FIRST CITIZENS BANCSHARES INC /DE/
Form 10-Q
November 01, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018
or

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 001-16715

First Citizens BancShares, Inc.
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	56-1528994 (I.R.S. Employer Identification Number)
4300 Six Forks Road, Raleigh, North Carolina (Address of principle executive offices)	27609 (Zip code)

(919) 716-7000
(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 twelve 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 ninety 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 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, smaller reporting company, or an emerging growth company. See the definitions of “larger accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act:

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

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

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

Class A Common Stock—$1 Par Value—10,805,220 shares
Class B Common Stock—$1 Par Value—1,005,185 shares

(Number of shares outstanding, by class, as of October 31, 2018)

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PART I

Item 1. Financial Statements

First Citizens BancShares, Inc. and Subsidiaries
Consolidated Balance Sheets

(Dollars in thousands, unaudited)	September 30, 2018	December 31, 2017
Assets		
Cash and due from banks	$262,525	$336,150
Overnight investments	943,025	1,387,927
Investment in marketable equity securities	109,907	—
Investment securities available for sale	4,677,351	7,180,180
Investment securities held to maturity	2,253,416	76
Loans held for sale	46,082	51,179
Loans and leases	24,886,347	23,596,825
Allowance for loan and lease losses	(219,197)	(221,893)
Net loans and leases	24,667,150	23,374,932
Premises and equipment	1,167,329	1,138,431
Other real estate owned	43,601	51,097
Income earned not collected	105,616	95,249
Goodwill	208,217	150,601
Other intangible assets	72,748	73,096
Other assets	397,692	688,594
Total assets	$34,954,659	$34,527,512
Liabilities		
Deposits:		
Noninterest-bearing	$12,212,144	$11,237,375
Interest-bearing	17,951,393	18,028,900
Total deposits	30,163,537	29,266,275
Short-term borrowings	687,749	693,807
Long-term obligations	297,487	870,240
FDIC shared-loss payable	104,576	101,342
Other liabilities	202,297	261,784
Total liabilities	31,455,646	31,193,448
Shareholders’ equity		
Common stock:		
Class A - $1 par value (16,000,000 shares authorized; 10,880,220 and 11,005,220 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively)	10,880	11,005
Class B - $1 par value (2,000,000 shares authorized; 1,005,185 shares issued and outstanding at September 30, 2018 and December 31, 2017)	1,005	1,005
Preferred stock - $0.01 par value (10,000,000 shares authorized; no shares issued and outstanding at September 30, 2018 and December 31, 2017)	—	—
Surplus	600,957	658,918
Retained earnings	3,133,746	2,785,430
Accumulated other comprehensive loss	(247,575)	(122,294)
Total shareholders’ equity	3,499,013	3,334,064

Total liabilities and shareholders’ equity	$34,954,659	$34,527,512

See accompanying Notes to Consolidated Financial Statements.

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First Citizens BancShares, Inc. and Subsidiaries
Consolidated Statements of Income

(Dollars in thousands, except per share data, unaudited)	Three months ended September 30 2018	Three months ended September 30 2017	Nine months ended September 30 2018	Nine months ended September 30 2017
Interest income				
Loans and leases	$272,215	$ 246,260	$785,283	$ 708,622
Investment securities and dividend income	38,770	29,706	110,969	89,863
Overnight investments	4,721	8,367	15,932	19,247
Total interest income	315,706	284,333	912,184	817,732
Interest expense				
Deposits	5,147	3,839	13,424	12,407
Short-term borrowings	685	1,429	2,940	3,185
Long-term obligations	2,512	5,890	7,802	17,013
Total interest expense	8,344	11,158	24,166	32,605
Net interest income	307,362	273,175	888,018	785,127
Provision for loan and lease losses	840	7,946	16,883	28,501
Net interest income after provision for loan and lease losses	306,522	265,229	871,135	756,626
Noninterest income				
Gain on acquisitions	—	—	—	134,745
Cardholder services, net	14,678	15,487	44,385	42,848
Merchant services, net	5,857	5,528	18,512	17,085
Service charges on deposit accounts	25,994	25,951	78,489	73,955
Wealth management services	24,459	21,234	73,543	64,116
Securities gains, net	—	1,337	—	4,664
Marketable equity securities gains, net	3,854	—	9,265	—
Other service charges and fees	7,651	7,073	22,887	21,302
Mortgage income	4,123	6,775	13,063	19,317
Insurance commissions	2,755	2,894	9,471	9,015
ATM income	1,919	2,596	6,307	6,882
Gain on extinguishment of debt	703	—	26,517	—
Other	2,538	7,187	15,703	19,421
Total noninterest income	94,531	96,062	318,142	413,350
Noninterest expense				
Salaries and wages	133,867	124,888	392,911	363,076
Employee benefits	28,850	25,416	90,656	77,976
Occupancy expense	26,632	26,594	80,686	77,415
Equipment expense	25,880	23,887	76,021	73,129
FDIC insurance expense	5,186	5,449	16,411	16,747
Collection and foreclosure-related expenses	4,269	3,443	12,389	9,582
Merger-related expenses	1,126	562	4,136	8,248
Other	41,727	47,403	128,383	123,216
Total noninterest expense	267,537	257,642	801,593	749,389
Income before income taxes	133,516	103,649	387,684	420,587
Income taxes	16,198	36,585	76,844	151,242
Net income	$117,318	$ 67,064	$310,840	$ 269,345
Average shares outstanding	11,971,460	12,010,405	11,997,281	12,010,405
Net income per share	$9.80	$ 5.58	$25.91	$ 22.43

See accompanying Notes to Consolidated Financial Statements.

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First Citizens BancShares, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income

	Three months ended September 30		Nine months ended September 30	
(Dollars in thousands, unaudited)	2018	2017	2018	2017
Net income	$117,318	$67,064	$310,840	$269,345
Other comprehensive (loss) income:				
Unrealized (losses) gains on securities available for sale:				
Change in unrealized (losses) gains on securities available for sale arising during period	(13,810)	15,752	(9,655)	65,619
Tax effect	3,175	(5,857)	2,221	(24,401)
Reclassification adjustment for gains included in income before income taxes	—	(1,337)	—	(4,664)
Tax effect	—	495	—	1,726
Total change in unrealized (losses) gains on securities available for sale, net of tax	(10,635)	9,053	(7,434)	38,280
Unrealized losses on securities available for sale transferred to held to maturity:				
Unrealized losses on securities available for sale transferred to held to maturity	—	—	(109,507)	—
Tax effect	—	—	25,186	—
Reclassification adjustment for accretion of unrealized losses on securities available for sale transferred to held to maturity	6,502	—	10,975	—
Tax effect	(1,495)	—	(2,523)	—
Total change in unrealized losses on securities available for sale transferred to held to maturity, net of tax	5,007	—	(75,869)	—
Change in pension obligation:				
Amortization of actuarial losses and prior service cost	3,495	2,330	10,486	7,290
Tax effect	(804)	(864)	(2,412)	(2,702)
Total change in pension obligation, net of tax	2,691	1,466	8,074	4,588
Other comprehensive (loss) income	(2,937)	10,519	(75,229)	42,868
Total comprehensive income	$114,381	$77,583	$235,611	$312,213

See accompanying Notes to Consolidated Financial Statements.

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First Citizens BancShares, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity

(Dollars in thousands, unaudited)	Class A Common Stock	Class B Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
Balance at December 31, 2016	$ 11,005	$ 1,005	$658,918	$2,476,691	$ (135,192)	$3,012,427
Net income	—	—	—	269,345	—	269,345
Other comprehensive income, net of tax	—	—	—	—	42,868	42,868
Cash dividends ($0.90 per share)	—	—	—	(10,809)	—	(10,809)
Balance at September 30, 2017	$ 11,005	$ 1,005	$658,918	$2,735,227	$ (92,324)	$3,313,831
Balance at December 31, 2017	$ 11,005	$ 1,005	$658,918	$2,785,430	$ (122,294)	$3,334,064
Cumulative effect of adoption of ASU 2016-01	—	—	—	18,716	(18,716)	—
Cumulative effect of adoption of ASU 2018-02	—	—	—	31,336	(31,336)	—
Net income	—	—	—	310,840	—	310,840
Other comprehensive loss, net of tax	—	—	—	—	(75,229)	(75,229)
Repurchase of 125,000 shares of Class A common stock	(125)	—	(57,961)	—	—	(58,086)
Cash dividends ($1.05 per share)	—	—	—	(12,576)	—	(12,576)
Balance at September 30, 2018	$ 10,880	$ 1,005	$600,957	$3,133,746	$ (247,575)	$3,499,013

See accompanying Notes to Consolidated Financial Statements.

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First Citizens BancShares, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

(Dollars in thousands, unaudited)	Nine months ended September 30 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$310,840	$269,345
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan and lease losses	16,883	28,501
Deferred tax expense	13,642	67,270
Net change in current taxes	(21,266)	17,115
Depreciation	71,484	67,749
Net (decrease) increase in accrued interest payable	(1,552)	401
Net increase in income earned not collected	(7,650)	(4,471)
Gain on acquisitions	—	(134,745)
Securities gains, net	—	(4,664)
Marketable equity securities gains, net	(9,265)	—
Gain on extinguishment of debt	(26,517)	—
Origination of loans held for sale	(456,193)	(471,862)
Proceeds from sale of loans held for sale	468,705	487,017
Gain on sale of loans held for sale	(8,640)	(11,317)
Gain on sale of portfolio loans	—	(1,007)
Net write-downs/losses on other real estate	3,156	3,152
Gain on sales of premises and equipment	(1,450)	(490)
Net accretion of premiums and discounts	(22,965)	(34,535)
Amortization of intangible assets	17,580	16,994
Net change in FDIC receivable for shared-loss agreements	—	5,799
Net change in FDIC payable for shared-loss agreements	3,234	3,195
Net change in other assets	339,289	(9,521)
Net change in other liabilities	(53,708)	10,178
Net cash provided by operating activities	635,607	304,104
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in loans outstanding	(702,356)	(771,593)
Purchases of investment securities available for sale	(979,495)	(1,891,967)
Purchases of investment securities held to maturity	(68,699)	—
Purchases of marketable equity securities	(2,818)	—
Proceeds from maturities/calls of investment securities held to maturity	196,146	20
Proceeds from maturities/calls of investment securities available for sale	946,293	1,436,113
Proceeds from sales of investment securities available for sale	119,273	538,317
Proceeds from sales of marketable equity securities	9,503	—
Net decrease (increase) in overnight investments	455,295	(458,027)
Proceeds from sales of portfolio loans	—	162,486
Cash paid to the FDIC for shared-loss agreements	—	(7,440)
Net cash paid to the FDIC for termination of shared-loss agreements	—	(285)
Proceeds from sales of other real estate	23,488	31,072
Proceeds from sales of premises and equipment	1,648	2,920
Purchases of premises and equipment	(88,270)	(60,090)
Business acquisitions, net of cash acquired	(106,298)	300,703
Net cash used in investing activities	(196,290)	(717,771)

CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in time deposits	(218,826)	(469,540)
Net increase in demand and other interest-bearing deposits	496,499	538,084
Net decrease in short-term borrowings	(127,547)	(59,207)
Repayment of long-term obligations	(717,370)	(6,819)
Origination of long-term obligations	125,000	175,000
Repurchase of common stock	(58,086)	—
Cash dividends paid	(12,612)	(7,206)
Net cash (used in) provided by financing activities	(512,942)	170,312
Change in cash and due from banks	(73,625)	(243,355)
Cash and due from banks at beginning of period	336,150	539,741
Cash and due from banks at end of period	$262,525	$296,386
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfers of loans to other real estate	$17,013	$26,926
Dividends declared but not paid	4,168	3,603
Reclassification of portfolio loans (from) to loans held for sale	(2,016)	161,719
Transfer of investment securities available for sale to held to maturity	2,485,761	—

See accompanying Notes to Consolidated Financial Statements.

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First Citizens BancShares, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements

NOTE A - ACCOUNTING POLICIES AND BASIS OF PRESENTATION

First Citizens BancShares, Inc. (BancShares) is a financial holding company organized under the laws of Delaware and conducts operations through its banking subsidiary, First-Citizens Bank & Trust Company (FCB), which is headquartered in Raleigh, North Carolina.

General
These consolidated financial statements and notes thereto are presented in accordance with instructions for Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States of America (GAAP). In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the consolidated financial position and consolidated results of operations have been made. The unaudited interim consolidated financial statements included in this Form 10-Q should be read in conjunction with the consolidated financial statements and notes to consolidated financial statements included in BancShares' Annual Report on Form 10-K for the year ended December 31, 2017.

Reclassifications
In certain instances, amounts reported in prior years' consolidated financial statements have been reclassified to conform to the current financial statement presentation. Such reclassifications had no effect on previously reported cash flows, shareholders' equity or net income.

Use of Estimates in the Preparation of Financial Statements
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates, and different assumptions in the application of these policies could result in material changes in BancShares' consolidated financial position, the consolidated results of its operations or related disclosures. Material estimates that are particularly susceptible to significant change include:
- Allowance for loan and lease losses;
- Fair value of financial instruments, including acquired assets and assumed liabilities;
- Pension plan assumptions;
- Cash flow estimates on purchased credit-impaired (PCI) loans;
- Goodwill and other intangible assets;
- Federal Deposit Insurance Corporation (FDIC) shared-loss payable; and
- Income tax assets, liabilities and expense

Income Taxes
Income tax expense was $16.2 million and $36.6 million for the third quarter of 2018 and third quarter of 2017, representing effective tax rates of 12.1 percent and 35.3 percent during the respective periods. Income tax expense was $76.8 million and $151.2 million for the nine months ended September 30, 2018 and 2017, respectively, representing effective tax rates of 19.8 percent and 36.0 percent for the respective nine month periods. The income tax expense and effective tax rate decreases during the reported periods in 2018 compared to those in 2017 were primarily due to the impact of the Tax Cuts and Jobs Act of 2017 (Tax Act), which reduced the federal tax rate from 35.0 percent to 21.0 percent. Additional information was obtained in the third quarter of 2018 affecting the provisional amount initially recorded for the quarter ended December 31, 2017 to account for the effects of the Tax Act. The nature of the additional information primarily relates to a decision made by BancShares to accelerate deductions in its 2017 tax return which were effectuated by making an additional contribution to its pension plan and requesting an automatic change in its tax accounting method related to depreciation. As a result, a tax benefit of $15.7 million was recorded in

the third quarter of 2018. The ultimate impact will be finalized in the fourth quarter and may differ due to additional analysis, changes in interpretations and assumptions as well as additional regulatory guidance that may be issued.

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Per Share Data

During the third quarter of 2018, BancShares repurchased 125,000 shares of Class A common stock, of which 100,000 shares were repurchased from a related party, for approximately $58.1 million at an average cost per share of $464.68. Subsequent to quarter-end and through October 31, 2018, BancShares repurchased an additional 75,000 shares of Class A common stock for approximately $32.9 million at an average cost per share of $438.26. All of these shares were repurchased under the previously approved Board of Directors' (Board) authority that expires on October 31, 2018.

Share Repurchase Authority

On October 23, 2018, BancShares' Board of Directors authorized the purchase of up to 800,000 shares of BancShares' Class A common stock. Under that authority, BancShares may purchase shares from time to time from November 1, 2018 through October 31, 2019, on the open market or in privately negotiated transactions, and it may enter into a stock trading plan pursuant to the guidelines specified under Rule 10b5-1 of the Securities Exchange Act of 1934. The Board's action replaces existing authority to purchase shares approved during 2017 and that expires on October 31, 2018. It does not obligate BancShares to purchase any particular amount of shares, and purchases may be suspended or discontinued at any time.

Recently Adopted Accounting Pronouncements

FASB ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

This ASU requires a reclassification from accumulated other comprehensive income (AOCI) to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate in the Tax Act, which was enacted on December 22, 2017. The Tax Act included a reduction to the corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. The amount of the reclassification is the difference between the historical corporate income tax rate and the newly enacted 21 percent corporate income tax rate.

The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We adopted the guidance effective in the first quarter of 2018. The change in accounting principle was accounted for as a cumulative-effect adjustment to the balance sheet resulting in a $31.3 million increase to retained earnings and a corresponding decrease to AOCI on January 1, 2018.

FASB ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

This ASU requires employers to present the service cost component of the net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Employers will present the other components separately from the line item that includes the service cost. In addition, only the service cost component of net benefit cost is eligible for capitalization.

The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We adopted the guidance effective in the first quarter of 2018. The adoption did not have a material impact on our consolidated financial position or consolidated results of operations.

FASB ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities

This ASU addresses certain aspects of recognition, measurement, presentation and disclosure of certain financial instruments. The amendments in this ASU (1) require most equity investments to be measured at fair value with changes in fair value recognized in net income; (2) simplify the impairment assessment of equity investments without a readily determinable fair value; (3) eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet; (4) require public business entities to use exit price notion, rather than entry prices, when measuring fair value of financial instruments for disclosure purposes; (5) require separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements; (6) require separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; and (7) state that a valuation allowance on deferred tax assets related to available-for-sale securities should be evaluated in combination with other deferred tax assets.

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The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We adopted the guidance effective in the first quarter of 2018. The change in accounting principle was accounted for as a cumulative-effect adjustment to the balance sheet resulting in an $18.7 million increase to retained earnings and a decrease to AOCI on January 1, 2018. With the adoption of this ASU, equity securities can no longer be classified as available for sale; as such, marketable equity securities are disclosed as a separate line item on the balance sheet with changes in the fair value of equity securities reflected in net income.

For equity investments without a readily determinable fair value, BancShares has elected to measure the equity investments using the measurement alternative which requires BancShares to make a qualitative assessment of whether the investment is impaired at each reporting period. Under the measurement alternative these investments will be measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. If a qualitative assessment indicates that the investment is impaired, BancShares will estimate the investment's fair value in accordance with ASC 820 and, if the fair value is less than the investment's carrying value, recognize an impairment loss in net income equal to the difference between carrying value and fair value. Equity investments without a readily determinable fair value are recorded within other assets in the consolidated balance sheets.

FASB ASU 2014-09, Revenue from Contracts with Customers (Topic 606)

In May 2014, the FASB issued a standard on the recognition of revenue from contracts with customers with the core principle being for a company to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard, which provides a five step model to determine when and how revenue is recognized, also results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements.

Per ASU 2015-14, Deferral of the Effective Date, this guidance was deferred and is effective for fiscal periods beginning after December 15, 2017, including interim reporting periods within that reporting period. We adopted the guidance effective in the first quarter of 2018. Our revenue is comprised primarily of net interest income on financial assets and liabilities, which is explicitly excluded from the scope of the new guidance, and noninterest income. The contracts that are in scope of the guidance are primarily related to cardholder and merchant services income, service charges on deposit accounts, wealth management services income, other service charges and fees, insurance commissions, ATM income, sales of other real estate and other. Based on our overall assessment of revenue streams and review of related contracts affected by the ASU, the adoption of this guidance did not change the method in which we currently recognize revenue.

We also completed an evaluation of the costs related to these revenue streams to determine whether such costs should be presented as expenses or contra-revenue (i.e., gross vs. net). Based on this evaluation, we determined that the classification of cardholder and merchant processing costs as well as expenses for cardholder reward programs should be netted against cardholder and merchant services income. We used the full retrospective method of adoption and restated the prior financial statements to net the cardholder and merchant processing costs against the related cardholder and merchant services income. These classification changes resulted in changes to both noninterest income and noninterest expense, however, there was no change to previously reported net income. Merchant processing expenses of $20.4 million and $60.4 million have been reclassified and reported as a component of merchant services income for the three and nine months ended September 30, 2017, respectively. Cardholder processing expenses of $7.7 million and cardholder reward programs expense of $1.3 million have been reclassified and reported as a component of cardholder services income for the three months ended September 30, 2017. For the nine months ended September 30, 2017, cardholder processing expenses of $20.3 million and cardholder reward programs expense of $6.8 million were reclassified and reported as a component of cardholder services income.

Revenue Recognition

The standard requires disclosure of qualitative and quantitative information surrounding the amount, nature, timing and uncertainty of revenues and cash flows arising from contracts with customers. Descriptions of our noninterest revenue-generating activities that are within the scope of the new revenue ASU is broadly segregated as follows:

Cardholder and Merchant Services - These represent interchange fees from customer debit and credit card transactions that are earned at the time a cardholder engages in a transaction with a merchant as well as fees charged to merchants for providing them the ability to accept and process the debit and credit card transaction. Revenue is recognized when the performance obligation has been met as it is satisfied upon the completion of the card transaction. Additionally, ASU 2014-09 requires costs associated with cardholder and merchant services transactions to be netted against the fee income from such transactions when an entity is acting as an agent in providing services to a customer.

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Service Charges on Deposit Accounts - These deposit account-related fees represent monthly account maintenance and transaction-based service fees such as overdraft fees, stop payment fees and charges for issuing cashier's checks and money orders. For account maintenance services, revenue is recognized at the end of the statement period when our performance obligation has been satisfied. All other revenues from transaction-based services are recognized at a point in time when the performance obligation has been completed.

Wealth Management Services - These primarily represent annuity fees, sales commissions, management fees, insurance sales, and trust and asset management fees. The performance obligation for wealth management services is the provision of services to place annuity products issued by the counterparty to investors, and the provision of services to manage the client’s assets, including brokerage custodial and other management services. Revenue from wealth management services is recognized over the period in which services are performed, and is based on a percentage of the value of the assets under management/administration. This revenue is either fixed or variable based on account type, or transaction-based.

Other Service Charges and Fees - These include, but are not limited to, check cashing fees, international banking fees, internet banking fees, wire transfer fees and safe deposit fees. These fees are charged, and revenue is recognized, at the point in time the requested service is provided to the customer thus satisfying our performance obligation.

Insurance Commissions - These represent commissions earned on the issuance of insurance products and services. The performance obligation is generally satisfied upon the issuance of the insurance policy and revenue is recognized when the commission payment is remitted by the insurance carrier or policy holder depending on if the billing is performed by FCB or the carrier.

ATM Income - These represent fees imposed on customers and non-customers for engaging in an ATM transaction. Revenue is recognized at the time of the transaction as the performance obligation of rendering the ATM service has been met.

Sales of Other Real Estate - ORE property consists of foreclosed real estate used as collateral for loans, closed branches, land acquired and no longer intended for future use by FCB, and other real estate purchased for resale as ORE. Revenue is generally recognized on the date of sale where the performance obligation of providing access and transferring control of the specified ORE property to the buyer in good faith and good title is satisfied. This is recorded as a component of other noninterest income.

Other - This consists of several forms of recurring revenue such as external rental income, parking income, FHLB dividends, and income earned on changes in the cash surrender value of bank-owned life insurance, all of which are outside the scope of ASU 2014-09. The remaining miscellaneous income is the result of immaterial transactions where revenue is recognized when, or as, the performance obligation is satisfied.

Recently Issued Accounting Pronouncements

FASB ASU 2018-15 - Intangibles - Goodwill and Other - Internal Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract

This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include internal-use software license). This ASU requires entities to use the guidance in FASB ASC 350-40, Intangibles - Goodwill and Other - Internal Use Software, to determine whether to capitalize or expense implementation costs related to the service contract. This ASU also requires entities to (1) expense capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement (2) present the expense related to the capitalized implementation costs in the same line item on the income statement as fees associated with the hosting element of the arrangement (3) classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element (4) present the capitalized implementation costs in the same balance sheet line item that a prepayment for the fees associated with the hosting arrangement would be presented.

The amendments in this ASU are effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted. BancShares will adopt the amendments in this ASU during the first quarter of 2020. BancShares is currently evaluating the impact this new standard will have on its consolidated financial statements and the magnitude of the impact has not yet been determined.

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FASB ASU 2018-14 - Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans

This ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans by eliminating the requirement to disclose the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year and adding a requirement to disclose an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period.

The amendments in this ASU are effective for public entities for fiscal years ending after December 15, 2020. Early adoption is permitted for all entities. BancShares will adopt all applicable amendments and update the disclosures as appropriate during the first quarter of 2021.

FASB ASU 2018-13 - Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement

This ASU modifies the disclosure requirements on fair value measurements by eliminating the requirements to disclose (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy (2) the policy for timing of transfers between levels and (3) the valuation processes for Level 3 fair value measurements. This ASU also added specific disclosure requirements for fair value measurements for public entities including the requirement to disclose the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements.

The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2019, and all interim periods within those fiscal years. Early adoption is permitted upon issuance of the ASU. Entities are permitted to early adopt amendments that remove or modify disclosures and delay the adoption of the additional disclosures until their effective date. BancShares will adopt all applicable amendments and update the disclosures as appropriate during the first quarter of 2020.

FASB ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment

This ASU eliminates Step 2 from the goodwill impairment test. Under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. This ASU eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative test.

This ASU will be effective for BancShares' annual or interim goodwill impairment tests for fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We expect to adopt the guidance for our annual impairment test in fiscal year 2020. BancShares does not anticipate any impact to our consolidated financial position or consolidated results of operations as a result of the adoption.

FASB ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

This ASU eliminates the delayed recognition of the full amount of credit losses until the loss was probable of occurring and instead will reflect an entity's current estimate of all expected credit losses. The amendments in this ASU broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The ASU does not specify a method for measuring expected credit losses and allows an entity to apply methods that reasonably reflect its expectations of the credit loss estimate based on the entity's size, complexity and risk profile. In addition, the disclosures of credit quality indicators in relation to the amortized cost of financing receivables, a current disclosure requirement, are further disaggregated by year of origination.

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The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018. BancShares will adopt the guidance by the first quarter of 2020 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. For BancShares, the standard will apply to loans, unfunded loan commitments and debt securities. A cross-functional team co-led by Corporate Finance and Risk Management is in place to implement the new standard. The team continues to work on critical activities such as building models, documenting accounting policies, reviewing data quality, and implementing a reporting and disclosure solution. BancShares continues to evaluate the impact the new standard will have on its consolidated financial statements but the magnitude of this impact has not been determined. The final impact will be dependent, among other items, on loan portfolio composition and credit quality at the adoption date, as well as economic conditions, financial models used and forecasts at that time.

FASB ASU 2016-02, Leases (Topic 842)

This ASU increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The key difference between existing standards and this ASU is the requirement for lessees to recognize all lease contracts on their balance sheet. This ASU requires lessees to classify leases as either operating or finance leases, which are substantially similar to the current operating and capital leases classifications. The distinction between these two classifications under the new standard does not relate to balance sheet treatment, but relates to treatment in the statements of income and cash flows. Lessor guidance remains largely unchanged with the exception of how a lessor determines the appropriate lease classification for each lease to better align the lessor guidance with revised lessee classification guidance.

The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We will adopt during the first quarter of 2019. We expect an increase to the Consolidated Balance Sheets for right-of-use assets and associated lease liabilities, as well as resulting depreciation expense of the right-of-use assets and interest expense of the lease liabilities in the Consolidated Statements of Income, for arrangements previously accounted for as operating leases. Additionally, adding these assets to our balance sheet will impact our total risk-weighted assets used to determine our regulatory capital levels. Our impact analysis on this change in accounting principle estimates an increase to the Consolidated Balance Sheets for total lease liability ranging between $65.0 million and $85.0 million, as the initial gross up of both assets and liabilities. Capital is expected to be adversely impacted by an estimated four to six basis points. These are preliminary estimates subject to change and will continue to be refined closer to adoption.

NOTE B - BUSINESS COMBINATIONS

Palmetto Heritage Bancshares, Inc.

On November 1, 2018, FCB completed the merger of Pawley's Island, South Carolina-based Palmetto Heritage Bancshares, Inc. (Palmetto Heritage) and its subsidiary, Palmetto Heritage Bank & Trust, into FCB. Under the terms of the agreement, cash consideration of $135.00 per share was paid to the shareholders of Palmetto Heritage for each share of Palmetto Heritage's common stock with total consideration paid of $30.4 million. The transaction was accounted for under the acquisition method of accounting. The merger allowed FCB to expand its presence and enhance banking efforts in the South Carolina coastal markets. As of September 30, 2018, Palmetto Heritage reported $164.9 million in consolidated assets, $136.4 million in loans and $123.1 million in deposits.

Capital Commerce Bancorp, Inc.

On October 2, 2018, FCB completed the merger of Milwaukee, Wisconsin-based Capital Commerce Bancorp, Inc. (Capital Commerce) and its subsidiary, Securant Bank & Trust, into FCB. Under the terms of the agreement, cash consideration of $4.75 per share was paid to the shareholders of Capital Commerce for each share of Capital Commerce's common stock totaling approximately $28.1 million. The transaction was accounted for under the acquisition method of accounting. The merger allowed FCB to expand its presence and enhance banking efforts in the Milwaukee market. As of September 30, 2018, Capital Commerce reported $222.3 million in consolidated assets, $189.6 million in loans and $171.9 million in deposits.

HomeBancorp, Inc.
On May 1, 2018, FCB completed the merger of Tampa, Florida-based HomeBancorp, Inc. (HomeBancorp) and its subsidiary, HomeBanc, into FCB. Under the terms of the merger agreement, cash consideration of $15.03 was paid to the shareholders of HomeBancorp for each share of HomeBancorp's common stock and total consideration was $112.7 million. The merger allowed FCB to expand its footprint in Florida by entering into two new markets in Tampa and Orlando.

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The HomeBancorp transaction was accounted for under the acquisition method of accounting and, accordingly, assets acquired and liabilities assumed were recorded at their estimated fair values on the acquisition date. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding closing date fair values becomes available.

The fair value of the assets acquired was $842.7 million, including $550.6 million in non-purchased credit impaired (non-PCI) loans, $15.6 million in purchased credit impaired (PCI) loans and $9.9 million in a core deposit intangible. Liabilities assumed were $787.7 million, of which $619.6 million were deposits. As a result of the transaction, FCB recorded $57.6 million of goodwill. The amount of goodwill represents the excess purchase price over the estimated fair value of the net assets acquired. The premium paid reflects the increased market share and related synergies that are expected to result from the acquisition. None of the goodwill is deductible for income tax purposes as the merger is accounted for as a qualified stock purchase.

Based on such credit factors as past due status, nonaccrual status, loan-to-value, credit scores, and other quantitative and qualitative considerations, the acquired loans were separated into loans with evidence of credit deterioration, which are accounted for under ASC 310-30 (PCI loans), and loans that do not meet this criteria, which are accounted for under ASC 310-20 (non-PCI loans).

The following table provides the purchase price as of the acquisition date and the identifiable assets acquired and liabilities assumed at their estimated fair values.

(Dollars in thousands)	As recorded by FCB	
Purchase Price		$112,657
Assets		
Cash and due from banks	$6,359	
Overnight investments	10,393	
Investment securities	200,918	
Loans held for sale	791	
Loans	566,173	
Premises and equipment	6,542	
Other real estate owned	2,135	
Income earned not collected	2,717	
Intangible assets	13,206	
Other assets	33,459	
Total assets acquired	842,693	
Liabilities		
Deposits	619,589	
Short-term borrowings	108,973	
Accrued interest payable	1,020	
Long-term obligations	52,944	
Other liabilities	5,126	
Total liabilities assumed	$787,652	
Fair value of net assets assumed		55,041
Goodwill recorded for HomeBancorp		$57,616

Merger-related expenses of $210 thousand and $1.9 million were recorded in the Consolidated Statements of Income for the three and nine months ended September 30, 2018. Loan-related interest income generated from HomeBancorp was approximately $6.8 million for the three months ended September 30, 2018 and $11.8 million since the acquisition date. The ongoing contributions of this transaction to BancShares' financial statements is not considered material, and therefore pro forma financial data is not included.

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NOTE C - INVESTMENTS

The amortized cost and fair value of investment securities classified as available for sale and held to maturity at September 30, 2018 and December 31, 2017, were as follows:

	September 30, 2018			
(Dollars in thousands)	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investment securities available for sale				
U.S. Treasury	$1,509,432	$—	$ 3,998	$1,505,434
Government agency	127,911	108	474	127,545
Mortgage-backed securities	3,004,219	891	85,314	2,919,796
Corporate bonds	119,717	413	197	119,933
Other	4,553	90	—	4,643
Total investment securities available for sale	$4,765,832	$ 1,502	$ 89,983	$4,677,351

	December 31, 2017			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investment securities available for sale				
U.S. Treasury	$1,658,410	$—	$ 546	$1,657,864
Government agency	8,695	15	40	8,670
Mortgage-backed securities	5,419,379	1,529	80,152	5,340,756
Equity securities	75,471	29,737	—	105,208
Corporate bonds	59,414	557	8	59,963
Other	7,645	256	182	7,719
Total investment securities available for sale	$7,229,014	$ 32,094	$ 80,928	$7,180,180

	September 30, 2018			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investment securities held to maturity				
Mortgage-backed securities	$2,253,416	$ 441	$ 15,193	$2,238,664

	December 31, 2017			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investment securities held to maturity				
Mortgage-backed securities	$76	$ 5	$—	$81

As a result of adopting ASU 2016-01 in the first quarter of 2018, investments in marketable equity securities are no longer classified as investments available for sale. At September 30, 2018 and December 31, 2017, we had $109.9 million and $105.2 million, respectively, in marketable equity securities recorded at fair value. Prior to January 1, 2018 equity securities were classified as available for sale and stated at fair value with unrealized gains and losses reported in accumulated other comprehensive income. A cumulative-effect adjustment of $18.7 million was recorded on January 1, 2018 to reclassify the net unrealized gains from accumulated other comprehensive income to retained earnings with subsequent changes in fair value recognized in the Consolidated Statements of Income.

On May 1, 2018, mortgage-backed securities with an amortized cost of $2.49 billion were transferred from investments available for sale to the held to maturity portfolio. At the time of transfer, the mortgage-backed securities had a fair value of $2.38 billion and a weighted average contractual maturity of 13 years. The unrealized loss on these securities at the date of transfer was $109.5 million and continues to be reported as a component of AOCI. This unrealized loss will be accreted over the remaining expected life of the securities as an adjustment of yield and is offset by the amortization of the corresponding discount on the transferred securities. FCB has the intent and ability to retain these securities until maturity.

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Investments in mortgage-backed securities represent securities issued by the Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. Investments in government agency securities represent securities issued by the United States Small Business Administration. Investments in corporate bonds and marketable equity securities represent positions in securities of other financial institutions. Other investments include trust preferred securities of financial institutions. BancShares holds approximately 298,000 shares of Visa Class B common stock. BancShares' Visa Class B shares are not considered to have a readily determinable fair value and are included in the Consolidated Balance Sheet at $0 fair value.

The following table provides the amortized cost and fair value by contractual maturity. Expected maturities will differ from contractual maturities on certain securities because borrowers and issuers may have the right to call or prepay obligations with or without prepayment penalties. Repayments of mortgage-backed securities are dependent on the repayments of the underlying loan balances, while repayments of certain corporate bonds are subject to call provisions that can be exercised by the issuer at their discretion.

	September 30, 2018		December 31, 2017	
(Dollars in thousands)	Cost	Fair value	Cost	Fair value
Investment securities available for sale				
Non-amortizing securities maturing in:				
One year or less	$1,260,166	$1,256,660	$808,768	$808,301
One through five years	249,267	248,775	849,642	849,563
Five through 10 years	119,717	119,932	59,414	59,963
Over 10 years	4,552	4,643	7,645	7,719
Government agency	127,911	127,545	8,695	8,670
Mortgage-backed securities	3,004,219	2,919,796	5,419,379	5,340,756
Equity securities	—	—	75,471	105,208
Total investment securities available for sale	$4,765,832	$4,677,351	$7,229,014	$7,180,180
Investment securities held to maturity				
Mortgage-backed securities held to maturity	$2,253,416	$2,238,664	$76	$81

There were no gross gains or losses on sales of investment securities available for sale for the three or nine months ended September 30, 2018. Gross gains on sales of investment securities available for sale was $1.3 million for the three months ended September 30, 2017. There were no gross losses on sales of investment securities available for sale during this period. Gross gains and gross losses on sales of investment securities available for sale were $4.7 million and $29 thousand, respectively for the nine months ended September 30, 2017.

The following table provides the realized and unrealized gains or losses on marketable equity securities for the three and nine months ended September 30, 2017.

(Dollars in thousands)	Three months ended September 30, 2018	Nine months ended September 30, 2018
Marketable equity securities gains, net	$ 3,854	$ 9,265
Less net gains recognized on marketable equity securities sold	946	1,181
Unrealized gains recognized on marketable equity securities held	$ 2,908	$ 8,084

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The following table provides information regarding securities with unrealized losses as of September 30, 2018 and December 31, 2017.

	September 30, 2018					
	Less than 12 months		12 months or more		Total	
(Dollars in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Investment securities available for sale:						
U.S. Treasury	$1,495,438	$ 3,996	$9,996	$ 2	$1,505,434	$ 3,998
Government agency	103,883	432	2,707	42	106,590	474
Mortgage-backed securities	1,228,345	24,796	1,498,593	60,518	2,726,938	85,314
Corporate bonds	18,715	173	5,000	24	23,715	197
Total	$2,846,381	$ 29,397	$1,516,296	$ 60,586	$4,362,677	$ 89,983
Investment securities held to maturity:						
Mortgage-backed securities	$2,124,316	$ 14,907	$10,549	$ 286	$2,134,865	$ 15,193

	December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Investment securities available for sale:						
U.S. Treasury	$1,408,166	$ 345	$249,698	$ 201	$1,657,864	$ 546
Government agency	848	12	2,527	28	3,375	40
Mortgage-backed securities	2,333,254	20,911	2,723,406	59,241	5,056,660	80,152
Corporate bonds	5,025	8	—	—	5,025	8
Other	5,349	182	—	—	5,349	182
Total	$3,752,642	$ 21,458	$2,975,631	$ 59,470	$6,728,273	$ 80,928

As of September 30, 2018, there were 185 investment securities available for sale that had continuous losses for more than 12 months of which 183 are government sponsored enterprise-issued mortgage-backed securities or government agency securities, 1 is a U.S. Treasury security and 1 is a corporate bond. There were 2 investment securities held to maturity, which were government sponsored enterprise-issued mortgage securities, that had continuous losses for more than 12 months at September 30, 2018.

None of the unrealized losses identified as of September 30, 2018 or December 31, 2017 relate to the marketability of the securities or the issuers' ability to honor redemption obligations. Rather, the unrealized losses relate to changes in interest rates relative to when the debt securities were purchased. BancShares has the ability and intent to retain these securities for a period of time sufficient to recover all unrealized losses. Therefore, none of the securities were deemed to be other than temporarily impaired.

Debt securities having an aggregate carrying value of $3.53 billion at September 30, 2018 and $4.59 billion at December 31, 2017 were pledged as collateral to secure public funds on deposit and certain short-term borrowings, and for other purposes as required by law.

NOTE D - LOANS AND LEASES

BancShares' accounting methods for loans and leases differ depending on whether they are non-PCI or PCI. Loans that are originated by FCB and loans that are performing under their contractual obligations at acquisition are Non-PCI. Loans that show evidence of deterioration in credit quality at acquisition are PCI. Acquired loans are recorded at fair value at the date of acquisition, with no corresponding allowance for loan and lease losses.

The non-PCI portfolio is divided into commercial and non-commercial based on the type of borrower, purpose, collateral, and/or our underlying credit management processes. Additionally, commercial and non-commercial loans are assigned to loan classes, which further disaggregate loans based upon common risk characteristics.

Commercial – Commercial loan classes include construction and land development, commercial mortgage, other commercial real estate, commercial and industrial, lease financing and other.

Construction and land development – Construction and land development consists of loans to finance land for development, investment, and use in a commercial business enterprise; multifamily apartments; and other commercial buildings that may be owner-occupied or income generating investments for the owner.

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Commercial mortgage – Commercial mortgage consists of loans to purchase or refinance owner-occupied nonresidential and investment properties. Investment properties include office buildings and other facilities that are rented or leased to unrelated parties.
Other commercial real estate – Other commercial real estate consists of loans secured by farmland (including residential farms and other improvements) and multifamily (5 or more) residential properties.
Commercial and industrial – Commercial and industrial consists of loans or lines of credit to finance corporate credit cards, accounts receivable, inventory and other general business purposes.
Lease financing – Lease financing consists solely of lease financing agreements for business equipment, vehicles and other assets.
Other – Other consists of all other commercial loans not classified in one of the preceding classes. These typically include loans to non-profit organizations such as churches, hospitals, educational and charitable organizations, and certain loans repurchased with government guarantees.

Noncommercial – Noncommercial loan classes consist of residential and revolving mortgage, construction and land development, and consumer loans.

Residential mortgage – Residential real estate consists of loans to purchase, construct or refinance the borrower's primary dwelling, second residence or vacation home.
Revolving mortgage – Revolving mortgage consists of home equity lines of credit that are secured by first or second liens on the borrower's primary residence.
Construction and land development – Construction and land development consists of loans to construct the borrower's primary or secondary residence or vacant land upon which the owner intends to construct a dwelling at a future date.
Consumer – Consumer loans consist of installment loans to finance purchases of vehicles, unsecured home improvements, student loans and revolving lines of credit that can be secured or unsecured, including personal credit cards.

Loans and leases outstanding included the following at September 30, 2018 and December 31, 2017:

(Dollars in thousands)	September 30, 2018	December 31, 2017
Non-PCI loans and leases:		
Commercial:		
Construction and land development	$ 679,203	$ 669,215
Commercial mortgage	10,486,372	9,729,022
Other commercial real estate	471,532	473,433
Commercial and industrial	3,189,337	2,730,407
Lease financing	616,951	894,801
Other	296,988	302,176
Total commercial loans	15,740,383	14,799,054
Noncommercial:		
Residential mortgage	4,073,235	3,523,786
Revolving mortgage	2,570,096	2,701,525
Construction and land development	241,436	248,289
Consumer	1,623,179	1,561,173
Total noncommercial loans	8,507,946	8,034,773
Total non-PCI loans and leases	24,248,329	22,833,827
PCI loans:		
Total PCI loans	638,018	762,998
Total loans and leases	$ 24,886,347	$ 23,596,825

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At September 30, 2018, $9.07 billion in noncovered loans with a lendable collateral value of $6.34 billion were used to secure $264.7 million in Federal Home Loan Bank (FHLB) of Atlanta advances, resulting in additional borrowing capacity of $6.08 billion. At December 31, 2017, $8.75 billion in noncovered loans with a lendable collateral value of $6.08 billion were used to secure $835.2 million in FHLB of Atlanta advances, resulting in additional borrowing capacity of $5.24 billion. At September 30, 2018, $2.91 billion in noncovered loans with a lendable collateral value of $2.20 billion were used to secure additional borrowing capacity at the Federal Reserve Bank (FRB). At December 31, 2017, $2.77 billion in noncovered loans with a lendable collateral value of $2.08 billion were used to secure additional borrowing capacity at the FRB.

Certain residential real estate loans are originated to be sold to investors and are recorded in loans held for sale at fair value. Loans held for sale totaled $46.1 million and $51.2 million at September 30, 2018 and December 31, 2017, respectively. In addition, we may change our strategy for certain portfolio loans and sell them in the secondary market. At that time, portfolio loans are transferred to loans held for sale at the lower of amortized cost or market. During the three and nine months ended September 30, 2018, total proceeds from sales of loans held for sale were $165.9 million and $468.7 million, respectively, and there were no transfers to loans held for sale from the residential mortgage portfolio for either period. For the three months ended September 30, 2017, total proceeds from sales of loans held for sale were $307.4 million of which $130.2 million in sales were transferred to loans held for sale from the residential mortgage portfolio, resulting in a gain of $843 thousand. For the nine months ended September 30, 2017, total proceeds from sales of loans held for sale were $649.5 million of which $162.5 million in sales were transferred to loans held for sale from the residential mortgage portfolio, resulting in a gain of $1.0 million.

Net deferred fees on originated non-PCI loans and leases, including unearned income as well as unamortized costs and fees, were $196 thousand and $1.7 million at September 30, 2018 and December 31, 2017, respectively. The unamortized discount related to purchased non-PCI loans and leases in the HomeBancorp, Guaranty Bank (Guaranty), Cordia Bancorp Inc. (Cordia) and First Citizens Bancorporation, Inc. (Bancorporation) acquisitions was $6.7 million, $11.4 million, $1.5 million and $13.3 million, respectively, at September 30, 2018. At December 31, 2017, the unamortized discount related to purchased non-PCI loans and leases from the Guaranty, Cordia and Bancorporation acquisitions was $14.2 million, $2.7 million and $18.1 million, respectively. During the three months ended September 30, 2018 and September 30, 2017, accretion income on purchased non-PCI loans and leases was $2.9 million and $4.2 million, respectively. During the nine months ended September 30, 2018 and September 30, 2017, accretion income on purchased non-PCI loans and leases was $9.9 million and $10.2 million, respectively.

Credit quality indicators

Loans and leases are monitored for credit quality on a recurring basis. The credit quality indicators used are dependent on the portfolio segment to which the loan relates. Commercial and noncommercial loans and leases have different credit quality indicators as a result of the unique characteristics of the loan segment being evaluated. The credit quality indicators for non-PCI and PCI commercial loans and leases are developed through a review of individual borrowers on an ongoing basis. Commercial loans are evaluated periodically with more frequent evaluations done on more severely criticized loans or leases. The credit quality indicators for non-PCI and PCI noncommercial loans are based on the delinquency status of the borrower. As the borrower becomes more delinquent, the likelihood of loss increases. The indicators represent the rating for loans or leases as of the date presented based on the most recent assessment performed. These credit quality indicators are defined as follows:

Pass – A pass rated asset is not adversely classified because it does not display any of the characteristics for adverse classification.

Special mention – A special mention asset has potential weaknesses that deserve management’s close attention. If left uncorrected, such potential weaknesses may result in deterioration of the repayment prospects or collateral position at some future date. Special mention assets are not adversely classified and do not warrant adverse classification.

Substandard – A substandard asset is inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Assets classified as substandard generally have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. These assets are characterized by the distinct possibility of loss if the deficiencies are not corrected.

Doubtful – An asset classified as doubtful has all the weaknesses inherent in an asset classified substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently existing facts, conditions and values.

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Loss – Assets classified as loss are considered uncollectible and of such little value that it is inappropriate to be carried as an asset. This classification is not necessarily equivalent to any potential for recovery or salvage value, but rather that it is not appropriate to defer a full charge-off even though partial recovery may be affected in the future.

Ungraded – Ungraded loans represent loans that are not included in the individual credit grading process due to their relatively small balances or borrower type. The majority of ungraded loans at September 30, 2018 and December 31, 2017 relate to business credit cards. Business credit card loans are subject to automatic charge-off when they become 120 days past due in the same manner as unsecured consumer lines of credit. The remaining balance is comprised of a small amount of commercial mortgage, lease financing and other commercial real estate loans.

Non-PCI loans and leases outstanding at September 30, 2018 and December 31, 2017 by credit quality indicator are provided below:

(Dollars in thousands)	September 30, 2018 Non-PCI commercial loans and leases						
Grade:	Construction and land development	Commercial mortgage	Other commercial real estate	Commercial and industrial	Lease financing	Other	Total non-PCI commercial loans and leases
Pass	$675,138	$10,287,536	$ 466,685	$2,948,053	$ 611,413	$294,358	$15,283,183
Special mention	1,333	95,843	2,311	35,171	2,382	1,038	138,078
Substandard	2,566	101,384	2,536	25,489	3,156	1,592	136,723
Doubtful	—	969	—	390	—	—	1,359
Ungraded	166	640	—	180,234	—	—	181,040
Total	$679,203	$10,486,372	$ 471,532	$3,189,337	$ 616,951	$296,988	$15,740,383

	December 31, 2017 Non-PCI commercial loans and leases						
	Construction and land development	Commercial mortgage	Other commercial real estate	Commercial and industrial	Lease financing	Other	Total non-PCI commercial loans and leases
Pass	$665,197	$9,521,019	$ 468,942	$2,511,307	$ 883,779	$298,064	$14,348,308
Special mention	691	78,643	1,260	44,130	4,340	2,919	131,983
Substandard	3,327	128,848	3,224	18,617	6,585	1,193	161,794
Doubtful	—	262	—	385	—	—	647
Ungraded	—	250	7	155,968	97	—	156,322
Total	$669,215	$9,729,022	$ 473,433	$2,730,407	$ 894,801	$302,176	$14,799,054

	September 30, 2018 Non-PCI noncommercial loans and leases				
(Dollars in thousands)	Residential mortgage	Revolving mortgage	Construction and land development	Consumer	Total non-PCI noncommercial loans and leases
Current	$4,027,341	$2,539,576	$ 239,601	$1,608,644	$ 8,415,162
30-59 days past due	24,558	14,378	151	7,911	46,998
60-89 days past due	5,189	5,354	177	3,621	14,341
90 days or greater past due	16,147	10,788	1,507	3,003	31,445

Total	$4,073,235	$2,570,096	$ 241,436	$1,623,179	$ 8,507,946

	December 31, 2017				
	Non-PCI noncommercial loans and leases				
	Residential mortgage	Revolving mortgage	Construction and land development	Consumer	Total non-PCI noncommercial loans and leases
Current	$3,465,935	$2,674,390	$ 239,648	$1,546,473	$ 7,926,446
30-59 days past due	27,886	13,428	7,154	8,812	57,280
60-89 days past due	8,064	3,485	108	2,893	14,550
90 days or greater past due	21,901	10,222	1,379	2,995	36,497
Total	$3,523,786	$2,701,525	$ 248,289	$1,561,173	$ 8,034,773

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PCI loans outstanding at September 30, 2018 and December 31, 2017 by credit quality indicator are provided below:

	September 30, 2018	December 31, 2017
(Dollars in thousands)	PCI commercial loans	
Grade:		
Pass	$156,092	$ 201,332
Special mention	52,204	63,257
Substandard	103,986	117,068
Doubtful	4,701	11,735
Ungraded	31	27
Total	$317,014	$ 393,419

	September 30, 2018	December 31, 2017
	PCI noncommercial loans	
(Dollars in thousands)		
Current	$282,965	$318,632
30-59 days past due	10,138	13,343
60-89 days past due	5,968	6,212
90 days or greater past due	21,933	31,392
Total	$321,004	$369,579

The aging of the outstanding non-PCI loans and leases, by class, at September 30, 2018 and December 31, 2017 are provided in the tables below. Loans and leases 30 days or less past due are considered current as various grace periods allow borrowers to make payments within a stated period after the due date and still remain in compliance with the loan agreement.

	September 30, 2018					
(Dollars in thousands)	30-59 days past due	60-89 days past due	90 days or greater	Total past due	Current	Total loans and leases
Non-PCI loans and leases:						
Construction and land development - commercial	$708	$ 186	$68	$962	$678,241	$679,203
Commercial mortgage	15,768	2,830	5,326	23,924	10,462,448	10,486,372
Other commercial real estate	—	—	—	—	471,532	471,532
Commercial and industrial	8,078	2,592	2,140	12,810	3,176,527	3,189,337
Lease financing	3,090	102	928	4,120	612,831	616,951
Residential mortgage	24,558	5,189	16,147	45,894	4,027,341	4,073,235
Revolving mortgage	14,378	5,354	10,788	30,520	2,539,576	2,570,096
Construction and land development - noncommercial	151	177	1,507	1,835	239,601	241,436
Consumer	7,911	3,621	3,003	14,535	1,608,644	1,623,179
Other	141	63	—	204	296,784	296,988
Total non-PCI loans and leases	$74,783	$ 20,114	$39,907	$134,804	$24,113,525	$24,248,329

	December 31, 2017					
	30-59 days past due	60-89 days past due	90 days or greater	Total past due	Current	Total loans and leases
Non-PCI loans and leases:						

Construction and land development - commercial	$491	$ 442	$357	$1,290	$667,925	$669,215
Commercial mortgage	12,288	2,375	6,490	21,153	9,707,869	9,729,022
Other commercial real estate	107	—	75	182	473,251	473,433
Commercial and industrial	6,694	1,510	1,266	9,470	2,720,937	2,730,407
Lease financing	2,983	167	973	4,123	890,678	894,801
Residential mortgage	27,886	8,064	21,901	57,851	3,465,935	3,523,786
Revolving mortgage	13,428	3,485	10,222	27,135	2,674,390	2,701,525
Construction and land development - noncommercial	7,154	108	1,379	8,641	239,648	248,289
Consumer	8,812	2,893	2,995	14,700	1,546,473	1,561,173
Other	188	6	133	327	301,849	302,176
Total non-PCI loans and leases	$80,031	$ 19,050	$45,791	$144,872	$22,688,955	$22,833,827

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The recorded investment, by class, in loans and leases on nonaccrual status, and loans and leases greater than 90 days past due and still accruing at September 30, 2018 and December 31, 2017 for non-PCI loans and leases, were as follows:

	September 30, 2018		December 31, 2017	
(Dollars in thousands)	Nonaccrual loans and leases	Loans and leases > 90 days and accruing	Nonaccrual loans and leases	Loans and leases > 90 days and accruing
Non-PCI loans and leases:				
Construction and land development - commercial	$ 382	$ 55	$ 1,040	$ —
Commercial mortgage				