INDEPENDENT BANK CORP /MI/
Form 10-Q
November 02, 2018

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 September 30, 2018

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	24,105,586
Class	Outstanding at November 1, 2018

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.

In addition, factors that may cause actual results to differ from expectations regarding the April 1, 2018 acquisition of TCSB Bancorp, Inc. include, but are not limited to, the reaction to the transaction of the companies’ customers, employees and counterparties; customer disintermediation; inflation; expected synergies, cost savings and other financial benefits of the transaction might not be realized within the expected timeframes or might be less than projected; credit and interest rate risks associated with the parties' respective businesses, customers, borrowings, repayment, investment, and deposit practices; general economic conditions, either nationally or in the market areas in which the parties operate or anticipate doing business, are less favorable than expected; new regulatory or legal requirements or obligations; and other risks.

The risk factors disclosed in Part I – Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017, 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

	September 30, 2018 (unaudited)	December 31, 2017
	(In thousands, except share amounts)	
Assets		
Cash and due from banks	$ 35,180	$ 36,994
Interest bearing deposits	17,990	17,744
Cash and Cash Equivalents	53,170	54,738
Interest bearing deposits - time	593	2,739
Equity securities at fair value	285	-
Trading securities	-	455
Securities available for sale	436,957	522,925
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	18,355	15,543
Loans held for sale, carried at fair value	41,325	39,436
Loans		
Commercial	1,112,101	853,260
Mortgage	1,056,482	849,530
Installment	393,995	316,027
Total Loans	2,562,578	2,018,817
Allowance for loan losses	(24,401)	(22,587)
Net Loans	2,538,177	1,996,230
Other real estate and repossessed assets	1,445	1,643
Property and equipment, net	39,012	39,149
Bank-owned life insurance	54,811	54,572
Deferred tax assets, net	8,449	15,089
Capitalized mortgage loan servicing rights	23,151	15,699
Other intangibles	6,709	1,586
Goodwill	28,300	-
Accrued income and other assets	46,385	29,551
Total Assets	$ 3,297,124	$ 2,789,355
Liabilities and Shareholders' Equity		
Deposits		
Non-interest bearing	$ 880,932	$ 768,333
Savings and interest-bearing checking	1,217,939	1,064,391
Reciprocal	92,635	50,979
Time	399,110	374,872
Brokered time	208,027	141,959
Total Deposits	2,798,643	2,400,534
Other borrowings	79,688	54,600
Subordinated debentures	39,371	35,569
Accrued expenses and other liabilities	34,218	33,719
Total Liabilities	2,951,920	2,524,422
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: 24,150,341 shares at September 30, 2018 and 21,333,869 shares at December 31, 2017	389,689	324,986
Accumulated deficit	(34,596)	(54,054)
Accumulated other comprehensive loss	(9,889)	(5,999)
Total Shareholders' Equity	345,204	264,933
Total Liabilities and Shareholders' Equity	$ 3,297,124	$ 2,789,355

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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
	(In thousands, except per share amounts)			
Interest Income				
Interest and fees on loans	$31,000	$21,831	$84,027	$61,638
Interest on securities				
Taxable	2,737	2,765	8,092	8,300
Tax-exempt	412	512	1,335	1,478
Other investments	303	263	898	867
Total Interest Income	34,452	25,371	94,352	72,283
Interest Expense				
Deposits	3,976	1,833	9,472	4,754
Other borrowings and subordinated debentures	779	626	2,267	1,659
Total Interest Expense	4,755	2,459	11,739	6,413
Net Interest Income	29,697	22,912	82,613	65,870
Provision for loan losses	(53)	582	912	806
Net Interest Income After Provision for Loan Losses	29,750	22,330	81,701	65,064
Non-interest Income				
Service charges on deposit accounts	3,166	3,281	9,166	9,465
Interchange income	2,486	1,942	7,236	5,869
Net gains (losses) on assets				
Mortgage loans	2,745	2,971	8,571	8,886
Securities	93	69	(71)	62
Mortgage loan servicing, net	1,212	1	4,668	668
Other	2,134	2,040	6,294	6,139
Total Non-interest Income	11,836	10,304	35,864	31,089
Non-interest Expense				
Compensation and employee benefits	16,169	13,577	46,506	41,104
Occupancy, net	2,233	1,970	6,667	6,032
Data processing	2,051	1,796	6,180	5,670
Merger related expenses	98	10	3,354	10
Furniture, fixtures and equipment	1,043	961	3,029	2,943
Communications	727	685	2,111	2,046
Interchange expense	715	294	1,974	869
Loan and collection	531	481	1,900	1,564
Advertising	594	526	1,578	1,551
Legal and professional	477	540	1,311	1,366
FDIC deposit insurance	270	208	750	608
Other	1,832	1,568	5,276	5,183
Total Non-interest Expense	26,740	22,616	80,636	68,946
Income Before Income Tax	14,846	10,018	36,929	27,207
Income tax expense	2,921	3,159	7,026	8,443
Net Income	$11,925	$6,859	$29,903	$18,764

Net Income Per Common Share				
Basic	$0.49	$0.32	$1.29	$0.88
Diluted	$0.49	$0.32	$1.27	$0.87
Dividends Per Common Share				
Declared	$0.15	$0.10	$0.45	$0.30
Paid	$0.15	$0.10	$0.45	$0.30

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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(unaudited) (In thousands)			
Net income	$11,925	$6,859	$ 29,903	$ 18,764
Other comprehensive income (loss)				
Securities available for sale				
Unrealized gains (losses) arising during period	(1,157)	20	(6,220)	7,738
Change in unrealized gains (losses) for which a portion of other than temporary impairment has been recognized in earnings	(14)	126	(17)	211
Reclassification adjustments for (gains) losses included in earnings	-	(8)	45	(125)
Unrealized gains (losses) recognized in other comprehensive income (loss) on securities available for sale	(1,171)	138	(6,192)	7,824
Income tax expense (benefit)	(246)	48	(1,300)	2,738
Unrealized gains (losses) recognized in other comprehensive income (loss) on securities available for sale, net of tax	(925)	90	(4,892)	5,086
Derivative instruments				
Unrealized gain arising during period	389	95	1,400	95
Reclassification adjustment for income (expense) recognized in earnings	(73)	5	(132)	5
Unrealized gains recognized in other comprehensive income (loss) on derivative instruments	316	100	1,268	100
Income tax expense	66	35	266	35
Unrealized gains recognized in other comprehensive income (loss) on derivative instruments, net of tax	250	65	1,002	65
Other comprehensive income (loss)	(675)	155	(3,890)	5,151
Comprehensive income	$11,250	$7,014	$ 26,013	$ 23,915

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows

	Nine months ended September 30,	
	2018	2017
	(unaudited - In thousands)	
Net Income	$ 29,903	$ 18,764
Adjustments to Reconcile Net Income to Net Cash From Operating Activities		
Proceeds from sales of loans held for sale	351,486	313,559
Disbursements for loans held for sale	(343,462)	(316,338)
Provision for loan losses	912	806
Deferred income tax expense	6,972	7,422
Deferred loan fees and costs	(3,681)	(4,588)
Net depreciation, amortization of intangible assets and premiums and accretion of discounts on securities, loans and interest bearing deposits - time	4,560	5,079
Net gains on mortgage loans	(8,571)	(8,886)
Net losses on securities	71	(62)
Share based compensation	1,293	1,342
Increase in accrued income and other assets	(16,925)	(12,748)
Increase (decrease) in accrued expenses and other liabilities	(1,930)	2,274
Total Adjustments	(9,275)	(12,140)
Net Cash From Operating Activities	20,628	6,624
Cash Flow Used in Investing Activities		
Proceeds from the sale of securities available for sale	31,445	8,834
Proceeds from maturities, prepayments and calls of securities available for sale	125,275	143,953
Purchases of securities available for sale	(71,067)	(84,080)
Proceeds from the sale of interest bearing deposits - time	2,474	-
Proceeds from the maturity of interest bearing deposits - time	3,728	2,100
Purchase of Federal Reserve Bank stock	(2,034)	-
Net increase in portfolio loans (loans originated, net of principal payments)	(272,084)	(326,089)
Proceeds from the sale of portfolio loans	27,577	-
Acquisition of TCSB Bancorp Inc., less cash received	23,516	-
Cash received from the sale of Mepco Finance Corporation assets, net	-	33,446
Proceeds from bank-owned life insurance	474	523
Proceeds from the sale of other real estate and repossessed assets	1,777	4,111
Capital expenditures	(2,812)	(2,592)
Net Cash Used in Investing Activities	(131,731)	(219,794)
Cash Flow From Financing Activities		
Net increase in total deposits	110,400	118,042
Net increase in other borrowings	18,903	3,003
Proceeds from Federal Home Loan Bank Advances	1,202,000	461,000
Payments of Federal Home Loan Bank Advances	(1,210,197)	(397,587)
Dividends paid	(10,446)	(6,400)
Proceeds from issuance of common stock	202	57
Share based compensation withholding obligation	(1,327)	(536)
Net Cash From Financing Activities	109,535	177,579
Net Decrease in Cash and Cash Equivalents	(1,568)	(35,591)
Cash and Cash Equivalents at Beginning of Period	54,738	83,194
Cash and Cash Equivalents at End of Period	$ 53,170	$ 47,603

Cash paid during the period for		
Interest	$ 11,168	$ 6,240
Income taxes	120	988
Transfers to other real estate and repossessed assets	960	1,389
Transfer of loans to held for sale	27,577	-
Purchase of securities available for sale not yet settled	1,000	1,765
Sale of securities available for sale not yet settled	-	760

See notes to interim condensed consolidated financial statements (unaudited)

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INDEPENDENT BANK CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Shareholders' Equity

	Nine months ended September 30,	
	2018	2017
	(unaudited)	
	(In thousands)	
Balance at beginning of period	$264,933	$248,980
Cumulative effect of change in accounting	-	352
Balance at beginning of period, as adjusted	264,933	249,332
Net income	29,903	18,764
Cash dividends declared	(10,446)	(6,400)
Acquisition of TCSB Bancorp, Inc.	64,536	-
Issuance of common stock	202	57
Share based compensation	1,293	1,342
Share based compensation withholding obligation	(1,327)	(536)
Net change in accumulated other comprehensive loss, net of related tax effect	(3,890)	5,151
Balance at end of period	$345,204	$267,710

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, 2017 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 September 30, 2018 and December 31, 2017, and the results of operations for the three and nine-month periods ended September 30, 2018 and 2017. The results of operations for the three and nine-month periods ended September 30, 2018, 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 capitalized mortgage loan servicing rights and the valuation of deferred tax assets. Refer to our 2017 Annual Report on Form 10-K for a disclosure of our accounting policies.

2. New Accounting Standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 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 Independent Bank (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 allowance for loan losses ("AFLL") to increase under this ASU.

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

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 is effective for us on January 1, 2019, and given our current level of derivatives designated as hedges is not expected to have a material impact on our consolidated operating results or financial condition.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)", ("ASU 2014-09"). 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. We adopted this ASU using the modified retrospective approach with no impact to our accumulated deficit at January 1, 2018. 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. Those operating revenue streams that are included in the scope of this amended guidance were not materially impacted. Results for reporting periods beginning after January 1, 2018 are presented under this ASU while prior period amounts continue to be reported in accordance with legacy GAAP. The impact of the adoption of this ASU on our Condensed Consolidated Statements of Operations for the three and nine month periods ending September 30, 2018 is summarized in the table below. In addition, see note #17 for further discussion on our accounting policies for operating revenue streams that are included in the scope of this amended guidance.

The impact of the adoption of ASU 2014-09 on our Condensed Consolidated Statement of Operations follows:

	As Reported	Under Legacy GAAP	Impact of ASU 2014-09	
	(In thousands)			
Three months ended September 30, 2018				
Non-interest income - Interchange income	$2,486	$ 2,088	$ 398	(1)
Non-interest expense - interchange expense	$715	$ 317	398	(1)
Impact on net income			$ -	
Nine months ended September 30, 2018				
Non-interest income - Interchange income	$7,236	$ 6,170	$ 1,066	(1)
Non-interest expense - interchange expense	$1,974	$ 908	1,066	(1)
Impact on net income			$ -	

(1) Represents certain costs charged by payment networks that were previously netted against interchange income.

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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 was effective for us on January 1, 2018. The adoption of this ASU did not have a material impact on our consolidated operating results or financial condition. As a result of the adoption of this ASU our equity securities previously classified as trading securities are now classified as equity securities at fair value on our September 30, 2018 Condensed Consolidated Statement of Financial Condition. In addition, this amended guidance impacted certain fair value disclosure items (see note #12).

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805), Clarifying the Definition of a Business". This new ASU clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses which distinction determines whether goodwill is recorded or not. This amended guidance was effective for us on January 1, 2018, and did not have a material impact on our consolidated operating results or financial condition.

In January 2017, the FASB issued ASU 2017-4, "Intangibles – Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment". This new ASU amends the requirement that entities compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, entities should perform their annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment if the carrying amount exceeds the reporting unit's fair value. This amended guidance is effective for us on January 1, 2020 with early application permitted. Due to our recent acquisition (see note #16) and expectations this ASU will be relevant to us in 2018 we elected to adopt this amended guidance as of January 1, 2018. The adoption of this ASU did not have a material impact on our consolidated operating results or financial condition.

In February 2018, the FASB issued ASU 2018-02, ''Income Statement – Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income''. This new ASU allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. As a result, this amended guidance eliminates the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. This amended guidance is effective for us on January 1, 2019, with early application permitted in any period for which financial statements have not yet been issued. We elected to adopt this amended guidance during the fourth quarter of 2017 and it resulted in a $0.04 million reclassification between accumulated other comprehensive loss and accumulated deficit.

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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	Losses	Fair Value
	(In thousands)			
September 30, 2018				
U.S. agency	$20,769	$-	$346	$20,423
U.S. agency residential mortgage-backed	126,851	802	2,592	125,061
U.S. agency commercial mortgage-backed	6,039	-	224	5,815
Private label mortgage-backed	29,340	369	736	28,973
Other asset backed	78,567	147	188	78,526
Obligations of states and political subdivisions	143,138	219	3,703	139,654
Corporate	35,017	65	512	34,570
Trust preferred	1,963	-	38	1,925
Foreign government	2,060	-	50	2,010
Total	$443,744	$1,602	$8,389	$436,957
December 31, 2017				
U.S. Treasury	$898	$-	$-	$898
U.S. agency	25,667	82	67	25,682
U.S. agency residential mortgage-backed	137,785	1,116	983	137,918
U.S. agency commercial mortgage-backed	9,894	36	170	9,760
Private label mortgage-backed	29,011	428	330	29,109
Other asset backed	93,811	202	115	93,898
Obligations of states and political subdivisions	174,073	755	1,883	172,945
Corporate	47,365	578	90	47,853
Trust preferred	2,929	-	127	2,802
Foreign government	2,087	-	27	2,060
Total	$523,520	$3,197	$3,792	$522,925

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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)					
September 30, 2018						
U.S. agency	$11,938	$ 239	$ 8,485	$ 107	$20,423	$ 346
U.S. agency residential mortgage-backed	28,672	765	40,857	1,827	69,529	2,592
U.S. agency commercial mortgage-backed	1,358	12	4,391	212	5,749	224
Private label mortgage- backed	10,209	295	8,473	441	18,682	736
Other asset backed	30,663	92	11,226	96	41,889	188
Obligations of states and political subdivisions	59,590	1,157	57,509	2,546	117,099	3,703
Corporate	20,853	361	5,726	151	26,579	512
Trust preferred	-	-	925	38	925	38
Foreign government	-	-	2,010	50	2,010	50
Total	$163,283	$ 2,921	$ 139,602	$ 5,468	$302,885	$ 8,389
December 31, 2017						
U.S. agency	$5,466	$ 26	$ 5,735	$ 41	$11,201	$ 67
U.S. agency residential mortgage-backed	22,198	229	40,698	754	62,896	983
U.S. agency commercial mortgage-backed	2,181	34	3,994	136	6,175	170
Private label mortgage-backed	11,390	92	4,396	238	15,786	330
Other asset backed	20,352	40	16,648	75	37,000	115
Obligations of states and political subdivisions	76,574	936	28,246	947	104,820	1,883
Corporate	14,440	33	3,943	57	18,383	90
Trust preferred	-	-	2,802	127	2,802	127
Foreign government	489	10	1,571	17	2,060	27
Total	$153,090	$ 1,400	$ 108,033	$ 2,392	$261,123	$ 3,792

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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U.S. agency, U.S. agency residential mortgage-backed securities and U.S. agency commercial mortgage backed securities — at September 30, 2018, we had 51 U.S. agency, 133 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 September 30, 2018, we had 27 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 (included in the 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 September 30, 2018, we had 72 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 September 30, 2018, we had 393 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 September 30, 2018, we had 32 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.

Trust preferred securities — at September 30, 2018, we had one trust preferred security whose fair value is less than amortized cost. This trust preferred security is a single issue security issued by a trust subsidiary of a bank holding company. The pricing of this trust preferred security has suffered from credit spread widening. This security is rated by a major rating agency as investment grade. 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.

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Foreign government — at September 30, 2018, 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 and nine month periods ended September 30, 2018 and 2017, respectively.

At September 30, 2018, 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	$842	$ 808	$ 32	$1,682
Amortized cost	698	633	-	1,331
Non-credit unrealized loss	-	-	-	-
Unrealized gain	144	175	32	351
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 September 30, 2018. 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.

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(In thousands)		(In thousands)	
Balance at beginning of period	$ 1,594	$ 1,594	$ 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	$ 1,594	$ 1,594

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The amortized cost and fair value of securities available for sale at September 30, 2018, by contractual maturity, follow:

	Amortized Cost	Fair Value
	(In thousands)	
Maturing within one year	$14,513	$14,494
Maturing after one year but within five years	79,683	78,634
Maturing after five years but within ten years	62,609	60,979
Maturing after ten years	46,142	44,475
	202,947	198,582
U.S. agency residential mortgage-backed	126,851	125,061
U.S. agency commercial mortgage-backed	6,039	5,815
Private label mortgage-backed	29,340	28,973
Other asset backed	78,567	78,526
Total	$443,744	$436,957

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 nine month periods ending September 30, follows:

	Proceeds (1)	Realized Gains (2)	Losses
	(In thousands)		
2018	$31,445	$81	$ 126
2017	9,594	125	-

(1) 2017 includes $0.760 million for trades that did not settle until after September 30, 2017.
(2) 2018 excludes a $0.144 million gain on the sale of 1,000 VISA Class B shares.

Certain preferred stocks have been classified as equity securities at fair value in our Condensed Consolidated Statement of Financial Condition beginning on January 1, 2018. Previously these preferred stocks were classified as trading securities. See note #2. During the nine months ended September 30, 2018 and 2017 we recognized losses on these preferred stocks of $0.170 million and $0.063 million, respectively, that are included in net gains (losses) on securities in the Condensed Consolidated Statements of Operations. These amounts relate to preferred stock still held at each respective period end.

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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 September 30, follows:

	Commercial	Mortgage	Installment	Subjective Allocation	Total
	(In thousands)				
2018					
Balance at beginning of period	$6,073	$ 8,296	$ 848	$ 8,287	$23,504
Additions (deductions)					
Provision for loan losses	(907)	415	(25)	464	(53)
Recoveries credited to the allowance	1,418	192	298	-	1,908
Loans charged against the allowance	(225)	(448)	(285)	-	(958)
Balance at end of period	$6,359	$ 8,455	$ 836	$ 8,751	$24,401
2017					
Balance at beginning of period	$5,100	$ 8,145	$ 900	$ 6,441	$20,586
Additions (deductions)					
Provision for loan losses	(97)	68	(33)	644	582
Recoveries credited to the allowance	340	587	285	-	1,212
Loans charged against the allowance	(92)	(471)	(339)	-	(902)
Balance at end of period	$5,251	$ 8,329	$ 813	$ 7,085	$21,478

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

	Commercial	Mortgage	Installment	Subjective Allocation	Total
	(In thousands)				
2018					
Balance at beginning of period	$5,595	$ 8,733	$ 864	$ 7,395	$22,587
Additions (deductions)					
Provision for loan losses	(1,404)	778	182	1,356	912
Recoveries credited to the allowance	2,458	549	761	-	3,768
Loans charged against the allowance	(290)	(1,605)	(971)	-	(2,866)
Balance at end of period	$6,359	$ 8,455	$ 836	$ 8,751	$24,401
2017					
Balance at beginning of period	$4,880	$ 8,681	$ 1,011	$ 5,662	$20,234
Additions (deductions)					
Provision for loan losses	(197)	(593)	173	1,423	806
Recoveries credited to the allowance	946	1,264	788	-	2,998
Loans charged against the allowance	(378)	(1,023)	(1,159)	-	(2,560)
Balance at end of period	$5,251	$ 8,329	$ 813	$ 7,085	$21,478

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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)				
September 30, 2018					
Allowance for loan losses					
Individually evaluated for impairment	$727	$5,155	$ 220	$ -	$6,102
Collectively evaluated for impairment	5,632	3,300	616	8,751	18,299
Loans acquired with deteriorated credit quality	-	-	-	-	-
Total ending allowance balance	$6,359	$8,455	$ 836	$ 8,751	$24,401
Loans					
Individually evaluated for impairment	$9,714	$48,815	$ 3,630		$62,159
Collectively evaluated for impairment	1,103,860	1,011,276	391,093		2,506,229
Loans acquired with deteriorated credit quality	1,653	557	355		2,565
Total loans recorded investment	1,115,227	1,060,648	395,078		2,570,953
Accrued interest included in recorded investment	3,126	4,166	1,083		8,375
Total loans	$1,112,101	$1,056,482	$ 393,995		$2,562,578
December 31, 2017					
Allowance for loan losses					
Individually evaluated for impairment	$837	$5,725	$ 277	$ -	$6,839
Collectively evaluated for impairment	4,758	3,008	587	7,395	15,748
Total ending allowance balance	$5,595	$8,733	$ 864	$ 7,395	$22,587
Loans					
Individually evaluated for impairment	$8,420	$53,179	$ 3,945		$65,544
Collectively evaluated for impairment	847,140	799,629	313,005		1,959,774
Total loans recorded investment	855,560	852,808	316,950		2,025,318
Accrued interest included in recorded investment	2,300	3,278	923		6,501
Total loans	$853,260	$849,530	$ 316,027		$2,018,817

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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)		
September 30, 2018			
Commercial			
Income producing - real estate	$-	$-	$ -
Land, land development and construction - real estate	-	2,402	2,402
Commercial and industrial	-	380	380
Mortgage			
1-4 family	-	4,159	4,159
Resort lending	-	969	969
Home equity - 1st lien	-	324	324
Home equity - 2nd lien	-	353	353
Installment			
Home equity - 1st lien	-	225	225
Home equity - 2nd lien	-	246	246
Boat lending	-	64	64
Recreational vehicle lending	-	8	8
Other	-	213	213
Total recorded investment	$-	$9,343	$ 9,343
Accrued interest included in recorded investment	$-	$-	$ -
December 31, 2017			
Commercial			
Income producing - real estate	$-	$30	$ 30
Land, land development and construction - real estate	-	9	9
Commercial and industrial	-	607	607
Mortgage			
1-4 family	-	5,130	5,130
Resort lending	-	1,223	1,223
Home equity - 1st lien	-	326	326
Home equity - 2nd lien	-	316	316
Installment			
Home equity - 1st lien	-	141	141
Home equity - 2nd lien	-	159	159
Boat lending	-	100	100
Recreational vehicle lending	-	25	25
Other	-	118	118
Total recorded investment	$-	$8,184	$ 8,184
Accrued interest included in recorded investment	$-	$-	$ -

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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)					
September 30, 2018						
Commercial						
Income producing - real estate	$-	$ 32	$ -	$32	$378,201	$378,233
Land, land development and construction - real estate	-	-	2,402	2,402	61,760	64,162
Commercial and industrial	881	25	51	957	671,875	672,832
Mortgage						
1-4 family	2,146	687	4,344	7,177	844,584	851,761
Resort lending	418	-	969	1,387	83,420	84,807
Home equity - 1st lien	81	15	324	420	40,312	40,732
Home equity - 2nd lien	364	209	353	926	82,422	83,348
Installment						
Home equity - 1st lien	285	44	225	554	7,738	8,292
Home equity - 2nd lien	190	45	246	481	7,099	7,580
Boat lending	153	16	64	233	169,925	170,158
Recreational vehicle lending	46	30	8	84	123,199	123,283
Other	145	140	213	498	85,267	85,765
Total recorded investment	$4,709	$ 1,243	$ 9,199	$15,151	$2,555,802	$2,570,953
Accrued interest included in recorded investment	$53	$ 21	$ -	$74	$8,301	$8,375
December 31, 2017						
Commercial						
Income producing - real estate	$-	$ -	$ 30	$30	$290,466	$290,496
Land, land development and construction - real estate	9	-	-	9	70,182	70,191
Commercial and industrial	60	-	44	104	494,769	494,873
Mortgage						
1-4 family	1,559	802	5,130	7,491	659,742	667,233
Resort lending	713	-	1,223	1,936	88,620	90,556
Home equity - 1st lien	308	38	326	672	34,689	35,361
Home equity - 2nd lien	353	155	316	824	58,834	59,658
Installment						
Home equity - 1st lien	90	11	141	242	9,213	9,455
Home equity - 2nd lien	217	94	159	470	9,001	9,471
Boat lending	59	36	100	195	129,777	129,972
Recreational vehicle lending	28	20	25	73	92,737	92,810
Other	275	115	118	508	74,734	75,242
Total recorded investment	$3,671	$ 1,271	$ 7,612	$12,554	$2,012,764	$2,025,318
Accrued interest included in recorded investment	$43	$ 22	$ -	$65	$6,436	$6,501

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Impaired loans are as follows:

	September 30, 2018	December 31, 2017
Impaired loans with no allocated allowance for loan losses	(In thousands)	
TDR	$347	$ 349
Non - TDR	2,402	175
Impaired loans with an allocated allowance for loan losses		
TDR - allowance based on collateral	2,366	2,482
TDR - allowance based on present value cash flow	56,599	62,113
Non - TDR - allowance based on collateral	168	148
Total impaired loans	$61,882	$ 65,267
Amount of allowance for loan losses allocated		
TDR - allowance based on collateral	$692	$ 684
TDR - allowance based on present value cash flow	5,335	6,089
Non - TDR - allowance based on collateral	75	66
Total amount of allowance for loan losses allocated	$6,102	$ 6,839

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Impaired loans by class are as follows:

	September 30, 2018			December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance for loan losses recorded:	(In thousands)					
Commercial						
Income producing - real estate	$ -	$ -	$ -	$ -	$ -	$ -
Land, land development & construction-real estate	2,402	2,402	-	-	-	-
Commercial and industrial	347	347	-	524	549	-
Mortgage						
1-4 family	2	447	-	2	469	-
Resort lending	-	-	-	-	-	-
Home equity - 1st lien	-	-	-	-	-	-
Home equity - 2nd lien	-	34	-	-	-	-
Installment						
Home equity - 1st lien	1	90	-	1	69	-
Home equity - 2nd lien	-	-	-	-	-	-
Boat lending	-	5	-	-	-	-
Recreational vehicle lending	-	-	-	-	-	-
Other	-	16	-	-	-	-
	2,752	3,341	-	527	1,087	-
With an allowance for loan losses recorded:						
Commercial						
Income producing - real estate	4,829	4,808	307	5,195	5,347	347
Land, land development & construction-real estate	152	152	4	166	194	9
Commercial and industrial	1,984	2,133	416	2,535	2,651	481
Mortgage						
1-4 family	34,656	36,169	3,126	36,848	38,480	3,454
Resort lending	13,934	13,972	2,017	15,978	16,046	2,210
Home equity - 1st lien	66	65	3	173	236	43
Home equity - 2nd lien	157	156	9	178	213	18
Installment						
Home equity - 1st lien	1,520	1,640	97	1,667	1,804	108
Home equity - 2nd lien	1,626	1,644	93	1,793	1,805	140
Boat lending	-	-	-	1	5	1
Recreational vehicle lending	81	81	4	90	90	5
Other	402	428	26	393	418	23
	59,407	61,248	6,102	65,017	67,289	6,839
Total						
Commercial						
Income producing - real estate	4,829	4,808	307	5,195	5,347	347

Land, land development & construction-real estate	2,554	2,554	4	166	194	9
Commercial and industrial	2,331	2,480	416	3,059	3,200	481
Mortgage						
1-4 family	34,658	36,616	3,126	36,850	38,949	3,454
Resort lending	13,934	13,972	2,017	15,978	16,046	2,210
Home equity - 1st lien	66	65	3	173	236	43
Home equity - 2nd lien	157	190	9	178	213	18
Installment						
Home equity - 1st lien	1,521	1,730	97	1,668	1,873	108
Home equity - 2nd lien	1,626	1,644	93	1,793	1,805	140
Boat lending	-	5	-	1	5	1
Recreational vehicle lending	81	81	4	90	90	5
Other	402	444	26	393	418	23
Total	$62,159	$ 64,589	$ 6,102	$65,544	$68,376	$ 6,839
Accrued interest included in recorded investment	$277			$277		

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

	2018		2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance for loan losses recorded:	(In thousands)			
Commercial				
Income producing - real estate	$-	$ -	$-	$ -
Land, land development & construction-real estate	2,402	-	-	-
Commercial and industrial	425	7	445	8
Mortgage				
1-4 family	121	9	127	7
Resort lending	-	-	-	-
Home equity - 1st lien	-	-	-	-
Home equity - 2nd lien	-	-	-	-
Installment				
Home equity - 1st lien	1	1	1	1
Home equity - 2nd lien	-	-	-	-
Boat lending	-	-	-	-
Recreational vehicle lending	-	-	-	-
Other	-	-	-	1
	2,949	17	573	17
With an allowance for loan losses recorded:				
Commercial				
Income producing - real estate	4,968	64	7,311	91
Land, land development & construction-real estate	153	3	171	2
Commercial and industrial	2,264	24	2,878	26
Mortgage				
1-4 family	34,731	458	38,533	462
Resort lending	14,276	161	16,175	153
Home equity - 1st lien	67	1	201	1
Home equity - 2nd lien	157	2	180	2
Installment				
Home equity - 1st lien	1,545	27	1,808	40
Home equity - 2nd lien	1,679	24	2,058	26
Boat lending	1	-	1	-
Recreational vehicle lending	83	1	98	1
Other	406	5	361	6
	60,330	770	69,775	810
Total				
Commercial				
Income producing - real estate	4,968	64	7,311	91
Land, land development & construction-real estate	2,555	3	171	2
Commercial and industrial	2,689	31	3,323	34
Mortgage				

1-4 family	34,852	467	38,660	469
Resort lending	14,276	161	16,175	153
Home equity - 1st lien	67	1	201	1
Home equity - 2nd lien	157	2	180	2
Installment				
Home equity - 1st lien	1,546	28	1,809	41
Home equity - 2nd lien	1,679	24	2,058	26
Boat lending	1	-	1	-
Recreational vehicle lending	83	1	98	1
Other	406	5	361	7
Total	$63,279	$ 787	$70,348	$ 827

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Average recorded investment in and interest income earned on impaired loans by class for the nine month periods ending September 30, follows:

	2018		2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance for loan losses recorded:	(In thousands)			
Commercial				
Income producing - real estate	$ -	$ -	$ 222	$ -
Land, land development & construction-real estate	1,201	-	8	-
Commercial and industrial	472	20	808	16
Mortgage				
1-4 family	70	18	64	16
Resort lending	-	-	-	-
Home equity - 1st lien	-	-	-	-
Home equity - 2nd lien	-	-	-	-
Installment				
Home equity - 1st lien	1	5	1	4
Home equity - 2nd lien	-	-	-	-
Boat lending	-	-	-	-
Recreational vehicle lending	-	-	-	-
Other	-	1	-	1
	1,744	44	1,103	37
With an allowance for loan losses recorded:				
Commercial				
Income producing - real estate	5,077	202	7,525	300
Land, land development & construction-real estate	157	7	187	6
Commercial and industrial	2,391	90	3,488	98
Mortgage				
1-4 family	35,549	1,347	39,716	1,420
Resort lending	15,027	475	16,485	464
Home equity - 1st lien	115	4	218	5
Home equity - 2nd lien	167	5	217	5
Installment				
Home equity - 1st lien	1,595	81	1,874	107
Home equity - 2nd lien	1,728	76	2,210	96
Boat lending	1	-	1	-
Recreational vehicle lending	86	3	103	4
Other	406	18	373	19
	62,299	2,308	72,397	2,524
Total				
Commercial				
Income producing - real estate	5,077	202	7,747	300
Land, land development & construction-real estate	1,358	7	195	6
Commercial and industrial	2,863	110	4,296	114
Mortgage				

1-4 family	35,619	1,365	39,780	1,436
Resort lending	15,027	475	16,485	464
Home equity - 1st lien	115	4	218	5
Home equity - 2nd lien	167	5	217	5
Installment				
Home equity - 1st lien	1,596	86	1,875	111
Home equity - 2nd lien	1,728	76	2,210	96
Boat lending	1	-	1	-
Recreational vehicle lending	86	3	103	4
Other	406	19	373	20
Total	$64,043	$ 2,352	$73,500	$ 2,561

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

Troubled debt restructurings follow:

	September 30, 2018			
	Commercial	Retail (1)		Total
	(In thousands)			
Performing TDRs	$6,904	$49,397		$56,301
Non-performing TDRs(2)	212	2,799	(3)	3,011
Total	$7,116	$52,196		$59,312

	December 31, 2017			
	Commercial	Retail (1)		Total
	(In thousands)			
Performing TDRs	$7,748	$52,367		$60,115
Non-performing TDRs(2)	323	4,506	(3)	4,829
Total	$8,071	$56,873		$64,944

(1) Retail loans include mortgage and installment portfolio 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 $6.0 million and $6.8 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of September 30, 2018 and December 31, 2017, respectively.

During the nine months ended September 30, 2018 and 2017, 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 September 30 follow:

	Number of Contracts	Pre-modification Recorded Balance	Post-modification Recorded Balance
	(Dollars in thousands)		
2018			
Commercial			
Income producing - real estate	-	$ -	$ -
Land, land development & construction-real estate	-	-	-
Commercial and industrial	1	24	24
Mortgage			
1-4 family	3	609	609
Resort lending	1	115	114
Home equity - 1st lien	-	-	-
Home equity - 2nd lien	-	-	-
Installment			
Home equity - 1st lien	1	15	15
Home equity - 2nd lien	1	20	21
Boat lending	-	-	-
Recreational vehicle lending	-	-	-
Other	-	-	-
Total	7	$ 783	$ 783
2017			
Commercial			
Income producing - real estate	-	$ -	$ -
Land, land development & construction-real estate	-	-	-
Commercial and industrial	-	-	-
Mortgage			
1-4 family	1	93	95
Resort lending	-	-	-
Home equity - 1st lien	-	-	-
Home equity - 2nd lien	-	-	-
Installment			
Home equity - 1st lien	-	-	-
Home equity - 2nd lien	2	51	50
Boat lending	-	-	-
Recreational vehicle lending	-	-	-
Other	1	10	10
Total	4	$ 154	$ 155

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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Loans that have been classified as troubled debt restructurings during the nine-month periods ended September 30 follow:

	Number of Contracts	Pre-modification Recorded Balance	Post-modification Recorded Balance
	(Dollars in thousands)		
2018			
Commercial			
Income producing - real estate	1	$ 67	$ 67
Land, land development & construction-real estate	-	-	-
Commercial and industrial	6	611	611
Mortgage			
1-4 family	7	903	889
Resort lending	1	115	114
Home equity - 1st lien	-	-	-
Home equity - 2nd lien	-	-	-
Installment			
Home equity - 1st lien	6	203	205
Home equity - 2nd lien	3	113	114
Boat lending	-	-	-
Recreational vehicle lending	-	-	-
Other	2	76	73
Total	26	$ 2,088	$ 2,073
2017			
Commercial			
Income producing - real estate	-	$ -	$ -
Land, land development & construction-real estate	-	-	-
Commercial and industrial	12	786	786
Mortgage			
1-4 family	3	142	144
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	7	300	301
Boat lending	-	-	-
Recreational vehicle lending	-	-	-
Other	1	10	10
Total	26	$ 1,461	$ 1,467

The troubled debt restructurings described above for 2018 decreased the allowance for loan losses by $0.01 million and resulted in zero charge offs during the three months ended September 30, 2018, and decreased the allowance by $0.004 million and resulted in zero charge offs during the nine months ended September 30, 2018.

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The troubled debt restructurings described above for 2017 increased the allowance for loan losses by $0.02 million and resulted in zero charge offs during the three months ended September 30, 2017, and increased the allowance by $0.08 million and resulted in zero charge offs during the nine months ended September 30, 2017.

There were no troubled debt restructurings that subsequently defaulted within twelve months following the modification during the three and nine months periods ended September 30, 2018.

Six commercial and industrial loans with a recorded balance of $0.16 million that have been classified as troubled debt restructurings during the past twelve months (from September 30, 2017) subsequently defaulted during the three and nine month periods ended September 30, 2017. These subsequent defaults resulted in an increase in the allowance of $0.02 million and $0.04 million during the three and nine month periods ended September 30, 2017, respectively and resulted in charge-offs of $0.05 million during both the three and nine month periods ended September 30, 2017. There were no troubled debt restructurings that subsequently defaulted within twelve months following the modification during the three and nine months ended September 30, 2017 for any other loan class.

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

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. These ratings include 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.

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Rating 10 and 11: These loans are generally referred to as our ‘‘substandard - non-accrual’’ and ‘‘doubtful’’ commercial credits. Our doubtful rating includes a sub classification for a loss rate other than 50% (which is the standard doubtful loss rate). 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.

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)				
September 30, 2018					
Income producing - real estate	$374,965	$3,060	$ 208	$ -	$378,233
Land, land development and construction - real estate	55,126	6,623	11	2,402	64,162
Commercial and industrial	634,763	27,174	10,515	380	672,832
Total	$1,064,854	$36,857	$ 10,734	$ 2,782	$1,115,227
Accrued interest included in total	$2,869	$146	$ 111	$ -	$3,126
December 31, 2017					
Income producing - real estate	$288,869	$1,293	$ 304	$ 30	$290,496
Land, land development and construction - real estate	70,122	60	-	9	70,191
Commercial and industrial	463,570	28,351	2,345	607	494,873
Total	$822,561	$29,704	$ 2,649	$ 646	$855,560
Accrued interest included in total	$2,198	$94	$ 8	$ -	$2,300

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	Total
	(In thousands)				
September 30, 2018					
800 and above	$110,400	$ 12,423	$ 7,872	$ 12,318	$143,013
750-799	358,072	32,498	15,037	30,573	436,180
700-749	211,575	21,239	9,562	21,561	263,937
650-699	104,395	9,271	3,222	9,539	126,427
600-649	30,578	4,142	569	2,884	38,173
550-599	13,491	1,220	503	1,261	