VALLEY NATIONAL BANCORP
Form 10-Q
November 06, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
x Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended September 30, 2015
OR
¨ Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the transition period from to
Commission File Number 1-11277

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

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

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock (no par value), of which 232,867,360 shares were outstanding as of November 4, 2015

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Item 1. Financial Statements
VALLEY NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(in thousands, except for share data)

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and due from banks	$220,023	$462,569
Interest bearing deposits with banks	71,756	367,838
Investment securities:		
Held to maturity (fair value of $1,670,951 at September 30, 2015 and $1,815,976 at December 31, 2014)	1,637,310	1,778,316
Available for sale	797,389	886,970
Trading securities	—	14,233
Total investment securities	2,434,699	2,679,519
Loans held for sale, at fair value	18,184	24,295
Non-covered loans	14,887,323	13,262,022
Covered loans	129,491	211,891
Less: Allowance for loan losses	(104,551)	(102,353)
Net loans	14,912,263	13,371,560
Premises and equipment, net	291,084	282,997
Bank owned life insurance	380,828	375,640
Accrued interest receivable	57,532	57,333
Due from customers on acceptances outstanding	1,622	4,197
FDIC loss-share receivable	7,267	13,848
Goodwill	577,534	575,892
Other intangible assets, net	31,382	38,775
Other assets	567,358	539,392
Total Assets	$19,571,532	$18,793,855
Liabilities		
Deposits:		
Non-interest bearing	$4,365,418	$4,235,515
Interest bearing:		
Savings, NOW and money market	6,979,804	7,056,133
Time	3,154,641	2,742,468
Total deposits	14,499,863	14,034,116
Short-term borrowings	302,941	146,781
Long-term borrowings	2,529,326	2,526,408
Junior subordinated debentures issued to capital trusts	41,374	41,252
Bank acceptances outstanding	1,622	4,197
Accrued expenses and other liabilities	199,457	178,084
Total Liabilities	17,574,583	16,930,838
Shareholders’ Equity		
Preferred stock (no par value, authorized 30,000,000 shares; issued 4,600,000 shares at September 30, 2015)	111,590	—
Common stock (no par value, authorized 332,023,233 shares; issued 232,800,531 shares at September 30, 2015 and 232,127,098 shares at December 31, 2014)	81,352	81,072
Surplus	1,702,907	1,693,752

Retained earnings	150,255	130,845
Accumulated other comprehensive loss	(49,052)	(42,495)
Treasury stock, at cost (10,651 common shares at September 30, 2015 and 16,123 common shares at December 31, 2014)	(103)	(157)
Total Shareholders’ Equity	1,996,949	1,863,017
Total Liabilities and Shareholders’ Equity	$19,571,532	$18,793,855

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest Income				
Interest and fees on loans	$157,141	$135,108	$465,787	$402,525
Interest and dividends on investment securities:				
Taxable	12,148	15,134	39,313	47,299
Tax-exempt	3,593	3,647	10,800	11,033
Dividends	1,658	1,522	5,013	4,702
Interest on federal funds sold and other short-term investments	150	48	516	102
Total interest income	174,690	155,459	521,429	465,661
Interest Expense				
Interest on deposits:				
Savings, NOW and money market	5,587	4,860	17,493	13,671
Time	9,535	6,981	25,637	20,196
Interest on short-term borrowings	126	218	427	840
Interest on long-term borrowings and junior subordinated debentures	25,482	28,732	75,649	84,843
Total interest expense	40,730	40,791	119,206	119,550
Net Interest Income	133,960	114,668	402,223	346,111
Provision for credit losses	94	(423)	4,594	(2,096)
Net Interest Income After Provision for Credit Losses	133,866	115,091	397,629	348,207
Non-Interest Income				
Trust and investment services	2,450	2,411	7,520	7,097
Insurance commissions	4,119	3,632	12,454	12,621
Service charges on deposit accounts	5,241	5,722	15,794	17,109
Gains on securities transactions, net	157	103	2,481	102
Fees from loan servicing	1,703	1,806	4,948	5,262
Gains (losses) on sales of loans, net	2,014	(95)	3,034	1,497
(Losses) gains on sales of assets, net	(558)	83	(77)	211
Bank owned life insurance	1,806	1,571	5,188	4,593
Change in FDIC loss-share receivable	(55)	(3,823)	(3,380)	(11,610)
Other	4,042	3,371	11,802	11,171
Total non-interest income	20,919	14,781	59,764	48,053
Non-Interest Expense				
Salary and employee benefits expense	54,315	45,501	165,601	140,683
Net occupancy and equipment expense	21,526	17,011	65,858	55,708
FDIC insurance assessment	4,168	3,534	11,972	10,214
Amortization of other intangible assets	2,232	2,201	6,721	6,898
Professional and legal fees	4,643	3,609	12,043	11,671
Amortization of tax credit investments	5,224	4,630	14,231	14,148
Advertising	732	1,664	4,092	2,814
Telecommunication expense	2,050	1,622	6,101	4,971
Other	13,762	11,764	37,563	34,881
Total non-interest expense	108,652	91,536	324,182	281,988

Income Before Income Taxes	46,133	38,336	133,211	114,272
Income tax expense	10,179	10,654	34,925	23,235
Net Income	$35,954	$27,682	$98,286	$91,037
Dividends on preferred stock	2,017	—	2,017	—
Net Income Available to Common Shareholders	$33,937	$27,682	$96,269	$91,037
Earnings Per Common Share:				
Basic	$0.15	$0.14	$0.41	$0.45
Diluted	0.15	0.14	0.41	0.45
Cash Dividends Declared per Common Share	0.11	0.11	0.33	0.33
Weighted Average Number of Common Shares Outstanding:				
Basic	232,737,953	200,614,091	232,548,840	200,406,801
Diluted	232,780,219	200,614,091	232,565,695	200,406,801

See accompanying notes to consolidated financial statements.

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VALLEY NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$35,954	$27,682	$98,286	$91,037
Other comprehensive (loss) income, net of tax:				
Unrealized gains and losses on available for sale securities				
Net gains (losses) arising during the period	4,586	(488)	2,677	13,851
Less reclassification adjustment for net gains included in net income	(91)	(60)	(1,445)	(59)
Total	4,495	(548)	1,232	13,792
Non-credit impairment losses on available for sale securities				
Net change in non-credit impairment losses on securities	252	313	(200)	619
Less reclassification adjustment for accretion of credit impairment losses included in net income	(267)	(115)	(371)	(294)
Total	(15)	198	(571)	325
Unrealized gains and losses on derivatives (cash flow hedges)				
Net (losses) gains on derivatives arising during the period	(6,163)	1,251	(10,291)	(7,273)
Less reclassification adjustment for net losses included in net income	772	973	2,714	2,911
Total	(5,391)	2,224	(7,577)	(4,362)
Defined benefit pension plan				
Amortization of net loss	119	36	359	110
Total other comprehensive (loss) income	(792)	1,910	(6,557)	9,865
Total comprehensive income	$35,162	$29,592	$91,729	$100,902

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	$98,286	$91,037
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,213	14,562
Stock-based compensation	6,512	5,582
Provision for credit losses	4,594	(2,096)
Net amortization of premiums and accretion of discounts on securities and borrowings	17,595	18,324
Amortization of other intangible assets	6,721	6,898
Gains on securities transactions, net	(2,481)	(102)
Proceeds from sales of loans held for sale	94,342	75,182
Gains on sales of loans, net	(3,034)	(1,497)
Originations of loans held for sale	(86,274)	(67,483)
Losses (gains) on sales of assets, net	77	(211)
FDIC loss-share receivable (excluding reimbursements)	3,380	11,610
Net change in:		
Trading securities	14,233	78
Fair value of borrowings hedged by derivative transactions	3,270	—
Cash surrender value of bank owned life insurance	(5,188)	(4,593)
Accrued interest receivable	(199)	419
Other assets	(33,555)	57,493
Accrued expenses and other liabilities	12,490	(36,048)
Net cash provided by operating activities	145,982	169,155
Cash flows from investing activities:		
Net loan originations	(486,862)	(495,941)
Loans purchased	(1,066,934)	(128,684)
Investment securities held to maturity:		
Purchases	(201,681)	(358,393)
Sales	11,666	—
Maturities, calls and principal repayments	321,771	268,868
Investment securities available for sale:		
Purchases	(38,819)	(20,830)
Sales	14,022	5,447
Maturities, calls and principal repayments	115,397	106,323
Proceeds from sales of real estate property and equipment	10,510	16,317
Purchases of real estate property and equipment	(23,139)	(18,106)
Reimbursements from the FDIC	2,835	4,967
Net cash used in investing activities	(1,341,234)	(620,032)
Cash flows from financing activities:		
Net change in deposits	465,747	542,225
Net change in short-term borrowings	156,160	16,264
Proceeds from issuance of long-term borrowings, net	98,930	—
Repayments of long-term borrowings	(100,000)	—
Proceeds from issuance of preferred stock, net	111,590	—

Cash dividends paid to preferred shareholders	(2,017)	—
Cash dividends paid to common shareholders	(76,671)	(66,047)
Purchase of common shares to treasury	(2,108)	(946)
Common stock issued, net	4,993	3,667
Net cash provided by financing activities	656,624	495,163
Net change in cash and cash equivalents	(538,628)	44,286
Cash and cash equivalents at beginning of year	830,407	369,168
Cash and cash equivalents at end of period	$291,779	$413,454

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

	Nine Months Ended September 30,	
	2015	2014
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest on deposits and borrowings	$121,907	$120,086
Federal and state income taxes	49,932	28,669
Supplemental schedule of non-cash investing activities:		
Transfer of loans to other real estate owned	$8,711	$9,053
Transfer of loans to loans held for sale	—	27,329

See accompanying notes to consolidated financial statements.

VALLEY NATIONAL BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The unaudited consolidated financial statements of Valley National Bancorp, a New Jersey Corporation (Valley), include the accounts of its commercial bank subsidiary, Valley National Bank (the “Bank”), and all of Valley’s direct or indirect wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated. The accounting and reporting policies of Valley conform to U.S. generally accepted accounting principles (U.S. GAAP) and general practices within the financial services industry. In accordance with applicable accounting standards, Valley does not consolidate statutory trusts established for the sole purpose of issuing trust preferred securities and related trust common securities.

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly Valley’s financial position, results of operations and cash flows at September 30, 2015 and for all periods presented have been made. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the entire fiscal year.

In preparing the unaudited consolidated financial statements in conformity with U.S. GAAP, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial condition and results of operations for the periods indicated. Material estimates that are particularly susceptible to change are: the allowance for loan losses; the evaluation of goodwill and other intangible assets, and investment securities for impairment; fair value measurements of assets and liabilities; and income taxes. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are deemed necessary. While management uses its best judgment, actual amounts or results could differ significantly from those estimates. The current economic environment has increased the degree of uncertainty inherent in these material estimates.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP and industry practice have been condensed or omitted pursuant to rules and regulations of the SEC. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Valley’s Annual Report on Form 10-K for the year ended December 31, 2014.

On June 19, 2015, Valley issued 4.6 million shares of its Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A (the "Preferred Stock”), no par value per share, with a liquidation preference of $25 per share. Dividends on the Preferred Stock will accrue and be payable quarterly in arrears, at a fixed rate per annum equal to 6.25 percent from the original issue date to, but excluding, June 30, 2025, and thereafter at a floating rate per annum equal to three-month LIBOR plus a spread of 3.85 percent. The net proceeds from the offering and sale of the Preferred Stock totaled approximately $111.6 million.

Note 2. Business Combinations

CNLBancshares, Inc. On May 27, 2015, Valley entered into a merger agreement to acquire CNLBancshares, Inc. (CNLBancshares) and its wholly-owned subsidiary, CNLBank, headquartered in Orlando, Florida. CNLBancshares has approximately $1.4 billion in assets, $843 million in loans and $1.1 billion in deposits and maintains a branch network of 16 offices. The common shareholders of CNLBancshares will receive 0.75 of a share of Valley common stock for each CNLBancshares share they own, subject to adjustment in the event Valley’s average stock price falls below $8.80 or rises above $10.13 prior to closing. The transaction is valued at an estimated $207 million, based on Valley’s closing stock price on May 22, 2015 (and includes the stock consideration of $16.2 million that will be paid to CNLBancshares stock option holders). The merger has received all necessary regulatory and CNLBancshares shareholder approvals, and the transaction is expected to close in December 2015.

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

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

Note 3. Earnings Per Common Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands, except for share data)			
Net income available to common shareholders	$33,937	$27,682	$96,269	$91,037
Basic weighted average number of common shares outstanding	232,737,953	200,614,091	232,548,840	200,406,801
Plus: Common stock equivalents	42,266	—	16,855	—
Diluted weighted average number of common shares outstanding	232,780,219	200,614,091	232,565,695	200,406,801
Earnings per common share:				
Basic	$0.15	$0.14	$0.41	$0.45
Diluted	0.15	0.14	0.41	0.45

Common stock equivalents represent the dilutive effect of additional common shares issuable upon the assumed vesting or exercise, if applicable, of performance-based restricted stock units, common stock options and warrants to purchase Valley’s common shares. Common stock options and warrants with exercise prices that exceed the average market price of Valley’s common stock during the periods presented have an anti-dilutive effect on the diluted earnings per common share calculation and therefore are excluded from the diluted earnings per share calculation. Anti-dilutive common stock options and warrants totaled approximately 5.0 million shares for both the three and nine months ended September 30, 2015 and 6.6 million shares for the three and nine months ended September 30, 2014. Restricted stock units not included in common stock equivalents for both the three and nine months ended September 30, 2015 and 2014 were immaterial.

Note 4. Accumulated Other Comprehensive Loss

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

	Components of Accumulated Other Comprehensive Loss				
	Unrealized Gains and (Losses) on Available for Sale (AFS) Securities	Non-credit Impairment Losses on AFS Securities	Unrealized Gains and (Losses) on Derivatives	Defined Benefit Pension Plan	Total Accumulated Other Comprehensive Loss
	(in thousands)				
Balance at June 30, 2015	$(5,153)	$(411)	$(16,718)	$(25,978)	$(48,260)
Other comprehensive income (loss) before reclassifications	4,586	252	(6,163)	—	(1,325)
Amounts reclassified from other comprehensive income (loss)	(91)	(267)	772	119	533
Other comprehensive income (loss), net	4,495	(15)	(5,391)	119	(792)
Balance at September 30, 2015	$(658)	$(426)	$(22,109)	$(25,859)	$(49,052)
Balance at December 31, 2014	$(1,890)	$145	$(14,532)	$(26,218)	$(42,495)
Other comprehensive income (loss) before reclassifications	2,677	(200)	(10,291)	—	(7,814)
Amounts reclassified from other comprehensive income (loss)	(1,445)	(371)	2,714	359	1,257
Other comprehensive income (loss), net	1,232	(571)	(7,577)	359	(6,557)
Balance at September 30, 2015	$(658)	$(426)	$(22,109)	$(25,859)	$(49,052)

The following table presents amounts reclassified from each component of accumulated other comprehensive loss on a gross and net of tax basis for the three and nine months ended September 30, 2015 and 2014.

	Amounts Reclassified from Accumulated Other Comprehensive Loss				
	Three Months Ended September 30,		Nine Months Ended September 30,		
Components of Accumulated Other Comprehensive Loss	2015	2014	2015	2014	Income Statement Line Item
	(in thousands)				
Unrealized gains (losses) on AFS securities before tax	$157	$103	$2,481	$102	Gains on securities transactions, net
Tax effect	(66)	(43)	(1,036)	(43)	
Total net of tax	91	60	1,445	59	
Non-credit impairment losses on AFS securities before tax:					
Accretion of credit loss impairment due to an increase in expected cash flows	458	198	636	506	Interest and dividends on investment securities (taxable)
Tax effect	(191)	(83)	(265)	(212)	
Total net of tax	267	115	371	294	

Unrealized losses on derivatives (cash flow hedges) before tax	(1,323)	(1,674)	(4,651)	(4,986)	Interest expense
Tax effect	551	701	1,937	2,075	
Total net of tax	(772)	(973)	(2,714)	(2,911)	
Defined benefit pension plan:					
Amortization of net loss	(205)	(63)	(616)	(187)	*
Tax effect	86	27	257	77	
Total net of tax	(119)	(36)	(359)	(110)	
Total reclassifications, net of tax	$(533)	$(834)	$(1,257)	$(2,668)	

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

Note 5. New Authoritative Accounting Guidance

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

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

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

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

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

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

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

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

Note 6. Fair Value Measurement of Assets and Liabilities

Accounting Standards Codification (ASC) Topic 820, “Fair Value Measurements and Disclosures,” establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1	Unadjusted exchange quoted prices in active markets for identical assets or liabilities, or identical liabilities traded as assets that the reporting entity has the ability to access at the measurement date.
Level 2	Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly (i.e., quoted prices on similar assets), for substantially the full term of the asset or liability.
Level 3	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

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

The following tables present the assets and liabilities that are measured at fair value on a recurring and nonrecurring basis by level within the fair value hierarchy as reported on the consolidated statements of financial condition at September 30, 2015 and December 31, 2014. The assets presented under "nonrecurring fair value measurements" in the table below are not measured at fair value on an ongoing basis but are subject to fair value adjustments under certain circumstances (e.g., when an impairment loss is recognized).

		Fair Value Measurements at Reporting Date Using:		
	September 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Recurring fair value measurements:				
Assets				
Investment securities:				
Available for sale:				
U.S. Treasury securities	$50,468	$50,468	$—	$—
U.S. government agency securities	25,513	—	25,513	—
Obligations of states and political subdivisions	43,469	—	43,469	—
Residential mortgage-backed securities	569,650	—	557,486	12,164
Trust preferred securities	8,593	—	6,411	2,182
Corporate and other debt securities	79,017	17,903	61,114	—
Equity securities	20,679	1,465	19,214	—
Total available for sale	797,389	69,836	713,207	14,346
Loans held for sale (1)(2)	18,184	—	18,184	—
Other assets (3)	34,114	—	34,114	—
Total assets	$849,687	$69,836	$765,505	$14,346
Liabilities				
Other liabilities (3)	$57,344	$—	$57,344	$—
Total liabilities	$57,344	$—	$57,344	$—
Non-recurring fair value measurements:				
Collateral dependent impaired loans (4)	$9,173	$—	$—	$9,173
Loan servicing rights	2,922	—	—	2,922
Foreclosed assets (5)	10,058	—	—	10,058
Total	$22,153	$—	$—	$22,153

	December 31, 2014 (in thousands)	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring fair value measurements:				
Assets				
Investment securities:				
Available for sale:				
U.S. Treasury securities	$49,443	$49,443	$—	$—
U.S. government agency securities	33,825	—	33,825	—
Obligations of states and political subdivisions	44,051	—	44,051	—
Residential mortgage-backed securities	644,276	—	629,696	14,580
Trust preferred securities	20,537	—	15,808	4,729
Corporate and other debt securities	74,012	18,241	55,771	—
Equity securities	20,826	1,337	19,489	—
Total available for sale	886,970	69,021	798,640	19,309
Trading securities	14,233	—	14,233	—
Loans held for sale (1)	17,165	—	17,165	—
Other assets (3)	20,987	—	20,987	—
Total assets	$939,355	$69,021	$851,025	$19,309
Liabilities				
Other liabilities (3)	$33,330	$—	$33,330	$—
Total liabilities	$33,330	$—	$33,330	$—
Non-recurring fair value measurements:				
Non-performing loans held for sale	$7,130	$—	$—	$7,130
Collateral dependent impaired loans (4)	13,985	—	—	13,985
Loan servicing rights	3,987	—	—	3,987
Foreclosed assets (5)	18,098	—	—	18,098
Total	$43,200	$—	$—	$43,200

(1) Loans held for sale carried at fair value (which consist of residential mortgages) had contractual unpaid principal balances totaling approximately $17.5 million and $16.9 million at September 30, 2015 and December 31, 2014, respectively.

(2) Gains and losses related to the change in the fair value of loans held for sale are included in net gains on sales of loans within the non-interest income category of our consolidated statements of income and totaled to net gains of $660 thousand and $81 thousand for the three months ended September 30, 2015 and 2014, respectively, and $813 thousand and $453 thousand for the nine months ended September 30, 2015 and 2014, respectively.

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

(4) Excludes PCI loans.

(5) Includes covered other real estate owned totaling $1.3 million and $3.2 million at September 30, 2015 and December 31, 2014, respectively.

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

	Available for Sale Securities			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Balance, beginning of the period	$14,712	$26,029	$19,309	$28,523
Total net (losses) gains included in other comprehensive income for the period	(26)	341	(908)	563
Sales	—	—	(2,675)	—
Settlements	(340)	(669)	(1,380)	(3,385)
Balance, end of the period	$14,346	$25,701	$14,346	$25,701

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

Available for sale and trading securities. All U.S. Treasury securities, certain corporate and other debt securities, and certain common and preferred equity securities (including certain trust preferred securities) are reported at fair value utilizing Level 1 inputs. The majority of other investment securities are reported at fair value utilizing Level 2 inputs. The prices for these instruments are obtained through an independent pricing service or dealer market participants with whom Valley has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond’s terms and conditions, among other things. Management reviews the data and assumptions used in pricing the securities by its third party provider to ensure the highest level of significant inputs are derived from market observable data. For certain securities, the inputs used by either dealer market participants or an independent pricing service may be derived from unobservable market information (Level 3 inputs). In these instances, Valley evaluates the appropriateness and quality of the assumption and the resulting price. In addition, Valley reviews the volume and level of activity for all available for sale and trading securities and attempts to identify transactions which may not be orderly or reflective of a significant level of activity and volume. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service may be adjusted, as necessary, to estimate fair value and this results in fair values based on Level 3 inputs. In determining fair value, Valley utilizes unobservable inputs which reflect Valley’s own assumptions about the inputs that market participants would use in pricing each security. In developing its assertion of market participant assumptions, Valley utilizes the best information that is both reasonable and available without undue cost and effort.

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

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

Security Type	Valuation Technique	Unobservable Input	Range	Weighted Average	
Private label mortgage-backed securities	Discounted cash flow	Prepayment rate	4.7 - 21.9%	14.7	%
		Default rate	3.5 - 20.4	8.5	
		Loss severity	39.2 - 64.2	57.7	

Significant increases or decreases in any of the unobservable inputs in the table above in isolation would result in a significantly lower or higher fair value measurement of the securities. Generally, a change in the assumption used for the default rate is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

For the Level 3 available for sale private label mortgage-backed securities (consisting of 4 securities), cash flow assumptions incorporated independent third party market participant data based on vintage year for each security. The discount rate utilized in determining the present value of cash flows for the mortgage-backed securities was arrived at by combining the yield on orderly transactions for similar maturity government sponsored mortgage-backed securities with (i) the historical average risk premium of similar structured private label securities, (ii) a risk premium reflecting current market conditions, including liquidity risk, and (iii) if applicable, a forecasted loss premium derived from the expected cash flows of each security. The estimated cash flows for each private label mortgage-backed security were then discounted at the aforementioned effective rate to determine the fair value. The quoted prices received from either market participants or independent pricing services are weighted with the internal price estimate to determine the fair value of each instrument.

For the Level 3 available for sale pooled trust preferred securities (consisting of 1 security at September 30, 2015 and 2 securities at December 31, 2014), the resulting estimated future cash flows were discounted at a yield determined by reference to similarly structured securities for which observable orderly transactions occurred. The discount rate for each security was applied using a pricing matrix based on credit, security type and maturity characteristics to determine the fair value. The fair value calculation is received from an independent valuation adviser. In validating the fair value calculation from an independent valuation adviser, Valley reviews the accuracy of the inputs and the appropriateness of the unobservable inputs utilized in the valuation to ensure the fair value calculation is reasonable from a market participant perspective.

Loans held for sale. The conforming residential mortgage loans originated for sale are reported at fair value using Level 2 inputs. The fair values were calculated utilizing quoted prices for similar assets in active markets. To determine these fair values, the mortgages held for sale are put into multiple tranches, or pools, based on the coupon rate and maturity of each mortgage. The market prices for each tranche are obtained from both Fannie Mae and Freddie Mac. The market prices represent a delivery price, which reflects the underlying price each institution would pay Valley for an immediate sale of an aggregate pool of mortgages. The market prices received from Fannie Mae and Freddie Mac are then averaged and interpolated or extrapolated, where required, to calculate the fair value of each tranche. Depending upon the time elapsed since the origination of each loan held for sale, non-performance risk and changes therein were addressed in the estimate of fair value based upon the delinquency data provided to both Fannie

Mae and Freddie Mac for market pricing and changes in market credit spreads. Non-performance risk did not materially impact the fair value of mortgage loans held for sale at September 30, 2015 and December 31, 2014 based on the short duration these assets were held, and the high credit quality of these loans.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The fair value of Valley's derivatives are determined using third party prices that are based on discounted cash flow analysis using observed market inputs, such as the LIBOR and Overnight Index Swap rate curves. The fair value of mortgage banking derivatives, consisting of interest rate lock commitments to fund residential mortgage loans and forward commitments for the future delivery of such loans (including certain loans held for sale at September 30, 2015), is determined based on the current market prices for similar instruments provided by Freddie Mac and Fannie Mae. The fair values of most of the derivatives incorporate credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, to account for potential nonperformance risk of Valley and its counterparties. The credit valuation adjustments were not significant to the overall valuation of Valley's derivatives at September 30, 2015 and December 31, 2014.

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

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

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

Impaired loans. Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral and are commonly referred to as "collateral dependent impaired loans." Collateral values are estimated using Level 3 inputs, consisting of individual appraisals that are significantly adjusted based on certain discounting criteria. At September 30, 2015, appraisals were discounted up to 13.5 percent based on specific market data by location and property type. During the quarter ended September 30, 2015, collateral dependent impaired loans were individually re-measured and reported at fair value through direct loan charge-offs to the allowance for loan losses and/or a specific valuation allowance allocation based on the fair value of the underlying collateral. The collateral dependent loan charge-offs to the allowance for loan losses totaled $366 thousand and $495 thousand for the three months ended September 30, 2015 and 2014, respectively, and $3.0 million and $3.7 million for the nine months ended September 30, 2015 and 2014, respectively. At September 30, 2015, collateral dependent impaired loans with a total recorded investment of $11.2 million were reduced by specific valuation allowance allocations totaling $2.0 million to a reported total net carrying amount of $9.2 million.

Loan servicing rights. Fair values for each risk-stratified group of loan servicing rights are calculated using a fair value model from a third party vendor that requires inputs that are both significant to the fair value measurement and unobservable (Level 3). The fair value model is based on various assumptions, including but not limited to, prepayment speeds, internal rate of return ("discount rate"), servicing cost, ancillary income, float rate, tax rate, and inflation. The prepayment speed and the discount rate are considered two of the most significant inputs in the model. At September 30, 2015, the fair value model used prepayment speeds (stated as constant prepayment rates) from 0 percent up to 23 percent and a discount rate of 8.0 percent for the valuation of the loan servicing rights. A significant degree of judgment is involved in valuing the loan servicing rights using Level 3 inputs. The use of different assumptions could have a significant positive or negative effect on the fair value estimate. Impairment charges are recognized on loan servicing rights when the amortized cost of a risk-stratified group of loan servicing rights exceeds the estimated fair value. Valley recorded net recoveries of impairment charges on its loan servicing rights totaling $48 thousand and $131 thousand for the three months ended September 30, 2015 and 2014, respectively, and $209 thousand and $273 thousand for the nine months ended September 30, 2015 and 2014, respectively.

Foreclosed assets. Certain foreclosed assets (consisting of other real estate owned and other repossessed assets), upon initial recognition and transfer from loans, are re-measured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the foreclosed assets. The fair value of a foreclosed asset, upon initial recognition, is typically estimated using Level 3 inputs, consisting of an appraisal that is adjusted based on certain discounting criteria, similar to the criteria used for impaired loans described above. The appraisals of foreclosed assets were discounted up to 13.4 percent at September 30, 2015. At September 30, 2015, foreclosed assets included $10.1 million of assets that were measured at fair value upon initial recognition or subsequently re-measured during the quarter ended September 30, 2015. The foreclosed assets charge-offs to the allowance for loan losses totaled $629 thousand and $1.7 million for the three months ended September 30, 2015 and 2014, respectively, and $1.5 million and $3.7 million for the nine months ended September 30, 2015 and 2014, respectively. The re-measurement of foreclosed assets at fair value subsequent to their initial recognition resulted in net loss within non-interest expense of $1.3 million and $799 thousand for the three months ended September 30, 2015 and 2014, respectively, and $1.8 million and $2.7 million for the nine months ended September 30, 2015 and 2014, respectively.

Other Fair Value Disclosures

ASC Topic 825, “Financial Instruments,” requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis.

The fair value estimates presented in the following table were based on pertinent market data and relevant information on the financial instruments available as of the valuation date. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire portfolio of financial instruments. Because no market exists for a portion of the financial instruments, fair value estimates may be based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For instance, Valley has certain fee-generating business lines (e.g., its mortgage servicing operation, trust and investment management departments) that were not considered in these estimates since these activities are not financial instruments. In addition, the tax implications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

The carrying amounts and estimated fair values of financial instruments not measured and not reported at fair value on the consolidated statements of financial condition at September 30, 2015 and December 31, 2014 were as follows:

	Fair Value Hierarchy	September 30, 2015 Carrying Amount	September 30, 2015 Fair Value	December 31, 2014 Carrying Amount	December 31, 2014 Fair Value
		(in thousands)			
Financial assets					
Cash and due from banks	Level 1	$220,023	$220,023	$462,569	$462,569
Interest bearing deposits with banks	Level 1	71,756	71,756	367,838	367,838
Investment securities held to maturity:					
U.S. Treasury securities	Level 1	139,014	152,513	139,121	151,300
U.S. government agency securities	Level 2	12,973	13,400	14,081	14,385
Obligations of states and political subdivisions	Level 2	511,788	531,616	500,018	519,693
Residential mortgage-backed securities	Level 2	889,146	899,776	986,992	998,981
Trust preferred securities	Level 2	59,780	46,811	98,456	86,243
Corporate and other debt securities	Level 2	24,609	26,835	39,648	45,374
Total investment securities held to maturity		1,637,310	1,670,951	1,778,316	1,815,976
Net loans	Level 3	14,912,263	14,633,265	13,371,560	13,085,830
Accrued interest receivable	Level 1	57,532	57,532	57,333	57,333
Federal Reserve Bank and Federal Home Loan Bank stock (1)	Level 1	137,229	137,229	133,117	133,117
Financial liabilities					
Deposits without stated maturities	Level 1	11,345,222	11,345,222	11,291,648	11,291,648
Deposits with stated maturities	Level 2	3,154,641	3,202,590	2,742,468	2,807,522
Short-term borrowings	Level 1	302,941	302,941	146,781	146,781
Long-term borrowings	Level 2	2,529,326	2,696,964	2,526,408	2,738,122
Junior subordinated debentures issued to capital trusts	Level 2	41,374	43,950	41,252	44,584
Accrued interest payable (2)	Level 1	12,825	12,825	15,526	15,526

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

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

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

Investment securities held to maturity. Fair values are based on prices obtained through an independent pricing service or dealer market participants with whom Valley has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond’s terms and conditions, among other things (Level 2 inputs). Additionally, Valley reviews the volume and level of activity for all classes of held to maturity securities and attempts to identify transactions which may not be orderly or reflective of a significant level of activity and volume. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service may be adjusted, as necessary. If applicable, the adjustment to fair value is derived based on present value cash flow model projections prepared by Valley utilizing assumptions similar to those incorporated by market participants.

Loans. Fair values of loans are estimated by discounting the projected future cash flows using market discount rates that reflect the credit and interest-rate risk inherent in the loan. The discount rate is a product of both the applicable index and credit spread, subject to the estimated current new loan interest rates. The credit spread component is static for all maturities and may not necessarily reflect the value of estimating all actual cash flows re-pricing. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Fair values estimated in this manner do not fully incorporate an exit-price approach to fair value, but instead are based on a comparison to current market rates for comparable loans.

Accrued interest receivable and payable. The carrying amounts of accrued interest approximate their fair value due to the short-term nature of these items.

Federal Reserve Bank and Federal Home Loan Bank stock. Federal Reserve Bank and FHLB stock are non-marketable equity securities and are reported at their redeemable carrying amounts, which approximate fair value.

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

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

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

Note 7. Investment Securities

Held to Maturity

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
September 30, 2015				
U.S. Treasury securities	$139,014	$13,499	$—	$152,513
U.S. government agency securities	12,973	427	—	13,400
Obligations of states and political subdivisions:				
Obligations of states and state agencies	195,143	9,471	(12)	204,602
Municipal bonds	316,645	10,678	(309)	327,014
Total obligations of states and political subdivisions	511,788	20,149	(321)	531,616
Residential mortgage-backed securities	889,146	15,530	(4,900)	899,776
Trust preferred securities	59,780	48	(13,017)	46,811
Corporate and other debt securities	24,609	2,226	—	26,835
Total investment securities held to maturity	$1,637,310	$51,879	$(18,238)	$1,670,951
December 31, 2014				
U.S. Treasury securities	$139,121	$12,179	$—	$151,300
U.S. government agency securities	14,081	304	—	14,385
Obligations of states and political subdivisions:				
Obligations of states and state agencies	197,440	9,410	(412)	206,438
Municipal bonds	302,578	10,955	(278)	313,255
Total obligations of states and political subdivisions	500,018	20,365	(690)	519,693
Residential mortgage-backed securities	986,992	18,233	(6,244)	998,981
Trust preferred securities	98,456	167	(12,380)	86,243
Corporate and other debt securities	39,648	5,726	—	45,374
Total investment securities held to maturity	$1,778,316	$56,974	$(19,314)	$1,815,976

The age of unrealized losses and fair value of related securities held to maturity at September 30, 2015 and December 31, 2014 were as follows:

	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
September 30, 2015						
Obligations of states and political subdivisions:						
Obligations of states and state agencies	$—	$—	$1,957	$(12)	$1,957	$(12)
Municipal bonds	19,027	(241)	10,159	(68)	29,186	(309)
Total obligations of states and political subdivisions	19,027	(241)	12,116	(80)	31,143	(321)
Residential mortgage-backed securities	223,653	(1,665)	160,149	(3,235)	383,802	(4,900)
Trust preferred securities	—	—	45,409	(13,017)	45,409	(13,017)
Total	$242,680	$(1,906)	$217,674	$(16,332)	$460,354	$(18,238)
December 31, 2014						
Obligations of states and political subdivisions:						
Obligations of states and state agencies	$4,927	$(50)	$19,050	$(362)	$23,977	$(412)
Municipal bonds	—	—	28,815	(278)	28,815	(278)
Total obligations of states and political subdivisions	4,927	(50)	47,865	(640)	52,792	(690)
Residential mortgage-backed securities	107,357	(563)	276,580	(5,681)	383,937	(6,244)
Trust preferred securities	—	—	66,194	(12,380)	66,194	(12,380)
Total	$112,284	$(613)	$390,639	$(18,701)	$502,923	$(19,314)

The unrealized losses on investment securities held to maturity are primarily due to changes in interest rates (including, in certain cases, changes in credit spreads) and, in some cases, lack of liquidity in the marketplace. The total number of security positions in the securities held to maturity portfolio in an unrealized loss position at September 30, 2015 was 79 as compared to 57 at December 31, 2014.

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

The unrealized losses existing for more than twelve months for trust preferred securities at September 30, 2015 primarily related to four non-rated single-issuer trust preferred securities issued by bank holding companies. All single-issuer trust preferred securities classified as held to maturity are paying in accordance with their terms, have no deferrals of interest or defaults and, if applicable, the issuers meet the regulatory capital requirements to be considered “well-capitalized institutions” at September 30, 2015.

Management does not believe that any individual unrealized loss as of September 30, 2015 included in the table above represents other-than-temporary impairment as management mainly attributes the declines in fair value to changes in interest rates and market volatility, not credit quality or other factors. Based on a comparison of the present value of expected cash flows to the amortized cost, management believes there are no credit losses on these securities. Valley does not have the intent to sell, nor is it more likely than not that Valley will be required to sell, the securities contained in the table above before the recovery of their amortized cost basis or maturity.

During the first quarter of 2015, Valley sold one corporate debt security classified as held to maturity with amortized costs of $9.8 million. See "Realized Gains and Losses" section below for further details regarding this transaction.

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As of September 30, 2015, the fair value of investments held to maturity that were pledged to secure public deposits, repurchase agreements, lines of credit, and for other purposes required by law, was $1.0 billion.

The contractual maturities of investments in debt securities held to maturity at September 30, 2015 are set forth in the table below. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

	September 30, 2015	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	$81,860	$81,866
Due after one year through five years	71,354	75,970
Due after five years through ten years	374,915	400,050
Due after ten years	220,035	213,289
Residential mortgage-backed securities	889,146	899,776
Total investment securities held to maturity	$1,637,310	$1,670,951

Actual maturities of debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty.

The weighted-average remaining expected life for residential mortgage-backed securities held to maturity was 5.9 years at September 30, 2015.

Available for Sale

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
September 30, 2015				
U.S. Treasury securities	$51,047	$20	$(599)	$50,468
U.S. government agency securities	24,738	779	(4)	25,513
Obligations of states and political subdivisions:				
Obligations of states and state agencies	10,980	22	—	11,002
Municipal bonds	33,215	60	(808)	32,467
Total obligations of states and political subdivisions	44,195	82	(808)	43,469
Residential mortgage-backed securities	569,182	5,865	(5,397)	569,650
Trust preferred securities*	10,530	—	(1,937)	8,593
Corporate and other debt securities	78,550	1,413	(946)	79,017
Equity securities	21,022	815	(1,158)	20,679
Total investment securities available for sale	$799,264	$8,974	$(10,849)	$797,389
December 31, 2014				
U.S. Treasury securities	$51,063	$2	$(1,622)	$49,443
U.S. government agency securities	33,163	748	(86)	33,825
Obligations of states and political subdivisions:				
Obligations of states and state agencies	11,160	—	(24)	11,136
Municipal bonds	33,340	127	(552)	32,915
Total obligations of states and political subdivisions	44,500	127	(576)	44,051
Residential mortgage-backed securities	643,382	5,854	(4,960)	644,276
Trust preferred securities*	23,194	296	(2,953)	20,537
Corporate and other debt securities	73,585	1,645	(1,218)	74,012
Equity securities	21,071	671	(916)	20,826
Total investment securities available for sale	$889,958	$9,343	$(12,331)	$886,970

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

The age of unrealized losses and fair value of related securities available for sale at September 30, 2015 and December 31, 2014 were as follows:

	Less than Twelve Months		More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
September 30, 2015						
U.S. Treasury securities	$49,516	$(599)	$—	$—	$49,516	$(599)
U.S. government agency securities	—	—	4,857	(4)	4,857	(4)
Obligations of states and political subdivisions:						
Municipal bonds	19,764	(232)	10,721	(576)	30,485	(808)
Total obligations of states and political subdivisions	19,764	(232)	10,721	(576)	30,485	(808)
Residential mortgage-backed securities	107,912	(1,601)	168,049	(3,796)	275,961	(5,397)
Trust preferred securities	—	—	8,593	(1,937)	8,593	(1,937)
Corporate and other debt securities	15,190	(131)	36,908	(815)	52,098	(946)
Equity securities	—	—	14,486	(1,158)	14,486	(1,158)
Total	$192,382	$(2,563)	$243,614	$(8,286)	$435,996	$(10,849)
December 31, 2014						
U.S. Treasury securities	$—	$—	$48,504	$(1,622)	$48,504	$(1,622)
U.S. government agency securities	—	—	5,442	(86)	5,442	(86)
Obligations of states and political subdivisions:						
Obligations of states and state agencies	—	—	11,136	(24)	11,136	(24)
Municipal bonds	13,337	(426)	14,637	(126)	27,974	(552)
Total obligations of states and political subdivisions	13,337	(426)	25,773	(150)	39,110	(576)
Residential mortgage-backed securities	57,543	(121)	244,910	(4,839)	302,453	