INDEPENDENT BANK CORP /MI/
Form 10-Q
August 04, 2017

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 June 30, 2017

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	21,336,090
Class	Outstanding at August 3, 2017

INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

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

- economic, market, operational, liquidity, credit, and interest rate risks associated with our business;
- economic conditions generally and in the financial services industry, particularly economic conditions within Michigan and the regional and local real estate markets in which our bank operates;
- the failure of assumptions underlying the establishment of, and provisions made to, our allowance for loan losses;
- 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, 2016, 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

	June 30, 2017 (unaudited)	December 31, 2016
	(In thousands, except share amounts)	
Assets		
Cash and due from banks	$ 35,513	$ 35,238
Interest bearing deposits	24,255	47,956
Cash and Cash Equivalents	59,768	83,194
Interest bearing deposits - time	5,339	5,591
Trading securities	286	410
Securities available for sale	583,725	610,616
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	15,543	15,543
Loans held for sale, carried at fair value	45,693	35,946
Payment plan receivables and other assets held for sale	-	33,360
Loans		
Commercial	828,778	804,017
Mortgage	674,499	538,615
Installment	308,400	265,616
Total Loans	1,811,677	1,608,248
Allowance for loan losses	(20,586)	(20,234)
Net Loans	1,791,091	1,588,014
Other real estate and repossessed assets	2,368	5,004
Property and equipment, net	39,356	40,175
Bank-owned life insurance	54,003	54,033
Deferred tax assets, net	25,201	32,818
Capitalized mortgage loan servicing rights	14,515	13,671
Vehicle service contract counterparty receivables, net	2,091	2,271
Other intangibles	1,759	1,932
Accrued income and other assets	24,629	26,372
Total Assets	$ 2,665,367	$ 2,548,950
Liabilities and Shareholders' Equity		
Deposits		
Non-interest bearing	$ 720,713	$ 717,472
Savings and interest-bearing checking	1,035,469	1,015,724
Reciprocal	46,612	38,657
Time	410,136	453,866
Brokered time	33,289	-
Total Deposits	2,246,219	2,225,719
Other borrowings	85,524	9,433
Subordinated debentures	35,569	35,569
Other liabilities held for sale	-	718
Accrued expenses and other liabilities	35,602	28,531
Total Liabilities	2,402,914	2,299,970
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: 21,334,740 shares at June 30, 2017 and 21,258,092 shares at December 31, 2016	324,231	323,745
Accumulated deficit	(57,966)	(65,657)
Accumulated other comprehensive loss	(3,812)	(9,108)
Total Shareholders' Equity	262,453	248,980
Total Liabilities and Shareholders' Equity	$ 2,665,367	$ 2,548,950

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 June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(unaudited)		(unaudited)	
	(In thousands, except per share amounts)			
Interest Income				
Interest and fees on loans	$19,949	$18,208	$39,807	$36,764
Interest on securities				
Taxable	2,781	2,480	5,535	4,724
Tax-exempt	511	282	966	530
Other investments	292	297	604	603
Total Interest Income	23,533	21,267	46,912	42,621
Interest Expense				
Deposits	1,478	1,152	2,921	2,266
Other borrowings and subordinated debentures	563	485	1,033	962
Total Interest Expense	2,041	1,637	3,954	3,228
Net Interest Income	21,492	19,630	42,958	39,393
Provision for loan losses	583	(734)	224	(1,264)
Net Interest Income After Provision for Loan Losses	20,909	20,364	42,734	40,657
Non-interest Income				
Service charges on deposit accounts	3,175	3,038	6,184	5,883
Interchange income	2,005	1,976	3,927	3,854
Net gains (losses) on assets				
Mortgage loans	3,344	2,529	5,915	4,171
Securities	(34)	185	(7)	347
Mortgage loan servicing, net	(158)	(334)	667	(1,312)
Title insurance fees	323	253	587	541
Other	1,791	1,933	3,512	3,905
Total Non-interest Income	10,446	9,580	20,785	17,389
Non-interest Expense				
Compensation and employee benefits	13,380	12,000	27,527	23,881
Occupancy, net	1,920	1,856	4,062	4,063
Data processing	1,937	1,936	3,874	4,037
Furniture, fixtures and equipment	1,005	965	1,982	1,949
Communications	678	722	1,361	1,610
Loan and collection	670	571	1,083	1,396
Advertising	519	478	1,025	955
Legal and professional	389	345	826	758
Interchange expense	292	267	575	533
FDIC deposit insurance	202	331	400	665
Credit card and bank service fees	136	198	327	385
Other	1,633	1,226	3,288	2,708
Total Non-interest Expense	22,761	20,895	46,330	42,940
Income Before Income Tax	8,594	9,049	17,189	15,106
Income tax expense	2,663	2,611	5,284	4,568

Net Income	$5,931	$6,438	$11,905	$10,538
Net Income Per Common Share				
Basic	$0.28	$0.30	$0.56	$0.49
Diluted	$0.27	$0.30	$0.55	$0.48
Dividends Per Common Share				
Declared	$0.10	$0.08	$0.20	$0.16
Paid	$0.10	$0.08	$0.20	$0.16

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 June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(unaudited) (In thousands)			
Net income	$5,931	$6,438	$11,905	$10,538
Other comprehensive income, before tax				
Securities available for sale				
Unrealized gains arising during period	4,095	2,334	7,718	4,448
Change in unrealized gains for which a portion of other than temporary impairment has been recognized in earnings	107	107	85	71
Reclassification adjustments for gains included in earnings	(11)	(109)	(117)	(283)
Unrealized gains recognized in other comprehensive income on securities available for sale	4,191	2,332	7,686	4,236
Income tax expense	1,467	816	2,690	1,483
Unrealized gains recognized in other comprehensive income on securities available for sale, net of tax	2,724	1,516	4,996	2,753
Other comprehensive income	2,724	1,516	4,996	2,753
Comprehensive income	$8,655	$7,954	$16,901	$13,291

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

	Six months ended June 30, 2017	2016
	(unaudited - In thousands)	
Net Income	$ 11,905	$ 10,538
Adjustments to Reconcile Net Income to Net Cash From Operating Activities		
Proceeds from sales of loans held for sale	189,654	129,838
Disbursements for loans held for sale	(193,486)	(129,514)
Provision for loan losses	224	(1,264)
Deferred income tax expense	7,589	5,625
Deferred loan fees	(3,002)	(987)
Net depreciation, amortization of intangible assets and premiums and accretion of discounts on securities, loans and interest bearing deposits - time	3,119	2,507
Net gains on mortgage loans	(5,915)	(4,171)
Net (gains) losses on securities	7	(347)
Share based compensation	916	825
Increase in accrued income and other assets	(1,922)	(1,164)
Decrease in accrued expenses and other liabilities	3,959	2,908
Total Adjustments	1,143	4,256
Net Cash From Operating Activities	13,048	14,794
Cash Flow Used in Investing Activities		
Proceeds from the sale of securities available for sale	7,830	55,362
Proceeds from the maturity of securities available for sale	10,468	21,413
Principal payments received on securities available for sale	89,166	74,212
Purchases of securities available for sale	(69,824)	(159,698)
Proceeds from the maturity of interest bearing deposits - time	250	3,290
Purchase of Federal Reserve Bank stock	-	(129)
Redemption of Federal Reserve Bank stock	-	371
Net increase in portfolio loans (loans originated, net of principal payments)	(202,167)	(64,236)
Cash received from the sale of Mepco	33,446	-
Proceeds from bank-owned life insurance	523	742
Proceeds from the collection of vehicle service contract counterparty receivables	295	4,458
Proceeds from the sale of other real estate and repossessed assets	3,548	3,018
Capital expenditures	(1,904)	(990)
Net Cash Used in Investing Activities	(128,369)	(62,187)
Cash Flow From Financing Activities		
Net increase in total deposits	20,500	42,329
Net decrease in other borrowings	(1)	(1)
Proceeds from Federal Home Loan Bank Advances	242,000	-
Payments of Federal Home Loan Bank Advances	(165,908)	(156)
Dividends paid	(4,266)	(3,451)
Proceeds from issuance of common stock	57	56
Repurchase of common stock	-	(15,510)
Share based compensation withholding obligation	(487)	(627)
Net Cash From Financing Activities	91,895	22,640
Net Decrease in Cash and Cash Equivalents	(23,426)	(24,753)
Cash and Cash Equivalents at Beginning of Period	83,194	85,783
Cash and Cash Equivalents at End of Period	$ 59,768	$ 61,030

Cash paid during the period for		
Interest	$ 3,768	$ 3,158
Income taxes	499	360
Transfers to other real estate and repossessed assets	1,014	1,275
Transfer of payment plan receivables to vehicle service contract counterparty receivables	-	294
Purchase of securities available for sale not yet settled	4,366	2,342

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Shareholders' Equity

	Six months ended June 30,	
	2017	2016
	(unaudited) (In thousands)	
Balance at beginning of period	$248,980	$251,092
Cumulative effect of change in accounting	352	1,247
Balance at beginning of period, as adjusted	249,332	252,339
Net income	11,905	10,538
Cash dividends declared	(4,266)	(3,451)
Issuance of common stock	57	56
Share based compensation	916	825
Share based compensation withholding obligation	(487)	(627)
Repurchase of common stock	-	(15,510)
Net change in accumulated other comprehensive loss, net of related tax effect	4,996	2,753
Balance at end of period	$262,453	$246,923

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, 2016 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 June 30, 2017 and December 31, 2016, and the results of operations for the three and six-month periods ended June 30, 2017 and 2016. The results of operations for the three and six -month periods ended June 30, 2017, 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, the valuation of originated mortgage loan servicing rights and the valuation of deferred tax assets. Refer to our 2016 Annual Report on Form 10-K for a disclosure of our accounting policies.

2. New Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)". This ASU supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this ASU specifies the accounting for some costs to obtain or fulfill a contract with a customer. This amended guidance is effective for us on January 1, 2018, and is not expected to have a material impact on our consolidated operating results or financial condition. Financial instruments for the most part and related contractual rights and obligations which are the sources of the majority of our operating revenue are excluded from the scope of this amended guidance. In addition, for those operating revenue streams that are included in the scope of this amended guidance, based upon our review of these sources of income we do not believe they will be materially impacted by this amended guidance.

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

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities". This ASU amends existing guidance related to the accounting for certain financial assets and liabilities. These amendments, among other things, require equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset and eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. This amended guidance is effective for us on January 1, 2018. We have reviewed the types of financial instruments impacted by this amended guidance, including certain equity investments and liabilities measured under the fair value election, and have determined that we do not currently own any such instruments. The balance of this amended guidance is expected to impact certain disclosure items but is not expected to have any 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, requires 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 is effective for us on January 1, 2019 and is not expected to have a material impact on our consolidated operating results or financial condition. Based on a review of 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. While the primary impact will be the recognition of certain operating leases on our Condensed Consolidated Statements of Financial Condition this impact is not expected to be material.

In June 2016, the FASB issued 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 are currently in the process of gathering data and reviewing loss methodologies and have engaged third party resources that will assist us in the implementation of this ASU. While we have not yet determined what the impact will be on our consolidated operating results or financial condition by the nature of the implementation of an expected loss model compared to an incurred loss approach, we would expect our AFLL to increase under this ASU.

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

In March 2017, the FASB issued ASU 2017-08, "Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20) Premium Amortization on Purchased Callable Debt Securities" ("ASU 2017-08"). This ASU shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be accreted to maturity. This amended guidance is effective for us on January 1, 2019, with early adoption permitted. We adopted this amended guidance during the first quarter of 2017 using a modified retrospective approach. The impact of this adoption was to adjust our January 1, 2017 Condensed Consolidated Statement of Financial Position to reflect cumulative effect adjustments as summarized in the table below. The adjustments below reflect the recording of $0.46 million ($0.30 million, net of tax) of additional premium amortization on securities available for sale and a $0.30 million decrease in accumulated other comprehensive loss to reflect the decrease in after tax unrealized losses on securities available for sale as of January 1, 2017 as a result of adopting this amended guidance. After January 1, 2017, premium amortization on certain callable debt securities is now amortized to the first call date. During the first quarter of 2017 the impact on the Condensed Consolidated Statements of Operations was an increase to premium amortization of $0.03 million.

During the first quarter of 2017, we adopted the fair value method of accounting for our capitalized mortgage loan servicing rights pursuant to FASB Accounting Standards Codification topic 860 – "Transfers and Servicing". Prior to January 1, 2017, we were accounting for our capitalized mortgage loan servicing rights under the amortization method. We adopted the fair value method using a modified retrospective adjustment to beginning accumulated deficit. The impact of the adoption of the fair value method is summarized in the table below. The adjustments below reflect the recording of a $0.54 million increase in the fair value of our capitalized mortgage loan servicing rights with a $0.19 million reduction in deferred tax assets, net for a net impact on accumulated deficit and total equity of $0.35 million.

	January 1, 2017 Originally Presented	Cumulative Retrospective Adjustments		January 1, 2017 Adjusted
	(In thousands)			
Deferred tax assets, net	$32,818	$ (190)	(1)	$32,628
Capitalized mortgage loan servicing rights	$13,671	$ 542	(1)	$14,213
Total assets	$2,548,950	$ 352		$2,549,302
Accumulated deficit	$(65,657)	$ 352	(1)	
		$ (300)	(2)	$(65,605)
Accumulated other comprehensive loss	$(9,108)	$ 300	(2)	$(8,808)
Total Shareholders' Equity	$248,980	$ 352		$249,332
Total Liabilities and Shareholders' Equity	$2,548,950	$ 352		$2,549,302

(1) Represents adjustment to capitalized mortgage loan servicing rights, deferred tax assets, net, and accumulated deficit to reflect the adoption of the fair value method of accounting for our capitalized mortgage loan servicing rights.

(2) Represents adjustment to accumulated deficit and accumulated other comprehensive loss to reflect the adoption of ASU 2017-08.

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

3. Securities

Securities available for sale consist of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In thousands)			
June 30, 2017				
U.S. agency	$28,179	$248	$29	$28,398
U.S. agency residential mortgage-backed	143,670	1,309	495	144,484
U.S. agency commercial mortgage-backed	11,573	107	103	11,577
Private label mortgage-backed	25,150	426	244	25,332
Other asset backed	126,708	327	137	126,898
Obligations of states and political subdivisions	178,729	1,787	752	179,764
Corporate	61,629	856	76	62,409
Trust preferred	2,926	-	165	2,761
Foreign government	2,106	-	4	2,102
Total	$580,670	$5,060	$2,005	$583,725
December 31, 2016				
U.S. agency	$28,909	$159	$80	$28,988
U.S. agency residential mortgage-backed	156,053	1,173	937	156,289
U.S. agency commercial mortgage-backed	12,799	28	195	12,632
Private label mortgage-backed	35,035	216	524	34,727
Other asset backed	146,829	271	391	146,709
Obligations of states and political subdivisions	175,180	478	4,759	170,899
Corporate	56,356	223	399	56,180
Trust preferred	2,922	-	343	2,579
Foreign government	1,626	-	13	1,613
Total	$615,709	$2,548	$7,641	$610,616

We adopted ASU 2017-08 during the first quarter of 2017 using a modified retrospective approach. As a result, the amortized cost of securities as of January 1, 2017 was adjusted lower by $0.46 million (see note #2).

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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)					
June 30, 2017						
U.S. agency	$2,841	$ 17	$ 4,920	$ 12	$7,761	$ 29
U.S. agency residential mortgage-backed	32,667	260	21,433	235	54,100	495
U.S. agency commercial mortgage-backed	6,147	102	122	1	6,269	103
Private label mortgage-backed	5,002	66	1,143	178	6,145	244
Other asset backed	25,998	38	11,035	99	37,033	137
Obligations of states and political subdivisions	50,302	611	6,788	141	57,090	752
Corporate	10,281	51	1,978	25	12,259	76
Trust preferred	-	-	2,761	165	2,761	165
Foreign government	2,102	4	-	-	2,102	4
Total	$135,340	$ 1,149	$ 50,180	$ 856	$185,520	$ 2,005
December 31, 2016						
U.S. agency	$4,179	$ 41	$ 8,217	$ 39	$12,396	$ 80
U.S. agency residential mortgage-backed	62,524	732	20,857	205	83,381	937
U.S. agency commercial mortgage-backed	6,079	194	143	1	6,222	195
Private label mortgage-backed	20,545	281	1,413	243	21,958	524
Other asset backed	52,958	172	17,763	219	70,721	391
Obligations of states and political subdivisions	113,078	4,014	14,623	745	127,701	4,759
Corporate	25,546	292	2,810	107	28,356	399
Trust preferred	-	-	2,579	343	2,579	343
Foreign government	1,613	13	-	-	1,613	13
Total	$286,522	$ 5,739	$ 68,405	$ 1,902	$354,927	$ 7,641

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.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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U.S. agency, U.S. agency residential mortgage-backed securities and U.S. agency commercial mortgage backed securities — at June 30, 2017, we had 21 U.S. agency, 103 U.S. agency residential mortgage-backed and 11 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 June 30, 2017, we had 14 of this type of security whose fair value is less than amortized cost. The unrealized losses are primarily attributed to three securities purchased prior to 2016. One of these three securities has an impairment in excess of 10% and all three of these holdings have been impaired for more than 12 months. The unrealized losses are largely attributable to credit spread widening on these three securities since their acquisition.

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

These three private label mortgage-backed securities are periodically 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. Our cash flow analysis forecasts complete recovery of our cost basis for all three of these securities whose fair value is less than amortized cost.

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 June 30, 2017, we had 69 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 June 30, 2017, we had 183 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. 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 June 30, 2017, 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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Trust preferred securities — at June 30, 2017, we had three trust preferred securities whose fair value is less than amortized cost. All of our trust preferred securities are single issue securities issued by a trust subsidiary of a bank holding company. The pricing of trust preferred securities has suffered from credit spread widening.

One of the three securities is rated by two major rating agencies as investment grade, while one (a Bank of America issuance) is rated below investment grade by two major rating agencies and the other one is non-rated. The non-rated issue is a relatively small bank and was never rated. The issuer of this non-rated trust preferred security, which had a total amortized cost of $1.0 million and total fair value of $0.9 million as of June 30, 2017, continues to have satisfactory credit metrics and make interest payments.

The following table breaks out our trust preferred securities in further detail as of June 30, 2017 and December 31, 2016:

	June 30, 2017		December 31, 2016	
	Fair Value	Net Unrealized Loss	Fair Value	Net Unrealized Loss
	(In thousands)			
Trust preferred securities				
Rated issues	$1,844	$ (82)	$ 1,800	$ (123)
Unrated issues	917	(83)	779	(220)

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.

Foreign government — at June 30, 2017, we had two foreign government securities whose fair value is less than amortized cost. The unrealized loss is 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 and six month periods ended June 30, 2017 and 2016, respectively.

At June 30, 2017, 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)			
As of June 30, 2017				
Fair value	$1,133	$ 955	$ 71	$2,159
Amortized cost	1,003	888	-	1,891
Non-credit unrealized loss	-	-	-	-
Unrealized gain	130	67	71	268

Cumulative credit related OTTI	757	457	380	1,594

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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 June 30, 2017. The original amortized cost for each of these securities has been permanently adjusted downward for previously recorded credit related OTTI. The unrealized loss (based on original amortized cost) for these securities is now less than previously recorded credit related OTTI amounts.

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Balance at beginning of period	$1,844	$1,844	$1,844	$1,844
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	$1,844	$1,844	$1,844	$1,844

The amortized cost and fair value of securities available for sale at June 30, 2017, by contractual maturity, follow:

	Amortized Cost	Fair Value
	(In thousands)	
Maturing within one year	$30,555	$30,608
Maturing after one year but within five years	99,193	99,956
Maturing after five years but within ten years	86,846	88,012
Maturing after ten years	56,975	56,858
	273,569	275,434
U.S. agency residential mortgage-backed	143,670	144,484
U.S. agency commercial mortgage-backed	11,573	11,577
Private label mortgage-backed	25,150	25,332
Other asset backed	126,708	126,898
Total	$580,670	$583,725

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 six month periods ending June 30, follows:

		Realized	
	Proceeds	Gains	Losses
	(In thousands)		
2017	$7,830	$117	$ -

2016	55,362	336	53

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During 2017 and 2016, our trading securities consisted of various preferred stocks. During the first six months of 2017 and 2016, we recognized gains (losses) on trading securities of $(0.124) million and $0.064 million, respectively, that are included in net gains (losses) on securities in the Condensed Consolidated Statements of Operations. These amounts relate to trading securities still held at each respective period end.

4. Loans

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

An analysis of the allowance for loan losses by portfolio segment for the three months ended June 30, follows:

	Commercial	Mortgage	Installment	Payment Plan Receivables(1)	Subjective Allocation	Total
	(In thousands)					
2017						
Balance at beginning of period	$5,088	$8,109	$911	$-	$5,930	$20,038
Additions (deductions)						
Provision for loan losses	(39)	38	73	-	511	583
Recoveries credited to the allowance	202	191	264	-	-	657
Loans charged against the allowance	(151)	(193)	(348)	-	-	(692)
Balance at end of period	$5,100	$8,145	$900	$-	$6,441	$20,586
2016						
Balance at beginning of period	$5,622	$10,296	$1,161	$53	$5,363	$22,495
Additions (deductions)						
Provision for loan losses	(663)	(359)	126	(1)	163	(734)
Recoveries credited to the allowance	1,114	294	351	-	-	1,759
Loans charged against the allowance	(34)	(275)	(499)	-	-	(808)
Balance at end of period	$6,039	$9,956	$1,139	$52	$5,526	$22,712

(1) Payment plan receivables were reclassified to held for sale at December 31, 2016. See note #15.

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An analysis of the allowance for loan losses by portfolio segment for the six months ended June 30, follows:

	Commercial	Mortgage	Installment	Payment Plan Receivables(1)	Subjective Allocation	Total
	(In thousands)					
2017						
Balance at beginning of period	$4,880	$8,681	$1,011	$-	$5,662	$20,234
Additions (deductions)						
Provision for loan losses	(100)	(661)	206	-	779	224
Recoveries credited to the allowance	606	677	503	-	-	1,786
Loans charged against the allowance	(286)	(552)	(820)	-	-	(1,658)
Balance at end of period	$5,100	$8,145	$900	$-	$6,441	$20,586
2016						
Balance at beginning of period	$5,670	$10,391	$1,181	$56	$5,272	$22,570
Additions (deductions)						
Provision for loan losses	(1,067)	(638)	191	(4)	254	(1,264)
Recoveries credited to the allowance	1,470	676	572	-	-	2,718
Loans charged against the allowance	(34)	(473)	(805)	-	-	(1,312)
Balance at end of period	$6,039	$9,956	$1,139	$52	$5,526	$22,712

(1) Payment plan receivables were reclassified to held for sale at December 31, 2016. See note #15.

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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)				
June 30, 2017					
Allowance for loan losses					
Individually evaluated for impairment	$1,094	$5,873	$277	$ -	$7,244
Collectively evaluated for impairment	4,006	2,272	623	6,441	13,342
Total ending allowance balance	$5,100	$8,145	$900	$ 6,441	$20,586
Loans					
Individually evaluated for impairment	$11,351	$56,106	$4,437		$71,894
Collectively evaluated for impairment	819,442	621,015	304,762		1,745,219
Total loans recorded investment	830,793	677,121	309,199		1,817,113
Accrued interest included in recorded investment	2,015	2,622	799		5,436
Total loans	$828,778	$674,499	$308,400		$1,811,677
December 31, 2016					
Allowance for loan losses					
Individually evaluated for impairment	$2,244	$6,579	$329	$ -	$9,152
Collectively evaluated for impairment	2,636	2,102	682	5,662	11,082
Total ending allowance balance	$4,880	$8,681	$1,011	$ 5,662	$20,234
Loans					
Individually evaluated for impairment	$15,767	$59,151	$4,913		$79,831
Collectively evaluated for impairment	790,228	481,828	261,474		1,533,530
Total loans recorded investment	805,995	540,979	266,387		1,613,361
Accrued interest included in recorded investment	1,978	2,364	771		5,113
Total loans	$804,017	$538,615	$265,616		$1,608,248

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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)		
June 30, 2017			
Commercial			
Income producing - real estate	$ -	$ 203	$ 203
Land, land development and construction - real estate	-	10	10
Commercial and industrial	-	541	541
Mortgage			
1-4 family	-	5,481	5,481
Resort lending	-	1,043	1,043
Home equity - 1st lien	-	198	198
Home equity - 2nd lien	-	312	312
Purchased loans	-	-	-
Installment			
Home equity - 1st lien	-	203	203
Home equity - 2nd lien	-	308	308
Boat lending	-	93	93
Recreational vehicle lending	-	20	20
Other	-	130	130
Total recorded investment	$ -	$ 8,542	$ 8,542
Accrued interest included in recorded investment	$ -	$ -	$ -
December 31, 2016			
Commercial			
Income producing - real estate	$ -	$ 628	$ 628
Land, land development and construction - real estate	-	105	105
Commercial and industrial	-	4,430	4,430
Mortgage			
1-4 family	-	5,248	5,248
Resort lending	-	1,507	1,507
Home equity - 1st lien	-	222	222
Home equity - 2nd lien	-	317	317
Purchased loans	-	-	-
Installment			
Home equity - 1st lien	-	266	266
Home equity - 2nd lien	-	289	289
Boat lending	-	219	219
Recreational vehicle lending	-	21	21
Other	-	112	112
Total recorded investment	$ -	$ 13,364	$ 13,364
Accrued interest included in recorded investment	$ -	$ -	$ -

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An aging analysis of loans by class follows:

	Loans Past Due				Loans not	Total
	30-59 days	60-89 days	90+ days	Total	Past Due	Loans
	(In thousands)					
June 30, 2017						
Commercial						
Income producing - real estate	$36	$ -	$ 30	$66	$280,018	$280,084
Land, land development and construction - real estate	-	-	-	-	58,353	58,353
Commercial and industrial	254	-	121	375	491,981	492,356
Mortgage						
1-4 family	1,894	1,007	5,481	8,382	448,747	457,129
Resort lending	136	264	1,043	1,443	94,764	96,207
Home equity - 1st lien	60	76	198	334	33,697	34,031
Home equity - 2nd lien	644	177	312	1,133	52,598	53,731
Purchased loans	5	4	-	9	36,014	36,023
Installment						
Home equity - 1st lien	124	60	203	387	10,589	10,976
Home equity - 2nd lien	163	140	308	611	10,791	11,402
Boat lending	173	12	93	278	126,150	126,428
Recreational vehicle lending	50	13	20	83	89,132	89,215
Other	130	44	130	304	70,874	71,178
Total recorded investment	$3,669	$ 1,797	$ 7,939	$13,405	$1,803,708	$1,817,113
Accrued interest included in recorded investment	$44	$ 34	$ -	$78	$5,358	$5,436
December 31, 2016						
Commercial						
Income producing - real estate	$-	$ -	$ 383	$383	$287,255	$287,638
Land, land development and construction - real estate	74	-	31	105	51,670	51,775
Commercial and industrial	100	1,385	66	1,551	465,031	466,582
Mortgage						
1-4 family	2,361	869	5,248	8,478	306,063	314,541
Resort lending	-	-	1,507	1,507	101,541	103,048
Home equity - 1st lien	149	-	222	371	28,645	29,016
Home equity - 2nd lien	470	218	317	1,005	54,232	55,237
Purchased loans	13	2	-	15	39,122	39,137
Installment						
Home equity - 1st lien	311	48	266	625	12,025	12,650
Home equity - 2nd lien	238	41	289	568	13,390	13,958
Boat lending	184	33	219	436	102,489	102,925
Recreational vehicle lending	68	33	21	122	74,413	74,535
Other	289	30	112	431	61,888	62,319
Total recorded investment	$4,257	$ 2,659	$ 8,681	$15,597	$1,597,764	$1,613,361

Accrued interest included in recorded investment	$45	$ 19	$ -	$64	$5,049	$5,113

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Impaired loans are as follows:

	June 30, 2017	December 31, 2016
Impaired loans with no allocated allowance	(In thousands)	
TDR	$602	$ 1,782
Non - TDR	-	1,107
Impaired loans with an allocated allowance		
TDR - allowance based on collateral	2,375	3,527
TDR - allowance based on present value cash flow	68,350	72,613
Non - TDR - allowance based on collateral	262	491
Total impaired loans	$71,589	$ 79,520
Amount of allowance for loan losses allocated		
TDR - allowance based on collateral	$683	$ 1,868
TDR - allowance based on present value cash flow	6,525	7,146
Non - TDR - allowance based on collateral	36	138
Total amount of allowance for loan losses allocated	$7,244	$ 9,152

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Impaired loans by class are as follows (1):

	June 30, 2017			December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:	(In thousands)					
Commercial						
Income producing - real estate	$ -	$ -	$ -	$ 517	$ 768	$ -
Land, land development & construction-real estate	-	-	-	31	709	-
Commercial and industrial	354	352	-	2,341	3,261	-
Mortgage						
1-4 family	251	915	-	2	387	-
Resort lending	-	-	-	-	-	-
Home equity - 1st lien	-	-	-	-	-	-
Home equity - 2nd lien	-	-	-	-	-	-
Installment						
Home equity - 1st lien	1	72	-	-	66	-
Home equity - 2nd lien	-	-	-	-	-	-
Boat lending	-	-	-	-	-	-
Recreational vehicle lending	-	-	-	-	-	-
Other	-	-	-	-	-	-
	606	1,339	-	2,891	5,191	-
With an allowance recorded:						
Commercial						
Income producing - real estate	7,647	7,835	594	7,737	7,880	554
Land, land development & construction-real estate	172	199	11	239	244	36
Commercial and industrial	3,178	3,256	489	4,902	5,246	1,654
Mortgage						
1-4 family	39,194	40,728	3,590	41,701	43,479	4,100
Resort lending	16,251	16,318	2,249	16,898	16,931	2,453
Home equity - 1st lien	230	239	10	235	242	10
Home equity - 2nd lien	180	214	24	315	398	16
Installment						
Home equity - 1st lien	1,825	1,952	87	1,994	2,117	118
Home equity - 2nd lien	2,147	2,173	165	2,415	2,443	182
Boat lending	1	6	1	1	6	-
Recreational vehicle lending	102	102	5	109	108	6
Other	361	394	19	394	426	23
	71,288	73,416	7,244	76,940	79,520	9,152
Total						
Commercial						
Income producing - real estate	7,647	7,835	594	8,254	8,648	554
Land, land development & construction-real estate	172	199	11	270	953	36
Commercial and industrial	3,532	3,608	489	7,243	8,507	1,654
Mortgage						
1-4 family	39,445	41,643	3,590	41,703	43,866	4,100

Resort lending	16,251	16,318	2,249	16,898	16,931	2,453
Home equity - 1st lien	230	239	10	235	242	10
Home equity - 2nd lien	180	214	24	315	398	16
Installment						
Home equity - 1st lien	1,826	2,024	87	1,994	2,183	118
Home equity - 2nd lien	2,147	2,173	165	2,415	2,443	182
Boat lending	1	6	1	1	6	-
Recreational vehicle lending	102	102	5	109	108	6
Other	361	394	19	394	426	23
Total	$71,894	$74,755	$ 7,244	$79,831	$84,711	$ 9,152
Accrued interest included in recorded investment	$305			$311		

(1) There were no impaired purchased mortgage loans at June 30, 2017 or December 31, 2016.

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Average recorded investment in and interest income earned on impaired loans by class for the three month periods ending June 30, follows (1):

	2017		2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:	(In thousands)			
Commercial				
Income producing - real estate	$185	$ -	$673	$ -
Land, land development & construction-real estate	-	-	335	-
Commercial and industrial	177	8	609	-
Mortgage				
1-4 family	126	5	11	5
Resort lending	-	-	-	-
Home equity - 1st lien	-	-	-	-
Home equity - 2nd lien	-	-	-	-
Installment				
Home equity - 1st lien	1	2	1	-
Home equity - 2nd lien	-	-	7	-
Boat lending	-	-	-	-
Recreational vehicle lending	-	-	-	-
Other	-	-	-	-
	489	15	1,636	5
With an allowance recorded:				
Commercial				
Income producing - real estate	7,694	104	8,210	100
Land, land development & construction-real estate	170	2	1,664	13
Commercial and industrial	3,237	37	6,203	59
Mortgage				
1-4 family	39,646	494	46,041	475
Resort lending	16,471	150	17,689	159
Home equity - 1st lien	232	2	243	2
Home equity - 2nd lien	186	1	181	4
Installment				
Home equity - 1st lien	1,855	33	2,230	42
Home equity - 2nd lien	2,228	35	2,751	41
Boat lending	1	-	2	-
Recreational vehicle lending	104	2	117	1
Other	369	6	442	9
	72,193	866	85,773	905
Total				
Commercial				
Income producing - real estate	7,879	104	8,883	100
Land, land development & construction-real estate	170	2	1,999	13
Commercial and industrial	3,414	45	6,812	59
Mortgage				

1-4 family	39,772		499	46,052		480
Resort lending	16,471		150	17,689		159
Home equity - 1st lien	232		2	243		2
Home equity - 2nd lien	186		1	181		4
Installment						
Home equity - 1st lien	1,856		35	2,231		42
Home equity - 2nd lien	2,228		35	2,758		41
Boat lending	1		-	2		-
Recreational vehicle lending	104		2	117		1
Other	369		6	442		9
Total	$72,682	$	881	$87,409	$	910

(1) There were no impaired purchased mortgage loans during the three month periods ended June 30, 2017 and 2016, respectively.

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Average recorded investment in and interest income earned on impaired loans by class for the six month periods ending June 30, follows (1):

	2017		2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:	(In thousands)			
Commercial				
Income producing - real estate	$296	$ -	$662	$ 2
Land, land development & construction-real estate	10	-	496	7
Commercial and industrial	898	8	821	21
Mortgage				
1-4 family	85	9	15	6
Resort lending	-	-	-	-
Home equity - 1st lien	-	-	-	-
Home equity - 2nd lien	-	-	-	-
Installment				
Home equity - 1st lien	-	3	-	1
Home equity - 2nd lien	-	-	5	-
Boat lending	-	-	-	-
Recreational vehicle lending	-	-	-	-
Other	-	-	-	-
	1,289	20	1,999	37
With an allowance recorded:				
Commercial				
Income producing - real estate	7,708	209	8,266	207
Land, land development & construction-real estate	193	4	1,673	26
Commercial and industrial	3,792	72	5,501	82
Mortgage				
1-4 family	40,331	958	46,625	977
Resort lending	16,613	311	17,842	319
Home equity - 1st lien	233	4	218	4
Home equity - 2nd lien	229	3	202	5
Installment				
Home equity - 1st lien	1,901	67	2,274	84
Home equity - 2nd lien	2,290	70	2,810	85
Boat lending	1	-	2	-
Recreational vehicle lending	106	3	119	3
Other	377	13	451	16
	73,774	1,714	85,983	1,808
Total				
Commercial				
Income producing - real estate	8,004	209	8,928	209
Land, land development & construction-real estate	203	4	2,169	33
Commercial and industrial	4,690	80	6,322	103
Mortgage				

1-4 family	40,416	967	46,640	983
Resort lending	16,613	311	17,842	319
Home equity - 1st lien	233	4	218	4
Home equity - 2nd lien	229	3	202	5
Installment				
Home equity - 1st lien	1,901	70	2,274	85
Home equity - 2nd lien	2,290	70	2,815	85
Boat lending	1	-	2	-
Recreational vehicle lending	106	3	119	3
Other	377	13	451	16
Total	$75,063	$ 1,734	$87,982	$ 1,845

(1) There were no impaired purchased mortgage loans during the six month periods ended June 30, 2017 and 2016, respectively.

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

Cash receipts on impaired loans on non-accrual status are generally applied to the principal balance.

Troubled debt restructurings follow:

	June 30, 2017		
	Commercial	Retail (1)	Total
	(In thousands)		
Performing TDRs	$10,551	$56,100	$66,651
Non-performing TDRs(2)	492	4,184 (3)	4,676
Total	$11,043	$60,284	$71,327

	December 31, 2016		
	Commercial	Retail (1)	Total
	(In thousands)		
Performing TDRs	$10,560	$59,726	$70,286
Non-performing TDRs(2)	3,565	4,071 (3)	7,636
Total	$14,125	$63,797	$77,922

(1) Retail loans include mortgage and installment loan segments.
(2) Included in non-performing loans table above.
(3) Also includes loans on non-accrual at the time of modification until six payments are received on a timely basis.

We allocated $7.2 million and $9.0 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2017 and December 31, 2016, respectively.

During the six months ended June 30, 2017 and 2016, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans generally included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

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

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Loans that have been classified as troubled debt restructurings during the three-month periods ended June 30 follow(1):

	Number of Contracts	Pre-modification Recorded Balance	Post-modification Recorded Balance
	(Dollars in thousands)		
2017			
Commercial			
Income producing - real estate	-	$ -	$ -
Land, land development & construction-real estate	-	-	-
Commercial and industrial	9	653	653
Mortgage			
1-4 family	1	32	32
Resort lending	-	-	-
Home equity - 1st lien	-	-	-
Home equity - 2nd lien	-	-	-
Installment			
Home equity - 1st lien	-	-	-
Home equity - 2nd lien	3	204	205
Boat lending	-	-	-
Recreational vehicle lending	-	-	-
Other	-	-	-
Total	13	$ 889	$ 890
2016			
Commercial			
Income producing - real estate	-	$ -	$ -
Land, land development & construction-real estate	-	-	-
Commercial and industrial	-	-	-
Mortgage			
1-4 family	1	109	110
Resort lending	-	-	-
Home equity - 1st lien	-	-	-
Home equity - 2nd lien	-	-	-
Installment			
Home equity - 1st lien	3	29	29
Home equity - 2nd lien	2	71	73
Boat lending	-	-	-
Recreational vehicle lending	-	-	-
Other	1	12	12
Total	7	$ 221	$ 224

(1) There were no purchased mortgage loans classified as troubled debt restructurings during the three month periods ended June 30, 2017 and 2016, respectively.

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

Loans that have been classified as troubled debt restructurings during the six-month periods ended June 30 follow(1):

	Number of Contracts	Pre-modification Recorded Balance	Post-modification Recorded Balance
	(Dollars in thousands)		
2017			
Commercial			
Income producing - real estate	-	$ -	$ -
Land, land development & construction-real estate	-	-	-
Commercial and industrial	12	786	786
Mortgage			
1-4 family	2	49	49
Resort lending	1	189	189
Home equity - 1st lien	-	-	-
Home equity - 2nd lien	-	-	-
Installment			
Home equity - 1st lien	2	34	37
Home equity - 2nd lien	5	249	251
Boat lending	-	-	-
Recreational vehicle lending	-	-	-
Other	-	-	-
Total	22	$ 1,307	$ 1,312
2016			
Commercial			
Income producing - real estate	2	$ 110	$ 110
Land, land development & construction-real estate	-	-	-
Commercial and industrial	4	1,758	1,758
Mortgage			
1-4 family	3	192	263
Resort lending	1	116	117
Home equity - 1st lien	1	107	78
Home equity - 2nd lien	-	-	-
Installment			
Home equity - 1st lien	4	59	60
Home equity - 2nd lien	4	126	129
Boat lending	-	-	-
Recreational vehicle lending	-	-	-
Other	1	12	12
Total	20	$ 2,480	$ 2,527

(1) There were no purchased mortgage loans classified as troubled debt restructurings during the six month periods ended June 30, 2017 and 2016, respectively.

The troubled debt restructurings described above for 2017 had no impact on the allowance for loan losses and resulted in zero charge offs during the three months ended June 30, 2017, and increased the allowance by $0.1 million and resulted in zero charge offs during the six months ended June 30, 2017.

The troubled debt restructurings described above for 2016 had no impact on the allowance for loan losses and resulted in zero charge offs during the three months ended June 30, 2016, and increased the allowance by $0.3 million and resulted in zero charge offs during the six months ended June 30, 2016.

A loan is considered to be in payment default generally once it is 90 days contractually past due under the modified terms.

There were no troubled debt restructurings that subsequently defaulted within twelve months following the modification during the three and six months ended June 30, 2017 or 2016.

In order to determine whether a borrower is experiencing financial difficulty, we perform an evaluation of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under our internal underwriting policy.

Credit Quality Indicators – As part of our on-going monitoring of the credit quality of our loan portfolios, we track certain credit quality indicators including (a) weighted-average risk grade of commercial loans, (b) the level of classified commercial loans, (c) credit scores of mortgage and installment loan borrowers, and (d) delinquency history and non-performing loans.

For commercial loans, we use a loan rating system that is similar to those employed by state and federal banking regulators. Loans are graded on a scale of 1 to 12. A description of the general characteristics of the ratings follows:

Rating 1 through 6: These loans are generally referred to as our “non-watch” commercial credits that include very high or exceptional credit fundamentals through acceptable credit fundamentals.

Rating 7 and 8: These loans are generally referred to as our “watch” commercial credits. This rating includes loans to borrowers that exhibit potential credit weakness or downward trends. If not checked or cured these trends could weaken our asset or credit position. While potentially weak, no loss of principal or interest is envisioned with these ratings.

Rating 9: These loans are generally referred to as our “substandard accruing” commercial credits. This rating includes loans to borrowers that exhibit a well-defined weakness where payment default is probable and loss is possible if deficiencies are not corrected. Generally, loans with this rating are considered collectible as to both principal and interest primarily due to collateral coverage.

Rating 10 and 11: These loans are generally referred to as our “substandard - non-accrual” and “doubtful” commercial credits, respectively. These ratings include loans to borrowers with weaknesses that make collection of debt in full, on the basis of current facts, conditions and values at best questionable and at worst improbable. All of these loans are placed in non-accrual.

Rating 12: These loans are generally referred to as our “loss” commercial credits. This rating includes loans to borrowers that are deemed incapable of repayment and are charged-off.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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The following table summarizes loan ratings by loan class for our commercial loan segment:

	Commercial				
	Non-watch 1-6	Watch 7-8	Substandard Accrual 9	Non-Accrual 10-11	Total
			(In thousands)		
June 30, 2017					
Income producing - real estate	$276,218	$3,344	$ 320	$202	$280,084
Land, land development and construction - real estate	58,278	65	-	10	58,353
Commercial and industrial	475,372	13,171	3,272	541	492,356
Total	$809,868	$16,580	$ 3,592	$753	$830,793
Accrued interest included in total	$1,952	$48	$ 15	$-	$2,015
December 31, 2016					
Income producing - real estate	$282,886	$3,787	$ 337	$628	$287,638
Land, land development and construction - real estate	51,603	67	-	105	51,775
Commercial and industrial	449,365	9,788	2,998	4,431	466,582
Total	$783,854	$13,642	$ 3,335	$5,164	$805,995
Accrued interest included in total	$1,915	$52	$ 11	$-	$1,978

For each of our mortgage and installment segment classes, we generally monitor credit quality based on the credit scores of the borrowers. These credit scores are generally updated semi-annually.

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The following tables summarize credit scores by loan class for our mortgage and installment loan segments:

	Mortgage (1)					
	1-4 Family	Resort Lending	Home Equity 1st Lien	Home Equity 2nd Lien	Purchased Loans	Total
	(In thousands)					
June 30, 2017						
800 and above	$51,751	$11,770	$7,477	$8,575	$ 8,122	$87,695
750-799	175,169	34,856	14,175	19,038	19,302	262,540
700-749	98,924	25,749	6,019	12,087	8,041	150,820
650-699	69,420	13,070	3,501	7,359	432	93,782
600-649	27,633	4,790	1,080	2,471	-	35,974
550-599	15,598	2,790	478	1,555	-	20,421
500-549	8,948	1,407	543	1,340	-	12,238
Under 500	3,839	90	253	182	-	4,364
Unknown	5,847	1,685	505	1,124	126	9,287
Total	$457,129	$96,207	$34,031	$53,731	$ 36,023	$677,121
Accrued interest included in total	$1,761	$379	$137	$244	$ 101	$2,622
December 31, 2016						
800 and above	$36,534	$10,484	$6,048	$8,392	$ 8,462	$69,920
750-799	102,382	41,999	10,006	20,113	20,984	195,484
700-749	69,337	24,727	5,706	12,360	9,115	121,245
650-699	50,621	13,798	4,106	8,167	437	77,129
600-649	25,270	5,769	1,674	3,067	-	35,780
550-599	13,747	3,030	455	1,699	-	18,931
500-549	9,215	1,438	486	981	-	12,120
Under 500	5,145	92	255	279		