BankUnited, Inc.
Form 10-Q
November 07, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016
OR
o 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: 001-35039

BankUnited, Inc.
(Exact name of registrant as specified in its charter)

Delaware	27-0162450
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

14817 Oak Lane, Miami Lakes, FL	33016
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (305) 569-2000

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 for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

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 ý No o

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.

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

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

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

Class	November 4, 2016
Common Stock, $0.01 Par Value	104,140,995

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For the Quarter Ended September 30, 2016
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GLOSSARY OF DEFINED TERMS

The following acronyms and terms may be used throughout this Form 10-Q, including the consolidated financial statements and related notes.

ACI	Loans acquired with evidence of deterioration in credit quality since origination (Acquired Credit Impaired)
ALCO	Asset/Liability Committee
ALLL	Allowance for loan and lease losses
AOCI	Accumulated other comprehensive income
ARM	Adjustable rate mortgage
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
BKU	BankUnited, Inc.
BankUnited	BankUnited, National Association
The Bank	BankUnited, National Association
Bridge	Bridge Funding Group, Inc.
CET1	Common Equity Tier 1 risk-based capital
CECL	Current expected credit losses
CMOs	Collateralized mortgage obligations
Commercial Shared-Loss Agreement	A commercial and other loans shared-loss agreement entered into with the FDIC in connection with the FSB Acquisition
Covered assets	Assets covered under the Loss Sharing Agreements
Covered loans	Loans covered under the Loss Sharing Agreements
EVE	Economic value of equity
FASB	Financial Accounting Standards Board
FDIA	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank
FRB	Federal Reserve Bank
FSB Acquisition	Acquisition of substantially all of the assets and assumption of all of the non-brokered deposits and substantially all of the other liabilities of BankUnited, FSB from the FDIC on May 21, 2009
GAAP	U.S. generally accepted accounting principles
GDP	Gross Domestic Product
HAMP	Home Affordable Modification Program
IPO	Initial public offering
ISDA	International Swaps and Derivatives Association
LIBOR	London InterBank Offered Rate
Loss Sharing Agreements	Two loss sharing agreements entered into with the FDIC in connection with the FSB Acquisition
LTV	Loan-to-value
MBS	Mortgage-backed securities
MSA	Metropolitan Statistical Area
MSRs	Mortgage servicing rights
New Loans	Loans originated or purchased since the FSB Acquisition
Non-ACI	Loans acquired without evidence of deterioration in credit quality since origination
OCC	Office of the Comptroller of the Currency
OREO	Other real estate owned

OTTI	Other-than-temporary impairment
PSU	Performance Unit
Pinnacle	Pinnacle Public Finance, Inc.
Re-Remics	Resecuritized real estate mortgage investment conduits
RSU	Restricted Share Unit
SBA	Small Business Administration
SBF	Small Business Finance Unit
SEC	Securities and Exchange Commission
Single Family Shared-Loss Agreement	A single-family loan shared-loss agreement entered into with the FDIC in connection with the FSB Acquisition
TDR	Troubled-debt restructuring
UCBL	United Capital Business Lending, Inc.
UPB	Unpaid principal balance
VIEs	Variable interest entities
2010 Plan	2010 Omnibus Equity Incentive Plan
2014 Plan	2014 Omnibus Equity Incentive Plan

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
BANKUNITED, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - UNAUDITED
(In thousands, except share and per share data)

	September 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks:		
Non-interest bearing	$32,531	$31,515
Interest bearing	92,763	39,613
Interest bearing deposits at Federal Reserve Bank	132,706	192,366
Federal funds sold	3,954	4,006
Cash and cash equivalents	261,954	267,500
Investment securities available for sale, at fair value	5,948,061	4,859,539
Investment securities held to maturity	10,000	10,000
Non-marketable equity securities	283,422	219,997
Loans held for sale	42,393	47,410
Loans (including covered loans of $669,276 and $809,540)	19,042,603	16,636,603
Allowance for loan and lease losses	(154,476)	(125,828)
Loans, net	18,888,127	16,510,775
FDIC indemnification asset	582,931	739,880
Bank owned life insurance	236,540	225,867
Equipment under operating lease, net	515,913	483,518
Deferred tax asset, net	58,334	105,577
Goodwill and other intangible assets	78,116	78,330
Other assets	359,223	335,074
Total assets	$27,265,014	$23,883,467
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Demand deposits:		
Non-interest bearing	$2,981,602	$2,874,533
Interest bearing	1,483,900	1,167,537
Savings and money market	8,516,400	8,288,340
Time	5,854,407	4,608,091
Total deposits	18,836,309	16,938,501
Federal Home Loan Bank advances	5,219,125	4,008,464
Notes and other borrowings	402,786	402,545
Other liabilities	433,704	290,059
Total liabilities	24,891,924	21,639,569
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $0.01 per share, 400,000,000 shares authorized; 104,141,425 and 103,626,255 shares issued and outstanding	1,041	1,036
Paid-in capital	1,420,622	1,406,786
Retained earnings	908,897	813,894

Accumulated other comprehensive income	42,530	22,182
Total stockholders' equity	2,373,090	2,243,898
Total liabilities and stockholders' equity	$27,265,014	$23,883,467

The accompanying notes are an integral part of these consolidated financial statements.
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BANKUNITED, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest income:				
Loans	$227,233	$190,294	$662,439	$545,683
Investment securities	39,712	30,889	109,963	85,393
Other	3,036	2,715	8,850	7,338
Total interest income	269,981	223,898	781,252	638,414
Interest expense:				
Deposits	30,968	23,959	86,427	65,818
Borrowings	17,278	10,988	51,939	29,939
Total interest expense	48,246	34,947	138,366	95,757
Net interest income before provision for loan losses	221,735	188,951	642,886	542,657
Provision for (recovery of) loan losses (including $(445), $1,073, ($1,119) and $667 for covered loans)	24,408	17,819	42,449	34,387
Net interest income after provision for loan losses	197,327	171,132	600,437	508,270
Non-interest income:				
Income from resolution of covered assets, net	8,883	12,364	26,426	41,261
Net gain (loss) on FDIC indemnification	993	(15,988)	(9,410)	(53,024)
Service charges and fees	5,171	4,637	14,529	13,580
Gain (loss) on sale of loans, net (including gain (loss) related to covered loans of $(10,033), $9,288, $(14,895) and $26,711)	(7,947)	11,301	(7,360)	29,690
Gain on investment securities available for sale, net	3,008	2,343	10,065	5,493
Lease financing	11,188	12,673	32,762	25,954
Other non-interest income	3,779	3,843	10,118	10,018
Total non-interest income	25,075	31,173	77,130	72,972
Non-interest expense:				
Employee compensation and benefits	55,162	55,316	166,374	156,640
Occupancy and equipment	18,488	19,103	56,263	56,207
Amortization of FDIC indemnification asset	38,957	28,409	116,711	76,874
Deposit insurance expense	4,943	3,615	12,866	9,696
Professional fees	3,884	4,095	10,119	10,073
Telecommunications and data processing	3,746	3,451	10,800	10,267
Depreciation of equipment under operating lease	6,855	5,012	20,004	12,522
Other non-interest expense	15,969	13,268	41,087	37,582
Total non-interest expense	148,004	132,269	434,224	369,861
Income before income taxes	74,398	70,036	243,343	211,381
Provision (benefit) for income taxes	23,550	(32,267)	80,896	15,984
Net income	$50,848	$102,303	$162,447	$195,397
Earnings per common share, basic (see Note 2)	$0.47	$0.96	$1.52	$1.84
Earnings per common share, diluted (see Note 2)	$0.47	$0.95	$1.50	$1.83
Cash dividends declared per common share	$0.21	$0.21	$0.63	$0.63

The accompanying notes are an integral part of these consolidated financial statements.
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BANKUNITED, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME - UNAUDITED
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$50,848	$102,303	$162,447	$195,397
Other comprehensive income, net of tax:				
Unrealized gains on investment securities available for sale:				
Net unrealized holding gain (loss) arising during the period	3,216	(5,281)	53,490	(3,436)
Reclassification adjustment for net securities gains realized in income	(1,820)	(1,417)	(6,090)	(3,323)
Net change in unrealized gains on securities available for sale	1,396	(6,698)	47,400	(6,759)
Unrealized losses on derivative instruments:				
Net unrealized holding gain (loss) arising during the period	5,055	(18,139)	(34,948)	(21,206)
Reclassification adjustment for net losses realized in income	2,264	4,222	7,896	12,132
Net change in unrealized losses on derivative instruments	7,319	(13,917)	(27,052)	(9,074)
Other comprehensive income (loss)	8,715	(20,615)	20,348	(15,833)
Comprehensive income	$59,563	$81,688	$182,795	$179,564

The accompanying notes are an integral part of these consolidated financial statements.

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BANKUNITED, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED
(In thousands)

	Nine Months Ended September 30, 2016	2015
Cash flows from operating activities:		
Net income	$162,447	$195,397
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and accretion, net	(90,360)	(123,007)
Provision for loan losses	42,449	34,387
Income from resolution of covered assets, net	(26,426)	(41,261)
Net loss on FDIC indemnification	9,410	53,024
(Gain) loss on sale of loans, net	7,360	(29,690)
Increase in cash surrender value of bank owned life insurance	(2,973)	(2,324)
Gain on investment securities available for sale, net	(10,065)	(5,493)
Equity based compensation	13,256	12,045
Depreciation and amortization	38,971	30,744
Deferred income taxes	33,958	(24,445)
Proceeds from sale of loans held for sale	121,968	119,877
Loans originated for sale, net of repayments	(108,075)	(86,086)
Realized tax benefits from dividend equivalents and equity based compensation	(847)	(276)
Other:		
(Increase) decrease in other assets	(9,502)	2,511
Increase in other liabilities	44,870	24,753
Net cash provided by operating activities	226,441	160,156
Cash flows from investing activities:		
Net cash paid in business combination	—	(277,553)
Purchase of investment securities	(2,224,174)	(1,435,456)
Proceeds from repayments and calls of investment securities available for sale	457,610	424,128
Proceeds from sale of investment securities available for sale	753,756	799,450
Purchase of non-marketable equity securities	(178,813)	(106,609)
Proceeds from redemption of non-marketable equity securities	115,388	80,338
Purchases of loans	(936,882)	(678,075)
Loan originations, repayments and resolutions, net	(1,389,435)	(2,066,388)
Proceeds from sale of loans, net	120,537	152,820
Decrease in FDIC indemnification asset for claims filed	30,829	46,307
Acquisition of equipment under operating lease, net	(52,399)	(151,677)
Other investing activities	(19,577)	(25,088)
Net cash used in investing activities	(3,323,160)	(3,237,803)

(Continued)

The accompanying notes are an integral part of these consolidated financial statements.

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BANKUNITED, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED (Continued)
(In thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from financing activities:		
Net increase in deposits	1,897,808	2,386,146
Additions to Federal Home Loan Bank advances	18,221,400	5,630,000
Repayments of Federal Home Loan Bank advances	(17,011,400)	(4,855,100)
Dividends paid	(67,342)	(66,626)
Exercise of stock options	222	33,162
Other financing activities	50,485	38,829
Net cash provided by financing activities	3,091,173	3,166,411
Net increase (decrease) in cash and cash equivalents	(5,546)	88,764
Cash and cash equivalents, beginning of period	267,500	187,517
Cash and cash equivalents, end of period	$261,954	$276,281
Supplemental disclosure of cash flow information:		
Interest paid	$132,398	$89,626
Income taxes paid, net	$8,168	$19,249
Supplemental schedule of non-cash investing and financing activities:		
Transfers from loans to other real estate owned and other repossessed assets	$11,679	$13,656
Dividends declared, not paid	$22,482	$22,355
Proceeds from sale of equipment under operating lease held in escrow	$—	$52,237

The accompanying notes are an integral part of these consolidated financial statements.

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BANKUNITED, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - UNAUDITED
(In thousands, except share data)

	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2015	103,626,255	$ 1,036	$ 1,406,786	$ 813,894	$ 22,182	$ 2,243,898
Comprehensive income	—	—	—	162,447	20,348	182,795
Dividends	—	—	—	(67,444)	—	(67,444)
Equity based compensation	629,117	6	12,766	—	—	12,772
Forfeiture of unvested shares	(123,947)	(1)	1	—	—	—
Exercise of stock options	10,000	—	222	—	—	222
Tax benefits from dividend equivalents and equity based compensation	—	—	847	—	—	847
Balance at September 30, 2016	104,141,425	$ 1,041	$ 1,420,622	$ 908,897	$ 42,530	$ 2,373,090
Balance at December 31, 2014	101,656,702	$ 1,017	$ 1,353,538	$ 651,627	$ 46,352	$ 2,052,534
Comprehensive income	—	—	—	195,397	(15,833)	179,564
Dividends	—	—	—	(67,013)	—	(67,013)
Equity based compensation	662,928	6	12,039	—	—	12,045
Forfeiture of unvested shares	(39,706)	—	—	—	—	—
Exercise of stock options	1,249,835	12	33,150	—	—	33,162
Tax benefits from dividend equivalents and equity based compensation	—	—	276	—	—	276
Balance at September 30, 2015	103,529,759	$ 1,035	$ 1,399,003	$ 780,011	$ 30,519	$ 2,210,568

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 Basis of Presentation and Summary of Significant Accounting Policies

BankUnited, Inc. is a national bank holding company with one wholly-owned subsidiary, BankUnited, collectively, the Company. BankUnited, a national banking association headquartered in Miami Lakes, Florida, provides a full range of banking and related services to individual and corporate customers through 95 branches located in 15 Florida counties and 6 banking centers located in the New York metropolitan area at September 30, 2016. The Bank also offers certain commercial lending and deposit products through national platforms.

In connection with the FSB Acquisition, BankUnited entered into two loss sharing agreements with the FDIC. The Loss Sharing Agreements consist of the Single Family Shared-Loss Agreement and the Commercial Shared-Loss Agreement. Assets covered by the Loss Sharing Agreements are referred to as covered assets or, in certain cases, covered loans. The Single Family Shared-Loss Agreement provides for FDIC loss sharing and the Bank's reimbursement for recoveries to the FDIC through May 21, 2019 for single family residential loans and OREO. Loss sharing under the Commercial Shared-Loss Agreement terminated on May 21, 2014. The Commercial Shared-Loss Agreement continues to provide for the Bank's reimbursement of recoveries to the FDIC through May 21, 2017 for all other covered assets, including commercial real estate, commercial and industrial and consumer loans, certain investment securities and commercial OREO. Gains realized on the sale of formerly covered investment securities are included in recoveries subject to reimbursement. Pursuant to the terms of the Loss Sharing Agreements, the covered assets are subject to a stated loss threshold whereby the FDIC will reimburse BankUnited for 80% of losses related to the covered assets up to $4.0 billion and 95% of losses in excess of this amount, beginning with the first dollar of loss incurred.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X of the SEC. Accordingly, they do not include all of the information and footnotes required for a fair presentation of financial position, results of operations and cash flows in conformity with GAAP and should be read in conjunction with the Company's consolidated financial statements and the notes thereto appearing in BKU's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected in future periods.

Certain amounts presented for prior periods have been reclassified to conform to the current period presentation.

Accounting Estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and disclosures of contingent assets and liabilities. Actual results could differ significantly from these estimates.

Significant estimates include the ALLL, the amount and timing of expected cash flows from covered assets and the FDIC indemnification asset, and the fair values of investment securities and other financial instruments. Management has used information provided by third party valuation specialists to assist in the determination of the fair values of investment securities.

Loan Servicing Assets

Effective January 1, 2016, the Company made an irrevocable election to subsequently measure residential MSRs at fair value. Previously, residential MSRs were subsequently measured using the amortization method. This change had no impact on opening retained earnings at January 1, 2016.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific revenue recognition guidance throughout the Accounting Standards Codification. The amendments in this update affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets unless those contracts, including leases and insurance contracts, are within the scope of other standards. The amendments establish a core principle requiring the recognition of revenue to depict the transfer of goods or services to customers in an amount reflecting the consideration to which the entity expects to be entitled in exchange for such goods or services. The amendments also require expanded disclosures concerning the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers. Financial instruments and lease contracts are generally outside the scope of the ASU. The FASB has issued subsequent ASUs to clarify certain aspects of ASU 2014-09, without changing the core principle of the guidance and to defer the effective date of ASU 2014-09 to annual periods and interim periods within fiscal years beginning after December 15, 2017. While management does not currently expect adoption to have a material impact on the Company's consolidated financial position, results of operations or cash flows, management has not completed its evaluation of the impact of adoption of this ASU.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in the ASU that are expected to be most applicable to the Company 1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, 2) eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, and 3) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. The amendments in this ASU are effective for the Company for interim and annual periods in fiscal years beginning after December 15, 2017. Although management has not completed its evaluation of the impact of adoption of this ASU, adoption is not expected to have any impact on financial position or cash flows. Equity investments for which fair value changes will be recognized in earnings upon adoption totaled $74 million at September 30, 2016 and had unrealized gains of $7.5 million.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The amendments in this ASU require a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for lease terms longer than one year. Accounting for leases by a lessor will not be significantly impacted by this ASU. The amendments in this ASU are effective for the Company for interim and annual periods in fiscal years beginning after December 15, 2018. Management has not yet made an evaluation of the impact of adoption of this ASU.

In March 2016, the FASB issued ASU No. 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. The amendments in this ASU clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. A company performing the assessment under these amendments is required to assess the embedded call (put) options solely in accordance with a four-step decision sequence, without consideration of whether the contingency is related to interest rates or credit risks. The amendments in this ASU are effective for the Company for interim and annual periods in fiscal years beginning after December 15, 2016 and will be applied on a modified retrospective basis. While management does not currently expect adoption to have a material impact on the Company's consolidated financial position, results of operations or cash flows, management has not completed its evaluation of the impact of adoption of this ASU.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in this ASU simplify several aspects of the accounting for share-based payment transactions. The amendments provide, among other items, that a) excess tax benefits and deficiencies be recognized as income tax expense or benefit in the income statement, as opposed to additional paid-in-capital; b) excess tax benefits and deficiencies be classified with other income tax cash flows as an operating activity in the statement of cash flows; and c) an entity may make an entity-wide election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur. The amendments in this ASU are effective for the Company for interim and annual periods in fiscal years beginning after December 15, 2016. Management is currently finalizing its evaluation of the impact of this ASU on the financial statements and related disclosures, including the alternative methods of adoption. The adoption is not expected to materially impact the Company's consolidated financial position, results of operations, or cash flows.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326). The ASU introduces new guidance for the accounting for credit losses on certain types of financial instruments. The ASU also modifies the impairment model for available for sale securities. The ASU introduces the CECL model which applies to financial assets subject to credit losses and measured at amortized cost, as well as certain off-balance sheet credit exposures. This includes loans, loan commitments and held-to-maturity debt securities. The CECL model requires an entity to estimate credit losses expected over the life of an exposure, considering historical, current and forecast information. The ASU amends the current OTTI model for debt securities and requires an estimate of expected credit losses only when the fair value of an available for sale debt security is below its amortized cost. Credit losses on available for sale debt securities will be limited to the difference

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BANKUNITED, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED
September 30, 2016

between the security's amortized cost basis and its fair value. The ASU also provides for a simplified accounting model for purchased financial assets with more than insignificant credit deterioration since their origination. The amendments in this ASU are effective for the Company for interim and annual periods in fiscal years beginning after December 15, 2019. Management has not yet made an evaluation of the impact of adoption of this ASU.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments in this ASU provide guidance on eight specific cash flow classification issues where there has been diversity in practice. The guidance in the ASU that is expected to be most applicable to the Company requires: (1) cash payments for debt prepayment or extinguishment costs to be classified as cash outflows for financing activities, (2) proceeds from settlement of insurance claims to be classified on the basis of the nature of the loss and (3) cash proceeds from settlement of corporate-owned life insurance policies to be classified as cash flows from investing activities. The amendments in this ASU are effective for the Company for interim and annual periods in fiscal years beginning after December 15, 2017. The adoption is not expected to materially impact the Company's consolidated cash flows.

Note 2 Earnings Per Common Share

The computation of basic and diluted earnings per common share is presented below for the periods indicated (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
c	2016	2015	2016	2015
Basic earnings per common share:				
Numerator:				
Net income	$50,848	$ 102,303	$162,447	$ 195,397
Distributed and undistributed earnings allocated to participating securities	(2,031)	(4,016)	(6,522)	(7,578)
Income allocated to common stockholders for basic earnings per common share	$48,817	$ 98,287	$155,925	$ 187,819
Denominator:				
Weighted average common shares outstanding	104,153,018	103,503,425	104,077,932	103,064,484
Less average unvested stock awards	(1,150,268)	(1,176,288)	(1,165,509)	(1,121,973)
Weighted average shares for basic earnings per common share	103,002,750	102,327,137	102,912,423	101,942,511
Basic earnings per common share	$0.47	$ 0.96	$1.52	$ 1.84
Diluted earnings per common share:				
Numerator:				
Income allocated to common stockholders for basic earnings per common share	$48,817	$ 98,287	$155,925	$ 187,819
Adjustment for earnings reallocated from participating securities	(81)	25	(264)	30
Income used in calculating diluted earnings per common share	$48,736	$ 98,312	$155,661	$ 187,849
Denominator:				
Weighted average shares for basic earnings per common share	103,002,750	102,327,137	102,912,423	101,942,511
Dilutive effect of stock options	558,304	989,661	699,977	839,518
Weighted average shares for diluted earnings per common share	103,561,054	103,316,798	103,612,400	102,782,029
Diluted earnings per common share	$0.47	$ 0.95	$1.50	$ 1.83

Included in participating securities above are unvested shares and 3,023,314 dividend equivalent rights outstanding at September 30, 2016 that were issued in conjunction with the IPO of the Company's common stock. These dividend equivalent rights expire in 2021 and participate in dividends on a one-for-one basis.
The following potentially dilutive securities were outstanding at September 30, 2016 and 2015, but excluded from the calculation of diluted earnings per common share for the periods indicated because their inclusion would have been anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Unvested shares	1,296,848	1,192,732	1,296,848	1,192,732
Stock options and warrants	1,851,376	1,851,376	1,851,376	1,851,376

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Note 3 Investment Securities

Investment securities available for sale consisted of the following at the dates indicated (in thousands):

	September 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$4,999	$12	$—	$5,011
U.S. Government agency and sponsored enterprise residential MBS	1,374,414	18,829	(772)	1,392,471
U.S. Government agency and sponsored enterprise commercial MBS	147,141	4,250	(314)	151,077
Re-Remics	49,130	619	(7)	49,742
Private label residential MBS and CMOs	426,784	49,335	(284)	475,835
Private label commercial MBS	1,279,911	18,115	(590)	1,297,436
Single family rental real estate-backed securities	778,878	8,870	(1,047)	786,701
Collateralized loan obligations	487,664	520	(1,612)	486,572
Non-mortgage asset-backed securities	190,020	3,065	(3)	193,082
Preferred stocks	66,217	7,514	—	73,731
State and municipal obligations	494,607	30,662	—	525,269
SBA securities	497,731	6,186	(567)	503,350
Other debt securities	3,963	3,821	—	7,784
	$5,801,459	$151,798	$(5,196)	$5,948,061

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$4,997	$—	$—	$4,997
U.S. Government agency and sponsored enterprise residential MBS	1,167,197	15,376	(4,255)	1,178,318
U.S. Government agency and sponsored enterprise commercial MBS	95,997	944	(127)	96,814
Re-Remics	88,658	1,138	(105)	89,691
Private label residential MBS and CMOs	502,723	44,822	(2,933)	544,612
Private label commercial MBS	1,219,355	5,533	(6,148)	1,218,740
Single family rental real estate-backed securities	646,156	284	(9,735)	636,705
Collateralized loan obligations	309,615	—	(2,738)	306,877
Non-mortgage asset-backed securities	54,981	1,519	—	56,500
Preferred stocks	75,742	7,467	—	83,209
State and municipal obligations	351,456	10,297	—	361,753
SBA securities	270,553	3,343	(560)	273,336
Other debt securities	3,854	4,133	—	7,987
	$4,791,284	$94,856	$(26,601)	$4,859,539

Investment securities held to maturity at September 30, 2016 and December 31, 2015 consisted of one State of Israel bond with a carrying value of $10 million. Fair value approximated carrying value at September 30, 2016 and December 31, 2015. The bond matures in 2024.

At September 30, 2016, contractual maturities of investment securities available for sale, adjusted for anticipated prepayments of mortgage-backed and other pass-through securities, were as follows (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$509,907	$525,258
Due after one year through five years	3,177,514	3,225,301
Due after five years through ten years	1,704,020	1,763,306
Due after ten years	343,801	360,465
Preferred stocks with no stated maturity	66,217	73,731
	$5,801,459	$5,948,061

Based on the Company's proprietary assumptions, the estimated weighted average life of the investment portfolio as of September 30, 2016 was 4.9 years. The effective duration of the investment portfolio as of September 30, 2016 was 1.5 years. The model results are based on assumptions that may differ from actual results.

The carrying value of securities pledged as collateral for FHLB advances, public deposits, interest rate swaps and to secure borrowing capacity at the FRB totaled $2.1 billion and $1.5 billion at September 30, 2016 and December 31, 2015, respectively.

The following table provides information about gains and losses on investment securities available for sale for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Proceeds from sale of investment securities available for sale	$259,571	$324,536	$753,756	$799,450
Gross realized gains	$3,471	$2,343	$10,528	$5,968
Gross realized losses	—	—	—	(475)
Net realized gain	3,471	2,343	10,528	5,493
OTTI	(463)	—	(463)	—
Gain on investment securities available for sale, net	$3,008	$2,343	$10,065	$5,493

During the three and nine months ended September 30, 2016, OTTI was recognized on two positions in one private label commercial MBS. These positions were in unrealized loss positions at September 30, 2016 and the Company intended to sell the security before recovery of the amortized cost basis.

The following tables present the aggregate fair value and the aggregate amount by which amortized cost exceeded fair value for investment securities in unrealized loss positions, aggregated by investment category and length of time that individual securities had been in continuous unrealized loss positions at the dates indicated (in thousands):

	September 30, 2016					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agency and sponsored enterprise residential MBS	$134,155	$(541)	$8,887	$(231)	$143,042	$(772)
U.S. Government agency and sponsored enterprise commercial MBS	47,316	(314)	—	—	47,316	(314)
Re-Remics	2,704	(7)	—	—	2,704	(7)
Private label residential MBS and CMOs	17,965	(163)	8,807	(121)	26,772	(284)
Private label commercial MBS	44,652	(98)	186,746	(492)	231,398	(590)
Single family rental real estate-backed securities	—	—	176,869	(1,047)	176,869	(1,047)
Collateralized loan obligations	79,290	(533)	153,921	(1,079)	233,211	(1,612)
Non-mortgage asset-backed securities	20,434	(3)	—	—	20,434	(3)
SBA securities	4,241	(40)	20,253	(527)	24,494	(567)
	$350,757	$(1,699)	$555,483	$(3,497)	$906,240	$(5,196)

	December 31, 2015					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agency and sponsored enterprise residential MBS	$321,143	$(3,065)	$54,290	$(1,190)	$375,433	$(4,255)
U.S. Government agency and sponsored enterprise commercial MBS	5,273	(127)	—	—	5,273	(127)
Re-Remics	20,421	(105)	—	—	20,421	(105)
Private label residential MBS and CMOs	289,312	(2,401)	16,342	(532)	305,654	(2,933)
Private label commercial MBS	739,376	(4,476)	106,280	(1,672)	845,656	(6,148)
Single family rental real estate-backed securities	381,033	(4,499)	212,491	(5,236)	593,524	(9,735)
Collateralized loan obligations	257,442	(2,173)	49,435	(565)	306,877	(2,738)
SBA securities	41,996	(543)	868	(17)	42,864	(560)
	$2,055,996	$(17,389)	$439,706	$(9,212)	$2,495,702	$(26,601)

The Company monitors its investment securities available for sale for OTTI on an individual security basis. As discussed above, OTTI was recognized on two positions in one private label commercial MBS during the nine months ended September 30, 2016. No securities were determined to be other-than-temporarily impaired during the nine months ended September 30, 2015. Other than as noted above, the Company does not intend to sell securities that are in significant unrealized loss positions and it is not more likely than not that the Company will be required to sell these securities before recovery of the amortized cost

basis, which may be at maturity. At September 30, 2016, 34 securities were in unrealized loss positions. The amount of impairment related to 11 of these securities was considered insignificant, totaling approximately $101 thousand and no further analysis with respect to these securities was considered necessary. The basis for concluding that impairment of the remaining securities was not other-than-temporary is further described below:

U.S. Government agency and sponsored enterprise residential MBS and commercial MBS

At September 30, 2016, four U.S. Government agency and sponsored enterprise residential MBS and one U.S. Government agency and sponsored enterprise commercial MBS were in unrealized loss positions. The substantial majority of the securities had been in unrealized loss positions for less than twelve months and the amount of impairment was less than 1% of amortized cost. The timely payment of principal and interest on these securities is explicitly or implicitly guaranteed by the U.S. Government. Given the generally limited severity and duration of impairment and the expectation of timely payment of principal and interest, the impairments were considered to be temporary.

Private label residential MBS and CMOs

At September 30, 2016, three private label residential MBS were in unrealized loss positions. The amount of impairment of each of the individual securities was less than 2% of amortized cost. These securities were assessed for OTTI using credit and prepayment behavioral models that incorporate CUSIP level constant default rates, voluntary prepayment rates and loss severity and delinquency assumptions. The results of these assessments were not indicative of credit losses that would result in the Company recovering less than its amortized cost basis related to any of these securities as of September 30, 2016. Given the limited severity of impairment and the expectation of timely recovery of outstanding principal, the impairments were considered to be temporary.

Private label commercial MBS:

At September 30, 2016, five private label commercial MBS were in unrealized loss positions. The amount of impairment of each of the individual securities was less than 1% of amortized cost. The unrealized losses were primarily attributable to widening credit spreads since the purchase of the securities. These securities were assessed for OTTI using credit and prepayment behavioral models incorporating assumptions consistent with the collateral characteristics of each security. The results of this analysis were not indicative of expected credit losses. Each of the securities has greater than 30% current credit enhancement. Given the expectation of timely recovery of outstanding principal, the impairments were considered to be temporary.

Single family rental real estate-backed securities:

At September 30, 2016, five single family rental real estate-backed securities were in unrealized loss positions. The unrealized losses were primarily due to widening credit spreads since the purchase of the securities, leading to increased extension risk. The amount of impairment of each of the individual securities was 1% or less of amortized cost. Management's analysis of the credit characteristics, including loan-to-value and debt service coverage ratios, and levels of subordination for each of the securities is not indicative of projected credit losses. Given the limited severity of impairment and the absence of projected credit losses, the impairments were considered to be temporary.

Collateralized loan obligations:

At September 30, 2016, three collateralized loan obligations were in unrealized loss positions, due to widening credit spreads subsequent to acquisition. The amount of impairment of each of the individual securities was less than 1% of amortized cost. Given the limited severity of impairment, levels of subordination and the results of independent analyses of the credit quality of loans underlying the securities, the impairments were considered to be temporary.

SBA securities:

At September 30, 2016, two SBA securities were in unrealized loss positions. The majority of impairment related to one security and was less than 3% of amortized cost. This security was purchased at a premium and the impairment was attributable primarily to increased prepayment speeds. The timely payment of principal and interest on these securities is guaranteed by this U.S. Government agency. Given the limited severity of impairment and the expectation of timely payment of principal and interest, the impairments were considered to be temporary.

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Note 4 Loans and Allowance for Loan and Lease Losses
The Company segregates its loan portfolio between covered and non-covered loans. Non-covered loans include those originated or purchased since the FSB Acquisition ("new loans") and loans acquired in the FSB Acquisition for which loss share coverage has terminated. Loans acquired in the FSB Acquisition are further segregated between ACI loans and non-ACI loans.
Loans consisted of the following at the dates indicated (dollars in thousands):

	September 30, 2016					
	Non-Covered Loans		Covered Loans			Percent of
	New Loans	ACI	ACI	Non-ACI	Total	Total
Residential:						
1-4 single family residential	$3,305,895	$—	$580,828	$38,848	$3,925,571	20.7 %
Home equity loans and lines of credit	1,219	—	3,008	53,360	57,587	0.3 %
	3,307,114	—	583,836	92,208	3,983,158	21.0 %
Commercial:						
Multi-family	3,773,049	22,973	—	—	3,796,022	20.0 %
Commercial real estate						
Owner occupied	1,669,866	10,279	—	—	1,680,145	8.8 %
Non-owner occupied	3,720,048	12,994	—	—	3,733,042	19.6 %
Construction and land	282,409	—	—	—	282,409	1.5 %
Commercial and industrial	3,205,534	928	—	—	3,206,462	16.9 %
Commercial lending subsidiaries	2,289,205	—	—	—	2,289,205	12.0 %
	14,940,111	47,174	—	—	14,987,285	78.8 %
Consumer	30,289	7	—	—	30,296	0.2 %
Total loans	18,277,514	47,181	583,836	92,208	19,000,739	100.0 %
Premiums, discounts and deferred fees and costs, net	48,632	—	—	(6,768)	41,864	
Loans including premiums, discounts and deferred fees and costs	18,326,146	47,181	583,836	85,440	19,042,603	
Allowance for loan and lease losses	(151,691)	—	—	(2,785)	(154,476)	
Loans, net	$18,174,455	$47,181	$583,836	$82,655	$18,888,127	

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	December 31, 2015					
	Non-Covered Loans		Covered Loans			Percent of
	New Loans	ACI	ACI	Non-ACI	Total	Total
Residential:						
1-4 single family residential	$2,883,470	$—	$699,039	$46,110	$3,628,619	21.9 %
Home equity loans and lines of credit	806	—	4,831	67,493	73,130	0.4 %
	2,884,276	—	703,870	113,603	3,701,749	22.3 %
Commercial:						
Multi-family	3,447,526	24,636	—	—	3,472,162	20.9 %
Commercial real estate						
Owner occupied	1,338,184	16,567	—	—	1,354,751	8.2 %
Non-owner occupied	2,885,226	25,101	—	—	2,910,327	17.5 %
Construction and land	347,676	—	—	—	347,676	2.1 %
Commercial and industrial	2,769,813	1,062	—	—	2,770,875	16.7 %
Commercial lending subsidiaries	2,003,984	—	—	—	2,003,984	12.1 %
	12,792,409	67,366	—	—	12,859,775	77.5 %
Consumer	35,173	10	—	—	35,183	0.2 %
Total loans	15,711,858	67,376	703,870	113,603	16,596,707	100.0 %
Premiums, discounts and deferred fees and costs, net	47,829	—	—	(7,933)	39,896	
Loans including premiums, discounts and deferred fees and costs	15,759,687	67,376	703,870	105,670	16,636,603	
Allowance for loan and lease losses	(120,960)	—	—	(4,868)	(125,828)	
Loans, net	$15,638,727	$67,376	$703,870	$100,802	$16,510,775	

Through two subsidiaries, the Bank provides commercial and municipal equipment and franchise financing utilizing both loan and lease structures. At September 30, 2016 and December 31, 2015, the commercial lending subsidiaries portfolio included a net investment in direct financing leases of $626 million and $472 million, respectively.

During the three and nine months ended September 30, 2016 and 2015, the Company purchased 1-4 single family residential loans totaling $355 million, $937 million, $243 million and $678 million, respectively.

At September 30, 2016, the Company had pledged real estate loans with UPB of approximately $9.2 billion and recorded investment of approximately $8.4 billion as security for FHLB advances.

At September 30, 2016 and December 31, 2015, the UPB of ACI loans was $1.6 billion and $2.0 billion, respectively. The accretable yield on ACI loans represents the amount by which undiscounted expected future cash flows exceed recorded investment. Changes in the accretable yield on ACI loans for the nine months ended September 30, 2016 and the year ended December 31, 2015 were as follows (in thousands):

Balance at December 31, 2014	$1,005,312
Reclassifications from non-accretable difference	192,291
Accretion	(295,038)
Balance at December 31, 2015	902,565
Reclassifications from non-accretable difference	27,093
Accretion	(228,542)
Balance at September 30, 2016	$701,116

Covered loan sales

During the periods indicated, the Company sold covered residential loans to third parties on a non-recourse basis. The following table summarizes the impact of these transactions (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
UPB of loans sold	$61,406	$66,129	$176,958	$184,250
Cash proceeds, net of transaction costs	$37,047	$54,209	$120,537	$152,820
Recorded investment in loans sold	47,080	44,921	135,432	126,109
Gain (loss) on sale of covered loans, net	$(10,033)	$9,288	$(14,895)	$26,711
Gain (loss) on FDIC indemnification, net	$8,026	$(7,430)	$11,958	$(21,476)

Allowance for loan and lease losses

Activity in the ALLL is summarized as follows for the periods indicated (in thousands):

	Three Months Ended September 30,							
	2016				2015			
	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total
Beginning balance	$12,286	$123,303	$ 129	$135,718	$13,429	$93,757	$ 199	$107,385
Provision for (recovery of) loan losses:								
Non-ACI loans	(430)	(15)	—	(445)	1,089	(16)	—	1,073
New loans	1,935	22,879	39	24,853	191	16,500	55	16,746
Total provision	1,505	22,864	39	24,408	1,280	16,484	55	17,819
Charge-offs:								
Non-ACI loans	(247)	—	—	(247)	(189)	—	—	(189)
New loans	—	(6,615)	—	(6,615)	—	(6,903)	—	(6,903)
Total charge-offs	(247)	(6,615)	—	(6,862)	(189)	(6,903)	—	(7,092)
Recoveries:								
Non-ACI loans	9	15	—	24	15	16	—	31
New loans	—	1,183	5	1,188	—	137	5	142
Total recoveries	9	1,198	5	1,212	15	153	5	173
Ending balance	$13,553	$140,750	$ 173	$154,476	$14,535	$103,491	$ 259	$118,285

	Nine Months Ended September 30,							
	2016				2015			
	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total
Beginning balance	$15,958	$109,617	$ 253	$125,828	$11,325	$84,027	$ 190	$95,542
Provision for (recovery of) loan losses:								
Non-ACI loans	(1,074)	(45)	—	(1,119)	715	(48)	—	667
New loans	(322)	43,988	(98)	43,568	3,917	29,762	41	33,720
Total provision	(1,396)	43,943	(98)	42,449	4,632	29,714	41	34,387
Charge-offs:								
Non-ACI loans	(1,086)	—	—	(1,086)	(1,458)	—	—	(1,458)
New loans	—	(15,748)	—	(15,748)	—	(11,186)	—	(11,186)
Total charge-offs	(1,086)	(15,748)	—	(16,834)	(1,458)	(11,186)	—	(12,644)
Recoveries:								
Non-ACI loans	77	45	—	122	36	48	—	84
New loans	—	2,893	18	2,911	—	888	28	916
Total recoveries	77	2,938	18	3,033	36	936	28	1,000
Ending balance	$13,553	$140,750	$ 173	$154,476	$14,535	$103,491	$ 259	$118,285

Beginning in the first quarter of 2016, the methodology for calculation of the ALLL was changed to extend the loss experience period used to calculate historical average net charge-off rates from 12 quarters to 16 quarters for commercial and consumer loans. We believe this extension of the look back period is appropriate at this time to capture a sufficient range of observations reflecting the performance of our loans, most of which were originated in the current economic cycle, and to reflect recent indications that the U.S. economy continues to move through the credit cycle. Extending the look back period to 16 quarters resulted in an increase in the ALLL of approximately $9 million as of March 31, 2016, as compared to using a 12-quarter look back period at the same date.

The following table presents information about the balance of the ALLL and related loans at the dates indicated (in thousands):

	September 30, 2016				December 31, 2015			
	Residential	Commercial	Consumer	Total	Residential	Commercial	Consumer	Total
Allowance for loan and lease losses:								
Ending balance	$13,553	$140,750	$173	$154,476	$15,958	$109,617	$253	$125,828
Ending balance: non-ACI and new loans individually evaluated for impairment	$615	$20,580	$—	$21,195	$978	$5,439	$—	$6,417
Ending balance: non-ACI and new loans collectively evaluated for impairment	$12,938	$120,170	$173	$133,281	$14,980	$104,178	$253	$119,411
Ending balance: ACI	$—	$—	$—	$—	$—	$—	$—	$—
Ending balance: non-ACI	$2,785	$—	$—	$2,785	$4,868	$—	$—	$4,868
Ending balance: new loans	$10,768	$140,750	$173	$151,691	$11,090	$109,617	$253	$120,960
Loans:								
Ending balance	$4,022,322	$14,990,054	$30,227	$19,042,603	$3,734,967	$12,866,548	$35,088	$16,636,603
Ending balance: non-ACI and new loans individually evaluated for impairment	$13,651	$157,358	$—	$171,009	$12,240	$54,128	$—	$66,368
Ending balance: non-ACI and new loans collectively evaluated for impairment	$3,424,835	$14,785,522	$30,220	$18,240,577	$3,018,857	$12,745,054	$35,078	$15,798,989
Ending balance: ACI loans	$583,836	$47,174	$7	$631,017	$703,870	$67,366	$10	$771,246

Credit quality information

New and non-ACI loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due, according to the contractual terms of the loan agreements. Commercial relationships on non-accrual status with committed balances greater than or equal to $1.0 million that have internal risk ratings of substandard or doubtful, as well as loans that have been modified in TDRs, are individually evaluated for impairment. The likelihood of loss related to loans assigned internal risk ratings of substandard or doubtful is considered elevated due to their identified credit weaknesses. Factors considered by management in evaluating impairment include payment status, financial condition of the borrower, collateral value, and other factors impacting the probability of collecting scheduled principal and interest payments when due.

The tables below present information about new and non-ACI loans identified as impaired as of the dates indicated (in thousands):

	September 30, 2016			December 31, 2015		
	Recorded Investment	UPB	Related Specific Allowance	Recorded Investment	UPB	Related Specific Allowance
New loans:						
With no specific allowance recorded:						
Commercial real estate						
Owner occupied	$14,395	$14,408	$ —	$6,194	$6,015	$ —
Non-owner occupied	—	—	—	548	533	—
Construction and land	1,238	1,238	—	—	—	—
Commercial and industrial (1)	11,015	11,015	—	3,561	3,559	—
Commercial lending subsidiaries	12,229	12,029	—	3,839	3,821	—
With a specific allowance recorded:						
1-4 single family residential	343	329	4	—	—	—
Commercial real estate						
Owner occupied	2,331	2,353	515	—	—	—
Commercial and industrial (1)	108,052	108,076	16,745	34,340	34,370	3,799
Commercial lending subsidiaries	8,098	7,829	3,320	5,646	5,628	1,640
Total:						
Residential	$343	$329	$ 4	$—	$—	$ —
Commercial	157,358	156,948	20,580	54,128	53,926	5,439
	$157,701	$157,277	$ 20,584	$54,128	$53,926	$ 5,439
Non-ACI loans:						
With no specific allowance recorded:						
1-4 single family residential	$1,177	$1,393	$ —	$417	$490	$ —
Home equity loans and lines of credit	1,990	2,018	—	1,607	1,633	—
With a specific allowance recorded:						
1-4 single family residential	1,805	2,137	264	3,301	3,828	570
Home equity loans and lines of credit	8,336	8,453	347	6,915	7,028	408
Total:	$13,308	$14,001	$ 611	$12,240	$12,979	$ 978

(1) Impaired taxi medallion loans with a recorded investment of $83.0 million and $1.3 million, with related specific allowances of $9.4 million and $0.1 million, are included in impaired new commercial and industrial loans above at September 30, 2016 and December 31, 2015, respectively.

Impaired loans also include commercial real estate ACI loans modified in TDRs with a carrying value of $1.3 million and $0.5 million as of September 30, 2016 and December 31, 2015, respectively. Interest income recognized on impaired loans after impairment was not significant during the periods presented.

The following tables present the average recorded investment in impaired loans for the periods indicated (in thousands):

	Three Months Ended September 30,					
	2016			2015		
	New Loans	Non-ACI Loans	ACI Loans	New Loans	Non-ACI Loans	ACI Loans
Residential:						
1-4 single family residential	$344	$ 3,001	$ —	$110	$ 3,490	$ —
Home equity loans and lines of credit	—	9,551	—	—	5,004	—
	344	12,552	—	110	8,494	—
Commercial:						
Multi-family	—	—	—	581	—	—
Commercial real estate						
Owner occupied	17,811	—	420	6,066	—	—
Non-owner occupied	—	—	506	—	—	505
Construction and land	1,285	—	—	—	—	—
Commercial and industrial	104,268	—	—	50,955	—	—
Commercial lending subsidiaries	13,873	—	—	15,839	—	—
	137,237	—	926	73,441	—	505
	$137,581	$ 12,552	$ 926	$73,551	$ 8,494	$ 505

	Nine Months Ended September 30,					
	2016			2015		
	New Loans	Non-ACI Loans	ACI Loans	New Loans	Non-ACI Loans	ACI Loans
Residential:						
1-4 single family residential	$251	$ 3,186	$ —	$92	$ 3,675	$ —
Home equity loans and lines of credit	—	8,920	—	—	4,067	—
	251	12,106	—	92	7,742	—
Commercial:						
Multi-family	—	—	—	194	—	—
Commercial real estate						
Owner occupied	13,571	—	140	4,732	—	—
Non-owner occupied	273	—	503	653	—	422
Construction and land	650	—	—	—	—	—
Commercial and industrial	72,952	—	—	29,629	—	—
Commercial lending subsidiaries	11,293	—	—	16,581	—	—
	98,739	—	643	51,789	—	422
	$98,990	$ 12,106	$ 643	$51,881	$ 7,742	$ 422

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The following table presents the recorded investment in new and non-ACI loans on non-accrual status as of the dates indicated (in thousands):

	September 30, 2016		December 31, 2015	
	New Loans	Non-ACI Loans	New Loans	Non-ACI Loans
Residential:				
1-4 single family residential	$328	$ 931	$2,007	$ 594
Home equity loans and lines of credit	—	2,844	—	4,724
	328	3,775	2,007	5,318
Commercial:				
Commercial real estate				
Owner occupied	18,809	—	8,274	—
Non-owner occupied	1,145	—	—	—
Construction and land	1,238	—	—	—
Commercial and industrial [(1)]	70,671	—	37,782	—
Commercial lending subsidiaries	19,037	—	9,920	—
	110,900	—	55,976	—
Consumer	1,162	—	7	—
	$112,390	$ 3,775	$57,990	$ 5,318

(1) Taxi medallion loans with a carrying value of $54.5 million and $2.6 million are included in new commercial and industrial loans in non-accrual status above at September 30, 2016 and December 31, 2015, respectively.

There were no new and non-ACI loans contractually delinquent by 90 days or more and still accruing at September 30, 2016 or December 31, 2015. The amount of additional interest income that would have been recognized on non-accrual loans had they performed in accordance with their contractual terms was approximately $1.1 million and $2.3 million for the three and nine months ended September 30, 2016, respectively.

Management considers delinquency status to be the most meaningful indicator of the credit quality of 1-4 single family residential, home equity and consumer loans. Delinquency statistics are updated at least monthly. See "Aging of loans" below for more information on the delinquency status of loans. Original LTV and original FICO score are also important indicators of credit quality for the new 1-4 single family residential portfolio.

Internal risk ratings are considered the most meaningful indicator of credit quality for commercial loans. Internal risk ratings are a key factor in identifying loans that are individually evaluated for impairment and impact management’s estimates of loss factors used in determining the amount of the ALLL. Internal risk ratings are updated on a continuous basis. Generally, relationships with balances in excess of defined thresholds, ranging from $1 million to $3 million, are re-evaluated at least annually and more frequently if circumstances indicate that a change in risk rating may be warranted. Loans exhibiting potential credit weaknesses that deserve management’s close attention and that if left uncorrected may result in deterioration of the repayment capacity of the borrower are categorized as special mention. Loans with well-defined credit weaknesses, including payment defaults, declining collateral values, frequent overdrafts, operating losses, increasing balance sheet leverage, inadequate cash flow, project cost overruns, unreasonable construction delays, past due real estate taxes or exhausted interest reserves, are assigned an internal risk rating of substandard. A loan with a weakness so severe that collection in full is highly questionable or improbable, but because of certain reasonably specific pending factors has not been charged off, will be assigned an internal risk rating of doubtful.

The following tables summarize key indicators of credit quality for the Company's loans at the dates indicated. Amounts include premiums, discounts and deferred fees and costs (in thousands):

1-4 Single Family Residential credit exposure for new loans, based on original LTV and FICO score:

	September 30, 2016				
	FICO				
LTV	720 or less	721 - 740	741 - 760	761 or greater	Total
60% or less	$85,877	$113,159	$156,532	$736,515	$1,092,083
60% - 70%	79,334	94,368	121,712	497,386	792,800
70% - 80%	99,744	142,245	272,530	882,164	1,396,683
More than 80%	23,341	7,274	11,569	28,077	70,261
	$288,296	$357,046	$562,343	$2,144,142	$3,351,827

	December 31, 2015				
	FICO				
LTV	720 or less	721 - 740	741 - 760	761 or greater	Total
60% or less	$78,836	$99,094	$143,864	$667,420	$989,214
60% - 70%	71,046	76,878	111,343	479,344	738,611
70% - 80%	63,380	100,271	211,299	772,646	1,147,596
More than 80%	28,338	3,938	3,481	13,443	49,200
	$241,600	$280,181	$469,987	$1,932,853	$2,924,621

Commercial credit exposure, based on internal risk rating:

	September 30, 2016						
		Commercial Real Estate					
	Multi-Family	Owner Occupied	Non-Owner Occupied	Construction and Land	Commercial and Industrial (1)	Commercial Lending Subsidiaries	Total
New loans:							
Pass	$3,772,432	$1,618,436	$3,678,195	$ 280,836	$2,941,934	$2,261,355	$14,553,188
Special mention	—	14,095	7,914	—	44,148	—	66,157
Substandard	5,592	35,866	26,820	1,238	205,866	34,142	309,524
Doubtful	—	692	—	—	9,998	3,321	14,011
	$3,778,024	$1,669,089	$3,712,929	$ 282,074	$3,201,946	$2,298,818	$14,942,880
ACI loans:							
Pass	$22,681	$9,440	$12,751	$ —	$926	$—	$45,798
Substandard	292	839	243	—	2	—	1,376
	$22,973	$10,279	$12,994	$ —	$928	$—	$47,174

(1) Taxi medallion loans with internal risk ratings of substandard and doubtful totaled $141.6 million and $1.1 million, respectively, and are included in new commercial and industrial balances above at September 30, 2016.

	December 31, 2015						
		Commercial Real Estate					
	Multi-Family	Owner Occupied	Non-Owner Occupied	Construction and Land	Commercial and Industrial [1]	Commercial Lending Subsidiaries	Total
New loans:							
Pass	$3,451,571	$1,317,081	$2,879,135	$ 346,795	$2,587,801	$1,981,068	$12,563,451
Special mention	—	4,824	548	—	7,556	18,584	31,512
Substandard	402	17,042	434	176	168,875	11,018	197,947
Doubtful	—	—	—	—	4,296	1,976	6,272
	$3,451,973	$1,338,947	$2,880,117	$ 346,971	$2,768,528	$2,012,646	$12,799,182
ACI loans:							
Pass	$24,338	$15,708	$24,857	$ —	$1,035	$—	$65,938
Special mention	—	859	—	—	—	—	859
Substandard	298	—	84	—	27	—	409
Doubtful	—	—	160	—	—	—	160
	$24,636	$16,567	$25,101	$ —	$1,062	$—	$67,366

(1) Taxi medallion loans with internal risk ratings of substandard totaled $80.5 million and are included in new commercial and industrial balances above at December 31, 2015.

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Aging of loans:
The following table presents an aging of loans at the dates indicated. Amounts include premiums, discounts and deferred fees and costs (in thousands):

	September 30, 2016					December 31, 2015				
	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total
New loans:										
1-4 single family residential	$3,342,286	$9,213	$—	$328	$3,351,827	$2,922,096	$517	$551	$1,457	$2,924,621
Home equity loans and lines of credit	1,219	—	—	—	1,219	806	—	—	—	806
Multi-family	3,778,024	—	—	—	3,778,024	3,451,973	—	—	—	3,451,973
Commercial real estate										
Owner occupied	1,664,373	518	536	3,662	1,669,089	1,329,131	1,433	4,784	3,599	1,338,947
Non-owner occupied	3,711,934	—	—	995	3,712,929	2,878,218	1,899	—	—	2,880,117
Construction and land	280,836	—	—	1,238	282,074	342,477	4,494	—	—	346,971
Commercial and industrial	3,180,124	945	11,027	9,850	3,201,946	2,739,357	2,235	4,827	22,109	2,768,528
Commercial lending subsidiaries	2,291,909	—	3,409	3,500	2,298,818	2,003,842	3,839	—	4,965	2,012,646
Consumer	29,384	—	—	836	30,220	35,078	—	—	—	35,078
	$18,280,089	$10,676	$14,972	$20,409	$18,326,146	$15,702,978	$14,417	$10,162	$32,130	$15,759,687
Non-ACI loans:										
1-4 single family residential	$31,550	$341	$8	$923	$32,822	$37,249	$1,415	$—	$594	$39,258
Home equity loans and lines of credit	49,683	446	92	2,397	52,618	60,760	1,090	443	4,119	66,412
	$81,233	$787	$100	$3,320	$85,440	$98,009	$2,505	$443	$4,713	$105,670
ACI loans:										
1-4 single family	$551,177	$10,461	$4,178	$15,012	$580,828	$661,755	$12,490	$4,950	$19,844	$699,039

residential										
Home equity loans and lines of credit	2,740	10	31	227	3,008	4,243	127	9	452	4,831
Multi-family	22,973	—	—	—	22,973	24,636	—	—	—	24,636
Commercial real estate										
Owner occupied	10,279	—	—	—	10,279	16,567	—	—	—	16,567
Non-owner occupied	12,825	—	—	169	12,994	24,941	—	160	—	25,101
Commercial and industrial	928	—	—	—	928	1,041	—	21	—	1,062
Consumer	7	—	—	—	7	10	—	—	—	10
	$600,929	$10,471	$4,209	$15,408	$631,017	$733,193	$12,617	$5,140	$20,296	$771,246

1-4 single family residential and home equity ACI loans that are contractually delinquent by more than 90 days and accounted for in pools that are on accrual status because discount continues to be accreted totaled $15 million and $20 million, at September 30, 2016 and December 31, 2015, respectively.

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Foreclosure of residential real estate:

The carrying amount of foreclosed residential real estate properties included in "Other assets" in the accompanying consolidated balance sheets, all of which are covered, totaled $6 million and $9 million at September 30, 2016 and December 31, 2015, respectively. The recorded investment in residential mortgage loans in the process of foreclosure totaled $9 million and $13 million at September 30, 2016 and December 31, 2015, respectively, substantially all of which were covered loans.

Troubled debt restructurings:

The following tables summarize loans that were modified in TDRs during the periods indicated, as well as loans modified during the twelve months preceding September 30, 2016 and 2015, that experienced payment defaults during the periods indicated (dollars in thousands):

	Three Months Ended September 30,							
	2016				2015			
	Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period		Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period	
	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment
New loans:								
Owner occupied commercial real estate	1	$ 491	—	$ —	—	$ —	—	$ —
Commercial and industrial [1]	20	31,500	8	4,104	—	—	—	—
Commercial lending subsidiaries	5	4,433	1	3,500	—	—	—	—
	26	$ 36,424	9	$ 7,604	—	$ —	—	$ —
Non-ACI loans:								
Home equity loans and lines of credit	10	$ 1,671	—	$ —	8	$ 1,462	2	$ 507
ACI loans:								
Owner occupied commercial real estate	1	$ 839	—	$ —	—	$ —	—	$ —

	Nine Months Ended September 30,							
	2016				2015			
	Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period		Loans Modified in TDRs During the Period		TDRs Experiencing Payment Defaults During the Period	
	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment	Number of TDRs	Recorded Investment
New loans:								
1-4 single family residential	1	$ 107	—	$ —	1	$ 109	—	$ —
Owner occupied commercial real estate	3	5,225	—	—	—	—	—	—
Commercial and industrial [1]	65	78,763	8	4,104	1	690	—	—
Commercial lending subsidiaries	6	7,933	1	3,500	—	—	—	—
	75	$ 92,028	9	$ 7,604	2	$ 799	—	$ —
Non-ACI loans:								

Home equity loans and lines of credit	16	$ 2,293	—	$ —	18	$ 3,389	2	$ 507
ACI loans:								
Owner occupied commercial real estate	1	$ 839	—	$ —	1	$ 503	—	$ —

(1) Commercial and industrial loans modified in TDRs during the three and nine months ended September 30, 2016 included $29.9 million and $57.3 million, respectively, of taxi medallion loans. All of the commercial and industrial TDRs experiencing payment defaults during the three and nine months ended September 30, 2016 were taxi medallion loans.

Modifications during the three and nine months ended September 30, 2016 and 2015 included interest rate reductions, restructuring of the amount and timing of required periodic payments, extensions of maturity and residential modifications under the U.S. Treasury Department's HAMP. Included in TDRs are residential loans to borrowers who have not reaffirmed their debt discharged in Chapter 7 bankruptcy. The total amount of such loans is not material. Modified ACI loans accounted for in pools are not considered TDRs, are not separated from the pools and are not classified as impaired loans.

Note 5 FDIC Indemnification Asset

When the Company recognizes gains or losses related to covered assets in its consolidated financial statements, changes in the estimated amount recoverable from the FDIC under the Loss Sharing Agreements with respect to those gains or losses are also reflected in the consolidated financial statements. Covered loans may be resolved through prepayment, short sale of the underlying collateral, foreclosure, sale of the loans or charge-off. For loans resolved through prepayment, short sale or foreclosure, the difference between consideration received in satisfaction of the loans and the carrying value of the loans is recognized in the consolidated statement of income line item "Income from resolution of covered assets, net." Losses from the resolution of covered loans increase the amount recoverable from the FDIC under the Loss Sharing Agreements. Gains from the resolution of covered loans reduce the amount recoverable from the FDIC under the Loss Sharing Agreements. Similarly, differences in proceeds received on the sale of covered OREO and covered loans and their carrying amounts result in gains or losses and reduce or increase the amount recoverable from the FDIC under the Loss Sharing Agreements. Increases in valuation allowances or impairment charges related to covered assets also increase the amount estimated to be recoverable from the FDIC. These additions to or reductions in amounts recoverable from the FDIC related to transactions in the covered assets are recorded in the consolidated statement of income line item "Net gain (loss) on FDIC indemnification" and reflected as corresponding increases or decreases in the FDIC indemnification asset.

In addition, recoveries of previously indemnified losses on commercial loans and gains on the sale of investment securities that were previously covered under the Commercial Shared-Loss Agreement result in reimbursements due to the FDIC. These transactions are included in the tables below. Amounts payable to the FDIC resulting from these transactions are recognized in other liabilities in the accompanying consolidated balance sheets.

The following tables summarize the components of the gains and losses associated with covered assets, along with the related additions to or reductions in the amounts recoverable from the FDIC under the Loss Sharing Agreements, as reflected in the consolidated statements of income for the periods indicated (in thousands):

	Three Months Ended September 30,					
	2016			2015		
	Transaction Income (Loss)	Net Gain on FDIC Indemnification	Net Impact on Pre-tax Earnings	Transaction Income (Loss)	Net Loss on FDIC Indemnification	Net Impact on Pre-tax Earnings
Recovery of (provision for) losses on covered loans [1]	$460	$ (368)	$ 92	$(1,108)	$ 886	$ (222)
Income from resolution of covered assets, net	8,883	(7,106)	1,777	12,364	(9,839)	2,525
Gain (loss) on sale of covered loans	(10,033)	8,026	(2,007)	9,288	(7,430)	1,858
Loss on covered OREO	(552)	441	(111)	(493)	395	(98)
	$(1,242)	$ 993	$ (249)	$20,051	$ (15,988)	$ 4,063

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	Nine Months Ended September 30,					
	2016			2015		
	Transaction Income (Loss)	Net Loss on FDIC Indemnification	Net Impact on Pre-tax Earnings	Transaction Income (Loss)	Net Loss on FDIC Indemnification	Net Impact on Pre-tax Earnings
Recovery of (provision for) losses on covered loans (1)	$1,261	$ (1,007)	$ 254	$(601)	$ 506	$(95)
Income from resolution of covered assets, net	26,426	(21,140)	5,286	41,261	(32,870)	8,391
Gain (loss) on sale of covered loans	(14,895)	11,958	(2,937)	26,711	(21,476)	5,235
Loss on covered OREO	(957)	779	(178)	(1,186)	816	(370)
	$11,835	$ (9,410)	$ 2,425	$66,185	$ (53,024)	$ 13,161

(1) Transaction income (loss) includes recoveries of $15 thousand, $143 thousand and $66 thousand, respectively, for the three and nine months ended September 30, 2016 and the nine months ended September 30, 2015 and a provision of $35 thousand for the three months ended September 30, 2015 related to unfunded loan commitments included in other non-interest expense in the accompanying consolidated statements of income.

Changes in the FDIC indemnification asset and in the liability to the FDIC for recoveries related to assets previously covered under the Commercial Shared-Loss Agreement for the nine months ended September 30, 2016 and the year ended December 31, 2015, were as follows (in thousands):

Balance at December 31, 2014	$974,335
Amortization	(109,411)
Reduction for claims filed	(59,139)
Net loss on FDIC indemnification	(65,942)
Balance at December 31, 2015	739,843
Amortization	(116,711)
Reduction for claims filed	(30,829)
Net loss on FDIC indemnification	(9,410)
Balance at September 30, 2016	$582,893

The balances at September 30, 2016 and December 31, 2015 are reflected in the consolidated balance sheets as follows (in thousands):

	September 30, 2016	December 31, 2015
FDIC indemnification asset	$ 582,931	$ 739,880
Other liabilities	(38)	(37)
	$ 582,893	$ 739,843

Note 6 Income Taxes

A reconciliation of expected income tax expense at the statutory federal income tax rate of 35% to the Company’s effective income tax rate for the three and nine months ended September 30, 2016 and 2015 follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Tax expense calculated at the statutory federal income tax rate	35.00 %	35.00 %	35.00 %	35.00 %
Increases (decreases) resulting from:				
Income not subject to tax	(8.10)%	(4.93)%	(6.91)%	(4.67)%
State income taxes, net of federal tax benefit	6.00 %	5.41 %	4.80 %	4.74 %
Uncertain tax positions - lapse of statute of limitations	— %	(8.40)%	— %	(2.92)%
Discrete tax benefit - increase in basis of certain assets	— %	(70.43)%	— %	(23.33)%
Other, net	(1.25)%	(2.72)%	0.35 %	(1.26)%
	31.65 %	(46.07)%	33.24 %	7.56 %

A discrete income tax benefit of $49.3 million was recognized in the three months ended September 30, 2015. The tax benefit, predicated on clarifying guidance issued by the IRS in 2015, relates to the Company's ability to claim additional tax basis in certain assets acquired in the FSB Acquisition. The additional tax basis will result in increased taxable losses or reduced taxable income upon the final disposition of those assets.

The Company has a liability for unrecognized tax benefits relating to uncertain state income tax positions in several jurisdictions. The Company's liability for unrecognized tax benefits was reduced by $5.9 million, net of federal income tax benefit, in the three months ended September 30, 2015, as a result of the lapse of the statute of limitations. The liability for unrecognized tax benefits was increased by $16.7 million and $8.1 million, net of federal income tax benefit, in the three months ended September 30, 2016 and 2015, respectively, related to uncertain income tax positions taken on certain amended and recently filed state income tax returns.

The Company has investments in affordable housing limited partnerships which generate federal Low Income Housing Tax Credits and other tax benefits. The balance of these investments, included in other assets in the accompanying consolidated balance sheet, was $72 million and $59 million at September 30, 2016 and December 31, 2015, respectively. Unfunded commitments for affordable housing investments, included in other liabilities in the accompanying consolidated balance sheet, were $56 million and $52 million at September 30, 2016 and December 31, 2015, respectively. The maximum exposure to loss as a result of the Company's involvement with these limited partnerships at September 30, 2016 was approximately $74 million. While the Company believes the likelihood of potential losses from these investments is remote, the maximum exposure was determined by assuming a scenario where the projects completely fail and do not meet certain government compliance requirements resulting in recapture of the related tax credits. These investments did not have a significant impact on income tax expense for the three and nine months ended September 30, 2016 and 2015.

Note 7 Derivatives and Hedging Activities

The Company uses interest rate swaps to manage interest rate risk related to liabilities that expose the Company to variability in cash flows due to changes in interest rates. The Company enters into LIBOR-based interest rate swaps that are designated as cash flow hedges with the objective of limiting the variability of interest payment cash flows resulting from changes in the benchmark interest rate LIBOR. The effective portion of changes in the fair value of interest rate swaps designated as cash flow hedging instruments is reported in AOCI and subsequently reclassified into interest expense in the same period in which the related interest on the floating-rate debt obligations affects earnings.

The Company also enters into interest rate derivative contracts with certain of its commercial borrowers to enable those borrowers to manage their exposure to interest rate fluctuations. To mitigate interest rate risk associated with these derivative contracts, the Company enters into offsetting derivative contract positions with primary dealers. These interest rate derivative contracts are not designated as hedging instruments; therefore, changes in the fair value of these derivatives are recognized immediately in earnings. The impact on earnings related to changes in fair value of these derivatives for the nine months ended September 30, 2016 and 2015 was not material.

The Company may be exposed to credit risk in the event of non-performance by the counterparties to its interest rate derivative agreements. The Company assesses the credit risk of its financial institution counterparties by monitoring publicly available credit rating and financial information. The Company manages dealer credit risk by entering into interest rate derivatives only with primary and highly rated counterparties, the use of ISDA master agreements and counterparty limits. The agreements contain bilateral collateral arrangements with the amount of collateral to be posted generally governed by the settlement value of outstanding swaps. The Company manages the risk of default by its borrower counterparties through its normal loan underwriting and credit monitoring policies and procedures. The Company does not currently anticipate any losses from failure of interest rate derivative counterparties to honor their obligations.

The following tables set forth certain information concerning the Company's interest rate contract derivative financial instruments and related hedged items at the dates indicated (dollars in thousands):

	September 30, 2016							
	Hedged Item	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Remaining Life in Years	Notional Amount	Balance Sheet Location	Fair Value	
							Asset	Liability
Derivatives designated as cash flow hedges:								
Pay-fixed interest rate swaps	Variability of interest cash flows on variable rate borrowings	1.58%	3-Month Libor	3.6	$1,665,000	Other Assets / Other liabilities	$313	$(24,650)
Pay-fixed forward-starting interest rate swaps	Variability of interest cash flows on variable rate borrowings	3.43%	3-Month Libor	10.7	300,000	Other liabilities	—	(54,373)
Derivatives not designated as hedges:								
Pay-fixed interest rate swaps		3.75%	Indexed to 1-month Libor	7.0	893,472	Other liabilities	—	(55,194)
Pay-variable interest rate swaps		Indexed to 1-month Libor	3.75%	7.0	893,472	Other assets	55,194	—
Interest rate caps purchased,			2.72%	2.1	130,415	Other assets	50	—

indexed to 1-month Libor						
Interest rate caps sold, indexed to 1-month Libor	2.72%	2.1	130,415	Other liabilities	—	(50)
			$4,012,774		$55,557	$(134,267)

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	December 31, 2015							
	Hedged Item	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Remaining Life in Years	Notional Amount	Balance Sheet Location	Fair Value Asset	Fair Value Liability
Derivatives designated as cash flow hedges:								
Pay-fixed interest rate swaps	Variability of interest cash flows on variable rate borrowings	1.62%	3-Month Libor	2.6	$1,805,000	Other assets / Other liabilities	$3,442	$(12,347)
Pay-fixed forward-starting interest rate swaps	Variability of interest cash flows on variable rate borrowings	3.43%	3-Month Libor	11.5	300,000	Other liabilities	—	(26,274)
Derivatives not designated as hedges:								
Pay-fixed interest rate swaps		4.08%	Indexed to 1-month Libor	7.0	663,311	Other assets / Other liabilities	225	(30,514)
Pay-variable interest rate swaps		Indexed to 1-month Libor	4.08%	7.0	663,311	Other assets / Other liabilities	30,514	(225)
Interest rate caps purchased, indexed to 1-month Libor			2.85%	2.2	139,786	Other assets	164	—
Interest rate caps sold, indexed to 1-month Libor		2.85%		2.2	139,786	Other liabilities	—	(164)
					$3,711,194		$34,345	$(69,524)

During the three and nine months ended September 30, 2016 and 2015, the amount of loss reclassified from AOCI into interest expense (effective portion) was $3.7 million, $13.1 million, $7.0 million and $20.1 million, respectively. During the nine months ended September 30, 2016 and 2015, no derivative positions designated as cash flow hedges were discontinued and none of the gains and losses reported in AOCI were reclassified into earnings as a result of the discontinuance of cash flow hedges or because of the early extinguishment of debt. As of September 30, 2016, the amount of loss expected to be reclassified from AOCI into earnings during the next twelve months was $11.3 million.

Some of the Company’s ISDA master agreements with financial institution counterparties contain provisions that permit either counterparty to terminate the agreements and require settlement in the event that regulatory capital ratios fall below certain designated thresholds, upon the initiation of other defined regulatory actions or upon suspension or withdrawal of the Bank’s credit rating. Currently, there are no circumstances that would trigger these provisions of the agreements.

The Company does not offset assets and liabilities under master netting agreements for financial reporting purposes. Information on interest rate swaps subject to these agreements is as follows at the dates indicated (in thousands):

	September 30, 2016					
				Gross Amounts Not Offset in Balance Sheet		
	Gross Amounts Recognized	Gross Amounts Offset in Balance Sheet	Net Amounts Presented in Balance Sheet	Derivative Instruments	Collateral Pledged	Net Amount
Derivative assets	$363	$ —	$ 363	$ (363)	$ —	$ —
Derivative liabilities	(134,217)	—	(134,217)	363	133,854	—
	$(133,854)	$ —	$ (133,854)	$ —	$ 133,854	$ —

	December 31, 2015					
				Gross Amounts Not Offset in Balance Sheet		
	Gross Amounts Recognized	Gross Amounts Offset in Balance Sheet	Net Amounts Presented in Balance Sheet	Derivative Instruments	Collateral Pledged	Net Amount
Derivative assets	$3,830	$ —	$ 3,830	$ (3,605)	$ —	$ 225
Derivative liabilities	(69,135)	—	(69,135)	3,605	65,530	—
	$(65,305)	$ —	$ (65,305)	$ —	$ 65,530	$ 225

The difference between the amounts reported for interest rate swaps subject to master netting agreements and the total fair value of interest rate contract derivative financial instruments reported in the consolidated balance sheets is related to interest rate contracts entered into with borrowers not subject to master netting agreements.

At September 30, 2016, the Company had pledged investment securities available for sale with a carrying amount of $80 million and cash on deposit of $93 million as collateral for interest rate swaps in a liability position. No financial collateral was pledged by counterparties to the Company for interest rate swaps in an asset position. The amount of collateral required to be posted varies based on the settlement value of outstanding swaps and in some cases may include initial margin requirements.

Note 8 Stockholders' Equity

Accumulated Other Comprehensive Income

Changes in AOCI are summarized as follows for the periods indicated (in thousands):

	Three Months Ended September 30,					
	2016			2015		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Unrealized gains on investment securities available for sale:						
Net unrealized holding gain (loss) arising during the period	$5,316	$(2,100)	$ 3,216	$(8,727)	$3,446	$(5,281)
Amounts reclassified to gain on investment securities available for sale, net	(3,008)	1,188	(1,820)	(2,343)	926	(1,417)
Net change in unrealized gains on investment securities available for sale	2,308	(912)	1,396	(11,070)	4,372	(6,698)
Unrealized losses on derivative instruments:						
Net unrealized holding gain (loss) arising during the period	8,356	(3,301)	5,055	(29,983)	11,844	(18,139)
Amounts reclassified to interest expense on deposits	—	—	—	1,449	(572)	877
Amounts reclassified to interest expense on borrowings	3,741	(1,477)	2,264	5,529	(2,184)	3,345
Net change in unrealized losses on derivative instruments	12,097	(4,778)	7,319	(23,005)	9,088	(13,917)
Other comprehensive income (loss)	$14,405	$(5,690)	$ 8,715	$(34,075)	$13,460	$(20,615)

	Nine Months Ended September 30,					
	2016			2015		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Unrealized gains on investment securities available for sale:						
Net unrealized holding gain (loss) arising during the period	$88,413	$(34,923)	$53,490	$(4,352)	$916	$(3,436)
Amounts reclassified to gain on investment securities available for sale, net	(10,065)	3,975	(6,090)	(5,493)	2,170	(3,323)
Net change in unrealized gains on investment securities available for sale	78,348	(30,948)	47,400	(9,845)	3,086	(6,759)
Unrealized losses on derivative instruments:						
Net unrealized holding loss arising during the period	(57,765)	22,817	(34,948)	(35,534)	14,328	(21,206)
Amounts reclassified to interest expense on deposits	—	—	—	4,302	(1,699)	2,603
Amounts reclassified to interest expense on borrowings	13,050	(5,154)	7,896	15,750	(6,221)	9,529
Net change in unrealized losses on derivative instruments	(44,715)	17,663	(27,052)	(15,482)	6,408	(9,074)
Other comprehensive income (loss)	$33,633	$(13,285)	$20,348	$(25,327)	$9,494	$(15,833)

The categories of AOCI and changes therein are presented below for the periods indicated (in thousands):

	Unrealized Gains on Investment Securities Available for Sale	Unrealized Losses on Derivative Instruments	Total
Balance at December 31, 2015	$ 41,535	$ (19,353)	$22,182
Other comprehensive income (loss)	47,400	(27,052)	20,348
Balance at September 30, 2016	$ 88,935	$ (46,405)	$42,530
Balance at December 31, 2014	$ 68,322	$ (21,970)	$46,352
Other comprehensive loss	(6,759)	(9,074)	(15,833)
Balance at September 30, 2015	$ 61,563	$ (31,044)	$30,519

Note 9 Equity Based and Other Compensation Plans

During the nine months ended September 30, 2016, the Company granted 644,888 unvested share awards under the 2014 Plan. All of the shares vest in equal annual installments over a period of three years from the date of grant. The shares granted were valued at the closing price of the Company's common stock on the date of grant, ranging from $29.78 to $33.76, and had an aggregate fair value of $20.0 million. The total unrecognized compensation cost of $23.6 million for all unvested share awards outstanding at September 30, 2016 will be recognized over a weighted average remaining period of 1.87 years.

During the nine months ended September 30, 2015, the Company granted 621,283 unvested share awards under the 2010 Plan and 41,645 unvested share awards under the 2014 Plan. All of the shares vest in equal annual installments over a period of three years from the date of grant. The shares granted were valued at the closing price of the Company's common stock on the date of grant, ranging from $31.35 to $36.50, and had an aggregate fair value of

$21.2 million.

Executive share-based awards

Two of the Company's executives are eligible to receive annual awards of RSUs and PSUs (collectively, the "share units"). RSUs represent a fixed number of shares and vest in equal tranches over 3 years. PSUs are initially granted based on a target value. The number of PSUs that ultimately vest at the end of a three-year performance measurement period will be based on the

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achievement of performance criteria pre-established by the Compensation Committee of the Board of Directors. Upon vesting, the share units will be converted to common stock on a one-for-one basis, or may be settled in cash at the Company's option. The share units will accumulate dividends declared on the Company's common stock from the date of grant to be paid subsequent to vesting. During the nine months ended September 30, 2016, 57,873 RSUs and 57,873 PSUs were granted. The RSUs were valued at the closing price of the Company's common stock on the date of grant of $29.85. The performance criteria established for the PSUs granted in 2016 include both performance and market conditions. The grant-date value of the PSUs was determined based on the closing price of the Company's common stock on the date of grant and a discount related to the market condition, considering the probability of meeting the defined performance conditions.

Certain other of the Company's executives are eligible to receive unvested share awards at the end of one-year performance periods. The dollar value of share awards to be granted is based on the achievement of performance criteria pre-established annually by the Compensation Committee. The number of shares of common stock to be awarded is variable based on the closing price of the Company's stock on the date of grant; therefore, these awards are initially classified as liability instruments in the Company's consolidated balance sheets and compensation cost is recognized from the beginning of the performance period. The share awards vest in equal installments over a period of three years from the date of grant.

Compensation cost related to performance based executive share-based awards is recognized during the performance period based on the probable outcome of the respective performance conditions. The total unrecognized compensation cost of $3.9 million for these executive share-based awards at September 30, 2016 will be recognized over a weighted average remaining period of 2.62 years.

Note 10 Fair Value Measurements

Assets and liabilities measured at fair value on a recurring basis

Following is a description of the methodologies used to estimate the fair values of assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy in which those measurements are typically classified.

Investment securities available for sale—Fair value measurements are based on quoted prices in active markets when available; these measurements are classified within level 1 of the fair value hierarchy. These securities typically include U.S. Treasury securities and certain preferred stocks. If quoted prices in active markets are not available, fair values are estimated using quoted prices of securities with similar characteristics, quoted prices of identical securities in less active markets, discounted cash flow techniques, or matrix pricing models. These securities are generally classified within level 2 of the fair value hierarchy and include U.S. Government agency securities, U.S. Government agency and sponsored enterprise MBS, preferred stock investments for which level 1 valuations are not available, corporate debt securities, non-mortgage asset-backed securities, single family rental real estate-backed securities, certain private label residential MBS and CMOs, Re-Remics, private label commercial MBS, collateralized loan obligations and state and municipal obligations. Pricing of these securities is generally primarily spread driven. Observable inputs that may impact the valuation of these securities include benchmark yield curves, credit spreads, reported trades, dealer quotes, bids, issuer spreads, current rating, historical constant prepayment rates, historical voluntary prepayment rates, structural and waterfall features of individual securities, published collateral data, and for certain securities, historical constant default rates and default severities. Investment securities available for sale generally classified within level 3 of the fair value hierarchy include certain private label MBS and trust preferred securities. The Company typically values these securities using third-party proprietary pricing models, primarily discounted cash flow valuation techniques, which incorporate both observable and unobservable inputs. Unobservable inputs that may impact the valuation of these securities include risk adjusted discount rates, projected prepayment rates, projected default rates and projected loss severity.

The Company uses third-party pricing services in determining fair value measurements for investment securities. To obtain an understanding of the methodologies and assumptions used, management reviews written documentation provided by the pricing services, conducts interviews with valuation desk personnel and reviews model results and detailed assumptions used to value selected securities as considered necessary. Management has established a robust price challenge process that includes a review by the treasury front office of all prices provided on a monthly basis. Any price evidencing unexpected month over month fluctuations or deviations from expectations is challenged. If considered necessary to resolve any discrepancies, a price will be obtained from an additional independent valuation source. The Company does not typically adjust the prices provided, other than through this established challenge process. The results of price challenges are subject to review by executive management. The Company has also established a quarterly process whereby prices provided by its primary pricing service for a sample of securities are validated. Any price discrepancies are resolved based on careful consideration of the assumptions and inputs employed by each of the pricing sources.

Servicing rights—Commercial servicing rights are valued using a discounted cash flow methodology incorporating contractually specified servicing fees and market based assumptions about prepayments, discount rates, default rates and costs of servicing. Prepayment and default assumptions are based on historical industry data for loans with similar characteristics. Assumptions about costs of servicing are based on market convention. Discount rates are based on rates of return implied by observed trades of underlying loans in the secondary market. Fair value of residential MSRs is estimated using a discounted cash flow technique that incorporates market based assumptions including estimated prepayment speeds, contractual servicing fees, cost to service, discount rates, escrow account earnings, ancillary income, and estimated defaults. Due to the nature of the valuation inputs and the limited availability of market pricing, servicing rights are classified as level 3.

Derivative financial instruments—Interest rate swaps are predominantly traded in over-the-counter markets and, as such, values are determined using widely accepted discounted cash flow modeling techniques. These discounted cash flow models use projections of future cash payments and receipts that are discounted at mid-market rates. Observable inputs that may impact the valuation of these instruments include LIBOR swap rates and LIBOR forward yield curves. These fair value measurements are generally classified within level 2 of the fair value hierarchy.

The following tables present assets and liabilities measured at fair value on a recurring basis at the dates indicated (in thousands):

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Investment securities available for sale:				
U.S. Treasury securities	$5,011	$—	$—	$5,011
U.S. Government agency and sponsored enterprise residential MBS	—	1,392,471	—	1,392,471
U.S. Government agency and sponsored enterprise commercial MBS	—	151,077	—	151,077
Re-Remics	—	49,742	—	49,742
Private label residential MBS and CMOs	—	348,532	127,303	475,835
Private label commercial MBS	—	1,297,436	—	1,297,436
Single family rental real estate-backed securities	—	786,701	—	786,701
Collateralized loan obligations	—	486,572	—	486,572
Non-mortgage asset-backed securities	—	193,082	—	193,082
Preferred stocks	62,369	11,362	—	73,731
State and municipal obligations	—	525,269	—	525,269
SBA securities	—	503,350	—	503,350
Other debt securities	—	3,460	4,324	7,784
Servicing rights	—	—	24,716	24,716
Derivative assets	—	55,557	—	55,557
Total assets at fair value	$67,380	$5,804,611	$156,343	$6,028,334
Derivative liabilities	$—	$134,267	$—	$134,267
Total liabilities at fair value	$—	$134,267	$—	$134,267

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	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Investment securities available for sale:				
U.S. Treasury securities	$4,997	$—	$—	$4,997
U.S. Government agency and sponsored enterprise residential MBS	—	1,178,318	—	1,178,318
U.S. Government agency and sponsored enterprise commercial MBS	—	96,814	—	96,814
Re-Remics	—	89,691	—	89,691
Private label residential MBS and CMOs	—	403,729	140,883	544,612
Private label commercial MBS	—	1,218,740	—	1,218,740
Single family rental real estate-backed securities	—	636,705	—	636,705
Collateralized loan obligations	—	306,877	—	306,877
Non-mortgage asset-backed securities	—	56,500	—	56,500
Preferred stocks	82,613	596	—	83,209
State and municipal obligations	—	361,753	—	361,753
SBA securities	—	273,336	—	273,336
Other debt securities	—	3,455	4,532	7,987
Servicing rights	—	—	11,548	11,548
Derivative assets		34,345	4	34,349
Total assets at fair value	$87,610	$4,660,859	$156,967	$4,905,436
Derivative liabilities	$—	$69,524	$—	$69,524
Total liabilities at fair value	$—	$69,524	$—	$69,524

There were no transfers of financial assets between levels of the fair value hierarchy during the nine months ended September 30, 2016 and 2015.

The following tables reconcile changes in the fair value of assets and liabilities measured at fair value on a recurring basis and classified in level 3 of the fair value hierarchy during the periods indicated (in thousands):

	Three Months Ended September 30,					
	2016			2015		
	Private Label Residential MBS	Other Debt Securities	Servicing Rights	Private Label Residential MBS	Other Debt Securities	Servicing Rights
Balance at beginning of period	$131,156	$ 4,292	$24,891	$155,908	$ 4,793	$11,090
Gains (losses) for the period included in:						
Net income	—	—	(2,369)	—	—	(864)
Other comprehensive income	337	22	—	(1,885)	(98)	—
Discount accretion	1,404	36	—	1,577	36	—
Purchases or additions	—	—	2,194	—	—	926
Settlements	(5,594)	(26)	—	(7,862)	(24)	—
Transfers into level 3	—	—	—	—	—	—
Transfers out of level 3	—	—	—	—	—	—
Balance at end of period	$127,303	$ 4,324	$24,716	$147,738	$ 4,707	$11,152

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	Nine Months Ended September 30,					
	2016			2015		
	Private Label Residential MBS	Other Debt Securities	Servicing Rights	Private Label Residential MBS	Other Debt Securities	Servicing Rights
Balance at beginning of period	$140,883	$ 4,532	$20,017	$168,077	$ 4,918	$—
Gains (losses) for the period included in:						
Net income	—	—	(5,983)	—	—	(1,484)
Other comprehensive income	(190)	(245)	—	(4,709)	(248)	—
Discount accretion	4,485	88	—	4,980	108	—
Purchases or additions	—	—	10,682	—	—	12,636
Settlements	(17,875)	(51)	—	(20,610)	(71)	—
Transfers into level 3	—	—	—	—	—	—
Transfers out of level 3	—	—	—	—	—	—
Balance at end of period	$127,303	$ 4,324	$24,716	$147,738	$ 4,707	$11,152

The balance of servicing rights at the beginning of 2016 includes $8.5 million of residential MSRs, which the Company elected to measure at fair value effective January 1, 2016. Changes in the fair value of servicing rights are included in the consolidated statement of income line item “Other non-interest income.” Changes in fair value include changes due to discount rates and valuation assumptions, as well as other changes such as runoffs and the passage of time. The amount of unrealized losses included in earnings for the nine months ended September 30, 2016 that were related to servicing assets held at September 30, 2016 totaled approximately $1.7 million and were primarily due to changes in discount rates and valuation assumptions.

Securities for which fair value measurements are categorized in level 3 of the fair value hierarchy at September 30, 2016 consisted of pooled trust preferred securities with a fair value of $4 million and private label residential MBS and CMOs with a fair value of $127 million. The trust preferred securities are not material to the Company’s financial statements. Private label residential MBS consisted of senior and mezzanine tranches collateralized by prime fixed rate and hybrid 1-4 single family residential mortgages originated before 2005, some of which contain option-arm features. Substantially all of these securities have variable rate coupons. Weighted average subordination levels at September 30, 2016 were 16.9%, 12.9% and 1.6% for investment grade, non-investment grade and option-arm securities, respectively. There were $28 million of option-arm securities with a subordination level of zero at September 30, 2016.

The following table provides information about the valuation techniques and unobservable inputs used in the valuation of private label residential MBS and CMOs falling within level 3 of the fair value hierarchy as of September 30, 2016 (dollars in thousands):

	Fair Value at September 30, 2016	Valuation Technique	Unobservable Input	Range (Weighted Average)
Investment grade	$ 57,012	Discounted cash flow	Voluntary prepayment rate	3.78% - 10.57% (8.44%)
			Probability of default	0.03% - 12.39% (2.54%)
			Loss severity	0.00% - 22.58% (1.91%)
			Discount rate	2.41% - 6.67% (3.44%)
Non-investment grade	$ 40,824	Discounted cash flow	Voluntary prepayment rate	4.66% - 13.78% (8.00%)
			Probability of default	0.02% - 8.08% (2.19%)
			Loss severity	0.00% - 7.32% (1.29%)
			Discount rate	2.80% - 18.29% (5.13%)
Option-arm (non-investment grade)	$ 29,467	Discounted cash flow	Voluntary prepayment rate	2.91% - 2.97% (2.92%)
			Probability of default	3.90% - 8.86% (7.62%)
			Loss severity	12.78% - 18.77% (14.28%)
			Discount rate	3.50% - 33.43% (8.97%)

The significant unobservable inputs impacting the fair value measurement of private label residential MBS and CMOs include voluntary prepayment rates, probability of default, loss severity given default and discount rates. Generally, increases in probability of default, loss severity or discount rates would result in a lower fair value measurement. Alternatively, decreases in probability of default, loss severity or discount rates would result in a higher fair value measurement. For securities with less favorable credit characteristics, decreases in voluntary prepayment speeds may be interpreted as a deterioration in the overall credit quality of the underlying collateral and as such, lead to lower fair value measurements. The fair value measurements of those securities with higher levels of subordination will be less sensitive to changes in these unobservable inputs other than discount rates, while securities with lower levels of subordination will show a higher degree of sensitivity to changes in these unobservable inputs other than discount rates. Generally, a change in the assumption used for probability of default is accompanied by a directionally similar change in the assumption used for loss severity given default and a directionally opposite change in the assumption used for voluntary prepayment rate.

The following table provides information about the valuation techniques and significant unobservable inputs used in the valuation of servicing rights as of September 30, 2016 (dollars in thousands):

	Fair Value at September 30, 2016	Valuation Technique	Unobservable Input	Range (Weighted Average)
Residential MSRs	$ 13,122	Discounted cash flow	Prepayment rate	6.11% - 23.18% (13.15%)
			Discount rate	9.13% - 9.19% (9.14%)

Commercial servicing rights	$ 11,594	Discounted cash flow	Prepayment rate	1.34% - 9.77% (7.39%)
			Discount rate	8.99% - 13.58% (11.88%)

Increases in prepayment rates or discount rates would result in lower fair value measurements and decreases in prepayment rates or discount rates would result in higher fair value measurements. Although the prepayment rate and the discount rate are not directly interrelated, they generally move in opposite directions.

Assets and liabilities measured at fair value on a non-recurring basis

Following is a description of the methodologies used to estimate the fair values of assets and liabilities that may be measured at fair value on a non-recurring basis, and the level within the fair value hierarchy in which those measurements are typically classified.

Impaired loans, OREO and other repossessed assets - The carrying amount of collateral dependent impaired loans is typically based on the fair value of the underlying collateral, which may be real estate or other business assets, less estimated costs to sell. The carrying value of OREO is initially measured based on the fair value of the real estate acquired in foreclosure and subsequently adjusted to the lower of cost or estimated fair value, less estimated cost to sell. Fair values of real estate collateral are typically based on real estate appraisals which utilize market and income approaches to valuation incorporating both observable and unobservable inputs. When current appraisals are not available, the Company may use brokers' price opinions, home price indices or other available information about changes in real estate market conditions to adjust the latest appraised value available. These adjustments to appraised values may be subjective and involve significant management judgment. The fair value of repossessed assets or collateral consisting of other business assets is generally based on appraisals that use market approaches to valuation incorporating primarily unobservable inputs. Fair value measurements related to collateral dependent impaired loans, OREO and other repossessed assets are classified within level 3 of the fair value hierarchy.
The following tables present the carrying value of assets for which non-recurring changes in fair value have been recorded for the periods indicated (in thousands):

	September 30, 2016				Losses from Fair Value Changes	
	Level 1	Level 2	Level 3	Total	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
OREO and repossessed assets	$—	$—	$7,923	$7,923	$(372)	$(740)
Impaired loans	$—	$—	$59,678	$59,678	$(10,623)	$(18,873)

	September 30, 2015				Losses from Fair Value Changes	
	Level 1	Level 2	Level 3	Total	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
OREO	$—	$—	$6,899	$6,899	$(146)	$(538)
Impaired loans	$—	$—	$59,564	$59,564	$(3,871)	$(16,995)
Residential MSRs	$—	$—	$8,622	$8,622	$(20)	$(20)

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The following table presents the carrying value and fair value of financial instruments and the level within the fair value hierarchy in which those measurements are classified at the dates indicated (dollars in thousands):

		September 30, 2016		December 31, 2015	
	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:					
Cash and cash equivalents	1	$261,954	$261,954	$267,500	$267,500
Investment securities available for sale	1/2/3	5,948,061	5,948,061	4,859,539	4,859,539
Investment securities held to maturity	3	10,000	10,000	10,000	10,000
Non-marketable equity securities	2	283,422	283,422	219,997	219,997
Loans held for sale	2	42,393	47,334	47,410	50,080
Loans:					
Covered	3	666,491	1,259,668	804,672	1,535,688
Non-covered	3	18,221,636	18,486,371	15,706,103	15,925,405
FDIC Indemnification asset	3	582,931	293,196	739,880	361,364
Accrued interest receivable	2	63,986	63,986	47,654	47,654
Derivative assets	2	55,557	55,557	34,349	34,349
Liabilities:					
Demand, savings and money market deposits	2	$12,981,902	$12,981,902	$12,330,410	$12,330,410
Time deposits	2	5,854,407	5,870,497	4,608,091	4,630,572
FHLB advances	2	5,219,125	5,227,177	4,008,464	4,008,621
Notes and other borrowings	2	402,786	424,915	402,545	392,219
Accrued interest payable	2	11,680	11,680	5,638	5,638
Derivative liabilities	2	134,267	134,267	69,524	69,524

The following methods and assumptions were used to estimate the fair value of each class of financial instruments, other than those described above:

The carrying amounts of certain financial instruments approximate fair value due to their short-term nature and generally negligible credit risk. These financial instruments include cash and cash equivalents, accrued interest receivable and accrued interest payable.

Investment securities held to maturity

Investment securities held to maturity includes one bond issued by the State of Israel, with fair value obtained from a third party pricing service.

Non-marketable equity securities

Non-marketable equity securities include FHLB and FRB stock. There is no market for these securities, which can be liquidated only by redemption by the issuer. These securities are valued at par, which has historically represented the redemption price and is therefore considered to approximate fair value.

Loans held for sale

The fair value of the portion of small business loans guaranteed by U.S. Government agencies being held for sale is estimated using pricing on recent sales of similar loans by the Company in active markets.

ACI and non-ACI loans

Fair values are estimated based on a discounted cash flow analysis. Estimates of future cash flows incorporate various factors that may include the type of loan and related collateral, estimated collateral values, estimated default probability and loss severity given default, internal risk rating, whether the interest rate is fixed or variable, term of loan and whether or not the loan is amortizing. The fair values of loans accounted for in pools are estimated on a pool basis. Other loans may be grouped based on risk characteristics and fair value estimated in the aggregate when applying discounted cash flow valuation techniques. Discount rates for residential loans are based on observable fixed income market data for products with similar credit characteristics. Discount rates for commercial loans reflect indicative yields based on pricing obtained in the commercial loan sale in 2014, adjusted for changes in market rates subsequent to the sale.

New loans

Fair values of residential loans are estimated using a discounted cash flow analysis with discount rates based on yields at which similar loans are trading in the secondary market, which reflect assumptions about credit risk. Fair values of commercial and consumer loans are estimated using a discounted cash flow analysis with discount rates based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The ALLL related to commercial and consumer loans is considered a reasonable estimate of the required adjustment to fair value to reflect the impact of credit risk. This estimate may not represent an exit value as defined in ASC 820.

FDIC indemnification asset

The fair value of the FDIC indemnification asset has been estimated using a discounted cash flow technique incorporating assumptions about the timing and amount of future projected cash payments from the FDIC related to the resolution of covered assets. The factors that impact estimates of future cash flows are similar to those impacting estimated cash flows from covered loans. The discount rate is determined by adjusting the risk free rate to incorporate uncertainty in the estimate of the timing and amount of future cash flows and illiquidity.

Deposits

The fair value of demand deposits, savings accounts and money market deposits is the amount payable on demand at the reporting date. The fair value of time deposits is estimated using a discounted cash flow technique based on rates currently offered for deposits of similar remaining maturities.

FHLB advances

Fair value is estimated by discounting contractual future cash flows using the current rate at which borrowings with similar terms and remaining maturities could be obtained by the Company.

Senior notes

Fair value is estimated based on quoted prices of identical securities in less active markets.

Note 11 Commitments and Contingencies

The Company issues off-balance sheet financial instruments to meet the financing needs of its customers. These financial instruments include commitments to fund loans, unfunded commitments under existing lines of credit, and commercial and standby letters of credit. These commitments expose the Company to varying degrees of credit and market risk which are essentially the same as those involved in extending loans to customers, and are subject to the same credit policies used in underwriting loans. Collateral may be obtained based on the Company’s credit evaluation of the counterparty. The Company’s maximum exposure to credit loss is represented by the contractual amount of these commitments. Unfunded commitments under lines of credit include $13.5 million available under non-cancellable commitments in effect at the date of the FSB Acquisition, which are covered under the Single Family Shared-Loss Agreement if prescribed conditions are met.

Commitments to fund loans

These are agreements to lend funds to customers as long as there is no violation of any condition established in the contract. Commitments to fund loans generally have fixed expiration dates or other termination clauses and may require payment of a fee. Many of these commitments are expected to expire without being funded and, therefore, the total commitment amounts do not necessarily represent future liquidity requirements.

Unfunded commitments under lines of credit

Unfunded commitments under lines of credit include commercial, commercial real estate, home equity and consumer lines of credit to existing customers. Some of these commitments may mature without being fully funded.

Commercial and standby letters of credit

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These letters of credit are primarily issued to support trade transactions or guarantee arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Total lending related commitments outstanding at September 30, 2016 were as follows (in thousands):

Commitments to fund loans