HERITAGE FINANCIAL CORP /WA/
Form 10-Q
August 06, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 0-29480

HERITAGE FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Washington (State or other jurisdiction of incorporation or organization)	91-1857900 (I.R.S. Employer Identification No.)
201 Fifth Avenue SW, Olympia, WA (Address of principal executive offices)	98501 (Zip Code)

(360) 943-1500
(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, or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨	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 ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date:

As of July 30, 2015 there were 29,954,942 shares of the registrant's common stock, no par value per share, outstanding.

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FORWARD LOOKING STATEMENTS:

“Safe Harbor” statement under the Private Securities Litigation Reform Act of 1995: This Quarterly Report on Form 10-Q ("Form 10-Q") contains forward-looking statements that are subject to risks and uncertainties, including, but not limited to: our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we have acquired, including those from the Cowlitz Bank, Pierce Commercial Bank, Northwest Commercial Bank, Valley Community Bancshares and Washington Banking Company transactions described in this Form 10-Q, or may in the future acquire, into our operations and our ability to realize related revenue synergies and cost savings within expected time frames or at all, and any goodwill charges related thereto and costs or difficulties relating to integration matters, including but not limited to customer and employee retention, which might be greater than expected; the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in our allowance for loan losses and provision for loan losses that may be effected by deterioration in the housing and commercial real estate markets, which may lead to increased losses and non-performing assets in our loan portfolio, and may result in our allowance for loan losses no longer being adequate to cover actual losses, and require us to increase our allowance for loan losses; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, our net interest margin and funding sources; risks related to acquiring assets in or entering markets in which we have not previously operated and may not be familiar; fluctuations in the demand for loans, the number of unsold homes and other properties and fluctuations in real estate values in our market areas; results of examinations of us by the Board of Governors of the Federal Reserve System and of our bank subsidiary by the Federal Deposit Insurance Corporation ("FDIC"), the Washington State Department of Financial Institutions, Division of Banks or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our allowance for loan losses, write-down assets, or change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings; legislative or regulatory changes that adversely affect our business including changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules including as a result of Basel III; our ability to control operating costs and expenses; the impact of the Wall Street Reform and Consumer Protection Act and the implementing regulations; further increases in premiums for deposit insurance; the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risk associated with the loans on our Condensed Consolidated Statements of Financial Condition; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges; failure or security breach of computer systems on which we depend; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; our ability to implement our expansion strategy of pursuing acquisitions and de novo branching; increased competitive pressures among financial service companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and other risks detailed from time to time in our filings with the Securities and Exchange Commission including our Annual Report on Form 10-K for the year ended December 31, 2014.

The Company cautions readers not to place undue reliance on any forward-looking statements. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Company. The Company does not undertake and specifically disclaims any obligation to revise any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements. These risks could cause our actual results for future periods to differ materially from those expressed in any forward-looking statements by, or on behalf of, us, and could negatively affect the Company’s operating results and stock price performance.

As used throughout this report, the terms “we”, “our”, “us”, or the “Company” refer to Heritage Financial Corporation and its consolidated subsidiaries, unless the context otherwise requires.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
HERITAGE FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
June 30, 2015 and December 31, 2014
(Dollars in thousands)
(Unaudited)

	June 30, 2015	December 31, 2014
ASSETS		
Cash on hand and in banks	$62,540	$74,028
Interest earning deposits	22,772	47,608
Cash and cash equivalents	85,312	121,636
Other interest earning deposits	5,110	10,126
Investment securities available for sale, at fair value	699,122	742,846
Investment securities held to maturity (fair value of $34,494 and $36,874, respectively)	33,587	35,814
Loans held for sale	6,939	5,582
Noncovered loans receivable, net	2,239,621	2,124,877
Allowance for loan losses on noncovered loans	(22,779)	(22,153)
Noncovered loans receivable, net of allowance for loan losses	2,216,842	2,102,724
Covered loans receivable, net	107,681	126,200
Allowance for loan losses on covered loans	(5,499)	(5,576)
Covered loans receivable, net of allowance for loan losses	102,182	120,624
Total loans receivable, net	2,319,024	2,223,348
FDIC indemnification asset	388	1,116
Other real estate owned ($2,758 and $1,177 covered by FDIC shared-loss agreements, respectively)	3,017	3,355
Premises and equipment, net	63,968	64,938
Federal Home Loan Bank stock, at cost	4,148	12,188
Bank owned life insurance	60,579	35,176
Accrued interest receivable	9,883	9,836
Prepaid expenses and other assets	60,383	61,871
Other intangible assets, net	9,835	10,889
Goodwill	119,029	119,029
Total assets	$3,480,324	$3,457,750
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$2,946,487	$2,906,331
Junior subordinated debentures	19,278	19,082
Securities sold under agreement to repurchase	20,589	32,181
Accrued expenses and other liabilities	34,842	45,650
Total liabilities	3,021,196	3,003,244
Stockholders’ equity:		
Preferred stock, no par value, 2,500,000 shares authorized; no shares issued and outstanding at June 30, 2015 and December 31, 2014	—	—
Common stock, no par value, 50,000,000 shares authorized; 29,954,936 and 30,259,838 shares issued and outstanding at June 30, 2015 and December 31,	358,365	364,741

2014, respectively		
Retained earnings	98,565	86,387
Accumulated other comprehensive income, net	2,198	3,378
Total stockholders' equity	459,128	454,506
Total liabilities and stockholders' equity	$3,480,324	$3,457,750

See accompanying Notes to Condensed Consolidated Financial Statements.

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HERITAGE FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three and Six Months Ended June 30, 2015 and 2014
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
INTEREST INCOME:				
Interest and fees on loans	$30,554	$27,446	$61,035	$43,897
Taxable interest on investment securities	2,328	1,812	5,012	2,451
Nontaxable interest on investment securities	1,048	638	2,081	1,074
Interest and dividends on other interest earning assets	60	127	111	214
Total interest income	33,990	30,023	68,239	47,636
INTEREST EXPENSE:				
Deposits	1,309	1,297	2,626	2,151
Junior subordinated debentures	193	115	432	115
Other borrowings	18	15	37	33
Total interest expense	1,520	1,427	3,095	2,299
Net interest income	32,470	28,596	65,144	45,337
Provision for loan losses on noncovered loans	1,189	370	2,474	349
Provision for loan losses on covered loans	—	321	(77)	800
Total provision for loan losses	1,189	691	2,397	1,149
Net interest income after provision for loan losses	31,281	27,905	62,747	44,188
NONINTEREST INCOME:				
Service charges and other fees	3,687	2,777	6,982	4,175
Merchant Visa income, net	194	316	392	561
Change in FDIC indemnification asset	(304)	109	(497)	72
Gain on sale of investment securities, net	425	87	969	267
Gain on sale of loans, net	1,282	233	2,417	233
Other income	1,597	1,258	4,963	1,779
Total noninterest income	6,881	4,780	15,226	7,087
NONINTEREST EXPENSE:				
Compensation and employee benefits	13,842	12,779	28,067	20,790
Occupancy and equipment	3,850	2,816	7,541	5,433
Data processing	1,925	4,003	3,552	4,999
Marketing	1,063	496	1,696	1,001
Professional services	904	3,230	1,708	4,060
State and local taxes	569	554	1,189	803
Impairment loss on investment securities, net	—	37	—	45
Federal deposit insurance premium	523	460	1,038	712
Other real estate owned, net	200	214	859	266
Amortization of intangible assets	527	489	1,054	645
Other expense	2,676	1,915	5,413	3,018
Total noninterest expense	26,079	26,993	52,117	41,772
Income before income taxes	12,083	5,692	25,856	9,503
Income tax expense	3,358	1,544	7,352	2,812
Net income	$8,725	$4,148	$18,504	$6,691
Basic earnings per common share	$0.29	$0.16	$0.61	$0.32

Diluted earnings per common share	$0.29	$0.16	$0.61	$0.32
Dividends declared per common share	$0.11	$0.08	$0.21	$0.16

See accompanying Notes to Condensed Consolidated Financial Statements.

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HERITAGE FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three and Six Months Ended June 30, 2015 and 2014
(Dollars in thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$8,725	$4,148	$18,504	$6,691
Change in fair value of securities available for sale, net of tax of $(2,106), $1,089, $(402) and $1,410, respectively	(3,891)	2,022	(739)	2,615
Reclassification adjustment of net gain from sale of investment securities included in income, net of tax of $(149), $(30), $(339) and $(93), respectively	(276)	(57)	(630)	(174)
Accretion of other-than-temporary impairment on investment securities, net of tax of $1, $8, $4 and $16, respectively	3	15	11	30
Reclassification of other-than-temporary impairment on securities from sale of investment securities, net of tax $99, $0, $99, $0	178	—	178	—
Other comprehensive (loss) income	(3,986)	1,980	(1,180)	2,471
Comprehensive income	$4,739	$6,128	$17,324	$9,162

See accompanying Notes to Condensed Consolidated Financial Statements.

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HERITAGE FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Six Months Ended June 30, 2015 and 2014
(In thousands, except per share amounts)
(Unaudited)

	Number of common shares	Common stock	Retained earnings	Accumulated other comprehensive (loss) income, net	Total stock-holders' equity
Balance at December 31, 2013	16,211	$138,659	$78,265	$(1,162)	$215,762
Restricted and unrestricted stock awards issued, net of forfeitures	6	—	—	—	—
Stock option compensation expense	—	20	—	—	20
Exercise of stock options (including excess tax benefits from nonqualified stock options)	38	427	—	—	427
Restricted stock compensation expense	—	539	—	—	539
Excess tax benefits from restricted stock	—	33	—	—	33
Common stock repurchased	(17)	(271)	—	—	(271)
Net income	—	—	6,691	—	6,691
Other comprehensive income, net of tax	—	—	—	2,471	2,471
Common stock issued in business combination	13,975	226,751	—	—	226,751
Cash dividends declared on common stock ($0.16 per share)	—	—	(2,594)	—	(2,594)
Balance at June 30, 2014	30,213	$366,158	$82,362	$1,309	$449,829
Balance at December 31, 2014	30,260	$364,741	$86,387	$3,378	$454,506
Restricted and unrestricted stock awards issued, net of forfeitures	116	—	—	—	—
Exercise of stock options (including excess tax benefits from nonqualified stock options)	43	541	—	—	541
Restricted stock compensation expense	—	716	—	—	716
Excess tax benefits from restricted stock	—	90	—	—	90
Common stock repurchased	(464)	(7,723)	—	—	(7,723)
Net income	—	—	18,504	—	18,504
Other comprehensive loss, net of tax	—	—	—	(1,180)	(1,180)
Cash dividends declared on common stock ($0.21 per share)	—	—	(6,326)	—	(6,326)
Balance at June 30, 2015	29,955	$358,365	$98,565	$2,198	$459,128

See accompanying Notes to Condensed Consolidated Financial Statements.

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HERITAGE FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2015 and 2014
(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30, 2015	2014
Cash flows from operating activities:		
Net income	$18,504	$6,691
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,670	4,829
Changes in net deferred loan fees, net of amortization	(1,001)	(393)
Provision for loan losses	2,397	1,149
Net change in accrued interest receivable, FDIC indemnification asset, prepaid expenses and other assets, accrued expenses and other liabilities	(7,672)	(3,176)
Restricted and unrestricted stock compensation expense	716	539
Stock option compensation expense	—	20
Excess tax benefits from stock options and restricted and unrestricted stock	(90)	(33)
Amortization of intangible assets	1,054	645
Gain on sale of investment securities, net	(969)	(267)
Impairment loss on investment of securities, net	—	45
Origination of loans held for sale	(66,257)	(12,592)
Gain on sale of loans, net	(2,417)	(233)
Proceeds from sale of loans held for sale	67,317	9,329
Earnings on bank owned life insurance	(403)	(95)
Valuation adjustment on other real estate owned	415	—
Loss (gain) on sale of other real estate owned, net	97	(65)
Loss on sale or write-off of furniture, equipment and leasehold improvements	—	421
Net cash provided by operating activities	18,361	6,814
Cash flows from investing activities:		
Loans originated, net of principal payments	(98,885)	4,969
Maturities of other interest earning deposits	4,986	1,494
Maturities of investment securities available for sale	56,700	17,916
Maturities of investment securities held to maturity	1,235	521
Purchase of investment securities available for sale	(81,755)	(206,075)
Purchase of investment securities held to maturity	—	(3,313)
Purchase of premises and equipment	(979)	(1,978)
Proceeds from sales of other real estate owned	1,639	3,857
Proceeds from sales of investment securities available for sale	64,432	157,987
Proceeds from redemption of FHLB stock	8,040	258
Purchase of bank owned life insurance	(25,000)	—
Investment in new market tax credit partnership	—	(25,000)
Investment in low-income housing tax credit partnership	(244)	—
Net cash received from acquisitions	—	31,591
Net cash (used in) provided by investing activities	(69,831)	(17,773)

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	Six Months Ended June 30, 2015	2014
Cash flows from financing activities:		
Net increase in deposits	40,156	33,459
Common stock cash dividends paid	(6,326)	(2,594)
Net decrease in securities sold under agreement to repurchase	(11,592)	(3,970)
Proceeds from exercise of stock options	541	427
Excess tax benefits from stock options and restricted and unrestricted stock	90	33
Repurchase of common stock	(7,723)	(271)
Net cash (used in) provided by financing activities	15,146	27,084
Net (decrease) increase in cash and cash equivalents	(36,324)	16,125
Cash and cash equivalents at beginning of period	121,636	130,400
Cash and cash equivalents at end of period	$85,312	$146,525
Supplemental disclosures of cash flow information:		
Cash paid for interest	$2,923	$1,848
Cash paid for income taxes	9,805	7,000
Supplemental non-cash disclosures of cash flow information:		
Transfers of loans receivable to other real estate owned	$1,813	$218
Common stock issued for business combinations	—	226,751
Assets acquired (liabilities assumed) in acquisitions:		
Investment securities available for sale	—	458,312
Loans held for sale	—	3,923
Noncovered loans receivable	—	893,824
Covered loans receivable	—	109,693
Other real estate owned	—	7,121
Premises and equipment	—	31,776
Federal Home Loan Bank stock	—	7,064
FDIC indemnification asset	—	7,047
Accrued interest receivable	—	4,943
Bank owned life insurance	—	32,519
Prepaid expenses and other assets	—	14,942
Other intangible assets	—	11,194
Deposits	—	(1,433,894)
Junior subordinated debentures	—	(18,937)
Accrued expenses and other liabilities	—	(23,551)

See accompanying Notes to Condensed Consolidated Financial Statements.

HERITAGE FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended June 30, 2015 and 2014
(Unaudited)

(1) Description of Business, Basis of Presentation, Significant Accounting Policies and Recently Issued Accounting Pronouncements

(a) Description of Business

Heritage Financial Corporation ("Heritage" or the “Company”) is a bank holding company that was incorporated in the State of Washington in August 1997. The Company is primarily engaged in the business of planning, directing and coordinating the business activities of its wholly-owned subsidiary, Heritage Bank (the “Bank”). The Bank is a Washington-chartered commercial bank and its deposits are insured by the FDIC under the Deposit Insurance Fund. The Bank is headquartered in Olympia, Washington and conducts business from its 67 branch offices located throughout Washington State and the greater Portland, Oregon area. The Bank’s business consists primarily of commercial lending and deposit relationships with small businesses and their owners in its market areas and attracting deposits from the general public. The Bank also makes real estate construction and land development loans and consumer loans and originates first mortgage loans on residential properties primarily located in its market area.

The Company has expanded its footprint through mergers and acquisitions. The largest of these transactions was the strategic merger with Washington Banking Company (“Washington Banking”) and its wholly owned subsidiary bank, Whidbey Island Bank ("Whidbey"). Effective May 1, 2014, Washington Banking merged with and into Heritage and Whidbey merged with and into Heritage Bank and this transaction is referred to herein as the "Washington Banking Merger". In connection with the Washington Banking Merger, Heritage also acquired as a subsidiary the Washington Banking Master Trust, a Delaware statutory business trust. Pursuant to the merger agreement, Heritage assumed the performance and observance of the covenants to be performed by Washington Banking under an indenture relating to $25.0 million in trust preferred securities issued in 2007 and the due and punctual payment of the principal of and premium and interest on such trust preferred securities. For additional information, see Note 9, Junior Subordinated Debentures.

(b) Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the accounting principles generally accepted in the United States (“GAAP”) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. It is recommended that these unaudited Condensed Consolidated Financial Statements and accompanying Notes be read with the audited Consolidated Financial Statements and the accompanying Notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (“2014 Annual Form 10-K”). In management's opinion, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. In preparing the unaudited Condensed Consolidated Financial Statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosures. Estimates related to the allowance for loan losses, other than temporary impairments in the fair value of investment securities, expected cash flows of purchased credit impaired loans and related indemnification asset, fair value measurements, stock-based compensation, impairment of goodwill and other intangible assets and income taxes are particularly subject to change. Management believes that the judgments, estimates and assumptions used in the preparation of the financial statements are appropriate based on the facts and circumstances at the time. Actual results, however, could differ from those estimates.

Certain prior period amounts have been reclassified to conform to the current period’s presentation. Reclassifications had no effect on prior periods' net income or stockholders’ equity.

(c) Significant Accounting Policies

The significant accounting policies used in preparation of the Company's Condensed Consolidated Financial Statements are disclosed in the 2014 Annual Form 10-K. There have not been any material changes in the Company's significant accounting policies from those contained in the 2014 Annual Form 10-K.

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(d) Recently Issued Accounting Pronouncements

Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU" or "Update") 2014-09, Revenue from Contracts with Customers, was issued in May 2014. Under this Update, FASB created a new Topic 606 which is in response to a joint initiative of FASB and the International Accounting Standards Board to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and international financial reporting standards that would:

- Remove inconsistencies and weaknesses in revenue requirements.
- Provide a more robust framework for addressing revenue issues.
- Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.
- Provide more useful information to users of financial statements through improved disclosure requirements.
- Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer.

The Update is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted. The Company is currently evaluating the impact that this Update will have on its Condensed Consolidated Financial Statements.

FASB ASU 2014-11, Transfers and Servicing: Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures, was issued in June 2014. This Update aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements, such as secured borrowings. The guidance eliminates sale accounting and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement. The Update requires new and expanded disclosures that are effective for interim or annual reporting periods beginning after December 15, 2014, with certain requirements applicable for periods beginning after March 31, 2015. The adoption of this Update did not have a material impact on the Company's Condensed Consolidated Financial Statements.

(2) Investment Securities

The Company’s investment policy is designed primarily to provide and maintain liquidity, generate a favorable return on assets without incurring undue interest rate and credit risk, and complement the Bank’s lending activities. Securities are classified as either available for sale or held to maturity when acquired.

(a) Securities by Type and Maturity

The amortized cost, gross unrealized gains, gross unrealized losses and fair values of investment securities available for sale at the dates indicated were as follows:

	Securities Available for Sale June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. Treasury and U.S. Government-sponsored agencies	$26,339	$113	$(6)	$26,446
Municipal securities	172,837	2,246	(873)	174,210
Mortgage backed securities and collateralized mortgage obligations-residential:				
U.S. Government-sponsored agencies	488,356	3,199	(1,285)	490,270
Corporate obligations	6,243	—	(12)	6,231
Mutual funds and other equities	1,956	9	—	1,965
Total	$695,731	$5,567	$(2,176)	$699,122

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	Securities Available for Sale December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. Treasury and U.S. Government-sponsored agencies	$21,414	$44	$(31)	$21,427
Municipal securities	170,082	3,139	(184)	173,037
Mortgage backed securities and collateralized mortgage obligations-residential:				
U.S. Government agencies	539,859	4,015	(1,475)	542,399
Corporate obligations	4,034	—	(24)	4,010
Mutual funds and other equities	1,956	17	—	1,973
Total	$737,345	$7,215	$(1,714)	$742,846

The amortized cost, gross unrecognized gains, gross unrecognized losses and fair values of investment securities held to maturity at the dates indicated were as follows:

	Securities Held to Maturity June 30, 2015			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
	(In thousands)			
U.S. Treasury and U.S. Government-sponsored agencies	$1,582	$158	$—	$1,740
Municipal securities	21,927	553	(24)	22,456
Mortgage backed securities and collateralized mortgage obligations-residential:				
U.S. Government-sponsored agencies	10,078	313	(93)	10,298
Private residential collateralized mortgage obligations	—	—	—	—
Total	$33,587	$1,024	$(117)	$34,494

	Securities Held to Maturity December 31, 2014			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
	(In thousands)			
U.S. Treasury and U.S. Government-sponsored agencies	$1,591	$167	$—	$1,758
Municipal securities	22,486	643	(11)	23,118
Mortgage backed securities and collateralized mortgage obligations-residential:				
U.S. Government-sponsored agencies	10,866	364	(74)	11,156
Private residential collateralized mortgage obligations	871	75	(104)	842
Total	$35,814	$1,249	$(189)	$36,874

There were no securities classified as trading at June 30, 2015 or December 31, 2014.

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The amortized cost and fair value of securities at June 30, 2015, by contractual maturity, are set forth below. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in one year or less	$3,543	$3,555	$3,005	$3,019
Due after one year through three years	32,677	32,854	3,749	3,779
Due after three years through five years	34,919	35,246	6,911	7,211
Due after five years through ten years	148,604	149,692	16,745	17,331
Due after ten years	474,032	475,810	3,177	3,154
Investment securities with no stated maturities	1,956	1,965	—	—
Total	$695,731	$699,122	$33,587	$34,494

(b) Unrealized Losses and Other-Than-Temporary Impairments

Available for sale investment securities with unrealized losses as of June 30, 2015 and December 31, 2014 were as follows:

	Securities Available for Sale June 30, 2015					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Treasury and U.S. Government-sponsored agencies	$4,584	$(6)	$—	$—	$4,584	$(6)
Municipal securities	$54,568	$(855)	$1,460	$(18)	$56,028	$(873)
Mortgage backed securities and collateralized mortgage obligations-residential:						
U.S. Government-sponsored agencies	104,716	(569)	49,465	(716)	154,181	(1,285)
Corporate obligations	6,231	(12)	—	—	6,231	(12)
Total	$170,099	$(1,442)	$50,925	$(734)	$221,024	$(2,176)

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	Securities Available for Sale December 31, 2014					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Treasury and U.S. Government-sponsored agencies	$3,567	$(31)	$—	$—	$3,567	$(31)
Municipal securities	25,176	(184)	—	—	25,176	(184)
Mortgage backed securities and collateralized mortgage obligations-residential:						
U.S. Government-sponsored agencies	182,970	(1,475)	—	—	182,970	(1,475)
Corporate obligations	2,119	(24)	—	—	2,119	(24)
Total	$213,832	$(1,714)	$—	$—	$213,832	$(1,714)

Held to maturity investment securities with unrecognized losses as of June 30, 2015 and December 31, 2014 were as follows:

	Securities Held to Maturity June 30, 2015					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
	(In thousands)					
Municipal securities	$1,094	$(24)	$—	$—	$1,094	$(24)
Mortgage backed securities and collateralized mortgage obligations-residential:						
U.S. Government-sponsored agencies	—	—	2,009	(93)	2,009	(93)
Total	$1,094	$(24)	$2,009	$(93)	$3,103	$(117)

	Securities Held to Maturity December 31, 2014					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
	(In thousands)					
Municipal securities	$2,196	$(11)	$—	$—	$2,196	$(11)
Mortgage backed securities and collateralized mortgage obligations-residential:						
U.S. Government-sponsored agencies	2,553	(74)	—	—	2,553	(74)

Private residential collateralized mortgage obligations	558	(104	)	—	—	558	(104	)
Total	$5,307	$(189	)	$—	$—	$5,307	$(189	)

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The Company has evaluated these securities and has determined that, other than certain private residential collateralized mortgage obligations discussed below, the decline in their value is temporary. The unrealized losses are primarily due to increases in market interest rates and larger spreads in the market for mortgage-related products. The fair value of these securities is expected to recover as the securities approach their maturity date and/or as the pricing spreads narrow on mortgage-related securities. The Company has the ability and intent to hold the investments until recovery of the market value which may be the maturity date of the securities.

During the three months ended June 30, 2015, the Company sold its entire portfolio of private residential collateralized mortgage obligations with a carrying value of $829,000, all of which were classified as held-to-maturity. Since acquisition these securities had been downgraded below the Company's acceptable investment grades. As of result of these downgrades and the effects of Basel III on the risk-weighting of sub-investment grade securities, the Company's intent to hold these securities changed and management elected to divest of its interest in the downgraded securities. The Company recorded a realized loss of $125,000 on this sale. The Company's intent and ability to hold the remaining held-to-maturity securities was not impacted by this sale.

Prior to the sale of the securities noted above, to analyze the unrealized losses, the Company estimated expected future cash flows of the private residential collateralized mortgage obligations by estimating the expected future cash flows of the underlying collateral and applying those collateral cash flows, together with any credit enhancements such as subordinated interests owned by third parties, to the security. The expected future cash flows of the underlying collateral are determined using the remaining contractual cash flows adjusted for future expected credit losses (which considers current delinquencies and nonperforming assets, future expected default rates and collateral value by vintage and geographic region) and prepayments. The expected cash flows of the security are then discounted at the interest rate used to recognize interest income on the security to arrive at a present value amount. The average prepayment rate and average discount rate used in the valuation of the present value as of June 30, 2014 were 6.0% and 9.4%, respectively.

For the six months ended June 30, 2015, there were no private residential collateralized mortgage obligations determined to be other-than-temporarily impaired and the Company recorded no unrealized losses for the six months ended June 30, 2015 in earnings or other comprehensive income. In comparison, for the six months ended June 30, 2014, there were four private residential collateralized mortgage obligations determined to be other-than-temporarily impaired. All unrealized losses for the three and six months ended June 30, 2014 were deemed to be credit related, and the Company recorded the impairment in earnings.

The following table summarizes activity for the six months ended June 30, 2014 related to the amount of impairments on held to maturity securities:

	Life-to-Date Gross Other-Than-Temporary Impairments	Life-to-Date Other-Than-Temporary Impairments Included in Other Comprehensive Income	Life-to-Date Net Other-Than-Temporary Impairments Included in Earnings
	(In thousands)		
December 31, 2013	$2,603	$1,152	$1,451
Subsequent impairments	45	—	45
June 30, 2014	$2,648	$1,152	$1,496

(c) Pledged Securities

The following table summarizes the amortized cost and fair value of available for sale and held to maturity securities that are pledged as collateral for the following obligations at June 30, 2015 and December 31, 2014:

	June 30, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Washington and Oregon state to secure public deposits	$195,548	$197,810	$150,507	$153,785
Federal Reserve Bank of San Francisco and FHLB to secure borrowing arrangements	512	513	4,430	4,460
Repurchase agreements	31,612	31,801	43,676	44,457
Other securities pledged	15,073	15,162	14,828	14,922
Total	$242,745	$245,286	$213,441	$217,624

At June 30, 2015 and December 31, 2014, the total carrying value of pledged securities was $245.0 million and $216.7 million, respectively.

(3) Noncovered Loans Receivable

The Company originates loans in the ordinary course of business and has also acquired loans through FDIC-assisted and open bank transactions. Loans that are not covered by FDIC shared-loss agreements are referred to as "noncovered loans." Disclosures related to the Company’s recorded investment in noncovered loans receivable generally exclude accrued interest receivable and net deferred loan origination fees and costs because they are insignificant.

Loans acquired in a business combination may be further classified as “purchased” loans. Loans purchased with evidence of credit deterioration since origination for which it is probable that not all contractually required payments will be collected are accounted for under FASB Accounting Standards Codification ("ASC") 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. These loans are identified as “purchased credit impaired” ("PCI") loans. Loans purchased that are not accounted for under FASB ASC 310-30 are accounted for under FASB ASC 310-20, Receivables—Nonrefundable Fees and Other Costs and are referred to as "non-PCI" loans.

(a) Loan Origination/Risk Management

The Company categorizes loans in one of the four segments of the total loan portfolio: commercial business, one-to-four family residential, real estate construction and land development and consumer. Within these segments are classes of loans to which management monitors and assesses credit risk in the loan portfolios. The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies, and nonperforming and potential problem loans. The Company also conducts internal loan reviews and validates the credit risk assessment on a periodic basis and presents the results of these reviews to management. The loan review process complements and reinforces the risk identification and assessment decisions made by loan officers and credit personnel, as well as the Company’s policies and procedures.

A discussion of the risk characteristics of each loan portfolio segment is as follows:

Commercial Business:

There are three significant classes of loans in the commercial portfolio segment: commercial and industrial loans, owner-occupied commercial real estate and non-owner occupied commercial real estate. The owner and non-owner occupied commercial real estate are both considered commercial real estate loans. As the commercial and industrial loans carry different risk characteristics than the commercial real estate loans, they are discussed separately below.

Commercial and industrial. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may include a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

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Commercial real estate. The Company originates commercial real estate loans within its primary market areas. These loans are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate involves more risk than other classes of loans in that the lending typically involves higher loan principal amounts, and payments on loans secured by real estate properties are dependent on successful operation and management of the properties. Repayment of these loans may be more adversely affected by conditions in the real estate market or the economy. Owner-occupied commercial real estate loans are generally of lower credit risk than non-owner occupied commercial real estate loans as the borrowers' businesses are likely dependent on the properties.

One-to-Four Family Residential:

The majority of the Company's one-to-four family residential loans are secured by single-family residences located in its primary market areas. The Company's underwriting standards require that single-family portfolio loans generally are owner-occupied and do not exceed 80% of the lower of appraised value at origination or cost of the underlying collateral. Terms of maturity typically range from 15 to 30 years. Historically, the Company sold most single-family loans in the secondary market and retained a smaller portion in its loan portfolio. From the second quarter of 2013 until May 1, 2014, the Company only originated single-family loans for its loan portfolio. As a result of the Washington Banking Merger, since May 1, 2014 the Company is originating and selling a majority of its single-family mortgages.

Real Estate Construction and Land Development:

The Company originates construction loans for one-to-four family residential and for five or more family residential and commercial properties. The one-to-four family residential construction loans generally include construction of custom homes whereby the home buyer is the borrower. The Company also provides financing to builders for the construction of pre-sold homes and, in selected cases, to builders for the construction of speculative residential property. Substantially all construction loans are short-term in nature and priced with variable rates of interest. Construction lending can involve a higher level of risk than other types of lending because funds are advanced partially based upon the value of the project, which is uncertain prior to the project's completion. Because of the uncertainties inherent in estimating construction costs as well as the market value of a completed project and the effects of governmental regulation of real property, the Company's estimates with regard to the total funds required to complete a project and the related loan-to-value ratio may vary from actual results. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property or refinance the indebtedness. If the Company's estimate of the value of a project at completion proves to be overstated, it may have inadequate security for repayment of the loan and may incur a loss if the borrower does not repay the loan. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being dependent upon successful completion of the construction project, interest rate changes, government regulation of real property, general economic conditions and the availability of long-term financing.

Consumer:

The Company originates consumer loans and lines of credit that are both secured and unsecured. The underwriting process for these loans ensures a qualifying primary and secondary source of repayment. Underwriting standards for home equity loans are significantly influenced by statutory requirements, which include, but are not limited to, a maximum loan-to-value percentage of 80%, collection remedies, the number of such loans a borrower can have at one time and documentation requirements. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed. The majority of consumer loans are for relatively small amounts disbursed among many individual borrowers which reduces the credit risk for this type of loan. To further reduce the risk, trend reports are reviewed by management on a regular basis.

As a result of the Washington Banking Merger, the Company is originating indirect consumer loans. These loans are for new and used automobile and recreational vehicles that are originated indirectly by selected dealers located in the Company's market areas. The Company has limited its purchase of indirect loans primarily to dealerships that are established and well known in their market areas and to applicants that are not classified as sub-prime.

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Noncovered loans receivable at June 30, 2015 and December 31, 2014 consisted of the following portfolio segments and classes:

	June 30, 2015	December 31, 2014
	(In thousands)	
Commercial business:		
Commercial and industrial	$551,989	$551,343
Owner-occupied commercial real estate	565,721	535,742
Non-owner occupied commercial real estate	676,872	616,757
Total commercial business	1,794,582	1,703,842
One-to-four family residential	67,083	63,540
Real estate construction and land development:		
One-to-four family residential	41,693	46,749
Five or more family residential and commercial properties	66,024	61,360
Total real estate construction and land development	107,717	108,109
Consumer	270,175	250,323
Gross noncovered loans receivable	2,239,557	2,125,814
Net deferred loan fees	64	(937)
Noncovered loans receivable, net	2,239,621	2,124,877
Allowance for loan losses	(22,779)	(22,153)
Noncovered loans receivable, net of allowance for loan losses	$2,216,842	$2,102,724

(b) Concentrations of Credit

Most of the Company’s lending activity occurs within Washington State, and to a lesser extent Oregon. The Company’s primary market areas are concentrated along the I-5 corridor from Whatcom County to Clark County in Washington State and Multnomah County in Oregon, as well as other contiguous markets. The Washington Banking Merger allowed the expansion of the Company's market area north of Seattle, Washington to the Canadian border. The majority of the Company’s loan portfolio consists of (in order of balances at June 30, 2015) non-owner occupied commercial real estate, owner-occupied commercial real estate and commercial and industrial. As of June 30, 2015 and December 31, 2014, there were no concentrations of loans related to any single industry in excess of 10% of the Company’s total loans.

(c) Credit Quality Indicators

As part of the on-going monitoring of the credit quality of the Company’s loan portfolio, management tracks certain credit quality indicators including trends related to (i) the risk grade of the loans, (ii) the level of classified loans, (iii) net charge-offs, (iv) nonperforming loans, and (v) the general economic conditions of the United States of America, and specifically the states of Washington and Oregon. The Company utilizes a risk grading matrix to assign a risk grade to each of its loans. Loans are graded on a scale of 0 to 10. A description of the general characteristics of the risk grades is as follows:

- Grades 0 to 5: These grades are considered “pass grade” and include loans with negligible to above average but acceptable risk. These borrowers generally have strong to acceptable capital levels and consistent earnings and debt service capacity. Loans with the higher grades within the “pass” category may include borrowers who are experiencing unusual operating difficulties, but have acceptable payment performance to date. Increased monitoring of financials and/or collateral may be appropriate. Loans with this grade show no immediate loss exposure.
- Grade 6: This grade includes "Watch" loans and is considered a “pass grade”. The grade is intended to be utilized on a temporary basis for pass grade borrowers where a potentially significant risk-modifying action is anticipated in the near term.
- Grade 7: This grade includes “Other Assets Especially Mentioned” (“OAEM”) loans in accordance with regulatory guidelines, and is intended to highlight loans with elevated risks. Loans with this grade show signs of deteriorating profits and capital, and the borrower might not be strong enough to sustain a major setback. The borrower is typically higher than normally leveraged, and outside support might

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be modest and likely illiquid. The loan is at risk of further decline unless active measures are taken to correct the situation.

- Grade 8: This grade includes “Substandard” loans in accordance with regulatory guidelines, which the Company has determined have a high credit risk. These loans also have well-defined weaknesses which make payment default or principal exposure likely, but not yet certain. The borrower may have shown serious negative trends in financial ratios and performance. Such loans may be dependent upon collateral liquidation, a secondary source of repayment or an event outside of the normal course of business. Loans with this grade can be placed on accrual or nonaccrual status based on the Company’s accrual policy.
- Grade 9: This grade includes “Doubtful” loans in accordance with regulatory guidelines, and the Company has determined these loans to have excessive credit risk. Such loans are placed on nonaccrual status and may be dependent upon collateral having a value that is difficult to determine or upon some near-term event which lacks certainty. Additionally, these loans generally have a specific valuation allowance or have been partially charged-off for the amount considered uncollectible.
- Grade 10: This grade includes “Loss” loans in accordance with regulatory guidelines, and the Company has determined these loans have the highest risk of loss. Such loans are charged-off or charged-down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. “Loss” is not intended to imply that the loan or some portion of it will never be paid, nor does it in any way imply that there has been a forgiveness of debt.

Numerical loan grades for all commercial business loans and real estate construction and land development loans are established at the origination of the loan. Prior to November 2014, one-to-four family residential loans and consumer loans (“non-commercial loans”) were not numerically graded at origination date as these loans were determined to be “pass graded” loans. A numeric grade was assigned to these non-commercial loans if subsequent to origination, the credit department evaluated the credit and determined it necessary to classify the loan. Subsequent to November 2014, non-commercial loans were designated a loan grade “4” at origination date to reflect a "pass grade". The Bank follows the FDIC’s Uniform Retail Credit Classification and Account Management Policy for subsequent classification in the event of payment delinquencies or default. Loan grades are reviewed on a quarterly basis, or more frequently if necessary, by the credit department. Typically, an individual loan grade will not be changed from the prior period unless there is a specific indication of credit deterioration or improvement. Credit deterioration is evidenced by delinquency, direct communications with the borrower, or other borrower information that becomes known to management. Credit improvements are evidenced by known facts regarding the borrower or the collateral property.

The loan grades relate to the likelihood of losses in that the higher the grade, the greater the loss potential. Loans with a pass grade may have some estimated inherent losses, but to a lesser extent than the other loan grades. The OAEM loan grade is transitory in that the Company is waiting on additional information to determine the likelihood and extent of the potential loss. The likelihood of loss for OAEM graded loans, however, is greater than Watch graded loans because there has been measurable credit deterioration. Loans with a Substandard grade are generally loans for which the Company has individually analyzed for potential impairment. For Doubtful and Loss graded loans, the Company is almost certain of the losses, and the unpaid principal balances are generally charged-off to the realizable value.

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The following tables present the balance of the noncovered loans receivable by credit quality indicator as of June 30, 2015 and December 31, 2014.

	June 30, 2015				
	Pass	OAEM	Substandard	Doubtful	Total
	(In thousands)				
Commercial business:					
Commercial and industrial	$522,215	$10,389	$19,073	$312	$551,989
Owner-occupied commercial real estate	545,857	8,136	11,728	—	565,721
Non-owner occupied commercial real estate	641,385	19,603	15,884	—	676,872
Total commercial business	1,709,457	38,128	46,685	312	1,794,582
One-to-four family residential	64,953	—	2,130	—	67,083
Real estate construction and land development:					
One-to-four family residential	32,316	1,465	7,912	—	41,693
Five or more family residential and commercial properties	62,048	—	3,976	—	66,024
Total real estate construction and land development	94,364	1,465	11,888	—	107,717
Consumer	263,731	—	6,444	—	270,175
Gross noncovered loans	$2,132,505	$39,593	$67,147	$312	$2,239,557

	December 31, 2014				
	Pass	OAEM	Substandard	Doubtful	Total
	(In thousands)				
Commercial business:					
Commercial and industrial	$509,483	$14,487	$27,049	$324	$551,343
Owner-occupied commercial real estate	496,234	22,946	16,562	—	535,742
Non-owner occupied commercial real estate	584,262	17,643	14,852	—	616,757
Total commercial business	1,589,979	55,076	58,463	324	1,703,842
One-to-four family residential	61,185	315	2,040	—	63,540
Real estate construction and land development:					
One-to-four family residential	34,356	3,977	8,416	—	46,749
Five or more family residential and commercial properties	57,025	—	4,335	—	61,360
Total real estate construction and land development	91,381	3,977	12,751	—	108,109
Consumer	242,836	—	7,487	—	250,323
Gross noncovered loans	$1,985,381	$59,368	$80,741	$324	$2,125,814

Noncovered potential problem loans are loans classified as OAEM or worse that are currently accruing interest and are not considered impaired, but which management is monitoring because the financial information of the borrower causes concern as to their ability to meet their loan repayment terms. Noncovered potential problem loans also include PCI loans as these loans continue to accrete loan discounts established at acquisition based on the guidance of ASC

310-30. Noncovered potential problem loans as of June 30, 2015 and December 31, 2014 were $86.2 million and $117.3 million, respectively. The balance of noncovered potential problem loans guaranteed by a governmental agency, which guarantee reduces the Company's credit exposure, was $501,000 and $2.0 million as of June 30, 2015 and December 31, 2014, respectively.

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(d) Nonaccrual Loans

Nonaccrual noncovered loans, segregated by segments and classes of loans, were as follows as of June 30, 2015 and December 31, 2014:

	June 30, 2015	December 31, 2014
	(In thousands)	
Commercial business:		
Commercial and industrial	$2,533	$3,463
Owner-occupied commercial real estate	1,957	1,163
Non-owner occupied commercial real estate	—	93
Total commercial business	4,490	4,719
One-to-four family residential	—	—
Real estate construction and land development:		
One-to-four family residential	2,489	2,652
Total real estate construction and land development	2,489	2,652
Consumer	19	139
Gross nonaccrual noncovered loans	$6,998	$7,510

The Company had $1.7 million and $1.6 million of nonaccrual noncovered loans guaranteed by governmental agencies at June 30, 2015 and December 31, 2014, respectively.

PCI noncovered loans are not included in the nonaccrual loan table above because these loans are accounted for under ASC 310-30, which provides that accretable yield is calculated based on a loan's expected cash flow even if the loan is not performing under its conventional terms.

(e) Past due loans

The Company performs an aging analysis of past due loans using the categories of 30-89 days past due and 90 or more days past due. This policy is consistent with regulatory reporting requirements.

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The balances of past due noncovered loans, segregated by segments and classes of loans, as of June 30, 2015 and December 31, 2014 were as follows:

	June 30, 2015					
	30-89 Days	90 Days or Greater	Total Past Due	Current	Total	90 Days or More and Still Accruing (1)
	(In thousands)					
Commercial business:						
Commercial and industrial	$1,194	$1,690	$2,884	$549,105	$551,989	$ —
Owner-occupied commercial real estate	1,944	1,087	3,031	562,690	565,721	—
Non-owner occupied commercial real estate	378	182	560	676,312	676,872	—
Total commercial business	3,516	2,959	6,475	1,788,107	1,794,582	—
One-to-four family residential	41	—	41	67,042	67,083	—
Real estate construction and land development:						
One-to-four family residential	668	1,964	2,632	39,061	41,693	—
Five or more family residential and commercial properties	—	—	—	66,024	66,024	—
Total real estate construction and land development	668	1,964	2,632	105,085	107,717	—
Consumer	1,358	—	1,358	268,817	270,175	—
Gross noncovered loans	$5,583	$4,923	$10,506	$2,229,051	$2,239,557	$ —

(1) Excludes PCI loans.

	December 31, 2014					
	30-89 Days	90 Days or Greater	Total Past Due	Current	Total	90 Days or More and Still Accruing (1)
	(In thousands)					
Commercial business:						
Commercial and industrial	$2,503	$1,962	$4,465	$546,878	$551,343	$ —
Owner-occupied commercial real estate	1,038	100	1,138	534,604	535,742	—
Non-owner occupied commercial real estate	113	75	188	616,569	616,757	—
Total commercial business	3,654	2,137	5,791	1,698,051	1,703,842	—
One-to-four family residential	200	—	200	63,340	63,540	—
Real estate construction and land development:						
One-to-four family residential	62	2,135	2,197	44,552	46,749	—
Five or more family residential and commercial properties	—	376	376	60,984	61,360	—
Total real estate construction and land development	62	2,511	2,573	105,536	108,109	—
Consumer	2,413	125	2,538	247,785	250,323	—
Gross noncovered loans	$6,329	$4,773	$11,102	$2,114,712	$2,125,814	$ —

(1) Excludes PCI loans.

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(f) Impaired loans

Impaired noncovered loans includes nonaccrual noncovered loans and performing troubled debt restructured noncovered loans ("TDRs"). The table below excludes $624,000, as of June 30, 2015, of certain performing TDR noncovered loans classified as PCI as these loans are recorded at the recorded investment balance and may not have further impairment. The balance of impaired noncovered loans as of June 30, 2015 and December 31, 2014 are set forth in the following tables.

	June 30, 2015 Recorded Investment With No Specific Valuation Allowance (In thousands)	Recorded Investment With Specific Valuation Allowance	Total Recorded Investment	Unpaid Contractual Principal Balance	Related Specific Valuation Allowance
Commercial business:					
Commercial and industrial	$865	$5,860	$6,725	$7,111	$746
Owner-occupied commercial real estate	—	3,214	3,214	3,232	755
Non-owner occupied commercial real estate	3,752	5,786	9,538	9,547	943
Total commercial business	4,617	14,860	19,477	19,890	2,444
One-to-four family residential	—	241	241	241	