VALLEY NATIONAL BANCORP
Form 10-Q
November 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
x Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended September 30, 2018
OR
¨ Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the transition period from to
Commission File Number 1-11277

VALLEY NATIONAL BANCORP
(Exact name of registrant as specified in its charter)

New Jersey	22-2477875
(State or other jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
1455 Valley Road Wayne, NJ	07470
(Address of principal executive office)	(Zip code)

973-305-8800
(Registrant’s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 x No ¨
Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files.) Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act (check one):
Large accelerated filer x Accelerated filer ¨ Emerging growth company ¨

Non-accelerated filer ¨ Smaller reporting company ¨

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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), of which 331,491,620 shares were outstanding as of November 7, 2018

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
VALLEY NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(in thousands, except for share data)

	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Cash and due from banks	$262,653	$243,310
Interest bearing deposits with banks	93,726	172,800
Investment securities:		
Held to maturity (fair value of $2,016,354 at September 30, 2018 and $1,837,620 at December 31, 2017)	2,072,363	1,842,691
Available for sale	1,749,001	1,493,905
Total investment securities	3,821,364	3,336,596
Loans held for sale, at fair value	31,675	15,119
Loans	24,111,290	18,331,580
Less: Allowance for loan losses	(144,963)	(120,856)
Net loans	23,966,327	18,210,724
Premises and equipment, net	341,060	287,705
Bank owned life insurance	438,238	386,079
Accrued interest receivable	92,666	73,990
Goodwill	1,085,710	690,637
Other intangible assets, net	80,771	42,507
Other assets	667,758	542,839
Total Assets	$30,881,948	$24,002,306
Liabilities		
Deposits:		
Non-interest bearing	$6,135,001	$5,224,928
Interest bearing:		
Savings, NOW and money market	11,036,700	9,365,013
Time	5,416,571	3,563,521
Total deposits	22,588,272	18,153,462
Short-term borrowings	2,968,431	748,628
Long-term borrowings	1,728,805	2,315,819
Junior subordinated debentures issued to capital trusts	55,283	41,774
Accrued expenses and other liabilities	238,221	209,458
Total Liabilities	27,579,012	21,469,141
Shareholders' Equity		
Preferred stock, no par value; authorized 50,000,000:		
Series A (4,600,000 shares issued at September 30, 2018 and December 31, 2017)	111,590	111,590
Series B (4,000,000 shares issued at September 30, 2018 and December 31, 2017)	98,101	98,101
Common stock (no par value, authorized 450,000,000 shares; issued 331,622,970 shares at September 30, 2018 and 264,498,643 shares at December 31, 2017)	116,154	92,727
Surplus	2,793,158	2,060,356
Retained earnings	262,368	216,733
Accumulated other comprehensive loss	(76,944)	(46,005)
Treasury stock, at cost (121,546 common shares at September 30, 2018 and 29,792 common shares at December 31, 2017)	(1,491)	(337)

Total Shareholders’ Equity	3,302,936	2,533,165
Total Liabilities and Shareholders’ Equity	$30,881,948	$24,002,306

See accompanying notes to consolidated financial statements.

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VALLEY NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(in thousands, except for share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest Income				
Interest and fees on loans	$265,870	$ 185,864	$751,146	$ 541,937
Interest and dividends on investment securities:				
Taxable	21,362	17,922	64,907	54,439
Tax-exempt	5,023	3,752	16,383	11,726
Dividends	3,981	2,657	9,648	6,945
Interest on federal funds sold and other short-term investments	805	546	2,570	1,156
Total interest income	297,041	210,741	844,654	616,203
Interest Expense				
Interest on deposits:				
Savings, NOW and money market	28,775	15,641	75,848	38,538
Time	20,109	10,852	51,360	30,571
Interest on short-term borrowings	15,193	5,161	31,838	14,578
Interest on long-term borrowings and junior subordinated debentures	16,164	15,142	50,458	41,883
Total interest expense	80,241	46,796	209,504	125,570
Net Interest Income	216,800	163,945	635,150	490,633
Provision for credit losses	6,552	1,640	24,642	7,742
Net Interest Income After Provision for Credit Losses	210,248	162,305	610,508	482,891
Non-Interest Income				
Trust and investment services	3,143	3,062	9,635	8,606
Insurance commissions	3,646	4,519	11,493	13,938
Service charges on deposit accounts	6,597	5,558	20,529	16,136
(Losses) gains on securities transactions, net	(79)	6	(880)	5
Fees from loan servicing	2,573	1,895	6,841	5,541
Gains on sales of loans, net	3,748	5,520	18,143	14,439
Bank owned life insurance	2,545	1,541	6,960	5,705
Other	6,865	4,896	26,637	17,177
Total non-interest income	29,038	26,997	99,358	81,547
Non-Interest Expense				
Salary and employee benefits expense	80,778	69,286	253,014	198,777
Net occupancy and equipment expense	26,295	22,756	81,120	68,400
FDIC insurance assessment	7,421	4,603	20,963	14,658
Amortization of other intangible assets	4,697	2,498	13,607	7,596
Professional and legal fees	6,638	11,110	29,022	20,107
Amortization of tax credit investments	5,412	8,389	15,156	21,445
Telecommunication expense	3,327	2,464	9,936	7,830
Other	17,113	11,459	52,531	33,943
Total non-interest expense	151,681	132,565	475,349	372,756
Income Before Income Taxes	87,605	56,737	234,517	191,682
Income tax expense	18,046	17,088	50,191	55,873
Net Income	$69,559	$ 39,649	$184,326	$ 135,809
Dividends on preferred stock	3,172	2,683	9,516	6,277
Net Income Available to Common Shareholders	$66,387	$ 36,966	$174,810	$ 129,532

Earnings Per Common Share:				
Basic	$0.20	$ 0.14	$0.53	$ 0.49
Diluted	0.20	0.14	0.53	0.49
Cash Dividends Declared per Common Share	0.11	0.11	0.33	0.33
Weighted Average Number of Common Shares Outstanding:				
Basic	331,486,500	264,058,174	331,180,213	263,938,786
Diluted	333,000,242	264,936,220	332,694,080	264,754,845

See accompanying notes to consolidated financial statements.

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VALLEY NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$69,559	$39,649	$184,326	$135,809
Other comprehensive income, net of tax:				
Unrealized gains and losses on available for sale securities				
Net (losses) gains arising during the period	(8,675)	1,457	(36,065)	4,660
Less reclassification adjustment for net losses (gains) included in net income	52	(4)	630	(4)
Total	(8,623)	1,453	(35,435)	4,656
Non-credit impairment losses on available for sale securities				
Net change in non-credit impairment losses on securities	(8)	(223)	(64)	(89)
Less reclassification adjustment for accretion of credit impairment losses included in net income	5	(40)	1	(166)
Total	(3)	(263)	(63)	(255)
Unrealized gains and losses on derivatives (cash flow hedges)				
Net gains (losses) on derivatives arising during the period	221	198	2,636	(548)
Less reclassification adjustment for net losses included in net income	472	1,132	2,127	3,963
Total	693	1,330	4,763	3,415
Defined benefit pension plan				
Amortization of net loss	113	59	337	177
Total other comprehensive (loss) income	(7,820)	2,579	(30,398)	7,993
Total comprehensive income	$61,739	$42,228	$153,928	$143,802

See accompanying notes to consolidated financial statements.

VALLEY NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$184,326	$135,809
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,367	18,408
Stock-based compensation	15,840	9,563
Provision for credit losses	24,642	7,742
Net amortization of premiums and accretion of discounts on securities and borrowings	26,262	17,476
Amortization of other intangible assets	13,607	7,596
Losses (gains) on securities transactions, net	880	(5)
Proceeds from sales of loans held for sale	591,583	484,102
Gains on sales of loans, net	(18,143)	(14,439)
Originations of loans held for sale	(307,623)	(201,393)
Losses on sales of assets, net	2,122	359
Net change in:		
Cash surrender value of bank owned life insurance	(6,960)	(5,705)
Accrued interest receivable	(6,553)	(5,247)
Other assets	(39,120)	(7,052)
Accrued expenses and other liabilities	(5,941)	(17,465)
Net cash provided by operating activities	495,289	429,749
Cash flows from investing activities:		
Net loan originations and purchases	(2,324,977)	(1,200,913)
Investment securities held to maturity:		
Purchases	(220,192)	(127,318)
Maturities, calls and principal repayments	195,448	219,967
Investment securities available for sale:		
Purchases	(239,226)	(293,788)
Sales	38,625	—
Maturities, calls and principal repayments	194,312	144,221
Death benefit proceeds from bank owned life insurance	2,546	10,661
Proceeds from sales of real estate property and equipment	6,665	7,717
Purchases of real estate property and equipment	(16,880)	(13,341)
Cash and cash equivalents acquired in acquisition	156,612	—
Net cash used in investing activities	(2,207,067)	(1,252,794)
Cash flows from financing activities:		
Net change in deposits	869,967	(417,942)
Net change in short-term borrowings	1,569,824	401,749
Proceeds from issuance of long-term borrowings, net	—	965,000
Repayments of long-term borrowings	(675,682)	(185,000)
Proceeds from issuance of preferred stock, net	—	98,101
Cash dividends paid to preferred shareholders	(9,516)	(6,277)
Cash dividends paid to common shareholders	(102,414)	(84,143)
Purchase of common shares to treasury	(2,780)	(2,284)
Common stock issued, net	2,648	5,166

Net cash provided by financing activities	1,652,047	774,370
Net change in cash and cash equivalents	(59,731)	(48,675)
Cash and cash equivalents at beginning of year	416,110	392,501
Cash and cash equivalents at end of period	$356,379	$343,826

VALLEY NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(in thousands)

	Nine Months Ended September 30,	
	2018	2017
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest on deposits and borrowings	$205,821	$125,433
Federal and state income taxes	47,217	27,003
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	$697	$7,147
Transfer of loans to loans held for sale	289,633	225,541
Acquisition:		
Non-cash assets acquired:		
Investment securities held to maturity	$214,217	$—
Investment securities available for sale	308,385	—
Loans	3,735,162	—
Premises and equipment	62,066	—
Bank owned life insurance	49,052	—
Accrued interest receivable	12,123	—
Goodwill	395,073	—
Other intangible assets	45,906	—
Other assets	100,836	—
Total non-cash assets acquired	$4,922,820	$—
Liabilities assumed:		
Deposits	$3,564,843	$—
Short-term borrowings	649,979	—
Long-term borrowings	87,283	—
Junior subordinated debentures issued to capital trusts	13,249	—
Accrued expenses and other liabilities	26,848	—
Total liabilities assumed	4,342,202	—
Net non-cash assets acquired	$580,618	$—
Net cash and cash equivalents acquired in acquisition	$156,612	$—
Common stock issued in acquisition	$737,230	$—

See accompanying notes to consolidated financial statements.

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VALLEY NATIONAL BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Note 1. Basis of Presentation
The unaudited consolidated financial statements of Valley National Bancorp, a New Jersey corporation ("Valley"), include the accounts of its commercial bank subsidiary, Valley National Bank (the “Bank”), and all of Valley’s direct or indirect wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated. The accounting and reporting policies of Valley conform to U.S. generally accepted accounting principles (U.S. GAAP) and general practices within the financial services industry. In accordance with applicable accounting standards, Valley does not consolidate statutory trusts established for the sole purpose of issuing trust preferred securities and related trust common securities. Certain prior period amounts have been reclassified to conform to the current presentation.
In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly Valley’s financial position, results of operations and cash flows at September 30, 2018 and for all periods presented have been made. The results of operations for the three and nine months ended on September 30, 2018 are not necessarily indicative of the results to be expected for the entire fiscal year.
In preparing the unaudited consolidated financial statements in conformity with U.S. GAAP, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial condition and results of operations for the periods indicated. Material estimates that are particularly susceptible to change are: the allowance for loan losses; estimated cash flows from purchased credit impaired loans; the evaluation of goodwill, other intangible assets and investment securities for impairment; fair value measurements of assets and liabilities; and income taxes. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are deemed necessary. While management uses its best judgment, actual amounts or results could differ significantly from those estimates.
Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP and industry practice have been condensed or omitted pursuant to rules and regulations of the SEC. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Valley’s Annual Report on Form 10-K for the year ended December 31, 2017.

Note 2. Business Combinations

On January 1, 2018, Valley completed its acquisition of USAmeriBancorp, Inc. (USAB) and its wholly-owned subsidiary, USAmeriBank, headquartered in Clearwater, Florida. USAB had approximately $5.1 billion in assets, $3.7 billion in net loans and $3.6 billion in deposits, after purchase accounting adjustments, and maintained a branch network of 29 offices. The acquisition represents a significant addition to Valley's Florida franchise, specifically in the Tampa Bay market. The acquisition also brought Valley to the Birmingham, Montgomery, and Tallapoosa areas in Alabama, where Valley now operates 15 of its branches. The common shareholders of USAB received 6.1 shares of Valley common stock for each USAB share they owned. The total consideration for the acquisition was approximately $737 million.

Merger expenses totaled $1.3 million and $18.1 million for the three and nine months ended September 30, 2018, respectively, which primarily related to salary and employee benefits and other expense included in non-interest expense on the consolidated statements of income.

The following table sets forth assets acquired and liabilities assumed in the USAB acquisition, at their estimated fair values as of the closing date of the transaction:

	January 1, 2018 (in thousands)
Assets acquired:	
Cash and cash equivalents	$156,612
Investment securities held to maturity	214,217
Investment securities available for sale	308,385
Loans	3,735,162
Premises and equipment	62,066
Bank owned life insurance	49,052
Accrued interest receivable	12,123
Goodwill	395,073
Other intangible assets	45,906
Other assets:	
Deferred taxes	11,400
Other real estate owned	4,073
FHLB and FRB stock	38,809
Tax credit investments	20,138
Other	26,416
Total other assets	100,836
Total assets acquired	$5,079,432
Liabilities assumed:	
Deposits:	
Non-interest bearing	$887,083
Savings, NOW and money market	1,678,115
Time	999,645
Total deposits	3,564,843
Short-term borrowings	649,979
Long-term borrowings	87,283
Junior subordinated debentures issued to capital trusts	13,249
Accrued expenses and other liabilities	26,848
Total liabilities assumed	$4,342,202
Common stock issued in acquisition	737,230

The determination of the fair value of the assets acquired and liabilities assumed required management to make estimates about discount rates, future expected cash flows, market conditions, and other future events that are highly subjective in nature and subject to change. The fair value estimates are subject to change for up to one year after the closing date of the transaction if additional information (existing at the date of closing) relative to closing date fair values becomes available. During the third quarter of 2018, Valley revised the estimated fair values of the acquired assets as of the acquisition date as the result of additional information obtained. The adjustments related to the fair value of certain purchased credit-impaired (PCI) loans and deferred tax assets which, on a combined basis, resulted in a $6.8 million increase in goodwill (see Note 10 for amount of goodwill as allocated to Valley's business segments). While Valley continues to analyze the acquired assets and liabilities, it does not expect any significant future adjustments to the recorded amounts at January 1, 2018.

Fair Value Measurement of Assets Acquired and Liabilities Assumed

Described below are the methods used to determine the fair values of the significant assets acquired and liabilities assumed in the USAB acquisition.

Cash and cash equivalents. The estimated fair values of cash and cash equivalents approximate their stated face amounts, as these financial instruments are either due on demand or have short-term maturities.

Investment securities. The estimated fair values of the investment securities were calculated utilizing Level 2 inputs. The prices for these instruments are obtained through an independent pricing service when available, or dealer market participants with whom Valley has historically transacted both purchases and sales of investment securities. The prices are derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond’s terms and conditions, among other things. Management reviewed the data and assumptions used in pricing the securities by its third party provider to ensure the highest level of significant inputs are derived from market observable data.

Loans. The acquired loan portfolio was segregated into categories for valuation purposes primarily based on loan type (commercial, commercial real estate, residential and consumer) and credit risk rating. The estimated fair values were computed by discounting the expected cash flows from the respective portfolios. Management estimated the contractual cash flows expected to be collected at the acquisition date by using valuation models that incorporated estimates of current key assumptions, such as prepayment speeds, default rates, and loss severity rates. Prepayment assumptions were developed by reference to recent or historical prepayment speeds observed for loans with similar underlying characteristics. Prepayment assumptions were influenced by many factors, including, but not limited to, forward interest rates, loan and collateral types, payment status, and current loan-to-value ratios. Default and loss severity rates were developed by reference to recent or historical default and loss rates observed for loans with similar underlying characteristics. Default and loss severity assumptions were influenced by many factors, including, but not limited to, underwriting processes and documentation, vintages, collateral types, collateral locations, estimated collateral values, loan-to-value ratios, and debt-to-income ratios.

The expected cash flows from the acquired loan portfolios were discounted to present value based on the estimated market rates. The market rates were estimated using a buildup approach based on the following components: funding cost, servicing cost and consideration of liquidity premium. The funding cost estimated for the loans was based on a mix of wholesale borrowing and equity funding. The methods used to estimate the Level 3 fair values of loans are extremely sensitive to the assumptions and estimates used. While management attempted to use assumptions and estimates that best reflected the acquired loan portfolios and current market conditions, a greater degree of subjectivity is inherent in these values than in those determined in active markets.

The difference between the fair value and the expected cash flows from the acquired loans will be accreted to interest income over the remaining term of the loans in accordance with Accounting Standards Codification (ASC)

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Subtopic 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality.” See Note 8 for further details.

Other intangible assets. Other intangible assets mostly consisting of core deposit intangibles (CDI) are measures of the value of non-maturity checking, savings, NOW and money market deposits that are acquired in a business combination. The fair value of the CDI is based on the present value of the expected cost savings attributable to the core deposit funding, relative to an alternative source of funding. The CDI is amortized over an estimated useful life of 10 years to approximate the existing deposit relationships acquired.

Deposits. The fair values of deposit liabilities with no stated maturity (i.e., non-interest bearing accounts and savings, NOW and money market accounts) are equal to the carrying amounts payable on demand. The fair values of certificates of deposit represent contractual cash flows, discounted to present value using interest rates currently offered on deposits with similar characteristics and remaining maturities.

Short-term borrowings. The short-term borrowings consist of securities sold under agreements to repurchase and FHLB advances. The carrying amounts approximate their fair values because they frequently re-price to a market rate.

Long-term borrowings. The fair values of long-term borrowings consisting of subordinated notes and FHLB advances were estimated by discounting the estimated future cash flows using market discount rates for borrowings with similar characteristics, terms and remaining maturities.

Junior subordinated debentures issued to capital trusts. There is no active market for the trust preferred securities issued by Aliant Statutory Trust II; therefore, the fair value of junior subordinated debentures was estimated utilizing the income approach. Valuation methods under the income approach include those methods that provide for the direct capitalization of earnings estimates, as well as valuation methods calling for the forecasting of future benefits (earnings or cash flows) and then discounting those benefits to the present at an appropriate discount rate. Under the income approach, the expected cash flows over the remaining estimated life were discounted to the present at an appropriate discount rate.

Note 3. Earnings Per Common Share

The following table shows the calculation of both basic and diluted earnings per common share for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands, except for share data)			
Net income available to common shareholders	$66,387	$ 36,966	$174,810	$ 129,532
Basic weighted average number of common shares outstanding	331,486,500	264,058,174	331,180,212	263,938,786
Plus: Common stock equivalents	1,513,742	878,046	1,513,867	816,059
Diluted weighted average number of common shares outstanding	333,000,242	264,936,220	332,694,080	264,754,845
Earnings per common share:				
Basic	$0.20	$ 0.14	$0.53	$ 0.49
Diluted	0.20	0.14	0.53	0.49

Common stock equivalents represent the dilutive effect of additional common shares issuable upon the assumed vesting or exercise, if applicable, of restricted stock units, common stock options and warrants to purchase Valley’s common shares. Common stock options and warrants with exercise prices that exceed the average market price of Valley’s common stock during the periods presented have an anti-dilutive effect on the diluted earnings per common share calculation and therefore are excluded from the diluted earnings per share calculation. Anti-dilutive

warrants and, to a lesser extent, common stock options equaled approximately 2.9 million and 3.3 million shares for the three and nine months ended September 30, 2018 and 2017, respectively.
Note 4. Accumulated Other Comprehensive Loss

The following tables present the after-tax changes in the balances of each component of accumulated other comprehensive loss for the three and nine months ended September 30, 2018:

	Components of Accumulated Other Comprehensive Loss				
	Unrealized Gains and Losses on Available for Sale (AFS) Securities	Non-credit Impairment Losses on AFS Securities	Unrealized Gains and (Losses) on Derivatives	Defined Benefit Pension Plan	Total Accumulated Other Comprehensive Loss
	(in thousands)				
Balance at June 30, 2018	$ (39,296)	$ (440)	$ (4,329)	$ (25,059)	$ (69,124)
Other comprehensive (loss) income before reclassifications	(8,675)	(8)	221	—	(8,462)
Amounts reclassified from other comprehensive (loss) income	52	5	472	113	642
Other comprehensive (loss) income, net	(8,623)	(3)	693	113	(7,820)
Balance at September 30, 2018	$ (47,919)	$ (443)	$ (3,636)	$ (24,946)	$ (76,944)

	Components of Accumulated Other Comprehensive Loss				
	Unrealized Gains and Losses on Available for Sale (AFS) Securities	Non-credit Impairment Losses on AFS Securities	Unrealized Gains and (Losses) on Derivatives	Defined Benefit Pension Plan	Total Accumulated Other Comprehensive Loss
	(in thousands)				
Balance at December 31, 2017	$ (12,004)	$ (380)	$ (8,338)	$ (25,283)	$ (46,005)
Reclassification due to the adoption of ASU No. 2016-01	(480)	—	—	—	(480)
Reclassification due to the adoption of ASU No. 2017-12	—	—	(61)	—	(61)
Balance at January 1, 2018	(12,484)	(380)	(8,399)	(25,283)	(46,546)
Other comprehensive (loss) income before reclassification	(36,065)	(64)	2,636	—	(33,493)
Amounts reclassified from other comprehensive (loss) income	630	1	2,127	337	3,095
Other comprehensive (loss) income, net	(35,435)	(63)	4,763	337	(30,398)
Balance at September 30, 2018	$ (47,919)	$ (443)	$ (3,636)	$ (24,946)	$ (76,944)

The following table presents amounts reclassified from each component of accumulated other comprehensive loss on a gross and net of tax basis for the three and nine months ended September 30, 2018 and 2017:

	Amounts Reclassified from Accumulated Other Comprehensive Loss				
	Three Months Ended September 30,		Nine Months Ended September 30,		
Components of Accumulated Other Comprehensive Loss	2018	2017	2018	2017	Income Statement Line Item
	(in thousands)				
Unrealized (losses) gains on AFS securities before tax	$(79)	$6	$(880)	$5	(Losses) gains on securities transactions, net
Tax effect	27	(2)	250	(1)	
Total net of tax	(52)	4	(630)	4	
Non-credit impairment losses on AFS securities before tax:					
Accretion of credit loss impairment due to an increase in expected cash flows	(7)	67	(1)	283	Interest and dividends on investment securities (taxable)
Tax effect	2	(27)	—	(117)	
Total net of tax	(5)	40	(1)	166	
Unrealized losses on derivatives (cash flow hedges) before tax	(660)	(1,930)	(2,977)	(6,762)	Interest expense
Tax effect	188	798	850	2,799	
Total net of tax	(472)	(1,132)	(2,127)	(3,963)	
Defined benefit pension plan:					
Amortization of net loss	(157)	(101)	(471)	(303)	*
Tax effect	44	42	134	126	
Total net of tax	(113)	(59)	(337)	(177)	
Total reclassifications, net of tax	$(642)	$(1,147)	$(3,095)	$(3,970)	

* Amortization of net loss is included in the computation of net periodic pension cost recognized within other non-interest expense.

Note 5. New Authoritative Accounting Guidance

New Accounting Guidance Adopted in 2018

Accounting Standards Update (ASU) No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement" eliminates, amends and adds disclosure requirements for fair value measurements. In addition, the amendments eliminate the term "at a minimum" from the disclosure requirements under Topic 820 to promote an appropriate exercise of discretion to consider materiality when evaluating required disclosures. ASU No. 2018-13 is effective for all entities for reporting periods beginning January 1, 2020 with early adoption permitted. Early adoption is allowed for any period for which the financial statements have not been issued yet or have not been made available for issuance. As a result, Valley elected to early adopt ASU No. 2018-13 for the third quarter ended September 30, 2018. The adoption resulted in the removal of Level 3 assets roll-forward and qualitative and quantitative disclosures regarding valuation techniques and unobservable inputs used to measure the fair value of Level 3 assets from Note 6 due to the immaterial amount of such assets at September 30, 2018.

ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" amends the hedge accounting recognition and presentation requirements to better align a company's financial reporting for hedging activities with the economic objectives of those activities. ASU No. 2017-12 is effective for the annual and interim reporting periods beginning January 1, 2019 with early adoption permitted. Valley elected to early adopt ASU No. 2017-12 for annual and interim reporting periods beginning January 1, 2018. The adoption of ASU No. 2017-12 required a modified retrospective method to be used by Valley and resulted in an immaterial cumulative-effect adjustment to retained earnings as of January 1, 2018 to eliminate the separate measurement of ineffectiveness from accumulated comprehensive income (see Note 4).

ASU No. 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" requires service cost to be reported in the same financial statement line item(s) as other current employee compensation costs. All other components of expense must be presented separately from service cost, and outside any subtotal of income from operations. Only the service cost component of expense is eligible to be capitalized. ASU No. 2017-07 should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. ASU No. 2017-07 was effective for Valley for its annual and interim reporting periods beginning January 1, 2018. ASU No. 2017-07 did not have a significant impact on the presentation of Valley's consolidated financial statements.

ASU No. 2016-16, “Income Taxes (Topic 740): Intra-Entity Asset Transfers of Assets Other than Inventory”. Under current GAAP, the tax effects of intercompany sales are deferred until the transferred asset is sold to a third party or otherwise recovered through amortization. This is an exception to the accounting for income taxes that generally requires recognition of current and deferred income taxes. ASU No. 2016-16 eliminates the exception for intercompany sales of assets. ASU No. 2016-16 was effective for Valley on January 1, 2018 and it was applied using the modified retrospective method. As a result, Valley recorded a $15.4 million cumulative effect adjustment that reduced retained earnings effective January 1, 2018 to record net deferred tax liabilities related to pre-existing transactions.

ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" clarifies how certain cash receipts and cash payments should be classified and presented in the statement of cash flows. ASU No. 2016-15 includes guidance on eight specific cash flow issues with the objective of reducing the existing diversity of practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU No. 2016-15 was effective for Valley for annual and interim reporting periods beginning January 1, 2018 and it was applied using a retrospective transition method to each period presented. ASU No. 2016-15 did not have a significant impact on the presentation of Valley's consolidated statements of cash flows.

ASU No. 2016-01, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” requires that: (i) equity investments with readily determinable fair values must be measured at fair value with changes in fair value recognized in net income, (ii) equity investments without readily determinable fair values must be measured at either fair value or at cost adjusted for changes in observable prices minus impairment with changes in value under either of these methods recognized in net income, (iii) entities that record financial liabilities at fair value due to a fair value option election must recognize changes in fair value caused by a change in instrument-specific credit risk in other comprehensive income, (iv) entities must assess whether a valuation allowance is required for deferred tax assets related to available-for-sale debt securities, and (v) entities are required to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. ASU No. 2016-01 also eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet (see Note 6). ASU No. 2016-01 was effective for Valley for reporting periods beginning January 1, 2018 and did not have a material effect on Valley’s consolidated financial statements.

ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)" and subsequent related updates modify the guidance used to recognize revenue from contracts with customers for transfers of goods or services and transfers of non-financial assets, unless those contracts are within the scope of other guidance. The updates also require new qualitative and quantitative disclosures, including disaggregation of revenues and descriptions of performance obligations. Valley adopted the guidance on January 1, 2018 using the modified retrospective method with a cumulative-effect adjustment to opening retained earnings. The guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other U.S. GAAP. Accordingly, the new revenue recognition standard was not expected to have a material impact on Valley’s

consolidated financial statements. Valley has completed its review of non-interest income revenue streams within the scope of the guidance and an assessment of its revenue contracts and did not identify material changes related to the timing or amount of revenue recognition. Therefore, Valley did not record an adjustment to opening retained earnings at January 1, 2018 due to the adoption of this standard. Valley has also concluded that additional disaggregation of revenue categories (as reported herein and consistent with the Annual Report on Form 10-K for the year ended December 31, 2017) that are within the scope of the new guidance is not necessary. Qualitative disclosures regarding such revenues, as required by the new guidance, are presented in Note 12.

New Accounting Guidance Not Yet Adopted

ASU No. 2018-15 “Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract” requires implementation costs incurred in cloud computing arrangements which do not include a software license to be deferred and expensed over the term of the hosting arrangement. The implementation costs should be deferred using the Topic 350-40 “Internal-Use Software” model to determine which implementation costs are eligible to be capitalized based on the project stage and nature of the cost. The expense should be presented in the same income statement line item as the fees associated with the cloud computing arrangement. ASU No. 2018-15 will be effective for public entities annual and interim reporting periods beginning January 1, 2020 with early adoption permitted. ASU No. 2018-15 should be applied either retrospectively or prospectively. However, prospective transition would be applied to any eligible costs incurred on or after the adoption date related to arrangements entered before and after the adoption date. During the fourth quarter of 2018, Valley adopted ASU No. 2017-08 on a prospective basis. The adoption of ASU No. 2017-08 is not expected to have a significant impact on Valley's consolidated financial statements.

ASU No. 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities" shortens the amortization period for certain callable debt securities held at a premium. ASU No. 2017-08 requires the premium to be amortized to the earliest call date. The accounting for securities held at a discount does not change and the discount continues to be amortized as an adjustment to yield over the contractual life (to maturity) of the instrument. ASU No. 2017-08 is effective for Valley for the annual and interim reporting periods beginning January 1, 2019 with early adoption permitted, and is to be applied using the modified retrospective method. Additionally, in the period of adoption, entities should provide disclosures about a change in accounting principle. ASU No. 2017-08 is not expected to have a significant impact on Valley's consolidated financial statements.

ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the current goodwill impairment test guidance) to measure a goodwill impairment charge. Instead, an entity will be required to record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value (i.e., measure the charge based on Step 1 of the current guidance). In addition, ASU No. 2017-04 eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. However, an entity will be required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU No. 2017-04 is effective for Valley for its annual or any interim goodwill impairment tests in fiscal years beginning January 1, 2020 and is not expected to have a significant impact on the presentation of Valley's consolidated financial statements. Early adoption is permitted for annual and interim goodwill impairment testing dates.

ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" amends the accounting guidance on the impairment of financial instruments. ASU No. 2016-13 adds to U.S. GAAP an impairment model (known as the current expected credit loss (CECL) model) that is based on all expected losses over the lives of the assets rather than incurred losses. Under the new guidance, an entity is required to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. ASU No. 2016-13 is effective for Valley for reporting periods beginning January 1, 2020. Management is currently evaluating the impact of the ASU on Valley's consolidated financial statements. Valley's implementation effort is managed through several cross-functional working groups. These groups continue to evaluate the requirements of the new standard, assess its impact on current operational processes, and develop loss models that accurately project lifetime expected loss estimates. Valley expects that the adoption of ASU No. 2016-13 will result in an increase in its allowance for credit losses due to several factors, including: (i) the allowance related to Valley loans will increase to include credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, (ii) the nonaccretable difference (as defined in Note 8) on PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans, and (iii) an allowance will be established for estimated credit losses on investment securities classified as held to maturity. The extent of the increase is under evaluation, but will depend upon the nature and characteristics of Valley's loan and investment portfolios at the adoption date, and the economic conditions and forecasts at that date.

ASU No. 2016-02, "Leases (Topic 842)" and subsequent related updates require the recognition of a right of use asset and related lease liability by lessees for leases classified as operating leases under current GAAP. Topic 842, which replaces the current guidance under Topic 840, retains a distinction between finance leases and operating leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee also will not significantly change from current GAAP. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize right of use assets and lease liabilities. Topic 842 will be effective for Valley for reporting periods beginning January 1, 2019, with early adoption permitted. Valley expects to initially apply Topic 842 at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings as of January 1, 2019 under the new optional transition method provided by ASU No. 2018-11, "Leases (Topic 842): Targeted Improvements". The comparative prior periods reported in the financial statements in the period of adoption will continue to be presented in accordance with current GAAP in Topic 840. In addition, the amendments in ASU No. 2018-11 provide lessors with a practical expedient, by class of underlying asset, to not separate non-lease components from the associated lease component. Those components can be accounted for as a single component if the non-lease components would otherwise be accounted for under the new revenue guidance (Topic 606) when certain criteria are met.

Overall, management continues to evaluate the impact of Topic 842 on Valley's consolidated financial statements and is presently evaluating all of its known leases for compliance with the new lease accounting guidance. Management has completed an initial review of Valley's contractual arrangements for embedded leases, and is currently validating the results of this review, including the accumulated lease data necessary to apply the new guidance. Valley expects a gross-up of its consolidated statements of financial condition as a result of recognizing lease liabilities and right of use assets; the extent of such gross-up is under evaluation. Based upon current estimates, Valley expects to record right of use assets ranging from $200 million to $250 million (net of the reversal of the current deferred rent liability) and lease obligations ranging from $230 million to $280 million as of January 1, 2019. The estimated range of additional right of use assets is expected to negatively impact total risk-based capital by approximately 10 to 12 basis points and tier 1 capital by approximately 7 to 9 basis points. Actual results of our implementation may differ from the current estimated ranges due to several factors, including, but not limited to changes in our incremental borrowing rates at the date of adoption, expectations regarding exercise of certain lease renewal periods, lease modifications and early terminations, new leases and contracts, or the discovery of additional existing or embedded leases during the fourth quarter of 2018.

Note 6. Fair Value Measurement of Assets and Liabilities

ASC Topic 820, "Fair Value Measurements and Disclosures," establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1	Unadjusted exchange quoted prices in active markets for identical assets or liabilities, or identical liabilities traded as assets that the reporting entity has the ability to access at the measurement date.

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Level 2 Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly (i.e., quoted prices on similar assets), for substantially the full term of the asset or liability.

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Assets and Liabilities Measured at Fair Value on a Recurring and Non-Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring and nonrecurring basis by level within the fair value hierarchy as reported on the consolidated statements of financial condition at September 30, 2018 and December 31, 2017. The assets presented under "nonrecurring fair value measurements" in the tables below are not measured at fair value on an ongoing basis but are subject to fair value adjustments under certain circumstances (e.g., when an impairment loss is recognized).

		Fair Value Measurements at Reporting Date Using:		
	September 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Recurring fair value measurements:				
Assets				
Investment securities:				
Available for sale:				
U.S. Treasury securities	$48,363	$ 48,363	$ —	$ —
U.S. government agency securities	36,513	—	36,513	—
Obligations of states and political subdivisions	205,237	—	205,237	—
Residential mortgage-backed securities	1,412,849	—	1,406,671	6,178
Trust preferred securities	1,590	—	1,590	—
Corporate and other debt securities	44,449	7,587	36,862	—
Total available for sale	1,749,001	55,950	1,686,873	6,178
Loans held for sale (1)	31,675	—	31,675	—
Other assets (2)	28,539	—	28,539	—
Total assets	$1,809,215	$ 55,950	$ 1,747,087	$ 6,178
Liabilities				
Other liabilities (2)	$44,917	$ —	$ 44,917	$ —
Total liabilities	$44,917	$ —	$ 44,917	$ —
Non-recurring fair value measurements:				
Collateral dependent impaired loans (3)	$36,957	$ —	$ —	$ 36,957
Loan servicing rights	373	—	—	373
Foreclosed assets	4,450	—	—	4,450
Total	$41,780	$ —	$ —	$ 41,780

	December 31, 2017	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Recurring fair value measurements:				
Assets				
Investment securities:				
Available for sale:				
U.S. Treasury securities	$49,642	$ 49,642	$ —	$ —
U.S. government agency securities	42,505	—	42,505	—
Obligations of states and political subdivisions	112,884	—	112,884	—
Residential mortgage-backed securities	1,223,295	—	1,215,935	7,360
Trust preferred securities	3,214	—	3,214	—
Corporate and other debt securities	51,164	7,783	43,381	—
Equity securities	11,201	1,382	9,819	—
Total available for sale	1,493,905	58,807	1,427,738	7,360
Loans held for sale (1)	15,119	—	15,119	—
Other assets (2)	26,417	—	26,417	—
Total assets	$1,535,441	$ 58,807	$ 1,469,274	$ 7,360
Liabilities				
Other liabilities (2)	$24,330	$ —	$ 24,330	$ —
Total liabilities	$24,330	$ —	$ 24,330	$ —
Non-recurring fair value measurements:				
Collateral dependent impaired loans (3)	$48,373	$ —	$ —	$ 48,373
Loan servicing rights	5,350	—	—	5,350
Foreclosed assets	3,472	—	—	3,472
Total	$57,195	$ —	$ —	$ 57,195

(1) Represents residential mortgage loans originated for sale that are carried at fair value and had contractual unpaid principal balances totaling approximately $31.4 million and $14.8 million at September 30, 2018 and December 31, 2017, respectively.
(2) Derivative financial instruments are included in this category.
(3) Excludes PCI loans.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following valuation techniques were used for financial instruments measured at fair value on a recurring basis. All the valuation techniques described below apply to the unpaid principal balance, excluding any accrued interest or dividends at the measurement date. Interest income and expense are recorded within the consolidated statements of income depending on the nature of the instrument using the effective interest method based on acquired discount or premium.

Available for sale securities.

All U.S. Treasury securities, certain corporate and other debt securities, and certain preferred equity securities are reported at fair value utilizing Level 1 inputs. The majority of other investment securities are reported at fair value utilizing Level 2 inputs. The prices for these instruments are obtained through an independent pricing service or dealer market participants with whom Valley has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond’s terms and conditions, among other things. Management reviews the data and assumptions used in pricing the securities by its third party provider to ensure the highest level of significant inputs are derived from market observable data. For certain securities, the inputs used by either dealer market participants or an independent pricing service may be derived from unobservable market information (Level 3 inputs). In these instances, Valley evaluates the appropriateness and quality of the assumption and the resulting price. In addition, Valley reviews the volume and level of activity for all available for sale and trading securities and attempts to identify transactions which may not be orderly or reflective of a significant level of activity and volume.

Loans held for sale. The conforming residential mortgage loans originated for sale are reported at fair value using Level 2 inputs. The fair values were calculated utilizing quoted prices for similar assets in active markets. To determine these fair values, the mortgages held for sale are put into multiple tranches, or pools, based on the coupon rate and maturity of each mortgage. The market prices for each tranche are obtained from both Fannie Mae and Freddie Mac. The market prices represent a delivery price, which reflects the underlying price each institution would pay Valley for an immediate sale of an aggregate pool of mortgages. The market prices received from Fannie Mae and Freddie Mac are then averaged and interpolated or extrapolated, where required, to calculate the fair value of each tranche. Depending upon the time elapsed since the origination of each loan held for sale, non-performance risk and changes therein were addressed in the estimate of fair value based upon the delinquency data provided to both Fannie Mae and Freddie Mac for market pricing and changes in market credit spreads. Non-performance risk did not materially impact the fair value of mortgage loans held for sale at September 30, 2018 and December 31, 2017 based on the short duration these assets were held, and the high credit quality of these loans.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The fair value of Valley’s derivatives are determined using third party prices that are based on discounted cash flow analysis using observed market inputs, such as the LIBOR and Overnight Index Swap rate curves. The fair value of mortgage banking derivatives, consisting of interest rate lock commitments to fund residential mortgage loans and forward commitments for the future delivery of such loans (including certain loans held for sale at September 30, 2018 and December 31, 2017), is determined based on the current market prices for similar instruments provided by Fannie Mae and Freddie Mac. The fair values of most of the derivatives incorporate credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, to account for potential nonperformance risk of Valley and its counterparties. The credit valuation adjustments were not significant to the overall valuation of Valley’s derivatives at September 30, 2018 and December 31, 2017.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

The following valuation techniques were used for certain non-financial assets measured at fair value on a nonrecurring basis, including impaired loans reported at the fair value of the underlying collateral, loan servicing rights and foreclosed assets, which are reported at fair value upon initial recognition or subsequent impairment as described below.

Impaired loans. Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral and are commonly referred to as “collateral dependent impaired loans.” Collateral values are estimated using Level 3 inputs, consisting of individual appraisals that may be adjusted based on certain discounting criteria. At September 30, 2018, certain appraisals were discounted based on specific market data by location and property type. During the quarter ended September 30, 2018, collateral dependent impaired loans were individually re-measured and reported at fair value through direct loan charge-offs to the allowance for loan losses and/or a specific valuation allowance allocation based on the fair value of the underlying collateral. There were no impaired collateral dependent loan charge-offs to the allowance for loan losses for the three months ended September 30, 2018 and 2017. The collateral dependent loan charge-offs to the allowance for loan losses were immaterial for the nine months ended September 30, 2018 as compared to $2.1 million for the nine months ended September 30, 2017. At September 30, 2018, collateral dependent impaired loans with a total recorded investment of $60.2 million were reduced by specific valuation allowance allocations totaling $23.2 million to a reported total net carrying amount of $37.0 million.

Loan servicing rights. Fair values for each risk-stratified group of loan servicing rights are calculated using a fair value model from a third party vendor that requires inputs that are both significant to the fair value measurement and unobservable (Level 3). The fair value model is based on various assumptions, including but not limited to, prepayment speeds, internal rate of return ("discount rate"), servicing cost, ancillary income, float rate, tax rate, and inflation. The prepayment speed and the discount rate are considered two of the most significant inputs in the model. At September 30, 2018, the fair value model used prepayment speeds (stated as constant prepayment rates) from 0 percent up to 24 percent and a discount rate of 8 percent for the valuation of the loan servicing rights. A significant degree of judgment is involved in valuing the loan servicing rights using Level 3 inputs. The use of different assumptions could have a significant positive or negative effect on the fair value estimate. Impairment charges are recognized on loan servicing rights when the amortized cost of a risk-stratified group of loan servicing rights exceeds the estimated fair value. Valley recorded net recoveries of net impairment charges on its loan servicing rights totaling $48 thousand and $365 thousand for the three and nine months ended September 30, 2018, respectively, and $134 thousand and $185 thousand for the three and nine months ended September 30, 2017, respectively.

Foreclosed assets. Certain foreclosed assets (consisting of other real estate owned and other repossessed assets), upon initial recognition and transfer from loans, are re-measured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the foreclosed assets. The fair value of a foreclosed asset, upon initial recognition, is typically estimated using Level 3 inputs, consisting of an appraisal that is adjusted based on certain discounting criteria, similar to the criteria used for impaired loans described above. There were no discount adjustments of the appraisals of foreclosed assets at September 30, 2018. At September 30, 2018, foreclosed assets included $4.5 million of assets that were measured at fair value upon initial recognition or subsequently re-measured during the quarter ended September 30, 2018. The foreclosed assets charge-offs to the allowance for the loan losses totaled $267 thousand and $536 thousand for the three months ended September 30, 2018 and 2017, respectively, and $1.5 million and $1.5 million for the nine months ended September 30, 2018 and 2017, respectively. The re-measurement of foreclosed assets at fair value subsequent to their initial recognition resulted in net losses within non-interest expense of $245 thousand for the three months ended September 30, 2018, and $390 thousand and $290 thousand for the nine months ended September 30, 2018 and 2017, respectively. There were no losses on re-measurement during the three months ended September 30, 2017.

Other Fair Value Disclosures

ASC Topic 825, "Financial Instruments," requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis.

The fair value estimates presented in the following table were based on pertinent market data and relevant information on the financial instruments available as of the valuation date. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire portfolio of financial instruments. Because no market exists for a portion of the financial instruments, fair value estimates may be based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For instance, Valley has certain fee-generating business lines (e.g., its mortgage servicing operation, trust and investment management departments) that were not considered in these estimates since these activities are not financial instruments. In addition, the tax implications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

The carrying amounts and estimated fair values of financial instruments not measured and not reported at fair value on the consolidated statements of financial condition at September 30, 2018 and December 31, 2017 were as follows:

	Fair Value Hierarchy	September 30, 2018		December 31, 2017	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(in thousands)			
Financial assets					
Cash and due from banks	Level 1	$ 262,653	$ 262,653	$ 243,310	$ 243,310
Interest bearing deposits with banks	Level 1	93,726	93,726	172,800	172,800
Investment securities held to maturity:					
U.S. Treasury securities	Level 1	138,557	140,269	138,676	145,257
U.S. government agency securities	Level 2	8,846	8,541	9,859	9,981
Obligations of states and political subdivisions	Level 2	596,360	593,423	465,878	477,479
Residential mortgage-backed securities	Level 2	1,259,772	1,211,756	1,131,945	1,118,044
Trust preferred securities	Level 2	37,328	31,153	49,824	40,088
Corporate and other debt securities	Level 2	31,500	31,212	46,509	46,771
Total investment securities held to maturity		2,072,363	2,016,354	1,842,691	1,837,620
Net loans	Level 3	23,966,327	23,104,688	18,210,724	17,562,153
Accrued interest receivable	Level 1	92,666	92,666	73,990	73,990
Federal Reserve Bank and Federal Home Loan Bank stock (1)	Level 1	271,905	271,905	178,668	178,668
Financial liabilities					
Deposits without stated maturities	Level 1	17,171,701	17,171,701	14,589,941	14,589,941
Deposits with stated maturities	Level 2	5,416,571	5,351,921	3,563,521	3,465,373
Short-term borrowings	Level 1	2,968,431	2,786,568	748,628	679,316
Long-term borrowings	Level 2	1,728,805	1,639,788	2,315,819	2,453,797
Junior subordinated debentures issued to capital trusts	Level 2	55,283	47,715	41,774	37,289
Accrued interest payable (2)	Level 1	17,844	17,844	14,161	14,161

(1) Included in other assets.
(2) Included in accrued expenses and other liabilities.

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Note 7. Investment Securities

Held to Maturity

The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at September 30, 2018 and December 31, 2017 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
September 30, 2018				
U.S. Treasury securities	$138,557	$ 1,853	$(141)	$140,269
U.S. government agency securities	8,846	—	(305)	8,541
Obligations of states and political subdivisions:				
Obligations of states and state agencies	347,775	3,717	(6,970)	344,522
Municipal bonds	248,585	2,561	(2,245)	248,901
Total obligations of states and political subdivisions	596,360	6,278	(9,215)	593,423
Residential mortgage-backed securities	1,259,772	1,573	(49,589)	1,211,756
Trust preferred securities	37,328	38	(6,213)	31,153
Corporate and other debt securities	31,500	47	(335)	31,212
Total investment securities held to maturity	$2,072,363	$ 9,789	$(65,798)	$2,016,354
December 31, 2017				
U.S. Treasury securities	$138,676	$ 6,581	$—	$145,257
U.S. government agency securities	9,859	122	—	9,981
Obligations of states and political subdivisions:				
Obligations of states and state agencies	244,272	7,083	(1,653)	249,702
Municipal bonds	221,606	6,199	(28)	227,777
Total obligations of states and political subdivisions	465,878	13,282	(1,681)	477,479
Residential mortgage-backed securities	1,131,945	4,842	(18,743)	1,118,044
Trust preferred securities	49,824	60	(9,796)	40,088
Corporate and other debt securities	46,509	532	(270)	46,771
Total investment securities held to maturity	$1,842,691	$ 25,419	$(30,490)	$1,837,620

The age of unrealized losses and fair value of related securities held to maturity at September 30, 2018 and December 31, 2017 were as follows:

	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
September 30, 2018						
U.S. Treasury securities	$34,660	$(141)	$—	$—	$34,660	$(141)
U.S. government agency securities	8,541	(305)	—	—	8,541	(305)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	129,321	(3,414)	48,862	(3,556)	178,183	(6,970)
Municipal bonds	89,065	(2,208)	528	(37)	89,593	(2,245)
Total obligations of states and political subdivisions	218,386	(5,622)	49,390	(3,593)	267,776	(9,215)
Residential mortgage-backed securities	467,711	(9,928)	662,345	(39,661)	1,130,056	(49,589)
Trust preferred securities	—	—	29,761	(6,213)	29,761	(6,213)
Corporate and other debt securities	15,386	(114)	4,779	(221)	20,165	(335)
Total	$744,684	$(16,110)	$746,275	$(49,688)	$1,490,959	$(65,798)
December 31, 2017						
Obligations of states and political subdivisions:						
Obligations of states and state agencies	$6,342	$(50)	$53,034	$(1,603)	$59,376	$(1,653)
Municipal bonds	4,644	(25)	561	(3)	5,205	(28)
Total obligations of states and political subdivisions	10,986	(75)	53,595	(1,606)	64,581	(1,681)
Residential mortgage-backed securities	344,216	(2,357)	570,969	(16,386)	915,185	(18,743)
Trust preferred securities	—	—	38,674	(9,796)	38,674	(9,796)
Corporate and other debt securities	9,980	(270)	—	—	9,980	(270)
Total	$365,182	$(2,702)	$663,238	$(27,788)	$1,028,420	$(30,490)

The unrealized losses on investment securities held to maturity are primarily due to changes in interest rates (including, in certain cases, changes in credit spreads) and, in some cases, lack of liquidity in the marketplace. Within the held to maturity portfolio, the total number of security positions in an unrealized loss position was 409 at September 30, 2018 and 152 at December 31, 2017.

The unrealized losses within the residential mortgage-backed securities category of the held to maturity portfolio at September 30, 2018 mostly related to investment grade securities issued by Ginnie Mae and Fannie Mae.

The unrealized losses existing for more than twelve months for trust preferred securities at September 30, 2018 primarily related to four non-rated single-issuer trust preferred securities issued by bank holding companies. All single-issuer trust preferred securities classified as held to maturity are paying in accordance with their terms, have no deferrals of interest or defaults and, if applicable, the issuers meet the regulatory capital requirements to be considered “well-capitalized institutions” at September 30, 2018.

As of September 30, 2018, the fair value of investments held to maturity that were pledged to secure public deposits, repurchase agreements, lines of credit, and for other purposes required by law, was $1.2 billion.

The contractual maturities of investments in debt securities held to maturity at September 30, 2018 are set forth in the table below. Maturities may differ from contractual maturities in residential mortgage-backed securities because the

mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

	September 30, 2018	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$21,825	$21,850
Due after one year through five years	231,676	233,954
Due after five years through ten years	295,711	300,013
Due after ten years	263,379	248,781
Residential mortgage-backed securities	1,259,772	1,211,756
Total investment securities held to maturity	$2,072,363	$2,016,354

Actual maturities of debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty.

The weighted-average remaining expected life for residential mortgage-backed securities held to maturity was 6.8 years at September 30, 2018.

Available for Sale

The amortized cost, gross unrealized gains and losses and fair value of securities available for sale at September 30, 2018 and December 31, 2017 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
September 30, 2018				
U.S. Treasury securities	$50,980	$ —	$(2,617)	$48,363
U.S. government agency securities	37,618	67	(1,172)	36,513
Obligations of states and political subdivisions:				
Obligations of states and state agencies	106,881	41	(3,344)	103,578
Municipal bonds	103,631	137	(2,109)	101,659
Total obligations of states and political subdivisions	210,512	178	(5,453)	205,237
Residential mortgage-backed securities	1,470,565	1,304	(59,020)	1,412,849
Trust preferred securities	1,789	—	(199)	1,590
Corporate and other debt securities	45,063	134	(748)	44,449
Total investment securities available for sale	$1,816,527	$ 1,683	$(69,209)	$1,749,001
December 31, 2017				
U.S. Treasury securities	$50,997	$ —	$(1,355)	$49,642
U.S. government agency securities	42,384	158	(37)	42,505
Obligations of states and political subdivisions:				
Obligations of states and state agencies	38,435	158	(374)	38,219
Municipal bonds	74,752	477	(564)	74,665
Total obligations of states and political subdivisions	113,187	635	(938)	112,884
Residential mortgage-backed securities	1,239,534	2,423	(18,662)	1,223,295
Trust preferred securities	3,726	—	(512)	3,214
Corporate and other debt securities	50,701	623	(160)	51,164
Equity securities	10,505	1,190	(494)	11,201
Total investment securities available for sale	$1,511,034	$ 5,029	$(22,158)	$1,493,905

The age of unrealized losses and fair value of related securities available for sale at September 30, 2018 and December 31, 2017 were as follows:

	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
September 30, 2018						
U.S. Treasury securities	$897	$(16)	$47,467	$(2,601)	$48,364	$(2,617)
U.S. government agency securities	5,502	(77)	23,561	(1,095)	29,063	(1,172)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	86,962	(2,850)	12,297	(494)	99,259	(3,344)
Municipal bonds	58,259	(1,205)	22,850	(904)	81,109	(2,109)
Total obligations of states and political subdivisions	145,221	(4,055)	35,147	(1,398)	180,368	(5,453)
Residential mortgage-backed securities	667,551	(19,418)	723,522	(39,602)	1,391,073	(59,020)
Trust preferred securities	—	—	1,590	(199)	1,590	(199)
Corporate and other debt securities	21,317	(319)	10,473	(429)	31,790	(748)
Total	$840,488	$(23,885)	$841,760	$(45,324)	$1,682,248	$(69,209)
December 31, 2017						
U.S. Treasury securities	$916	$(2)	$48,726	$(1,353)	$49,642	$(1,355)
U.S. government agency securities	31,177	(37)	—	—	31,177	(37)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	13,337	(131)	7,792	(243)	21,129	(374)
Municipal bonds	31,669	(256)	12,133	(308)	43,802	(564)
Total obligations of states and political subdivisions	45,006	(387)	19,925	(551)	64,931	(938)
Residential mortgage-backed securities	406,940	(2,461)	599,167	(16,201)	1,006,107	(18,662)
Trust preferred securities	—	—	3,214	(512)	3,214	(512)
Corporate and other debt securities	5,855	(45)	15,115	(115)	20,970	(160)
Equity securities	—	—	5,150	(494)	5,150	(494)
Total	$489,894	$(2,932)	$691,297	$(19,226)	$1,181,191	$(22,158)

The unrealized losses on investment securities available for sale are primarily due to changes in interest rates (including, in certain cases, changes in credit spreads) and, in some cases, lack of liquidity in the marketplace. The total number of security positions in the securities available for sale portfolio in an unrealized loss position at September 30, 2018 was 572 as compared to 327 at December 31, 2017.

The unrealized losses for the residential mortgage-backed securities category of the available for sale portfolio at September 30, 2018 largely related to several investment grade residential mortgage-backed securities mainly issued by Ginnie Mae, Fannie Mae, and Freddie Mac.

As of September 30, 2018, the fair value of securities available for sale that were pledged to secure public deposits, repurchase agreements, lines of credit, and for other purposes required by law, was $1.1 billion.

The contractual maturities of debt securities available for sale at September 30, 2018 are set forth in the following table. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

	September 30, 2018	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$9,831	$9,893
Due after one year through five years	128,006	123,837
Due after five years through ten years	78,226	77,112
Due after ten years	129,899	125,310
Residential mortgage-backed securities	1,470,565	1,412,849
Total investment securities available for sale	$1,816,527	$1,749,001

Actual maturities of debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty.

The weighted average remaining expected life for residential mortgage-backed securities available for sale was 7.1 years at September 30, 2018.

Other-Than-Temporary Impairment Analysis

Valley records impairment charges on its investment securities when the decline in fair value is considered other-than-temporary. Numerous factors, including lack of liquidity for re-sales of certain investment securities; decline in the creditworthiness of the issuer; absence of reliable pricing information for investment securities; adverse changes in business climate; adverse actions by regulators; or unanticipated changes in the competitive environment could have a negative effect on Valley’s investment portfolio and may result in other-than-temporary impairment on certain investment securities in future periods. Valley's investment portfolios include private label mortgage-backed securities, trust preferred securities (including one pooled security at September 30, 2018) and corporate bonds (some issued by banks). These investments may pose a higher risk of future impairment charges by Valley as a result of the unpredictable nature of the U.S. economy and its potential negative effect on the future performance of the security issuers and, if applicable, the underlying mortgage loan collateral of the security.

There were no other-than-temporary impairment losses on securities recognized in earnings for the three and nine months ended September 30, 2018 and 2017. Management does not believe that any individual unrealized loss as of September 30, 2018 included in the investment portfolio tables above represents other-than-temporary impairment as management mainly attributes the declines in fair value to changes in interest rates and market volatility, not credit quality or other factors. Based on a comparison of the present value of expected cash flows to the amortized cost, management believes there are no credit losses on these securities.

At September 30, 2018, four previously impaired private label mortgage-backed securities had a combined amortized cost and fair value of $6.8 million and $6.2 million, respectively.

Realized Gains and Losses

Net losses on securities transactions totaled $79 thousand and $880 thousand for the three and nine months ended September 30, 2018, respectively. The net losses on securities transactions for the nine months ended September 30, 2018 were mainly related to sales of equity securities classified as available for sale prior to the adoption of ASU No. 2016-01 on January 1, 2018 and certain municipal securities acquired from USAB. Net gains and losses on securities transactions were immaterial for the three and nine months ended September 30, 2017.

Note 8. Loans

The detail of the loan portfolio as of September 30, 2018 and December 31, 2017 was as follows:

	September 30, 2018			December 31, 2017		
	Non-PCI Loans	PCI Loans*	Total	Non-PCI Loans	PCI Loans*	Total
	(in thousands)					
Loans:						
Commercial and industrial	$3,243,622	$771,658	$4,015,280	$2,549,065	$192,360	$2,741,425
Commercial real estate:						
Commercial real estate	9,607,279	2,643,952	12,251,231	8,561,851	934,926	9,496,777
Construction	1,022,332	393,927	1,416,259	809,964	41,141	851,105
Total commercial real estate loans	10,629,611	3,037,879	13,667,490	9,371,815	976,067	10,347,882
Residential mortgage	3,331,985	450,987	3,782,972	2,717,744	141,291	2,859,035
Consumer:						
Home equity	366,941	154,856	521,797	373,631	72,649	446,280
Automobile	1,288,500	402	1,288,902	1,208,804	98	1,208,902
Other consumer	820,596	14,253	834,849	723,306	4,750	728,056
Total consumer loans	2,476,037	169,511	2,645,548	2,305,741	77,497	2,383,238
Total loans	$19,681,255	$4,430,035	$24,111,290	$16,944,365	$1,387,215	$18,331,580

* PCI loans include covered loans (mostly consisting of residential mortgage loans) totaling $29.1 million and $38.7 million at September 30, 2018 and December 31, 2017, respectively.

Total loans (excluding PCI covered loans) include net unearned premiums and deferred loan costs of $16.7 million and $22.2 million at September 30, 2018 and December 31, 2017, respectively. The outstanding balances (representing contractual balances owed to Valley) for PCI loans totaled $4.6 billion and $1.5 billion at September 30, 2018 and December 31, 2017, respectively.

Valley transferred $289.6 million of residential mortgage loans from the loan portfolio to loans held for sale during the nine months ended September 30, 2018 as compared to $225.5 million of loans transferred during the nine months ended September 30, 2017. There were no other sales of loans from the held for investment portfolio during the nine months ended September 30, 2018 and 2017.

Purchased Credit-Impaired Loans

PCI loans are accounted for in accordance with ASC Subtopic 310-30 and are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses), and aggregated and accounted for as pools of loans based on common risk characteristics. The difference between the undiscounted cash flows expected at acquisition and the initial carrying amount (fair value) of the PCI loans, or the “accretable yield,” is recognized as interest income utilizing the level-yield method over the life of each pool. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the “non-accretable difference,” are not recognized as a yield adjustment, as a loss accrual or a valuation allowance. Reclassifications of the non-accretable difference to the accretable yield may occur subsequent to the loan acquisition dates due to increases in expected cash flows of the loan pools.

The following table presents information regarding the estimates of the contractually required payments, the cash flows expected to be collected, and the estimated fair value of the PCI loans acquired in the USAB acquisition as of January 1, 2018 (See Note 2 for more details):

	(in thousands)
Contractually required principal and interest	$4,312,988
Contractual cash flows not expected to be collected (non-accretable difference)	(103,618)
Expected cash flows to be collected	4,209,370
Interest component of expected cash flows (accretable yield)	(474,208)
Fair value of acquired loans	$3,735,162

The following table presents changes in the accretable yield for PCI loans during the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Balance, beginning of period	$630,550	$246,278	$282,009	$294,514
Acquisition	—	—	474,208	—
Accretion	(54,367)	(20,626)	(180,034)	(68,862)
Net increase in expected cash flows	23,983	—	23,983	—
Balance, end of period	$600,166	$225,652	$600,166	$225,652

Credit Risk Management

For all of its loan types, Valley adheres to a credit policy designed to minimize credit risk while generating the maximum income given the level of risk. Management reviews and approves these policies and procedures on a regular basis with subsequent approval by the Board of Directors annually. Credit authority relating to a significant dollar percentage of the overall portfolio is centralized and controlled by the Credit Risk Management Division and by the Credit Committee. A reporting system supplements the management review process by providing management with frequent reports concerning loan production, loan quality, internal loan classification, concentrations of credit, loan delinquencies, non-performing, and potential problem loans. Loan portfolio diversification is an important factor utilized by Valley to manage its risk across business sectors and through cyclical economic circumstances.

Credit Quality

The following table presents past due, non-accrual and current loans (excluding PCI loans, which are accounted for on a pool basis) by loan portfolio class at September 30, 2018 and December 31, 2017:

	Past Due and Non-Accrual Loans						
	30-59 Days Past Due Loans	60-89 Days Past Due Loans	Accruing Loans 90 Days or More Past Due	Non-Accrual Loans	Total Past Due Loans	Current Non-PCI Loans	Total Non-PCI Loans
	(in thousands)						
September 30, 2018							
Commercial and industrial	$9,462	$1,431	$ 1,618	$ 52,929	$65,440	$3,178,182	$3,243,622
Commercial real estate:							
Commercial real estate	3,387	2,502	27	7,103	13,019	9,594,260	9,607,279
Construction	15,576	36	—	—	15,612	1,006,720	1,022,332
Total commercial real estate loans	18,963	2,538	27	7,103	28,631	10,600,980	10,629,611
Residential mortgage	10,058	3,270	1,877	16,083	31,288	3,300,697	3,331,985
Consumer loans:							
Home equity	506	265	—	2,060	2,831	364,110	366,941
Automobile	5,950	619	261	72	6,902	1,281,598	1,288,500
Other consumer	987	365	21	116	1,489	819,107	820,596
Total consumer loans	7,443	1,249	282	2,248	11,222	2,464,815	2,476,037
Total	$45,926	$8,488	$ 3,804	$ 78,363	$136,581	$19,544,674	$19,681,255
December 31, 2017							
Commercial and industrial	$3,650	$544	$ —	$ 20,890	$25,084	$2,523,981	$2,549,065
Commercial real estate:							
Commercial real estate	11,223	—	27	11,328	22,578	8,539,273	8,561,851
Construction	12,949	18,845	—	732	32,526	777,438	809,964
Total commercial real estate loans	24,172	18,845	27	12,060	55,104	9,316,711	9,371,815
Residential mortgage	12,669	7,903	2,779	12,405	35,756	2,681,988	2,717,744
Consumer loans:							
Home equity	1,009	94	—	1,777	2,880	370,751	373,631
Automobile	5,707	987	271	73	7,038	1,201,766	1,208,804
Other consumer	1,693	118	13	20	1,844	721,462	723,306
Total consumer loans	8,409	1,199	284	1,870	11,762	2,293,979	2,305,741
Total	$48,900	$28,491	$ 3,090	$ 47,225	$127,706	$16,816,659	$16,944,365

Impaired loans. Impaired loans, consisting of non-accrual commercial and industrial loans and commercial real estate loans over $250 thousand and all loans which were modified in troubled debt restructuring, are individually evaluated for impairment. PCI loans are not classified as impaired loans because they are accounted for on a pool basis.

The following table presents information about impaired loans by loan portfolio class at September 30, 2018 and December 31, 2017:

	Recorded Investment With No Related Allowance	Recorded Investment With Related Allowance	Total Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance
	(in thousands)				
September 30, 2018					
Commercial and industrial	$5,294	$ 81,319	$ 86,613	$ 91,998	$ 27,662
Commercial real estate:					
Commercial real estate	22,279	28,638	50,917	54,904	2,768
Construction	421	460	881	881	14
Total commercial real estate loans	22,700	29,098	51,798	55,785	2,782
Residential mortgage	6,362	6,420	12,782	13,801	620
Consumer loans:					
Home equity	186	620	806	901	79
Total consumer loans	186	620	806	901	79
Total	$34,542	$ 117,457	$ 151,999	$ 162,485	$ 31,143
December 31, 2017					
Commercial and industrial	$9,946	$ 75,553	$ 85,499	$ 90,269	$ 11,044
Commercial real estate:					
Commercial real estate	28,709	29,771	58,480	62,286	2,718
Construction	1,904	467	2,371	2,394	17
Total commercial real estate loans	30,613	30,238	60,851	64,680	2,735
Residential mortgage	5,654	8,402	14,056	15,332	718
Consumer loans:					
Home equity	3,096	664	3,760	4,917	64
Total consumer loans	3,096	664	3,760	4,917	64
Total	$49,309	$ 114,857	$ 164,166	$ 175,198	$ 14,561

The following tables present by loan portfolio class, the average recorded investment and interest income recognized on impaired loans for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,			
	2018		2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(in thousands)			
Commercial and industrial	$87,414	$ 422	$70,135	$ 300
Commercial real estate:				
Commercial real estate	50,809	556	57,712	482
Construction	987	15	3,049	21
Total commercial real estate loans	51,796	571	60,761	503
Residential mortgage	14,112	152	15,630	183
Consumer loans:				
Home equity	2,454	17	4,766	49
Total consumer loans	2,454	17	4,766	49
Total	$155,776	$ 1,162	$151,292	$ 1,035

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	Nine Months Ended September 30,			
	2018		2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(in thousands)			
Commercial and industrial	$88,376	$ 1,348	$49,037	$ 896
Commercial real estate:				
Commercial real estate	52,993	1,735	57,718	1,290
Construction	1,811	54	2,836	60
Total commercial real estate loans	54,804	1,789	60,554	1,350
Residential mortgage	13,707	502	17,851	575
Consumer loans:				
Home equity	2,093	83	4,820	123
Total consumer loans	2,093	83	4,820	123
Total	$158,980	$ 3,722	$132,262	$ 2,944

Interest income recognized on a cash basis (included in the table above) was immaterial for the three and nine months ended September 30, 2018 and 2017.

Troubled debt restructured loans. From time to time, Valley may extend, restructure, or otherwise modify the terms of existing loans, on a case-by-case basis, to remain competitive and retain certain customers, as well as assist other customers who may be experiencing financial difficulties. If the borrower is experiencing financial difficulties and a concession has been made at the time of such modification, the loan is classified as a troubled debt restructured loan (TDR). Valley’s PCI loans are excluded from the TDR disclosures below because they are evaluated for impairment on a pool by pool basis. When an individual PCI loan within a pool is modified as a TDR, it is not removed from its pool. All TDRs are classified as impaired loans and are included in the impaired loan disclosures above.

The majority of the concessions made for TDRs involve lowering the monthly payments on loans through either a reduction in interest rate below a market rate, an extension of the term of the loan without a corresponding adjustment to the risk premium reflected in the interest rate, or a combination of these two methods. The concessions rarely result in the forgiveness of principal or accrued interest. In addition, Valley frequently obtains additional collateral or guarantor support when modifying such loans. If the borrower has demonstrated performance under the previous terms of the loan and Valley’s underwriting process shows the borrower has the capacity to continue to perform under the restructured terms, the loan will continue to accrue interest. Non-accruing restructured loans may be returned to accrual status when there has been a sustained period of repayment performance (generally six consecutive months of payments) and both principal and interest are deemed collectible.

Performing TDRs (not reported as non-accrual loans) totaled $81.1 million and $117.2 million as of September 30, 2018 and December 31, 2017, respectively. Non-performing TDRs totaled $54.8 million and $27.0 million as of September 30, 2018 and December 31, 2017, respectively.

The following tables present loans by loan portfolio class modified as TDRs during the three and nine months ended September 30, 2018 and 2017. The pre-modification and post-modification outstanding recorded investments disclosed in the tables below represent the loan carrying amounts immediately prior to the modification and the carrying amounts at September 30, 2018 and 2017, respectively.

	Three Months Ended September 30,					
	2018			2017		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	($ in thousands)					
Commercial and industrial	6	$ 3,970	$ 3,751	10	$ 12,522	$ 11,655
Commercial real estate:						
Commercial real estate	1	233	231	4	5,931	5,929
Construction	—	—	—	2	628	625
Total commercial real estate	1	233	231	6	6,559	6,554
Residential mortgage	—	—	—	2	561	557
Total	7	$ 4,203	$ 3,982	18	$ 19,642	$ 18,766

	Nine Months Ended September 30,					
	2018			2017		
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	($ in thousands)					
Commercial and industrial	22	$ 14,719	$ 13,904	61	$ 57,338	$ 52,694
Commercial real estate:						
Commercial real estate	6	4,207	4,504	7	23,806	23,217
Construction	2	565	285	3	1,188	994
Total commercial real estate	8	4,772	4,789	10	24,994	24,211
Residential mortgage	5	980	952	6	1,514	1,495
Consumer	1	88	83	—	—	—
Total	36	$ 20,559	$ 19,728	77	$ 83,846	$ 78,400

The total TDRs presented in the above table had allocated specific reserves for loan losses of approximately $6.3 million and $5.3 million for September 30, 2018 and 2017. These specific reserves are included in the allowance for loan losses for loans individually evaluated for impairment disclosed in the "Impaired Loans" section above. There were no charge-offs related to TDR modifications during the three and nine months ended September 30, 2018 and 2017, respectively.

The non-PCI loans modified as TDRs within the previous 12 months and for which there was a payment default (90 or more days past due) for the three and nine months ended September 30, 2018 and 2017 were as follows:

Troubled Debt Restructurings Subsequently Defaulted	Three Months Ended September 30,			
	2018		2017	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	($ in thousands)			
Commercial and industrial	4	$ 3,645	—	$ —
Residential mortgage	5	1,015	4	1,093
Total	9	$ 4,660	4	$ 1,093

Troubled Debt Restructurings Subsequently Defaulted	Nine Months Ended September 30,			
	2018		2017	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	($ in thousands)			
Commercial and industrial	8	$ 6,770	7	$ 6,430
Commercial real estate	—	—	1	732
Residential mortgage	5	1,015	—	—
Total	13	$ 7,785	8	$ 7,162

Credit quality indicators. Valley utilizes an internal loan classification system as a means of reporting problem loans within commercial and industrial, commercial real estate, and construction loan portfolio classes. Under Valley's internal risk rating system, loan relationships could be classified as "Pass", "Special Mention", "Substandard", "Doubtful" and "Loss". Substandard loans include loans that exhibit well-defined weakness and are characterized by the distinct possibility that Valley will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful have all the weaknesses inherent in those classified as Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, based on currently existing facts, conditions and values, highly questionable and improbable. Loans classified as Loss are those considered uncollectible with insignificant value and are charged-off immediately to the allowance for loan losses, and, therefore, not presented in the table below. Loans that do not currently pose a sufficient risk to warrant classification in one of the aforementioned categories, but pose weaknesses that deserve management's close attention are deemed Special Mention. Loans rated as Pass do not currently pose any identified risk and can range from the highest to average quality, depending on the degree of potential risk. Risk ratings are updated any time the situation warrants.

The following table presents the credit exposure by internally assigned risk rating by class of loans (excluding PCI loans) at September 30, 2018 and December 31, 2017 based on the most recent analysis performed:

Credit exposure - by internally assigned risk rating	Pass	Special Mention	Substandard	Doubtful	Total Non-PCI Loans
	(in thousands)				
September 30, 2018					
Commercial and industrial	$3,059,312	$52,555	$ 82,212	$49,543	$3,243,622
Commercial real estate	9,518,179	29,334	59,766	—	9,607,279
Construction	1,021,179	545	608	—	1,022,332
Total	$13,598,670	$82,434	$ 142,586	$49,543	$13,873,233
December 31, 2017					
Commercial and industrial	$2,375,689	$62,071	$ 96,555	$14,750	$2,549,065
Commercial real estate	8,447,865	48,009	65,977	—	8,561,851
Construction	808,091	360	1,513	—	809,964
Total	$11,631,645	$110,440	$ 164,045	$14,750	$11,920,880

At September 30, 2018 and December 31, 2017, the commercial and industrial loans with doubtful risk ratings in the above table mostly consisted of non-accrual taxi medallion loans.

For residential mortgages, automobile, home equity and other consumer loan portfolio classes (excluding PCI loans), Valley also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in those loan classes based on payment activity as of September 30, 2018 and December 31, 2017:

Credit exposure - by payment activity	Performing Loans	Non-Performing Loans	Total Non-PCI Loans
	(in thousands)		
September 30, 2018			
Residential mortgage	$3,315,902	$ 16,083	$ 3,331,985
Home equity	364,881	2,060	366,941
Automobile	1,288,428	72	1,288,500
Other consumer	820,480	116	820,596
Total	$5,789,691	$ 18,331	$ 5,808,022
December 31, 2017			
Residential mortgage	$2,705,339	$ 12,405	$ 2,717,744
Home equity	371,854	1,777	373,631
Automobile	1,208,731	73	1,208,804
Other consumer	723,286	20	723,306
Total	$5,009,210	$ 14,275	$ 5,023,485

Valley evaluates the credit quality of its PCI loan pools based on the expectation of the underlying cash flows of each pool, derived from the aging status and by payment activity of individual loans within the pool. The following table presents the recorded investment in PCI loans by class based on individual loan payment activity as of September 30, 2018 and December 31, 2017:

Credit exposure - by payment activity	Performing Loans	Non-Performing Loans	Total PCI Loans
	(in thousands)		
September 30, 2018			
Commercial and industrial	$729,872	$ 41,786	$771,658
Commercial real estate	2,622,330	21,622	2,643,952
Construction	392,873	1,054	393,927
Residential mortgage	443,776	7,211	450,987
Consumer	165,762	3,749	169,511
Total	$4,354,613	$ 75,422	$4,430,035
December 31, 2017			
Commercial and industrial	$172,105	$ 20,255	$192,360
Commercial real estate	924,574	10,352	934,926
Construction	39,802	1,339	41,141
Residential mortgage	135,745	5,546	141,291
Consumer	76,901	596	77,497
Total	$1,349,127	$ 38,088	$1,387,215

Other real estate owned (OREO) totaled $9.9 million and $9.8 million at September 30, 2018 and December 31, 2017, respectively. OREO included foreclosed residential real estate properties totaling $1.6 million and $7.3 million at September 30, 2018 and December 31, 2017, respectively. Residential mortgage and consumer loans secured by residential real estate properties for which formal foreclosure proceedings are in process totaled $2.2 million and $3.8 million at September 30, 2018 and December 31, 2017, respectively.

Note 9. Allowance for Credit Losses

The allowance for credit losses consists of the allowance for loan losses and the allowance for unfunded letters of credit. Management maintains the allowance for credit losses at a level estimated to absorb probable loan losses of the loan portfolio and unfunded letter of credit commitments at the balance sheet date. The allowance for loan losses is based on ongoing evaluations of the probable estimated losses inherent in the loan portfolio, including unexpected additional credit impairment of PCI loan pools subsequent to acquisition. There was no allowance allocation for PCI loan losses at September 30, 2018 and December 31, 2017.

The following table summarizes the allowance for credit losses at September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
	(in thousands)	
Components of allowance for credit losses:		
Allowance for loan losses	$144,963	$ 120,856
Allowance for unfunded letters of credit	4,512	3,596
Total allowance for credit losses	$149,475	$ 124,452

The following table summarizes the provision for credit losses for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Components of provision for credit losses:				
Provision for loan losses	$6,432	$1,301	$23,726	$7,413
Provision for unfunded letters of credit	120	339	916	329
Total provision for credit losses	$6,552	$1,640	$24,642	$7,742

The following tables detail activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2018 and 2017:

	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Consumer	Total
	(in thousands)				
Three Months Ended September 30, 2018					
Allowance for loan losses:					
Beginning balance	$74,257	$ 53,812	$ 4,624	$ 6,069	$138,762
Loans charged-off	(833)	—	—	(1,150)	(1,983)
Charged-off loans recovered	1,131	12	9	600	1,752
Net recoveries (charge-offs)	298	12	9	(550)	(231)
Provision for loan losses	9,442	(3,694)	286	398	6,432
Ending balance	$83,997	$ 50,130	$ 4,919	$ 5,917	$144,963
Three Months Ended September 30, 2017					
Allowance for loan losses:					
Beginning balance	$51,617	$ 55,455	$ 4,186	$ 5,188	$116,446
Loans charged-off	(265)	—	(129)	(1,335)	(1,729)
Charged-off loans recovered	2,320	42	220	366	2,948
Net recoveries (charge-offs)	2,055	42	91	(969)	1,219
Provision for loan losses	1,017	(198)	(385)	867	1,301
Ending balance	$54,689	$ 55,299	$ 3,892	$ 5,086	$118,966

	Commercial and Industrial	Commercial Real Estate	Residential Mortgage	Consumer	Total
	(in thousands)				
Nine Months Ended September 30, 2018					
Allowance for loan losses:					
Beginning balance	$57,232	$			