INDEPENDENT BANK CORP /MI/
Form 10-Q
May 06, 2015

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED March 31, 2015

Commission file number 0-7818

INDEPENDENT BANK CORPORATION

(Exact name of registrant as specified in its charter)

Michigan	38-2032782
(State or jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

4200 East Beltline, Grand Rapids, Michigan 49525

(Address of principal executive offices)

(616) 527-5820
(Registrant's telephone number, including area code)

230 West Main, Ionia, Michigan 48846

Former name, address and fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Sections 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 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 NO

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, non-accelerated filer or smaller reporting company.

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

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

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	22,970,455
Class	Outstanding at May 5, 2015

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

Statements in this report that are not statements of historical fact, including statements that include terms such as “will,” “may,” “should,” “believe,” “expect,” “forecast,” “anticipate,” “estimate,” “project,” “intend,” “likely,” “optimistic” and “plan about future or projected financial and operating results, plans, projections, objectives, expectations, and intentions, are forward-looking statements. Forward-looking statements include, but are not limited to, descriptions of plans and objectives for future operations, products or services; projections of our future revenue, earnings or other measures of economic performance; forecasts of credit losses and other asset quality trends; statements about our business and growth strategies; and expectations about economic and market conditions and trends. These forward-looking statements express our current expectations, forecasts of future events, or long-term goals. They are based on assumptions, estimates, and forecasts that, although believed to be reasonable, may turn out to be incorrect. Actual results could differ materially from those discussed in the forward-looking statements for a variety of reasons, including:

- economic, market, operational, liquidity, credit, and interest rate risks associated with our business;
- economic conditions generally and in the financial services industry, particularly economic conditions within Michigan and the regional and local real estate markets in which our bank operates;
- the failure of assumptions underlying the establishment of, and provisions made to, our allowance for loan losses;
- the failure of assumptions underlying our estimate of probable incurred losses from vehicle service contract payment plan counterparty contingencies, including our assumptions regarding future cancellations of vehicle service contracts, the value to us of collateral that may be available to recover funds due from our counterparties, and our ability to enforce the contractual obligations of our counterparties to pay amounts owing to us;
- increased competition in the financial services industry, either nationally or regionally;
- our ability to achieve loan and deposit growth;
- volatility and direction of market interest rates;
- the continued services of our management team; and
- implementation of new legislation, which may have significant effects on us and the financial services industry.

This list provides examples of factors that could affect the results described by forward-looking statements contained in this report, but the list is not intended to be all-inclusive. The risk factors disclosed in Part I – Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014, as updated by any new or modified risk factors disclosed in Part II – Item 1A of any subsequently filed Quarterly Report on Form 10-Q, include all known risks our management believes could materially affect the results described by forward-looking statements in this report. However, those risks may not be the only risks we face. Our results of operations, cash flows, financial position, and prospects could also be materially and adversely affected by additional factors that are not presently known to us that we currently consider to be immaterial, or that develop after the date of this report. We cannot assure you that our future results will meet expectations. While we believe the forward-looking statements in this report are reasonable, you should not place undue reliance on any forward-looking statement. In addition, these statements speak only as of the date made. We do not undertake, and expressly disclaim, any obligation to update or alter any statements, whether as a result of new information, future events, or otherwise, except as required by applicable law.

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Part I Item 1.

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Financial Condition

	March 31, 2015 (unaudited)	December 31, 2014
	(In thousands, except share amounts)	
Assets		
Cash and due from banks	$46,435	$48,326
Interest bearing deposits	55,117	25,690
Cash and Cash Equivalents	101,552	74,016
Interest bearing deposits - time	11,575	13,561
Trading securities	213	203
Securities available for sale	571,762	533,178
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	20,051	19,919
Loans held for sale, carried at fair value	30,932	23,662
Loans		
Commercial	710,323	690,955
Mortgage	465,907	472,628
Installment	207,962	206,378
Payment plan receivables	38,767	40,001
Total Loans	1,422,959	1,409,962
Allowance for loan losses	(24,679)	(25,990)
Net Loans	1,398,280	1,383,972
Other real estate and repossessed assets	5,662	6,454
Property and equipment, net	45,220	45,948
Bank-owned life insurance	53,975	53,625
Deferred tax assets, net	46,190	48,632
Capitalized mortgage loan servicing rights	11,318	12,106
Vehicle service contract counterparty receivables, net	7,229	7,237
Other intangibles	2,540	2,627
Accrued income and other assets	22,797	23,590
Total Assets	$2,329,296	$2,248,730
Liabilities and Shareholders' Equity		
Deposits		
Non-interest bearing	$620,598	$576,882
Savings and interest-bearing checking	988,776	943,734
Reciprocal	58,705	53,668
Retail time	331,095	338,720
Brokered time	1,299	11,298
Total Deposits	2,000,473	1,924,302
Other borrowings	12,468	12,470
Subordinated debentures	35,569	35,569
Vehicle service contract counterparty payables	2,312	1,977
Accrued expenses and other liabilities	24,849	24,041

Total Liabilities	2,075,671	1,998,359
Shareholders' Equity		
Preferred stock, no par value, 200,000 shares authorized; none issued or outstanding	-	-
Common stock, no par value, 500,000,000 shares authorized; issued and outstanding:		
22,958,316 shares at March 31, 2015 and 22,957,323 shares at December 31, 2014	351,881	352,462
Accumulated deficit	(94,054)	(96,455)
Accumulated other comprehensive loss	(4,202)	(5,636)
Total Shareholders' Equity	253,625	250,371
Total Liabilities and Shareholders' Equity	$2,329,296	$2,248,730

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations

	Three months ended March 31,	
	2015	2014
	(unaudited) (In thousands, except per share amounts)	
Interest Income		
Interest and fees on loans	$17,239	$18,215
Interest on securities		
Taxable	1,758	1,383
Tax-exempt	217	262
Other investments	338	423
Total Interest Income	19,552	20,283
Interest Expense		
Deposits	1,007	1,293
Other borrowings	454	512
Total Interest Expense	1,461	1,805
Net Interest Income	18,091	18,478
Provision for loan losses	(659)	428
Net Interest Income After Provision for Loan Losses	18,750	18,050
Non-interest Income		
Service charges on deposit accounts	2,850	3,055
Interchange income	2,142	1,941
Net gains on assets		
Mortgage loans	2,139	1,144
Securities	85	112
Mortgage loan servicing	(420)	264
Title insurance fees	256	274
Other	1,910	2,165
Total Non-interest Income	8,962	8,955
Non-Interest Expense		
Compensation and employee benefits	11,785	11,238
Occupancy, net	2,419	2,483
Data processing	1,930	2,086
Loan and collection	1,155	1,465
Furniture, fixtures and equipment	952	1,069
Communications	736	789
Advertising	484	519
Legal and professional	380	401
FDIC deposit insurance	343	417
Interchange expense	291	402
Credit card and bank service fees	202	263
Vehicle service contract counterparty contingencies	29	68
Costs related to unfunded lending commitments	16	10
Provision for loss reimbursement on sold loans	(69)	(481)

Net gains on other real estate and repossessed assets	(39)	(87)
Other	1,537	1,758
Total Non-interest Expense	22,151	22,400
Income Before Income Tax	5,561	4,605
Income tax expense	1,780	1,467
Net Income	$3,781	$3,138
Net Income Per Common Share		
Basic	$0.16	$0.14
Diluted	$0.16	$0.13
Dividends Per Common Share		
Declared	$0.06	$-
Paid	$0.06	$-

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

	Three months ended March 31,	
	2015	2014
	(unaudited)	
	(In thousands)	
Net income	$3,781	$3,138
Other comprehensive income, before tax		
Available for sale securities		
Unrealized gain arising during period	2,270	2,250
Change in unrealized losses for which a portion of other than temporary impairment has been recognized in earnings	11	119
Reclassification adjustments for gains included in earnings	(75)	-
Unrealized gains recognized in other comprehensive income on available for sale securities	2,206	2,369
Income tax expense	772	830
Unrealized gains recognized in other comprehensive income on available for sale securities, net of tax	1,434	1,539
Derivative instruments		
Reclassification adjustment for accretion on settled derivatives	-	95
Unrealized gains recognized in other comprehensive income on derivative instruments	-	95
Income tax expense	-	33
Unrealized gains recognized in other comprehensive income on derivative instruments, net of tax	-	62
Other comprehensive income	1,434	1,601
Comprehensive income	$5,215	$4,739

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows

	Three months ended March 31,	
	2015	2014
	(unaudited - In thousands)	
Net Income	$3,781	$3,138
Adjustments to Reconcile Net Income to Net Cash From (Used in) Operating Activities		
Proceeds from sales of loans held for sale	70,657	48,232
Disbursements for loans held for sale	(75,788)	(41,398)
Provision for loan losses	(659)	428
Deferred federal income tax expense	2,442	2,302
Deferred loan fees	(193)	(5)
Depreciation, amortization of intangible assets and premiums and accretion of discounts on securities and loans	1,179	373
Net gains on mortgage loans	(2,139)	(1,144)
Net gains on securities	(85)	(112)
Net gains on other real estate and repossessed assets	(39)	(87)
Vehicle service contract counterparty contingencies	29	68
Share based compensation	373	255
(Increase) decrease in accrued income and other assets	517	(176)
Decrease in accrued expenses and other liabilities	(2,385)	(4,513)
Total Adjustments	(6,091)	4,223
Net Cash From (Used in) Operating Activities	(2,310)	7,361
Cash Flow Used in Investing Activities		
Proceeds from the sale of securities available for sale	11,786	-
Proceeds from the maturity of securities available for sale	6,785	15,030
Principal payments received on securities available for sale	25,103	17,852
Purchases of securities available for sale	(77,534)	(91,556)
Purchases of interest bearing deposits	(246)	-
Proceeds from the maturity of interest bearing deposits	2,211	1,090
Purchase of Federal Reserve Bank stock	(132)	-
Net (increase) decrease in portfolio loans (loans originated, net of principal payments)	(13,170)	13,221
Proceeds from the collection of vehicle service contract counterparty receivables	-	256
Proceeds from the sale of other real estate and repossessed assets	1,848	1,195
Capital expenditures	(975)	(964)
Net Cash Used in Investing Activities	(44,324)	(43,876)
Cash Flow From Financing Activities		
Net increase in total deposits	76,171	53,936
Net decrease in other borrowings	(2)	(5)
Payments of Federal Home Loan Bank advances	-	(4,240)
Net increase (decrease) in vehicle service contract counterparty payables	335	(328)
Dividends paid	(1,382)	-
Proceeds from issuance of common stock	16	11
Repurchase of common stock	(902)	-
Share based compensation withholding obligation	(66)	-
Net Cash From Financing Activities	74,170	49,374
Net Increase in Cash and Cash Equivalents	27,536	12,859

Cash and Cash Equivalents at Beginning of Period	74,016	119,081
Cash and Cash Equivalents at End of Period	$101,552	$131,940
Cash paid during the period for		
Interest	$1,477	$1,821
Income taxes	55	1
Transfers to other real estate and repossessed assets	1,017	827
Transfer of payment plan receivables to vehicle service contract counterparty receivables	21	131
Purchase of securities available for sale not yet settled	3,154	-

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Shareholders' Equity

	Three months ended March 31,	
	2015	2014
	(unaudited) (In thousands)	
Balance at beginning of period	$250,371	$231,581
Net income	3,781	3,138
Cash dividends declared	(1,382)	-
Issuance of common stock	16	11
Share based compensation	373	255
Share based compensation withholding obligation	(66)	-
Repurchase of common stock	(902)	-
Net change in accumulated other comprehensive loss, net of related tax effect	1,434	1,601
Balance at end of period	$253,625	$236,586

See notes to interim condensed consolidated financial statements (unaudited)

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Preparation of Financial Statements

The condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2014 included in our Annual Report on Form 10-K.

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all the adjustments necessary to present fairly our consolidated financial condition as of March 31, 2015 and December 31, 2014, and the results of operations for the three-month periods ended March 31, 2015 and 2014. The results of operations for the three-month period ended March 31, 2015, are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation. Our critical accounting policies include the assessment for other than temporary impairment ("OTTI") on investment securities, the determination of the allowance for loan losses, the determination of vehicle service contract counterparty contingencies, the valuation of originated mortgage loan servicing rights and the valuation of deferred tax assets. Refer to our 2014 Annual Report on Form 10-K for a disclosure of our accounting policies.

2. New Accounting Standards

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure". The amendments in this ASU clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. This amendment is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014, with early adoption and retrospective or prospective application permitted. This amended guidance became effective for us on January 1, 2015 and did not have a material impact on our consolidated operating results or financial condition.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)". This ASU supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this ASU specifies the accounting for some costs to obtain or fulfill a contract with a customer. This amended guidance is effective for us on January 1, 2017, and is not expected to have a material impact on our consolidated operating results or financial condition.

In June 2014, the FASB issued ASU 2014-12, "Compensation – Stock Compensation (Topic 718) – Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period". This ASU amends existing guidance related to the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. These amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. This amended guidance is effective for us on January 1, 2016, and is not expected to have a material impact on our consolidated operating results or financial condition.

3. Securities

Securities available for sale consist of the following:

	Amortized Cost	Unrealized Gains	Losses	Fair Value
	(In thousands)			
March 31, 2015				
U.S. agency	$35,308	$255	$34	$35,529
U.S. agency residential mortgage-backed	232,286	2,162	194	234,254
U.S. agency commercial mortgage-backed	32,846	270	35	33,081
Private label residential mortgage-backed	5,992	195	367	5,820
Other asset backed	95,197	110	116	95,191
Obligations of states and political subdivisions	142,133	1,469	814	142,788
Corporate	22,636	83	58	22,661
Trust preferred	2,910	-	472	2,438
Total	$569,308	$4,544	$2,090	$571,762
December 31, 2014				
U.S. agency	$34,936	$133	$63	$35,006
U.S. agency residential mortgage-backed	256,387	1,838	667	257,558
U.S. agency commercial mortgage-backed	33,779	68	119	33,728
Private label residential mortgage-backed	6,216	187	390	6,013
Other asset backed	32,314	77	38	32,353
Obligations of states and political subdivisions	143,698	961	1,244	143,415
Corporate	22,690	53	79	22,664
Trust preferred	2,910	-	469	2,441
Total	$532,930	$3,317	$3,069	$533,178

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Our investments' gross unrealized losses and fair values aggregated by investment type and length of time that individual securities have been at a continuous unrealized loss position follows:

	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
March 31, 2015						
U.S. agency	$12,822	$ 29	$775	$ 5	$13,597	$ 34
U.S. agency residential mortgage-backed	29,496	119	11,171	75	40,667	194
U.S. agency commercial mortgage-backed	7,999	28	2,600	7	10,599	35
Private label residential mortgage-backed	202	1	3,883	366	4,085	367
Other asset backed	28,970	46	7,232	70	36,202	116
Obligations of states and political subdivisions	24,722	70	28,979	744	53,701	814
Corporate	3,208	58	-	-	3,208	58
Trust preferred	-	-	2,438	472	2,438	472
Total	$107,419	$ 351	$57,078	$ 1,739	$164,497	$ 2,090
December 31, 2014						
U.S. agency	$12,851	$58	$606	$5	$13,457	$63
U.S. agency residential mortgage-backed	89,547	531	15,793	136	105,340	667
U.S. agency commercial mortgage-backed	21,325	119	-	-	21,325	119
Private label residential mortgage-backed	208	1	4,013	389	4,221	390
Other asset backed	2,960	15	8,729	23	11,689	38
Obligations of states and political subdivisions	28,114	106	37,540	1,138	65,654	1,244
Corporate	8,660	79	-	-	8,660	79
Trust preferred	-	-	2,441	469	2,441	469
Total	$163,665	$909	$69,122	$2,160	$232,787	$3,069

Our portfolio of available-for-sale securities is reviewed quarterly for impairment in value. In performing this review management considers (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) the impact of changes in market interest rates on the market value of the security and (4) an assessment of whether we intend to sell, or it is more likely than not that we will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. For securities that do not meet the aforementioned recovery criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income or loss.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

U.S. agency, U.S. agency residential mortgage-backed securities and U.S. agency commercial mortgage backed securities — at March 31, 2015, we had 18 U.S. agency, 41 U.S. agency residential mortgage-backed and 10 U.S. agency commercial mortgage-backed securities whose fair market value is less than amortized cost. The unrealized losses are largely attributed to rises in term interest rates since acquisition and widening spreads to Treasury bonds. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Private label residential mortgage backed securities — at March 31, 2015, we had five of this type of security whose fair value is less than amortized cost. Two of the five issues are rated by a major rating agency as investment grade, two are rated below investment grade and one is split rated. Two of these bonds have an impairment in excess of 10% and four of these holdings have been impaired for more than 12 months. The unrealized losses are largely attributable to credit spread widening on these securities since their acquisition.

All of these securities are receiving principal and interest payments. Most of these transactions are pass-through structures, receiving pro rata principal and interest payments from a dedicated collateral pool. The nonreceipt of interest cash flows is not expected and thus not presently considered in our discounted cash flow methodology discussed below.

All private label residential mortgage-backed securities are reviewed for OTTI utilizing a cash flow projection. The cash flow analysis forecasts cash flow from the underlying loans in each transaction and then applies these cash flows to the bonds in the securitization. Our cash flow analysis forecasts complete recovery of our cost basis for four of the five securities whose fair value is less than amortized cost while the fifth security had credit related OTTI and is discussed in further detail below.

As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no other declines discussed above are deemed to be other than temporary.

Other asset backed — at March 31, 2015, we had 29 other asset backed securities whose fair value is less than amortized cost. The unrealized losses are primarily due to widening discount margins. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Obligations of states and political subdivisions — at March 31, 2015, we had 57 municipal securities whose fair value is less than amortized cost. The unrealized losses are primarily due to increases in interest rates since acquisition. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Corporate — at March 31, 2015, we had five corporate securities whose fair value is less than amortized cost. The unrealized losses are primarily due to credit spread widening. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Trust preferred securities — at March 31, 2015, we had three trust preferred securities whose fair value is less than amortized cost. All of our trust preferred securities are single issue securities issued by a trust subsidiary of a bank holding company. The pricing of trust preferred securities has suffered from credit spread widening.

One of the three securities is rated by two major rating agencies as investment grade, while one (a Bank of America issuance) is rated below investment grade by two major rating agencies and the other one is non-rated. The non-rated issue is a relatively small bank and was never rated. The issuer of this non-rated trust preferred security, which had a total amortized cost of $1.0 million and total fair value of $0.8 million as of March 31, 2015, continues to have satisfactory credit metrics and make interest payments.

The following table breaks out our trust preferred securities in further detail as of March 31, 2015 and December 31, 2014:

	March 31, 2015		December 31, 2014	
	Fair Value	Net Unrealized Loss	Fair Value	Net Unrealized Loss
	(In thousands)			
Trust preferred securities				
Rated issues	$1,674	$ (236)	$1,643	$ (267)
Unrated issues	764	(236)	798	(202)

As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

We recorded no credit related OTTI charges in earnings on securities available for sale during the three month periods ended March 31, 2015 and 2014, respectively.

At March 31, 2015, three private label residential mortgage-backed securities had credit related OTTI and are summarized as follows:

	Senior Security	Super Senior Security	Senior Support Security	Total
	(In thousands)			
As of March 31, 2015				
Fair value	$2,053	$ 1,524	$ 96	$3,673
Amortized cost	2,092	1,426	-	3,518
Non-credit unrealized loss	39	-	-	39
Unrealized gain	-	98	96	194
Cumulative credit related OTTI	757	457	380	1,594

Credit related OTTI recognized in our Condensed Consolidated Statements of Operations
For the three months ended March 31,

2015	$-	$ -	$ -	$-
2014	-	-	-	-

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Each of these securities is receiving principal and interest payments similar to principal reductions in the underlying collateral. Two of these securities have unrealized gains and one has an unrealized loss at March 31, 2015. Prior to the second quarter of 2013, all three of these securities had an unrealized loss. The original amortized cost for each of these securities has been permanently adjusted downward for previously recorded credit related OTTI. The unrealized loss (based on original amortized cost) for two of these securities is now less than previously recorded credit related OTTI amounts. The remaining non-credit related unrealized loss in the senior security is attributed to other factors and is reflected in other comprehensive income during those same periods.

A roll forward of credit losses recognized in earnings on securities available for sale for the three month periods ending March 31, follows:

	2015	2014
	(In thousands)	
Balance at beginning of year	$1,844	$1,835
Additions to credit losses on securities for which no previous OTTI was recognized	-	-
Increases to credit losses on securities for which OTTI was previously recognized	-	-
Total	$1,844	$1,835

The amortized cost and fair value of securities available for sale at March 31, 2015, by contractual maturity, follow:

	Amortized Cost	Fair Value
	(In thousands)	
Maturing within one year	$28,410	$28,419
Maturing after one year but within five years	61,845	62,190
Maturing after five years but within ten years	36,871	37,377
Maturing after ten years	75,861	75,430
	202,987	203,416
U.S. agency residential mortgage-backed	232,286	234,254
U.S. agency commercial mortgage-backed	32,846	33,081
Private label residential mortgage-backed	5,992	5,820
Other asset backed	95,197	95,191
Total	$569,308	$571,762

The actual maturity may differ from the contractual maturity because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Gains and losses realized on the sale of securities available for sale are determined using the specific identification method and are recognized on a trade-date basis. A summary of proceeds from the sale of securities available for sale and gains and losses for the three month periods ending March 31, follows:

		Realized	
	Proceeds	Gains	Losses
	(In thousands)		
2015	$11,786	$ 75	$ -
2014	-	-	-

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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During 2015 and 2014, our trading securities consisted of various preferred stocks. During the first three months of 2015 and 2014, we recognized gains on trading securities of $0.010 million and $0.112 million, respectively, that are included in net gains on securities in the Condensed Consolidated Statements of Operations. Both of these amounts relate to gains recognized on trading securities still held at each respective period end.

4. Loans

Our assessment of the allowance for loan losses is based on an evaluation of the loan portfolio, recent loss experience, current economic conditions and other pertinent factors.

An analysis of the allowance for loan losses by portfolio segment for the three months ended March 31, follows:

	Commercial	Mortgage	Installment	Payment Plan Receivables	Unallocated	Total
	(In thousands)					
2015						
Balance at beginning of period	$5,445	$13,444	$1,814	$64	$5,223	$25,990
Additions (deductions)						
Provision for loan losses	328	(733)	(85)	(2)	(167)	(659)
Recoveries credited to allowance	433	238	319	-	-	990
Loans charged against the allowance	(290)	(868)	(484)	-	-	(1,642)
Balance at end of period	$5,916	$12,081	$1,564	$62	$5,056	$24,679
2014						
Balance at beginning of period	$6,827	$17,195	$2,246	$97	$5,960	$32,325
Additions (deductions)						
Provision for loan losses	507	193	176	(14)	(434)	428
Recoveries credited to allowance	355	458	251	4	-	1,068
Loans charged against the allowance	(1,926)	(846)	(612)	-	-	(3,384)
Balance at end of period	$5,763	$17,000	$2,061	$87	$5,526	$30,437

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Allowance for loan losses and recorded investment in loans by portfolio segment follows:

	Commercial	Mortgage	Installment	Payment Plan Receivables	Unallocated	Total
	(In thousands)					
March 31, 2015						
Allowance for loan losses						
Individually evaluated for impairment	$3,214	$8,612	$654	$ -	$ -	$12,480
Collectively evaluated for impairment	2,702	3,469	910	62	5,056	12,199
Total ending allowance balance	$5,916	$12,081	$1,564	$ 62	$ 5,056	$24,679
Loans						
Individually evaluated for impairment	$32,633	$70,478	$6,461	$ -		$109,572
Collectively evaluated for impairment	679,319	397,551	202,158	38,767		1,317,795
Total loans recorded investment	711,952	468,029	208,619	38,767		1,427,367
Accrued interest included in recorded investment	1,629	2,122	657	-		4,408
Total loans	$710,323	$465,907	$207,962	$ 38,767		$1,422,959
December 31, 2014						
Allowance for loan losses						
Individually evaluated for impairment	$3,194	$9,311	$728	$ -	$ -	$13,233
Collectively evaluated for impairment	2,251	4,133	1,086	64	5,223	12,757
Total ending allowance balance	$5,445	$13,444	$1,814	$ 64	$ 5,223	$25,990
Loans						
Individually evaluated for impairment	$34,147	$72,340	$6,679	$ -		$113,166
Collectively evaluated for impairment	658,423	402,458	200,368	40,001		1,301,250
Total loans recorded investment	692,570	474,798	207,047	40,001		1,414,416
Accrued interest included in recorded investment	1,615	2,170	669	-		4,454
Total loans	$690,955	$472,628	$206,378	$ 40,001		$1,409,962

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

Loans on non-accrual status and past due more than 90 days ("Non-performing Loans") follow:

	90+ and Still Accruing	Non-Accrual	Total Non-Performing Loans
	(In thousands)		
March 31, 2015			
Commercial			
Income producing - real estate	$-	$1,187	$ 1,187
Land, land development and construction - real estate	-	575	575
Commercial and industrial	197	2,749	2,946
Mortgage			
1-4 family	-	6,235	6,235
Resort lending	-	1,815	1,815
Home equity - 1st lien	-	267	267
Home equity - 2nd lien	-	366	366
Installment			
Home equity - 1st lien	-	290	290
Home equity - 2nd lien	-	528	528
Loans not secured by real estate	-	562	562
Other	-	8	8
Payment plan receivables			
Full refund	-	7	7
Partial refund	-	1	1
Other	-	3	3
Total recorded investment	$197	$14,593	$ 14,790
Accrued interest included in recorded investment	$3	$-	$ 3
December 31, 2014			
Commercial			
Income producing - real estate	$-	$1,233	$ 1,233
Land, land development and construction - real estate	-	594	594
Commercial and industrial	-	2,746	2,746
Mortgage			
1-4 family	7	5,945	5,952
Resort lending	-	2,168	2,168
Home equity - 1st lien	-	331	331
Home equity - 2nd lien	-	605	605
Installment			
Home equity - 1st lien	-	576	576
Home equity - 2nd lien	-	517	517
Loans not secured by real estate	-	454	454
Other	-	48	48
Payment plan receivables			
Full refund	-	2	2
Partial refund	-	12	12
Other	-	-	-

Total recorded investment	$7	$15,231	$ 15,238
Accrued interest included in recorded investment	$-	$-	$ -

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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An aging analysis of loans by class follows:

	Loans Past Due					
	30-59 days	60-89 days	90+ days	Total	Loans not Past Due	Total Loans
	(In thousands)					
March 31, 2015						
Commercial						
Income producing - real estate	$268	$-	$214	$482	$271,395	$271,877
Land, land development and construction - real estate	124	-	217	341	32,150	32,491
Commercial and industrial	288	278	1,101	1,667	405,917	407,584
Mortgage						
1-4 family	2,390	468	6,235	9,093	267,027	276,120
Resort lending	865	283	1,815	2,963	121,834	124,797
Home equity - 1st lien	41	113	267	421	20,238	20,659
Home equity - 2nd lien	396	111	366	873	45,580	46,453
Installment						
Home equity - 1st lien	186	12	290	488	20,562	21,050
Home equity - 2nd lien	193	115	528	836	26,078	26,914
Loans not secured by real estate	355	21	562	938	157,516	158,454
Other	1	18	8	27	2,174	2,201
Payment plan receivables						
Full refund	596	113	7	716	23,941	24,657
Partial refund	376	63	1	440	8,577	9,017
Other	120	22	3	145	4,948	5,093
Total recorded investment	$6,199	$1,617	$11,614	$19,430	$1,407,937	$1,427,367
Accrued interest included in recorded investment	$50	$20	$3	$73	$4,335	$4,408
December 31, 2014						
Commercial						
Income producing - real estate	$89	$-	$214	$303	$252,763	$253,066
Land, land development and construction - real estate	131	-	223	354	33,984	34,338
Commercial and industrial	2,391	279	209	2,879	402,287	405,166
Mortgage						
1-4 family	1,877	1,638	5,952	9,467	269,719	279,186
Resort lending	226	-	2,168	2,394	126,342	128,736
Home equity - 1st lien	39	50	331	420	19,782	20,202
Home equity - 2nd lien	711	89	605	1,405	45,269	46,674
Installment						
Home equity - 1st lien	466	37	576	1,079	20,995	22,074
Home equity - 2nd lien	369	81	517	967	28,125	29,092
Loans not secured by real estate	589	231	454	1,274	152,115	153,389
Other	15	3	48	66	2,426	2,492
Payment plan receivables						
Full refund	838	214	2	1,054	26,799	27,853
Partial refund	409	123	12	544	6,550	7,094

Other	96	24	-	120	4,934	5,054
Total recorded investment	$8,246	$2,769	$11,311	$22,326	$1,392,090	$1,414,416
Accrued interest included in recorded investment	$55	$29	$-	$84	$4,370	$4,454

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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Impaired loans are as follows :

	March 31, 2015	December 31, 2014
Impaired loans with no allocated allowance	(In thousands)	
TDR	$9,402	$9,325
Non - TDR	316	299
Impaired loans with an allocated allowance		
TDR - allowance based on collateral	5,184	5,879
TDR - allowance based on present value cash flow	91,924	94,970
Non - TDR - allowance based on collateral	2,387	2,296
Non - TDR - allowance based on present value cash flow	-	-
Total impaired loans	$109,213	$112,769
Amount of allowance for loan losses allocated		
TDR - allowance based on collateral	$1,707	$2,025
TDR - allowance based on present value cash flow	9,704	10,188
Non - TDR - allowance based on collateral	1,069	1,020
Non - TDR - allowance based on present value cash flow	-	-
Total amount of allowance for loan losses allocated	$12,480	$13,233

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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Impaired loans by class are as follows (1):

	March 31, 2015			December 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:	(In thousands)					
Commercial						
Income producing - real estate	$5,827	$6,046	$ -	$5,868	$6,077	$ -
Land, land development & construction-real estate	1,030	1,591	-	1,051	1,606	-
Commercial and industrial	2,851	2,843	-	2,685	2,667	-
Mortgage						
1-4 family	25	66	-	-	49	-
Resort lending	13	96	-	48	397	-
Home equity - 1st lien	-	-	-	-	-	-
Home equity - 2nd lien	-	-	-	-	-	-
Installment						
Home equity - 1st lien	-	39	-	-	40	-
Home equity - 2nd lien	-	-	-	-	-	-
Loans not secured by real estate	-	-	-	-	-	-
Other	-	-	-	-	-	-
	9,746	10,681	-	9,652	10,836	-
With an allowance recorded:						
Commercial						
Income producing - real estate	12,861	13,842	733	12,836	13,797	689
Land, land development & construction-real estate	1,961	2,043	394	3,456	3,528	499
Commercial and industrial	8,103	8,361	2,087	8,251	8,486	2,006
Mortgage						
1-4 family	51,695	54,501	5,753	53,206	56,063	6,195
Resort lending	18,464	18,629	2,835	18,799	18,963	3,075
Home equity - 1st lien	161	177	13	162	177	14
Home equity - 2nd lien	120	202	11	125	205	27
Installment						
Home equity - 1st lien	2,637	2,864	179	2,744	2,930	219
Home equity - 2nd lien	3,136	3,145	425	3,212	3,215	419
Loans not secured by real estate	677	784	49	711	835	89
Other	11	11	1	12	12	1
	99,826	104,559	12,480	103,514	108,211	13,233
Total						
Commercial						
Income producing - real estate	18,688	19,888	733	18,704	19,874	689
Land, land development & construction-real estate	2,991	3,634	394	4,507	5,134	499
Commercial and industrial	10,954	11,204	2,087	10,936	11,153	2,006
Mortgage						
1-4 family	51,720	54,567	5,753	53,206	56,112	6,195

Resort lending	18,477	18,725	2,835	18,847	19,360	3,075
Home equity - 1st lien	161	177	13	162	177	14
Home equity - 2nd lien	120	202	11	125	205	27
Installment						
Home equity - 1st lien	2,637	2,903	179	2,744	2,970	219
Home equity - 2nd lien	3,136	3,145	425	3,212	3,215	419
Loans not secured by real estate	677	784	49	711	835	89
Other	11	11	1	12	12	1
Total	$109,572	$115,240	$ 12,480	$113,166	$119,047	$ 13,233
Accrued interest included in recorded investment	$359			$397		

(1) There were no impaired payment plan receivables at March 31, 2015 or December 31, 2014.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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Average recorded investment in and interest income earned on impaired loans by class for the three month periods ending March 31, follows (1):

	2015		2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:	(In thousands)			
Commercial				
Income producing - real estate	$5,848	$ 53	$7,963	$ 175
Land, land development & construction-real estate	1,041	34	1,478	43
Commercial and industrial	2,768	37	3,638	93
Mortgage				
1-4 family	13	-	8	-
Resort lending	31	-	35	-
Home equity - 1st lien	-	-	-	-
Home equity - 2nd lien	-	-	-	-
Installment				
Home equity - 1st lien	-	-	-	-
Home equity - 2nd lien	-	-	-	-
Loans not secured by real estate	-	-	-	-
Other	-	-	-	-
	9,701	124	13,122	311
With an allowance recorded:				
Commercial				
Income producing - real estate	12,849	157	14,026	66
Land, land development & construction-real estate	2,709	14	4,027	12
Commercial and industrial	8,177	66	9,188	26
Mortgage				
1-4 family	52,451	551	57,457	630
Resort lending	18,632	171	19,896	191
Home equity - 1st lien	162	2	154	1
Home equity - 2nd lien	123	2	42	1
Installment				
Home equity - 1st lien	2,691	50	2,920	45
Home equity - 2nd lien	3,174	51	3,418	49
Loans not secured by real estate	694	10	744	10
Other	12	-	16	-
	101,674	1,074	111,888	1,031
Total				
Commercial				
Income producing - real estate	18,697	210	21,989	241
Land, land development & construction-real estate	3,750	48	5,505	55
Commercial and industrial	10,945	103	12,826	119
Mortgage				
1-4 family	52,464	551	57,465	630
Resort lending	18,663	171	19,931	191

Home equity - 1st lien	162	2	154	1
Home equity - 2nd lien	123	2	42	1
Installment				
Home equity - 1st lien	2,691	50	2,920	45
Home equity - 2nd lien	3,174	51	3,418	49
Loans not secured by real estate	694	10	744	10
Other	12	-	16	-
Total	$111,375	$ 1,198	$125,010	$ 1,342

(1) There were no impaired payment plan receivables during the three month periods ended March 31, 2015 and 2014, respectively.

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Our average investment in impaired loans was approximately $111.4 million and $125.0 million for the three-month periods ended March 31, 2015 and 2014, respectively. Cash receipts on impaired loans on non-accrual status are generally applied to the principal balance. Interest income recognized on impaired loans during the first three months of 2015 and 2014 was approximately $1.2 million and $1.3 million, respectively.

Troubled debt restructurings follow:

	March 31, 2015		
	Commercial	Retail	Total
	(In thousands)		
Performing TDRs	$27,904	$71,477	$99,381
Non-performing TDRs(1)	1,935	5,194 (2)	7,129
Total	$29,839	$76,671	$106,510

	December 31, 2014		
	Commercial	Retail	Total
	(In thousands)		
Performing TDRs	$29,475	$73,496	$102,971
Non-performing TDRs(1)	1,978	5,225 (2)	7,203
Total	$31,453	$78,721	$110,174

(1) Included in non-performing loans table above.
(2) Also includes loans on non-accrual at the time of modification until six payments are received on a timely basis.

We allocated $11.4 million and $12.2 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2015 and December 31, 2014, respectively.

During the three months ended March 31, 2015 and 2014, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans generally included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications involving a reduction of the stated interest rate of the loan have generally been for periods ranging from 9 months to 36 months but have extended to as much as 480 months in certain circumstances. Modifications involving an extension of the maturity date have generally been for periods ranging from 1 month to 60 months but have extended to as much as 230 months in certain circumstances.

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Loans that have been classified as troubled debt restructurings during the three-month periods ended March 31 follow:

	Number of Contracts	Pre-modification Recorded Balance	Post-modification Recorded Balance
	(Dollars in thousands)		
2015			
Commercial			
Income producing - real estate	1	$ 156	$ 164
Land, land development & construction-real estate	-	-	-
Commercial and industrial	2	236	234
Mortgage			