FIDELITY SOUTHERN CORP
Form 10-Q
May 04, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the quarterly period ended March 31, 2018
Commission file number 001-34981

Fidelity Southern Corporation
(Exact name of registrant as specified in its charter)

Georgia	58-1416811
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3490 Piedmont Road, Suite 1550 Atlanta, Georgia	30305
(Address of principal executive offices)	(Zip Code)

(404) 639-6500
(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 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 ý 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 ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

Emerging growth company o
If an emerging growth company, indicate by check mark if the 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. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No ý
As of April 30, 2018 (the most recent practicable date), the Registrant had outstanding 27,036,895 shares of Common Stock.

FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
Quarterly Report on Form 10-Q
For the Three Months Ended March 31, 2018

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

($ in thousands)	(Unaudited) March 31, 2018	December 31, 2017
Assets		
Cash and due from banks	$37,703	$ 33,874
Interest-bearing deposits with banks	114,397	104,032
Federal funds sold	48,396	48,396
Cash and cash equivalents	200,496	186,302
Investment securities available-for-sale	124,576	120,121
Investment securities held-to-maturity (fair value of $20,947 and $21,685, respectively)	21,342	21,689
Loans held-for-sale (includes loans at fair value of $355,515 and $269,140, respectively)	425,300	357,755
Loans	3,714,308	3,580,966
Allowance for loan losses	(30,940)	(29,772)
Loans, net of allowance for loan losses	3,683,368	3,551,194
Premises and equipment, net	88,624	88,463
Other real estate, net	7,668	7,621
Bank owned life insurance	72,284	71,883
Servicing rights, net	119,553	112,615
Other assets	68,448	59,215
Total assets	$4,811,659	$ 4,576,858
Liabilities		
Deposits		
Noninterest-bearing demand deposits	$ 1,152,315	$ 1,125,598
Interest-bearing deposits	2,748,092	2,741,602
Total deposits	3,900,407	3,867,200
Short-term borrowings	337,795	150,580
Subordinated debt, net	120,620	120,587
Other liabilities	42,093	36,859
Total liabilities	4,400,915	4,175,226
Shareholders' equity		
Preferred stock, no par value. Authorized 10,000,000; zero issued and outstanding	—	—
Common stock, no par value. Authorized 50,000,000; issued and outstanding 27,034,255 and 27,019,201, respectively	219,234	217,555
Accumulated other comprehensive (loss)/income, net of tax	(631)	383
Retained earnings	192,141	183,694
Total shareholders' equity	410,744	401,632
Total liabilities and shareholders' equity	$4,811,659	$ 4,576,858

See accompanying notes to unaudited consolidated financial statements.

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FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended March 31,	
($ in thousands, except per share data)	2018	2017
Interest income:		
Loans, including fees	$39,849	$36,083
Investment securities:		
Taxable interest income	1,098	1,163
Nontaxable interest income	77	45
Other	538	351
Total interest income	41,562	37,642
Interest expense:		
Deposits	4,313	3,449
Short-term borrowings	910	392
Subordinated debt	1,571	1,567
Total interest expense	6,794	5,408
Net interest income	34,768	32,234
Provision for loan losses	2,130	2,100
Net interest income after provision for loan losses	32,638	30,134
Noninterest income:		
Service charges on deposit accounts	1,472	1,455
Other fees and charges	2,235	1,857
Mortgage banking activities	28,562	25,869
Indirect lending activities	2,148	4,426
SBA lending activities	1,157	1,818
Trust and wealth management fees	532	288
Other	1,027	1,657
Total noninterest income	37,133	37,370
Noninterest expense:		
Salaries and employee benefits	27,561	25,438
Commissions	7,506	7,498
Occupancy	4,932	4,163
Professional and other services	4,798	4,067
Other	9,945	9,406
Total noninterest expense	54,742	50,572
Income before income tax expense	15,029	16,932
Income tax expense	3,262	6,405
Net income	$11,767	$10,527
Earnings per common share:		
Basic	$0.44	$0.40
Diluted	$0.43	$0.40
Cash dividends declared per common share	$0.12	$0.12
Net income	$11,767	$10,527
Other comprehensive (loss)/income, net of tax:		

Change in net unrealized (losses)/gains on available-for-sale debt securities, net of tax effect of ($365) and $4, respectively	(1,094)	7
Other comprehensive (loss)/income, net of tax	(1,094)	7
Total comprehensive income	$10,673	$10,534

See accompanying notes to unaudited consolidated financial statements.

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FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)

(in thousands)	Preferred Stock		Common Stock		Accumulated Other Comprehensive Income/(Loss), Net of Tax	Retained Earnings	Total
	Shares	Amount	Shares	Amount			
Balance at December 31, 2016	—	$ —	26,318	$205,309	$ 692	$156,646	$362,647
Net income						10,527	10,527
Other comprehensive income, net of tax					7		7
Comprehensive income							10,534
Common stock issued under various employee plans, net			40	1,281			1,281
Cash dividends paid						(3,160)	(3,160)
Balance at March 31, 2017	—	$ —	26,358	$206,590	$ 699	$164,013	$371,302
Balance at December 31, 2017	—	$ —	27,019	$217,555	$ 383	$183,694	$401,632
Net income						11,767	11,767
Impact of adoption of new accounting standard [(1)]					80	(80)	—
Other comprehensive loss, net of tax					(1,094)		(1,094)
Comprehensive income							10,673
Common stock issued under various employee plans, net			15	1,679			1,679
Cash dividends paid						(3,240)	(3,240)
Balance at March 31, 2018	—	$ —	27,034	$219,234	$ (631)	$192,141	$410,744

[(1)] Represents the impact of the adoption of Accounting Standards Update ("ASU") No. 2018-02

See accompanying notes to unaudited consolidated financial statements.

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FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in thousands)	Three Months Ended March 31, 2018	2017
Cash flows from operating activities:		
Net income	$11,767	$10,527
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses	2,130	2,100
Depreciation and amortization of premises and equipment	1,091	1,159
Amortization of FDIC indemnification asset, net	4	510
Accretion of purchase discounts or premiums, net	(291)	(309)
Other amortization	236	363
Impairment of other real estate	85	839
Amortization and impairment of servicing rights, net	48	2,475
Share-based compensation expense	1,478	752
Postretirement benefits, net	618	526
Gains on loan sales, including origination of servicing rights	(17,723)	(20,659)
Net gain on sales of other real estate	—	(301)
Net income on bank owned life insurance	(401)	(436)
Net change in deferred income tax	(365)	5,632
Net change in fair value of loans held-for-sale	(2,109)	(2,907)
Originations of loans held-for-sale	(659,011)	(668,270)
Proceeds from sales of loans held-for-sale	605,996	787,827
Net payments (paid to) received from FDIC under loss-share agreements	(256)	413
(Increase) decrease in other assets	(592)	2,878
Increase in other liabilities	5,346	5,891
Net cash (used in) provided by operating activities	(51,949)	129,010
Cash flows from investing activities:		
Purchases of investment securities available-for-sale	(9,923)	—
Maturities, calls, and repayment of investment securities available-for-sale	3,826	4,999
Maturities, calls and repayment of investment securities held-to-maturity	330	576
Purchases of FHLB stock	(8,671)	(3,493)
Redemption of FHLB stock	—	3,187
Net increase in loans	(135,550)	(54,772)
Proceeds from sales of other real estate	—	3,986
Purchases of premises and equipment	(1,252)	(700)
Net cash used in investing activities	(151,240)	(46,217)

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FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued
(UNAUDITED)

	Three Months Ended March 31,	
(in thousands)	2018	2017
Cash flows from financing activities:		
Net increase in noninterest-bearing deposits	$26,717	$40,472
Net increase in interest-bearing deposits	6,490	84,042
Net decrease in other short-term borrowings	(12,785)	(3,885)
Proceeds from FHLB advances	725,000	200,000
Repayments on FHLB advances	(525,000)	(200,000)
Proceeds from the issuance of common stock, net	201	529
Cash dividends paid on common stock	(3,240)	(3,160)
Net cash provided by financing activities	217,383	117,998
Net increase in cash and cash equivalents	14,194	200,791
Cash and cash equivalents, beginning of period	186,302	149,711
Cash and cash equivalents, end of period	$200,496	$350,502
Supplemental cash flow information and non-cash disclosures:		
Cash paid during the period for:		
Interest on deposits and borrowings	$5,701	$4,366
Income taxes	—	7
Transfers of loans from held-for-sale to held for investment	1,684	—
Transfers of loans to other real estate	132	994

See accompanying notes to unaudited consolidated financial statements.

FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2018
(UNAUDITED)

1. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements include the accounts of Fidelity Southern Corporation ("FSC" or "Fidelity") and its wholly-owned subsidiaries. FSC owns 100% of Fidelity Bank (the "Bank") and LionMark Insurance Company, an insurance agency offering consumer credit related insurance products. FSC also owns three subsidiaries established to issue trust preferred securities, which are not consolidated for financial reporting purposes in accordance with current accounting guidance, as FSC is not the primary beneficiary. The "Company" or "our," as used herein, includes FSC and its consolidated subsidiaries, unless the context otherwise requires.

These unaudited consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") followed within the financial services industry for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information or notes required for complete financial statements.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the periods presented. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses; the calculations of, amortization of, and the potential impairment of capitalized servicing rights; the valuation of loans held-for-sale and certain derivatives; the valuation of real estate or other assets acquired in connection with foreclosures or in satisfaction of loans; estimates used for fair value acquisition accounting, goodwill impairment testing and valuation of deferred income taxes. In addition, the actual lives of certain amortizable assets and income items are estimates subject to change. The Company principally operates in one business segment, which is community banking.

In the opinion of management, all adjustments, consisting of normal and recurring items, considered necessary for a fair presentation of the consolidated financial statements for the interim periods have been included. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain amounts reported in prior periods have been reclassified to conform to current year presentation. These reclassifications did not have a material effect on previously reported net income, shareholders' equity or cash flows.

Operating results for the three-month period ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K and Annual Report to Shareholders for the year ended December 31, 2017.

The Company's significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in the 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC"). There were no new accounting policies or changes to existing policies adopted during the first three months of 2018 which had a significant effect on the Company's results of operations or statement of financial condition. For interim reporting purposes, the Company follows the same basic accounting policies and considers each interim period as an integral part of an annual period.

Contingencies

Due to the nature of their activities, the Company and its subsidiaries are at times engaged in various legal proceedings that arise in the course of normal business, some of which were outstanding as of March 31, 2018. Although the ultimate outcome of all claims and lawsuits outstanding as of March 31, 2018 cannot be ascertained at this time, it is the opinion of management that these matters, when resolved, will not have a material adverse effect on the Company's results of operations or financial condition.

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Tax Cuts and Jobs Act

Public Law No. 115-97, known as the Tax Cuts and Jobs Act (the "Tax Act"), was enacted on December 22, 2017 and reduced the U.S. Federal corporate tax rate from 35% to 21% effective January 1, 2018. Additionally, on December 22, 2017, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for provisions of the Tax Act. SAB 118 provides a measurement period of up to one year from the enactment date to complete the accounting. Any adjustments during this measurement period will be included in net earnings from continuing operations as an adjustment to income tax expense in the reporting period when such adjustments are determined. Based on the information available and current interpretation of the provisions of the Tax Act, the Company completed the remeasurement of its net deferred tax liability at December 31, 2017 which reduced income tax expense by $4.9 million for the fourth quarter of 2017. For the three months ended March 31, 2018, no further adjustments were recorded related to the remeasurement of the Company's net deferred tax liability balance as a result of the Tax Act. The final impact of the Tax Act may differ from estimates used to calculate the remeasurement of its net deferred tax liability balance as a result of changes in management's interpretations and assumptions, as well as new guidance that may be issued by the Internal Revenue Service.

Recently Adopted Accounting Pronouncements

In March 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-05, "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SAB 118). This guidance amends SEC paragraphs in ASC 740, Income Taxes, to reflect SAB 118, which provides guidance for companies that are not able to complete their accounting for the income tax effects of the Tax Cuts and Jobs Act in the period of enactment. This ASU was effective upon issuance. The adoption of this ASU did not have a significant impact on the Company's Consolidated Financial Statements.

In March 2018, the FASB issued ASU No. 2018-04, "Investments-Debt Securities (Topic 320) and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273, to delete ASC 320-10-S99-1, which had codified SAB Topic 5.M in the ASC. This ASU also removes from the ASC special requirements in SEC Regulation S-X Rule 3A-05 for public utility holding companies. In November 2017, the SEC issued Staff Accounting Bulletin (SAB) No. 117 to bring its existing guidance into conformity with Topic 321 of the FASB Accounting Standards Codification (ASC), "Investments-Equity Securities." SAB 117 states that SAB Topic 5.M, "Other Than Temporary Impairment of Certain Investments in Equity Securities," no longer is applicable upon a registrant's adoption of ASC 321. For public business entities, Topic 321 was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Upon adoption of ASC 321, investments in equity securities that previously qualified for presenting changes in fair value within other comprehensive income will be measured at fair value with changes in fair value presented immediately in net income. These changes were effective upon issuance.The adoption of this ASU did not have a significant impact on the Company's Consolidated Financial Statements.

In February 2018, the FASB issued ASU No. 2018-03, "Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2018-03"). This guidance amends ASU No. 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01") on recognizing and measuring financial instruments to clarify certain aspects of the guidance originally issued in January 2016. ASU 2016-01 was intended to improve the recognition and measurement of financial instruments by requiring that (a) equity investments that do not result in consolidation and are not accounted for under the equity method to be measured at fair value through net income, unless they qualify for the practicability exception for investments that do not have readily determinable fair values; (b) changes in instrument-specific credit risk for financial liabilities that are measured under the fair value option will be recognized in other comprehensive income; and (c) entities will make the assessment of the realizability of a deferred tax asset related to an available-for-sale debt security in combination with other deferred tax assets. The guidance in ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, and interim periods therein. Early adoption was permitted. The amendments in ASU 2018-03 are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018 with early adoption permitted, including adoption in any interim period, for public business entities. An entity should apply the

amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. The adoption of ASU 2018-03 and ASU 2016-01 effective January 1, 2018 did not have a significant impact on the Company's Consolidated Financial Statements.

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In February 2018, the FASB issued ASU No. 2018-02, “Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income” ("ASU 2018-02"), that allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act that passed U.S. Congress in December 2017. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this Update affect any entity that is required to apply the provisions of Topic 220, Income Statement-Reporting Comprehensive Income, and has items of other comprehensive income for which the related tax effects are presented in other comprehensive income. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with early adoption permitted, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not yet been issued. These amendments should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company elected to early adopt this guidance effective January 1, 2018. The adoption of ASU 2018-02 resulted in a reclassification of stranded tax effects of $80,000 to accumulated other comprehensive income (loss) from retained earnings.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting,” (“ASU 2017-09”) that provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. Under the new guidance, an entity should not account for the effect of a modification if all of the following conditions are met. These conditions are: (1) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in this ASU. The amendments in this ASU affect any entity that changes the terms or conditions of a share-based payment award and are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption was permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued and should be applied prospectively to an award modified on or after the adoption date. The adoption of this ASU effective January 1, 2018 did not have a significant impact on the Company’s Consolidated Financial Statements.

In March 2017, the FASB issued ASU No. 2017-07, “Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” (“ASU 2017-07”) that will change how employers who sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will be required to present the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component will be eligible for capitalization in assets. The other components of the net periodic benefit cost will be presented separately from the line item(s) that includes the service cost and outside of any subtotal of operating income, if one is presented. Employers will be required to disclose the line(s) used to present the other components of net periodic benefit cost, if the components are not presented separately in the income statement. The guidance on the presentation of the components of net periodic benefit cost in the income statement will be applied retrospectively while the guidance limiting the capitalization of net periodic benefit cost in assets to the service cost component will be applied prospectively. Employers will have to provide the relevant disclosures required under ASC 250, Accounting Changes and Error Corrections, in the first

interim and annual periods when they adopt the guidance. The guidance also provides a practical expedient for disaggregating the service cost component and other components for comparative periods. An employer that elects to apply the practical expedient must disclose the reason for doing so and other qualitative information about the capitalization of net periodic benefit cost. The guidance is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods therein. Early adoption was permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. That is, early adoption must be within the first interim period if an employer issues interim financial statements. The adoption of this ASU effective January 1, 2018 did not have a significant impact on the Company’s Consolidated Financial Statements.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” (“ASU 2017-04”) which simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test. Under Step 2, an entity was required to determine the fair value of individual assets and liabilities of a reporting unit (including unrecognized assets and liabilities) using the procedure for determining fair values in a business combination. Under the new guidance, goodwill impairment will be measured at the amount by which a reporting unit’s carrying amount, including those with a zero or negative carrying amount, exceeds its fair value. Any resulting impairment is limited to the carrying amount of goodwill. An entity must also disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount. The new guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and is required to be applied prospectively with early adoption permitted for any impairment tests performed on testing dates after January 1, 2017. The early adoption of this ASU in the fourth quarter of 2017 did not have a significant impact on the Company’s Consolidated Financial Statements.

In January 2017, the FASB issued ASU No. 2017-03, “Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and Joint Ventures (Topic 323),” (“ASU 2017-03”). ASU 2017-03 amends the Codification for SEC staff announcements made at two Emerging Issues Task Force (EITF) meetings. At the September 2016 meeting, the SEC staff expressed its expectations about the extent of disclosures registrants should make about the effects of the new FASB guidance (including any amendments issued prior to adoption) on revenue from the new FASB guidance (ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606),” (“ASU 2014-09”)), leases, (ASU No. 2016-02, “Leases,” (“ASU 2016-02”)), and credit losses on financial instruments (ASU No. 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” (“ASU 2016-13”)), in accordance with SAB Topic 11.M. That Topic required registrants to disclose the effect that recently issued accounting standards will have on their financial statements when adopted in a future period. ASU 2017-03 incorporated these SEC staff views into ASC 250 and added references to that guidance in the transition paragraphs of each of the three new standards. The Company adopted this guidance in the fourth quarter of 2016. The adoption of this ASU did not have a significant impact on the Company’s Consolidated Financial Statements.

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805) - Clarifying the Definition of a Business,” (“ASU 2017-01”) which provides clarification on 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. The amendments in ASU 2017-01 provide a screen to determine when an asset is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the asset is not a business. This screen reduces the number of transactions that need to be further evaluated, and therefore are considered businesses. The amendments also provide a framework to assist entities in evaluating whether both an input and a substantive process are present. The guidance is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods. Early adoption was permitted. The amendments in this ASU should be applied prospectively on or after the effective date and no disclosures are required at transition. The adoption of this ASU effective January 1, 2018 did not have a significant impact on the Company’s Consolidated Financial Statements.

In December 2016, the FASB issued ASU No. 2016-20, “Technical Corrections and Improvements to Topic 606: Revenue from Contracts with Customers.” ASU 2016-20 updates the new revenue standard by clarifying issues that had arisen from ASU No. 2014-09 but does not change the core principle of the new standard. In August 2015, the FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date” which deferred the effective date of ASU No. 2014-09, “Revenue from Contracts with Customers,” (“ASU 2014-09”) by one year to annual reporting periods beginning after December 15, 2017, and interim reporting periods therein. The FASB had previously issued ASU 2014-09 in May 2014. ASU 2014-09 requires that entities recognize revenue to reflect the transfers of goods or services to customers in an amount equal to the consideration the entity receives or expects to receive. The Company’s revenue is comprised of net interest income and noninterest income. As ASU 2014-09 does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, net interest income, noninterest income from mortgage origination and servicing activities, and gain and losses from securities transactions are specifically excluded from the scope of the guidance.

The Company adopted the guidance on January 1, 2018 utilizing the modified retrospective approach. The Company did not record a cumulative effect adjustment to opening retained earnings as the adoption of ASU 2014-09 did not have a significant impact on the Company's Consolidated Financial Statements. The Company also completed its evaluation of the expanded disclosure requirements for disaggregation of revenue and other information regarding material contracts and began presenting the required disclosures in its Consolidated Financial Statements for the quarter ended March 31, 2018. See Note 11. Revenue Recognition for more information.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230) — Restricted Cash," ("ASU 2016-18"). The amendments in this ASU require that the statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is to be applied retrospectively and is effective for the Company beginning in fiscal 2018, including interim periods therein. Early adoption was permitted, including adoption in an interim period, with retrospective application. The adoption of this ASU effective January 1, 2018 did not have a significant impact on the Company's Consolidated Financial Statements.

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In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory," ("ASU 2016-16"). This guidance addresses the income tax consequences of intra-entity transfers of assets other than inventory. GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. In addition, interpretations of this guidance have developed in practice over the years for transfers of certain intangible and tangible assets. The amendments in the update will require recognition of current and deferred income taxes resulting from an intra-entity transfer of an asset other than inventory when the transfer occurs. This standard is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The amendments in this ASU should be applied using a modified retrospective approach through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Early adoption was permitted as of the beginning of an annual reporting period for which financial statements have not been issued or made available for issuance. The adoption of this ASU effective January 1, 2018 did not have a significant impact on the Company's Consolidated Financial Statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," ("ASU 2016-15") intended to reduce diversity in practice in how certain cash receipts and cash payments are classified in the statement of cash flows. The guidance addresses eight issues: (1) cash payments for debt prepayment or debt extinguishment costs; (2) cash payments for the settlement of zero-coupon debt instruments; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance ("COLI") policies, including bank-owned life insurance ("BOLI") policies; (6) distributions received from equity method investments; (7) beneficial interests in securitization transactions; and (8) separately identifiable cash flows using the application of the predominance principle, whereby an entity should classify each separately identifiable cash source and use on the basis of the nature of the underlying cash flows. The amendments in this ASU are to be applied retrospectively and are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those years. Early adoption was permitted, including adoption in an interim period, with adoption of all of the guidance in the same period. The adoption of this ASU effective January 1, 2018 did not have a significant impact on the Company's Consolidated Financial Statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities," ("ASU 2017-12") that is intended to improve and simplify rules relevant to hedge accounting. This ASU refines and expands hedge accounting for both financial (e.g., interest rate) and commodity risks. ASU 2017-12 is intended to improve transparency and accounting through a focus on: (1) measurement and hedging strategies; (2) presentation and disclosure; and (3) easing the administrative burden that hedge accounting can create for an entity. Entities will (a) measure the hedged item in a partial-term fair value hedge of interest rate risk by assuming the hedged item has a term that reflects only the designated cash flows being hedged; (b) consider only how changes in the benchmark interest rate affect a decision to settle a pre-payable instrument before its scheduled maturity when calculating the fair value of the hedged item; and (c) measure the fair value of the hedged item using the benchmark rate component of the contracted coupon cash flows determined at inception. The amendments in this ASU shall take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted in any interim period or fiscal years before the effective date of the standard. The adoption of this ASU is not expected to have a significant impact on the Company's Consolidated Financial Statements based on its current hedging strategies. However, the Company is currently evaluating this ASU to determine whether its provisions will enhance its risk management strategies.

In March 2017, the FASB issued ASU No. 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities," ("ASU 2017-08") that amends the amortization period for certain purchased callable debt securities held at a premium. Under GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. The ASU shortens the amortization period for the premium to the earliest call date. This amendment affects all entities that hold investments in callable debt securities that have an amortized cost basis in excess of the amount that is repayable by the issuer at the earliest

call date, i.e., at a premium. The guidance is effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods therein. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. These amendments should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the adoption period. In addition, in the period of adoption, disclosures should be provided about a change in accounting principle. The adoption of this ASU is not expected to have a significant impact on the Company’s Consolidated Financial Statements.

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In June 2016, the FASB issued ASU No. 2016-13 which 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. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") securities. For AFS securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. All other things being equal, higher credit losses will result in lower regulatory capital ratios for the Company. The ASU also simplifies the accounting model for purchased credit-impaired securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. The standard will take effect for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application for all organizations will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company has established a working group which includes representatives from various internal departments with the expertise needed to implement the guidance. As part of its implementation plan, the Company has allocated staff and put resources in place to evaluate the appropriate model options and is collecting, reviewing, and validating ten years of historical loan data for use in these models. The Company is also implementing a software package supported by a third-party vendor to automate the calculation of the allowance for loan losses under the new methodology. Management is continuing to evaluate the impact that the guidance will have on the Company's Consolidated Financial Statements and its regulatory capital ratios through its effective date.

In February 2016, the FASB issued No. ASU 2016-02, "Leases" which requires the recognition of assets and liabilities arising from most lease transactions on the balance sheet and the disclosure of key information about leasing arrangements. Accordingly, a lessee will recognize a lease asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation. Both the asset and liability will initially be measured at the present value of the future minimum lease payments over the lease term. Subsequent measurement, including the presentation of expenses and cash flows, will depend on the classification of the lease as either a finance or an operating lease. Expense for an operating lease will continue to be reported on a straight-line basis over the lease term, whereas the expense for a finance lease will follow a financing model (amortization of the asset and interest on the lease liability). Initial costs directly attributable to negotiating and arranging the lease will be included in the asset. The new guidance also introduces the requirement for periodic impairment testing of the right-of-use asset as a long-lived asset. For leases with a term of 12 months or less, a lessee can make an accounting policy election by class of underlying asset to not recognize an asset and corresponding liability. Lessees will also be required to provide additional qualitative and quantitative disclosures regarding the amount, timing and uncertainty of cash flows arising from leases. These disclosures are intended to supplement the amounts recorded in the financial statements and provide additional information about the nature of an organization's leasing activities. The new standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. In transition, lessees are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which means applying the new balance sheet presentation and income statement classification guidance from the beginning of the earliest comparative period presented in the year of adoption. The transition guidance also provides specific guidance for sale and leaseback transactions, build-to-suit leases and amounts previously recognized in accordance with the business combinations guidance for leases. The total outstanding lease obligations, all of which are classified as operating leases, was $20.4 million, or 0.42% of total

assets as of March 31, 2018. The Company is currently evaluating these lease obligations, as well as any embedded leases contained in its contractual outsourcing arrangements, as potential lease assets and liabilities as defined by the guidance as well as assessing the impact on its regulatory capital ratios. For regulated banking institutions such as the Company, the recognition of right-of-use assets on the balance sheet may impact the calculation of regulatory capital ratios by increasing the assets in the denominator of the risk-based capital ratios (risk-weighted assets) and leverage capital ratio (adjusted asset). All other things being equal, a higher denominator will result in lower regulatory capital ratios for the Company. The Company anticipates that the adoption of ASU 2016-02 will not have a significant impact on its Consolidated Financial Statements or its regulatory capital ratios, but will likely require changes to its systems, controls and processes. The Company is continuing to evaluate the full impact of this ASU on the Company’s Consolidated Financial Statements.

Other proposed accounting standards that have recently been issued by the FASB or other standard-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

2. Investment Securities

Management’s primary objective in managing the investment securities portfolio includes maintaining a portfolio of high quality investments with competitive returns while providing for pledging and liquidity needs within overall asset and liability

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management parameters. The Company is required under federal regulations to maintain adequate liquidity to ensure safe and sound operations. As such, management regularly evaluates the investment portfolio for cash flows, the level of loan production and sales, current interest rate risk strategies and the potential future direction of market interest rate changes. Individual investment securities differ in terms of default, interest rate, liquidity and expected rate of return risk.

The following table summarizes the amortized cost and fair value of debt securities and the related gross unrealized gains and losses at March 31, 2018, and December 31, 2017:

	March 31, 2018			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available-for-sale:				
Obligations of U.S. Government sponsored enterprises	$22,173	$ 58	$ (275)	$21,956
Municipal securities	9,302	232	(42)	9,492
SBA pool securities	12,148	—	(396)	11,752
Residential mortgage-backed securities	57,664	577	(262)	57,979
Commercial mortgage-backed securities	24,130	—	(733)	23,397
Total available-for-sale	$125,417	$ 867	$ (1,708)	$124,576
Investment securities held-to-maturity:				
Municipal securities	$8,581	$ 17	$ (155)	$8,443
Residential mortgage-backed securities	8,784	83	(340)	8,527
Commercial mortgage-backed securities	3,977	—	—	3,977
Total held-to-maturity	$21,342	$ 100	$ (495)	$20,947

	December 31, 2017			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available-for-sale:				
Obligations of U.S. Government sponsored enterprises	$22,182	$ 141	$ (98)	$22,225
Municipal securities	9,318	340	(23)	9,635
SBA pool securities	13,031	6	(127)	12,910
Residential mortgage-backed securities	50,251	803	(76)	50,978
Commercial mortgage-backed securities	24,721	6	(354)	24,373
Total available-for-sale	$119,503	$ 1,296	$ (678)	$120,121
Investment securities held-to-maturity:				
Municipal securities	$8,588	$ 53	$ —	$8,641
Residential mortgage-backed securities	9,100	99	(156)	9,043
Commercial mortgage-backed securities	4,001	—	—	4,001
Total held-to-maturity	$21,689	$ 152	$ (156)	$21,685

The Company held 26 and 19 investment securities available-for-sale that were in an unrealized loss position at March 31, 2018, and December 31, 2017, respectively. There were seven and six investment securities held-to-maturity that were in an unrealized loss position at March 31, 2018, and December 31, 2017, respectively.

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The following table reflects the gross unrealized losses and fair values of the investment securities with unrealized losses, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position:

	March 31, 2018			
	Less Than 12 Months		12 Months or Longer	
(in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available-for-sale:				
Obligations of U.S. Government sponsored enterprises	$19,796	$ (275)	$—	$ —
Municipal securities	$1,808	$ (8)	$1,034	$ (34)
SBA pool securities	7,106	(207)	4,646	(189)
Residential mortgage-backed securities	10,968	(92)	4,998	(170)
Commercial mortgage-backed securities	11,785	(261)	11,610	(472)
Total available-for-sale	$51,463	$ (843)	$22,288	$ (865)
Investment securities held-to-maturity:				
Municipal securities	$6,838	$ (155)	$—	$ —
Residential mortgage-backed securities	$—	$ —	$7,248	$ (340)
Total held-to-maturity	$6,838	$ (155)	$7,248	$ (340)

	December 31, 2017			
	Less Than 12 Months		12 Months or Longer	
(in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available-for-sale:				
Obligations of U.S. Government sponsored enterprises	$14,974	$ (98)	$—	$ —
Municipal securities	—	—	1,050	(23)
SBA pool securities	3,285	(42)	4,979	(85)
Residential mortgage-backed securities	1,835	(8)	5,383	(68)
Commercial mortgage-backed securities	10,051	(89)	12,360	(265)
Total available-for-sale	$30,145	$ (237)	$23,772	$ (441)
Investment securities held-to-maturity:				
Residential mortgage-backed securities	—	—	7,652	(156)
Total held-to-maturity	$—	$ —	$7,652	$ (156)

At March 31, 2018, and December 31, 2017, the unrealized losses on investment securities were related to market interest rate fluctuations since purchase and not credit losses. Management does not have the intent to sell the temporarily impaired securities and it is not more likely than not that the Company will be required to sell the investments before recovery of the amortized cost, which may be maturity. The unrealized loss position has increased during 2017 and 2018, primarily in the mortgage-backed securities and SBA pool securities categories, and is the result of the increase in interest rates.

As part of the Company's evaluation of its intent and ability to hold investments for a period of time sufficient to allow for any anticipated recovery in the market, the Company considers its investment strategy, cash flow needs, liquidity position, capital adequacy and interest rate risk position.

Accordingly, as of March 31, 2018, management has reviewed its portfolio for other-than-temporary-impairment and believes the impairment detailed in the table above is temporary, and no other-than-temporary impairment loss has been recognized in the Company’s Consolidated Statements of Comprehensive Income. Management continues to monitor all of its securities with a high degree of scrutiny. There can be no assurance that the Company will not conclude in future periods that conditions existing at that time indicate some or all of these securities may be sold or are other than temporarily impaired, which would require a charge to earnings in such periods.

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The amortized cost and fair value of investment securities at March 31, 2018, and December 31, 2017, are categorized in the following table by remaining contractual maturity. The amortized cost and fair value of securities not due at a single maturity (i.e., mortgage-backed securities) are shown separately and are calculated based on estimated average remaining life:

(in thousands)	March 31, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Investment securities available-for-sale:				
Obligations of U.S. Government sponsored enterprises				
Due after one year through five years	$21,170	$20,913	$21,179	$21,160
Due after five years through ten years	1,003	1,043	1,003	1,065
Municipal securities				
Due after one year through five years	1,498	1,468	1,503	1,488
Due after five years through ten years	2,750	2,837	2,753	2,877
Due after ten years	5,054	5,187	5,062	5,270
SBA pool securities				
Due after five years through ten years	7,313	7,106	7,967	7,931
Due after ten years	4,835	4,646	5,064	4,979
Residential mortgage-backed securities	57,664	57,979	50,251	50,978
Commercial mortgage-backed securities	24,130	23,397	24,721	24,373
Total available-for-sale	$125,417	$124,576	$119,503	$120,121
Investment securities held-to-maturity:				
Municipal securities				
Due after five years through ten years	$1,588	$1,604	$1,588	$1,641
Due after ten years	6,993	6,839	7,000	7,000
Residential mortgage-backed securities	8,784	8,527	9,100	9,043
Commercial mortgage-backed securities	3,977	3,977	4,001	4,001
Total held-to-maturity	$21,342	$20,947	$21,689	$21,685

There was one investment security available-for-sale called, matured, or paid off during the three months ended March 31, 2018, and two investment securities called, matured, or paid off during the three months ended March 31, 2017. There were no gross gains or losses for the investment securities that were called, matured, or paid off during the three months ended March 31, 2018, or 2017.

There were no transfers from investment securities available-for-sale to investment securities held-to-maturity during the three months ended March 31, 2018, or 2017.

The following table summarizes the investment securities that were pledged as collateral at March 31, 2018, and December 31, 2017:

(in thousands)	March 31, 2018	December 31, 2017
Public deposits	$62,844	$ 60,415
Securities sold under repurchase agreements	25,551	19,485
Total pledged securities	$88,395	$ 79,900

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3. Loans Held-for-Sale

Residential mortgage loans held-for-sale are carried at fair value and SBA and indirect automobile loans held-for-sale are carried at the lower of cost or fair value. The following table summarizes loans held-for-sale at March 31, 2018, and December 31, 2017:

(in thousands)	March 31, 2018	December 31, 2017
Residential mortgage	$355,515	$ 269,140
SBA	19,785	13,615
Indirect automobile	50,000	75,000
Total loans held-for-sale	$425,300	$ 357,755

During the three months ended March 31, 2018, the Company transferred loans with unpaid principal balances of $1.7 million to the held for investment residential mortgage portfolio. During the three months ended March 31, 2017, no loans were transferred to the held for investment residential mortgage portfolio.

The Company had residential mortgage loans held-for-sale with unpaid principal balances of $220.6 million and $154.2 million pledged to the FHLB at March 31, 2018, and December 31, 2017, respectively.

4. Loans

Loans outstanding, by class, are summarized in the following table at carrying value and include net unamortized costs of $36.0 million and $35.9 million at March 31, 2018, and December 31, 2017, respectively. Acquired loans represent previously acquired loans, which include $2.2 million and $2.3 million in loans covered under Loss Share Agreements with the FDIC at March 31, 2018 and December 31, 2017, respectively. Legacy loans represent existing portfolio loans originated by the Bank prior to each acquisition, additional loans originated subsequent to each acquisition and Government National Mortgage Association ("GNMA") optional repurchase loans (collectively, “legacy loans”).

	March 31, 2018		
	Loans		
(in thousands)	Legacy	Acquired	Total
Commercial	$771,820	$125,477	$897,297
SBA	132,439	7,869	140,308
Total commercial loans	904,259	133,346	1,037,605
Construction	261,700	4,080	265,780
Indirect automobile	1,719,670	—	1,719,670
Installment loans and personal lines of credit	27,267	1,449	28,716
Total consumer loans	1,746,937	1,449	1,748,386
Residential mortgage	489,118	23,555	512,673
Home equity lines of credit	133,798	16,066	149,864
Total mortgage loans	622,916	39,621	662,537
Total loans	$3,535,812	$178,496	$3,714,308

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	December 31, 2017		
	Loans		
(in thousands)	Legacy	Acquired	Total
Commercial	$675,544	$135,655	$811,199
SBA	133,186	8,022	141,208
Total commercial loans	808,730	143,677	952,407
Construction	243,112	5,205	248,317
Indirect automobile	1,716,156	—	1,716,156
Installment loans and personal lines of credit	24,158	1,837	25,995
Total consumer loans	1,740,314	1,837	1,742,151
Residential mortgage	461,194	28,527	489,721
Home equity lines of credit	131,049	17,321	148,370
Total mortgage loans	592,243	45,848	638,091
Total loans	$3,384,399	$196,567	$3,580,966

The Company has extended loans to certain officers and directors. The Company does not believe these loans involve more than the normal risk of collectability or present other unfavorable features when originated. None of the related party loans were classified as nonaccrual, past due, restructured, or potential problem loans at March 31, 2018, or December 31, 2017.

Nonaccrual Loans

The accrual of interest income is generally discontinued when a loan becomes 90 days past due. Past due status is based on the contractual terms of the loan agreement. A loan may be placed on nonaccrual status sooner if reasonable doubt exists as to the full, timely collection of principal or interest. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is reversed against current period interest income. If a borrower on a residential mortgage loan previously sold makes no payment for three consecutive months, the Company, as servicer, may exercise its option to repurchase the delinquent loan from its securitized loan pool in an amount equal to 100% of the loan's remaining principal balance less the principal payments advanced to the pool prior to the buyback, in which case no previously accrued interest would be reversed since the loan was previously sold. Interest advanced to the pool prior to the buyback is capitalized for future reimbursement as part of the government guarantee. Subsequent interest collected on nonaccrual loans is recorded as a principal reduction. Nonaccrual loans are returned to accrual status when all contractually due principal and interest amounts are brought current and the future payments are reasonably assured.

Loans in nonaccrual status are presented by class of loans in the following table. The Company has repurchased certain Government National Mortgage Association ("GNMA") government-guaranteed loans, which are accounted for in nonaccrual status. The Company's loss exposure on government-guaranteed loans is mitigated by the government guarantee in whole or in part. Purchased credit impaired ("PCI") loans are considered to be performing due to the application of the accretion method and are excluded from the table.

(in thousands)	March 31, 2018	December 31, 2017
Commercial	$13,270	$ 11,314
SBA	4,592	2,503
Total commercial loans	17,862	13,817
Construction	4,338	4,520
Indirect automobile	1,535	1,912
Installment loans and personal lines of credit	436	440

Total consumer loans	1,971	2,352
Residential mortgage	30,650	23,169
Home equity lines of credit	3,885	3,154
Total mortgage loans	34,535	26,323
Total nonaccrual loans	$58,706	$ 47,012

If such nonaccrual loans had been on a full accrual basis, interest income on these loans for the three months ended March 31, 2018, and 2017, would have been $648,000 and $531,000, respectively. The amount of repurchased GNMA government-

guaranteed loans, primarily residential mortgage loans, included in the table above was $26.1 million and $19.5 million at March 31, 2018, and December 31, 2017, respectively.

Accruing loans delinquent 30-89 days, 90 days or more, and troubled debt restructured loans ("TDRs") accruing interest, including PCI loans, presented by class of loans at March 31, 2018, and December 31, 2017, were as follows:

(in thousands)	March 31, 2018			December 31, 2017		
	Accruing Delinquent 30-89 Days	Accruing Delinquent 90 Days or More	TDRs Accruing	Accruing Delinquent 30-89 Days	Accruing Delinquent 90 Days or More	TDRs Accruing
Commercial	$927	$ 7,257	$ 8,404	$3,821	$ 5,722	$ 8,468
SBA	4,417	63	1,446	5,560	70	3,800
Construction	286	48	—	—	102	—
Indirect automobile	2,257	—	2,132	3,971	87	1,960
Installment and personal lines of credit	247	—	30	449	—	33
Residential mortgage	6,581	347	395	7,447	268	495
Home equity lines of credit	980	13	53	831	64	51
Total	$15,695	$ 7,728	$ 12,460	$22,079	$ 6,313	$ 14,807

TDR Loans

During the three months ended March 31, 2018, a mortgage loan in the amount of $12,000 was modified for interest rate, and $1.1 million in loans were modified for term, which were mortgage and indirect auto loans. During the three months ended March 31, 2017, the amount of loans that were modified for interest rate was $187,000, which were all commercial loans. Modified PCI loans are not removed from their accounting pool and accounted for as TDRs, even if those loans would otherwise be deemed TDRs.

During the three months ended March 31, 2018, the amount of loans which were restructured in the past twelve months and subsequently redefaulted was $267,000 which was comprised of mortgage and indirect loans. During the three months ended March 31, 2017, the amount of loans which were restructured in the past twelve months and subsequently redefaulted was $195,000 which was comprised of commercial and indirect loans. The Company defines subsequently redefaulted as a payment default within 12 months of the restructuring date.

The Company had total TDRs with a balance of $21.0 million and $20.7 million at March 31, 2018, and December 31, 2017, respectively. There were no net charge-offs/recoveries of TDR loans for the three months ended March 31, 2018 and net charge-offs of $44,000 for the three months ended March 31, 2017. Net charge-offs on such loans are factored into the rolling historical loss rate, which is used in the calculation of the allowance for loan losses.

The Company is not committed to lend additional amounts to customers with outstanding loans classified as TDRs as of March 31, 2018 and December 31, 2017.

Pledged Loans

Presented in the following table is the unpaid principal balance of loans held for investment that were pledged to the Federal Home Loan Bank of Atlanta ("FHLB of Atlanta") as collateral for borrowings under a blanket lien arrangement at March 31, 2018, and December 31, 2017:

(in thousands)	March 31, 2018	December 31, 2017
Commercial	$248,844	$ 242,695
Home equity lines of credit	104,575	94,526
Residential mortgage	388,538	351,591
Total	$741,957	$ 688,812

Indirect automobile loans with an unpaid principal balance of approximately $330.0 million at March 31, 2018, and December 31, 2017, respectively, were pledged to the Federal Reserve Bank of Atlanta ("FRB") as collateral for potential Discount Window borrowings under a blanket lien arrangement.

Impaired Loans

The following tables present by class the unpaid principal balance, recorded investment and related allowance for impaired legacy loans and acquired non PCI loans at March 31, 2018, and December 31, 2017. Legacy impaired loans include all TDRs and all other nonaccrual loans, excluding nonaccrual loans below the Company's specific review threshold:

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(in thousands)	March 31, 2018 Unpaid Principal Balance	Recorded Investment[1]	Related Allowance	December 31, 2017 Unpaid Principal Balance	Recorded Investment[1]	Related Allowance
Impaired Loans with Allowance						
Commercial	$18,488	$ 17,634	$ 1,671	$11,877	$ 11,824	$ 839
SBA	3,637	2,753	259	6,634	5,664	294
Construction	—	—	—	—	—	—
Installment and personal lines of credit	336	283	214	343	290	219
Residential mortgage	5,107	5,058	612	4,838	4,799	616
Home equity lines of credit	1,539	1,416	728	831	745	633
Loans	$29,107	$ 27,144	$ 3,484	$24,523	$ 23,322	$ 2,601

(in thousands)	March 31, 2018 Unpaid Principal Balance	Recorded Investment[1]	December 31, 2017 Unpaid Principal Balance	Recorded Investment[1]
Impaired Loans with No Allowance				
Commercial	$8,265	$ 6,705	$14,839	$ 12,509
SBA	4,448	3,665	1,815	1,133
Construction	5,788	4,338	5,995	4,520
Installment and personal lines of credit	1,445	163	1,445	163
Residential mortgage	29,124	28,402	21,955	21,398
Home equity lines of credit	2,322	2,192	2,452	2,318
Loans	$51,392	$ 45,465	$48,501	$ 42,041

[1]The primary difference between the unpaid principal balance and recorded investment represents charge-offs previously taken; it excludes accrued interest receivable due to materiality. Related allowance is calculated on the recorded investment, not the unpaid principal balance.

Included in impaired loans with no allowance are $26.1 million and $19.5 million in government-guaranteed residential mortgage loans at March 31, 2018, and December 31, 2017, respectively. These loans are collateralized by first mortgages on the underlying real estate collateral and are individually reviewed for a specific allowance.

The average recorded investment in impaired loans and interest income recognized for the three months ended March 31, 2018, and 2017, by class, are summarized in the table below. Impaired loans include legacy impaired loans, all TDRs and all other nonaccrual loans including GNMA optional repurchase loans.

(in thousands)	Three Months Ended March 31, 2018 Average Recorded Investment	Interest Income Recognized	2017 Average Recorded Investment	Interest Income Recognized
Commercial	$24,282	$ 152	$20,155	$ 139
SBA	6,429	96	9,048	101
Construction	4,424	7	6,274	1
Indirect automobile	3,260	64	2,237	52
Installment and personal lines of credit	447	46	396	34
Residential mortgage	31,317	208	13,763	48
Home equity lines of credit	3,480	19	1,952	16
Total	$73,639	$ 592	$53,825	$ 391

Credit Quality Indicators

The Company uses an asset quality ratings system to assign a numeric indicator of the credit quality and level of existing credit risk inherent in a loan ranging from 1 to 8, where a higher rating represents higher risk. Management regularly reviews loans in the portfolio to assess credit quality indicators and to determine appropriate loan classification and grading in accordance with

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the Company’s internal loan policy. These ratings are adjusted periodically as the Company becomes aware of changes in the credit quality of the underlying loans through its ongoing monitoring of the credit quality of the loan portfolio. Indirect automobile loans typically receive a risk rating only when being downgraded to an adverse rating which typically occurs when payments of principal and interest are greater than 90 days past due. The Company uses a number of factors, including FICO scoring, to help evaluate the likelihood consumer borrowers will pay their credit obligations as agreed. The weighted-average FICO score for the indirect automobile portfolio was 777 and 762 at March 31, 2018, and December 31, 2017, respectively.

The following are definitions of the Company's loan rating categories:

•Pass – Pass loans include loans rated satisfactory with high, good, average or acceptable business and credit risk.

•Special Mention – A special mention loan has potential weaknesses that deserve management’s close attention.

•Substandard – A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. A substandard asset has a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt.

•Doubtful – Doubtful loans have all the weaknesses inherent in assets classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

•Loss – Loss loans are considered uncollectable and of such little value that their continuance as recorded assets is not warranted.

The following tables present the recorded investment in loans, by loan class and risk rating category, as of March 31, 2018, and December 31, 2017:

(in thousands)	March 31, 2018							
Asset Rating	Commercial	SBA	Construction	Indirect Automobile	Installment and Personal Lines of Credit	Residential Mortgage	Home Equity Lines of Credit	Total
Pass	$846,587	$129,164	$ 255,830	$—	$ 27,953	$476,283	$145,521	$1,881,338
Special Mention	20,333	6,912	5,556	—	232	1,029	141	34,203
Substandard	30,377	4,232	4,394	4,991	531	35,361	4,202	84,088
	897,297	140,308	265,780	4,991	28,716	512,673	149,864	1,999,629
Ungraded Performing	—	—	—	1,714,679	—	—	—	1,714,679
Total	$897,297	$140,308	$ 265,780	$1,719,670	$ 28,716	$512,673	$149,864	$3,714,308

(in thousands)	December 31, 2017							
Asset Rating	Commercial	SBA	Construction	Indirect Automobile	Installment and Personal Lines of Credit	Residential Mortgage	Home Equity Lines of Credit	Total
Pass	$758,271	$129,629	$ 235,987	$—	$ 25,229	$461,650	$145,082	$1,755,848
Special Mention	21,264	6,847	7,699	—	231	—	—	36,041
Substandard	31,664	4,732	4,631	4,972	535	28,071	3,288	77,893
	811,199	141,208	248,317	4,972	25,995	489,721	148,370	1,869,782
Ungraded Performing	—	—	—	1,711,184	—	—	—	1,711,184
Total	$811,199	$141,208	$ 248,317	$1,716,156	$ 25,995	$489,721	$148,370	$3,580,966

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Acquired Loans

The carrying amount and outstanding balance at March 31, 2018, of the PCI loans from acquisitions prior to 2017 was $24.3 million and $32.6 million, respectively, and $26.6 million and $35.3 million, respectively, at December 31, 2017.

Changes in the accretable yield, or income expected to be collected on PCI loans, for the three months ended March 31, 2018 and 2017, were as follows:

	For the Three Months Ended March 31,	
(in thousands)	2018	2017
Beginning balance	$3,005	$4,403
Accretion of income	(569)	(360)
Other activity, net [1]	880	—
Ending balance	$3,316	$4,043

[1]Includes changes in cash flows expected to be collected due to changes in timing of liquidation events, prepayment assumptions, etc.

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5. Allowance for Loan Losses

A summary of changes in the allowance for loan losses (“ALL”) by loan portfolio type is as follows:

	Three Months Ended March 31, 2018						
	Commercial Loans						
(in thousands)	Commercial	SBA	Construction	Consumer	Mortgage	Unallocated	Total
Beginning balance	$7,846	$1,968	$ 2,396	$10,758	$5,928	$ 876	$29,772
Charge-offs	—	(105)	—	(1,434)	(40)	—	(1,579)
Recoveries	(75)	5	364	309	14	—	617
Net (charge-offs) / recoveries	(75)						