18. COMMITMENTS, CONTINGENT LIABILITIES AND GUARANTEES

OBLIGATIONS UNDER NONCANCELABLE LEASES

Key is obligated under various noncancelable leases for land, buildings and other property, consisting principally of data processing equipment. Rental expense under all operating leases totaled $140 million in 2003 and $132 million in 2002 and 2001. Minimum future rental payments under noncancelable leases at December 31, 2003, are as follows: 2004 — $120 million; 2005 — $110 million; 2006 — $102 million; 2007 — $90 million; 2008 — $80 million; all subsequent years — $356 million.

COMMITMENTS TO EXTEND CREDIT OR FUNDING

Loan commitments generally help Key meet clients' financing needs. However, they also involve credit risk not reflected on Key's balance sheet. Key mitigates its exposure to credit risk with internal controls that guide the way applications for credit are reviewed and approved, credit limits are established and, when necessary, demands for collateral are made. In particular, Key evaluates the credit-worthiness of each prospective borrower on a case-by-case basis and, when appropriate, allocates a portion of its allowance for loan losses to legally binding loan commitments.

Loan commitments provide for financing on predetermined terms as long as the client continues to meet specified criteria. These agreements generally carry variable rates of interest and have fixed expiration dates or other termination clauses. In many cases, a client must pay a fee to obtain a loan commitment from Key. Since a commitment may expire without resulting in a loan, the total amount of outstanding commitments may significantly exceed Key's eventual cash outlay.

The following table shows the remaining contractual amount of each class of commitments to extend credit or funding as of the date indicated. This amount represents Key's maximum possible accounting loss. The estimated fair values of these instruments are not material; there are no observable liquid markets for the majority of these instruments. During the fourth quarter of 2003, Key restated its commitments to extend credit or funding as of December 31, 2002, to correct the measurement and risk weighting of certain unfunded commitments.

December 31, *in millions*	**2003**	**2002**
Loan commitments:		
Home equity	**$ 6,165**	$ 5,550
Commercial real estate and construction	**4,281**	4,463
Commercial and other	**21,821**	19,057
Total loan commitments	**32,267**	29,070
Principal investing commitments	**208**	222
Commercial letters of credit	**385**	444
Total loan and other commitments	**$32,860**	$29,736

LEGAL PROCEEDINGS

Residual value insurance litigation. Key Bank USA obtained two insurance policies from Reliance Insurance Company ("Reliance") insuring the residual value of certain automobiles leased through Key Bank USA. The two policies ("the Policies"), the "4011 Policy" and the "4019 Policy," together covered leases entered into during the period from January 1, 1997 to January 1, 2001.

The 4019 Policy contains an endorsement stating that Swiss Reinsurance America Corporation ("Swiss Re") will assume and reinsure 100% of Reliance's obligations under the 4019 Policy in the event Reliance Group Holdings' ("Reliance's parent") so-called "claims-paying ability" were to fall below investment grade. Key Bank USA also entered into an agreement with Swiss Re and Reliance whereby Swiss Re agreed to issue to Key Bank USA an insurance policy on the same terms and conditions as the 4011 Policy in the event the financial condition of Reliance Group Holdings fell below a certain level. Around May 2000, the conditions under both the 4019 Policy and the Swiss Re agreement were triggered.

The 4011 Policy was canceled and replaced as of May 1, 2000, by a policy issued by North American Specialty Insurance Company (a subsidiary or affiliate of Swiss Re) ("the NAS Policy"). Tri-Arc Financial Services, Inc. ("Tri-Arc") acted as agent for Reliance, Swiss Re and NAS. Since February 2000, Key Bank USA has been filing claims under the Policies, but none of these claims has been paid.

In July 2000, Key Bank USA filed a claim for arbitration against Reliance, Swiss Re, NAS and Tri-Arc seeking, among other things, damages and a declaration of the scope of coverage under the Policies. On January 8, 2001, Reliance filed an action (litigation) against Key Bank USA in Federal District Court in Ohio seeking rescission or reformation of the Policies because they allegedly do not reflect the intent of the parties with respect to the scope of coverage and how and when claims were to be paid. Key filed an answer and counterclaim against Reliance, Swiss Re, NAS and Tri-Arc seeking, among other things, declaratory relief as to the scope of coverage under the Policies, damages for breach of contract and failure to act in good faith, and punitive damages. The parties agreed to proceed with this court action and to dismiss the arbitration without prejudice.

On May 29, 2001, the Commonwealth Court of Pennsylvania entered an order placing Reliance in a court supervised "rehabilitation" and purporting to stay all litigation against Reliance. On July 23, 2001, the Federal District Court in Ohio stayed the litigation to allow the rehabilitator to complete her task. On October 3, 2001, the Court in Pennsylvania entered an order placing Reliance in liquidation and canceling all Reliance insurance policies as of November 2, 2001. On November 20, 2001, the Federal District Court in Ohio entered an order that, among other things, required Reliance to report to the Court on the progress of the liquidation. On January 15, 2002, Reliance filed a status report requesting the continuance of the stay for an indefinite period.