VALLEY NATIONAL BANCORP
Form 10-Q
August 07, 2015

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, 2015
OR
¨ Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number 1-11277

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

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

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

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

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock (no par value), of which 232,723,126 shares were outstanding as of August 6, 2015.

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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, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and due from banks	$266,586	$462,569
Interest bearing deposits with banks	206,619	367,838
Investment securities:		
Held to maturity (fair value of $1,739,295 at June 30, 2015 and $1,815,976 at December 31, 2014)	1,720,575	1,778,316
Available for sale	807,574	886,970
Trading securities	—	14,233
Total investment securities	2,528,149	2,679,519
Loans held for sale, at fair value	4,533	24,295
Non-covered loans	14,335,063	13,262,022
Covered loans	145,231	211,891
Less: Allowance for loan losses	(102,835)	(102,353)
Net loans	14,377,459	13,371,560
Premises and equipment, net	282,031	282,997
Bank owned life insurance	379,022	375,640
Accrued interest receivable	58,278	57,333
Due from customers on acceptances outstanding	1,684	4,197
FDIC loss-share receivable	8,404	13,848
Goodwill	577,534	575,892
Other intangible assets, net	33,106	38,775
Other assets	566,600	539,392
Total Assets	$19,290,005	$18,793,855
Liabilities		
Deposits:		
Non-interest bearing	$4,389,486	$4,235,515
Interest bearing:		
Savings, NOW and money market	7,025,656	7,056,133
Time	2,915,889	2,742,468
Total deposits	14,331,031	14,034,116
Short-term borrowings	126,148	146,781
Long-term borrowings	2,625,116	2,526,408
Junior subordinated debentures issued to capital trusts	41,333	41,252
Bank acceptances outstanding	1,684	4,197
Accrued expenses and other liabilities	179,166	178,084
Total Liabilities	17,304,478	16,930,838
Shareholders' Equity		
Preferred stock, (no par value, authorized 30,000,000 shares; issued 4,600,000 shares at June 30, 2015)	111,590	—
Common stock, (no par value, authorized 332,023,233 shares; issued 232,637,650 shares at June 30, 2015 and 232,127,098 shares at December 31, 2014)	81,237	81,072
Surplus	1,699,195	1,693,752

Retained earnings	141,948	130,845
Accumulated other comprehensive loss	(48,260)	(42,495)
Treasury stock, at cost (17,902 common shares at June 30, 2015 and 16,123 common shares at December 31, 2014)	(183)	(157)
Total Shareholders’ Equity	1,985,527	1,863,017
Total Liabilities and Shareholders’ Equity	$19,290,005	$18,793,855

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest Income				
Interest and fees on loans	$158,164	$136,338	$308,646	$267,417
Interest and dividends on investment securities:				
Taxable	12,233	15,709	27,165	32,165
Tax-exempt	3,595	3,700	7,207	7,386
Dividends	1,616	1,390	3,355	3,180
Interest on federal funds sold and other short-term investments	146	27	366	54
Total interest income	175,754	157,164	346,739	310,202
Interest Expense				
Interest on deposits:				
Savings, NOW and money market	5,911	4,530	11,906	8,811
Time	8,128	6,683	16,102	13,215
Interest on short-term borrowings	207	304	301	622
Interest on long-term borrowings and junior subordinated debentures	25,331	28,228	50,167	56,111
Total interest expense	39,577	39,745	78,476	78,759
Net Interest Income	136,177	117,419	268,263	231,443
Provision for credit losses	4,500	(5,671)	4,500	(1,673)
Net Interest Income After Provision for Credit Losses	131,677	123,090	263,763	233,116
Non-Interest Income				
Trust and investment services	2,576	2,244	5,070	4,686
Insurance commissions	4,130	4,491	8,335	8,989
Service charges on deposit accounts	5,263	5,636	10,553	11,387
(Losses) gains on securities transactions, net	(92)	7	2,324	(1)
Fees from loan servicing	1,642	1,786	3,245	3,456
Gains on sales of loans, net	422	679	1,020	1,592
Gains on sales of assets, net	200	276	481	128
Bank owned life insurance	1,618	1,614	3,382	3,022
Change in FDIC loss-share receivable	595	(7,711)	(3,325)	(7,787)
Other	3,846	3,512	7,760	7,800
Total non-interest income	20,200	12,534	38,845	33,272
Non-Interest Expense				
Salary and employee benefits expense	54,574	47,094	111,286	95,182
Net occupancy and equipment expense	22,132	17,973	44,332	38,697
FDIC insurance assessment	4,012	3,393	7,804	6,680
Amortization of other intangible assets	2,096	2,346	4,489	4,697
Professional and legal fees	4,059	4,384	7,400	8,062
Amortization of tax credit investments	4,511	5,802	9,007	9,518
Advertising	1,631	533	3,360	1,150
Telecommunication expense	2,045	1,643	4,051	3,349
Other	12,352	11,185	23,801	23,117
Total non-interest expense	107,412	94,353	215,530	190,452

Income Before Income Taxes	44,465	41,271	87,078	75,936
Income tax expense	12,474	11,751	24,746	12,581
Net Income	$31,991	$29,520	$62,332	$63,355
Earnings Per Common Share:				
Basic	$0.14	$0.15	$0.27	$0.32
Diluted	0.14	0.15	0.27	0.32
Cash Dividends Declared per Common Share	0.11	0.11	0.22	0.22
Weighted Average Number of Common Shares Outstanding:				
Basic	232,565,404	200,472,592	232,452,716	200,301,438
Diluted	232,586,616	200,472,592	232,457,748	200,301,438

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,	
	2015	2014	2015	2014
Net income	$31,991	$29,520	$62,332	$63,355
Other comprehensive income, net of tax:				
Unrealized gains and losses on available for sale securities				
Net (losses) gains arising during the period	(5,845)	7,123	(1,909)	14,339
Less reclassification adjustment for net losses (gains) included in net income	55	(4)	(1,354)	1
Total	(5,790)	7,119	(3,263)	14,340
Non-credit impairment losses on available for sale securities				
Net change in non-credit impairment losses on securities	(31)	164	(452)	306
Less reclassification adjustment for accretion of credit impairment losses included in net income	(20)	(64)	(104)	(179)
Total	(51)	100	(556)	127
Unrealized gains and losses on derivatives (cash flow hedges)				
Net gains (losses) on derivatives arising during the period	1,131	(4,862)	(4,128)	(8,524)
Less reclassification adjustment for net losses included in net income	991	973	1,942	1,938
Total	2,122	(3,889)	(2,186)	(6,586)
Defined benefit pension plan				
Amortization of net loss	121	37	240	74
Total other comprehensive (loss) income	(3,598)	3,367	(5,765)	7,955
Total comprehensive income	$28,393	$32,887	$56,567	$71,310

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	$62,332	$63,355
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,230	10,016
Stock-based compensation	3,886	3,845
Provision for credit losses	4,500	(1,673)
Net amortization of premiums and accretion of discounts on securities and borrowings	12,519	13,757
Amortization of other intangible assets	4,489	4,697
(Gains) losses on securities transactions, net	(2,324)	1
Proceeds from sales of loans held for sale	53,005	56,579
Gains on sales of loans, net	(1,020)	(1,592)
Originations of loans held for sale	(32,793)	(53,568)
Gains on sales of assets, net	(481)	(128)
FDIC loss-share receivable (excluding reimbursements)	3,325	7,787
Net change in:		
Trading securities	14,233	43
Fair value of borrowings carried at fair value	(1,059)	—
Cash surrender value of bank owned life insurance	(3,382)	(3,022)
Accrued interest receivable	(945)	314
Other assets	(25,207)	37,596
Accrued expenses and other liabilities	(1,696)	(32,852)
Net cash provided by operating activities	99,612	105,155
Cash flows from investing activities:		
Net loan originations	(385,576)	(243,102)
Loans purchased	(629,074)	(26,746)
Investment securities held to maturity:		
Purchases	(168,682)	(279,718)
Sales	11,666	—
Maturities, calls and principal repayments	209,017	185,690
Investment securities available for sale:		
Purchases	(26,791)	(9,180)
Sales	14,022	—
Maturities, calls and principal repayments	80,994	77,396
Proceeds from sales of real estate property and equipment	7,626	10,172
Purchases of real estate property and equipment	(9,106)	(13,518)
Reimbursements from the FDIC	1,753	4,283
Net cash used in investing activities	(894,151)	(294,723)
Cash flows from financing activities:		
Net change in deposits	296,915	96,790
Net change in short-term borrowings	(20,633)	72,775
Proceeds from issuance of long-term borrowings, net	98,851	—
Proceeds from issuance of preferred stock, net	111,590	—

Cash dividends paid to common shareholders	(51,012)	(43,995)
Purchase of common shares to treasury	(2,082)	(938)
Common stock issued, net	3,708	2,449
Net cash provided by financing activities	437,337	127,081
Net change in cash and cash equivalents	(357,202)	(62,487)
Cash and cash equivalents at beginning of year	830,407	369,168
Cash and cash equivalents at end of period	$473,205	$306,681

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

	Six Months Ended June 30,	
	2015	2014
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest on deposits and borrowings	$78,777	$78,549
Federal and state income taxes	38,525	20,102
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	$4,369	$6,340
Transfer of loans to loans held for sale	—	27,329

See accompanying notes to consolidated financial statements.

VALLEY NATIONAL BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Note 1. Basis of Presentation
The unaudited consolidated financial statements of Valley National Bancorp, a New Jersey Corporation (Valley), include the accounts of its commercial bank subsidiary, Valley National Bank (the “Bank”), and all of Valley’s direct or indirect wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated. The accounting and reporting policies of Valley conform to U.S. generally accepted accounting principles (U.S. GAAP) and general practices within the financial services industry. In accordance with applicable accounting standards, Valley does not consolidate statutory trusts established for the sole purpose of issuing trust preferred securities and related trust common securities.
In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly Valley’s financial position, results of operations and cash flows at June 30, 2015 and for all periods presented have been made. The results of operations for the three and six months ended June 30, 2015 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, 2014.
On June 19, 2015, Valley issued 4.6 million shares of its Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A (the "Preferred Stock”), no par value per share, with a liquidation preference of $25 per share. Dividends on the Preferred Stock will accrue and be payable quarterly in arrears, at a fixed rate per annum equal to 6.25 percent from the original issue date to, but excluding, June 30, 2025, and thereafter at a floating rate per annum equal to three-month LIBOR plus a spread of 3.85 percent. The net proceeds from the offering and sale of the Preferred Stock totaled approximately $111.6 million.
Note 2. Business Combinations

CNLBancshares, Inc. On May 27, 2015 Valley entered into a merger agreement to acquire CNLBancshares, Inc. (CNLBancshares) and its wholly-owned subsidiary, CNLBank headquartered in Orlando, Florida. CNLBancshares has approximately $1.4 billion in assets, $833 million in loans and $1.1 billion in deposits and maintains a branch network of 16 offices. The common shareholders of CNLBancshares will receive 0.75 of a share of Valley common stock for each CNLBancshares share they own, subject to adjustment in the event Valley’s average stock price falls below $8.80 or rises above $10.13 prior to closing. The transaction is valued at an estimated $207 million, based on Valley’s closing stock price on May 22, 2015 (and includes the stock consideration of $16.2 million that will be paid to CNLBancshares stock option holders). The transaction closing is anticipated in the fourth quarter of 2015, subject to approvals from regulators, CNLBancshares shareholder approval of the merger and Valley shareholder approval of an amendment of its certificate of incorporation to increase its authorized common shares, as well as other customary conditions.

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1st United Bancorp, Inc. On November 1, 2014, Valley acquired 1st United Bancorp, Inc. (1st United) and its wholly-owned subsidiary, 1st United Bank, a commercial bank with approximately $1.7 billion in assets, $1.2 billion in loans, and $1.4 billion in deposits, after purchase accounting adjustments. The 1st United acquisition provided Valley a 20 branch network covering some of the most attractive urban banking markets in Florida, including locations throughout southeast Florida, the Treasure Coast, central Florida and central Gulf Coast regions. The common shareholders of 1st United received 0.89 of a share of Valley common stock for each 1st United share they owned prior to the merger. The total consideration for the acquisition was approximately $300 million, consisting of 30.7 million shares of Valley common stock and $8.9 million of cash consideration paid to 1st United stock option holders.

During the first quarter of 2015, Valley revised the estimated fair values of the acquired assets as of the acquisition date as the result of additional information obtained. The adjustments mostly related to the fair value of certain purchased credit-impaired (PCI) loans, core deposit intangibles and deferred tax assets which, on a combined basis, resulted in a $1.6 million increase in goodwill (see Note 10 for amount of goodwill as allocated to Valley's business segments). The fair value estimates for acquired assets and assumed liabilities are subject to change for up to one year after the closing date of the 1st United acquisition, as additional information becomes available.

Note 3. Earnings Per Common Share

The following table shows the calculation of both basic and diluted earnings per common share for the three and six months ended June 30, 2015 and 2014.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands, except for share data)			
Net income	$31,991	$29,520	$62,332	$63,355
Basic weighted average number of common shares outstanding	232,565,404	200,472,592	232,452,716	200,301,438
Plus: Common stock equivalents	21,212	—	5,032	—
Diluted weighted average number of common shares outstanding	232,586,616	200,472,592	232,457,748	200,301,438
Earnings per common share:				
Basic	$0.14	$0.15	$0.27	$0.32
Diluted	0.14	0.15	0.27	0.32

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 diluted earnings per share calculation. Anti-dilutive common stock options and warrants totaled approximately 6.1 million shares for both the three and six months ended June 30, 2015 and 6.6 million shares for the three and six months ended June 30, 2014. Restricted stock units not included in common stock equivalents for both the three and six months ended June 30, 2015 and 2014 were immaterial.

Note 4. Accumulated Other Comprehensive Loss

The following table presents the after-tax changes in the balances of each component of accumulated other comprehensive loss for the three and six months ended June 30, 2015.

	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, 2015	$637	$(360)	$(18,840)	$(26,099)	$(44,662)
Other comprehensive income (loss) before reclassifications	(5,845)	(31)	1,131	—	(4,745)
Amounts reclassified from other comprehensive income (loss)	55	(20)	991	121	1,147
Other comprehensive income (loss), net	(5,790)	(51)	2,122	121	(3,598)
Balance at June 30, 2015	$(5,153)	$(411)	$(16,718)	$(25,978)	$(48,260)
Balance at December 31, 2014	$(1,890)	$145	$(14,532)	$(26,218)	$(42,495)
Other comprehensive income (loss) before reclassifications	(1,909)	(452)	(4,128)	—	(6,489)
Amounts reclassified from other comprehensive income (loss)	(1,354)	(104)	1,942	240	724
Other comprehensive income (loss), net	(3,263)	(556)	(2,186)	240	(5,765)
Balance at June 30, 2015	$(5,153)	$(411)	$(16,718)	$(25,978)	$(48,260)

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, 2015 and 2014.

	Amounts Reclassified from Accumulated Other Comprehensive Loss				
	Three Months Ended June 30,		Six Months Ended June 30,		
Components of Accumulated Other Comprehensive Loss	2015	2014	2015	2014	Income Statement Line Item
	(in thousands)				
Unrealized gains (losses) on AFS securities before tax	$(92)	$7	$2,324	$(1)	(Losses) gains on securities transactions, net
Tax effect	37	(3)	(970)	—	
Total net of tax	(55)	4	1,354	(1)	
Non-credit impairment losses on AFS securities before tax:					
Accretion of credit loss impairment due to an increase in expected cash flows	34	110	178	308	Interest and dividends on investment securities (taxable)
Tax effect	(14)	(46)	(74)	(129)	
Total net of tax	20	64	104	179	

Unrealized losses on derivatives (cash flow hedges) before tax	(1,699)	(1,664)	(3,328)	(3,312)	Interest expense
Tax effect	708	691	1,386	1,374	
Total net of tax	(991)	(973)	(1,942)	(1,938)	
Defined benefit pension plan:					
Amortization of net loss	(205)	(62)	(410)	(124)	*
Tax effect	84	25	170	50	
Total net of tax	(121)	(37)	(240)	(74)	
Total reclassifications, net of tax	$(1,147)	$(942)	$(724)	$(1,834)	

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

Note 5. New Authoritative Accounting Guidance

Accounting Standards Update (ASU) No. 2015-12, "Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient." ASU No. 2015-12 simplifies accounting for employee benefit plans as follows: (i) fully benefit-responsive investment contracts are now to be measured, presented and disclosed at contract value, (ii) the requirement to disclose investments that represent 5 percent or more of net assets available for benefits has been eliminated, (iii) the net appreciation or depreciation in investments for the period should be presented in the aggregate, but is no longer required to be disaggregated and disclosed by general type, (iv) if an investment is measured using the net asset value per share (or its equivalent) practical expedient in Topic 820, and that investment is in a fund that files a U.S. Department of Labor Form 5500, Annual Return/Report of Employee Benefit Plan, as a direct filing entity, disclosure of that investment’s strategy is no longer required, and (v) allows employers to measure (as a practical expedient) benefit plan assets on a month-end date nearest to the employer’s fiscal year end when the fiscal period does not coincide with a month end. ASU No. 2015-12 is effective for fiscal years beginning after December 15, 2015 and is not expected to have a significant impact on Valley's consolidated financial statements.

ASU No. 2015-07, "Fair Value Measurement (Topic 820) - Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)", which removes the requirement to categorize within the fair value hierarchy all investments for which the fair value is measured using the net asset value per share practical expedient. The ASU No. 2015-07 also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. ASU No. 2015-07 will be effective for Valley for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years with early adoption permitted. Management is currently evaluating the impact of adopting this new ASU on the Valley's consolidated financial statements.

ASU No. 2015-03, "Interest—Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs" requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in the ASU No. 2015-03. ASU No. 2015-03 will be effective for reporting periods (including interim periods) beginning after December 15, 2015. ASU No. 2015-03 became effective for Valley on January 1, 2015 and did not have a significant impact on its consolidated financial statements.

ASU No. 2014-14, "Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure" requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. ASU No. 2014-14 became effective for Valley on January 1, 2015 and did not have a significant impact on its consolidated financial statements.

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

ASU No. 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures" requires entities to account for repurchase-to-maturity transactions as secured borrowings rather than as sales with forward

repurchase agreements and expands disclosure requirements related to certain transfers of financial assets that are accounted for as sales and certain transfers (specifically, repos, securities lending transactions, and repurchase-to-maturity transactions) accounted for as secured borrowings. The accounting-related changes became effective for the first interim or annual period beginning after December 15, 2014. The disclosures for certain transactions accounted for as sales are required for interim and annual periods beginning after December 15, 2014. The disclosures for repos, securities lending transactions, and repos-to-maturity accounted for as secured borrowings are required for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Valley's repurchase agreements are typical in nature (i.e., not repurchase-to-maturity transactions or repurchase agreements executed as a repurchase financing) and are accounted for as secured borrowings. As such, Valley's adoption of ASU No. 2014-11 on January 1, 2015 did not have a significant impact on its consolidated financial statements.

ASU No. 2014-04, “Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure,” clarifies that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, this ASU requires interim and annual disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 became effective for Valley on January 1, 2015 and did not to have a significant impact on its consolidated financial statements. See Note 8 for related disclosures.

ASU No. 2014-01, “Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects,” amends existing guidance to permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense or benefit. For those investments in qualified affordable housing projects not accounted for using the proportional amortization method, the investment should be accounted for as an equity method investment or a cost method investment in accordance with Subtopic 970-323. ASU No. 2014-01 became effective for Valley on January 1, 2015 and did not have a significant impact on its consolidated financial statements. See Note 15 for the related disclosures.

Note 6. 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, 2015 and December 31, 2014. 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, 2015	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	$49,273	$49,273	$—	$—
U.S. government agency securities	26,529	—	26,529	—
Obligations of states and political subdivisions	43,410	—	43,410	—
Residential mortgage-backed securities	585,791	—	573,202	12,589
Trust preferred securities	8,618	—	6,495	2,123
Corporate and other debt securities	73,484	17,963	55,521	—
Equity securities	20,469	1,338	19,131	—
Total available for sale	807,574	68,574	724,288	14,712
Loans held for sale (1)(2)	4,533	—	4,533	—
Other assets (3)	23,982	—	23,982	—
Total assets	$836,089	$68,574	$752,803	$14,712
Liabilities				
Other liabilities (3)	$41,801	$—	$41,801	$—
Total liabilities	$41,801	$—	$41,801	$—
Non-recurring fair value measurements:				
Collateral dependent impaired loans (4)	$9,642	$—	$—	$9,642
Loan servicing rights	3,023	—	—	3,023
Foreclosed assets (5)	6,429	—	—	6,429
Total	$19,094	$—	$—	$19,094

	December 31, 2014	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	$49,443	$49,443	$—	$—
U.S. government agency securities	33,825	—	33,825	—
Obligations of states and political subdivisions	44,051	—	44,051	—
Residential mortgage-backed securities	644,276	—	629,696	14,580
Trust preferred securities	20,537	—	15,808	4,729
Corporate and other debt securities	74,012	18,241	55,771	—
Equity securities	20,826	1,337	19,489	—
Total available for sale	886,970	69,021	798,640	19,309
Trading securities	14,233	—	14,233	—
Loans held for sale (1)	17,165	—	17,165	—
Other assets (3)	20,987	—	20,987	—
Total assets	$939,355	$69,021	$851,025	$19,309
Liabilities				
Other liabilities (3)	$33,330	$—	$33,330	$—
Total liabilities	$33,330	$—	$33,330	$—
Non-recurring fair value measurements:				
Non-performing loans held for sale	$7,130	$—	$—	$7,130
Collateral dependent impaired loans (4)	13,985	—	—	13,985
Loan servicing rights	3,987	—	—	3,987
Foreclosed assets (5)	18,098	—	—	18,098
Total	$43,200	$—	$—	$43,200

(1) Loans held for sale carried at fair value (which consist of residential mortgages) had contractual unpaid principal balances totaling approximately $4.5 million and $16.9 million at June 30, 2015 and December 31, 2014, respectively.

(2) Gains and losses related to the change in the fair value of loans held for sale is included in net gains on sales of loans within the non-interest income category of our consolidated statements of income and totaled a net gain of $53 thousand and $252 thousand for the three months ended June 30, 2015 and 2014, respectively and $153 thousand and $372 thousand for the six months ended June 30, 2015 and 2014, respectively.

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

(4) Excludes PCI loans.

(5) Includes covered other real estate owned totaling $2.9 million and $3.2 million at June, 30 2015 and December 31, 2014, respectively.

The changes in Level 3 assets measured at fair value on a recurring basis for the three months ended June 30, 2015 and 2014 are summarized below:

	Available for Sale Securities			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Balance, beginning of the period	$15,468	$26,911	$19,309	$28,523
Total net (losses) gains included in other comprehensive income for the period	(90)	174	(882)	222
Sales	—	—	(2,675)	—
Settlements	(666)	(1,056)	(1,040)	(2,716)
Balance, end of the period	$14,712	$26,029	$14,712	$26,029

No changes in unrealized gains or losses on Level 3 securities held at June 30, 2015 and 2014 were included in earnings during the three and six months ended June 30, 2015 and 2014. There were no transfers of assets into and out of Level 3, or between Level 1 and Level 2, during the three and six months ended June 30, 2015 and 2014.

There have been no material changes in the valuation methodologies used at June 30, 2015 from December 31, 2014.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

Available for sale and trading securities. All U.S. Treasury securities, certain corporate and other debt securities, and certain common and preferred equity securities (including certain trust preferred securities) are reported at fair value utilizing Level 1 inputs. The majority of other investment securities are reported at fair value utilizing Level 2 inputs. The prices for these instruments are obtained through an independent pricing service or dealer market participants with whom Valley has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. Management reviews the data and assumptions used in pricing the securities by its third party provider to ensure the highest level of significant inputs are derived from market observable data. For certain securities, the inputs used by either dealer market participants or an independent pricing service may be derived from unobservable market information (Level 3 inputs). In these instances, Valley evaluates the appropriateness and quality of the assumption and the resulting price. In addition, Valley reviews the volume and level of activity for all available for sale and trading securities and attempts to identify transactions which may not be orderly or reflective of a significant level of activity and volume. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service may be adjusted, as necessary, to estimate fair value and this results in fair values based on Level 3 inputs. In determining fair value, Valley utilizes unobservable inputs which reflect Valley's own assumptions about the inputs that market participants would use in pricing each security. In developing its assertion of market participant assumptions, Valley utilizes the best

information that is both reasonable and available without undue cost and effort.

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

The following table presents quantitative information about Level 3 inputs used to measure the fair value of these securities at June 30, 2015:

Security Type	Valuation Technique	Unobservable Input	Range	Weighted Average	
Private label mortgage-backed securities	Discounted cash flow	Prepayment rate	4.5 - 18.9%	11.9	%
		Default rate	3.2 - 23.2	9.6	
		Loss severity	40.2 - 63.4	57.4	

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 private label mortgage-backed securities (consisting of 4 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 pooled trust preferred securities (consisting of 1 security at June 30, 2015 and 2 securities at December 31, 2014), the resulting estimated future cash flows were discounted at a yield determined by reference to similarly structured securities for which observable orderly transactions occurred. The discount rate for each security was applied using a pricing matrix based on credit, security type and maturity characteristics to determine the fair value. The fair value 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, 2015 and December 31, 2014 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, 2015), is determined based on the current market prices for similar instruments provided by Freddie Mac and Fannie Mae. The fair values of most of the derivatives incorporate credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, to account for potential nonperformance risk of Valley and its counterparties. The credit valuation adjustments were not significant to the overall valuation of Valley's derivatives at June 30, 2015 and December 31, 2014.

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

The following valuation techniques were used for certain non-financial assets measured at fair value on a nonrecurring basis, including non-performing loans held for sale carried at estimated fair value (less selling costs) when less than the unamortized cost, impaired loans reported at the fair value of the underlying collateral, loan servicing rights, other real estate owned and other repossessed assets, which are reported at fair value upon initial recognition or subsequent impairment as described below.

Non-performing loans held for sale. At December 31, 2014, non-performing loans held for sale consisted of one commercial real estate loan that was transferred to the loans held for sale account during the first quarter of 2014. At December 31, 2014, the loan was re-measured and reported at fair value based upon a non-binding sale agreement. This sale transaction was completed during the first quarter of 2015.

Impaired loans. Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral and are commonly referred to as "collateral dependent impaired loans." Collateral values are estimated using Level 3 inputs, consisting of individual appraisals that are significantly adjusted based on certain discounting criteria. At June 30, 2015, appraisals were discounted up to 9.1 percent based on specific market data by location and property type. During the quarter ended June 30, 2015, 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 $1.7 million and $2.2 million for the three months ended June 30, 2015 and 2014, respectively, and $2.6 million and $3.2 million for the six months ended June 30, 2015 and 2014, respectively. At June 30, 2015, collateral dependent impaired loans with a total recorded investment of $10.6 million were reduced by specific valuation allowance allocations totaling $1.0 million to a reported total net carrying amount of $9.6 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, 2015, the fair value model used prepayment speeds (stated as constant prepayment rates) from 0 percent up to 25 percent and a discount rate of 8.0 percent for the valuation of the loan servicing rights. A significant degree of judgment is involved in valuing the loan servicing rights using Level 3 inputs. The use of different assumptions could have a significant positive or negative effect on the fair value estimate. Impairment charges are recognized on loan servicing rights when the amortized cost of a risk-stratified group of loan servicing rights exceeds the estimated fair value. Valley recorded net recoveries of impairment charges on its loan servicing rights totaling $245 thousand and $42 thousand for the three months ended June 30, 2015 and 2014, respectively, and $161 thousand and $142

thousand for the six months ended June 30, 2015 and 2014, respectively.

Foreclosed assets. Certain foreclosed assets (consisting of other real estate owned and other repossessed assets), upon initial recognition and transfer from loans, are re-measured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the foreclosed assets. The fair value of a foreclosed asset, upon initial recognition, is typically estimated using Level 3 inputs, consisting of an appraisal that is adjusted based on certain discounting criteria, similar to the criteria used for impaired loans described above. The appraisals of foreclosed assets were discounted up to 11.6 percent at June 30, 2015. At June 30, 2015, foreclosed assets included $6.4 million of assets that were measured at fair value upon initial recognition or subsequently re-measured during the quarter ended June 30, 2015. The foreclosed assets charge-offs to the allowance for loan losses totaled $434 thousand and $527 thousand for the three months ended June 30, 2015 and 2014, respectively and $891 thousand and $2.0 million for the six months ended June 30, 2015 and 2014, respectively. The re-measurement of foreclosed assets at fair value subsequent to their initial recognition resulted in net loss within non-interest expense of $470 thousand and $75 thousand for the three months ended June 30, 2015 and 2014, respectively, and $482 thousand and $1.9 million for the six months ended June 30, 2015 and 2014, 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, 2015 and December 31, 2014 were as follows:

	Fair Value Hierarchy	June 30, 2015 Carrying Amount (in thousands)	June 30, 2015 Fair Value	December 31, 2014 Carrying Amount	December 31, 2014 Fair Value
Financial assets					
Cash and due from banks	Level 1	$266,586	$266,586	$462,569	$462,569
Interest bearing deposits with banks	Level 1	206,619	206,619	367,838	367,838
Investment securities held to maturity:					
U.S. Treasury securities	Level 1	139,051	150,076	139,121	151,300
U.S. government agency securities	Level 2	13,523	13,802	14,081	14,385
Obligations of states and political subdivisions	Level 2	498,128	512,399	500,018	519,693
Residential mortgage-backed securities	Level 2	965,647	969,548	986,992	998,981
Trust preferred securities	Level 2	79,617	66,468	98,456	86,243
Corporate and other debt securities	Level 2	24,609	27,002	39,648	45,374
Total investment securities held to maturity		1,720,575	1,739,295	1,778,316	1,815,976
Net loans	Level 3	14,377,459	14,104,550	13,371,560	13,085,830
Accrued interest receivable	Level 1	58,278	58,278	57,333	57,333
Federal Reserve Bank and Federal Home Loan Bank stock [(1)]	Level 1	137,229	137,229	133,117	133,117
Financial liabilities					
Deposits without stated maturities	Level 1	11,415,142	11,415,142	11,291,648	11,291,648
Deposits with stated maturities	Level 2	2,915,889	2,981,525	2,742,468	2,807,522
Short-term borrowings	Level 1	126,148	126,148	146,781	146,781
Long-term borrowings	Level 2	2,625,116	2,833,408	2,526,408	2,738,122
Junior subordinated debentures issued to capital trusts	Level 2	41,333	43,989	41,252	44,584
Accrued interest payable [(2)]	Level 1	15,225	15,225	15,526	15,526

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

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

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

Investment securities held to maturity. Fair values are based on prices obtained through an independent pricing service or dealer market participants with whom Valley has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond’s terms and conditions, among other things (Level 2 inputs). Additionally, Valley reviews the volume and level of activity for all classes of held to maturity securities and attempts to identify transactions which

may not be orderly or reflective of a significant level of activity and volume. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service may be adjusted, as necessary. If applicable, the adjustment to fair value is derived based on present value cash flow model projections prepared by Valley utilizing assumptions similar to those incorporated by market participants.

Loans. Fair values of 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 the fair value.

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

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

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

Note 7. Investment Securities

Held to Maturity

The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at June 30, 2015 and December 31, 2014 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
June 30, 2015				
U.S. Treasury securities	$139,051	$11,025	$—	$150,076
U.S. government agency securities	13,523	279	—	13,802
Obligations of states and political subdivisions:				
Obligations of states and state agencies	195,735	7,226	(1,114)	201,847
Municipal bonds	302,393	9,142	(983)	310,552
Total obligations of states and political subdivisions	498,128	16,368	(2,097)	512,399
Residential mortgage-backed securities	965,647	14,280	(10,379)	969,548
Trust preferred securities	79,617	92	(13,241)	66,468
Corporate and other debt securities	24,609	2,393	—	27,002
Total investment securities held to maturity	$1,720,575	$44,437	$(25,717)	$1,739,295
December 31, 2014				
U.S. Treasury securities	$139,121	$12,179	$—	$151,300
U.S. government agency securities	14,081	304	—	14,385
Obligations of states and political subdivisions:				
Obligations of states and state agencies	197,440	9,410	(412)	206,438
Municipal bonds	302,578	10,955	(278)	313,255
Total obligations of states and political subdivisions	500,018	20,365	(690)	519,693
Residential mortgage-backed securities	986,992	18,233	(6,244)	998,981
Trust preferred securities	98,456	167	(12,380)	86,243
Corporate and other debt securities	39,648	5,726	—	45,374
Total investment securities held to maturity	$1,778,316	$56,974	$(19,314)	$1,815,976

The age of unrealized losses and fair value of related securities held to maturity at June 30, 2015 and December 31, 2014 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, 2015						
Obligations of states and political subdivisions:						
Obligations of states and state agencies	$54,550	$(1,033)	$1,888	$(81)	$56,438	$(1,114)
Municipal bonds	44,292	(773)	10,034	(210)	54,326	(983)
Total obligations of states and political subdivisions	98,842	(1,806)	11,922	(291)	110,764	(2,097)
Residential mortgage-backed securities	317,973	(4,516)	166,958	(5,863)	484,931	(10,379)
Trust preferred securities	4,738	(104)	60,285	(13,137)	65,023	(13,241)
Total	$421,553	$(6,426)	$239,165	$(19,291)	$660,718	$(25,717)
December 31, 2014						
Obligations of states and political subdivisions:						
Obligations of states and state agencies	$4,927	$(50)	$19,050	$(362)	$23,977	$(412)
Municipal bonds	—	—	28,815	(278)	28,815	(278)
Total obligations of states and political subdivisions	4,927	(50)	47,865	(640)	52,792	(690)
Residential mortgage-backed securities	107,357	(563)	276,580	(5,681)	383,937	(6,244)
Trust preferred securities	—	—	66,194	(12,380)	66,194	(12,380)
Total	$112,284	$(613)	$390,639	$(18,701)	$502,923	$(19,314)

The unrealized losses on investment securities held to maturity are primarily due to changes in interest rates (including, in certain cases, changes in credit spreads) and, in some cases, lack of liquidity in the marketplace. The total number of security positions in the securities held to maturity portfolio in an unrealized loss position at June 30, 2015 was 108 as compared to 57 at December 31, 2014.

The unrealized losses within the residential mortgage-backed securities category of the available for sale portfolio at June 30, 2015 largely related to several investment grade securities mainly issued by Fannie Mae.
The unrealized losses existing for more than twelve months for trust preferred securities at June 30, 2015 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, 2015.
Management does not believe that any individual unrealized loss as of June 30, 2015 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.
During the first quarter of 2015, Valley sold one corporate debt security classified as held to maturity with amortized costs of $9.8 million. See "Realized Gains and Losses" section below for further details regarding this transaction.

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As of June 30, 2015, 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 $974.3 million.
The contractual maturities of investments in debt securities held to maturity at June 30, 2015 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, 2015	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$65,770	$65,782
Due after one year through five years	65,368	69,690
Due after five years through ten years	336,469	353,088
Due after ten years	287,321	281,187
Residential mortgage-backed securities	965,647	969,548
Total investment securities held to maturity	$1,720,575	$1,739,295

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 5.6 years at June 30, 2015.

Available for Sale

The amortized cost, gross unrealized gains and losses and fair value of securities available for sale at June 30, 2015 and December 31, 2014 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
June 30, 2015				
U.S. Treasury securities	$51,052	$7	$(1,786)	$49,273
U.S. government agency securities	25,862	667	—	26,529
Obligations of states and political subdivisions:				
Obligations of states and state agencies	11,040	—	(106)	10,934
Municipal bonds	33,323	40	(887)	32,476
Total obligations of states and political subdivisions	44,363	40	(993)	43,410
Residential mortgage-backed securities	591,342	3,184	(8,735)	585,791
Trust preferred securities*	10,587	—	(1,969)	8,618
Corporate and other debt securities	72,897	1,428	(841)	73,484
Equity securities	21,022	689	(1,242)	20,469
Total investment securities available for sale	$817,125	$6,015	$(15,566)	$807,574
December 31, 2014				
U.S. Treasury securities	$51,063	$2	$(1,622)	$49,443
U.S. government agency securities	33,163	748	(86)	33,825
Obligations of states and political subdivisions:				
Obligations of states and state agencies	11,160	—	(24)	11,136
Municipal bonds	33,340	127	(552)	32,915
Total obligations of states and political subdivisions	44,500	127	(576)	44,051
Residential mortgage-backed securities	643,382	5,854	(4,960)	644,276
Trust preferred securities*	23,194	296	(2,953)	20,537
Corporate and other debt securities	73,585	1,645	(1,218)	74,012
Equity securities	21,071	671	(916)	20,826
Total investment securities available for sale	$889,958	$9,343	$(12,331)	$886,970

* Includes two and three pooled trust preferred securities, principally collateralized by securities issued by banks and insurance companies, at June 30, 2015 and December 31, 2014, respectively.

The age of unrealized losses and fair value of related securities available for sale at June 30, 2015 and December 31, 2014 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, 2015						
U.S. Treasury securities	$48,332	$(1,786)	$—	$—	$48,332	$(1,786)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	10,934	(106)	—	—	10,934	(106)
Municipal bonds	20,525	(651)	11,053	(236)	31,578	(887)
Total obligations of states and political subdivisions	31,459	(757)	11,053	(236)	42,512	(993)
Residential mortgage-backed securities	252,728	(2,742)	177,821	(5,993)	430,549	(8,735)
Trust preferred securities	—	—	8,618	(1,969)	8,618	(1,969)
Corporate and other debt securities	17,878	(91)	37,142	(750)	55,020	(841)
Equity securities	136	(15)	14,417	(1,227)	14,553	(1,242)
Total	$350,533	$(5,391)	$249,051	$(10,175)	$599,584	$(15,566)
December 31, 2014						
U.S. Treasury securities	$—	$—	$48,504	$(1,622)	$48,504	$(1,622)
U.S. government agency securities	—	—	5,442	(86)	5,442	(86)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	—	—	11,136	(24)	11,136	(24)
Municipal bonds	13,337	(426)	14,637	(126)	27,974	(552)
Total obligations of states and political subdivisions	13,337	(426)	25,773	(150)	39,110	(576)
Residential mortgage-backed securities	57,543	(121)	244,910	(4,839)	302,453	(4,960)
Trust preferred securities	2,210	(117)	12,085	(2,836)	14,295	(2,953)
Corporate and other debt securities	27,500	(294)	28,269	(924)	55,769	(1,218)
Equity securities	158	(41)	14,769	(875)	14,927	(916)
Total	$100,748	$(999)	$379,752	$(11,332)	$480,500	$(12,331)

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, 2015 was 142 as compared to 96 at December 31, 2014.

The unrealized losses within the residential mortgage-backed securities category of the available for sale portfolio at June 30, 2015 largely related to several investment grade residential mortgage-backed securities mainly issued by Ginnie Mae.

The unrealized losses for trust preferred securities at June 30, 2015 for more than twelve months in the table above largely relate to 2 pooled trust preferred securities with an amortized cost of $10.6 million and a fair value of $8.6 million. One of the two pooled trust preferred securities had a unrealized loss of $1.3 million and an investment grade rating at June 30, 2015. The second pooled trust preferred security had a non-investment grade rating and was initially other-than-temporarily impaired in 2008 with additional estimated credit losses recognized in 2009 and 2011, and is not accruing interest. All of the single-issuer trust preferred securities are paying in accordance with their terms and have

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no deferrals of interest or defaults and, if applicable, meet the regulatory capital requirements to be considered "well-capitalized institutions" at June 30, 2015.
Management does not believe that any individual unrealized loss as of June 30, 2015 represents an other-than-temporary impairment, as management mainly attributes the declines in 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 has no intent to sell, nor is it more likely than not that Valley will be required to sell, the securities contained in the table above before the recovery of their amortized cost basis or, if necessary, maturity.
As of June 30, 2015, 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 $225.6 million.
The contractual maturities of investment securities available for sale at June 30, 2015 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, 2015	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$500	$500
Due after one year through five years	64,469	65,586
Due after five years through ten years	78,693	76,336
Due after ten years	61,099	58,892
Residential mortgage-backed securities	591,342	585,791
Equity securities	21,022	20,469
Total investment securities available for sale	$817,125	$807,574

Actual maturities of debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty.
The weighted average remaining expected life for residential mortgage-backed securities available for sale at June 30, 2015 was 4.5 years.
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), corporate bonds, and perpetual preferred and common equity securities issued by banks. These investments may pose a higher risk of future impairment charges by Valley as a result of the unpredictable 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, 2015 and 2014. At June 30, 2015, four previously impaired private label mortgage-backed securities (prior to December 31, 2012) had a combined amortized cost and fair value of $12.7 million and $12.6 million,

respectively, while one previously impaired pooled trust preferred security had a combined amortized cost and fair value of $2.8 million and $2.1 million, respectively. The previously impaired pooled trust preferred security was not accruing interest during the three and six months ended June 30, 2015 and 2014. Additionally, one previously impaired pooled trust preferred security was sold during the first quarter of 2015 for an immaterial gain. See the table and discussion below for additional information.

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, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Balance, beginning of period	$6,421	$9,792	$8,947	$9,990
Accretion of credit loss impairment due to an increase in expected cash flows	(34)	(110)	(178)	(308)
Sales	—	—	(2,382)	—
Balance, end of period	$6,387	$9,682	$6,387	$9,682

The credit loss component of the impairment loss represents the difference between the present value of expected future cash flows and the amortized cost basis of the security prior to considering credit losses. The beginning balance represents the credit loss component for debt securities for which other-than-temporary impairment occurred prior to each period presented. Other-than-temporary impairments recognized in earnings for credit impaired debt securities are presented as additions in two components based upon whether the current period is the first time the debt security was credit impaired (initial credit impairment) or is not the first time the debt security was credit impaired (subsequent credit impairment). The credit loss component is reduced if Valley sells, intends to sell or believes it will be required to sell previously credit impaired debt securities. Additionally, the credit loss component is reduced if (i) Valley receives cash flows in excess of what it expected to receive over the remaining life of the credit impaired debt security, (ii) the security matures or (iii) the security is fully written down.

Realized Gains and Losses

Gross gains (losses) realized on sales, maturities and other securities transactions related to investment securities included in earnings for the three and six months ended June 30, 2015 and 2014 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Sales transactions:				
Gross gains	$—	$—	$3,274	$—
Gross losses	—	—	(947)	—
	$—	$—	$2,327	$—
Maturities and other securities transactions:				
Gross gains	$40	$7	$129	$8
Gross losses	(132)	—	(132)	(9)
	$(92)	$7	$(3)	$(1)
Total (losses) gains on securities transactions, net	$(92)	$7	$2,324	$(1)

Valley recognized gross gains from sales transactions of investment securities totaling $3.3 million for the six months ended June 30, 2015 due to the sale of corporate debt securities and trust preferred securities with amortized cost totaling $25.9 million. These transactions included a corporate debt security classified as held to maturity and a

previously impaired pooled trust preferred security with amortized costs of $9.8 million and $2.6 million, respectively. Additionally, Valley recognized $947 thousand of gross losses during the six months ended June 30, 2015 due to the sale of mostly trust preferred securities with a total amortized cost of $8.3 million. The vast majority of the sales of investment securities were due to a one-time investment portfolio re-balancing during the first quarter due to changes in our regulatory capital calculation under the new Basel III regulatory capital reform (effective for Valley on January 1, 2015). Under ASC Topic 320, “Investments - Debt and Equity Securities,” the one-time sale of held to maturity securities based upon the change in capital requirements is permitted without tainting the remaining held to maturity investment portfolio.

Trading Securities

The fair value of trading securities (consisting of 2 single-issuer bank trust preferred securities) was $14.2 million at December 31, 2014. During the first quarter of 2015, one of the two securities was redeemed by the issuer and the other security was sold prior to its issuer's call date in April 2015. Both of the securities transactions resulted in an immaterial aggregate net trading loss for the six months ended June 30, 2015 which was included in the other non-interest income category of our consolidated statements of income. Net trading losses were also immaterial for the three and six months ended June 30, 2014. Interest income on trading securities totaled $213 thousand for the six months ended June 30, 2015 and $291 thousand and $581 thousand for the three and six months ended June 30, 2014, respectively.

Note 8. Loans

The detail of the loan portfolio as of June 30, 2015 and December 31, 2014 was as follows:

	June 30, 2015			December 31, 2014		
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
	(in thousands)					
Non-covered loans:						
Commercial and industrial	$2,111,032	$259,762	$2,370,794	$1,959,927	$277,371	$2,237,298
Commercial real estate:						
Commercial real estate	5,771,813	928,613	6,700,426	5,053,742	978,448	6,032,190
Construction	533,281	50,257	583,538	476,094	53,869	529,963
Total commercial real estate loans	6,305,094	978,870	7,283,964	5,529,836	1,032,317	6,562,153
Residential mortgage	2,559,131	89,561	2,648,692	2,419,044	96,631	2,515,675
Consumer:						
Home equity	391,793	87,234	479,027	400,136	91,609	491,745
Automobile	1,198,035	29	1,198,064	1,144,780	51	1,144,831
Other consumer	343,737	10,785	354,522	298,389	11,931	310,320
Total consumer loans	1,933,565	98,048	2,031,613	1,843,305	103,591	1,946,896
Total non-covered loans	12,908,822	1,426,241	14,335,063	11,752,112	1,509,910	13,262,022
Covered loans:						
Commercial and industrial	—	1,237	1,237	—	13,813	13,813
Commercial real estate	—	82,723	82,723	—	128,691	128,691
Construction	—	2,530	2,530	—	3,171	3,171
Residential mortgage	—	55,389	55,389	—	60,697	60,697
Consumer	—	3,352	3,352	—	5,519	5,519
Total covered loans	—	145,231	145,231	—	211,891	211,891
Total loans	$12,908,822	$1,571,472	$14,480,294	$11,752,112	$1,721,801	$13,473,913

Total non-covered loans are net of unearned discount and deferred loan fees totaling $2.1 million and $9.0 million at June 30, 2015 and December 31, 2014, respectively. The outstanding balances (representing contractual balances owed

to Valley) for non-covered PCI loans and covered loans totaled $1.5 billion and $165.2 million at June 30, 2015, respectively, and $1.6 billion and $253.7 million at December 31, 2014, respectively.

There were no sales of loans from the held for investment portfolio during the three and six months ended June 30, 2015 and 2014.

Purchased Credit-Impaired Loans (Including Covered Loans)

PCI loans, which include loans acquired in FDIC-assisted transactions ("covered loans"), are accounted for in accordance with ASC Subtopic 310-30 and are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses), and aggregated and accounted for as pools of loans based on common risk characteristics. The difference between the undiscounted cash flows expected at acquisition and the initial carrying amount (fair value) of the PCI loans, or the “accretable yield,” is recognized as interest income utilizing the level-yield method over the life of each pool. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the “non-accretable difference,” are not recognized as a yield adjustment, as a loss accrual or a valuation allowance. Reclassifications of the non-accretable difference to the accretable yield may occur subsequent to the loan acquisition dates due to increases in expected cash flows of the loan pools.

The following table presents changes in the accretable yield for PCI loans during the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Balance, beginning of period	$309,858	$209,865	$336,208	$223,799
Accretion	(27,757)	(17,509)	(54,107)	(31,443)
Net decrease in expected cash flows	—	(70,014)	—	(70,014)
Balance, end of period	$282,101	$122,342	$282,101	$122,342

The net decrease in expected cash flows for certain pools of loans (included in the table above) is recognized prospectively as an adjustment to the yield over the life of the individual pools. The net decrease during the three and six months ended June 30, 2014 was mainly due to an increase in the expected repayment speeds for certain pools of non-covered PCI loans during the second quarter of 2014.

FDIC Loss-Share Receivable

The receivable arising from the loss-sharing agreements (referred to as the “FDIC loss-share receivable” on our consolidated statements of financial condition) is measured separately from the covered loan portfolio because the agreements are not contractually part of the covered loans and are not transferable should the Bank choose to dispose of the covered loans.

Changes in the FDIC loss-share receivable for the three and six months ended June 30, 2015 and 2014 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Balance, beginning of the period	$7,608	$31,257	$13,848	$32,757
Discount accretion of the present value at the acquisition dates	44	12	87	23
Effect of additional cash flows on covered loans (prospective recognition)	—	(2,104)	(4,072)	(3,960)
Decrease in the provision for losses on covered loans	—	(4,417)	—	(4,417)
Other reimbursable expenses	314	990	412	1,503
Payments to/reimbursements from the FDIC	201	(2,859)	(1,753)	(4,283)
Other	237	(2,192)	(118)	(936)
Balance, end of the period	$8,404	$20,687	$8,404	$20,687

The aggregate effect of changes in the FDIC loss-share receivable was an increase in non-interest income of $595 thousand for the three months ended June 30, 2015 as compared to a reduction of $7.7 million for the three months ended June 30, 2014, and net reductions in non-interest income totaling $3.3 million and $7.8 million for six months ended June 30, 2015 and 2014, respectively. The reduction (in both the receivable and non-interest income) during the six months ended June 30, 2015 was mainly caused by the increase in our prospective recognition of the effect of additional cash flows from certain pooled loans during the first quarter of 2015. There were no additional cash flows on pooled loans during the second quarter of 2015, as the receivable was prospectively reduced for such additional cash flows over the shorter term of the commercial loan loss-sharing agreements (related to Valley's 2010 FDIC-assisted transactions) that expired in March 2015.

Loan Portfolio Risk Elements and Credit Risk Management

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

Commercial and industrial loans. A significant proportion of Valley’s commercial and industrial loan portfolio is granted to long-standing customers of proven ability and strong repayment performance. Underwriting standards are designed to assess the borrower’s ability to generate recurring cash flow sufficient to meet the debt service requirements of loans granted. While such recurring cash flow serves as the primary source of repayment, a significant number of the loans are collateralized by borrower assets intended to serve as a secondary source of repayment should the need arise. Anticipated cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value, or in the case of loans secured by accounts receivable, the ability of the borrower to collect all amounts due from its customers. Short-term loans may be made on an unsecured basis based on a borrower’s financial strength and past performance. Valley, in most cases, will obtain the personal guarantee of the borrower’s principals to mitigate the risk. Unsecured loans, when made, are generally granted to the Bank’s most credit worthy borrowers. Unsecured commercial and industrial loans totaled $349.5 million and $345.1 million at June 30, 2015 and

December 31, 2014, respectively.
Commercial real estate loans. Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans. Both Valley originated and purchased commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real property. Loans generally involve larger principal

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

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

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

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

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

Other consumer loans. Valley's other consumer loan portfolio includes direct consumer term loans, both secured and unsecured. The other consumer loan portfolio includes exposures in credit card loans, personal lines of credit, personal loans and loans secured by cash surrender value of life insurance. Valley believes the aggregate risk exposure of these loans and lines of credit was not significant at June 30, 2015. Unsecured consumer loans totaled approximately $21.5

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million and $31.4 million, including $7.2 million and $7.6 million of credit card loans, at June 30, 2015 and December 31, 2014, respectively.

Credit Quality

The following table presents past due, non-accrual and current loans (excluding PCI loans, which are accounted for on a pool basis, and non-performing loans held for sale) by loan portfolio class at June 30, 2015 and December 31, 2014:

	Past Due and Non-Accrual Loans						
	30-59 Days Past Due Loans	60-89 Days Past Due Loans	Accruing Loans 90 Days or More Past Due	Non-Accrual Loans	Total Past Due Loans	Current Non-PCI Loans	Total Non-PCI Loans
	(in thousands)						
June 30, 2015							
Commercial and industrial	$1,080	$475					