
Personal loans secured by securities	1,165	-	-	1	1	1,166
Other	28	-	-	-	-	28
Total loans to banking clients	$ 11,722	$ 20	$ 4	$ 43	$ 67	$ 11,789

December 31, 2012	Current	30-59 days past due	60-89 days past due	>90 days past due and other nonaccrual loans	Total past due	Total loans
Residential real estate mortgages:						
First mortgages	$ 6,291	$ 22	$ 2	$ 33	$ 57	$ 6,348
Purchased first mortgages	154	1	-	4	5	159
Home equity lines of credit	3,269	5	2	11	18	3,287
Personal loans secured by securities	963	-	-	-	-	963
Other	22	3	-	-	3	25
Total loans to banking clients	$ 10,699	$ 31	$ 4	$ 48	$ 83	$ 10,782

In addition to monitoring delinquency, the Company monitors the credit quality of residential real estate mortgages and HELOCs by stratifying the portfolios by the year of origination, borrower FICO scores at origination (Origination FICO), updated borrower FICO scores (Updated FICO), LTV ratios at origination (Origination LTV), and estimated current LTV ratios (Estimated Current LTV), as presented in the following tables. Borrowers' FICO scores are provided by an independent third party credit reporting service and were last updated in June 2013. The Origination LTV and Estimated Current LTV ratios for a HELOC include any first lien mortgage outstanding on the same property at the time of the HELOC's origination. The Estimated Current LTV for each loan is estimated by reference to a home price appreciation index.

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Notes to Condensed Consolidated Financial Statements

(Tabular Amounts in Millions, Except Per Share Data, Ratios, or as Noted)

(Unaudited)

	Residential real estate mortgages			
	First	Purchased first		Home equity
June 30, 2013	mortgages	mortgages	Total	lines of credit
Year of origination				
Pre-2009	$ 756	$ 56	$ 812	$ 2,172
2009	238	4	242	292
2010	644	9	653	215
2011	912	42	954	175
2012	2,731	27	2,758	172
2013	2,020	31	2,051	99
Total	$ 7,301	$ 169	$ 7,470	$ 3,125
Origination FICO				
<620	$ 10	$ 2	$ 12	$ -
620 – 679	99	15	114	21
680 – 739	1,285	34	1,319	599
>740	5,907	118	6,025	2,505
Total	$ 7,301	$ 169	$ 7,470	$ 3,125
Updated FICO				
<620	$ 50	$ 5	$ 55	$ 44
620 – 679	192	11	203	111
680 – 739	1,020	32	1,052	488
>740	6,039	121	6,160	2,482
Total	$ 7,301	$ 169	$ 7,470	$ 3,125
Origination LTV				
<70%	$ 4,900	$ 114	$ 5,014	$ 2,101
>70% – <90%	2,385	49	2,434	999
>90% – <100%	16	6	22	25
Total	$ 7,301	$ 169	$ 7,470	$ 3,125

June 30, 2013	Balance	Weighted Average Updated FICO	Utilization Rate [1]	Percent of Loans that are 90+ Days Past Due and Less than 90 Days Past Due but on Nonaccrual Status

Residential real estate mortgages:						
Estimated Current LTV						
<70%	$ 5,830	773	N/A		0.04	%
>70% – <90%	1,355	763	N/A		0.27	%
>90% – <100%	119	744	N/A		0.88	%
>100%	166	733	N/A		7.72	%
Total	$ 7,470	770	N/A		0.27	%
Home equity lines of credit:						
Estimated Current LTV						
<70%	$ 1,945	772	36	%	0.10	%
>70% – <90%	783	764	48	%	0.24	%
>90% – <100%	173	754	56	%	0.45	%
>100%	224	747	59	%	0.95	%
Total	$ 3,125	767	40	%	0.22	%

(1) The Utilization Rate is calculated using the outstanding HELOC balance divided by the associated total line of credit.

N/A Not applicable.

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	Residential real estate mortgages			
December 31, 2012	First mortgages	Purchased first mortgages	Total	Home equity lines of credit
Year of origination				
Pre-2009	$ 867	$ 62	$ 929	$ 2,338
2009	305	6	311	338
2010	909	12	921	249
2011	1,270	53	1,323	198
2012	2,997	26	3,023	164
Total	$ 6,348	$ 159	$ 6,507	$ 3,287
Origination FICO				
<620	$ 10	$ 1	$ 11	$ -
620 – 679	98	16	114	23
680 – 739	1,141	40	1,181	633
>740	5,099	102	5,201	2,631
Total	$ 6,348	$ 159	$ 6,507	$ 3,287
Updated FICO				
<620	$ 54	$ 6	$ 60	$ 49
620 – 679	191	13	204	117
680 – 739	940	34	974	510
>740	5,163	106	5,269	2,611
Total	$ 6,348	$ 159	$ 6,507	$ 3,287
Origination LTV				
<70%	$ 4,189	$ 97	$ 4,286	$ 2,225
>70% – <90%	2,142	54	2,196	1,036
>90% – <100%	17	8	25	26
Total	$ 6,348	$ 159	$ 6,507	$ 3,287

December 31, 2012	Balance	Weighted Average	Utilization Rate (1)	Percent of Loans that are 90+ Days Past Due and Less than 90 Days Past Due but on Nonaccrual Status

		Updated FICO		
Residential real estate mortgages:				
Estimated Current LTV				
<70%	$ 4,162	772	N/A	0.05 %
>70% – <90%	1,841	764	N/A	0.22 %
>90% – <100%	168	750	N/A	0.51 %
>100%	336	741	N/A	5.34 %
Total	$ 6,507	768	N/A	0.38 %
Home equity lines of credit:				
Estimated Current LTV				
<70%	$ 1,559	773	36 %	0.14 %
>70% – <90%	1,020	766	46 %	0.18 %
>90% – <100%	267	759	54 %	0.44 %
>100%	441	753	59 %	1.06 %
Total	$ 3,287	767	42 %	0.31 %

(1) The Utilization Rate is calculated using the outstanding HELOC balance divided by the associated total line of credit.

N/A Not applicable.

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The Company monitors the credit quality of personal loans secured by securities by reviewing the fair value of collateral to ensure adequate collateralization of at least 100% of the principal amount of the loans. All of these personal loans were fully collateralized by securities with fair values in excess of borrowings at June 30, 2013 and December 31, 2012.

4. Commitments and Contingencies

The Company has clients that sell (i.e., write) listed option contracts that are cleared by the Options Clearing Corporation – a clearing house that establishes margin requirements on these transactions. The Company partially satisfies the margin requirements by arranging unsecured standby letter of credit agreements (LOCs), in favor of the Options Clearing Corporation, which are issued by multiple banks. At June 30, 2013, the aggregate face amount of these LOCs totaled $240 million. In connection with its securities lending activities, the Company is required to provide collateral to certain brokerage clients. The Company satisfies the collateral requirements by arranging LOCs in favor of these brokerage clients, which are issued by multiple banks, or by providing cash as collateral. At June 30, 2013, the aggregate face amount of these LOCs totaled $32 million. There were no funds drawn under any of these LOCs at June 30, 2013.

The Company also provides guarantees to securities clearing houses and exchanges under standard membership agreements, which require members to guarantee the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearing houses and exchanges, other members would be required to meet shortfalls. The Company’s liability under these arrangements is not quantifiable and may exceed the cash and securities it has posted as collateral. However, the potential requirement for the Company to make payments under these arrangements is remote. Accordingly, no liability has been recognized for these guarantees.

Legal contingencies: The Company is subject to claims and lawsuits in the ordinary course of business, including arbitrations, class actions and other litigation, some of which include claims for substantial or unspecified damages. The Company is also the subject of inquiries, investigations, and proceedings by regulatory and other governmental agencies.

The Company believes it has strong defenses in all significant matters currently pending and is contesting liability and any damages claimed. Nevertheless, some of these matters may result in adverse judgments or awards, including penalties, injunctions or other relief, and the Company may also determine to settle a matter because of the uncertainty and risks of litigation. Described below are certain matters in which there is a reasonable possibility that a material loss could be incurred or where the matter may otherwise be of significant interest to stockholders. With respect to all other pending matters, based on current information and consultation with counsel, it does not appear that the outcome of any such matter could be material to the financial condition, operating results or cash flows of the Company. However, predicting the outcome of a litigation or regulatory matter is inherently difficult, requiring significant judgment and evaluation of various factors, including the procedural status of the matter and any recent developments; prior experience and the experience of others in similar cases; available defenses, including potential opportunities to dispose of a case on the merits or procedural grounds before trial (e.g., motions to dismiss or for summary judgment); the progress of fact discovery; the opinions of counsel and experts regarding potential damages; potential opportunities for settlement and the status of any settlement discussions; and potential insurance coverage and indemnification. Often, as in the case of the Auction Rate Securities Regulatory Inquiries and Total Bond Market Fund Litigation matters described below, it is not possible to reasonably estimate potential liability, if any, or a range of potential liability until the matter is closer to resolution – pending, for example, further proceedings, the outcome of key motions or appeals, or discussions among the parties. Numerous issues may have to be developed, such as discovery of important factual matters and determination of threshold legal issues, which may include novel or unsettled questions of law. Reserves are established or adjusted or further disclosure and estimates of potential loss are provided as the matter progresses and more information becomes available.

Auction Rate Securities Regulatory Inquiries: Schwab has been responding to industry wide inquiries from federal and state regulators regarding sales of auction rate securities to clients who were unable to sell their holdings when the normal auction process for those securities froze unexpectedly in February 2008. On August 17, 2009, a civil complaint was filed against Schwab in New York state court by the Attorney General of the State of New York (NYAG) alleging material misrepresentations and omissions by Schwab regarding the risks of auction rate securities, and seeking restitution, disgorgement, penalties and other relief, including repurchase of securities held in client accounts. As reflected in a statement issued August 17, 2009, Schwab has responded that the allegations are without merit, and has been contesting all charges. By order dated October 24, 2011, the court granted Schwab's motion to dismiss the complaint with prejudice. The NYAG has appealed to the Appellate Division, where the case is currently pending.

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Total Bond Market Fund Litigation: On August 28, 2008, a class action lawsuit was filed in the U.S. District Court for the Northern District of California on behalf of investors in the Schwab Total Bond Market Fund™ (Northstar lawsuit). The lawsuit, which alleges violations of state law and federal securities law in connection with the fund's investment policy, names Schwab Investments (registrant and issuer of the fund's shares) and CSIM as defendants. Allegations include that the fund improperly deviated from its stated investment objectives by investing in collateralized mortgage obligations (CMOs) and investing more than 25% of fund assets in CMOs and mortgage-backed securities without obtaining a shareholder vote. Plaintiffs seek unspecified compensatory and rescission damages, unspecified equitable and injunctive relief, costs and attorneys' fees. Plaintiffs' federal securities law claim and certain of plaintiffs' state law claims were dismissed in proceedings before the court and following a successful petition by defendants to the Ninth Circuit Court of Appeals. On August 8, 2011, the court dismissed plaintiffs' remaining claims with prejudice. Plaintiffs have again appealed to the Ninth Circuit, where the case is currently pending.

optionsXpress Regulatory Matters: optionsXpress entities and individual employees are respondents in certain pending regulatory matters which predate the Company's acquisition of optionsXpress. On April 16, 2012, optionsXpress, Inc. was charged by the SEC in an administrative proceeding alleging violations of the firm's close-out obligations under Regulation SHO (short sale delivery rules) in connection with certain customer trading activity. Trial in the proceeding commenced September 5, 2012. In a decision issued June 7, 2013, the judge held that optionsXpress violated Regulation SHO and aided and abetted fraudulent trading activity by its customer, and ordered the firm to pay disgorgement and penalties. The Company continues to dispute the allegations and is appealing the decision. Separately, on April 19, 2012, the SEC instituted an administrative proceeding alleging violations of the broker-dealer registration requirements by an unregistered optionsXpress entity. On September 5, 2012, the judge hearing the case ruled on summary disposition that applicable registration requirements were violated. Certain other issues, including relief, remain to be determined at trial. The Company continues to dispute the allegations and is contesting the charges. The Company has a contingent liability associated with the two separate matters, which was not material at June 30, 2013.

5. Fair Values of Assets and Liabilities

For a description of the fair value hierarchy and the Company's fair value methodologies, including the use of independent third-party pricing services, see note "2 – Summary of Significant Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, as updated by the Company's Current Report on

Form 8-K filed on June 24, 2013, relating to the realignment of the Company's reportable segments. The Company did not transfer any assets or liabilities between Level 1 and Level 2 during the quarter ended June 30, 2013, or the year ended December 31, 2012. In addition, the Company did not adjust prices received from the primary independent third-party pricing service at June 30, 2013, or December 31, 2012.

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Financial Instruments Recorded at Fair Value

The following tables present the fair value hierarchy for assets measured at fair value. Liabilities recorded at fair value were not material, and therefore are not included in the following tables:

June 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 18	$ -	$ -	$ 18
Commercial paper	-	21	-	21
Total cash equivalents	18	21	-	39
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	-	2,651	-	2,651
U.S. Government securities	-	2,148	-	2,148
Total investments segregated and on deposit for regulatory purposes	-	4,799	-	4,799
Other securities owned:				
Schwab Funds® money market funds	218	-	-	218
Equity and bond mutual funds	214	1	-	215
State and municipal debt obligations	-	33	-	33
Equity, U.S. Government and corporate debt, and other securities	-	22	-	22
Total other securities owned	432	56	-	488
Securities available for sale:				
U.S. agency mortgage-backed securities	-	18,608	-	18,608
Asset-backed securities	-	11,839	-	11,839
Corporate debt securities	-	8,319	-	8,319
Certificates of deposit	-	4,921	-	4,921
U.S. agency notes	-	3,635	-	3,635
	-	651	-	651

Non-agency residential mortgage-backed securities				
Commercial paper	-	160	-	160
Other securities	-	281	-	281
Total securities available for sale	-	48,414	-	48,414
Total	$ 450	$ 53,290	$ -	$ 53,740

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December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Cash equivalents:				
Money market funds	$ 413	$ -	$ -	$ 413
Commercial paper	-	1,076	-	1,076
Total cash equivalents	413	1,076	-	1,489
Investments segregated and on deposit for regulatory purposes:				
Certificates of deposit	-	2,976	-	2,976
U.S. Government securities	-	1,767	-	1,767
Total investments segregated and on deposit for regulatory purposes	-	4,743	-	4,743
Other securities owned:				
Schwab Funds® money market funds	329	-	-	329
Equity and bond mutual funds	217	-	-	217
State and municipal debt obligations	-	48	-	48
Equity, U.S. Government and corporate debt, and other securities	2	40	-	42
Total other securities owned	548	88	-	636
Securities available for sale:				
U.S. agency mortgage-backed securities	-	20,476	-	20,476
Asset-backed securities	-	8,164	-	8,164
Corporate debt securities	-	6,256	-	6,256
Certificates of deposit	-	6,161	-	6,161
U.S. agency notes	-	3,464	-	3,464
Non-agency residential mortgage-backed securities	-	733	-	733
Commercial paper	-	574	-	574
Other securities	-	295	-	295
Total securities available for sale	-	46,123	-	46,123
Total	$ 961	$ 52,030	$ -	$ 52,991

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Financial Instruments Not Recorded at Fair Value

Descriptions of the valuation methodologies and assumptions used to estimate the fair value of financial instruments not recorded at fair value are also described in note "2 – Summary of Significant Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, as updated by the Company's Current Report on Form 8-K filed on June 24, 2013, relating to the realignment of the Company's reportable segments. There were no significant changes in these methodologies or assumptions during the quarter ended June 30, 2013. The following tables present the fair value hierarchy for financial instruments not recorded at fair value:

June 30, 2013	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Assets:					
Cash and cash equivalents	$ 6,195	$ -	$ 6,195	$ -	$ 6,195
Cash and investments segregated and on deposit for regulatory purposes	22,206	-	22,206	-	22,206
Receivables from brokers, dealers, and clearing organizations	395	-	395	-	395
Receivables from brokerage clients – net	12,821	-	12,821	-	12,821
Securities held to maturity:					
U.S. agency mortgage-backed securities	24,887	-	24,428	-	24,428
Other securities	931	-	860	-	860
Total securities held to maturity	25,818	-	25,288	-	25,288
Loans to banking clients – net:					
Residential real estate mortgages	7,430	-	7,451	-	7,451
Home equity lines of credit	3,108	-	3,059	-	3,059
Personal loans secured by securities	1,166	-	1,166	-	1,166
Other	28	-	28	-	28
Total loans to banking clients – net	11,732	-	11,704	-	11,704
Other assets	63	-	63	-	63

Total	$ 79,230	$ -	$ 78,672	$ -	$ 78,672
Liabilities:					
Deposits from banking clients	$ 84,345	$ -	$ 84,345	$ -	$ 84,345
Payables to brokers, dealers, and clearing organizations	2,150	-	2,150	-	2,150
Payables to brokerage clients	36,852	-	36,852	-	36,852
Accrued expenses and other liabilities	426	-	426	-	426
Long-term debt	1,630	-	1,738	-	1,738
Total	$ 125,403	$ -	$ 125,511	$ -	$ 125,511

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December 31, 2012	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Assets:					
Cash and cash equivalents	$ 11,174	$ -	$ 11,174	$ -	$ 11,174
Cash and investments segregated and on deposit for regulatory purposes	23,723	-	23,723	-	23,723
Receivables from brokers, dealers, and clearing organizations	333	-	333	-	333
Receivables from brokerage clients – net	13,453	-	13,453	-	13,453
Securities held to maturity:					
U.S. agency mortgage-backed securities	17,750	-	18,289	-	18,289
Other securities	444	-	443	-	443
Total securities held to maturity	18,194	-	18,732	-	18,732
Loans to banking clients – net:					
Residential real estate mortgages	6,471	-	6,687	-	6,687
Home equity lines of credit	3,267	-	3,295	-	3,295
Personal loans secured by securities	963	-	963	-	963
Other	25	-	24	-	24
Total loans to banking clients – net	10,726	-	10,969	-	10,969
Other assets	64	-	64	-	64
Total	$ 77,667	$ -	$ 78,448	$ -	$ 78,448
Liabilities:					
Deposits from banking clients	$ 79,377	$ -	$ 79,377	$ -	$ 79,377
Payables to brokers, dealers, and clearing organizations	1,068	-	1,068	-	1,068
Payables to brokerage clients	40,330	-	40,330	-	40,330
Accrued expenses and other liabilities	353	-	353	-	353
Long-term debt	1,632	-	1,782	-	1,782
Total	$ 122,760	$ -	$ 122,910	$ -	$ 122,910

Securities lending: Payables from brokers, dealers, and clearing organizations include securities loaned. The Company loans client securities temporarily to other brokers in connection with its securities lending activities and receives cash as collateral for the securities loaned. The fair value of client securities pledged in securities lending transactions to other broker-dealers was $1.2 billion at June 30, 2013 and $852 million at December 31, 2012. Additionally, the Company borrows securities from other broker-dealers to fulfill short sales by clients, which are included in receivables from brokers, dealers, and clearing organizations. The fair value of these borrowed securities was $115 million at June 30, 2013 and $121 million at December 31, 2012. All of the Company's securities lending transactions are subject to enforceable master netting arrangements with other broker-dealers. However, the Company does not net securities lending transactions and therefore, the Company's securities loaned and securities borrowed are presented gross in the condensed consolidated balance sheets.

Resale agreements: Cash and investments segregated and on deposit for regulatory purposes include securities purchased under agreements to resell (resale agreements), which are collateralized by U.S. Government and agency securities. Schwab enters into collateralized resale agreements principally with other broker-dealers, which could result in losses in the event the counterparty fails to purchase the securities held as collateral for the cash advanced and the fair value of the securities declines. Schwab utilizes the collateral provided under these resale agreements to meet obligations under broker-dealer client protection rules, which place limitations on its ability to access such segregated securities. The Company's resale agreements are not subject to enforceable master netting arrangements.

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6. Accumulated Other Comprehensive Income

Accumulated other comprehensive income represents cumulative gains and losses that are not reflected in earnings. The components of other comprehensive (loss) income are as follows:

Three Months Ended June 30,	2013			2012		
	Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax
Change in net unrealized gain on securities available for sale:						
Net unrealized (loss) gain	$ (477)	$ 179	$ (298)	$ 119	$ (45)	$ 74
Reclassification of impairment charges included in net impairment losses on securities	3	-	3	7	(2)	5
Other reclassifications included in other revenue	(3)	1	(2)	(1)	-	(1)
Change in net unrealized gain on securities available for sale	(477)	180	(297)	125	(47)	78
Other comprehensive (loss) income	$ (477)	$ 180	$ (297)	$ 125	$ (47)	$ 78

Six Months Ended June 30,	2013			2012		
	Before tax	Tax effect	Net of tax	Before tax	Tax effect	Net of tax
Change in net unrealized gain on securities available for sale:						
Net unrealized (loss) gain	$ (480)	$ 181	$ (299)	$ 208	$ (77)	$ 131
Reclassification of impairment charges included in net impairment losses on securities	7	(2)	5	25	(9)	16
Other reclassifications included in other revenue	(3)	1	(2)	(1)	-	(1)
Change in net unrealized gain on						

securities available for sale	(476)	180	(296)	232	(86)	146
Other	1	-	1	-	-	-
Other comprehensive (loss) income	$ (475)	$ 180	$ (295)	$ 232	$ (86)	$ 146

Accumulated other comprehensive income balances are as follows:

	Net unrealized gain on securities available for sale	Other	Total accumulated other comprehensive income
Balance at December 31, 2011	$ 10	$ (2)	$ 8
Other net changes	146	-	146
Balance at June 30, 2012	$ 156	$ (2)	$ 154
Balance at December 31, 2012	$ 299	$ (1)	$ 298
Other net changes	(296)	1	(295)
Balance at June 30, 2013	$ 3	$ -	$ 3

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7. Earnings Per Common Share

Basic earnings per common share (EPS) is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the period. The computation of diluted EPS is similar to the computation of basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued. Dilutive potential common shares include, if dilutive, the effect of outstanding stock options and unvested restricted stock awards and units. EPS under the basic and diluted computations is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$ 256	$ 275	$ 462	$ 470
Preferred stock dividends	(23)	(14)	(31)	(14)
Net income available to common stockholders	$ 233	$ 261	$ 431	$ 456
Weighted-average common shares outstanding — basic	1,282	1,273	1,280	1,272
Common stock equivalent shares related to stock incentive plans	6	1	5	1
Weighted-average common shares outstanding — diluted [1]	1,288	1,274	1,285	1,273
Basic EPS	$ .18	$ .20	$ .33	$ .36
Diluted EPS	$ .18	$ .20	$ .33	$ .36

[1] Antidilutive stock options and restricted stock awards excluded from the calculation of diluted EPS totaled 28 million and 59 million shares for the second quarters of 2013 and 2012, respectively, and 32 million and 61 million shares for the first halves of 2013 and 2012, respectively.

8. Regulatory Requirements

CSC is a savings and loan holding company and Schwab Bank, CSC's depository institution subsidiary, is a federal savings bank. CSC is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve) and Schwab Bank is subject to supervision and regulation by the Office of the Comptroller of the Currency (the OCC). CSC is currently not subject to specific statutory capital requirements, however CSC is required to serve as a source of strength for Schwab Bank. Under the new regulatory capital rules, which implemented Basel III and relevant provisions of the "Dodd-Frank Wall Street Reform and Consumer Protection Act," CSC will be subject to minimum leverage and minimum risk-based capital ratio requirements beginning on January 1, 2015.

Schwab Bank is subject to regulation and supervision and to various requirements and restrictions under federal and state laws, including regulatory capital guidelines. Among other things, these requirements also restrict and govern the terms of affiliate transactions, such as extensions of credit and repayment of loans between Schwab Bank and CSC or CSC's other subsidiaries. In addition, Schwab Bank is required to provide notice to and may be required to obtain approval of the OCC and the Federal Reserve to declare dividends to CSC. The federal banking agencies have broad powers to enforce these regulations, including the power to terminate deposit insurance, impose substantial fines and other civil and criminal penalties, and appoint a conservator or receiver. Under the Federal Deposit Insurance Act, Schwab Bank could be subject to restrictive actions if it were to fall within one of the lowest three of five capital categories. Schwab Bank is required to maintain minimum capital levels as specified in federal banking laws and regulations. Failure to meet the minimum levels could result in certain mandatory, and possibly additional discretionary, actions by the regulators that, if undertaken, could have a direct material effect on Schwab Bank. At June 30, 2013, CSC and Schwab Bank met the capital level requirements.

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The regulatory capital and ratios for Schwab Bank at June 30, 2013, are as follows:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 Risk-Based Capital	$ 5,961	18.6 %	$ 1,280	4.0 %	$ 1,920	6.0 %
Total Risk-Based Capital	$ 6,020	18.8 %	$ 2,560	8.0 %	$ 3,200	10.0 %
Tier 1 Leverage	$ 5,961	6.6 %	$ 3,637	4.0 %	$ 4,546	5.0 %
Tangible Equity	$ 5,961	6.6 %	$ 1,818			