INDEPENDENT BANK CORP /MI/
Form 10-Q
May 03, 2019

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED March 31, 2019

Commission file number 0-7818

INDEPENDENT BANK CORPORATION
(Exact name of registrant as specified in its charter)

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

4200 East Beltline, Grand Rapids, Michigan 49525
(Address of principal executive offices)

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

NONE
Former name, address and fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES NO

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act. Yes No

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: common stock, no par value, 23,472,914 as of May 1, 2019.

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Trading Symbol	Name of each exchange on which registered
Common stock, no par value	IBCP	The Nasdaq Stock Market LLC

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

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

- economic, market, operational, liquidity, credit, and interest rate risks associated with our business;
- economic conditions generally and in the financial services industry, particularly economic conditions within Michigan and the regional and local real estate markets in which our bank operates;
- the failure of assumptions underlying the establishment of, and provisions made to, our allowance for loan losses;
- increased competition in the financial services industry, either nationally or regionally;
- our ability to achieve loan and deposit growth;
- volatility and direction of market interest rates;
- the continued services of our management team; and
- implementation of new legislation, which may have significant effects on us and the financial services industry.

This list provides examples of factors that could affect the results described by forward-looking statements contained in this report, but the list is not intended to be all-inclusive. The risk factors disclosed in Part I – Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018, as updated by any new or modified risk factors disclosed in Part II – Item 1A of any subsequently filed Quarterly Report on Form 10-Q, include all known risks our management believes could materially affect the results described by forward-looking statements in this report. However, those risks may not be the only risks we face. Our results of operations, cash flows, financial position, and prospects could also be materially and adversely affected by additional factors that are not presently known to us that we currently consider to be immaterial, or that develop after the date of this report. We cannot assure you that our future results will meet expectations. While we believe the forward-looking statements in this report are reasonable, you should not place undue reliance on any forward-looking statement. In addition, these statements speak only as of the date made. We do not undertake, and expressly disclaim, any obligation to update or alter any statements, whether as a result of new information, future events, or otherwise, except as required by applicable law.

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Part I - Item 1. INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Financial Condition

	March 31, 2019 (unaudited)	December 31, 2018
	(In thousands, except share amounts)	
Assets		
Cash and due from banks	$ 33,247	$ 23,350
Interest bearing deposits	38,376	46,894
Cash and Cash Equivalents	71,623	70,244
Interest bearing deposits - time	496	595
Equity securities at fair value	-	393
Securities available for sale	461,531	427,926
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	18,359	18,359
Loans held for sale, carried at fair value	43,098	44,753
Loans held for sale, carried at lower of cost or fair value	-	41,471
Loans		
Commercial	1,168,404	1,144,481
Mortgage	1,043,745	1,042,890
Installment	406,646	395,149
Total Loans	2,618,795	2,582,520
Allowance for loan losses	(25,254)	(24,888)
Net Loans	2,593,541	2,557,632
Other real estate and repossessed assets, net	1,338	1,299
Property and equipment, net	37,985	38,777
Bank-owned life insurance	55,310	55,068
Deferred tax assets, net	2,866	5,779
Capitalized mortgage loan servicing rights	19,909	21,400
Other intangibles	6,143	6,415
Goodwill	28,300	28,300
Accrued income and other assets	43,107	34,870
Total Assets	$ 3,383,606	$ 3,353,281
Liabilities and Shareholders' Equity		
Deposits		
Non-interest bearing	$ 858,261	$ 879,549
Savings and interest-bearing checking	1,207,965	1,194,865
Reciprocal	267,178	182,072
Time	388,729	385,981
Brokered time	212,092	270,961
Total Deposits	2,934,225	2,913,428
Other borrowings	25,714	25,700
Subordinated debentures	39,405	39,388
Accrued expenses and other liabilities	39,536	35,771
Total Liabilities	3,038,880	3,014,287
Commitments and contingent liabilities		
Shareholders' Equity		
Preferred stock, no par value, 200,000 shares authorized; none issued or outstanding	-	-

Common stock, no par value, 500,000,000 shares authorized; issued and outstanding:		
23,560,179 shares at March 31, 2019 and 23,579,725 shares at December 31, 2018	374,678	377,372
Accumulated deficit	(23,135)	(28,270)
Accumulated other comprehensive loss	(6,817)	(10,108)
Total Shareholders' Equity	344,726	338,994
Total Liabilities and Shareholders' Equity	$ 3,383,606	$ 3,353,281

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

	Three months ended March 31,	
	2019	2018
	(unaudited)	
	(In thousands, except per share amounts)	
Interest Income		
Interest and fees on loans	$ 32,681	$ 23,353
Interest on securities		
Taxable	3,006	2,635
Tax-exempt	374	479
Other investments	575	330
Total Interest Income	36,636	26,797
Interest Expense		
Deposits	5,681	2,287
Other borrowings and subordinated debentures	712	574
Total Interest Expense	6,393	2,861
Net Interest Income	30,243	23,936
Provision for loan losses	664	315
Net Interest Income After Provision for Loan Losses	29,579	23,621
Non-interest Income		
Service charges on deposit accounts	2,640	2,905
Interchange income	2,355	2,246
Net gains (losses) on assets		
Mortgage loans	3,611	2,571
Securities	304	(173)
Mortgage loan servicing, net	(1,215)	2,221
Other	2,264	1,943
Total Non-interest Income	9,959	11,713
Non-interest Expense		
Compensation and employee benefits	16,351	14,468
Occupancy, net	2,505	2,264
Data processing	2,144	1,878
Furniture, fixtures and equipment	1,029	967
Communications	769	680
Interchange expense	688	598
Loan and collection	634	677
Advertising	672	441
Legal and professional	369	378
FDIC deposit insurance	368	230
Merger related expenses	-	174
Other	2,461	1,380
Total Non-interest Expense	27,990	24,135
Income Before Income Tax	11,548	11,199
Income tax expense	2,167	2,038
Net Income	$ 9,381	$ 9,161
Net Income Per Common Share		

Basic	$ 0.40	$ 0.43
Diluted	$ 0.39	$ 0.42

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

	Three months ended March 31,	
	2019	2018
	(unaudited – In thousands)	
Net income	$ 9,381	$ 9,161
Other comprehensive income (loss)		
Securities available for sale		
Unrealized gains (losses) arising during period	5,364	(3,865)
Change in unrealized gains (losses) for which a portion of other than temporary impairment has been recognized in earnings	(2)	(1)
Reclassification adjustments for (gains) losses included in earnings	(137)	19
Unrealized gains (losses) recognized in other comprehensive income (loss) on securities available for sale	5,225	(3,847)
Income tax expense (benefit)	1,097	(808)
Unrealized gains (losses) recognized in other comprehensive income (loss) on securities available for sale, net of tax	4,128	(3,039)
Derivative instruments		
Unrealized gain (loss) arising during period	(912)	684
Reclassification adjustment for (income) expense recognized in earnings	(149)	(6)
Unrealized gains (losses) recognized in other comprehensive income (loss) on derivative instruments	(1,061)	678
Income tax expense (benefit)	(224)	142
Unrealized gains (losses) recognized in other comprehensive income (loss) on derivative instruments, net of tax	(837)	536
Other comprehensive income (loss)	3,291	(2,503)
Comprehensive income	$ 12,672	$ 6,658

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

	Three months ended March 31,	
	2019	2018
	(unaudited - In thousands)	
Net Income	$ 9,381	$ 9,161
Adjustments to Reconcile Net Income to Net Cash From Operating Activities		
Proceeds from the sale of equity securities at fair value	560	-
Proceeds from sales of loans held for sale	87,496	92,607
Disbursements for loans held for sale	(82,230)	(84,748)
Provision for loan losses	664	315
Deferred income tax expense	2,039	2,039
Deferred loan fees and costs	(111)	(638)
Net depreciation, amortization of intangible assets and premiums and accretion of discounts on securities, loans and interest bearing deposits - time	1,479	1,819
Net gains on mortgage loans	(3,611)	(2,571)
Net (gains) losses on securities	(304)	173
Share based compensation	420	407
Increase in accrued income and other assets	(8,107)	(5,965)
Increase (decrease) in accrued expenses and other liabilities	2,455	(5,711)
Total Adjustments	750	(2,273)
Net Cash From Operating Activities	10,131	6,888
Cash Flow Used in Investing Activities		
Proceeds from the sale of securities available for sale	42,236	22,277
Proceeds from maturities, prepayments and calls of securities available for sale	32,533	34,067
Purchases of securities available for sale	(71,693)	(23,637)
Proceeds from the maturity of interest bearing deposits - time	100	1,000
Net increase in portfolio loans (loans originated, net of principal payments)	(65,653)	(68,611)
Proceeds from the sale of portfolio loans	40,630	16,460
Proceeds from bank-owned life insurance	-	474
Proceeds from the sale of other real estate and repossessed assets	167	608
Capital expenditures	(511)	(921)
Net Cash Used in Investing Activities	(22,191)	(18,283)
Cash Flow From (Used in) Financing Activities		
Net increase in total deposits	20,797	29,867
Net increase (decrease) in other borrowings	2	(6,753)
Proceeds from Federal Home Loan Bank Advances	-	40,000
Payments of Federal Home Loan Bank Advances	-	(60,000)
Dividends paid	(4,246)	(3,206)
Proceeds from issuance of common stock	282	13
Repurchase of common stock	(2,530)	-
Share based compensation withholding obligation	(866)	(888)
Net Cash From (Used in) Financing Activities	13,439	(967)
Net Increase (Decrease) in Cash and Cash Equivalents	1,379	(12,362)
Cash and Cash Equivalents at Beginning of Period	70,244	54,738
Cash and Cash Equivalents at End of Period	$ 71,623	$ 42,376
Cash paid during the period for		
Interest	$ 6,253	$ 2,656

Income taxes	-	-
Operating leases	563	-
Transfers to other real estate and repossessed assets	325	322
Purchase of securities available for sale not yet settled	1,500	3,220
Securitization of portfolio loans	29,790	-
Right of use assets obtained in exchange for lease obligations	7,703	-

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Shareholders' Equity

	Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	(Dollars in thousands, except per share amounts)			
Balances at January 1, 2019	$ 377,372	$ (28,270)	$ (10,108)	$ 338,994
Net income, three months ended March 31, 2019	-	9,381	-	9,381
Cash dividends declared, $.18 per share	-	(4,246)	-	(4,246)
Repurchase of 115,787 shares of common stock	(2,530)	-	-	(2,530)
Issuance of 68,399 shares of common stock	282	-	-	282
Share based compensation (issuance of 84,128 shares of common stock)	420	-	-	420
Share based compensation withholding obligation (withholding of 56,286 shares of common stock)	(866)	-	-	(866)
Other comprehensive income	-	-	3,291	3,291
Balances at March 31, 2019	$ 374,678	$ (23,135)	$ (6,817)	$ 344,726
Balances at January 1, 2018	$ 324,986	$ (54,054)	$ (5,999)	$ 264,933
Net income, three months ended March 31, 2018	-	9,161	-	9,161
Cash dividends declared, $.15 per share	-	(3,206)	-	(3,206)
Issuance of 3,800 shares of common stock	13	-	-	13
Share based compensation (issuance of 74,475 shares of common stock)	407	-	-	407
Share based compensation withholding obligation (withholding of 37,328 shares of common stock)	(888)	-	-	(888)
Other comprehensive loss	-	-	(2,503)	(2,503)
Balances at March 31, 2018	$ 324,518	$ (48,099)	$ (8,502)	$ 267,917

See notes to interim condensed consolidated financial statements (unaudited)

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Preparation of Financial Statements

The condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2018 included in our Annual Report on Form 10-K.

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all the adjustments necessary to present fairly our consolidated financial condition as of March 31, 2019 and December 31, 2018, and the results of operations for the three month periods ended March 31, 2019 and 2018. The results of operations for the three month period ended March 31, 2019, are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation. Our critical accounting policies include the determination of the allowance for loan losses and the valuation of capitalized mortgage loan servicing rights. Refer to our 2018 Annual Report on Form 10-K for a disclosure of our accounting policies.

2. New Accounting Standards

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, "Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments". This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. This ASU will replace today's "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. For securities available for sale, allowances will be recorded rather than reducing the carrying amount as is done under the current other-than-temporary impairment model. This ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. This amended guidance is effective for us on January 1, 2020. We began evaluating this ASU in 2016 and have formed a committee that includes personnel from various areas of the Bank that meets regularly to discuss the implementation of the ASU. We have completed historical data validation and are currently in the process of reviewing credit loss estimation methodologies and performing test calculations. We have not yet determined what the impact will be on our consolidated operating results or financial condition, which will be impacted by several variables, including the economic environment and forecast at adoption. Though, by the nature of the implementation of an expected loss model compared to an incurred loss approach, we would anticipate our allowance for loan losses ("AFLL") to increase under this ASU. The Bank expects to begin full parallel runs mid-2019, with a goal of providing an estimated impact range in our 2019 second quarter Form 10-Q.

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

In August 2018, the FASB issued ASU 2018-13, ''Fair Value Measurement (Topic 820), Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement''. This new ASU amends disclosure requirements in Topic 820 to eliminate, add and modify certain disclosure requirements for fair value measurements as part of its disclosure framework project. The amended guidance eliminates the requirements to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the entity's policy for the timing of transfers between levels of the fair value hierarchy and the entity's valuation processes for Level 3 fair value measurements. The amended guidance adds the requirements to disclose the changes in unrealized gains and losses for the period included in other comprehensive income (loss) for recurring Level 3 fair value measurements of instruments held at the end of the reporting period and for recurring and nonrecurring Level 3 fair value measurements, the range and weighted average used to develop significant unobservable inputs and how the weighted average was calculated, with certain exceptions. This amended guidance is effective for us on January 1, 2020, and is not expected to have a material impact on our consolidated operating results or financial condition.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". This ASU amends existing guidance related to the accounting for leases. These amendments, among other things, require lessees to account for most leases on the balance sheet while recognizing expense on the income statement in a manner similar to existing guidance. For lessors the guidance modifies the classification criteria and the accounting for sales-type and direct finance leases. This amended guidance was effective for us on January 1, 2019 and did not have a material impact on our consolidated operating results or financial condition. Based on our operating leases that we currently have in place we do not expect a material change in the recognition, measurement and presentation of lease expense or impact on cash flow. The primary impact was the recognition of certain operating leases on our Condensed Consolidated Statements of Financial Condition which resulted in the recording of right of use ("ROU") assets and offsetting lease liabilities each totaling approximately $7.7 million at January 1, 2019. See note #16.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities". This new ASU amends the hedge accounting model in Topic 815 to enable entities to better portray the economics of their risk management activities in the financial statements and enhance the transparency and understandability of hedge results. The amendments expand an entity's ability to hedge nonfinancial and financial risk components and reduce complexity in fair value hedges of interest rate risk. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. This amended guidance was effective for us on January 1, 2019, and did not have a material impact on our consolidated operating results or financial condition.

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

3. Securities

Securities available for sale consist of the following:

	Amortized	Unrealized		
	Cost	Gains	Losses	Fair Value
	(In thousands)			
March 31, 2019				
U.S. agency	$18,143	$57	$71	$18,129
U.S. agency residential mortgage-backed	141,886	1,067	915	142,038
U.S. agency commercial mortgage-backed	11,418	10	115	11,313
Private label mortgage-backed	32,984	355	247	33,092
Other asset backed	110,372	115	197	110,290
Obligations of states and political subdivisions	108,749	707	1,071	108,385
Corporate	34,048	444	112	34,380
Trust preferred	1,964	-	81	1,883
Foreign government	2,040	-	19	2,021
Total	$461,604	$2,755	$2,828	$461,531
December 31, 2018				
U.S. agency	$20,198	$9	$193	$20,014
U.S. agency residential mortgage-backed	124,777	817	1,843	123,751
U.S. agency commercial mortgage-backed	5,909	1	184	5,726
Private label mortgage-backed	29,735	321	637	29,419
Other asset backed	83,481	86	248	83,319
Obligations of states and political subdivisions	130,244	257	2,946	127,555
Corporate	34,866	29	586	34,309
Trust preferred	1,964	-	145	1,819
Foreign government	2,050	-	36	2,014
Total	$433,224	$1,520	$6,818	$427,926

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

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

	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
March 31, 2019						
U.S. agency	$96	$ 1	$ 10,904	$ 70	$11,000	$ 71
U.S. agency residential mortgage-backed	5,232	10	50,813	905	56,045	915
U.S. agency commercial mortgage-backed	2,215	1	5,434	114	7,649	115
Private label mortgage-backed	10,468	12	14,496	235	24,964	247
Other asset backed	40,490	128	10,619	69	51,109	197
Obligations of states and political subdivisions	2,173	2	65,191	1,069	67,364	1,071
Corporate	1,795	6	8,376	106	10,171	112
Trust preferred	963	37	920	44	1,883	81
Foreign government	-	-	2,021	19	2,021	19
Total	$63,432	$ 197	$ 168,774	$ 2,631	$232,206	$ 2,828
December 31, 2018						
U.S. agency	$7,150	$ 46	$ 11,945	$ 147	$19,095	$ 193
U.S. agency residential mortgage-backed	18,374	180	48,184	1,663	66,558	1,843
U.S. agency commercial mortgage-backed	566	3	5,094	181	5,660	184
Private label mortgage-backed	8,273	57	16,145	580	24,418	637
Other asset backed	53,043	160	10,235	88	63,278	248
Obligations of states and political subdivisions	25,423	262	80,701	2,684	106,124	2,946
Corporate	17,758	343	9,222	243	26,980	586
Trust preferred	939	61	880	84	1,819	145
Foreign government	-	-	2,014	36	2,014	36
Total	$131,526	$ 1,112	$ 184,420	$ 5,706	$315,946	$ 6,818

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

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

U.S. agency, U.S. agency residential mortgage-backed securities and U.S. agency commercial mortgage backed securities — at March 31, 2019, we had 38 U.S. agency, 120 U.S. agency residential mortgage-backed and 15 U.S. agency commercial mortgage-backed securities whose fair market value is less than amortized cost. The unrealized losses are largely attributed to increases in interest rates since acquisition and widening spreads to Treasury bonds. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Private label mortgage backed securities — at March 31, 2019, we had 31 of this type of security whose fair value is less than amortized cost. Unrealized losses are primarily due to credit spread widening and increases in interest rates since their acquisition.

Two private label mortgage-backed securities (including two of the three securities discussed further below) were reviewed for other than temporary impairment (‘‘OTTI’’) utilizing a cash flow projection. The cash flow analysis forecasts cash flow from the underlying loans in each transaction and then applies these cash flows to the bonds in the securitization. See further discussion below.

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

Other asset backed — at March 31, 2019, we had 85 other asset backed securities whose fair value is less than amortized cost. The unrealized losses are primarily due to credit spread widening and increases in interest rates since acquisition. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Obligations of states and political subdivisions — at March 31, 2019, we had 212 municipal securities whose fair value is less than amortized cost. The unrealized losses are primarily due to wider benchmark pricing spreads and increases in interest rates since acquisition. Tax exempt securities have been negatively impacted by lower federal tax rates signed into law in December, 2017. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

Corporate — at March 31, 2019, we had 13 corporate securities whose fair value is less than amortized cost. The unrealized losses are primarily due to credit spread widening and increases in interest rates since acquisition. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

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

Trust preferred securities — at March 31, 2019, we had two trust preferred securities whose fair value is less than amortized cost. Both of our trust preferred securities are single issue securities issued by a trust subsidiary of a bank holding company. The pricing of trust preferred securities has suffered from credit spread widening. One of the securities is rated by a major rating agency as investment grade while the other one is non-rated. The non-rated issue is a relatively small bank and was never rated. The issuer of this non-rated trust preferred security, which had a total amortized cost of $1.0 million and total fair value of $0.96 million as of March 31, 2019, continues to have satisfactory credit metrics and make interest payments. As management does not intend to liquidate this security and it is more likely than not that we will not be required to sell this security prior to recovery of the unrealized loss, this decline is not deemed to be other than temporary.

Foreign government — at March 31, 2019, we had two foreign government securities whose fair value is less than amortized cost. The unrealized losses are primarily due to increases in interest rates since acquisition. As management does not intend to liquidate these securities and it is more likely than not that we will not be required to sell these securities prior to recovery of these unrealized losses, no declines are deemed to be other than temporary.

We recorded no credit related OTTI charges in our Condensed Consolidated Statements of Operations related to securities available for sale during the three month periods ended March 31, 2019 and 2018, respectively.

At March 31, 2019, three private label mortgage-backed securities had credit related OTTI and are summarized as follows:

	Senior Security	Super Senior Security	Senior Support Security	Total
	(In thousands)			
Fair value	$756	$ 714	$ 19	$1,489
Amortized cost	629	546	-	1,175
Non-credit unrealized loss	-	-	-	-
Unrealized gain	127	168	19	314
Cumulative credit related OTTI	757	457	380	1,594

Each of these securities is receiving principal and interest payments similar to principal reductions in the underlying collateral. All three of these securities have unrealized gains at March 31, 2019. The original amortized cost (current amortized cost excluding cumulative credit related OTTI) for each of these securities has been permanently adjusted downward for previously recorded credit related OTTI. The unrealized loss (based on original amortized cost) for these securities is now less than previously recorded credit related OTTI amounts.

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A roll forward of credit losses recognized in earnings on securities available for sale follows:

	Three months ended March 31,	
	2019	2018
	(In thousands)	
Balance at beginning of period	$ 1,594	$ 1,594
Additions to credit losses on securities for which no previous OTTI was recognized	-	-
Increases to credit losses on securities for which OTTI was previously recognized	-	-
Balance at end of period	$ 1,594	$ 1,594

The amortized cost and fair value of securities available for sale at March 31, 2019, by contractual maturity, follow:

	Amortized Cost	Fair Value
	(In thousands)	
Maturing within one year	$10,674	$10,664
Maturing after one year but within five years	60,499	60,455
Maturing after five years but within ten years	52,841	52,862
Maturing after ten years	40,930	40,817
	164,944	164,798
U.S. agency residential mortgage-backed	141,886	142,038
U.S. agency commercial mortgage-backed	11,418	11,313
Private label mortgage-backed	32,984	33,092
Other asset backed	110,372	110,290
Total	$461,604	$461,531

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

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

		Realized	
	Proceeds	Gains	Losses
	(In thousands)		
2019	$42,236	$169	$ 32
2018	22,277	76	95

Certain preferred stocks which were all sold during the first quarter of 2019 had been classified as equity securities at fair value in our Condensed Consolidated Statement of Financial Condition. During the three months ended March 31, 2019 and 2018 we recognized gains (losses) on these preferred stocks of $0.167 million and $(0.154) million, respectively, that are included in net gains (losses) on securities in the Condensed Consolidated Statements of Operations. Zero and $(0.154) million of these gains (losses) during the three months ended March 31, 2019 and 2018, respectively relate to preferred stock still held at each respective period end.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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4. Loans

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

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

	Commercial	Mortgage	Installment	Subjective Allocation	Total
	(In thousands)				
2019					
Balance at beginning of period	$7,090	$ 7,978	$ 895	$ 8,925	$24,888
Additions (deductions)					
Provision for loan losses	420	573	523	(852)	664
Recoveries credited to the allowance	127	224	217	-	568
Loans charged against the allowance	(119)	(363)	(384)	-	(866)
Balance at end of period	$7,518	$ 8,412	$ 1,251	$ 8,073	$25,254
2018					
Balance at beginning of period	$5,595	$ 8,733	$ 864	$ 7,395	$22,587
Additions (deductions)					
Provision for loan losses	(135)	147	69	234	315
Recoveries credited to the allowance	606	180	228	-	1,014
Loans charged against the allowance	(40)	(439)	(366)	-	(845)
Balance at end of period	$6,026	$ 8,621	$ 795	$ 7,629	$23,071

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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Allowance for loan losses and recorded investment in loans by portfolio segment follows:

	Commercial	Mortgage	Installment	Subjective Allocation	Total
	(In thousands)				
March 31, 2019					
Allowance for loan losses:					
Individually evaluated for impairment	$1,204	$5,159	$ 323	$ -	$6,686
Collectively evaluated for impairment	6,314	3,253	928	8,073	18,568
Loans acquired with deteriorated credit quality	-	-	-	-	-
Total ending allowance for loan losses balance	$7,518	$8,412	$ 1,251	$ 8,073	$25,254
Loans					
Individually evaluated for impairment	$7,928	$46,315	$ 3,523		$57,766
Collectively evaluated for impairment	1,162,376	1,001,146	403,881		2,567,403
Loans acquired with deteriorated credit quality	1,537	546	326		2,409
Total loans recorded investment	1,171,841	1,048,007	407,730		2,627,578
Accrued interest included in recorded investment	3,437	4,262	1,084		8,783
Total loans	$1,168,404	$1,043,745	$ 406,646		$2,618,795
December 31, 2018					
Allowance for loan losses:					
Individually evaluated for impairment	$1,305	$4,799	$ 206	$ -	$6,310
Collectively evaluated for impairment	5,785	3,179	689	8,925	18,578
Loans acquired with deteriorated credit quality	-	-	-	-	-
Total ending allowance for loan losses balance	$7,090	$7,978	$ 895	$ 8,925	$24,888
Loans					
Individually evaluated for impairment	$8,697	$46,394	$ 3,370		$58,461
Collectively evaluated for impairment	1,137,586	1,000,038	392,460		2,530,084
Loans acquired with deteriorated credit quality	1,609	555	349		2,513
Total loans recorded investment	1,147,892	1,046,987	396,179		2,591,058
Accrued interest included in recorded investment	3,411	4,097	1,030		8,538
Total loans	$1,144,481	$1,042,890	$ 395,149		$2,582,520

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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Loans on non-accrual status and past due more than 90 days ("Non-performing Loans") follow:

	90+ and Still Accruing	Non-Accrual	Total Non-Performing Loans
	(In thousands)		
March 31, 2019			
Commercial			
Income producing - real estate	$ -	$ -	$ -
Land, land development and construction - real estate	-	-	-
Commercial and industrial	-	1,705	1,705
Mortgage			
1-4 family	-	4,878	4,878
Resort lending	-	508	508
Home equity - 1st lien	-	157	157
Home equity - 2nd lien	-	573	573
Installment			
Home equity - 1st lien	-	219	219
Home equity - 2nd lien	-	234	234
Boat lending	-	359	359
Recreational vehicle lending	-	6	6
Other	-	210	210
Total recorded investment	$ -	$ 8,849	$ 8,849
Accrued interest included in recorded investment	$ -	$ -	$ -
December 31, 2018			
Commercial			
Income producing - real estate	$ -	$ -	$ -
Land, land development and construction - real estate	-	-	-
Commercial and industrial	-	2,220	2,220
Mortgage			
1-4 family	5	4,695	4,700
Resort lending	-	755	755
Home equity - 1st lien	-	159	159
Home equity - 2nd lien	-	419	419
Installment			
Home equity - 1st lien	-	178	178
Home equity - 2nd lien	-	226	226
Boat lending	-	166	166
Recreational vehicle lending	-	7	7
Other	-	204	204
Total recorded investment	$ 5	$ 9,029	$ 9,034
Accrued interest included in recorded investment	$ -	$ -	$ -

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

	Loans Past Due 30-59 days	60-89 days	90+ days	Total	Loans not Past Due	Total Loans
	(In thousands)					
March 31, 2019						
Commercial						
Income producing - real estate	$-	$ -	$ -	$-	$398,191	$398,191
Land, land development and construction - real estate	-	-	-	-	84,861	84,861
Commercial and industrial	40	-	5	45	688,744	688,789
Mortgage						
1-4 family	3,295	833	5,058	9,186	803,882	813,068
Resort lending	321	84	508	913	77,315	78,228
Home equity - 1st lien	99	17	157	273	36,966	37,239
Home equity - 2nd lien	228	95	573	896	118,576	119,472
Installment						
Home equity - 1st lien	36	2	219	257	6,631	6,888
Home equity - 2nd lien	150	-	234	384	6,043	6,427
Boat lending	206	19	359	584	175,005	175,589
Recreational vehicle lending	76	-	6	82	130,016	130,098
Other	183	101	210	494	88,234	88,728
Total recorded investment	$4,634	$ 1,151	$ 7,329	$13,114	$2,614,464	$2,627,578
Accrued interest included in recorded investment	$63	$ 19	$ -	$82	$8,701	$8,783
December 31, 2018						
Commercial						
Income producing - real estate	$44	$ -	$ -	$44	$388,729	$388,773
Land, land development and construction - real estate	-	-	-	-	84,458	84,458
Commercial and industrial	1,538	-	-	1,538	673,123	674,661
Mortgage						
1-4 family	1,608	194	4,882	6,684	833,760	840,444
Resort lending	252	-	755	1,007	80,774	81,781
Home equity - 1st lien	176	-	159	335	38,909	39,244
Home equity - 2nd lien	446	100	419	965	84,553	85,518
Installment						
Home equity - 1st lien	200	55	197	452	6,985	7,437
Home equity - 2nd lien	111	24	226	361	6,683	7,044
Boat lending	316	295	166	777	169,117	169,894
Recreational vehicle lending	28	21	7	56	125,780	125,836
Other	241	131	204	576	85,392	85,968
Total recorded investment	$4,960	$ 820	$ 7,015	$12,795	$2,578,263	$2,591,058
Accrued interest included in recorded investment	$44	$ 11	$ -	$55	$8,483	$8,538

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Impaired loans are as follows:

	March 31, 2019	December 31, 2018
Impaired loans with no allocated allowance for loan losses	(In thousands)	
Troubled debt restructurings ("TDR")	$317	$ -
Non - TDR	798	-
Impaired loans with an allocated allowance for loan losses		
TDR - allowance based on collateral	2,103	2,787
TDR - allowance based on present value cash flow	50,940	53,258
Non - TDR - allowance based on collateral	3,353	2,145
Total impaired loans	$57,511	$ 58,190
Amount of allowance for loan losses allocated		
TDR - allowance based on collateral	$472	$ 769
TDR - allowance based on present value cash flow	4,944	4,849
Non - TDR - allowance based on collateral	1,270	692
Total amount of allowance for loan losses allocated	$6,686	$ 6,310

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Impaired loans by class are as follows:

	March 31, 2019			December 31, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance For Loan Losses	Recorded Investment	Unpaid Principal Balance	Related Allowance For Loan Losses
With no related allowance for loan losses recorded:	(In thousands)					
Commercial						
Income producing - real estate	$-	$ -	$ -	$-	$ -	$ -
Land, land development & construction-real estate	-	-	-	-	-	-
Commercial and industrial	-	-	-	-	-	-
Mortgage						
1-4 family	355	670	-	3	474	-
Resort lending	-	-	-	-	-	-
Home equity - 1st lien	-	-	-	-	-	-
Home equity - 2nd lien	-	-	-	-	-	-
Installment						
Home equity - 1st lien	-	-	-	1	122	-
Home equity - 2nd lien	-	18	-	-	-	-
Boat lending	-	5	-	-	5	-
Recreational vehicle lending	-	-	-	-	-	-
Other	-	15	-	-	15	-
	355	708	-	4	616	-
With an allowance for loan losses recorded:						
Commercial						
Income producing - real estate	4,720	4,712	423	4,770	4,758	303
Land, land development & construction-real estate	290	288	31	290	289	35
Commercial and industrial	2,918	3,175	750	3,637	3,735	967
Mortgage						