VALLEY NATIONAL BANCORP
Form 10-Q
November 08, 2016

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, 2016
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 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 x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No 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 254,529,715 shares were outstanding as of November 3, 2016

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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, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and due from banks	$238,664	$243,575
Interest bearing deposits with banks	160,462	170,225
Investment securities:		
Held to maturity (fair value of $1,891,982 at September 30, 2016 and $1,621,039 at December 31, 2015)	1,845,151	1,596,385
Available for sale	1,276,709	1,506,861
Total investment securities	3,121,860	3,103,246
Loans held for sale (includes fair value of $27,868 at September 30, 2016 and $16,832 at December 31, 2015 for loans originated for sale)	202,369	16,382
Loans	16,634,135	16,043,107
Less: Allowance for loan losses	(110,697)	(106,178)
Net loans	16,523,438	15,936,929
Premises and equipment, net	294,165	298,943
Bank owned life insurance	390,600	387,542
Accrued interest receivable	63,815	63,554
Goodwill	689,589	686,339
Other intangible assets, net	44,038	48,882
Other assets	639,453	656,999
Total Assets	$22,368,453	$21,612,616
Liabilities		
Deposits:		
Non-interest bearing	$5,092,740	$4,914,285
Interest bearing:		
Savings, NOW and money market	8,759,562	8,181,362
Time	3,119,881	3,157,904
Total deposits	16,972,183	16,253,551
Short-term borrowings	1,433,356	1,076,991
Long-term borrowings	1,450,818	1,810,728
Junior subordinated debentures issued to capital trusts	41,536	41,414
Accrued expenses and other liabilities	213,487	222,841
Total Liabilities	20,111,380	19,405,525
Shareholders' Equity		
Preferred stock (no par value, authorized 30,000,000 shares; issued 4,600,000 shares at September 30, 2016 and December 31, 2015)	111,590	111,590
Common stock (no par value, authorized 332,023,233 shares; issued 254,492,480 shares at September 30, 2016 and 253,787,561 shares at December 31, 2015)	89,007	88,626
Surplus	1,937,572	1,927,399
Retained earnings	153,531	125,171
Accumulated other comprehensive loss	(34,343)	(45,695)
Treasury stock, at cost (30,574 common shares at September 30, 2016)	(284)	—
Total Shareholders' Equity	2,257,073	2,207,091

Total Liabilities and Shareholders' Equity	$22,368,453	$21,612,616

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,	
	2016	2015	2016	2015
Interest Income				
Interest and fees on loans	$171,143	$157,141	$506,640	$465,787
Interest and dividends on investment securities:				
Taxable	14,232	12,148	42,487	39,313
Tax-exempt	4,023	3,593	11,447	10,800
Dividends	1,612	1,658	4,408	5,013
Interest on federal funds sold and other short-term investments	193	150	846	516
Total interest income	191,203	174,690	565,828	521,429
Interest Expense				
Interest on deposits:				
Savings, NOW and money market	10,165	5,587	29,369	17,493
Time	9,412	9,535	28,220	25,637
Interest on short-term borrowings	3,545	126	8,537	427
Interest on long-term borrowings and junior subordinated debentures	13,935	25,482	45,948	75,649
Total interest expense	37,057	40,730	112,074	119,206
Net Interest Income	154,146	133,960	453,754	402,223
Provision for credit losses	5,840	94	8,069	4,594
Net Interest Income After Provision for Credit Losses	148,306	133,866	445,685	397,629
Non-Interest Income				
Trust and investment services	2,628	2,450	7,612	7,520
Insurance commissions	4,580	4,119	14,133	12,454
Service charges on deposit accounts	5,263	5,241	15,460	15,794
(Losses) gains on securities transactions, net	(10)	157	258	2,481
Fees from loan servicing	1,598	1,703	4,753	4,948
Gains on sales of loans, net	4,823	2,014	9,723	3,034
Gains (losses) on sales of assets, net	310	(558)	1,009	(77)
Bank owned life insurance	1,683	1,806	5,464	5,188
Change in FDIC loss-share receivable	(313)	(55)	(872)	(3,380)
Other	4,291	4,042	13,025	11,802
Total non-interest income	24,853	20,919	70,565	59,764
Non-Interest Expense				
Salary and employee benefits expense	58,107	54,315	174,438	165,601
Net occupancy and equipment expense	20,658	21,526	65,615	65,858
FDIC insurance assessment	4,804	4,168	14,998	11,972
Amortization of other intangible assets	2,675	2,232	8,452	6,721
Professional and legal fees	4,031	4,643	13,398	12,043
Amortization of tax credit investments	6,450	5,224	21,360	14,231
Telecommunication expense	2,459	2,050	7,139	6,101
Other	14,084	14,494	45,896	41,655
Total non-interest expense	113,268	108,652	351,296	324,182
Income Before Income Taxes	59,891	46,133	164,954	133,211
Income tax expense	17,049	10,179	46,898	34,925
Net Income	$42,842	$35,954	$118,056	$98,286

Dividends on preferred stock	1,797	2,017	5,391	2,017
Net Income Available to Common Shareholders	$41,045	$ 33,937	$112,665	$ 96,269
Earnings Per Common Share:				
Basic	$0.16	$ 0.15	$0.44	$ 0.41
Diluted	0.16	0.15	0.44	0.41
Cash Dividends Declared per Common Share	0.11	0.11	0.33	0.33
Weighted Average Number of Common Shares Outstanding:				
Basic	254,473,994	232,737,953	254,310,769	232,548,840
Diluted	254,940,307	232,780,219	254,698,593	232,565,695

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,	
	2016	2015	2016	2015
Net income	$42,842	$35,954	$118,056	$98,286
Other comprehensive income (loss), net of tax:				
Unrealized gains and losses on available for sale securities				
Net gains arising during the period	4,902	4,586	12,550	2,677
Less reclassification adjustment for net losses (gains) included in net income	6	(91)	(162)	(1,445)
Total	4,908	4,495	12,388	1,232
Non-credit impairment losses on available for sale securities				
Net change in non-credit impairment losses on securities	(74)	252	168	(200)
Less reclassification adjustment for accretion of credit impairment losses included in net income	(50)	(267)	(336)	(371)
Total	(124)	(15)	(168)	(571)
Unrealized gains and losses on derivatives (cash flow hedges)				
Net gains (losses) on derivatives arising during the period	1,735	(6,163)	(6,939)	(10,291)
Less reclassification adjustment for net losses included in net income	2,095	772	5,943	2,714
Total	3,830	(5,391)	(996)	(7,577)
Defined benefit pension plan				
Amortization of net loss	42	119	128	359
Total other comprehensive income (loss)	8,656	(792)	11,352	(6,557)
Total comprehensive income	$51,498	$35,162	$129,408	$91,729

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$118,056	$98,286
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,593	15,213
Stock-based compensation	7,382	6,512
Provision for credit losses	8,069	4,594
Net amortization of premiums and accretion of discounts on securities and borrowings	14,152	17,595
Amortization of other intangible assets	8,452	6,721
Gains on securities transactions, net	(258)	(2,481)
Proceeds from sales of loans held for sale	337,069	94,342
Gains on sales of loans, net	(9,723)	(3,034)
Originations of loans held for sale	(342,989)	(86,274)
(Gains) losses on sales of assets, net	(1,009)	77
FDIC loss-share receivable (excluding reimbursements)	872	3,380
Net change in:		
Trading securities	—	14,233
Fair value of borrowings hedged by derivative transactions	6,646	3,270
Cash surrender value of bank owned life insurance	(5,464)	(5,188)
Accrued interest receivable	(261)	(199)
Other assets	(2,170)	(33,555)
Accrued expenses and other liabilities	(9,888)	12,490
Net cash provided by operating activities	147,529	145,982
Cash flows from investing activities:		
Net loan originations	(182,893)	(486,862)
Loans purchased	(593,769)	(1,066,934)
Investment securities held to maturity:		
Purchases	(502,833)	(201,681)
Sales	—	11,666
Maturities, calls and principal repayments	243,764	321,771
Investment securities available for sale:		
Purchases	(557,978)	(38,819)
Sales	2,081	14,022
Maturities, calls and principal repayments	800,967	115,397
Death benefit proceeds from bank owned life insurance	2,406	—
Proceeds from sales of real estate property and equipment	18,243	10,510
Purchases of real estate property and equipment	(17,155)	(23,139)
Reimbursements from the FDIC	269	2,835
Net cash used in investing activities	(786,898)	(1,341,234)
Cash flows from financing activities:		
Net change in deposits	718,632	465,747
Net change in short-term borrowings	356,365	156,160
Proceeds from issuance of long-term borrowings, net	385,000	98,930
Repayments of long-term borrowings	(749,000)	(100,000)

Proceeds from issuance of preferred stock, net	—	111,590
Cash dividends paid to preferred shareholders	(5,391)	(2,017)
Cash dividends paid to common shareholders	(83,821)	(76,671)
Purchase of common shares to treasury	(1,700)	(2,108)
Common stock issued, net	4,610	4,993
Net cash provided by financing activities	624,695	656,624
Net change in cash and cash equivalents	(14,674)	(538,628)
Cash and cash equivalents at beginning of year	413,800	830,407
Cash and cash equivalents at end of period	$399,126	$291,779

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

	Nine Months Ended September 30,	
	2016	2015
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest on deposits and borrowings	$115,253	$121,907
Federal and state income taxes	24,464	49,932
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	$7,611	$8,711
Transfer of loans to loans held for sale	174,501	—

See accompanying notes to consolidated financial statements.

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.

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, 2016 and for all periods presented have been made. The results of operations for the three and nine months ended September 30, 2016 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; the evaluation of goodwill and 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. The current economic environment has increased the degree of uncertainty inherent in these material 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, 2015.

In August 2016, we elected to prepay $405 million of FHLB borrowings with various maturity dates in 2018. The prepaid borrowings with a total average cost of 3.69 percent were funded with a new fixed-rate five-year FHLB advance totaling $405 million. The transaction was accounted for as a debt modification under U.S. GAAP. As a result, the new advance has an adjusted annual interest rate of 2.51 percent, after amortization of prepayment penalties totaling $20 million paid to the FHLB.

Note 2. Business Combinations

On January 4, 2016, Masters Coverage Corp., an all-line insurance agency that is a wholly-owned subsidiary of the Bank, acquired certain assets of an independent insurance agency located in New York. The purchase price totaled approximately $1.4 million in cash and future cash consideration. The transaction generated goodwill and other intangible assets totaling $701 thousand and $660 thousand, respectively.

On December 1, 2015, Valley completed its acquisition of CNLBancshares, Inc. (CNL) and its wholly-owned subsidiary, CNLBank, headquartered in Orlando, Florida, a commercial bank with approximately $1.6 billion in assets, $825 million in loans, and $1.2 billion in deposits and 16 branch offices on the date of its acquisition by Valley. The common shareholders of CNL received 0.705 of a share of Valley common stock for each CNL share they owned prior to the merger. The total consideration for the acquisition was approximately $230 million, consisting of 20.6 million shares of Valley's common stock.

During the first quarter of 2016, Valley revised the estimated fair values of the acquired assets as of the acquisition date as the result of additional information obtained. The adjustments mostly related to the fair value of certain purchased credit-impaired (PCI) loans, core deposit intangibles and time deposits which, on a combined basis, resulted in a $2.5 million increase in goodwill (see Note 10 for amount of goodwill as allocated to Valley's business segments). If additional information (that existed at the date of close) becomes available, the fair value estimates for acquired assets and assumed liabilities are subject to change for up to one year after the closing date of the CNL acquisition.

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, 2016 and 2015.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands, except for share data)			
Net income available to common shareholders	$41,045	$ 33,937	$112,665	$ 96,269
Basic weighted average number of common shares outstanding	254,473,994	232,737,953	254,310,769	232,548,840
Plus: Common stock equivalents	466,313	42,266	387,824	16,855
Diluted weighted average number of common shares outstanding	254,940,307	232,780,219	254,698,593	232,565,695
Earnings per common share:				
Basic	$0.16	$ 0.15	$0.44	$ 0.41
Diluted	0.16	0.15	0.44	0.41

Common stock equivalents represent the dilutive effect of additional common shares issuable upon the assumed vesting or exercise, if applicable, of performance-based 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 common stock options and warrants equaled approximately 4.6 million shares for both the three and nine months ended September 30, 2016 and 5.0 million shares for both the three and nine months ended September 30, 2015.

Note 4. Accumulated Other Comprehensive Loss

The following table presents the after-tax changes in the balances of each component of accumulated other comprehensive loss for the three and nine months ended September 30, 2016.

	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, 2016	$ 2,144	$ (564)	$ (22,470)	$ (22,109)	$ (42,999)
Other comprehensive income (loss) before reclassifications	4,902	(74)	1,735	—	6,563
Amounts reclassified from other comprehensive income (loss)	6	(50)	2,095	42	2,093
Other comprehensive income (loss), net	4,908	(124)	3,830	42	8,656
Balance at September 30, 2016	$ 7,052	$ (688)	$ (18,640)	$ (22,067)	$ (34,343)

	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, 2015	$ (5,336)	$ (520)	$ (17,644)	$ (22,195)	$ (45,695)
Other comprehensive income (loss) before reclassifications	12,550	168	(6,939)	—	5,779
Amounts reclassified from other comprehensive income (loss)	(162)	(336)	5,943	128	5,573
Other comprehensive income (loss), net	12,388	(168)	(996)	128	11,352
Balance at September 30, 2016	$ 7,052	$ (688)	$ (18,640)	$ (22,067)	$ (34,343)

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, 2016 and 2015.

Components of Accumulated Other Comprehensive Loss	Amounts Reclassified from Accumulated Other Comprehensive Loss Three Months Ended September 30, 2016	 2015	 Nine Months Ended September 30, 2016	 2015	Income Statement Line Item
	(in thousands)				
Unrealized gains (losses) on AFS securities before tax	$(10)	$157	$258	$2,481	(Losses) gains on securities transactions, net
Tax effect	4	(66)	(96)	(1,036)	
Total net of tax	(6)	91	162	1,445	
Non-credit impairment losses on AFS securities before tax:					
Accretion of credit loss impairment due to an increase in expected cash flows	87	458	576	636	Interest and dividends on investment securities (taxable)
Tax effect	(37)	(191)	(240)	(265)	
Total net of tax	50	267	336	371	
Unrealized losses on derivatives (cash flow hedges) before tax	(3,578)	(1,323)	(10,146)	(4,651)	Interest expense
Tax effect	1,483	551	4,203	1,937	
Total net of tax	(2,095)	(772)	(5,943)	(2,714)	
Defined benefit pension plan:					
Amortization of net loss	(71)	(205)	(215)	(616)	*
Tax effect	29	86	87	257	
Total net of tax	(42)	(119)	(128)	(359)	
Total reclassifications, net of tax	$(2,093)	$(533)	$(5,573)	$(1,257)	

* Amortization of net loss is included in the computation of net periodic pension cost.

Note 5. New Authoritative Accounting Guidance

Accounting Standards Update (ASU) No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" clarifies on how certain cash receipts and cash payments should be classified and presented in the statement of cash flow. The ASU No. 2016-15 includes guidance on eight cash flow classification issues. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2017 and is not expected to have a significant impact on Valley's consolidated financial statements.

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. The 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 expected losses 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 No. 2016-13 on Valley’s consolidated financial statements.

ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" simplifies several aspects of the stock compensation guidance in Topic 718 and other related guidance. The amendments focus on income tax accounting upon vesting or exercise of share-based payments, award classification, liability classification exception for statutory tax withholding requirements, estimating forfeitures, and cash flow presentation. ASU No. 2016-09 is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018 with an early adoption permitted. ASU No. 2016-09 is not expected to have a significant impact on Valley's consolidated financial statements.

ASU No. 2016-02, “Leases (Topic 842)” requires 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 an early adoption permitted. Valley must apply a modified retrospective transition approach for the applicable leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Management is currently evaluating the impact of Topic 842 on Valley’s consolidated financial statements.

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, (2) 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. Changes in value under either of these methods would be recognized in net income, (3) entities that record financial liabilities at fair value due to a fair value option election must recognize changes in fair value in other comprehensive income if it is related to instrument-specific credit risk, and (4) entities must assess whether a valuation allowance is required for deferred tax assets related to available-for-sale debt securities. ASU No. 2016-01 is effective for Valley for reporting periods beginning January 1, 2018 and is not expected to have a material effect on Valley’s consolidated financial statements.

ASU No. 2015-07, "Fair Value Measurement (Topic 820) - Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)", which removes the requirement to categorize within the fair value hierarchy all investments for which the fair value is measured using the net asset value per share practical expedient. ASU No. 2015-07 also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. ASU No. 2015-07 began effective for Valley for reporting periods after January 1, 2016 and did not have an impact on Valley's fair value measurement disclosures at Note 6.

ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)" implements a common revenue standard that clarifies the principles for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In 2016, the Financial Accounting Standards Board issued ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606) - Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” and ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing,” to further clarify the new guidance under Topic 606. ASU No. 2014-09 and its aforementioned amendments are effective on January 1, 2018. Management is currently evaluating the new revenue guidance but does not expect it to have a significant impact on Valley’s consolidated financial statements.

Note 6. Fair Value Measurement of Assets and Liabilities

Accounting Standards Codification (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.
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, 2016 and December 31, 2015. The assets presented under "nonrecurring fair value measurements" in the table 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, 2016	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	$51,791	$ 51,791	$ —	$ —
U.S. government agency securities	24,097	—	24,097	—
Obligations of states and political subdivisions	125,290	—	125,290	—
Residential mortgage-backed securities	966,638	—	956,266	10,372
Trust preferred securities	8,156	—	6,131	2,025
Corporate and other debt securities	80,567	17,579	62,988	—
Equity securities	20,170	536	19,634	—
Total available for sale	1,276,709	69,906	1,194,406	12,397
Loans held for sale (1)	27,868	—	27,868	—
Other assets (2)	46,019	—	46,019	—
Total assets	$1,350,596	$ 69,906	$ 1,268,293	$ 12,397
Liabilities				
Other liabilities (2)	$72,672	$ —	$ 72,672	$ —
Total liabilities	$72,672	$ —	$ 72,672	$ —
Non-recurring fair value measurements:				
Collateral dependent impaired loans (3)	$2,214	$ —	$ —	$ 2,214
Loan servicing rights	7,358	—	—	7,358
Foreclosed assets (4)	1,711	—	—	1,711
Total	$11,283	$ —	$ —	$ 11,283

		Fair Value Measurements at Reporting Date Using:		
	December 31, 2015	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	$549,473	$ 549,473	$ —	$ —
U.S. government agency securities	29,963	—	29,963	—
Obligations of states and political subdivisions	124,966	—	124,966	—
Residential mortgage-backed securities	696,428	—	684,777	11,651
Trust preferred securities	8,404	—	6,262	2,142
Corporate and other debt securities	77,552	17,710	59,842	—
Equity securities	20,075	1,198	18,877	—
Total available for sale	1,506,861	568,381	924,687	13,793
Loans held for sale (1)	16,382	—	16,382	—
Other assets (2)	33,774	—	33,774	—
Total assets	$1,557,017	$ 568,381	$ 974,843	$ 13,793
Liabilities				
Other liabilities (2)	$50,844	$ —	$ 50,844	$ —
Total liabilities	$50,844	$ —	$ 50,844	$ —
Non-recurring fair value measurements:				
Collateral dependent impaired loans (3)	$15,427	$ —	$ —	$ 15,427
Loan servicing rights	2,571	—	—	2,571
Foreclosed assets (4)	16,672	—	—	16,672
Total	$34,670	$ —	$ —	$ 34,670

(1) Loans held for sale carried at fair value (which consist of residential mortgages) had contractual unpaid principal balances totaling approximately $27.0 million and $16.1 million at September 30, 2016 and December 31, 2015, respectively.

(2) Derivative financial instruments are included in this category.

(3) Excludes PCI loans.

(4) Includes covered (i.e., subject to loss-sharing agreements with the FDIC) other real estate owned totaling $200 thousand and $4.2 million at September 30, 2016 and December 31, 2015, respectively.

The changes in Level 3 assets measured at fair value on a recurring basis for the three and nine months ended September 30, 2016 and 2015 are summarized below:

	Available for Sale Securities			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Balance, beginning of the period	$13,101	$14,712	$13,793	$19,309
Total net losses included in other comprehensive income for the period	(212)	(26)	(283)	(908)
Sales	—	—	—	(2,675)
Settlements	(492)	(340)	(1,113)	(1,380)
Balance, end of the period	$12,397	$14,346	$12,397	$14,346

No changes in unrealized gains or losses on Level 3 securities were included in earnings during the three and nine months ended September 30, 2016 and 2015. There were no transfers of assets into or out of Level 3, or between Level 1 and Level 2, during the three and nine months ended September 30, 2016 and 2015.

There have been no material changes in the valuation methodologies used at September 30, 2016 from December 31, 2015.

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 common and 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. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service may be adjusted, as necessary, to estimate fair value and this results in fair values based on Level 3 inputs. In determining fair value, Valley utilizes unobservable inputs which reflect Valley’s own assumptions about the inputs that market participants would use in pricing each security. In developing its assertion of market participant assumptions, Valley utilizes the best information that is both reasonable and available without undue cost and effort.

In calculating the fair value for the available for sale securities under Level 3, Valley prepared present value cash flow models for certain private label mortgage-backed securities. The cash flows for the residential mortgage-backed securities incorporated the expected cash flow of each security adjusted for default rates, loss severities and prepayments of the individual loans collateralizing the security.

The following table presents quantitative information about Level 3 inputs used to measure the fair value of these securities at September 30, 2016:

Security Type	Valuation Technique	Unobservable Input	Range	Weighted Average	
Private label mortgage-backed securities	Discounted cash flow	Prepayment rate	4.8-20.9%	12.3	%
		Default rate	3.8-27.0	9.1	
		Loss severity	45.3-66.7	60.6	

Significant increases or decreases in any of the unobservable inputs in the table above in isolation would result in a significantly lower or higher fair value measurement of the securities. Generally, a change in the assumption used for the default rate is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

For the Level 3 available for sale private label mortgage-backed securities (consisting of 4 securities), cash flow assumptions incorporated independent third party market participant data based on vintage year for each security. The discount rate utilized in determining the present value of cash flows for the mortgage-backed securities was arrived at by combining the yield on orderly transactions for similar maturity government sponsored mortgage-backed securities with (i) the historical average risk premium of similar structured private label securities, (ii) a risk premium reflecting current market conditions, including liquidity risk, and (iii) if applicable, a forecasted loss premium derived from the expected cash flows of each security. The estimated cash flows for each private label mortgage-backed security were then discounted at the aforementioned effective rate to determine the fair value. The quoted prices received from either market participants or independent pricing services are weighted with the internal price estimate to determine the fair value of each instrument.

For the Level 3 available for sale one pooled trust preferred security, the resulting estimated future cash flow was discounted at a yield determined by reference to similarly structured securities for which observable orderly transactions occurred. The discount rate was applied using a pricing matrix based on credit, security type and maturity characteristics to determine the fair value. The fair value calculation is received from an independent valuation adviser. In validating the fair value calculation from an independent valuation adviser, Valley reviews the accuracy of the inputs and the appropriateness of the unobservable inputs utilized in the valuation to ensure the fair value calculation is reasonable from a market participant perspective.

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, 2016 and December 31, 2015 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, 2016 and December 31, 2015), 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, 2016 and December 31, 2015.

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 non-performing loans held for sale carried at estimated fair value (less selling costs) when less than the unamortized cost, impaired loans reported at the fair value of the underlying collateral, loan servicing rights, other real estate owned and other repossessed 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 are significantly adjusted based on certain discounting criteria. At September 30, 2016, appraisals were discounted based on specific market data by location and property type. During the quarter ended September 30, 2016, 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. The collateral dependent loan charge-offs to the allowance for loan losses totaled $3.7 million and $366 thousand for the three months ended September 30, 2016 and 2015, respectively, and $4.7 million and $3.0 million for the nine months ended September 30, 2016 and 2015, respectively. At September 30, 2016, collateral dependent impaired loans with a total recorded investment of $2.6 million were reduced by specific valuation allowance allocations totaling $350 thousand to a reported total net carrying amount of $2.2 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, 2016, the fair value model used prepayment speeds (stated as constant prepayment rates) from 0 percent up to 24 percent and a discount rate of 8.0 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 no net impairment charges on its loan servicing rights for the three months ended September 30, 2016 and net impairment charges totaling $457 thousand for the nine months ended September 30, 2016. Valley recorded net recoveries of impairment charges totaling $48 thousand and $209 thousand for three and nine months ended September 30, 2015, 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. The appraisals of foreclosed assets were adjusted up to 4.8 percent at September 30, 2016. At September 30, 2016, foreclosed assets included $1.7 million of assets that were measured at fair value upon initial recognition or subsequently re-measured during the quarter ended September 30, 2016. The foreclosed assets charge-offs to the allowance for loan losses totaled $245 thousand and $629 thousand for the three months ended September 30, 2016 and 2015, respectively and $1.2 million and $1.5 million for nine months ended September 30, 2016 and 2015, respectively. The re-measurement of foreclosed assets at fair value subsequent to their initial recognition resulted in net loss within non-interest expense of $34 thousand and $1.3 million for the three months ended September 30, 2016 and 2015, respectively and $946 thousand and $1.8 million for nine months ended September 30, 2016 and 2015, respectively.

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, 2016 and December 31, 2015 were as follows:

	Fair Value Hierarchy	September 30, 2016		December 31, 2015	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(in thousands)			
Financial assets					
Cash and due from banks	Level 1	$238,664	$238,664	$243,575	$243,575
Interest bearing deposits with banks	Level 1	160,462	160,462	170,225	170,225
Investment securities held to maturity:					
U.S. Treasury securities	Level 1	138,866	154,042	138,978	149,483
U.S. government agency securities	Level 2	11,549	12,106	12,859	13,130
Obligations of states and political subdivisions	Level 2	568,212	595,525	504,865	527,263
Residential mortgage-backed securities	Level 2	1,030,165	1,046,387	852,289	855,272
Trust preferred securities	Level 2	59,800	45,726	59,785	46,437
Corporate and other debt securities	Level 2	36,559	38,196	27,609	29,454
Total investment securities held to maturity		1,845,151	1,891,982	1,596,385	1,621,039
Net loans	Level 3	16,523,438	16,511,137	15,936,929	15,824,475
Accrued interest receivable	Level 1	63,815	63,815	63,554	63,554
Federal Reserve Bank and Federal Home Loan Bank stock (1)	Level 1	162,584	162,584	145,068	145,068
Financial liabilities					
Deposits without stated maturities	Level 1	13,852,302	13,852,302	13,095,647	13,095,647
Deposits with stated maturities	Level 2	3,119,881	3,148,902	3,157,904	3,203,389
Short-term borrowings	Level 1	1,433,356	1,433,356	1,076,991	1,076,991
Long-term borrowings	Level 2	1,450,818	1,612,654	1,810,728	1,945,741
Junior subordinated debentures issued to capital trusts	Level 2	41,536	43,751	41,414	44,127
Accrued interest payable (2)	Level 1	9,931	9,931	13,110	13,110

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

The following methods and assumptions were used to estimate the fair value of other financial assets and financial liabilities in the table above:

Cash and due from banks and interest bearing deposits with banks. The carrying amount is considered to be a reasonable estimate of fair value because of the short maturity of these items.

Investment securities held to maturity. Fair values are based on prices 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 (Level 2 inputs). Additionally, Valley reviews the volume and level of activity for all classes of held to maturity securities and attempts to identify transactions which may not be orderly or reflective of a significant level of activity and volume. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service

may be adjusted, as necessary. If applicable, the adjustment to fair value is derived based on present value cash flow model projections prepared by Valley utilizing assumptions similar to those incorporated by market participants.

Loans. Fair values of loans are estimated by discounting the projected future cash flows using market discount rates that reflect the credit and interest-rate risk inherent in the loan. The discount rate is a product of both the applicable index and credit spread, subject to the estimated current new loan interest rates. The credit spread component is static for all maturities and may not necessarily reflect the value of estimating all actual cash flows re-pricing. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Fair values estimated in this manner do not fully incorporate an exit-price approach to fair value, but instead are based on a comparison to current market rates for comparable loans.

Accrued interest receivable and payable. The carrying amounts of accrued interest approximate their fair value due to the short-term nature of these items.

Federal Reserve Bank and Federal Home Loan Bank stock. Federal Reserve Bank and FHLB stock are non-marketable equity securities and are reported at their redeemable carrying amounts, which approximate fair value.

Deposits. The carrying amounts of deposits without stated maturities (i.e., non-interest bearing, savings, NOW, and money market deposits) approximate their estimated fair value. The fair value of time deposits is based on the discounted value of contractual cash flows using estimated rates currently offered for alternative funding sources of similar remaining maturity.

Short-term and long-term borrowings. The carrying amounts of certain short-term borrowings, including securities sold under agreements to repurchase and FHLB borrowings (and from time to time, federal funds purchased) approximate their fair values because they frequently re-price to a market rate. The fair values of other short-term and long-term borrowings are estimated by obtaining quoted market prices of the identical or similar financial instruments when available. When quoted prices are unavailable, the fair values of the borrowings are estimated by discounting the estimated future cash flows using current market discount rates of financial instruments with similar characteristics, terms and remaining maturity.

Junior subordinated debentures issued to capital trusts. The fair value of debentures issued to capital trusts is estimated utilizing the income approach, whereby the expected cash flows, over the remaining estimated life of the security, are discounted using Valley’s credit spread over the current yield on a similar maturity of U.S. Treasury security or the three-month LIBOR for the variable rate indexed debentures (Level 2 inputs). The credit spread used to discount the expected cash flows was calculated based on the median current spreads for all fixed and variable publicly traded trust preferred securities issued by banks.

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, 2016 and December 31, 2015 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
September 30, 2016				
U.S. Treasury securities	$138,866	$ 15,176	$—	$154,042
U.S. government agency securities	11,549	557	—	12,106
Obligations of states and political subdivisions:				
Obligations of states and state agencies	192,735	13,353	—	206,088
Municipal bonds	375,477	13,960	—	389,437
Total obligations of states and political subdivisions	568,212	27,313	—	595,525
Residential mortgage-backed securities	1,030,165	17,642	(1,420)	1,046,387
Trust preferred securities	59,800	28	(14,102)	45,726
Corporate and other debt securities	36,559	1,637	—	38,196
Total investment securities held to maturity	$1,845,151	$ 62,353	$(15,522)	$1,891,982
December 31, 2015				
U.S. Treasury securities	$138,978	$ 10,505	$—	$149,483
U.S. government agency securities	12,859	271	—	13,130
Obligations of states and political subdivisions:				
Obligations of states and state agencies	194,547	10,538	(10)	205,075
Municipal bonds	310,318	11,955	(85)	322,188
Total obligations of states and political subdivisions	504,865	22,493	(95)	527,263
Residential mortgage-backed securities	852,289	11,018	(8,035)	855,272
Trust preferred securities	59,785	36	(13,384)	46,437
Corporate and other debt securities	27,609	1,894	(49)	29,454
Total investment securities held to maturity	$1,596,385	$ 46,217	$(21,563)	$1,621,039

The age of unrealized losses and fair value of related securities held to maturity at September 30, 2016 and December 31, 2015 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, 2016						
Residential mortgage-backed securities	$185,774	$(867)	$128,211	$(553)	$313,985	$(1,420)
Trust preferred securities	—	—	44,344	(14,102)	44,344	(14,102)
Total	$185,774	$(867)	$172,555	$(14,655)	$358,329	$(15,522)
December 31, 2015						
Obligations of states and political subdivisions:						
Obligations of states and state agencies	$6,837	$(5)	$1,965	$(5)	$8,802	$(10)
Municipal bonds	8,814	(72)	10,198	(13)	19,012	(85)
Total obligations of states and political subdivisions	15,651	(77)	12,163	(18)	27,814	(95)
Residential mortgage-backed securities	244,440	(2,916)	162,756	(5,119)	407,196	(8,035)
Trust preferred securities	—	—	45,047	(13,384)	45,047	(13,384)
Corporate and other debt securities	2,951	(49)	—	—	2,951	(49)
Total	$263,042	$(3,042)	$219,966	$(18,521)	$483,008	$(21,563)

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 52 at September 30, 2016 and 74 at December 31, 2015.

The unrealized losses within the residential mortgage-backed securities category of the held to maturity portfolio at September 30, 2016 mainly related to certain investment grade securities issued by Ginnie Mae.

The unrealized losses existing for more than twelve months for trust preferred securities at September 30, 2016 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, 2016.

Management does not believe that any individual unrealized loss as of September 30, 2016 included in the table 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. Valley does not have the intent to sell, nor is it more likely than not that Valley will be required to sell, the securities contained in the table above before the recovery of their amortized cost basis or maturity.

As of September 30, 2016, 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 $860.6 million.

The contractual maturities of investments in debt securities held to maturity at September 30, 2016 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, 2016	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$85,384	$85,388
Due after one year through five years	181,107	192,968
Due after five years through ten years	369,454	398,494
Due after ten years	179,041	168,745
Residential mortgage-backed securities	1,030,165	1,046,387
Total investment securities held to maturity	$1,845,151	$1,891,982

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 6.5 years at September 30, 2016.

Available for Sale

The amortized cost, gross unrealized gains and losses and fair value of securities available for sale at September 30, 2016 and December 31, 2015 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
September 30, 2016				
U.S. Treasury securities	$51,025	$ 766	$—	$51,791
U.S. government agency securities	23,764	339	(6)	24,097
Obligations of states and political subdivisions:				
Obligations of states and state agencies	42,466	1,091	(40)	43,517
Municipal bonds	80,155	1,939	(321)	81,773
Total obligations of states and political subdivisions	122,621	3,030	(361)	125,290
Residential mortgage-backed securities	958,531	11,021	(2,914)	966,638
Trust preferred securities*	10,231	—	(2,075)	8,156
Corporate and other debt securities	79,148	1,623	(204)	80,567
Equity securities	20,522	445	(797)	20,170
Total investment securities available for sale	$1,265,842	$ 17,224	$(6,357)	$1,276,709
December 31, 2015				
U.S. Treasury securities	$551,173	$ 4	$(1,704)	$549,473
U.S. government agency securities	29,316	665	(18)	29,963
Obligations of states and political subdivisions:				
Obligations of states and state agencies	44,285	196	(67)	44,414
Municipal bonds	80,717	209	(374)	80,552
Total obligations of states and political subdivisions	125,002	405	(441)	124,966
Residential mortgage-backed securities	701,764	3,348	(8,684)	696,428
Trust preferred securities*	10,458	—	(2,054)	8,404
Corporate and other debt securities	78,202	1,239	(1,889)	77,552
Equity securities	21,022	575	(1,522)	20,075
Total investment securities available for sale	$1,516,937	$ 6,236	$(16,312)	$1,506,861

* Includes two pooled trust preferred securities, principally collateralized by securities issued by banks and insurance companies, at September 30, 2016 and December 31, 2015.

The age of unrealized losses and fair value of related securities available for sale at September 30, 2016 and December 31, 2015 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, 2016						
U.S. government agency securities	$—	$—	$4,197	$(6)	$4,197	$(6)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	2,607	(40)	—	—	2,607	(40)
Municipal bonds	—	—	11,012	(321)	11,012	(321)
Total obligations of states and political subdivisions	2,607	(40)	11,012	(321)	13,619	(361)
Residential mortgage-backed securities	145,631	(566)	138,425	(2,348)	284,056	(2,914)
Trust preferred securities	—	—	8,155	(2,075)	8,155	(2,075)
Corporate and other debt securities	20,814	(7)	15,329	(197)	36,143	(204)
Equity securities	—	—	14,998	(797)	14,998	(797)
Total	$169,052	$(613)	$192,116	$(5,744)	$361,168	$(6,357)
December 31, 2015						
U.S. Treasury securities	$548,538	$(1,704)	$—	$—	$548,538	$(1,704)
U.S. government agency securities	3,489	(5)	4,736	(13)	8,225	(18)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	24,359	(67)	—	—	24,359	(67)
Municipal bonds	38,207	(128)	13,551	(246)	51,758	(374)
Total obligations of states and political subdivisions	62,566	(195)	13,551	(246)	76,117	(441)
Residential mortgage-backed securities	293,615	(4,147)	164,010	(4,537)	457,625	(8,684)
Trust preferred securities	—	—	8,404	(2,054)	8,404	(2,054)
Corporate and other debt securities	21,203	(471)	36,137	(1,418)	57,340	(1,889)
Equity securities	—	—	14,273	(1,522)	14,273	(1,522)
Total	$929,411	$(6,522)	$241,111	$(9,790)	$1,170,522	$(16,312)

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, 2016 was 102 as compared to 291 at December 31, 2015.

The unrealized losses more than twelve months for the residential mortgage-backed securities category of the available for sale portfolio at September 30, 2016 largely related to several investment grade residential mortgage-backed securities mainly issued by Ginnie Mae and three non-investment grade private label mortgage-backed securities that were previously impaired.

The unrealized losses more than twelve months for trust preferred securities at September 30, 2016 in the table above largely relate to 2 pooled trust preferred securities with an amortized cost of $10.2 million and a fair value of $8.2 million. One of the two pooled trust preferred securities had unrealized loss of $1.3 million and an investment grade rating at September 30, 2016.

As of September 30, 2016, 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 $461.5 million.
The contractual maturities of investment securities available for sale at September 30, 2016 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, 2016	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$10,549	$10,578
Due after one year through five years	93,945	95,479
Due after five years through ten years	122,929	125,488
Due after ten years	59,366	58,356
Residential mortgage-backed securities	958,531	966,638
Equity securities	20,522	20,170
Total investment securities available for sale	$1,265,842	$1,276,709

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 at September 30, 2016 was 9.3 years.
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; prolonged decline in value of equity investments; 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 principally issued by bank holding companies (including two pooled trust preferred securities), corporate bonds, and perpetual preferred and common equity securities 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 nine months ended September 30, 2016 and 2015. At September 30, 2016, four previously impaired private label mortgage-backed securities (prior to December 31, 2012) had a combined amortized cost and fair value of $10.8 million and $10.4 million, respectively, while one previously impaired pooled trust preferred security had an amortized cost and fair value of $2.8 million and $2.0 million, respectively. The previously impaired pooled trust preferred security was not accruing interest during the three and nine months ended September 30, 2016 and 2015. Additionally, one previously impaired pooled trust preferred security was sold during the first quarter of 2015 for an immaterial gain. See the table and discussion below for additional information.

The following table presents the changes in the credit loss component of cumulative other-than-temporary impairment losses on debt securities classified as either held to maturity or available for sale that Valley has previously recognized in earnings, for which a portion of the impairment loss (non-credit factors) was recognized in other comprehensive income for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Balance, beginning of period	$5,348	$6,387	$5,837	$8,947
Accretion of credit loss impairment due to an increase in expected cash flows	(87)	(458)	(576)	(636)
Sales	—	—	—	(2,382)
Balance, end of period	$5,261	$5,929	$5,261	$5,929

The credit loss component of the impairment loss represents the difference between the present value of expected future cash flows and the amortized cost basis of the security prior to considering credit losses. The beginning balance represents the credit loss component for debt securities for which other-than-temporary impairment occurred prior to each period presented. The credit loss component increases if other-than-temporary impairments (initial and subsequent) are recognized in earnings for credit impaired debt securities. The credit loss component is reduced if (i) Valley receives cash flows in excess of what it expected to receive over the remaining life of the credit impaired debt security, (ii) the security matures, (iii) the security is fully written down, or (iv) Valley sells, intends to sell or believes it will be required to sell previously credit impaired debt securities.

Realized Gains and Losses

Gross gains (losses) realized on sales, maturities and other securities transactions related to investment securities included in earnings for the three and nine months ended September 30, 2016 and 2015 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Sales transactions:				
Gross gains	$—	$—	$271	$3,274
Gross losses	—	—	—	(947)
	—	—	271	2,327
Maturities and other securities transactions:				
Gross gains	2	158	2	287
Gross losses	(12)	(1)	(15)	(133)
	(10)	157	(13)	154
Total (losses) gains on securities transactions, net	$(10)	$157	$258	$2,481

Valley recognized gross gains from sales transactions of investment securities totaling $3.3 million for the nine months ended September 30, 2015 due to the sale of corporate debt securities and trust preferred securities with amortized cost totaling $25.9 million. These transactions included a corporate debt security classified as held to maturity and a previously impaired pooled trust preferred security with amortized costs of $9.8 million and $2.6 million, respectively. Additionally, Valley recognized $947 thousand of gross losses during the nine months ended September 30, 2015 primarily due to the sale of mostly trust preferred securities with a total amortized cost of $8.3

million. The vast majority of the sales of investment securities were due to an investment portfolio re-balancing during the third quarter of 2015 due to changes in our regulatory capital calculation under the new Basel III regulatory capital reform (effective for Valley on January 1, 2015). Under ASC Topic 320, “Investments - Debt and Equity Securities,” the sale of held to maturity securities based upon the change in capital requirements is permitted without tainting the remaining held to maturity investment portfolio.

Note 8. Loans

The detail of the loan portfolio as of September 30, 2016 and December 31, 2015 was as follows:

	September 30, 2016			December 31, 2015		
	Non-PCI Loans	PCI Loans*	Total	Non-PCI Loans	PCI Loans*	Total
	(in thousands)					
Loans:						
Commercial and industrial	$2,266,420	$292,548	$2,558,968	$2,156,549	$383,942	$2,540,491
Commercial real estate:						
Commercial real estate	7,178,836	1,135,019	8,313,855	6,069,532	1,355,104	7,424,636
Construction	670,801	131,767	802,568	607,694	147,253	754,947
Total commercial real estate loans	7,849,637	1,266,786	9,116,423	6,677,226	1,502,357	8,179,583
Residential mortgage	2,637,311	188,819	2,826,130	2,912,079	218,462	3,130,541
Consumer:						
Home equity	377,682	99,138	476,820	391,809	119,394	511,203
Automobile	1,121,430	176	1,121,606	1,238,826	487	1,239,313
Other consumer	524,540	9,648	534,188	426,147	15,829	441,976
Total consumer loans	2,023,652	108,962	2,132,614	2,056,782	135,710	2,192,492
Total loans	$14,777,020	$1,857,115	$16,634,135	$13,802,636	$2,240,471	$16,043,107

* PCI loans include covered loans (mostly consisting of residential mortgage and commercial real estate loans) totaling $76.0 million and $122.3 million at September 30, 2016 and December 31, 2015, respectively.

Total non-covered loans include net unearned premiums and deferred loan costs of $10.5 million and $3.5 million at September 30, 2016 and December 31, 2015, respectively. The outstanding balances (representing contractual balances owed to Valley) for PCI loans totaled $2.0 billion and $2.4 billion at September 30, 2016 and December 31, 2015, respectively.

Valley transferred $174.5 million of residential mortgage loans from the loan portfolio to loans held for sale during the three months ended September 30, 2016. Exclusive of such transfers, there were no sales of loans from the held for investment portfolio during the three and nine months ended September 30, 2016 and 2015.

Purchased Credit-Impaired Loans (Including Covered 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. Valley's PCI loan portfolio included covered loans (i.e., loans in which the Bank will share losses with the FDIC under loss-sharing agreements) totaling $76.0 million and $122.3 million at September 30, 2016 and December 31, 2015, respectively.

The following table presents changes in the accretable yield for PCI loans during the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Balance, beginning of period	$355,601	$282,101	$415,179	$336,208
Accretion	(26,730)	(24,814)	(86,308)	(78,921)
Balance, end of period	$328,871	$257,287	$328,871	$257,287

FDIC Loss-Share Receivable

The receivable arising from the loss-sharing agreements with the FDIC is measured separately from the covered loan portfolio because the agreements are not contractually part of the covered loans and are not transferable should the Bank choose to dispose of the covered loans. The FDIC loss share receivable (which is included in other assets on Valley's consolidated statements of financial condition) totaled $7.7 million and $8.3 million at September 30, 2016 and December 31, 2015, respectively. The aggregate effect of changes in the FDIC loss-share receivable was a net reduction in non-interest income of $313 thousand and $55 thousand for the three months ended September 30, 2016 and 2015, respectively, and $872 thousand and $3.4 million for the nine months ended September 30, 2016 and 2015, respectively. The larger net reduction during the nine months ended September 30, 2015 was mainly caused by the prospective recognition of the effect of additional cash flows from certain loan pools which were covered by commercial loan loss-sharing agreements that expired in March 2015.

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. Valley closely monitors economic conditions and loan performance trends to manage and evaluate its exposure to credit risk. 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, and non-performing loans held for sale) by loan portfolio class at September 30, 2016 and December 31, 2015:

	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, 2016							
Commercial and industrial	$4,306	$788	$ 145	$ 7,875	$13,114	$2,253,306	$2,266,420
Commercial real estate:							
Commercial real estate	9,385	4,291	478	14,452	28,606	7,150,230	7,178,836
Construction	—	—	1,881	1,136	3,017	667,784	670,801
Total commercial real estate loans	9,385	4,291	2,359	15,588	31,623	7,818,014	7,849,637
Residential mortgage	9,982	2,733	590	14,013	27,318	2,609,993	2,637,311
Consumer loans:							
Home equity	693	527	—	820	2,040	375,642	377,682
Automobile	2,110	619	226	145	3,100	1,118,330	1,121,430
Other consumer	343	88	—	—	431	524,109	524,540
Total consumer loans	3,146	1,234	226	965	5,571	2,018,081	2,023,652
Total	$26,819	$9,046	$ 3,320	$ 38,441	$77,626	$14,699,394	$14,777,020
December 31, 2015							
Commercial and industrial	$3,920	$524	$ 213	$ 10,913	$15,570	$2,140,979	$2,156,549
Commercial real estate:							
Commercial real estate	2,684	—	131	24,888	27,703	6,041,829	6,069,532
Construction	1,876	2,799	—	6,163	10,838	596,856	607,694
Total commercial real estate loans	4,560	2,799	131	31,051	38,541	6,638,685	6,677,226
Residential mortgage	6,681	1,626	1,504	17,930	27,741	2,884,338	2,912,079
Consumer loans:							