VALLEY NATIONAL BANCORP
Form 10-Q
August 08, 2014

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 June 30, 2014
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 (State or other jurisdiction of Incorporation or Organization)	22-2477875 (I.R.S. Employer Identification Number)
1455 Valley Road Wayne, NJ (Address of principal executive office)	07470 (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 200,585,104 shares were outstanding as of August 7, 2014.

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VALLEY NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(in thousands, except for share data)

	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Cash and due from banks	$266,101	$234,253
Interest bearing deposits with banks	40,580	134,915
Investment securities:		
Held to maturity (fair value of $1,854,121 at June 30, 2014 and $1,711,427 at December 31, 2013)	1,826,143	1,731,737
Available for sale	783,205	829,692
Trading securities	14,221	14,264
Total investment securities	2,623,569	2,575,693
Loans held for sale, at fair value	16,068	10,488
Non-covered loans	11,750,875	11,471,447
Covered loans	62,553	96,165
Less: Allowance for loan losses	(103,053)	(113,617)
Net loans	11,710,375	11,453,995
Premises and equipment, net	273,746	270,138
Bank owned life insurance	347,045	344,023
Accrued interest receivable	53,650	53,964
Due from customers on acceptances outstanding	5,162	5,032
FDIC loss-share receivable	20,687	32,757
Goodwill	428,234	428,234
Other intangible assets, net	32,135	36,130
Other assets	518,615	576,919
Total Assets	$16,335,967	$16,156,541
Liabilities		
Deposits:		
Non-interest bearing	$3,581,435	$3,717,271
Interest bearing:		
Savings, NOW and money market	5,643,128	5,422,722
Time	2,191,489	2,179,269
Total deposits	11,416,052	11,319,262
Short-term borrowings	354,230	281,455
Long-term borrowings	2,797,986	2,792,306
Junior subordinated debentures issued to capital trusts	41,171	41,089
Bank acceptances outstanding	5,162	5,032
Accrued expenses and other liabilities	147,710	176,357
Total Liabilities	14,762,311	14,615,501
Shareholders’ Equity		
Preferred stock (no par value, authorized 30,000,000 shares; none issued)	—	—
Common stock (no par value, authorized 232,023,233 shares; issued 200,477,484 shares at June 30, 2014 and 199,629,268 shares at December 31, 2013)	70,116	69,941
Surplus	1,408,325	1,403,375
Retained earnings	125,614	106,340

Accumulated other comprehensive loss	(30,297)	(38,252)
Treasury stock, at cost (10,183 common shares at June 30, 2014 and 36,159 common shares at December 31, 2013)	(102)	(364)
Total Shareholders' Equity	1,573,656	1,541,040
Total Liabilities and Shareholders' Equity	$16,335,967	$16,156,541

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest Income				
Interest and fees on loans	$136,338	$133,966	$267,417	$266,965
Interest and dividends on investment securities:				
Taxable	15,709	12,925	32,165	27,414
Tax-exempt	3,700	3,673	7,386	7,322
Dividends	1,390	1,504	3,180	3,184
Interest on federal funds sold and other short-term investments	27	302	54	518
Total interest income	157,164	152,370	310,202	305,403
Interest Expense				
Interest on deposits:				
Savings, NOW and money market	4,530	4,369	8,811	9,071
Time	6,683	7,794	13,215	15,905
Interest on short-term borrowings	304	140	622	284
Interest on long-term borrowings and junior subordinated debentures	28,228	30,180	56,111	60,220
Total interest expense	39,745	42,483	78,759	85,480
Net Interest Income	117,419	109,887	231,443	219,923
Provision for credit losses	(5,671)	2,552	(1,673)	4,321
Net Interest Income After Provision for Credit Losses	123,090	107,335	233,116	215,602
Non-Interest Income				
Trust and investment services	2,244	2,257	4,686	4,234
Insurance commissions	4,491	4,062	8,989	8,052
Service charges on deposit accounts	5,636	5,822	11,387	11,512
Gains (losses) on securities transactions, net	7	41	(1)	3,999
Trading losses, net	(34)	(270)	(43)	(2,472)
Fees from loan servicing	1,786	1,721	3,456	3,238
Gains on sales of loans, net	679	14,366	1,592	29,426
Gains on sales of assets, net	276	678	128	410
Bank owned life insurance	1,614	1,424	3,022	2,765
Change in FDIC loss-share receivable	(7,711)	(2,000)	(7,787)	(5,175)
Other	3,422	4,793	6,503	8,201
Total non-interest income	12,410	32,894	31,932	64,190
Non-Interest Expense				
Salary and employee benefits expense	47,094	47,733	95,182	98,305
Net occupancy and equipment expense	17,973	18,179	38,697	37,068
FDIC insurance assessment	3,393	5,574	6,680	8,927
Amortization of other intangible assets	2,346	1,927	4,697	3,530
Professional and legal fees	4,384	4,285	8,062	8,177
Advertising	533	1,850	1,150	3,652
Other	18,506	15,798	34,644	31,126
Total non-interest expense	94,229	95,346	189,112	190,785
Income Before Income Taxes	41,271	44,883	75,936	89,007

Income tax expense	11,751	10,961	12,581	23,775
Net Income	$29,520	$33,922	$63,355	$65,232
Earnings Per Common Share:				
Basic	$0.15	$0.17	$0.32	$0.33
Diluted	0.15	0.17	0.32	0.33
Cash Dividends Declared per Common Share	0.11	0.16	0.22	0.33
Weighted Average Number of Common Shares Outstanding:				
Basic	200,472,592	199,244,243	200,301,438	199,085,501
Diluted	200,472,592	199,244,243	200,301,438	199,085,501

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$29,520	$33,922	$63,355	$65,232
Other comprehensive income, net of tax:				
Unrealized gains and losses on available for sale securities				
Net gains (losses) arising during the period	7,123	(16,353)	14,339	(17,040)
Less reclassification adjustment for net (gains) losses included in net income	(4)	(25)	1	(2,324)
Total	7,119	(16,378)	14,340	(19,364)
Non-credit impairment losses on available for sale securities				
Net change in non-credit impairment losses on securities	164	2,008	306	6,751
Less reclassification adjustment for accretion of credit impairment losses included in net income	(64)	(43)	(179)	(109)
Total	100	1,965	127	6,642
Unrealized gains and losses on derivatives (cash flow hedges)				
Net (losses) gains on derivatives arising during the period	(4,862)	2,036	(8,524)	1,959
Less reclassification adjustment for net losses included in net income	973	995	1,938	2,086
Total	(3,889)	3,031	(6,586)	4,045
Defined benefit pension plan				
Net gains arising during the period	—	18,784	—	18,769
Amortization of prior service cost	—	133	—	261
Amortization of net loss	37	471	74	936
Recognition of loss due to curtailment	—	468	—	468
Total	37	19,856	74	20,434
Total other comprehensive income	3,367	8,474	7,955	11,757
Total comprehensive income	$32,887	$42,396	$71,310	$76,989

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30, 2014	
	2014	2013
Cash flows from operating activities:		
Net income	$63,355	$65,232
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,016	9,886
Stock-based compensation	3,845	3,327
Provision for credit losses	(1,673)	4,321
Net amortization of premiums and accretion of discounts on securities and borrowings	13,757	13,332
Amortization of other intangible assets	4,697	3,530
Losses (gains) on securities transactions, net	1	(3,999)
Proceeds from sales of loans held for sale	56,579	935,834
Gains on sales of loans, net	(1,592)	(29,426)
Originations of loans held for sale	(53,568)	(846,488)
Gains on sales of assets, net	(128)	(410)
FDIC loss-share receivable (excluding reimbursements)	7,787	5,175
Net change in:		
Trading securities	43	7,987
Fair value of borrowings carried at fair value	—	2,406
Cash surrender value of bank owned life insurance	(3,022)	(2,765)
Accrued interest receivable	314	(928)
Other assets	37,596	38,758
Accrued expenses and other liabilities	(32,852)	(27,077)
Net cash provided by operating activities	105,155	178,695
Cash flows from investing activities:		
Net loan (originations) repayments	(243,102)	287,940
Loans purchased	(26,746)	(178,486)
Investment securities held to maturity:		
Purchases	(279,718)	(436,005)
Maturities, calls and principal repayments	185,690	282,888
Investment securities available for sale:		
Purchases	(9,180)	(283,736)
Sales	—	4,309
Maturities, calls and principal repayments	77,396	104,679
Death benefit proceeds from bank owned life insurance	—	628
Proceeds from sales of real estate property and equipment	10,172	6,574
Purchases of real estate property and equipment	(13,518)	(6,828)
Reimbursements from (payments to) the FDIC	4,283	(865)
Net cash used in investing activities	(294,723)	(218,902)
Cash flows from financing activities:		
Net change in deposits	96,790	(21,396)
Net change in short-term borrowings	72,775	(29,263)
Repayments of long-term borrowings	—	(1,000)
Cash dividends paid to common shareholders	(43,995)	(64,492)

Common stock issued, net	1,511	3,583
Net cash provided by (used in) financing activities	127,081	(112,568)
Net change in cash and cash equivalents	(62,487)	(152,775)
Cash and cash equivalents at beginning of year	369,168	853,100
Cash and cash equivalents at end of period	$306,681	$700,325

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

	Six Months Ended June 30,	
	2014	2013
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest on deposits and borrowings	$78,549	$84,640
Federal and state income taxes	20,102	6,614
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	$6,340	$13,384
Transfer of loans to loans held for sale	27,329	—

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 June 30, 2014 and for all periods presented have been made. The results of operations for the three and six months ended June 30, 2014 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, 2013.

Note 2. Business Combinations

On May 8, 2014, Valley entered into a merger agreement to acquire 1st United Bancorp, Inc. (“1st United”) (Nasdaq: FUBC) and its wholly-owned subsidiary, 1st United Bank, with approximately $1.7 billion in assets, $1.1 billion in loans, and $1.4 billion in deposits. 1st United has a 21 branch network covering the some of the most attractive urban banking markets in Florida, including locations throughout southeast Florida, the Treasure Coast, central Florida and central Gulf Coast regions. The common shareholders of 1st United will receive 0.89 of a share of Valley common stock for each 1st United share they own, subject to adjustment in the event Valley’s average stock price falls below $8.09 or rises above $12.13 prior to closing. The transaction is valued at an estimated $312 million, based on Valley's closing stock price on May 5, 2014 (and includes the cash consideration that will be paid to 1st United stock option holders). The transaction closing is anticipated in the fourth quarter of 2014, subject to approvals from regulators, 1st United shareholder approval of the merger and Valley shareholder approval of an amendment of its certificate of incorporation to increase its authorized common shares, as well as other customary conditions.

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 six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands, except for share data)			
Net income	$29,520	$33,922	$63,355	$65,232
Basic weighted average number of common shares outstanding	200,472,592	199,244,243	200,301,438	199,085,501
Diluted weighted average number of common shares outstanding	200,472,592	199,244,243	200,301,438	199,085,501
Earnings per common share:				
Basic	$0.15	$0.17	$0.32	$0.33
Diluted	0.15	0.17	0.32	0.33

Common stock equivalents represent the effect of outstanding common stock options and warrants to purchase Valley’s common shares, excluding those with exercise prices that exceed the average market price of Valley’s common stock during the periods presented and therefore would have an anti-dilutive effect on the diluted earnings per common share calculation. All of Valley's common stock equivalents were anti-dilutive as of June 30, 2014 and 2013, and therefore excluded from the diluted weighted-average number of shares outstanding presented in the above table. Anti-dilutive common stock options and warrants totaled approximately 6.6 million shares for both the three and six months ended June 30, 2014 and 7.2 million shares for both the three and six months ended June 30, 2013.

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 six months ended June 30, 2014.

	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 March 31, 2014	$(13,634)	$(779)	$ (8,968)	$(10,283)	$(33,664)
Other comprehensive income before reclassifications	7,123	164	(4,862)	—	2,425
Amounts reclassified from other comprehensive income	(4)	(64)	973	37	942
Other comprehensive income, net	7,119	100	(3,889)	37	3,367
Balance at June 30, 2014	$(6,515)	$(679)	$ (12,857)	$(10,246)	$(30,297)
Balance at December 31, 2013	$(20,855)	$(806)	$ (6,271)	$(10,320)	$(38,252)
Other comprehensive income before reclassifications	14,339	306	(8,524)	—	6,121
Amounts reclassified from other comprehensive income	1	(179)	1,938	74	1,834
Other comprehensive income, net	14,340	127	(6,586)	74	7,955
Balance at June 30, 2014	$(6,515)	$(679)	$ (12,857)	$(10,246)	$(30,297)

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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 six months ended June 30, 2014 and 2013.

	Amounts Reclassified from Accumulated Other Comprehensive Loss				
	Three Months Ended June 30,		Six Months Ended June 30,		
Components of Accumulated Other Comprehensive Loss	2014	2013	2014	2013	Income Statement Line Item
	(in thousands)				
Unrealized gains (losses) on AFS securities before tax	$7	$41	$(1)	$3,999	Gains (losses) on securities transactions, net
Tax effect	(3)	(16)	—	(1,675)	
Total net of tax	4	25	(1)	2,324	
Non-credit impairment losses on AFS securities before tax:					
Accretion of credit loss impairment due to an increase in expected cash flows	110	75	308	188	Interest and dividends on investment securities (taxable)
Tax effect	(46)	(32)	(129)	(79)	
Total net of tax	64	43	179	109	
Unrealized losses on derivatives (cash flow hedges) before tax	(1,664)	(1,714)	(3,312)	(3,594)	Interest expense
Tax effect	691	719	1,374	1,508	
Total net of tax	(973)	(995)	(1,938)	(2,086)	
Defined benefit pension plan:					
Amortization of prior service cost	—	(241)	—	(443)	*
Amortization of net actuarial loss	(62)	(811)	(124)	(1,605)	*
Recognition of loss due to curtailment	—	(750)	—	(750)	*
Total before tax	(62)	(1,802)	(124)	(2,798)	
Tax effect	25	730	50	1,133	
Total net of tax	(37)	(1,072)	(74)	(1,665)	
Total reclassifications, net of tax	$(942)	$(1,999)	$(1,834)	$(1,318)	

* These accumulated other comprehensive loss components are included in the computation of net periodic pension cost.

Note 5. New Authoritative Accounting Guidance

Accounting Standards Update (ASU) No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period" requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU No. 2014-12 will be effective for reporting periods after January 1, 2015 and is not expected to have a significant impact on Valley's consolidated financial statements.

ASU No. 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures" requires entities to account for repurchase-to-maturity transactions as secured borrowings rather than as sales with forward repurchase agreements and expands disclosure requirements related to certain transfers of financial assets that are accounted for as sales and certain transfers (specifically, repos, securities lending transactions, and repurchase-to-maturity transactions) accounted for as secured borrowings. The accounting-related changes are effective for the first interim or annual period beginning after December 15, 2014. The disclosures for certain transactions accounted for as sales are required for interim and annual periods beginning after December 15, 2014. The disclosures for

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repos, securities lending transactions, and repos-to-maturity accounted for as secured borrowings are required for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early adoption of the ASU No. 2014-11 is prohibited. As of June 30, 2014, all of Valley's repurchase agreements were typical in nature (i.e., not repurchase-to-maturity transactions or repurchase agreements executed as a repurchase financing) and are accounted for as secured borrowings. As such, Valley's adoption of ASU No. 2014-11 is not expected to have a significant impact on its consolidated financial statements.

ASU No. 2014-04, “Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure,” clarifies that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, this ASU requires interim and annual disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for annual and interim periods beginning after December 15, 2014. Valley’s adoption of ASU No. 2014-04 is not expected to have a significant impact on its consolidated financial statements.

ASU No. 2014-01, “Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects,” amends existing guidance to permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense or benefit. For those investments in qualified affordable housing projects not accounted for using the proportional amortization method, the investment should be accounted for as an equity method investment or a cost method investment in accordance with Subtopic 970-323. ASU No. 2014-01 is effective for annual periods and interim reporting periods within those annual periods beginning after December 15, 2014. Early adoption is permitted. Valley’s adoption of ASU No. 2014-01 is not expected to have a significant impact on its consolidated financial statements.

ASU No. 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists,” provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This ASU applies to all entities with unrecognized tax benefits that also have tax loss or tax credit carryforwards in the same tax jurisdiction as of the reporting date. ASU No. 2013-11 became effective for Valley on January 1, 2014 and did not have a significant impact on its consolidated financial statements.

Note 6. Fair Value Measurement of Assets and Liabilities

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

Level 1	Unadjusted exchange quoted prices in active markets for identical assets or liabilities, or identical liabilities traded as assets that the reporting entity has the ability to access at the measurement date.
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 June 30, 2014 and December 31, 2013. 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:		
	June 30, 2014	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	$91,887	$91,887	$—	$—
U.S. government agency securities	46,041	—	46,041	—
Obligations of states and political subdivisions	38,015	—	38,015	—
Residential mortgage-backed securities	478,132	—	456,630	21,502
Trust preferred securities	20,650	—	16,123	4,527
Corporate and other debt securities	84,536	27,473	57,063	—
Equity securities	23,944	2,170	21,774	—
Total available for sale	783,205	121,530	635,646	26,029
Trading securities	14,221	—	14,221	
Loans held for sale (1)	8,218	—	8,218	—
Other assets (2)	14,499	—	14,499	—
Total assets	$820,143	$121,530	$672,584	$26,029
Liabilities				
Other liabilities (2)	$26,666	$—	$26,666	$—
Total liabilities	$26,666	$—	$26,666	$—
Non-recurring fair value measurements:				
Non-performing loans held for sale	$7,850	$—	$7,850	$—
Collateral dependent impaired loans (3)	21,740	—	—	21,740
Loan servicing rights	2,314	—	—	2,314
Foreclosed assets (4)	12,715	—	—	12,715
Total	$44,619	$—	$7,850	$36,769

		Fair Value Measurements at Reporting Date Using:		
	December 31, 2013	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	$84,665	$84,665	$—	$—
U.S. government agency securities	48,627	—	48,627	—
Obligations of states and political subdivisions	37,700	—	37,700	—
Residential mortgage-backed securities	508,029	—	483,277	24,752
Trust preferred securities	19,215	—	15,444	3,771
Corporate and other debt securities	83,398	27,273	56,125	—
Equity securities	48,058	26,905	21,153	—
Total available for sale	829,692	138,843	662,326	28,523
Trading securities	14,264	—	14,264	—
Loans held for sale (1)	10,488	—	10,488	—
Other assets (2)	15,122	—	15,122	—
Total assets	$869,566	$138,843	$702,200	$28,523
Liabilities				
Other liabilities (2)	$20,586	$—	$20,586	$—
Total liabilities	$20,586	$—	$20,586	$—
Non-recurring fair value measurements:				
Collateral dependent impaired loans (3)	$35,700	$—	$—	$35,700
Loan servicing rights	3,677	—	—	3,677
Foreclosed assets (4)	25,929	—	—	25,929
Total	$65,306	$—	$—	$65,306

(1) Loans held for sale carried at fair value (which consist of residential mortgages) had contractual unpaid principal balances totaling approximately $8.0 million and $10.4 million at June 30, 2014 and December 31, 2013, respectively.

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

(3) Excludes PCI loans.

(4) Includes covered real estate owned totaling $2.8 million and $7.6 million at June 30, 2014 and December 31, 2013, respectively.

The changes in Level 3 assets measured at fair value on a recurring basis for the three and six months ended June 30, 2014 and 2013 are summarized below:

	Available for Sale Securities			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Balance, beginning of the period	$26,911	$77,920	$28,523	$71,674
Total net gains for the period included in other comprehensive income	174	3,406	222	11,439
Settlements	(1,056)	(2,214)	(2,716)	(4,001)
Balance, end of the period	$26,029	$79,112	$26,029	$79,112

No changes in unrealized losses on Level 3 securities held at June 30, 2014 and 2013 were included in earnings during the three and six months ended June 30, 2014 and 2013. There were also no transfers of assets between Level 1 and Level 2 during the three and six months ended June 30, 2014 and 2013.

There have been no material changes in the valuation methodologies used at June 30, 2014 from December 31, 2013.

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 and trading securities. All U.S. Treasury securities, certain corporate and other debt securities, and certain common and preferred equity securities (including certain trust preferred 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 June 30, 2014:

Security Type	Valuation Technique	Unobservable Input	Range	Weighted Average	
Private label mortgage-backed securities	Discounted cash flow	Prepayment rate	1.30 - 44.30	14.4	%
		Default rate	2.4 - 22.96	7.9	
		Loss severity	40.0 - 52.90	48.9	

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, 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 two pooled securities in the Level 3 available for sale trust preferred securities category, the resulting estimated future cash flows were discounted at a yield determined by reference to similarly structured securities for which observable orderly transactions occurred. The discount rate for each security was applied using a pricing matrix based on credit, security type and maturity characteristics to determine the fair value. The fair value calculations for both securities are received from an independent valuation advisor. In validating the fair value calculation from an independent valuation advisor, 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 June 30, 2014 and December 31, 2013 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 June 30, 2014), is determined based on the current market prices for similar instruments provided by Freddie Mac and Fannie Mae. 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 June 30, 2014 and December 31, 2013.

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, as well as 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.

Non-performing loans held for sale. At June 30, 2014, non-performing loans held for sale consisted of one commercial real estate loan that was transferred to the loans held for sale account during the first quarter of 2014. The fair value of the loan was determined using Level 2 inputs, and a third party broker was engaged to solicit interest from potential purchasers. The broker coordinated loan level due diligence with interested parties and established a formal bidding process in which each participant was required to provide an indicative non-binding bid. Based on the most recent bids received for this loan, Valley established the fair market value based on both qualitative and quantitative information received from the broker. The loan was re-measured and reported at fair value of $7.9 million at June 30, 2014 resulting in a write-down of $2.3 million charged to non-interest income during the three months ended June 30, 2014.

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 June 30, 2014, appraisals were discounted up to 26.4 percent based on specific market data by location and property type. During the quarter ended June 30, 2014, 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 $2.2 million and $3.2 million for the three and six months ended June 30, 2014, respectively. At June 30, 2014, collateral dependent impaired loans with a total recorded investment of $23.6 million were reduced by specific valuation allowance allocations totaling $1.9 million to a reported total net carrying amount of $21.7 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 June 30, 2014, the fair value model used prepayment speeds (stated as constant prepayment rates) from 0 percent up to 25 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 recognized net recoveries of impairment charges totaling $42 thousand and $142 thousand for the three and six months ended June 30, 2014, 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 of foreclosed assets discounted up to 12.0 percent at June 30, 2014. At June 30, 2014, foreclosed assets included $12.7 million of assets that were measured at fair value upon initial recognition or subsequently re-measured during the quarter ended June 30, 2014. The foreclosed assets charge-offs to the allowance for loan losses totaled $527 thousand and $2.0 million for the three and six months ended June 30, 2014, respectively. The re-measurement of foreclosed assets at fair value subsequent to their initial recognition resulted in a net loss of $75 thousand and $1.9 million within non-interest expense for the three and six months ended June 30, 2014, respectively.

Other Fair Value Disclosures

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets and liabilities carried at fair value for the three and six months ended June 30, 2014 and 2013:

Reported in Consolidated Statements of Financial Condition	Reported in Consolidated Statements of Income	Gains (Losses) on Change in Fair Value			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2014	2013	2014	2013
		(in thousands)			
Assets:					
Trading securities	Trading losses, net	$(34)	$(36)	$(43)	$(66)
Loans held for sale	Gains on sales of loans, net	679	14,366	1,592	29,426
Liabilities:					
Junior subordinated debentures issued to capital trusts	Trading losses, net	—	(234)	—	(2,406)
		$645	$14,096	$1,549	$26,954

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 June 30, 2014 and December 31, 2013 were as follows:

	Fair Value Hierarchy	June 30, 2014 Carrying Amount	Fair Value	December 31, 2013 Carrying Amount	Fair Value
		(in thousands)			
Financial assets					
Cash and due from banks	Level 1	$266,101	$266,101	$234,253	$234,253
Interest bearing deposits with banks	Level 1	40,580	40,580	134,915	134,915
Investment securities held to maturity:					
U.S. Treasury securities	Level 1	139,192	149,128	139,255	144,307
U.S. government agency securities	Level 2	14,346	14,718	4,427	4,365
Obligations of states and political subdivisions	Level 2	515,402	530,393	545,886	543,151
Residential mortgage-backed securities	Level 2	1,019,086	1,028,120	886,043	871,021
Trust preferred securities	Level 2	98,452	85,886	103,458	91,489
Corporate and other debt securities	Level 2	39,665	45,876	52,668	57,094
Total investment securities held to maturity		1,826,143	1,854,121	1,731,737	1,711,427
Net loans	Level 3	11,710,375	11,513,205	11,453,995	11,294,348
Accrued interest receivable	Level 1	53,650	53,650	53,964	53,964
Federal Reserve Bank and Federal Home Loan Bank stock (1)	Level 1	138,180	138,180	137,234	137,234
Financial liabilities					
Deposits without stated maturities	Level 1	9,224,563	9,224,563	9,139,993	9,139,993
Deposits with stated maturities	Level 2	2,191,489	2,254,453	2,179,269	2,206,427
Short-term borrowings	Level 1	354,230	354,230	281,455	281,455
Long-term borrowings	Level 2	2,797,986	3,040,487	2,792,306	3,036,953
Junior subordinated debentures issued to capital trusts	Level 2	41,171	45,191	41,089	45,261
Accrued interest payable (2)	Level 1	16,652	16,652	16,442	16,442

(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 non-covered loans (i.e., loans which are not subject to loss-sharing agreements with the FDIC) and covered loans (i.e., loans subject to loss-sharing agreements with the FDIC) 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 and FHLB stock are non-marketable equity securities and are reported at their redeemable carrying amounts, which approximate the 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 from time to time, federal funds purchased and FHLB borrowings) 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 not carried at fair value 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

As of June 30, 2014, Valley had approximately $1.8 billion, $783.2 million, and $14.2 million in held to maturity, available for sale, and trading investment securities, respectively. 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 three pooled trust preferred securities), corporate bonds primarily issued by banks, 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

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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. See the “Other-Than-Temporary Impairment Analysis” section below for further discussion.

Held to Maturity

The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at June 30, 2014 and December 31, 2013 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
June 30, 2014				
U.S. Treasury securities	$139,192	$9,936	$—	$149,128
U.S. government agency securities	14,346	372	—	14,718
Obligations of states and political subdivisions:				
Obligations of states and state agencies	198,610	7,056	(1,291)	204,375
Municipal bonds	316,792	10,441	(1,215)	326,018
Total obligations of states and political subdivisions	515,402	17,497	(2,506)	530,393
Residential mortgage-backed securities	1,019,086	20,233	(11,199)	1,028,120
Trust preferred securities	98,452	193	(12,759)	85,886
Corporate and other debt securities	39,665	6,213	(2)	45,876
Total investment securities held to maturity	$1,826,143	$54,444	$(26,466)	$1,854,121
December 31, 2013				
U.S. Treasury securities	$139,255	$5,567	$(515)	$144,307
U.S. government agency securities	4,427	—	(62)	4,365
Obligations of states and political subdivisions:				
Obligations of states and state agencies	192,653	1,944	(5,473)	189,124
Municipal bonds	353,233	6,053	(5,259)	354,027
Total obligations of states and political subdivisions	545,886	7,997	(10,732)	543,151
Residential mortgage-backed securities	886,043	12,609	(27,631)	871,021
Trust preferred securities	103,458	363	(12,332)	91,489
Corporate and other debt securities	52,668	4,426	—	57,094
Total investment securities held to maturity	$1,731,737	$30,962	$(51,272)	$1,711,427

The age of unrealized losses and fair value of related securities held to maturity at June 30, 2014 and December 31, 2013 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)					
June 30, 2014						
Obligations of states and political subdivisions:						
Obligations of states and state agencies	$10,364	$(12)	$46,593	$(1,279)	$56,957	$(1,291)
Municipal bonds	2,276	(9)	55,006	(1,206)	57,282	(1,215)
Total obligations of states and political subdivisions	12,640	(21)	101,599	(2,485)	114,239	(2,506)
Residential mortgage-backed securities	126,574	(1,558)	272,328	(9,641)	398,902	(11,199)
Trust preferred securities	9,800	(200)	56,009	(12,559)	65,809	(12,759)
Corporate and other debt securities	248	(2)	—	—	248	(2)
Total	$149,262	$(1,781)	$429,936	$(24,685)	$579,198	$(26,466)
December 31, 2013						
U.S. Treasury securities	$64,537	$(515)	$—	$—	$64,537	$(515)
U.S. government agency securities	4,365	(62)	—	—	4,365	(62)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	80,612	(5,473)	—	—	80,612	(5,473)
Municipal bonds	85,988	(5,154)	1,326	(105)	87,314	(5,259)
Total obligations of states and political subdivisions	166,600	(10,627)	1,326	(105)	167,926	(10,732)
Residential mortgage-backed securities	465,400	(27,631)	—	—	465,400	(27,631)
Trust preferred securities	9,750	(250)	56,480	(12,082)	66,230	(12,332)
Total	$710,652	$(39,085)	$57,806	$(12,187)	$768,458	$(51,272)

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. The total number of security positions in the securities held to maturity portfolio in an unrealized loss position at June 30, 2014 was 80 as compared to 133 at December 31, 2013.

The increase in the level of long-term market interest rates since the second half of 2013 materially decreased the fair value of lower yielding obligations of states and political subdivisions and residential mortgage-backed securities classified as held to maturity. The investments in obligations of states and political subdivisions are all investment grade with no bankruptcies or defaults. The unrealized losses for the residential mortgage-backed securities category of the held to maturity portfolio at June 30, 2014 relate to investment grade mortgage-backed securities issued or guaranteed by Ginnie Mae and government sponsored enterprises.

The unrealized losses for trust preferred securities at June 30, 2014 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 June 30, 2014. Management does not believe that any individual unrealized loss as of June 30, 2014 included in the table above represents other-than-temporary impairment as management mainly attributes the declines in fair value to changes in interest rates, widening credit spreads, and lack of liquidity in the market place, credit losses or other factors. Based on a

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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 June 30, 2014, 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 $925.9 million.

The contractual maturities of investments in debt securities held to maturity at June 30, 2014 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.

	June 30, 2014	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$80,902	$80,962
Due after one year through five years	37,304	42,340
Due after five years through ten years	329,793	346,954
Due after ten years	359,058	355,745
Residential mortgage-backed securities	1,019,086	1,028,120
Total investment securities held to maturity	$1,826,143	$1,854,121

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 8.0 years at June 30, 2014.

Available for Sale

The amortized cost, gross unrealized gains and losses and fair value of securities available for sale at June 30, 2014 and December 31, 2013 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
June 30, 2014				
U.S. Treasury securities	$99,831	$—	$(7,944)	$91,887
U.S. government agency securities	45,557	796	(312)	46,041
Obligations of states and political subdivisions:				
Obligations of states and state agencies	11,278	—	(322)	10,956
Municipal bonds	27,656	95	(692)	27,059
Total obligations of states and political subdivisions	38,934	95	(1,014)	38,015
Residential mortgage-backed securities	481,781	4,239	(7,888)	478,132
Trust preferred securities*	23,263	323	(2,936)	20,650
Corporate and other debt securities	83,108	2,029	(601)	84,536
Equity securities	23,071	1,457	(584)	23,944
Total investment securities available for sale	$795,545	$8,939	$(21,279)	$783,205
December 31, 2013				
U.S. Treasury securities	$99,835	$—	$(15,170)	$84,665
U.S. government agency securities	48,407	923	(703)	48,627
Obligations of states and political subdivisions:				
Obligations of states and state agencies	11,441	—	(798)	10,643
Municipal bonds	27,671	751	(1,365)	27,057
Total obligations of states and political subdivisions	39,112	751	(2,163)	37,700
Residential mortgage-backed securities	524,781	3,967	(20,719)	508,029
Trust preferred securities*	23,333	113	(4,231)	19,215
Corporate and other debt securities	83,819	1,682	(2,103)	83,398
Equity securities	47,617	1,614	(1,173)	48,058
Total investment securities available for sale	$866,904	$9,050	$(46,262)	$829,692

* Includes three pooled trust preferred securities, principally collateralized by securities issued by banks and insurance companies.

The age of unrealized losses and fair value of related securities available for sale at June 30, 2014 and December 31, 2013 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)					
June 30, 2014						
U.S. Treasury securities	$—	$—	$91,887	$(7,944)	$91,887	$(7,944)
U.S. government agency securities	—	—	20,892	(312)	20,892	(312)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	—	—	10,956	(322)	10,956	(322)
Municipal bonds	10,781	(473)	14,575	(219)	25,356	(692)
Total obligations of states and political subdivisions	10,781	(473)	25,531	(541)	36,312	(1,014)
Residential mortgage-backed securities	27,250	(658)	300,710	(7,230)	327,960	(7,888)
Trust preferred securities	850	(1)	15,351	(2,935)	16,201	(2,936)
Corporate and other debt securities	10,512	(23)	28,943	(578)	39,455	(601)
Equity securities	46	(2)	15,063	(582)	15,109	(584)
Total	$49,439	$(1,157)	$498,377	$(20,122)	$547,816	$(21,279)
December 31, 2013						
U.S. Treasury securities	$84,665	$(15,170)	$—	$—	$84,665	$(15,170)
U.S. government agency securities	26,402	(703)	—	—	26,402	(703)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	10,598	(798)	—	—	10,598	(798)
Municipal bonds	13,461	(1,365)	—	—	13,461	(1,365)
Total obligations of states and political subdivisions	24,059	(2,163)	—	—	24,059	(2,163)
Residential mortgage-backed securities	368,306	(18,434)	24,734	(2,285)	393,040	(20,719)
Trust preferred securities	2,024	(25)	15,022	(4,206)	17,046	(4,231)
Corporate and other debt securities	53,654	(2,073)	2,471	(30)	56,125	(2,103)
Equity securities	223	(6)	14,248	(1,167)	14,471	(1,173)
Total	$559,333	$(38,574)	$56,475	$(7,688)	$615,808	$(46,262)

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 June 30, 2014 was 87 as compared to 99 at December 31, 2013.

The unrealized losses within the residential mortgage-backed securities category of the available for sale portfolio at June 30, 2014 largely related to several investment grade residential mortgage-backed securities mainly issued by Ginnie Mae. The unrealized losses for more than twelve months also include $407 thousand related to four non-investment grade private label mortgage-backed securities (including three of the five private label mortgage-backed securities that were previously other-than-temporarily impaired prior to December 31, 2012).

The unrealized losses for trust preferred securities at June 30, 2014 for more than twelve months in the table above largely relate to 3 pooled trust preferred securities with an amortized cost of $13.5 million and a fair value of $11.1 million. The three pooled trust preferred securities included one security with an unrealized loss of $1.5 million and an investment grade rating at June 30, 2014. The other two pooled trust preferred securities had non-investment grade

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ratings and were initially other-than-temporarily impaired in 2008 with additional estimated credit losses recognized during the period 2009 through 2011. All of the single-issuer trust preferred securities are paying in accordance with their terms and have no deferrals of interest or defaults and, if applicable, meet the regulatory capital requirements to be considered “well-capitalized institutions” at June 30, 2014.

Management does not believe that any individual unrealized loss as of June 30, 2014 represents an other-than-temporary impairment, as management mainly attributes the declines in value to changes in interest rates and recent market volatility and wider credit spreads, credit losses 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 has no 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, if necessary, maturity.

As of June 30, 2014, 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 $525.3 million.

The contractual maturities of investment securities available for sale at June 30, 2014 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.

	June 30, 2014	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$115	$115
Due after one year through five years	74,141	75,773
Due after five years through ten years	85,769	82,334
Due after ten years	130,668	122,907
Residential mortgage-backed securities	481,781	478,132
Equity securities	23,071	23,944
Total investment securities available for sale	$795,545	$783,205

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 June 30, 2014 was 5.2 years.

Other-Than-Temporary Impairment Analysis

To determine whether a security's impairment is other-than-temporary, Valley considers several factors that include, but are not limited to the following:

- The severity and duration of the decline, including the causes of the decline in fair value, such as an issuer's credit problems, interest rate fluctuations, or market volatility;
- Adverse conditions specifically related to the issuer of the security, an industry, or geographic area;
- Failure of the issuer of the security to make scheduled interest or principal payments;
- Any changes to the rating of the security by a rating agency or, if applicable, any regulatory actions impacting the security issuer;
- Recoveries or additional declines in fair value after the balance sheet date;
- Our ability and intent to hold equity security investments until they recover in value, as well as the likelihood of such a recovery in the near term; and
- Our intent to sell debt security investments, or if it is more likely than not that we will be required to sell such securities before recovery of their individual amortized cost basis.

For debt securities, the primary consideration in determining whether impairment is other-than-temporary is whether or not we expect to collect all contractual cash flows.

In assessing the level of other-than-temporary impairment attributable to credit loss for debt securities, Valley compares the present value of cash flows expected to be collected with the amortized cost basis of the security. The portion of the total other-than-temporary impairment related to credit loss is recognized in earnings, while the amount related to other factors is recognized in other comprehensive income or loss. The total other-than-temporary impairment loss is presented in the consolidated statements of income, less the portion recognized in other comprehensive income or loss. Subsequent assessments may result in additional estimated credit losses on previously impaired securities. These additional estimated credit losses are recorded as reclassifications from the portion of other-than-temporary impairment previously recognized in other comprehensive income or loss to earnings in the period of such assessments. The amortized cost basis of an impaired debt security is reduced by the portion of the total impairment related to credit loss.

At June 30, 2014, approximately 53 percent of the $553.4 million carrying value of obligations of states and political subdivisions were issued by the states of (or municipalities within) New Jersey, New York and Pennsylvania. The obligations of states and political subdivisions mainly consist of general obligation bonds and, to a much lesser extent, special revenue bonds which had an aggregated amortized cost and fair value of $18.4 million and $19.0 million, respectively, at June 30, 2014. The special revenue bonds were mainly issued by the Port Authorities of New York and New Jersey, as well as various school districts. The gross unrealized losses associated with the obligations of states and political subdivisions totaling $3.5 million as of June 30, 2014 were primarily driven by changes in interest rates and not due to the credit quality of the issuer. Substantially all of these investments are investment grade. The securities were generally underwritten in accordance with Valley's investment standards prior to the decision to purchase. As part of Valley's pre-purchase analysis and on-going quarterly assessment of impairment of the obligations of states and political subdivisions, our Credit Risk Management (CRM) Department conducts an independent financial analysis and risk rating assessment of each security issuer based on the issuer's most recently issued financial statements and other publicly available information. The internal risk rating was developed by CRM using a risk acceptance criteria (RAC) score which considers a multitude of credit factors, including the issuer's operating results, debt levels, liquidity and debt service capacity. The analysis of debt levels includes unfunded liabilities and assesses these obligations relative to the economy and aggregate debt burden on a per capita basis, if applicable. The RAC score is used as a guideline by CRM for determining the final internal risk rating assigned to the issuer. CRM also obtains the external credit rating agencies' debt ratings for the issuer and incorporates the lowest external debt rating in the RAC score. Specifically, the external debt rating is one of eight credit factors assessed in the development of the RAC score and represents, along with the rating agency outlook for the issuer, 25 percent of the final composite RAC score. As a result, Valley does not solely rely on external credit ratings in determining its final internal risk rating. For many securities, Valley believes the

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external credit ratings may not accurately reflect the actual credit quality of the security and therefore should not be viewed in isolation as a measure of the quality of our investments. Additionally, CRM does not consider potential credit support offered by insurance guarantees on certain bond securities in determining the internal risk rating, either at the date of the pre-purchase investment analysis or in subsequent assessments of impairment. Obligations of states and political subdivisions will continue to be monitored as part of our ongoing impairment analysis, and as of June 30, 2014 are expected to perform in accordance with their contractual terms. As a result, Valley expects to recover the entire amortized cost basis of these securities.
For residential mortgage-backed securities, Valley estimates loss projections for each security by stressing the cash flows from the individual loans collateralizing the security using expected default rates, loss severities, and prepayment speeds, in conjunction with the underlying credit enhancement (if applicable) for each security. Based on collateral and origination vintage specific assumptions, a range of possible cash flows is identified to determine whether other-than-temporary impairment exists. No other-than-temporary impairment losses were recognized as a result of our impairment analysis of these securities at June 30, 2014.

For the single-issuer trust preferred securities and corporate and other debt securities, Valley reviews each portfolio to determine if all the securities are paying in accordance with their terms and have no deferrals of interest or defaults. Over the past several years, an increasing number of banking institutions have been required to defer trust preferred payments and various banking institutions have been put in receivership by the FDIC. A deferral event by a bank holding company for which Valley holds trust preferred securities may require the recognition of an other-than-temporary impairment charge if Valley determines that it is more likely than not that all contractual interest and principal cash flows may not be collected. Among other factors, the probability of the collection of all interest and principal determined by Valley in its impairment analysis declines if there is an increase in the estimated deferral period of the issuer. Additionally, a FDIC receivership for any single-issuer would result in an impairment and significant loss. Including the other factors outlined above, Valley analyzes the performance of the issuers on a quarterly basis, including a review of performance data from the issuers' most recent bank regulatory report, if applicable, to assess their credit risk and the probability of impairment of the contractual cash flows of the applicable security. All of the issuers had capital ratios at June 30, 2014 that were at or above the minimum amounts required to be considered a "well-capitalized" financial institution, if applicable, and/or have maintained performance levels adequate to support the contractual cash flows of the trust preferred securities.
For the three pooled trust preferred securities, Valley evaluates the projected cash flows from each of its tranches in the three securities to determine if they are adequate to support their future contractual principal and interest payments. Valley assesses the credit risk and probability of impairment of the contractual cash flows by projecting the default rates over the life of the security. Higher projected default rates will decrease the expected future cash flows from each security. If the projected decrease in cash flows affects the cash flows projected for the tranche held by Valley, the security would be considered to be other-than-temporarily impaired. Two of the pooled trust preferred securities were initially impaired in 2008 with additional estimated credit losses recognized during 2009 and 2011, and are not accruing interest.
The perpetual preferred securities, reported in equity securities, are hybrid investments that are assessed for impairment by Valley as if they were debt securities. Therefore, Valley assessed the creditworthiness of each security issuer, as well as any potential change in the anticipated cash flows of the securities as of June 30, 2014. Based on this analysis, management believes the declines in fair value of these securities are attributable to a lack of liquidity in the marketplace and are not reflective of any deterioration in the creditworthiness of the issuers.

Other-Than-Temporarily Impaired Securities

There were no other-than-temporary impairment losses on securities recognized in earnings for the three and six months ended June 30, 2014 and 2013. At June 30, 2014, five previously impaired private label mortgage-backed securities (prior to December 31, 2012) had a combined amortized cost and fair value of $21.8 million and $21.5 million, respectively, while two previously impaired pooled trust preferred securities had a combined amortized cost and fair value of $5.4 million and $4.5 million, respectively. The pooled trust preferred securities were not accruing interest as of June 30, 2014.

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 six months ended June 30, 2014 and 2013 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Sales transactions:				
Gross gains	$—	$1	$—	$3,381
Maturities and other securities transactions:				
Gross gains	$7	$41	$8	$649
Gross losses	—	(1)	(9)	(31)
	$7	$40	$(1)	$618
Total gains (losses) on securities transactions, net	$7	$41	$(1)	$3,999

Valley recognized gross gains from sales transactions totaling $3.4 million (as shown in the table above) for the six months ended June 30, 2013 primarily due to the sales of zero percent yielding Freddie Mac and Fannie Mae perpetual preferred stock with amortized cost totaling $941 thousand.

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 recognized in earnings, for which a portion of the impairment loss (non-credit factors) was recognized in other comprehensive income for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Balance, beginning of period	$9,792	$33,177	$9,990	$33,290
Accretion of credit loss impairment due to an increase in expected cash flows	(110)	(75)	(308)	(188)
Balance, end of period	$9,682	$33,102	$9,682	$33,102

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. Other-than-temporary impairments recognized in earnings for credit impaired debt securities are presented as additions in two components based upon whether the current period is the first time the debt security was credit impaired (initial credit impairment) or is not the first time the debt security was credit impaired (subsequent credit impairment). The credit loss component is reduced if Valley sells, intends to sell or believes it will be required to sell previously credit impaired debt securities. Additionally, 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 or (iii) the security is fully written down.

Trading Securities

The fair value of trading securities (consisting of 2 single-issuer bank trust preferred securities) was $14.2 million and $14.3 million at June 30, 2014 and December 31, 2013, respectively. Interest income on trading securities totaled $291 thousand and $413 thousand for the three months ended June 30, 2014 and 2013, respectively, and $581 thousand and $855 thousand for the six months ended June 30, 2014 and 2013, respectively.

Note 8. Loans

The detail of the loan portfolio as of June 30, 2014 and December 31, 2013 was as follows:

	June 30, 2014			December 31, 2013		
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
	(in thousands)					
Non-covered loans:						
Commercial and industrial	$1,910,990	$153,761	$2,064,751	$1,820,136	$174,948	$1,995,084
Commercial real estate:						
Commercial real estate	4,707,209	393,233	5,100,442	4,521,920	459,755	4,981,675
Construction	396,962	16,300	413,262	406,877	22,354	429,231
Total commercial real estate loans	5,104,171	409,533	5,513,704	4,928,797	482,109	5,410,906
Residential mortgage	2,447,974	13,542	2,461,516	2,485,239	14,726	2,499,965
Consumer:						
Home equity	400,303	36,057	436,360	410,875	38,134	449,009
Automobile	1,021,782	—	1,021,782	901,399	—	901,399
Other consumer	252,603	159	252,762	214,898	186	215,084
Total consumer loans	1,674,688	36,216	1,710,904	1,527,172	38,320	1,565,492
Total non-covered loans	11,137,823	613,052	11,750,875	10,761,344	710,103	11,471,447
Covered loans:						
Commercial and industrial	—	15,861	15,861	—	26,249	26,249
Commercial real estate	—	38,738	38,738	—	61,494	61,494
Residential mortgage	—	7,448	7,448	—	7,623	7,623
Consumer	—	506	506	—	799	799
Total covered loans	—	62,553	62,553	—	96,165	96,165
Total loans	$11,137,823	$675,605	$11,813,428	$10,761,344	$806,268	$11,567,612

Total non-covered loans are net of unearned discount and deferred loan fees totaling $7.3 million and $5.6 million at June 30, 2014 and December 31, 2013, respectively. The outstanding balances (representing contractual balances owed to Valley) for non-covered PCI loans and covered loans totaled $666.4 million and $92.6 million at June 30, 2014, respectively, and $796.1 million and $227.2 million at December 31, 2013, respectively.

During the first quarter of 2014, we elected to transfer certain non-performing loans totaling $35.6 million from the non-covered loan portfolio (primarily within the commercial real estate loan and commercial and industrial loan categories) to loans held for sale. With the exception of one loan held for sale at June 30, 2014, all of the transferred loans were sold during the second quarter of 2014. There were no other sales of loans from the held for investment portfolio during the three and six months ended June 30, 2014 and 2013.

Purchased Credit-Impaired Loans (Including Covered Loans)

Purchased credit-impaired (PCI) loans, which include loans acquired in FDIC-assisted transactions (“covered loans”) subject to loss-sharing agreements, are acquired at a discount that is due, in part, to credit quality. PCI loans are accounted for in accordance with ASC Subtopic 310-30 and are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses), and aggregated and accounted for as pools of loans based on common risk characteristics. The difference between the undiscounted cash flows expected at acquisition and the initial carrying amount (fair value) of the PCI loans, or the “accretable yield,” is recognized as interest income utilizing the level-yield method over the life of each pool.

Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "non-accretable difference," are not recognized as a yield adjustment, as a loss accrual or a valuation allowance. Reclassifications of the non-accretable difference to the accretable yield may occur subsequent to the loan acquisition dates due to increases in expected cash flows of the loan pools.

The following table presents changes in the accretable yield for PCI loans during the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Balance, beginning of period	$209,865	$153,138	$223,799	$169,309
Accretion	(17,509)	(17,639)	(31,443)	(33,874)
Net (decrease) increase in expected cash flows	(70,014)	120,884	(70,014)	120,948
Balance, end of period	$122,342	$256,383	$122,342	$256,383

The net (decrease) increase in expected cash flows for certain pools of loans (included in the table above) is recognized prospectively as an adjustment to the yield over the life of the individual pools. The net decrease during the three and six months ended June 30, 2014 was mainly due to an increase in the expected repayment speeds for certain pools of non-covered PCI loans during the second quarter of 2014. Conversely, the net increase during the three and six months ended June 30, 2013 was largely due to additional cash flows caused by longer than originally expected durations for other pools of non-covered PCI loans. Based upon the re-forecasted cash flows, the average expected life of the non-covered PCI loans (which represented almost 91 percent of total PCI loans at June 30, 2014) decreased to 2.2 years years during the second quarter of 2014 from approximately 4 years years last forecasted during the second quarter of 2013.

FDIC Loss-Share Receivable

The receivable arising from the loss-sharing agreements (referred to as the "FDIC loss-share receivable" on our consolidated statements of financial condition) 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.

Changes in the FDIC loss-share receivable for the three and six months ended June 30, 2014 and 2013 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Balance, beginning of the period	$31,257	$43,413	$32,757	$44,996
Discount accretion of the present value at the acquisition dates	12	32	23	65
Effect of additional cash flows on covered loans (prospective recognition)	(2,104)	(3,467)	(3,960)	(4,949)
Decrease in the provision for losses on covered loans	(4,417)	(105)	(4,417)	(2,783)
Other reimbursable expenses	990	1,540	1,503	2,492
(Reimbursements from) payments to the FDIC	(2,859)	(727)	(4,283)	865
Other	(2,192)	—	(936)	—
Balance, end of the period	$20,687	$40,686	$20,687	$40,686

The aggregate effect of changes in the FDIC loss-share receivable was a reduction in non-interest income of $7.7 million and $2.0 million for the three months ended June 30, 2014 and 2013, respectively, and a reduction of $7.8 million and $5.2 million to non-interest income for the six months ended June 30, 2014 and 2013, respectively. During the three months ended June 30, 2014, the FDIC loss-share receivable was reduced by $2.2 million (as shown in the "other" category in the table above) due to the FDIC's portion of loan recoveries related to closed (or zero-balance) loan pools.

Loan Portfolio Risk Elements and Credit Risk Management

Credit risk management. For all of its loan types discussed below, Valley adheres to a credit policy designed to minimize credit risk while generating the maximum income given the level of risk. Management reviews and approves these policies and procedures on a regular basis with subsequent approval by the Board of Directors annually. Credit authority relating to a significant dollar percentage of the overall portfolio is centralized and controlled by the Credit Risk Management Division and by the Credit Committee. A reporting system supplements the management review process by providing management with frequent reports concerning loan production, loan quality, 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.

Commercial and industrial loans. A significant proportion of Valley's commercial and industrial loan portfolio is granted to long-standing customers of proven ability and strong repayment performance. Underwriting standards are designed to assess the borrower's ability to generate recurring cash flow sufficient to meet the debt service requirements of loans granted. While such recurring cash flow serves as the primary source of repayment, a significant number of the loans are collateralized by borrower assets intended to serve as a secondary source of repayment should the need arise. Anticipated cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value, or in the case of loans secured by accounts receivable, the ability of the borrower to collect all amounts due from its customers. Short-term loans may be made on an unsecured basis based on a borrower's financial strength and past performance. Valley, in most cases, will obtain the personal guarantee of the borrower's principals to mitigate the risk. Unsecured loans, when made, are generally granted to the Bank's most credit worthy borrowers. Unsecured commercial and industrial loans totaled $312.8 million and $314.6 million at June 30, 2014 and December 31, 2013, respectively.

Commercial real estate loans. Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans. Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real property. Loans generally involve larger principal balances and longer repayment periods as compared to commercial and industrial loans. Repayment of most loans is dependent upon the cash flow generated from the property securing the loan or the business that occupies the property. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy and accordingly conservative loan to value ratios are required at origination, as well as stress tested to evaluate the impact of market changes relating to key underwriting elements. The properties securing the commercial real estate portfolio represent diverse types, with most properties located within Valley's primary markets.

Construction loans. With respect to loans to developers and builders, Valley originates and manages construction loans structured on either a revolving or non-revolving basis, depending on the nature of the underlying development project. These loans are generally secured by the real estate to be developed and may also be secured by additional real estate to mitigate the risk. Non-revolving construction loans often involve the disbursement of substantially all committed funds with repayment substantially dependent on the successful completion and sale, or lease, of the project. Sources of repayment for these types of loans may be from pre-committed permanent loans from other lenders, sales of developed property, or an interim loan commitment from Valley until permanent financing is obtained elsewhere. Revolving construction loans (generally relating to single-family residential construction) are controlled with loan advances dependent upon the pre-sale of housing units financed. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

Residential mortgages. Valley originates residential, first mortgage loans based on underwriting standards that generally comply with Fannie Mae and/or Freddie Mac requirements. Appraisals and valuations of real estate collateral are contracted directly with independent appraisers or from valuation services and not through appraisal management companies. The Bank's appraisal management policy and procedure is in accordance with regulatory requirements and guidance issued by the Bank's primary regulator. Credit scoring, using FICO® and other proprietary credit scoring models, is employed in the ultimate, judgmental credit decision by Valley's underwriting staff. Valley does not use third party contract underwriting services. Residential mortgage loans include fixed and variable interest rate loans secured by one to four family homes generally located in northern and central New Jersey, the New York City metropolitan area, and eastern Pennsylvania. Valley's ability to be repaid on such loans is closely linked to the economic and real estate market conditions in this region. In deciding whether to originate each residential mortgage, Valley considers the qualifications of the borrower as well as the value of the underlying property.

Home equity loans. Home equity lending consists of both fixed and variable interest rate products. Valley mainly provides home equity loans to its residential mortgage customers within the footprint of its primary lending territory. Valley generally will not exceed a combined (i.e., first and second mortgage) loan-to-value ratio of 75 percent when originating a home equity loan.

Automobile loans. Valley uses both judgmental and scoring systems in the credit decision process for automobile loans. Automobile originations (including light truck and sport utility vehicles) are largely produced via indirect channels, originated through approved automobile dealers. Automotive collateral is generally a depreciating asset and there are times in the life of an automobile loan where the amount owed on a vehicle may exceed its collateral value. Additionally, automobile charge-offs will vary based on strength or weakness in the used vehicle market, original advance rate, when in the life cycle of a loan a default occurs and the condition of the collateral being liquidated. Where permitted by law, and subject to the limitations of the bankruptcy code, deficiency judgments are sought and acted upon to ultimately collect all money owed, even when a default resulted in a loss at collateral liquidation. Valley uses a third party to actively track collision and comprehensive risk insurance required of the borrower on the automobile and this third party provides coverage to Valley in the event of an uninsured collateral loss.

Other consumer loans. Valley's other consumer loan portfolio includes direct consumer term loans, both secured and unsecured. The other consumer loan portfolio includes exposures in credit card loans, personal lines of credit, personal loans and loans secured by cash surrender value of life insurance. Valley believes the aggregate risk exposure of these loans and lines of credit was not significant at June 30, 2014. Unsecured consumer loans totaled approximately $32.4 million and $21.4 million, including $7.6 million and $8.3 million of credit card loans, at June 30, 2014 and December 31, 2013, respectively.

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 June 30, 2014 and December 31, 2013:

	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)						
June 30, 2014							
Commercial and industrial	$4,918	$783	$ 450	$ 8,096	$14,247	$1,896,743	$1,910,990
Commercial real estate:							
Commercial real estate	3,493	57	2,212	32,507	38,269	4,668,940	4,707,209
Construction	3,988	5,332	—	6,534	15,854	381,108	396,962
Total commercial real estate loans	7,481	5,389	2,212	39,041	54,123	5,050,048	5,104,171
Residential mortgage	7,865	1,989	546	19,190	29,590	2,418,384	2,447,974
Consumer loans:							
Home equity	727	327	—	1,985	3,039	397,264	400,303
Automobile	2,190	320	144	121	2,775	1,019,007	1,021,782
Other consumer	433	141	17	—	591	252,012	252,603
Total consumer loans	3,350	788	161	2,106	6,405	1,668,283	1,674,688
Total	$23,614	$8,949	$ 3,369	$ 68,433	$104,365	$11,033,458	$11,137,823
December 31, 2013							
Commercial and industrial	$6,398	$571	$ 233	$ 21,029	$28,231	$1,791,905	$1,820,136
Commercial real estate:							
Commercial real estate	9,142	2,442	7,591	43,934	63,109	4,458,811	4,521,920
Construction	1,186	4,577	—	8,116	13,879	392,998	406,877
Total commercial real estate loans	10,328	7,019	7,591	52,050	76,988	4,851,809	4,928,797
Residential mortgage	6,595	1,939					