INDEPENDENT BANK CORP /MI/
Form 10-Q
August 05, 2015

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED June 30, 2015

Commission file number 0-7818

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES NO

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

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

Common stock, no par value	22,630,283
Class	Outstanding at August 4, 2015

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

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

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

This list provides examples of factors that could affect the results described by forward-looking statements contained in this report, but the list is not intended to be all-inclusive. The risk factors disclosed in Part I – Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014, as updated by any new or modified risk factors disclosed in Part II – Item 1A of any subsequently filed Quarterly Report on Form 10-Q, include all known risks our management believes could materially affect the results described by forward-looking statements in this report. However, those risks may not be the only risks we face. Our results of operations, cash flows, financial position, and prospects could also be materially and adversely affected by additional factors that are not presently known to us that we currently consider to be immaterial, or that develop after the date of this report. We cannot assure you that our future results will meet expectations. While we believe the forward-looking statements in this report are reasonable, you should not place undue reliance on any forward-looking statement. In addition, these statements speak only as of the date made. We do not undertake, and expressly disclaim, any obligation to update or alter any statements, whether as a result of new information, future events, or otherwise, except as required by applicable law.

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Part I - Item 1.

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Financial Condition

	June 30, 2015 (unaudited)	December 31, 2014
	(In thousands, except share amounts)	
Assets		
Cash and due from banks	$44,272	$48,326
Interest bearing deposits	14,045	25,690
Cash and Cash Equivalents	58,317	74,016
Interest bearing deposits - time	10,853	13,561
Trading securities	180	203
Securities available for sale	557,695	533,178
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	15,146	19,919
Loans held for sale, carried at fair value	30,518	23,662
Loans		
Commercial	711,007	690,955
Mortgage	469,662	472,628
Installment	228,761	206,378
Payment plan receivables	40,577	40,001
Total Loans	1,450,007	1,409,962
Allowance for loan losses	(24,586)	(25,990)
Net Loans	1,425,421	1,383,972
Other real estate and repossessed assets	4,471	6,454
Property and equipment, net	44,172	45,948
Bank-owned life insurance	54,300	53,625
Deferred tax assets, net	44,157	48,632
Capitalized mortgage loan servicing rights	12,535	12,106
Vehicle service contract counterparty receivables, net	7,273	7,237
Other intangibles	2,453	2,627
Accrued income and other assets	21,463	23,590
Total Assets	$2,288,954	$2,248,730
Liabilities and Shareholders' Equity		
Deposits		
Non-interest bearing	$617,126	$576,882
Savings and interest-bearing checking	965,330	943,734
Reciprocal	49,015	53,668
Retail time	328,646	338,720
Brokered time	1,300	11,298
Total Deposits	1,961,417	1,924,302
Other borrowings	12,325	12,470
Subordinated debentures	35,569	35,569
Vehicle service contract counterparty payables	2,305	1,977
Accrued expenses and other liabilities	22,963	24,041

Total Liabilities	2,034,579	1,998,359
Shareholders' Equity		
Preferred stock, no par value, 200,000 shares authorized; none issued or outstanding	-	-
Common stock, no par value, 500,000,000 shares authorized; issued and outstanding:		
22,769,416 shares at June 30, 2015 and 22,957,323 shares at December 31, 2014	349,580	352,462
Accumulated deficit	(89,815)	(96,455)
Accumulated other comprehensive loss	(5,390)	(5,636)
Total Shareholders' Equity	254,375	250,371
Total Liabilities and Shareholders' Equity	$2,288,954	$2,248,730

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(unaudited)		(unaudited)	
	(In thousands, except per share amounts)			
Interest Income				
Interest and fees on loans	$17,751	$18,146	$34,990	$36,361
Interest on securities				
Taxable	1,869	1,596	3,627	2,979
Tax-exempt	222	287	439	549
Other investments	289	328	627	751
Total Interest Income	20,131	20,357	39,683	40,640
Interest Expense				
Deposits	967	1,260	1,974	2,553
Other borrowings	463	559	917	1,071
Total Interest Expense	1,430	1,819	2,891	3,624
Net Interest Income	18,701	18,538	36,792	37,016
Provision for loan losses	(134)	(1,845)	(793)	(1,417)
Net Interest Income After Provision for Loan Losses	18,835	20,383	37,585	38,433
Non-interest Income				
Service charges on deposit accounts	3,117	3,532	5,967	6,587
Interchange income	2,240	2,067	4,382	4,008
Net gains (losses) on assets				
Mortgage loans	1,784	1,505	3,923	2,649
Securities	(33)	54	52	166
Mortgage loan servicing	1,452	193	1,032	457
Title insurance fees	337	217	593	491
Other	2,090	2,508	4,000	4,673
Total Non-interest Income	10,987	10,076	19,949	19,031
Non-Interest Expense				
Compensation and employee benefits	11,791	11,818	23,576	23,056
Occupancy, net	2,040	2,153	4,459	4,636
Data processing	2,027	1,777	3,957	3,863
Loan and collection	967	1,427	2,122	2,892
Furniture, fixtures and equipment	965	1,053	1,917	2,122
Communications	694	711	1,430	1,500
Advertising	448	601	932	1,120
Legal and professional	453	420	833	821
FDIC deposit insurance	351	422	694	839
Interchange expense	289	342	580	744
Credit card and bank service fees	203	245	405	508
Vehicle service contract counterparty contingencies	30	73	59	141
Costs related to unfunded lending commitments	4	5	20	15
Provision for loss reimbursement on sold loans	45	15	(24)	(466)
Net gain on other real estate and repossessed assets	(139)	(38)	(178)	(125)
Other	1,411	1,536	2,948	3,294

Total Non-interest Expense	21,579	22,560	43,730	44,960
Income Before Income Tax	8,243	7,899	13,804	12,504
Income tax expense	2,624	1,847	4,404	3,314
Net Income	$5,619	$6,052	$9,400	$9,190
Net Income Per Common Share				
Basic	$0.25	$0.26	$0.41	$0.40
Diluted	$0.24	$0.26	$0.40	$0.39
Dividends Per Common Share				
Declared	$0.06	$0.06	$0.12	$0.06
Paid	$0.06	$0.06	$0.12	$0.06

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(unaudited)		(unaudited)	
	(In thousands)			
Net income	$5,619	$6,052	$9,400	$9,190
Other comprehensive income, before tax				
Available for sale securities				
Unrealized gains (losses) arising during period	(1,806)	1,759	464	4,009
Change in unrealized gains (losses) for which a portion of other than temporary impairment has been recognized in earnings	(21)	219	(10)	338
Reclassification adjustments for gains included in earnings	-	(2)	(75)	(2)
Unrealized gains (losses) recognized in other comprehensive income on available for sale securities	(1,827)	1,976	379	4,345
Income tax expense (benefit)	(639)	691	133	1,521
Unrealized gains (losses) recognized in other comprehensive income on available for sale securities, net of tax	(1,188)	1,285	246	2,824
Derivative instruments				
Reclassification adjustment for accretion on settled derivatives	-	95	-	190
Unrealized gains recognized in other comprehensive income on derivative instruments	-	95	-	190
Income tax expense	-	34	-	67
Unrealized gains recognized in other comprehensive income on derivative instruments, net of tax	-	61	-	123
Other comprehensive income (loss)	(1,188)	1,346	246	2,947
Comprehensive income	$4,431	$7,398	$9,646	$12,137

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

	Six months ended June 30,	
	2015	2014
	(unaudited - In thousands)	
Net Income	$9,400	$9,190
Adjustments to Reconcile Net Income to Net Cash From Operating Activities		
Proceeds from sales of loans held for sale	154,938	96,384
Disbursements for loans held for sale	(157,871)	(96,544)
Provision for loan losses	(793)	(1,417)
Deferred federal income tax expense	4,475	4,874
Deferred loan fees	(930)	(526)
Depreciation, amortization of intangible assets and premiums and accretion of discounts on securities and loans	2,228	1,019
Net gains on mortgage loans	(3,923)	(2,649)
Net gains on securities	(52)	(166)
Net gains on other real estate and repossessed assets	(178)	(125)
Vehicle service contract counterparty contingencies	59	141
Share based compensation	772	581
Decrease in accrued income and other assets	551	511
Decrease in accrued expenses and other liabilities	(894)	(3,115)
Total Adjustments	(1,618)	(1,032)
Net Cash From Operating Activities	7,782	8,158
Cash Flow Used in Investing Activities		
Proceeds from the sale of securities available for sale	11,786	5,126
Proceeds from the maturity of securities available for sale	16,047	39,579
Principal payments received on securities available for sale	58,587	38,891
Purchases of securities available for sale	(111,908)	(136,127)
Purchases of interest bearing deposits	(245)	-
Proceeds from the maturity of interest bearing deposits	2,915	2,593
Purchase of Federal Reserve Bank stock	(132)	-
Redemption of Federal Reserve Bank stock	391	5
Redemption of Federal Home Loan Bank stock	4,514	-
Net increase in portfolio loans (loans originated, net of principal payments)	(39,442)	(3,712)
Proceeds from the collection of vehicle service contract counterparty receivables	15	327
Proceeds from the sale of other real estate and repossessed assets	4,515	2,870
Proceeds from the sale of property and equipment	490	-
Capital expenditures	(1,898)	(1,606)
Net Cash Used in Investing Activities	(54,365)	(52,054)
Cash Flow From Financing Activities		
Net increase in total deposits	37,115	23,265
Net increase (decrease) in other borrowings	(1)	13,799
Payments of Federal Home Loan Bank advances	(144)	(4,373)
Net increase (decrease) in vehicle service contract counterparty payables	328	(1,001)
Dividends paid	(2,760)	(1,375)
Proceeds from issuance of common stock	80	37
Repurchase of common stock	(3,668)	-

Share based compensation withholding obligation	(66)	-
Net Cash From Financing Activities	30,884	30,352
Net Decrease in Cash and Cash Equivalents	(15,699)	(13,544)
Cash and Cash Equivalents at Beginning of Period	74,016	119,081
Cash and Cash Equivalents at End of Period	$58,317	$105,537
Cash paid during the period for		
Interest	$2,878	$3,659
Income taxes	91	5
Transfers to other real estate and repossessed assets	2,354	2,584
Transfer of payment plan receivables to vehicle service contract counterparty receivables	110	297

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Shareholders' Equity

	Six months ended June 30, 2015	2014
	(unaudited) (In thousands)	
Balance at beginning of period	$250,371	$231,581
Net income	9,400	9,190
Cash dividends declared	(2,760)	(1,375)
Issuance of common stock	80	37
Share based compensation	772	581
Share based compensation withholding obligation	(66)	-
Repurchase of common stock	(3,668)	-
Net change in accumulated other comprehensive loss, net of related tax effect	246	2,947
Balance at end of period	$254,375	$242,961

See notes to interim condensed consolidated financial statements (unaudited)

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Preparation of Financial Statements

The condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2014 included in our Annual Report on Form 10-K.

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all the adjustments necessary to present fairly our consolidated financial condition as of June 30, 2015 and December 31, 2014, and the results of operations for the three and six-month periods ended June 30, 2015 and 2014. The results of operations for the three and six-month periods ended June 30, 2015, are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation. Our critical accounting policies include the assessment for other than temporary impairment ("OTTI") on investment securities, the determination of the allowance for loan losses, the determination of vehicle service contract counterparty contingencies, the valuation of originated mortgage loan servicing rights and the valuation of deferred tax assets. Refer to our 2014 Annual Report on Form 10-K for a disclosure of our accounting policies.

2. New Accounting Standards

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure". The amendments in this ASU clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. This amendment is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014, with early adoption and retrospective or prospective application permitted. This amended guidance became effective for us on January 1, 2015, and did not have a material impact on our consolidated operating results or financial condition.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)". This ASU supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this ASU specifies the accounting for some costs to obtain or fulfill a contract with a customer. This amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption for fiscal years beginning after December 15, 2016, permitted. This amended guidance is not expected to have a material impact on our consolidated operating results or financial condition.

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

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

3. Securities

Securities available for sale consist of the following:

	Amortized	Unrealized		
	Cost	Gains	Losses	Fair Value
	(In thousands)			
June 30, 2015				
U.S. agency	$36,068	$231	$28	$36,271
U.S. agency residential mortgage-backed	216,466	1,868	354	217,980
U.S. agency commercial mortgage-backed	30,074	113	27	30,160
Private label residential mortgage-backed	5,644	187	371	5,460
Other asset backed	108,314	115	117	108,312
Obligations of states and political subdivisions	135,007	640	1,284	134,363
Corporate	22,582	63	10	22,635
Trust preferred	2,913	-	399	2,514
Total	$557,068	$3,217	$2,590	$557,695
December 31, 2014				
U.S. agency	$34,936	$133	$63	$35,006
U.S. agency residential mortgage-backed	256,387	1,838	667	257,558
U.S. agency commercial mortgage-backed	33,779	68	119	33,728
Private label residential mortgage-backed	6,216	187	390	6,013
Other asset backed	32,314	77	38	32,353
Obligations of states and political subdivisions	143,698	961	1,244	143,415
Corporate	22,690	53	79	22,664
Trust preferred	2,910	-	469	2,441
Total	$532,930	$3,317	$3,069	$533,178

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

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

	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
June 30, 2015						
U.S. agency	$9,564	$ 25	$760	$ 3	$10,324	$ 28
U.S. agency residential mortgage-backed	48,277	221	14,933	133	63,210	354
U.S. agency commercial mortgage-backed	10,921	21	1,342	6	12,263	27
Private label residential mortgage-backed	193	1	3,603	370	3,796	371
Other asset backed	35,787	69	5,691	48	41,478	117
Obligations of states and political subdivisions	35,965	355	29,252	929	65,217	1,284
Corporate	4,233	10	-	-	4,233	10
Trust preferred	-	-	2,514	399	2,514	399
Total	$144,940	$ 702	$58,095	$ 1,888	$203,035	$ 2,590
December 31, 2014						
U.S. agency	$12,851	$ 58	$606	$ 5	$13,457	$ 63
U.S. agency residential mortgage-backed	89,547	531	15,793	136	105,340	667
U.S. agency commercial mortgage-backed	21,325	119	-	-	21,325	119
Private label residential mortgage-backed	208	1	4,013	389	4,221	390
Other asset backed	2,960	15	8,729	23	11,689	38
Obligations of states and political subdivisions	28,114	106	37,540	1,138	65,654	1,244
Corporate	8,660	79	-	-	8,660	79
Trust preferred	-	-	2,441	469	2,441	469
Total	$163,665	$ 909	$69,122	$ 2,160	$232,787	$ 3,069

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

U.S. agency, U.S. agency residential mortgage-backed securities and U.S. agency commercial mortgage backed securities — at June 30, 2015, we had 16 U.S. agency, 74 U.S. agency residential mortgage-backed and eight U.S. agency commercial mortgage-backed securities whose fair market value is less than amortized cost. The unrealized losses are largely attributed to rises in term interest rates since acquisition and widening spreads to Treasury bonds. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Private label residential mortgage backed securities — at June 30, 2015, we had five of this type of security whose fair value is less than amortized cost. Two of the five issues are rated by a major rating agency as investment grade, two are rated below investment grade and one is split rated. Two of these bonds have an impairment in excess of 10% and four of these holdings have been impaired for more than 12 months. The unrealized losses are largely attributable to credit spread widening on these securities since their acquisition.

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

All private label residential mortgage-backed securities are reviewed for OTTI utilizing a cash flow projection. The cash flow analysis forecasts cash flow from the underlying loans in each transaction and then applies these cash flows to the bonds in the securitization. Our cash flow analysis forecasts complete recovery of our cost basis for four of the five securities whose fair value is less than amortized cost while the fifth security had credit related OTTI and is discussed in further detail below.

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

Other asset backed — at June 30, 2015, we had 47 other asset backed securities whose fair value is less than amortized cost. The unrealized losses are primarily due to credit spread widening. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Obligations of states and political subdivisions — at June 30, 2015, we had 90 municipal securities whose fair value is less than amortized cost. The unrealized losses are primarily due to increases in interest rates since acquisition. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Corporate — at June 30, 2015, we had four corporate securities whose fair value is less than amortized cost. The unrealized losses are primarily due to credit spread widening. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

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

Trust preferred securities — at June 30, 2015, we had three trust preferred securities whose fair value is less than amortized cost. All of our trust preferred securities are single issue securities issued by a trust subsidiary of a bank holding company. The pricing of trust preferred securities has suffered from credit spread widening.

One of the three securities is rated by two major rating agencies as investment grade, while one (a Bank of America issuance) is rated below investment grade by two major rating agencies and the other one is non-rated. The non-rated issue is a relatively small bank and was never rated. The issuer of this non-rated trust preferred security, which had a total amortized cost of $1.0 million and total fair value of $0.8 million as of June 30, 2015, continues to have satisfactory credit metrics and make interest payments.

The following table breaks out our trust preferred securities in further detail as of June 30, 2015 and December 31, 2014:

	June 30, 2015		December 31, 2014	
	Fair Value	Net Unrealized Loss	Fair Value	Net Unrealized Loss
	(In thousands)			
Trust preferred securities				
Rated issues	$1,700	$ (213)	$1,643	$ (267)
Unrated issues	814	(186)	798	(202)

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

We recorded no credit related OTTI charges in earnings on securities available for sale during the three or six month periods ended June 30, 2015 and 2014, respectively.

At June 30, 2015, three private label residential mortgage-backed securities had credit related OTTI and are summarized as follows:

	Senior Security	Super Senior Security	Senior Support Security	Total
	(In thousands)			
As of June 30, 2015				
Fair value	$1,835	$ 1,466	$ 96	$3,397
Amortized cost	1,889	1,374	-	3,263
Non-credit unrealized loss	54	-	-	54
Unrealized gain	-	92	96	188
Cumulative credit related OTTI	757	457	380	1,594

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

2015	$ -	$ -	$ -	$ -
2014	-	-	-	-
For the six months ended June 30,				
2015	-	-	-	-
2014	-	-	-	-

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Each of these securities is receiving principal and interest payments similar to principal reductions in the underlying collateral. Two of these securities have unrealized gains and one has an unrealized loss at June 30, 2015. Prior to the second quarter of 2013, all three of these securities had an unrealized loss. The original amortized cost for each of these securities has been permanently adjusted downward for previously recorded credit related OTTI. The unrealized loss (based on original amortized cost) for two of these securities is now less than previously recorded credit related OTTI amounts. The remaining non-credit related unrealized loss in the senior security is attributed to other factors and is reflected in other comprehensive income during those same periods.

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Balance at beginning of period	$1,844	$1,835	$1,844	$1,835
Additions to credit losses on securities for which no previous OTTI was recognized	-	-	-	-
Increases to credit losses on securities for which OTTI was previously recognized	-	-	-	-
Balance at end of period	$1,844	$1,835	$1,844	$1,835

The amortized cost and fair value of securities available for sale at June 30, 2015, by contractual maturity, follow:

	Amortized Cost	Fair Value
	(In thousands)	
Maturing within one year	$24,875	$24,904
Maturing after one year but within five years	59,355	59,631
Maturing after five years but within ten years	34,747	34,991
Maturing after ten years	77,593	76,257
	196,570	195,783
U.S. agency residential mortgage-backed	216,466	217,980
U.S. agency commercial mortgage-backed	30,074	30,160
Private label residential mortgage-backed	5,644	5,460
Other asset backed	108,314	108,312
Total	$557,068	$557,695

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

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

	Proceeds	Realized	Losses

		Gains (1)	
	(In thousands)		
2015	$11,786	$ 75	$ -
2014	5,126	2	-

(1) Gains in 2014 exclude $0.053 million of unrealized gain related to a U.S. Treasury short position.

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During 2015 and 2014, our trading securities consisted of various preferred stocks. During the first six months of 2015 and 2014, we recognized gains (losses) on trading securities of $(0.023) million and $0.111 million, respectively, that are included in net gains on securities in the Condensed Consolidated Statements of Operations. Both of these amounts relate to gains (losses) recognized on trading securities still held at each respective period end.

4. Loans

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

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

	Commercial	Mortgage	Installment	Payment Plan Receivables	Unallocated	Total
	(In thousands)					
2015						
Balance at beginning of period	$5,916	$12,081	$1,564	$62	$5,056	$24,679
Additions (deductions)						
Provision for loan losses	177	(101)	(45)	3	(168)	(134)
Recoveries credited to allowance	652	319	284	-	-	1,255
Loans charged against the allowance	(38)	(834)	(342)	-	-	(1,214)
Balance at end of period	$6,707	$11,465	$1,461	$65	$4,888	$24,586
2014						
Balance at beginning of period	$5,763	$17,000	$2,061	$87	$5,526	$30,437
Additions (deductions)						
Provision for loan losses	(1,070)	(579)	(76)	(6)	(114)	(1,845)
Recoveries credited to allowance	2,138	400	352	1	-	2,891
Loans charged against the allowance	(1,656)	(1,279)	(349)	(2)	-	(3,286)
Balance at end of period	$5,175	$15,542	$1,988	$80	$5,412	$28,197

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

	Commercial	Mortgage	Installment	Payment Plan Receivables	Unallocated	Total
	(In thousands)					
2015						
Balance at beginning of period	$5,445	$13,444	$1,814	$64	$5,223	$25,990
Additions (deductions)						
Provision for loan losses	505	(834)	(130)	1	(335)	(793)
Recoveries credited to allowance	1,085	557	603	-	-	2,245
Loans charged against the allowance	(328)	(1,702)	(826)	-	-	(2,856)
Balance at end of period	$6,707	$11,465	$1,461	$65	$4,888	$24,586
2014						
Balance at beginning of period	$6,827	$17,195	$2,246	$97	$5,960	$32,325
Additions (deductions)						
Provision for loan losses	(563)	(386)	100	(20)	(548)	(1,417)
Recoveries credited to allowance	2,493	858	603	5	-	3,959
Loans charged against the allowance	(3,582)	(2,125)	(961)	(2)	-	(6,670)
Balance at end of period	$5,175	$15,542	$1,988	$80	$5,412	$28,197

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

	Commercial	Mortgage	Installment	Payment Plan Receivables	Unallocated	Total
	(In thousands)					
June 30, 2015						
Allowance for loan losses						
Individually evaluated for impairment	$3,531	$8,420	$584	$ -	$ -	$12,535
Collectively evaluated for impairment	3,176	3,045	877	65	4,888	12,051
Total ending allowance balance	$6,707	$11,465	$1,461	$ 65	$ 4,888	$24,586
Loans						
Individually evaluated for impairment	$31,802	$69,097	$6,248	$ -		$107,147
Collectively evaluated for impairment	680,758	402,719	223,191	40,577		1,347,245
Total loans recorded investment	712,560	471,816	229,439	40,577		1,454,392
Accrued interest included in recorded investment	1,553	2,154	678	-		4,385
Total loans	$711,007	$469,662	$228,761	$ 40,577		$1,450,007
December 31, 2014						
Allowance for loan losses						
Individually evaluated for impairment	$3,194	$9,311	$728	$ -	$ -	$13,233
Collectively evaluated for impairment	2,251	4,133	1,086	64	5,223	12,757
Total ending allowance balance	$5,445	$13,444	$1,814	$ 64	$ 5,223	$25,990
Loans						
Individually evaluated for impairment	$34,147	$72,340	$6,679	$ -		$113,166
Collectively evaluated for impairment	658,423	402,458	200,368	40,001		1,301,250
Total loans recorded investment	692,570	474,798	207,047	40,001		1,414,416
Accrued interest included in recorded investment	1,615	2,170	669	-		4,454
Total loans	$690,955	$472,628	$206,378	$ 40,001		$1,409,962

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Loans on non-accrual status and past due more than 90 days ("Non-performing Loans") follow:

	90+ and Still Accruing	Non-Accrual	Total Non-Performing Loans
	(In thousands)		
June 30, 2015			
Commercial			
Income producing - real estate	$-	$1,151	$ 1,151
Land, land development and construction - real estate	-	552	552
Commercial and industrial	64	2,467	2,531
Mortgage			
1-4 family	-	5,200	5,200
Resort lending	-	1,268	1,268
Home equity - 1st lien	-	257	257
Home equity - 2nd lien	-	187	187
Installment			
Home equity - 1st lien	-	210	210
Home equity - 2nd lien	-	475	475
Loans not secured by real estate	-	486	486
Other	-	3	3
Payment plan receivables			
Full refund	-	8	8
Partial refund	-	8	8
Other	-	2	2
Total recorded investment	$64	$12,274	$ 12,338
Accrued interest included in recorded investment	$1	$-	$ 1
December 31, 2014			
Commercial			
Income producing - real estate	$-	$1,233	$ 1,233
Land, land development and construction - real estate	-	594	594
Commercial and industrial	-	2,746	2,746
Mortgage			
1-4 family	7	5,945	5,952
Resort lending	-	2,168	2,168
Home equity - 1st lien	-	331	331
Home equity - 2nd lien	-	605	605
Installment			
Home equity - 1st lien	-	576	576
Home equity - 2nd lien	-	517	517
Loans not secured by real estate	-	454	454
Other	-	48	48
Payment plan receivables			
Full refund	-	2	2
Partial refund	-	12	12

Other	-	-	-
Total recorded investment	$7	$15,231	$ 15,238
Accrued interest included in recorded investment	$-	$-	$ -

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An aging analysis of loans by class follows:

	Loans Past Due				Loans not	Total
	30-59 days	60-89 days	90+ days	Total	Past Due	Loans
	(In thousands)					
June 30, 2015						
Commercial						
Income producing - real estate	$112	$26	$720	$858	$258,349	$259,207
Land, land development and construction - real estate	11	-	210	221	35,763	35,984
Commercial and industrial	787	-	114	901	416,468	417,369
Mortgage						
1-4 family	1,180	865	5,200	7,245	274,036	281,281
Resort lending	298	-	1,268	1,566	118,719	120,285
Home equity - 1st lien	29	35	257	321	22,322	22,643
Home equity - 2nd lien	239	180	187	606	47,001	47,607
Installment						
Home equity - 1st lien	416	187	210	813	18,887	19,700
Home equity - 2nd lien	228	38	475	741	24,244	24,985
Loans not secured by real estate	248	73	486	807	181,746	182,553
Other	3	2	3	8	2,193	2,201
Payment plan receivables						
Full refund	545	157	8	710	23,810	24,520
Partial refund	585	89	8	682	9,778	10,460
Other	82	21	2	105	5,492	5,597
Total recorded investment	$4,763	$1,673	$9,148	$15,584	$1,438,808	$1,454,392
Accrued interest included in recorded investment	$32	$22	$1	$55	$4,330	$4,385
December 31, 2014						
Commercial						
Income producing - real estate	$89	$-	$214	$303	$252,763	$253,066
Land, land development and construction - real estate	131	-	223	354	33,984	34,338
Commercial and industrial	2,391	279	209	2,879	402,287	405,166
Mortgage						
1-4 family	1,877	1,638	5,952	9,467	269,719	279,186
Resort lending	226	-	2,168	2,394	126,342	128,736
Home equity - 1st lien	39	50	331	420	19,782	20,202
Home equity - 2nd lien	711	89	605	1,405	45,269	46,674
Installment						
Home equity - 1st lien	466	37	576	1,079	20,995	22,074
Home equity - 2nd lien	369	81	517	967	28,125	29,092
Loans not secured by real estate	589	231	454	1,274	152,115	153,389
Other	15	3	48	66	2,426	2,492
Payment plan receivables						
Full refund	838	214	2	1,054	26,799	27,853
Partial refund	409	123	12	544	6,550	7,094

Other	96	24	-	120	4,934	5,054
Total recorded investment	$8,246	$2,769	$11,311	$22,326	$1,392,090	$1,414,416
Accrued interest included in recorded investment	$55	$29	$-	$84	$4,370	$4,454

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Impaired loans are as follows:

	June 30, 2015	December 31, 2014
Impaired loans with no allocated allowance	(In thousands)	
TDR	$9,074	$9,325
Non - TDR	283	299
Impaired loans with an allocated allowance		
TDR - allowance based on collateral	4,439	5,879
TDR - allowance based on present value cash flow	90,814	94,970
Non - TDR - allowance based on collateral	2,190	2,296
Non - TDR - allowance based on present value cash flow	-	-
Total impaired loans	$106,800	$112,769
Amount of allowance for loan losses allocated		
TDR - allowance based on collateral	$1,655	$2,025
TDR - allowance based on present value cash flow	9,430	10,188
Non - TDR - allowance based on collateral	1,450	1,020
Non - TDR - allowance based on present value cash flow	-	-
Total amount of allowance for loan losses allocated	$12,535	$13,233

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Impaired loans by class are as follows (1):

	June 30, 2015			December 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:	(In thousands)					
Commercial						
Income producing - real estate	$5,488	$5,717	$ -	$5,868	$6,077	$ -
Land, land development & construction-real estate	1,012	1,579	-	1,051	1,606	-
Commercial and industrial	2,859	2,839	-	2,685	2,667	-
Mortgage						
1-4 family	25	169	-	-	49	-
Resort lending	-	-	-	48	397	-
Home equity - 1st lien	-	-	-	-	-	-
Home equity - 2nd lien	-	-	-	-	-	-
Installment						
Home equity - 1st lien	-	37	-	-	40	-
Home equity - 2nd lien	-	-	-	-	-	-
Loans not secured by real estate	-	-	-	-	-	-
Other	-	-	-	-	-	-
	9,384	10,341	-	9,652	10,836	-
With an allowance recorded:						
Commercial						
Income producing - real estate	12,895	13,881	767	12,836	13,797	689
Land, land development & construction-real estate	1,925	2,013	374	3,456	3,528	499
Commercial and industrial	7,623	7,870	2,390	8,251	8,486	2,006
Mortgage						
1-4 family	50,166	52,274	5,562	53,206	56,063	6,195
Resort lending	18,499	18,761	2,830	18,799	18,963	3,075
Home equity - 1st lien	158	174	11	162	177	14
Home equity - 2nd lien	249	328	17	125	205	27
Installment						
Home equity - 1st lien	2,514	2,688	156	2,744	2,930	219
Home equity - 2nd lien	3,066	3,079	367	3,212	3,215	419
Loans not secured by real estate	658	767	60	711	835	89
Other	10	10	1	12	12	1
	97,763	101,845	12,535	103,514	108,211	13,233
Total						
Commercial						
Income producing - real estate	18,383	19,598	767	18,704	19,874	689
Land, land development & construction-real estate	2,937	3,592	374	4,507	5,134	499
Commercial and industrial	10,482	10,709	2,390	10,936	11,153	2,006
Mortgage						

1-4 family	50,191	52,443	5,562	53,206	56,112	6,195
Resort lending	18,499	18,761	2,830	18,847	19,360	3,075
Home equity - 1st lien	158	174	11	162	177	14
Home equity - 2nd lien	249	328	17	125	205	27
Installment						
Home equity - 1st lien	2,514	2,725	156	2,744	2,970	219
Home equity - 2nd lien	3,066	3,079	367	3,212	3,215	419
Loans not secured by real estate	658	767	60	711	835	89
Other	10	10	1			