VALLEY NATIONAL BANCORP
Form 10-Q
August 07, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
x Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended June 30, 2017
OR
¨
Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the transition period from to
Commission File Number 1-11277

VALLEY NATIONAL BANCORP
(Exact name of registrant as specified in its charter)

New Jersey	22-2477875
(State or other jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
1455 Valley Road Wayne, NJ	07470
(Address of principal executive office)	(Zip code)

973-305-8800
(Registrant’s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act (check one):
Large accelerated filer x Accelerated filer ¨ Emerging growth company ¨

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock (no par value), of which 264,029,734 shares were outstanding as of August 3, 2017

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
VALLEY NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(in thousands, except for share data)

	June 30, 2017 (Unaudited)	December 31, 2016
Assets		
Cash and due from banks	$227,830	$220,791
Interest bearing deposits with banks	129,959	171,710
Investment securities:		
Held to maturity (fair value of $1,828,732 at June 30, 2017 and $1,924,597 at December 31, 2016)	1,822,263	1,925,572
Available for sale	1,464,054	1,297,373
Total investment securities	3,286,317	3,222,945
Loans held for sale (includes fair value of $17,919 at June 30, 2017 and $57,708 at December 31, 2016 for loans originated for sale)	139,576	57,708
Loans	17,710,760	17,236,103
Less: Allowance for loan losses	(116,446)	(114,419)
Net loans	17,594,314	17,121,684
Premises and equipment, net	290,001	291,180
Bank owned life insurance	393,997	391,830
Accrued interest receivable	69,732	66,816
Goodwill	690,637	690,637
Other intangible assets, net	43,700	45,484
Other assets	583,287	583,654
Total Assets	$23,449,350	$22,864,439
Liabilities		
Deposits:		
Non-interest bearing	$5,197,997	$5,252,825
Interest bearing:		
Savings, NOW and money market	8,683,028	9,339,012
Time	3,368,993	3,138,871
Total deposits	17,250,018	17,730,708
Short-term borrowings	1,734,444	1,080,960
Long-term borrowings	1,819,615	1,433,906
Junior subordinated debentures issued to capital trusts	41,658	41,577
Accrued expenses and other liabilities	179,714	200,132
Total Liabilities	21,025,449	20,487,283
Shareholders’ Equity		
Preferred stock (no par value, authorized 50,000,000 shares at June 30, 2017; issued 4,600,000 shares at June 30, 2017 and December 31, 2016)	111,590	111,590
Common stock (no par value, authorized 450,000,000 shares at June 30, 2017; issued 263,990,794 shares at June 30, 2017 and 263,804,877 shares at December 31, 2016)	92,423	92,353
Surplus	2,049,613	2,044,401
Retained earnings	207,177	172,754
Accumulated other comprehensive loss	(36,679)	(42,093)
Treasury stock, at cost (19,028 common shares at June 30, 2017 and 166,047 shares at December 31, 2016)	(223)	(1,849)

Total Shareholders’ Equity	2,423,901	2,377,156
Total Liabilities and Shareholders’ Equity	$23,449,350	$22,864,439

See accompanying notes to consolidated financial statements.

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VALLEY NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(in thousands, except for share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest Income				
Interest and fees on loans	$185,860	$ 169,426	$360,874	$ 335,497
Interest and dividends on investment securities:				
Taxable	18,928	14,256	36,517	28,255
Tax-exempt	3,943	3,734	7,974	7,424
Dividends	2,137	1,316	4,288	2,796
Interest on federal funds sold and other short-term investments	279	296	610	653
Total interest income	211,147	189,028	410,263	374,625
Interest Expense				
Interest on deposits:				
Savings, NOW and money market	12,714	9,961	22,897	19,204
Time	10,166	9,223	19,719	18,808
Interest on short-term borrowings	5,516	3,120	9,417	4,992
Interest on long-term borrowings and junior subordinated debentures	13,791	15,269	26,741	32,013
Total interest expense	42,187	37,573	78,774	75,017
Net Interest Income	168,960	151,455	331,489	299,608
Provision for credit losses	3,632	1,429	6,102	2,229
Net Interest Income After Provision for Credit Losses	165,328	150,026	325,387	297,379
Non-Interest Income				
Trust and investment services	2,800	2,544	5,544	4,984
Insurance commissions	4,358	4,845	9,419	9,553
Service charges on deposit accounts	5,342	5,094	10,578	10,197
Gains (losses) on securities transactions, net	22	(3)	(1)	268
Fees from loan servicing	1,831	1,561	3,646	3,155
Gains on sales of loans, net	4,791	3,105	8,919	4,900
Bank owned life insurance	1,701	1,818	4,164	3,781
Other	3,845	5,300	7,480	8,874
Total non-interest income	24,690	24,264	49,749	45,712
Non-Interest Expense				
Salary and employee benefits expense	61,338	56,072	125,054	116,331
Net occupancy and equipment expense	22,609	22,168	45,644	44,957
FDIC insurance assessment	4,928	5,095	10,055	10,194
Amortization of other intangible assets	2,562	2,928	5,098	5,777
Professional and legal fees	4,302	5,472	8,997	9,367
Amortization of tax credit investments	7,732	7,646	13,056	14,910
Telecommunication expense	2,707	2,294	5,366	4,680
Other	13,061	18,128	26,921	31,812
Total non-interest expense	119,239	119,803	240,191	238,028
Income Before Income Taxes	70,779	54,487	134,945	105,063
Income tax expense	20,714	15,460	38,785	29,849
Net Income	$50,065	$ 39,027	$96,160	$ 75,214
Dividends on preferred stock	1,797	1,797	3,594	3,594
Net Income Available to Common Shareholders	$48,268	$ 37,230	$92,566	$ 71,620

Earnings Per Common Share:				
Basic	$0.18	$0.15	$0.35	$0.28
Diluted	0.18	0.15	0.35	0.28
Cash Dividends Declared per Common Share	0.11	0.11	0.22	0.22
Weighted Average Number of Common Shares Outstanding:				
Basic	263,958,292	254,381,170	263,878,103	254,228,260
Diluted	264,778,242	254,771,213	264,662,863	254,575,873

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$50,065	$39,027	$96,160	$75,214
Other comprehensive income, net of tax:				
Unrealized gains and losses on available for sale securities				
Net gains (losses) arising during the period	1,896	(635)	3,203	7,648
Less reclassification adjustment for net (gains) losses included in net income	(13)	2	—	(168)
Total	1,883	(633)	3,203	7,480
Non-credit impairment losses on available for sale securities				
Net change in non-credit impairment losses on securities	21	301	134	242
Less reclassification adjustment for accretion of credit impairment losses included in net income	(39)	—	(126)	(286)
Total	(18)	301	8	(44)
Unrealized gains and losses on derivatives (cash flow hedges)				
Net losses on derivatives arising during the period	(873)	(2,122)	(746)	(8,674)
Less reclassification adjustment for net losses included in net income	1,356	2,107	2,831	3,848
Total	483	(15)	2,085	(4,826)
Defined benefit pension plan				
Amortization of net loss	59	43	118	86
Total other comprehensive income	2,407	(304)	5,414	2,696
Total comprehensive income	$52,472	$38,723	$101,574	$77,910

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$96,160	$75,214
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,549	12,440
Stock-based compensation	6,872	5,184
Provision for credit losses	6,102	2,229
Net amortization of premiums and accretion of discounts on securities and borrowings	11,366	7,047
Amortization of other intangible assets	5,098	5,777
Losses (gains) on securities transactions, net	1	(268)
Proceeds from sales of loans held for sale	303,268	185,577
Gains on sales of loans, net	(8,919)	(4,900)
Originations of loans held for sale	(154,475)	(171,123)
Losses (gains) on sales of assets, net	453	(699)
Net change in:		
Fair value of borrowings hedged by derivative transactions	—	6,779
Cash surrender value of bank owned life insurance	(4,164)	(3,781)
Accrued interest receivable	(2,916)	(1,639)
Other assets	(1,521)	(17,932)
Accrued expenses and other liabilities	(20,709)	(743)
Net cash provided by operating activities	249,165	99,162
Cash flows from investing activities:		
Net loan originations and purchases	(707,654)	(459,154)
Investment securities held to maturity:		
Purchases	(60,230)	(309,507)
Maturities, calls and principal repayments	157,351	134,389
Investment securities available for sale:		
Purchases	(252,770)	(432,530)
Sales	—	2,081
Maturities, calls and principal repayments	87,188	760,312
Death benefit proceeds from bank owned life insurance	1,998	—
Proceeds from sales of real estate property and equipment	6,822	9,146
Purchases of real estate property and equipment	(12,976)	(15,353)
Net cash used in investing activities	(780,271)	(310,616)
Cash flows from financing activities:		
Net change in deposits	(480,690)	102,507
Net change in short-term borrowings	653,484	334,853
Proceeds from issuance of long-term borrowings, net	560,000	—
Repayments of long-term borrowings	(175,000)	(269,000)
Cash dividends paid to preferred shareholders	(3,594)	(3,594)
Cash dividends paid to common shareholders	(58,000)	(55,857)
Purchase of common shares to treasury	(2,183)	(1,615)
Common stock issued, net	2,377	3,491
Net cash provided by financing activities	496,394	110,785

Net change in cash and cash equivalents	(34,712)	(100,669)
Cash and cash equivalents at beginning of year	392,501	413,800
Cash and cash equivalents at end of period	$357,789	$313,131

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

	Six Months Ended June 30,	
	2017	2016
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest on deposits and borrowings	$100,380	$76,693
Federal and state income taxes	7,683	12,964
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	$5,865	$2,899
Transfer of loans to loans held for sale	225,541	—

See accompanying notes to consolidated financial statements.

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VALLEY NATIONAL BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Note 1. Basis of Presentation
The unaudited consolidated financial statements of Valley National Bancorp, a New Jersey corporation ("Valley"), include the accounts of its commercial bank subsidiary, Valley National Bank (the “Bank”), and all of Valley’s direct or indirect wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated. The accounting and reporting policies of Valley conform to U.S. generally accepted accounting principles (U.S. GAAP) and general practices within the financial services industry. In accordance with applicable accounting standards, Valley does not consolidate statutory trusts established for the sole purpose of issuing trust preferred securities and related trust common securities.
In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly Valley’s financial position, results of operations and cash flows at June 30, 2017 and for all periods presented have been made. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the entire fiscal year.
In preparing the unaudited consolidated financial statements in conformity with U.S. GAAP, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial condition and results of operations for the periods indicated. Material estimates that are particularly susceptible to change are: the allowance for loan losses; the evaluation of goodwill and other intangible assets, and investment securities for impairment; fair value measurements of assets and liabilities; and income taxes. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are deemed necessary. While management uses its best judgment, actual amounts or results could differ significantly from those estimates. The current economic environment has increased the degree of uncertainty inherent in these material estimates.
Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP and industry practice have been condensed or omitted pursuant to rules and regulations of the SEC. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Valley’s Annual Report on Form 10-K for the year ended December 31, 2016.
On April 27, 2017, Valley's shareholders approved an amendment to Valley's Restated Certificate of Incorporation to increase the authorized shares of common stock and preferred stock to 450,000,000 shares and 50,000,000 shares, respectively.

Note 2. Earnings Per Common Share

The following table shows the calculation of both basic and diluted earnings per common share for the three and six months ended June 30, 2017 and 2016.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands, except for share data)			
Net income available to common shareholders	$48,268	$ 37,230	$92,566	$ 71,620
Basic weighted average number of common shares outstanding	263,958,292	254,381,170	263,878,103	254,228,260
Plus: Common stock equivalents	819,950	390,043	784,760	347,613
Diluted weighted average number of common shares outstanding	264,778,242	254,771,213	264,662,863	254,575,873
Earnings per common share:				
Basic	$0.18	$ 0.15	$0.35	$ 0.28
Diluted	0.18	0.15	0.35	0.28

Common stock equivalents represent the dilutive effect of additional common shares issuable upon the assumed vesting or exercise, if applicable, of performance-based restricted stock units, common stock options and warrants to purchase Valley's common shares. Common stock options and warrants with exercise prices that exceed the average market price of Valley's common stock during the periods presented have an anti-dilutive effect on the diluted earnings per common share calculation and therefore are excluded from the diluted earnings per share calculation. Anti-dilutive common stock options and warrants equaled approximately 3.3 million shares for both the three and six months ended June 30, 2017 and 4.6 million shares for both the three and six months ended June 30, 2016, respectively.

Note 3. Accumulated Other Comprehensive Loss

The following table presents the after-tax changes in the balances of each component of accumulated other comprehensive loss for the three and six months ended June 30, 2017.

	Components of Accumulated Other Comprehensive Loss				
	Unrealized Gains and Losses on Available for Sale (AFS) Securities	Non-credit Impairment Losses on AFS Securities	Unrealized Gains and (Losses) on Derivatives	Defined Benefit Pension Plan	Total Accumulated Other Comprehensive Loss
	(in thousands)				
Balance at March 31, 2017	$(8,774)	$ (616)	$ (10,862)	$(18,834)	$ (39,086)
Other comprehensive income before reclassifications	1,896	21	(873)	—	1,044
Amounts reclassified from other comprehensive income	(13)	(39)	1,356	59	1,363
Other comprehensive income, net	1,883	(18)	483	59	2,407
Balance at June 30, 2017	$(6,891)	$ (634)	$ (10,379)	$(18,775)	$ (36,679)

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	Components of Accumulated Other Comprehensive Loss				
	Unrealized Gains and Losses on Available for Sale (AFS) Securities	Non-credit Impairment Losses on AFS Securities	Unrealized Gains and (Losses) on Derivatives	Defined Benefit Pension Plan	Total Accumulated Other Comprehensive Loss
	(in thousands)				
Balance at December 31, 2016	$(10,094)	$(642)	$(12,464)	$(18,893)	$(42,093)
Other comprehensive income before reclassifications	3,203	134	(746)	—	2,591
Amounts reclassified from other comprehensive income	—	(126)	2,831	118	2,823
Other comprehensive income, net	3,203	8	2,085	118	5,414
Balance at June 30, 2017	$(6,891)	$(634)	$(10,379)	$(18,775)	$(36,679)

The following table presents amounts reclassified from each component of accumulated other comprehensive loss on a gross and net of tax basis for the three and six months ended June 30, 2017 and 2016.

	Amounts Reclassified from Accumulated Other Comprehensive Loss				
	Three Months Ended June 30,		Six Months Ended June 30,		
Components of Accumulated Other Comprehensive Loss	2017	2016	2017	2016	Income Statement Line Item
	(in thousands)				
Unrealized gains (losses) on AFS securities before tax	22	$(3)	(1)	268	Gains (losses) on securities transactions, net
Tax effect	(9)	1	1	(100)	
Total net of tax	13	(2)	—	168	
Non-credit impairment losses on AFS securities before tax:					
Accretion of credit loss impairment due to an increase in expected cash flows	67	—	215	489	Interest and dividends on investment securities (taxable)
Tax effect	(28)	—	(89)	(203)	
Total net of tax	39	—	126	286	
Unrealized losses on derivatives (cash flow hedges) before tax	(2,314)	(3,597)	(4,832)	(6,568)	Interest expense
Tax effect	958	1,490	2,001	2,720	
Total net of tax	(1,356)	(2,107)	(2,831)	(3,848)	
Defined benefit pension plan:					
Amortization of net loss	(101)	(72)	(202)	(144)	*
Tax effect	42	29	84	58	
Total net of tax	(59)	(43)	(118)	(86)	
Total reclassifications, net of tax	$(1,363)	$(2,152)	$(2,823)	$(3,480)	

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

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Note 4. New Authoritative Accounting Guidance

Accounting Standards Update (ASU) No. 2017-08, "Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20) Premium Amortization on Purchased Callable Debt Securities" shortens the amortization period for certain callable debt securities held at a premium. ASU No. 2017-08 requires the premium to be amortized to the earliest call date. The accounting for securities held at a discount does not change and the discount continues to be amortized as an adjustment to yield over the contractual life (to maturity) of the instrument. ASU No. 2017-08 is effective for Valley for the annual and interim reporting periods beginning January 1, 2018 with early adoption permitted, and is to be applied retrospectively. ASU No. 2017-08 is not expected to have a significant impact on Valley's consolidated financial statements.

ASU No. 2017-07, "Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" requires service cost to be reported in the same financial statement line item(s) as other current employee compensation costs. All other components of expense must be presented separately from service cost, and outside any subtotal of income from operations. Only the service cost component of expense is eligible to be capitalized. ASU No. 2017-07 is effective for Valley for its annual and interim reporting periods beginning January1, 2018 with early adoption permitted. ASU No. 2017-07 is not expected to have a significant impact on the presentation on Valley's consolidated financial statements.

ASU No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the current goodwill impairment test guidance) to measure a goodwill impairment charge. Instead, an entity will be required to record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value (i.e., measure the charge based on Step 1 of the current guidance). In addition, ASU No. 2017-04 eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. However, an entity will be required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU No. 2017-04 is effective for Valley for its annual or any interim goodwill impairment tests in fiscal years beginning January 1, 2020 and is not expected to have a significant impact on the presentation of Valley's consolidated financial statements. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017.

ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" clarifies on how certain cash receipts and cash payments should be classified and presented in the statement of cash flow. The ASU No. 2016-15 includes guidance on eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU No. 2016-15 is effective for Valley for annual and interim reporting periods beginning January 1, 2018 and it should be applied using a retrospective transition method to each period presented. ASU No. 2016-15 is not expected to have a significant impact on the presentation of Valley's consolidated statements of cash flows.

ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" amends the accounting guidance on the impairment of financial instruments. The ASU No. 2016-13 adds to U.S. GAAP an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity is required to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. ASU No. 2016-13 is effective for Valley for reporting periods beginning January 1, 2020. Management is currently evaluating the impact of the ASU on Valley’s consolidated financial statements. Valley expects that the new guidance will result in an increase in its allowance for credit losses due to several factors, including: (i) the allowance related to Valley loans will increase to include credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, (ii) the nonaccretable difference (as defined in Note 7) on PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans, and (iii) an allowance will be established for estimated credit losses on investment securities classified as held to maturity. The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the Valley's loan and investment portfolios at the adoption date, and the economic conditions and forecasts at that date.

ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" simplifies several aspects of the stock compensation guidance in Topic 718 and other related guidance. The amendments focus on income tax accounting upon vesting or exercise of share-based payments, award classification, liability classification exception for statutory tax withholding requirements, recognition methods for forfeitures within stock compensation expense, and the cash flow presentation. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. ASU No. 2016-09 became effective for Valley for reporting periods after January 1, 2017 and did not have a significant impact on Valley's consolidated financial statements. At adoption, Valley elected to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using the prospective transition method. Valley also elected to continue to estimate the forfeitures of stock awards as a component of total stock compensation expense based on the number of awards that are expected to vest.

ASU No. 2016-02, “Leases (Topic 842)” requires the recognition of a right of use asset and related lease liability by lessees for leases classified as operating leases under current GAAP. Topic 842, which replaces the current guidance under Topic 840, retains a distinction between finance leases and operating leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee also will not significantly change from current GAAP. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize right of use assets and lease liabilities. Topic 842 will be effective for Valley for reporting periods beginning January 1, 2019, with an early adoption permitted. Valley must apply a modified retrospective transition approach for the applicable leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Management is currently evaluating the impact of Topic 842 on Valley’s consolidated financial statements by reviewing its existing lease contracts and service contracts that may include embedded leases. Valley expects a gross-up of its consolidated statements of financial condition as a result of recognizing lease liabilities and right of use assets; the extent of such gross-up is under evaluation. Valley does not expect material changes to the recognition of operating lease expense in its consolidated statements of income.

ASU No. 2016-01, “Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities” requires that: (i) equity investments with readily determinable fair values must be measured at fair value with changes in fair value recognized in net income, (ii) equity investments without readily determinable fair values must be measured at either fair value or at cost adjusted for changes in observable prices minus impairment with changes in value under either of these methods recognized in net income, (iii) entities that record financial liabilities at fair value due to a fair value option election must recognize changes in fair value in other comprehensive income if it is related to instrument-specific credit risk, and (iv) entities must assess whether a valuation allowance is required for deferred tax assets related to available-for-sale debt securities. ASU No. 2016-01 is effective for Valley for reporting periods beginning January 1, 2018 and is not expected to have a material effect on Valley’s consolidated financial statements.

ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)" implements a common revenue standard that clarifies the principles for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In 2016, the Financial Accounting Standards Board issued ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606) - Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” and ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations

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and Licensing," to further clarify the new guidance under Topic 606. ASU No. 2014-09 and its aforementioned amendments are effective on January 1, 2018. While Valley has not identified any material changes in the timing of revenue recognition under the new guidance, its review is ongoing. However, Valley does not expect the new revenue guidance to have a significant impact on its consolidated financial statements.

Note 5. Fair Value Measurement of Assets and Liabilities

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

Level 1	Unadjusted exchange quoted prices in active markets for identical assets or liabilities, or identical liabilities traded as assets that the reporting entity has the ability to access at the measurement date.
Level 2	Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly (i.e., quoted prices on similar assets), for substantially the full term of the asset or liability.
Level 3	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Assets and Liabilities Measured at Fair Value on a Recurring and Non-Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring and nonrecurring basis by level within the fair value hierarchy as reported on the consolidated statements of financial condition at June 30, 2017 and December 31, 2016. The assets presented under "nonrecurring fair value measurements" in the table below are not measured at fair value on an ongoing basis but are subject to fair value adjustments under certain circumstances (e.g., when an impairment loss is recognized).

		Fair Value Measurements at Reporting Date Using:		
	June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Recurring fair value measurements:				
Assets				
Investment securities:				
Available for sale:				
U.S. Treasury securities	$50,097	$ 50,097	$ —	$ —
U.S. government agency securities	46,368	—	46,368	—
Obligations of states and political subdivisions	119,194	—	119,194	—
Residential mortgage-backed securities	1,163,720	—	1,154,868	8,852
Trust preferred securities	6,219	—	4,341	1,878
Corporate and other debt securities	67,674	7,956	59,718	—
Equity securities	10,782	920	9,862	—
Total available for sale	1,464,054	58,973	1,394,351	10,730
Loans held for sale (1)	17,919	—	17,919	—
Other assets (2)	26,764	—	26,764	—
Total assets	$1,508,737	$ 58,973	$ 1,439,034	$ 10,730
Liabilities				
Other liabilities (2)	$23,902	$ —	$ 23,902	$ —
Total liabilities	$23,902	$ —	$ 23,902	$ —
Non-recurring fair value measurements:				
Collateral dependent impaired loans (3)	$31,489	$ —	$ —	$ 31,489
Loan servicing rights	7,410	—	—	7,410
Foreclosed assets	1,340	—	—	1,340
Total	$40,239	$ —	$ —	$ 40,239

	December 31, 2016	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Recurring fair value measurements:				
Assets				
Investment securities:				
Available for sale:				
U.S. Treasury securities	$49,591	$ 49,591	$ —	$ —
U.S. government agency securities	23,041	—	23,041	—
Obligations of states and political subdivisions	119,767	—	119,767	—
Residential mortgage-backed securities	1,015,542	—	1,005,589	9,953
Trust preferred securities	8,009	—	6,074	1,935
Corporate and other debt securities	60,565	8,064	52,501	—
Equity securities	20,858	1,306	19,552	—
Total available for sale	1,297,373	58,961	1,226,524	11,888
Loans held for sale (1)	57,708	—	57,708	—
Other assets (2)	29,055	—	29,055	—
Total assets	$1,384,136	$ 58,961	$ 1,313,287	$ 11,888
Liabilities				
Other liabilities (2)	$44,077	$ —	$ 44,077	$ —
Total liabilities	$44,077	$ —	$ 44,077	$ —
Non-recurring fair value measurements:				
Collateral dependent impaired loans (3)	$5,385	$ —	$ —	$ 5,385
Loan servicing rights	6,489	—	—	6,489
Foreclosed assets	4,532	—	—	4,532
Total	$16,406	$ —	$ —	$ 16,406

(1) Represents loans originated for sale (which consist of residential mortgage loans) that are carried at fair value and had contractual unpaid principal balances totaling approximately $17.5 million and $58.2 million at June 30, 2017 and December 31, 2016, respectively.
(2) Derivative financial instruments are included in this category.
(3) Excludes PCI loans.

The changes in Level 3 assets measured at fair value on a recurring basis for the three and six months ended June 30, 2017 and 2016 are summarized below:

	Available for Sale Securities			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Balance, beginning of the period	$11,367	$12,949	$11,888	$13,793
Total net (losses) gains included in other comprehensive income	(31)	514	13	(71)
Settlements, net	(606)	(362)	(1,171)	(621)
Balance, end of the period	$10,730	$13,101	$10,730	$13,101

No changes in unrealized gains or losses on Level 3 securities were included in earnings during the three and six months ended June 30, 2017 and 2016. There were no transfers of assets into or out of Level 3, or between Level 1 and Level 2, during the three and six months ended June 30, 2017 and 2016.

There have been no material changes in the valuation methodologies used at June 30, 2017 from December 31, 2016.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following valuation techniques were used for financial instruments measured at fair value on a recurring basis. All the valuation techniques described below apply to the unpaid principal balance, excluding any accrued interest or dividends at the measurement date. Interest income and expense are recorded within the consolidated statements of income depending on the nature of the instrument using the effective interest method based on acquired discount or premium.

Available for sale securities.

All U.S. Treasury securities, certain corporate and other debt securities, and certain preferred equity securities are reported at fair value utilizing Level 1 inputs. The majority of other investment securities are reported at fair value utilizing Level 2 inputs. The prices for these instruments are obtained through an independent pricing service or dealer market participants with whom Valley has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond’s terms and conditions, among other things. Management reviews the data and assumptions used in pricing the securities by its third party provider to ensure the highest level of significant inputs are derived from market observable data. For certain securities, the inputs used by either dealer market participants or an independent pricing service may be derived from unobservable market information (Level 3 inputs). In these instances, Valley evaluates the appropriateness and quality of the assumption and the resulting price. In addition, Valley reviews the volume and level of activity for all available for sale and trading securities and attempts to identify transactions which may not be orderly or reflective of a significant level of activity and volume. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service may be adjusted, as necessary, to estimate fair value and this results in fair values based on Level 3 inputs. In determining fair value, Valley utilizes unobservable inputs which reflect Valley’s own assumptions about the inputs that market participants would use in pricing each security. In developing its assertion of market participant assumptions, Valley utilizes the best information that is both reasonable and available without undue cost and effort.

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

The following table presents quantitative information about Level 3 inputs used to measure the fair value of these securities at June 30, 2017:

Security Type	Valuation Technique	Unobservable Input	Range	Weighted Average
Private label mortgage-backed securities	Discounted cash flow	Prepayment rate	6.2 - 31.6%	19.8 %
		Default rate	2.6 - 36.7	7.5
		Loss severity	47.2 - 66.0	60.4

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

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

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

Loans held for sale. The conforming residential mortgage loans originated for sale are reported at fair value using Level 2 inputs. The fair values were calculated utilizing quoted prices for similar assets in active markets. To determine these fair values, the mortgages held for sale are put into multiple tranches, or pools, based on the coupon rate and maturity of each mortgage. The market prices for each tranche are obtained from both Fannie Mae and Freddie Mac. The market prices represent a delivery price, which reflects the underlying price each institution would pay Valley for an immediate sale of an aggregate pool of mortgages. The market prices received from Fannie Mae and Freddie Mac are then averaged and interpolated or extrapolated, where required, to calculate the fair value of each tranche. Depending upon the time elapsed since the origination of each loan held for sale, non-performance risk and changes therein were addressed in the estimate of fair value based upon the delinquency data provided to both Fannie Mae and Freddie Mac for market pricing and changes in market credit spreads. Non-performance risk did not materially impact the fair value of mortgage loans held for sale at June 30, 2017 and December 31, 2016 based on the short duration these assets were held, and the high credit quality of these loans.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The fair value of Valley's derivatives are determined using third party prices that are based on discounted cash flow analysis using observed market inputs, such as the LIBOR and Overnight Index Swap rate curves. The fair value of mortgage banking derivatives, consisting of interest rate lock commitments to fund residential mortgage loans and forward commitments for the future delivery of such loans (including certain loans held for sale at June 30, 2017 and December 31, 2016), is determined based on the current market prices for similar instruments provided by Fannie Mae and Freddie Mac. The fair values of most of the derivatives incorporate credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, to account for potential nonperformance risk of Valley and its counterparties. The credit valuation adjustments were not significant to the overall valuation of Valley's derivatives at June 30, 2017 and December 31, 2016.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

The following valuation techniques were used for certain non-financial assets measured at fair value on a nonrecurring basis, including impaired loans reported at the fair value of the underlying collateral, loan servicing rights and foreclosed assets, which are reported at fair value upon initial recognition or subsequent impairment as described below.

Impaired loans. Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral and are commonly referred to as "collateral dependent impaired loans." Collateral values are estimated using Level 3 inputs, consisting of individual appraisals that may be adjusted based on certain discounting criteria. At June 30, 2017, certain appraisals were discounted based on specific market data by location and property type. During the quarter ended June 30, 2017, collateral dependent impaired loans were individually re-measured and reported at fair value through direct loan charge-offs to the allowance for loan losses and/or a specific valuation allowance allocation based on the fair value of the underlying collateral. The collateral dependent loan charge-offs to the allowance for loan losses totaled $1.9 million and $473 thousand for the three months ended June 30, 2017 and 2016, respectively, and $2.1 million and $952 thousand for the six months ended June 30, 2017 and 2016, respectively. At June 30, 2017, collateral dependent impaired loans with a total recorded investment of $35.2 million were reduced by specific valuation allowance allocations totaling $3.7 million to a reported total net carrying amount of $31.5 million.

Loan servicing rights. Fair values for each risk-stratified group of loan servicing rights are calculated using a fair value model from a third party vendor that requires inputs that are both significant to the fair value measurement and unobservable (Level 3). The fair value model is based on various assumptions, including but not limited to, prepayment speeds, internal rate of return ("discount rate"), servicing cost, ancillary income, float rate, tax rate, and inflation. The prepayment speed and the discount rate are considered two of the most significant inputs in the model. At June 30, 2017, the fair value model used prepayment speeds (stated as constant prepayment rates) from 0 percent up to 25 percent and a discount rate of 8 percent for the valuation of the loan servicing rights. A significant degree of judgment is involved in valuing the loan servicing rights using Level 3 inputs. The use of different assumptions could have a significant positive or negative effect on the fair value estimate. Impairment charges are recognized on loan servicing rights when the amortized cost of a risk-stratified group of loan servicing rights exceeds the estimated fair value. Valley recorded net recoveries of net impairment charges on its loan servicing rights totaling $50 thousand and $51 thousand for the three and six months ended June 30, 2017, respectively, as compared to net impairment charges totaling $265 thousand and $457 thousand for three and six months ended June 30, 2016, respectively.

Foreclosed assets. Certain foreclosed assets (consisting of other real estate owned and other repossessed assets), upon initial recognition and transfer from loans, are re-measured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the foreclosed assets. The fair value of a foreclosed asset, upon initial recognition, is typically estimated using Level 3 inputs, consisting of an appraisal that is adjusted based on certain discounting criteria, similar to the criteria used for impaired loans described above. There were no adjustments of the appraisals of foreclosed assets at June 30, 2017. At June 30, 2017, foreclosed assets included $1.3 million of assets that were measured at fair value upon initial recognition or subsequently re-measured during the quarter ended June 30, 2017. The foreclosed assets charge-offs to the allowance for loan losses totaled $282 thousand and $489 thousand for the three months ended June 30, 2017 and 2016, respectively, and $994 thousand and $922 thousand for six months ended June 30, 2017 and 2016, respectively. The re-measurement of foreclosed assets at fair value subsequent to their initial recognition resulted in net losses within non-interest expense of $290 thousand for both the three and six months ended June 30, 2017, and $295 thousand and $912 thousand for three and six months ended June 30, 2016, respectively.

Other Fair Value Disclosures

ASC Topic 825, “Financial Instruments,” requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis.

The fair value estimates presented in the following table were based on pertinent market data and relevant information on the financial instruments available as of the valuation date. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire portfolio of financial instruments. Because no market exists for a portion of the financial instruments, fair value estimates may be based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For instance, Valley has certain fee-generating business lines (e.g., its mortgage servicing operation, trust and investment management departments) that were not considered in these estimates since these activities are not financial instruments. In addition, the tax implications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

The carrying amounts and estimated fair values of financial instruments not measured and not reported at fair value on the consolidated statements of financial condition at June 30, 2017 and December 31, 2016 were as follows:

	Fair Value Hierarchy	June 30, 2017 Carrying Amount	June 30, 2017 Fair Value	December 31, 2016 Carrying Amount	December 31, 2016 Fair Value
		(in thousands)			
Financial assets					
Cash and due from banks	Level 1	$227,830	$227,830	$220,791	$220,791
Interest bearing deposits with banks	Level 1	129,959	129,959	171,710	171,710
Investment securities held to maturity:					
U.S. Treasury securities	Level 1	138,754	147,656	138,830	147,495
U.S. government agency securities	Level 2	10,597	10,802	11,329	11,464
Obligations of states and political subdivisions	Level 2	501,402	517,830	566,590	577,826
Residential mortgage-backed securities	Level 2	1,070,137	1,062,008	1,112,460	1,102,802
Trust preferred securities	Level 2	59,814	48,268	59,804	47,290
Corporate and other debt securities	Level 2	41,559	42,168	36,559	37,720
Total investment securities held to maturity		1,822,263	1,828,732	1,925,572	1,924,597
Net loans	Level 3	17,594,314	17,187,164	17,121,684	16,756,655
Accrued interest receivable	Level 1	69,732	69,732	66,816	66,816
Federal Reserve Bank and Federal Home Loan Bank stock (1)	Level 1	201,116	201,116	147,127	147,127
Financial liabilities					
Deposits without stated maturities	Level 1	13,881,025	13,881,025	14,591,837	14,591,837
Deposits with stated maturities	Level 2	3,368,993	3,375,127	3,138,871	3,160,572
Short-term borrowings	Level 1	1,734,444	1,739,208	1,080,960	1,081,751
Long-term borrowings	Level 2	1,819,615	1,906,668	1,433,906	1,523,386
Junior subordinated debentures issued to capital trusts	Level 2	41,658	46,298	41,577	45,785
Accrued interest payable (2)	Level 1	10,931	10,931	10,675	10,675

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

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

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

Investment securities held to maturity. Fair values are based on prices obtained through an independent pricing service or dealer market participants with whom Valley has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond’s terms and conditions, among other things (Level 2 inputs). Additionally, Valley reviews the volume and level of activity for all classes of held to maturity securities and attempts to identify transactions which may not be orderly or reflective of a significant level of activity and volume. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service may be adjusted, as necessary. If applicable, the adjustment to fair value is derived based on present value cash flow model projections prepared by Valley utilizing assumptions similar to those incorporated by market participants.

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

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

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

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

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

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

Note 6. Investment Securities

Held to Maturity

The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at June 30, 2017 and December 31, 2016 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
June 30, 2017				
U.S. Treasury securities	$138,754	$ 8,902	$—	$147,656
U.S. government agency securities	10,597	205	—	10,802
Obligations of states and political subdivisions:				
Obligations of states and state agencies	249,607	9,623	(1,688)	257,542
Municipal bonds	251,795	8,519	(26)	260,288
Total obligations of states and political subdivisions	501,402	18,142	(1,714)	517,830
Residential mortgage-backed securities	1,070,137	7,658	(15,787)	1,062,008
Trust preferred securities	59,814	32	(11,578)	48,268
Corporate and other debt securities	41,559	927	(318)	42,168
Total investment securities held to maturity	$1,822,263	$ 35,866	$(29,397)	$1,828,732
December 31, 2016				
U.S. Treasury securities	$138,830	$ 8,665	$—	$147,495
U.S. government agency securities	11,329	135	—	11,464
Obligations of states and political subdivisions:				
Obligations of states and state agencies	252,185	6,692	(1,428)	257,449
Municipal bonds	314,405	6,438	(466)	320,377
Total obligations of states and political subdivisions	566,590	13,130	(1,894)	577,826
Residential mortgage-backed securities	1,112,460	8,432	(18,090)	1,102,802
Trust preferred securities	59,804	40	(12,554)	47,290
Corporate and other debt securities	36,559	1,190	(29)	37,720
Total investment securities held to maturity	$1,925,572	$ 31,592	$(32,567)	$1,924,597

The age of unrealized losses and fair value of related securities held to maturity at June 30, 2017 and December 31, 2016 were as follows:

	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
June 30, 2017						
Obligations of states and political subdivisions:						
Obligations of states and state agencies	$63,537	$(1,688)	$—	$—	$63,537	$(1,688)
Municipal bonds	4,664	(26)	—	—	4,664	(26)
Total obligations of states and political subdivisions	68,201	(1,714)	—	—	68,201	(1,714)
Residential mortgage-backed securities	622,527	(11,860)	156,974	(3,927)	779,501	(15,787)
Trust preferred securities	—	—	36,883	(11,578)	36,883	(11,578)
Corporate and other debt securities	4,682	(318)	—	—	4,682	(318)
Total	$695,410	$(13,892)	$193,857	$(15,505)	$889,267	$(29,397)
December 31, 2016						
Obligations of states and political subdivisions:						
Obligations of states and state agencies	$98,114	$(1,428)	$—	$—	$98,114	$(1,428)
Municipal bonds	27,368	(466)	—	—	27,368	(466)
Total obligations of states and political subdivisions	125,482	(1,894)	—	—	125,482	(1,894)
Residential mortgage-backed securities	692,108	(14,420)	114,505	(3,670)	806,613	(18,090)
Trust preferred securities	—	—	45,898	(12,554)	45,898	(12,554)
Corporate and other debt securities	2,971	(29)	—	—	2,971	(29)
Total	$820,561	$(16,343)	$160,403	$(16,224)	$980,964	$(32,567)

The unrealized losses on investment securities held to maturity are primarily due to changes in interest rates (including, in certain cases, changes in credit spreads) and, in some cases, lack of liquidity in the marketplace. Within the held to maturity portfolio, the total number of security positions in an unrealized loss position was 121 at June 30, 2017 and 132 at December 31, 2016.

The unrealized losses within the residential mortgage-backed securities category of the held to maturity portfolio at June 30, 2017 mainly related to investment grade securities issued by Ginnie Mae.

The unrealized losses existing for more than twelve months for trust preferred securities at June 30, 2017 primarily related to four non-rated single-issuer trust preferred securities issued by bank holding companies. All single-issuer trust preferred securities classified as held to maturity are paying in accordance with their terms, have no deferrals of interest or defaults and, if applicable, the issuers meet the regulatory capital requirements to be considered "well-capitalized institutions" at June 30, 2017.

Management does not believe that any individual unrealized loss as of June 30, 2017 included in the table above represents other-than-temporary impairment as management mainly attributes the declines in fair value to changes in interest rates and market volatility, not credit quality or other factors. Based on a comparison of the present value of expected cash flows to the amortized cost, management believes there are no credit losses on these securities. Valley does not have the intent to sell, nor is it more likely than not that Valley will be required to sell, the securities contained in the table above before the recovery of their amortized cost basis or maturity.

As of June 30, 2017, the fair value of investments held to maturity that were pledged to secure public deposits, repurchase agreements, lines of credit, and for other purposes required by law, was $997.2 million.

The contractual maturities of investments in debt securities held to maturity at June 30, 2017 are set forth in the table below. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

	June 30, 2017	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$53,859	$54,621
Due after one year through five years	210,615	218,428
Due after five years through ten years	325,933	343,717
Due after ten years	161,719	149,958
Residential mortgage-backed securities	1,070,137	1,062,008
Total investment securities held to maturity	$1,822,263	$1,828,732

Actual maturities of debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty.

The weighted-average remaining expected life for residential mortgage-backed securities held to maturity was 7.5 years at June 30, 2017.

Available for Sale

The amortized cost, gross unrealized gains and losses and fair value of securities available for sale at June 30, 2017 and December 31, 2016 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
June 30, 2017				
U.S. Treasury securities	$51,009	$ 7	$(919)	$50,097
U.S. government agency securities	46,147	292	(71)	46,368
Obligations of states and political subdivisions:				
Obligations of states and state agencies	39,286	336	(218)	39,404
Municipal bonds	79,824	459	(493)	79,790
Total obligations of states and political subdivisions	119,110	795	(711)	119,194
Residential mortgage-backed securities	1,175,171	2,564	(14,015)	1,163,720
Trust preferred securities*	7,796	—	(1,577)	6,219
Corporate and other debt securities	67,177	701	(204)	67,674
Equity securities	10,505	737	(460)	10,782
Total investment securities available for sale	$1,476,915	$ 5,096	$(17,957)	$1,464,054
December 31, 2016				
U.S. Treasury securities	$51,020	$ 6	$(1,435)	$49,591
U.S. government agency securities	22,815	232	(6)	23,041
Obligations of states and political subdivisions:				
Obligations of states and state agencies	40,696	70	(424)	40,342
Municipal bonds	80,045	147	(767)	79,425
Total obligations of states and political subdivisions	120,741	217	(1,191)	119,767
Residential mortgage-backed securities	1,029,827	2,061	(16,346)	1,015,542
Trust preferred securities*	10,164	—	(2,155)	8,009
Corporate and other debt securities	60,651	436	(522)	60,565
Equity securities	20,505	1,114	(761)	20,858
Total investment securities available for sale	$1,315,723	$ 4,066	$(22,416)	$1,297,373

* Includes two pooled trust preferred securities, principally collateralized by securities issued by banks and insurance companies, at June 30, 2017 and December 31, 2016.

The age of unrealized losses and fair value of related securities available for sale at June 30, 2017 and December 31, 2016 were as follows:

	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
June 30, 2017						
U.S. Treasury securities	$49,168	$(919)	$—	$—	$49,168	$(919)
U.S. government agency securities	31,236	(68)	3,808	(3)	35,044	(71)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	13,118	(169)	1,628	(49)	14,746	(218)
Municipal bonds	18,302	(193)	11,059	(300)	29,361	(493)
Total obligations of states and political subdivisions	31,420	(362)	12,687	(349)	44,107	(711)
Residential mortgage-backed securities	739,362	(9,680)	136,402	(4,335)	875,764	(14,015)
Trust preferred securities	—	—	6,219	(1,577)	6,219	(1,577)
Corporate and other debt securities	30,335	(75)	11,034	(129)	41,369	(204)
Equity securities	—	—	5,184	(460)	5,184	(460)
Total	$881,521	$(11,104)	$175,334	$(6,853)	$1,056,855	$(17,957)
December 31, 2016						
U.S. Treasury securities	$48,660	$(1,435)	$—	$—	$48,660	$(1,435)
U.S. government agency securities	2,530	(4)	4,034	(2)	6,564	(6)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	28,628	(404)	753	(20)	29,381	(424)
Municipal bonds	42,573	(506)	11,081	(261)	53,654	(767)
Total obligations of states and political subdivisions	71,201	(910)	11,834	(281)	83,035	(1,191)
Residential mortgage-backed securities	788,030	(11,889)	132,718	(4,457)	920,748	(16,346)
Trust preferred securities	—	—	8,009	(2,155)	8,009	(2,155)
Corporate and other debt securities	32,292	(294)	15,192	(228)	47,484	(522)
Equity securities	—	—	14,883	(761)	14,883	(761)
Total	$942,713	$(14,532)	$186,670	$(7,884)	$1,129,383	$(22,416)

The unrealized losses on investment securities available for sale are primarily due to changes in interest rates (including, in certain cases, changes in credit spreads) and, in some cases, lack of liquidity in the marketplace. The total number of security positions in the securities available for sale portfolio in an unrealized loss position at June 30, 2017 was 274 as compared to 298 at December 31, 2016.

The unrealized losses for the residential mortgage-backed securities category of the available for sale portfolio at June 30, 2017 largely related to several investment grade residential mortgage-backed securities mainly issued by Ginnie Mae.

The unrealized losses more than twelve months for trust preferred securities at June 30, 2017 in the table above largely relate to 2 pooled trust preferred securities with an amortized cost of $7.8 million and a fair value of $6.2 million. One of the two pooled trust preferred securities had unrealized loss of $703 thousand and an investment grade rating at June 30, 2017.

As of June 30, 2017, the fair value of securities available for sale that were pledged to secure public deposits, repurchase agreements, lines of credit, and for other purposes required by law, was $703.9 million.

The contractual maturities of investment securities available for sale at June 30, 2017 are set forth in the following table. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

	June 30, 2017	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$24,831	$24,752
Due after one year through five years	70,802	74,052
Due after five years through ten years	115,497	114,927
Due after ten years	80,109	78,821
Residential mortgage-backed securities	1,175,171	1,163,720
Equity securities	10,505	10,782
Total investment securities available for sale	$1,476,915	$1,467,054

Actual maturities of debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty.

The weighted average remaining expected life for residential mortgage-backed securities available for sale was 9.1 years at June 30, 2017.

Other-Than-Temporary Impairment Analysis

Valley records impairment charges on its investment securities when the decline in fair value is considered other-than-temporary. Numerous factors, including lack of liquidity for re-sales of certain investment securities; decline in the creditworthiness of the issuer; absence of reliable pricing information for investment securities; adverse changes in business climate; adverse actions by regulators; prolonged decline in value of equity investments; or unanticipated changes in the competitive environment could have a negative effect on Valley’s investment portfolio and may result in other-than-temporary impairment on certain investment securities in future periods. Valley’s investment portfolios include private label mortgage-backed securities, trust preferred securities principally issued by bank holding companies (including two pooled trust preferred securities) and corporate bonds issued by banks. These investments may pose a higher risk of future impairment charges by Valley as a result of the unpredictable nature of the U.S. economy and its potential negative effect on the future performance of the security issuers and, if applicable, the underlying mortgage loan collateral of the security.

There were no other-than-temporary impairment losses on securities recognized in earnings for the three and six months ended June 30, 2017 and 2016. At June 30, 2017, four previously impaired private label mortgage-backed securities (prior to December 31, 2012) had a combined amortized cost and fair value of $9.1 million and $8.9 million, respectively, while one previously impaired pooled trust preferred security had an amortized cost and fair value of $2.8 million and $1.9 million, respectively. The previously impaired pooled trust preferred security was not accruing interest during the three and six months ended June 30, 2017 and 2016.

The following table presents the changes in the credit loss component of cumulative other-than-temporary impairment losses on debt securities classified as either held to maturity or available for sale that Valley has previously recognized in earnings, for which a portion of the impairment loss (non-credit factors) was recognized in other comprehensive income for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Balance, beginning of period	$4,767	$5,348	$4,916	$5,837
Accretion of credit loss impairment due to an increase in expected cash flows	(67)	—	(216)	(489)
Balance, end of period	$4,700	$5,348	$4,700	$5,348

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

Realized Gains and Losses

Gross gains and losses realized on sales, maturities and other investment securities transactions included in earnings were immaterial for the three and six months ended June 30, 2017 and 2016.

Note 7. Loans

The detail of the loan portfolio as of June 30, 2017 and December 31, 2016 was as follows:

	June 30, 2017			December 31, 2016		
	Non-PCI Loans	PCI Loans*	Total	Non-PCI Loans	PCI Loans*	Total
	(in thousands)					
Loans:						
Commercial and industrial	$2,417,924	$213,388	$2,631,312	$2,357,018	$281,177	$2,638,195
Commercial real estate:						
Commercial real estate	8,201,235	1,029,279	9,230,514	7,628,328	1,091,339	8,719,667
Construction	825,196	55,877	881,073	710,266	114,680	824,946
Total commercial real estate loans	9,026,431	1,085,156	10,111,587	8,338,594	1,206,019	9,544,613
Residential mortgage	2,569,500	155,277	2,724,777	2,684,195	183,723	2,867,918
Consumer:						
Home equity	369,372	81,138	450,510	376,213	92,796	469,009
Automobile	1,150,217	126	1,150,343	1,139,082	145	1,139,227
Other consumer	635,847	6,384	642,231	569,499	7,642	577,141
Total consumer loans	2,155,436	87,648	2,243,084	2,084,794	100,583	2,185,377
Total loans	$16,169,291	$1,541,469	$17,710,760	$15,464,601	$1,771,502	$17,236,103

* PCI loans include covered loans (mostly consisting of residential mortgage and commercial real estate loans) totaling $44.5 million and $70.4 million at June 30, 2017 and December 31, 2016, respectively.

Total loans (excluding PCI covered loans) include net unearned premiums and deferred loan costs of $16.7 million and $15.3 million at June 30, 2017 and December 31, 2016, respectively. The outstanding balances (representing contractual balances owed to Valley) for PCI loans totaled $1.7 billion and $1.9 billion at June 30, 2017 and December 31, 2016, respectively.

Valley transferred $225.5 million of residential mortgage loans from the loan portfolio to loans held for sale during the six months ended June 30, 2017. Exclusive of such transfers, there were no sales of loans from the held for investment portfolio during the three and six months ended June 30, 2017 and 2016.

Purchased Credit-Impaired Loans (Including Covered Loans)

PCI loans are accounted for in accordance with ASC Subtopic 310-30 and are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses), and aggregated and accounted for as pools of loans based on common risk characteristics. The difference between the undiscounted cash flows expected at acquisition and the initial carrying amount (fair value) of the PCI loans, or the “accretable yield,” is recognized as interest income utilizing the level-yield method over the life of each pool. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the “non-accretable difference,” are not recognized as a yield adjustment, as a loss accrual or a valuation allowance. Reclassifications of the non-accretable difference to the accretable yield may occur subsequent to the loan acquisition dates due to increases in expected cash flows of the loan pools. Valley's PCI loan portfolio included covered loans (i.e., loans in which the Bank will share losses with the FDIC under loss-sharing agreements) totaling $44.5 million and $70.4 million at June 30, 2017 and December 31, 2016, respectively.

The following table presents changes in the accretable yield for PCI loans during the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Balance, beginning of period	$269,831	$387,120	$294,514	$415,179
Accretion	(23,553)	(31,519)	(48,236)	(59,578)
Balance, end of period	$246,278	$355,601	$246,278	$355,601

FDIC Loss-Share Receivable

The receivable arising from the loss-sharing agreements with the FDIC is measured separately from the covered loan portfolio because the agreements are not contractually part of the covered loans and are not transferable should the Bank choose to dispose of the covered loans. The FDIC loss share receivable (which is included in other assets on Valley's consolidated statements of financial condition) totaled $7.1 million and $7.2 million at June 30, 2017 and December 31, 2016, respectively.

Credit Risk Management

For all of its loan types, Valley adheres to a credit policy designed to minimize credit risk while generating the maximum income given the level of risk. Management reviews and approves these policies and procedures on a regular basis with subsequent approval by the Board of Directors annually. Credit authority relating to a significant dollar percentage of the overall portfolio is centralized and controlled by the Credit Risk Management Division and by the Credit Committee. Valley closely monitors economic conditions and loan performance trends to manage and evaluate its exposure to credit risk. A reporting system supplements the management review process by providing management with frequent reports concerning loan production, loan quality, internal loan classification, concentrations of credit, loan delinquencies, non-performing, and potential problem loans. Loan portfolio diversification is an important factor utilized by Valley to manage its risk across business sectors and through cyclical economic circumstances.

Credit Quality

The following table presents past due, non-accrual and current loans (excluding PCI loans, which are accounted for on a pool basis, and non-performing loans held for sale) by loan portfolio class at June 30, 2017 and December 31, 2016: