INDEPENDENT BANK CORP /MI/
Form 10-Q
August 04, 2016

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, 2016

Commission file number 0-7818

INDEPENDENT BANK CORPORATION
(Exact name of registrant as specified in its charter)

Michigan	38-2032782
(State or jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

4200 East Beltline, Grand Rapids, Michigan 49525
(Address of principal executive offices)

(616) 527-5820
(Registrant’s telephone number, including area code)

NONE
Former name, address and fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Sections 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 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 NO

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, non-accelerated filer or smaller reporting company.
Large accelerated filer Accelerated filer Non-accelerated filer 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

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

Common stock, no par value 21,223,212

Class	Outstanding at August 3, 2016

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

INDEX

Index

FORWARD-LOOKING STATEMENTS

Statements in this report that are not statements of historical fact, including statements that include terms such as "will," "may," "should," "believe," "expect," "forecast," "anticipate," "estimate," "project," "intend," "likely," "optimistic" and "plan" about future or projected financial and operating results, plans, projections, objectives, expectations, and intentions, are forward-looking statements. Forward-looking statements include, but are not limited to, descriptions of plans and objectives for future operations, products or services; projections of our future revenue, earnings or other measures of economic performance; forecasts of credit losses and other asset quality trends; statements about our business and growth strategies; and expectations about economic and market conditions and trends. These forward-looking statements express our current expectations, forecasts of future events, or long-term goals. They are based on assumptions, estimates, and forecasts that, although believed to be reasonable, may turn out to be incorrect. Actual results could differ materially from those discussed in the forward-looking statements for a variety of reasons, including:

- economic, market, operational, liquidity, credit, and interest rate risks associated with our business;
- economic conditions generally and in the financial services industry, particularly economic conditions within Michigan and the regional and local real estate markets in which our bank operates;
- the failure of assumptions underlying the establishment of, and provisions made to, our allowance for loan losses;
- the failure of assumptions underlying our estimate of probable incurred losses from vehicle service contract payment plan counterparty contingencies, including our assumptions regarding future cancellations of vehicle service contracts, the value to us of collateral that may be available to recover funds due from our counterparties, and our ability to enforce the contractual obligations of our counterparties to pay amounts owing to us;
- increased competition in the financial services industry, either nationally or regionally;
- our ability to achieve loan and deposit growth;
- volatility and direction of market interest rates;
- the continued services of our management team; and
- implementation of new legislation, which may have significant effects on us and the financial services industry.

This list provides examples of factors that could affect the results described by forward-looking statements contained in this report, but the list is not intended to be all-inclusive. The risk factors disclosed in Part I – Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015, as updated by any new or modified risk factors disclosed in Part II – Item 1A of any subsequently filed Quarterly Report on Form 10-Q, include all known risks our management believes could materially affect the results described by forward-looking statements in this report. However, those risks may not be the only risks we face. Our results of operations, cash flows, financial position, and prospects could also be materially and adversely affected by additional factors that are not presently known to us that we currently consider to be immaterial, or that develop after the date of this report. We cannot assure you that our future results will meet expectations. While we believe the forward-looking statements in this report are reasonable, you should not place undue reliance on any forward-looking statement. In addition, these statements speak only as of the date made. We do not undertake, and expressly disclaim, any obligation to update or alter any statements, whether as a result of new information, future events, or otherwise, except as required by applicable law.

Index

Part I - Item 1. INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Financial Condition

	June 30, 2016 (unaudited)	December 31, 2015
	(In thousands, except share amounts)	
Assets		
Cash and due from banks	$ 34,542	$ 54,260
Interest bearing deposits	26,488	31,523
Cash and Cash Equivalents	61,030	85,783
Interest bearing deposits - time	8,560	11,866
Trading securities	212	148
Securities available for sale	599,755	585,484
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	15,229	15,471
Loans held for sale, carried at fair value	31,713	27,866
Loans		
Commercial	792,000	748,398
Mortgage	506,021	500,454
Installment	252,712	231,599
Payment plan receivables	31,389	34,599
Total Loans	1,582,122	1,515,050
Allowance for loan losses	(22,712)	(22,570)
Net Loans	1,559,410	1,492,480
Other real estate and repossessed assets	5,572	7,150
Property and equipment, net	41,044	43,103
Bank-owned life insurance	54,990	54,402
Deferred tax assets, net	35,257	39,635
Capitalized mortgage loan servicing rights	10,331	12,436
Vehicle service contract counterparty receivables, net	3,036	7,229
Other intangibles	2,106	2,280
Accrued income and other assets	24,451	23,733
Total Assets	$ 2,452,696	$ 2,409,066
Liabilities and Shareholders' Equity		
Deposits		
Non-interest bearing	$ 678,489	$ 659,793
Savings and interest-bearing checking	997,102	988,174
Reciprocal	49,355	50,207
Time	403,346	387,789
Total Deposits	2,128,292	2,085,963
Other borrowings	11,797	11,954
Subordinated debentures	35,569	35,569
Vehicle service contract counterparty payables	1,066	797
Accrued expenses and other liabilities	29,049	23,691
Total Liabilities	2,205,773	2,157,974
Shareholders' Equity		
Preferred stock, no par value, 200,000 shares authorized; none issued or outstanding	-	-

Common stock, no par value, 500,000,000 shares authorized; issued and outstanding:		
21,315,881 shares at June 30, 2016 and 22,251,373 shares at December 31, 2015	324,268	339,462
Accumulated deficit	(74,062)	(82,334)
Accumulated other comprehensive loss	(3,283)	(6,036)
Total Shareholders' Equity	246,923	251,092
Total Liabilities and Shareholders' Equity	$ 2,452,696	$ 2,409,066

See notes to interim condensed consolidated financial statements (unaudited)

3

Index
INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(unaudited)		(unaudited)	
	(In thousands, except per share amounts)			
Interest Income				
Interest and fees on loans	$ 18,208	$ 17,751	$ 36,764	$ 34,990
Interest on securities				
Taxable	2,480	1,869	4,724	3,627
Tax-exempt	282	222	530	439
Other investments	297	289	603	627
Total Interest Income	21,267	20,131	42,621	39,683
Interest Expense				
Deposits	1,152	967	2,266	1,974
Other borrowings	485	463	962	917
Total Interest Expense	1,637	1,430	3,228	2,891
Net Interest Income	19,630	18,701	39,393	36,792
Provision for loan losses	(734)	(134)	(1,264)	(793)
Net Interest Income After Provision for Loan Losses	20,364	18,835	40,657	37,585
Non-Interest Income				
Service charges on deposit accounts	3,038	3,117	5,883	5,967
Interchange income	1,976	2,240	3,854	4,382
Net gains (losses) on assets				
Mortgage loans	2,529	1,784	4,171	3,923
Securities	185	(33)	347	52
Mortgage loan servicing, net	(334)	1,452	(1,312)	1,032
Title insurance fees	253	337	541	593
Other	1,933	2,090	3,905	4,000
Total Non-Interest Income	9,580	10,987	17,389	19,949
Non-Interest Expense				
Compensation and employee benefits	12,000	11,791	23,881	23,576
Occupancy, net	1,856	2,040	4,063	4,459
Data processing	1,936	2,027	4,037	3,957
Furniture, fixtures and equipment	965	965	1,949	1,917
Communications	722	694	1,610	1,430
Loan and collection	571	967	1,396	2,122
Advertising	478	448	955	932
Legal and professional	345	453	758	833
FDIC deposit insurance	331	351	665	694
Interchange expense	267	289	533	580
Credit card and bank service fees	198	203	385	405
Vehicle service contract counterparty contingencies	(1)	30	29	59
Provision for loss reimbursement on sold loans	-	45	(15)	(24)
Costs (recoveries) related to unfunded lending commitments	(80)	4	(67)	20
Net gains on other real estate and repossessed assets	(159)	(139)	(165)	(178)
Other	1,466	1,411	2,926	2,948

Total Non-Interest Expense	20,895	21,579	42,940	43,730
Income Before Income Tax	9,049	8,243	15,106	13,804
Income tax expense	2,611	2,624	4,568	4,404
Net Income	$6,438	$5,619	$10,538	$9,400
Net Income Per Common Share				
Basic	$0.30	$0.25	$0.49	$0.41
Diluted	$0.30	$0.24	$0.48	$0.40
Dividends Per Common Share				
Declared	$0.08	$0.06	$0.16	$0.12
Paid	$0.08	$0.06	$0.16	$0.12

See notes to interim condensed consolidated financial statements (unaudited)

Index
INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(unaudited) (In thousands)		(unaudited) (In thousands)	
Net income	$ 6,438	$ 5,619	$ 10,538	$ 9,400
Other comprehensive income (loss), before tax				
Securities available for sale				
Unrealized gains (losses) arising during period	2,334	(1,806)	4,448	464
Change in unrealized gains (losses) for which a portion of other than temporary impairment has been recognized in earnings	107	(21)	71	(10)
Reclassification adjustments for gains included in earnings	(109)	-	(283)	(75)
Unrealized gains (losses) recognized in other comprehensive income (loss) on securities available for sale	2,332	(1,827)	4,236	379
Income tax expense (benefit)	816	(639)	1,483	133
Unrealized gains (losses) recognized in other comprehensive income (loss) on available for sale securities, net of tax	1,516	(1,188)	2,753	246
Other comprehensive income (loss)	1,516	(1,188)	2,753	246
Comprehensive income	$ 7,954	$ 4,431	$ 13,291	$ 9,646

See notes to interim condensed consolidated financial statements (unaudited)

Index

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

	Six months ended June 30,	
	2016	2015
	(unaudited - In thousands)	
Net Income	$ 10,538	$ 9,400
Adjustments to Reconcile Net Income to Net Cash From Operating Activities		
Proceeds from sales of loans held for sale	129,838	154,938
Disbursements for loans held for sale	(129,514)	(157,871)
Provision for loan losses	(1,264)	(793)
Deferred federal income tax expense	5,625	4,475
Deferred loan fees	(987)	(930)
Depreciation, amortization of intangible assets and premiums and accretion of discounts on securities, loans and interest bearning deposits - time	2,507	2,228
Net gains on mortgage loans	(4,171)	(3,923)
Net gains on securities	(347)	(52)
Net gains on other real estate and repossessed assets	(165)	(178)
Vehicle service contract counterparty contingencies	29	59
Share based compensation	825	772
(Increase) decrease in accrued income and other assets	(1,051)	551
Increase (decrease) in accrued expenses and other liabilities	2,639	(894)
Total Adjustments	3,964	(1,618)
Net Cash From Operating Activities	14,502	7,782
Cash Flow Used in Investing Activities		
Proceeds from the sale of securities available for sale	55,362	11,786
Proceeds from the maturity of securities available for sale	21,413	16,047
Principal payments received on securities available for sale	74,212	58,587
Purchases of securities available for sale	(159,698)	(111,908)
Purchases of interest bearing deposits - time	-	(245)
Proceeds from the maturity of interest bearing deposits - time	3,290	2,915
Purchase of Federal Reserve Bank stock	(129)	(132)
Redemption of Federal Reserve Bank stock	371	391
Redemption of Federal Home Loan Bank stock	-	4,514
Net increase in portfolio loans (loans originated, net of principal payments)	(64,236)	(39,442)
Proceeds from the collection of vehicle service contract counterparty receivables	4,458	15
Proceeds from the sale of other real estate and repossessed assets	3,018	4,515
Proceeds from life insurance	742	-
Proceeds from the sale of property and equipment	23	490
Capital expenditures	(990)	(1,898)
Net Cash Used in Investing Activities	(62,164)	(54,365)
Cash Flow From Financing Activities		
Net increase in total deposits	42,329	37,115
Net decrease in other borrowings	(1)	(1)
Payments of Federal Home Loan Bank Advances	(156)	(144)
Net increase in vehicle service contract counterparty payables	269	328
Dividends paid	(3,451)	(2,760)
Proceeds from issuance of common stock	56	80
Repurchase of common stock	(15,510)	(3,668)
Share based compensation withholding obligation	(627)	(66)

Net Cash From Financing Activities	22,909	30,884
Net Decrease in Cash and Cash Equivalents	(24,753)	(15,699)
Cash and Cash Equivalents at Beginning of Period	85,783	74,016
Cash and Cash Equivalents at End of Period	$ 61,030	$ 58,317
Cash paid during the period for		
Interest	$ 3,158	$ 2,878
Income taxes	360	91
Transfers to other real estate and repossessed assets	1,275	2,354
Transfer of payment plan receivables to vehicle service contract counterparty receivables	294	110
Purchase of securities available for sale not yet settled	2,342	-

See notes to interim condensed consolidated financial statements (unaudited)

6

Index

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Shareholders' Equity

	Six months ended June 30,	
	2016	2015
	(unaudited) (In thousands)	
Balance at beginning of period	$251,092	$250,371
Cumulative effect of change in accounting principle	1,247	-
Balance at beginning of period, as adjusted	252,339	250,371
Net income	10,538	9,400
Cash dividends declared	(3,451)	(2,760)
Issuance of common stock	56	80
Share based compensation	825	772
Share based compensation withholding obligation	(627)	(66)
Repurchase of common stock	(15,510)	(3,668)
Net change in accumulated other comprehensive loss, net of related tax effect	2,753	246
Balance at end of period	$246,923	$254,375

See notes to interim condensed consolidated financial statements (unaudited)

7

Index
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Preparation of Financial Statements

The condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2015 included in our Annual Report on Form 10-K.

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all the adjustments necessary to present fairly our consolidated financial condition as of June 30, 2016 and December 31, 2015, and the results of operations for the three and six-month periods ended June 30, 2016 and 2015. The results of operations for the three and six -month periods ended June 30, 2016, are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation. Our critical accounting policies include the determination of the allowance for loan losses, the determination of vehicle service contract counterparty contingencies, the valuation of originated mortgage loan servicing rights and the valuation of deferred tax assets. Refer to our 2015 Annual Report on Form 10-K for a disclosure of our accounting policies.

2. New Accounting Standards

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-12, "Compensation – Stock Compensation (Topic 718) – Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period". This ASU amends existing guidance related to the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. These amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. This amended guidance became effective for us on January 1, 2016, and did not have a material impact on our consolidated operating results or financial condition.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)". This ASU supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this ASU specifies the accounting for some costs to obtain or fulfill a contract with a customer. This amended guidance is effective for us on January 1, 2018, and is not expected to have a material impact on our consolidated operating results or financial condition.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities". This ASU amends existing guidance related to the accounting for certain financial assets and liabilities. These amendments, among other things, requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. This amended guidance is effective for us on January 1, 2018, and is not expected to have a material impact on our consolidated operating results or financial condition.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". This ASU amends existing guidance related to the accounting for leases. These amendments, among other things, requires lessees to account for most leases on the balance sheet while recognizing expense on the income statement in a manner similar to existing guidance. For lessors the guidance modifies the classification criteria and the accounting for sales-type and direct finance leases. This amended guidance is effective for us on January 1, 2019, and is not expected to have a material impact on our consolidated operating results or financial condition.

In March 2016, the FASB issued ASU 2016-09, "Compensation – Stock Compensation (718) Improvements to Employee Share-Based Payment Accounting". This ASU amends existing guidance in an effort to simplify certain aspects of accounting for share-based payments. The areas for simplification in this ASU include income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This amended guidance is effective for us on January 1, 2017, with early adoption permitted. We adopted this amended guidance during the second quarter of 2016 using a modified retrospective approach. The impact of this adoption was to adjust our January 1, 2016 Condensed Consolidated Statement of Financial Position to reflect cumulative effect adjustments as follows:

	January 1, 2016 Originally Presented	Cumulative Retrospective Adjustments	January 1, 2016 Adjusted
	(Dollars in thousands)		
Deferred tax assets	$39,635	$ 1,247	$40,882
Total assets	$2,409,066	$ 1,247	$2,410,313
Common stock	$339,462	$ 62	$339,524
Accumulated deficit	$(82,334)	$ 1,185	$(81,149)
Total Shareholders' Equity	$251,092	$ 1,247	$252,339
Total Liabilities and Shareholders' Equity	$2,409,066	$ 1,247	$2,410,313

Index
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

The adjustments above reflect the recording of $1.23 million of unrealized excess benefits on share based compensation and $0.06 million (impact to equity of $0.02 million after consideration of deferred taxes) for the impact of making an accounting policy election to account for forfeitures as they occur. After January 1, 2016, excess tax benefits or deficiencies resulting from share-based payments will be recognized as tax benefit or expense when they occur. A tax benefit of $0.3 million was recorded during the three months ended June 30, 2016 as a result of share awards vesting during the period. In addition, we have elected to apply the amendments related to the presentation of excess tax benefits in the statement of cash flows on a prospective basis.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments". This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. This ASU will replace today's "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. For available-for-sale debt securities, allowances will be recorded rather than reducing the carrying amount as is done under the current other-than-temporary impairment model. This ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. This amended guidance is effective for us on January 1, 2020. We have not yet determined what the impact will be on our consolidated operating results or financial condition.

3. Securities

Securities available for sale consist of the following:

	Amortized Cost	Unrealized Gains	Losses	Fair Value
	(In thousands)			
June 30, 2016				
U.S. agency	$31,165	$552	$38	$31,679
U.S. agency residential mortgage-backed	180,415	1,783	135	182,063
U.S. agency commercial mortgage-backed	7,832	167	3	7,996
Private label mortgage-backed	26,202	343	299	26,246
Other asset backed	139,895	298	347	139,846
Obligations of states and political subdivisions	156,663	2,311	633	158,341
Corporate	49,150	521	144	49,527
Trust preferred	2,920	-	523	2,397
Foreign government	1,644	16	0	1,660
Total	$595,886	$5,991	$2,122	$599,755
December 31, 2015				
U.S. agency	$47,283	$309	$80	$47,512
U.S. agency residential mortgage-backed	195,055	1,584	583	196,056
U.S. agency commercial mortgage-backed	34,017	94	83	34,028
Private label mortgage-backed	5,061	161	319	4,903
Other asset backed	117,431	54	581	116,904
Obligations of states and political subdivisions	145,193	941	1,150	144,984
Corporate	38,895	9	290	38,614
Trust preferred	2,916	-	433	2,483
Total	$585,851	$3,152	$3,519	$585,484

Index
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Our investments' gross unrealized losses and fair values aggregated by investment type and length of time that individual securities have been at a continuous unrealized loss position follows:

	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
June 30, 2016						
U.S. agency	$3,432	$ 7	$ 6,168	$ 31	$9,600	$ 38
U.S. agency residential mortgage-backed	23,927	53	13,743	82	37,670	135
U.S. agency commercial mortgage-backed	548	2	199	1	747	3
Private label mortgage- backed	2,566	8	1,521	291	4,087	299
Other asset backed	42,783	161	12,079	186	54,862	347
Obligations of states and political subdivisions	12,316	227	10,176	406	22,492	633
Corporate	4,033	19	3,878	125	7,911	144
Trust preferred	-	-	2,397	523	2,397	523
Total	$89,605	$ 477	$ 50,161	$ 1,645	$139,766	$ 2,122
December 31, 2015						
U.S. agency	$12,164	$ 47	$ 6,746	$ 33	$18,910	$ 80
U.S. agency residential mortgage-backed	57,538	316	23,340	267	80,878	583
U.S. agency commercial mortgage-backed	16,747	60	2,247	23	18,994	83
Private label mortgage- backed	-	-	3,393	319	3,393	319
Other asset backed	102,660	434	5,189	147	107,849	581
Obligations of states and political subdivisions	52,493	597	12,240	553	64,733	1,150
Corporate	30,550	290	-	-	30,550	290
Trust preferred	-	-	2,483	433	2,483	433
Total	$272,152	$ 1,744	$ 55,638	$ 1,775	$327,790	$ 3,519

Our portfolio of securities available-for-sale is reviewed quarterly for impairment in value. In performing this review management considers (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) the impact of changes in market interest rates on the market value of the security and (4) an assessment of whether we intend to sell, or it is more likely than not that we will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. For securities that do not meet the aforementioned recovery criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income or (loss).

Index
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

U.S. agency, U.S. agency residential mortgage-backed securities and U.S. agency commercial mortgage backed securities — at June 30, 2016, we had 19 U.S. agency, 56 U.S. agency residential mortgage-backed and four U.S. agency commercial mortgage-backed securities whose fair market value is less than amortized cost. The unrealized losses are largely attributed to increases in interest rates since acquisition and widening spreads to Treasury bonds. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Private label mortgage backed securities — at June 30, 2016, we had nine of this type of security whose fair value is less than amortized cost. The unrealized losses are primarily attributed to four securities purchased prior to 2016. Two of these four securities have an impairment in excess of 10% and three of these holdings have been impaired for more than 12 months. The unrealized losses are largely attributable to credit spread widening on these four securities since their acquisition.

These four securities are receiving principal and interest payments. Most of these transactions are pass-through structures, receiving pro rata principal and interest payments from a dedicated collateral pool. The nonreceipt of interest cash flows is not expected and thus not presently considered in our discounted cash flow methodology discussed below.

These four private label mortgage-backed securities are reviewed for other than temporary impairment (“OTTI”) utilizing a cash flow projection. The cash flow analysis forecasts cash flow from the underlying loans in each transaction and then applies these cash flows to the bonds in the securitization. Our cash flow analysis forecasts complete recovery of our cost basis for all four of these securities whose fair value is less than amortized cost.

As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no other declines discussed above are deemed to be other than temporary.

Other asset backed — at June 30, 2016, we had 88 other asset backed securities whose fair value is less than amortized cost. The unrealized losses are primarily due to credit spread widening and increases in interest rates since acquisition. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Obligations of states and political subdivisions — at June 30, 2016, we had 52 municipal securities whose fair value is less than amortized cost. The unrealized losses are primarily due to increases in interest rates since acquisition. One of these securities has an impairment in excess of 10%. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Corporate — at June 30, 2016, we had eight corporate securities whose fair value is less than amortized cost. The unrealized losses are primarily due to credit spread widening and increases in interest rates since acquisition. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Index
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Trust preferred securities — at June 30, 2016, we had three trust preferred securities whose fair value is less than amortized cost. All of our trust preferred securities are single issue securities issued by a trust subsidiary of a bank holding company. The pricing of trust preferred securities has suffered from credit spread widening.

One of the three securities is rated by two major rating agencies as investment grade, while one (a Bank of America issuance) is rated below investment grade by two major rating agencies and the other one is non-rated. The non-rated issue is a relatively small bank and was never rated. The issuer of this non-rated trust preferred security, which had a total amortized cost of $1.0 million and total fair value of $0.7 million as of June 30, 2016, continues to have satisfactory credit metrics and make interest payments.

The following table breaks out our trust preferred securities in further detail as of June 30, 2016 and December 31, 2015:

	June 30, 2016		December 31, 2015	
	Fair Value	Net Unrealized Loss	Fair Value	Net Unrealized Loss
	(In thousands)			
Trust preferred securities				
Rated issues	$1,650	$ (270)	$ 1,690	$ (226)
Unrated issues	747	(253)	793	(207)

As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

We recorded no credit related OTTI charges in our Condensed Consolidated Statements of Operations related to securities available for sale during the three or six month periods ended June 30, 2016 and 2015, respectively.

At June 30, 2016, three private label mortgage-backed securities had credit related OTTI and are summarized as follows:

	Senior Security	Super Senior Security	Senior Support Security	Total
	(In thousands)			
As of June 30, 2016				
Fair value	$1,469	$ 1,194	$ 76	$2,739
Amortized cost	1,396	1,129	-	2,525
Non-credit unrealized loss	-	-	-	-
Unrealized gain	73	65	76	214
Cumulative credit related OTTI	757	457	380	1,594

Credit related OTTI recognized in our Condensed Consolidated Statements of Operations
For the three months ended June 30,

2016	$-	$-	$ -	$-
2015	-	-	-	-
For the six months ended June 30,				
2016	-	-	-	-
2015	-	-	-	-

Index
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Each of these securities is receiving principal and interest payments similar to principal reductions in the underlying collateral. All three of these securities have unrealized gains at June 30, 2016. The original amortized cost for each of these securities has been permanently adjusted downward for previously recorded credit related OTTI. The unrealized loss (based on original amortized cost) for these securities is now less than previously recorded credit related OTTI amounts.

A roll forward of credit losses recognized in earnings on securities available for sale for the three and six month periods ending June 30, follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(In thousands)		(In thousands)	
Balance at beginning of period	$ 1,844	$ 1,844	$ 1,844	$ 1,844
Additions to credit losses on securities for which no previous OTTI was recognized	-	-	-	-
Increases to credit losses on securities for which OTTI was previously recognized	-	-	-	-
Balance at end of period	$ 1,844	$ 1,844	$ 1,844	$ 1,844

The amortized cost and fair value of securities available for sale at June 30, 2016, by contractual maturity, follow:

	Amortized Cost	Fair Value
	(In thousands)	
Maturing within one year	$27,502	$27,533
Maturing after one year but within five years	79,845	80,614
Maturing after five years but within ten years	66,708	67,656
Maturing after ten years	67,487	67,801
	241,542	243,604
U.S. agency residential mortgage-backed	180,415	182,063
U.S. agency commercial mortgage-backed	7,832	7,996
Private label residential mortgage-backed	26,202	26,246
Other asset backed	139,895	139,846
Total	$595,886	$599,755

The actual maturity may differ from the contractual maturity because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Gains and losses realized on the sale of securities available for sale are determined using the specific identification method and are recognized on a trade-date basis. A summary of proceeds from the sale of securities available for sale and gains and losses for the six month periods ending June 30, follows:

	Proceeds	Realized Gains	Losses
	(In thousands)		
2016	$55,362	$ 336	$ 53

2015	11,786	75	-

During 2016 and 2015, our trading securities consisted of various preferred stocks. During the first six months of 2016 and 2015, we recognized gains (losses) on trading securities of \$0.064 million and \$(0.023) million, respectively, that are included in net gains on securities in the Condensed Consolidated Statements of Operations. Both of these amounts relate to gains (losses) recognized on trading securities still held at each respective period end.

Index
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

4. Loans

Our assessment of the allowance for loan losses is based on an evaluation of the loan portfolio, recent loss experience, current economic conditions and other pertinent factors.

An analysis of the allowance for loan losses by portfolio segment for the three months ended June 30, follows:

	Commercial	Mortgage	Installment	Payment Plan Receivables	Subjective Allocation	Total
	(In thousands)					
2016						
Balance at beginning of period	$5,622	$10,296	$1,161	$53	$5,363	$22,495
Additions (deductions)						
Provision for loan losses	(663)	(359)	126	(1)	163	(734)
Recoveries credited to allowance	1,114	294	351	-	-	1,759
Loans charged against the allowance	(34)	(275)	(499)	-	-	(808)
Balance at end of period	$6,039	$9,956	$1,139	$52	$5,526	$22,712
2015						
Balance at beginning of period	$5,916	$12,081	$1,564	$62	$5,056	$24,679
Additions (deductions)						
Provision for loan losses	177	(101)	(45)	3	(168)	(134)
Recoveries credited to allowance	652	319	284	-	-	1,255
Loans charged against the allowance	(38)	(834)	(342)	-	-	(1,214)
Balance at end of period	$6,707	$11,465	$1,461	$65	$4,888	$24,586

Index
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

An analysis of the allowance for loan losses by portfolio segment for the six months ended June 30, follows:

	Commercial	Mortgage	Installment	Payment Plan Receivables	Subjective Allocation	Total
	(In thousands)					
2016						
Balance at beginning of period	$5,670	$10,391	$1,181	$56	$5,272	$22,570
Additions (deductions)						
Provision for loan losses	(1,067)	(638)	191	(4)	254	(1,264)
Recoveries credited to allowance	1,470	676	572	-	-	2,718
Loans charged against the allowance	(34)	(473)	(805)	-	-	(1,312)
Balance at end of period	$6,039	$9,956	$1,139	$52	$5,526	$22,712
2015						
Balance at beginning of period	$5,445	$13,444	$1,814	$64	$5,223	$25,990
Additions (deductions)						
Provision for loan losses	505	(834)	(130)	1	(335)	(793)
Recoveries credited to allowance	1,085	557	603	-	-	2,245
Loans charged against the allowance	(328)	(1,702)	(826)	-	-	(2,856)
Balance at end of period	$6,707	$11,465	$1,461	$65	$4,888	$24,586

16

Index
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Allowance for loan losses and recorded investment in loans by portfolio segment follows:

	Commercial	Mortgage	Installment	Payment Plan Receivables	Subjective Allocation	Total
	(In thousands)					
June 30, 2016						
Allowance for loan losses						
Individually evaluated for impairment	$3,271	$ 7,262	$ 408	$ -	$ -	$10,941
Collectively evaluated for impairment	2,768	2,694	731	52	5,526	