TRUSTCO BANK CORP N Y
Form 10-Q
August 07, 2015

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 June 30, 2015 Commission File Number 0-10592

TRUSTCO BANK CORP NY
(Exact name of registrant as specified in its charter)

NEW YORK	14-1630287
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5 SARNOWSKI DRIVE, GLENVILLE, NEW YORK	12302
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (518) 377-3311

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer 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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Common Stock	Number of Shares Outstanding as of July 31, 2015

$1 Par Value	95,148,720

TrustCo Bank Corp NY

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TRUSTCO BANK CORP NY
Consolidated Statements of Income (Unaudited)
(dollars in thousands, except per share data)

	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
Interest and dividend income:				
Interest and fees on loans	$35,343	33,614	70,326	66,488
Interest and dividends on securities available for sale:				
U. S. government sponsored enterprises	366	381	578	887
State and political subdivisions	23	44	48	112
Mortgage-backed securities and collateralized mortgage obligations-residential	2,276	3,299	4,669	6,377
Corporate bonds	-	2	1	61
Small Business Administration-guaranteed participation securities	503	539	1,025	1,095
Mortgage-backed securities and collateralized mortgage obligations-commercial	38	38	75	76
Other securities	4	4	8	8
Total interest and dividends on securities available for sale	3,210	4,307	6,404	8,616
Interest on held to maturity securities:				
Mortgage-backed securities and collateralized mortgage obligations-residential	480	577	958	1,202
Corporate bonds	154	154	308	308
Total interest on held to maturity securities	634	731	1,266	1,510
Federal Reserve Bank and Federal Home Loan Bank stock	118	128	234	261
Interest on federal funds sold and other short-term investments	423	376	823	727
Total interest income	39,728	39,156	79,053	77,602
Interest expense:				
Interest on deposits:				
Interest-bearing checking	111	89	216	173
Savings	599	592	1,257	1,355
Money market deposit accounts	547	618	1,164	1,217
Time deposits	2,500	2,035	4,934	3,986
Interest on short-term borrowings	300	342	646	735
Total interest expense	4,057	3,676	8,217	7,466
Net interest income	35,671	35,480	70,836	70,136
Provision for loan losses	800	1,500	1,600	3,000
Net interest income after provision for loan losses	34,871	33,980	69,236	67,136
Noninterest income:				
Trustco financial services income	1,478	1,405	3,131	2,915
Fees for services to customers	2,691	2,732	5,215	5,253
Net gain on securities transactions	-	-	249	6
Other	285	368	482	2,090
Total noninterest income	4,454	4,505	9,077	10,264

Noninterest expenses:				
Salaries and employee benefits	8,164	8,012	16,645	15,604
Net occupancy expense	3,878	4,110	7,986	8,369
Equipment expense	1,803	1,823	3,745	3,575
Professional services	2,066	1,438	3,573	2,724
Outsourced services	1,425	1,425	2,850	2,750
Advertising expense	733	657	1,333	1,256
FDIC and other insurance	1,017	1,000	2,082	1,904
Other real estate expense (income), net	201	(1,688)	625	(833)
Other	2,844	2,660	5,149	4,889
Total noninterest expenses	22,131	19,437	43,988	40,238
Income before taxes	17,194	19,048	34,325	37,162
Income taxes	6,467	7,240	12,883	14,343
Net income	$10,727	11,808	21,442	22,819
Net income per share:				
- Basic	$0.113	0.125	0.226	0.241
- Diluted	$0.113	0.125	0.225	0.241

See accompanying notes to unaudited consolidated interim financial statements.

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TRUSTCO BANK CORP NY

Consolidated Statements of Comprehensive Income (Unaudited)

(dollars in thousands)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net income	$10,727	11,808	21,442	22,819
Net unrealized holding (loss) gain on securities available for sale	(5,482)	11,429	(2,173)	18,884
Reclassification adjustments for net gain recognized in income	-	-	(249)	(6)
Tax effect	2,193	(4,517)	971	(7,543)
Net unrealized gain (loss) on securities available for sale, net of tax	(3,289)	6,912	(1,451)	11,335
Amortization of net actuarial loss (gain)	15	(74)	10	(146)
Amortization of prior service cost (credit)	67	(45)	45	(90)
Tax effect	(33)	48	(22)	93
Amortization of net actuarial loss (gain) and prior service cost (credit) on pension and postretirement plans, net of tax	49	(71)	33	(143)
Other comprehensive (loss) income, net of tax	(3,240)	6,841	(1,418)	11,192
Comprehensive income	$7,487	18,649	20,024	34,011

See accompanying notes to unaudited consolidated interim financial statements.

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TRUSTCO BANK CORP NY
Consolidated Statements of Financial Condition
(dollars in thousands)

ASSETS:	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
Cash and due from banks	$ 37,574	43,505
Federal funds sold and other short term investments	641,011	627,943
Total cash and cash equivalents	678,585	671,448
Securities available for sale	689,663	676,759
Held to maturity securities (fair value 2015 $67,689; 2014 $75,342)	63,543	70,946
Federal Reserve Bank and Federal Home Loan Bank stock	9,480	9,228
Loans, net of deferred fees and costs	3,242,948	3,158,332
Less:		
Allowance for loan losses	45,571	46,327
Net loans	3,197,377	3,112,005
Bank premises and equipment, net	38,100	38,565
Other assets	64,589	65,488
Total assets	$ 4,741,337	4,644,439
LIABILITIES:		
Deposits:		
Demand	$ 355,783	331,425
Interest-bearing checking	713,001	682,210
Savings accounts	1,250,154	1,216,831
Money market deposit accounts	633,239	638,542
Time deposits	1,185,264	1,163,233
Total deposits	4,137,441	4,032,241
Short-term borrowings	170,750	189,116
Accrued expenses and other liabilities	30,687	29,638
Total liabilities	4,338,878	4,250,995
SHAREHOLDERS' EQUITY:		
Capital stock par value $1; 150,000,000 shares authorized; 98,964,052 and 98,944,623 shares issued at June 30, 2015 and December 31, 2014, respectively	98,964	98,945
Surplus	171,988	172,353
Undivided profits	175,721	166,745
Accumulated other comprehensive loss, net of tax	(5,927)	(4,509)
Treasury stock at cost - 3,908,037 and 4,087,295 shares at		

June 30, 2015 and December 31, 2014, respectively	(38,287)	(40,090)
Total shareholders' equity	402,459	393,444
Total liabilities and shareholders' equity	$4,741,337	4,644,439

See accompanying notes to unaudited consolidated interim financial statements.

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TRUSTCO BANK CORP NY
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
(dollars in thousands, except per share data)

	Capital Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Beginning balance, January 1, 2014	$98,927	173,144	147,432	(13,803)	(43,887)	361,813
Net income	-	-	22,819	-	-	22,819
Other comprehensive income, net of tax	-	-	-	11,192	-	11,192
Cash dividend declared, $.1312 per share	-	-	(12,419)	-	-	(12,419)
Sale of treasury stock (202,072 shares)	-	(548)	-	-	1,987	1,439
Stock based compensation expense	-	173	-	-	-	173
Ending balance, June 30, 2014	$98,927	172,769	157,832	(2,611)	(41,900)	385,017
Beginning balance, January 1, 2015	$98,945	172,353	166,745	(4,509)	(40,090)	393,444
Net income	-	-	21,442	-	-	21,442
Other comprehensive loss, net of tax	-	-	-	(1,418)	-	(1,418)
Cash dividend declared, $.1312 per share	-	-	(12,466)	-	-	(12,466)
Stock options exerised and related tax benefits (19,429 shares)	19	80	-	-	-	99
Purchase of treasury stock (14,881 shares)	-	-	-	-	(99)	(99)
Sale of treasury stock (194,139 shares)	-	(541)	-	-	1,902	1,361
Stock based compensation expense	-	96	-	-	-	96
Ending balance, June 30, 2015	$98,964	171,988	175,721	(5,927)	(38,287)	402,459

See accompanying notes to unaudited consolidated interim financial statements.

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TRUSTCO BANK CORP NY
Consolidated Statements of Cash Flows (Unaudited)
(dollars in thousands)

	Six months ended June 30, 2015	2014
Cash flows from operating activities:		
Net income	$21,442	22,819
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,331	2,432
Net gain on sale of other real estate owned	(302)	(2,482)
Writedown of other real estate owned	350	998
Net gain on sale of building held for sale	-	(1,556)
Provision for loan losses	1,600	3,000
Deferred tax expense	167	1,508
Stock based compensation expense	96	173
Net gain on sale of bank premises and equipment	-	(1)
Net gain on sales and calls of securities	(249)	(6)
Decrease in taxes receivable	1,815	1,265
Increase in interest receivable	(7)	(152)
Decrease in interest payable	(33)	(2)
Increase in other assets	(405)	(2,561)
Increase (decrease) in accrued expenses and other liabilities	1,072	(1,009)
Total adjustments	6,435	1,607
Net cash provided by operating activities	27,877	24,426
Cash flows from investing activities:		
Proceeds from sales and calls of securities available for sale	81,516	180,623
Proceeds from calls and maturities of held to maturity securities	7,403	8,289
Purchases of securities available for sale	(98,092)	(118,755)
Proceeds from maturities of securities available for sale	1,499	9,000
Purchases of Federal Reserve Bank and Federal Home Loan Bank stock	(252)	(451)
Net increase in loans	(90,557)	(107,000)
Net proceeds from sale of building held for sale	-	4,745
Proceeds from dispositions of other real estate owned	3,870	7,230
Proceeds from dispositions of bank premises and equipment	66	53
Purchases of bank premises and equipment	(1,932)	(4,160)
Net cash used in investing activities	(96,479)	(20,426)
Cash flows from financing activities:		
Net increase in deposits	105,200	68,116
Net decrease in short-term borrowings	(18,366)	(22,646)
Proceeds from exercise of stock options and related tax benefits	99	-
Proceeds from sale of treasury stock	1,361	1,439
Purchases of treasury stock	(99)	-

Dividends paid	(12,456)	(12,405)
Net cash provided by financing activities	75,739	34,504
Net increase in cash and cash equivalents	7,137	38,504
Cash and cash equivalents at beginning of period	671,448	583,044
Cash and cash equivalents at end of period	$678,585	621,548

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Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest paid	$8,250	7,468
Income taxes paid	11,059	13,142
Other non cash items:		
Transfer of loans to other real estate owned	3,585	5,880
Transfer of other real estate owned to fixed assets	-	568
Increase in dividends payable	10	14
Change in unrealized gain (loss) on securities available for sale-gross of deferred taxes	(2,422)	18,878
Change in deferred tax effect on unrealized gain (loss) on securities available for sale	971	(7,543)
Amortization of net actuarial gain (loss) and prior service credit on pension and postretirement plans	55	(236)
Change in deferred tax effect of amortization of net actuarial loss and prior service cost (credit)	(22)	93

See accompanying notes to unaudited consolidated interim financial statements.

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(1) Financial Statement Presentation

The unaudited Consolidated Interim Financial Statements of TrustCo Bank Corp NY (the “Company” or “TrustCo”) include the accounts of the subsidiaries after elimination of all significant intercompany accounts and transactions. Prior period amounts are reclassified when necessary to conform to the current period presentation. The net income reported for the three months and six months ended June 30, 2015 is not necessarily indicative of the results that may be expected for the year ending December 31, 2015, or any interim periods. These financial statements consider events that occurred through the date of filing.

In the opinion of the management of the Company, the accompanying unaudited Consolidated Interim Financial Statements contain all recurring adjustments necessary to present fairly the financial position as of June 30, 2015, the results of operations for the three months and six months ended June 30, 2015 and 2014, and the cash flows for the six months ended June 30, 2015 and 2014. The accompanying Consolidated Interim Financial Statements should be read in conjunction with the Company’s year-end Consolidated Financial Statements, including notes thereto, which are included in Company's 2014 Annual Report on Form 10-K for the year ended December 31, 2014. The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with accounting principles generally accepted in the United States.

(2) Earnings Per Share

The Company computes earnings per share in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 260, Earnings Per Share (“ASC 260”). TrustCo adopted FASB ASC 260-10 (“ASC 260-10”), Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, which clarified that unvested share-based payment awards that contain nonforfeitable rights to receive dividends or dividend equivalents (whether paid or unpaid) are participating securities, and thus, should be included in the two-class method of computing earnings per share (“EPS”).

Participating securities under this statement include the unvested employees’ and directors’ restricted stock awards with time-based vesting, which received nonforfeitable dividend payments. These awards settled in 2014 and as of June 30, 2015, the Company no longer has unvested restricted stock awards that were previously considered participating securities. As of June 30, 2015, there are no other awards that are considered participating securities.

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A reconciliation of the component parts of earnings per share for the three months and six months ended June 30, 2015 and 2014 is as follows:

(In thousands except per share data)	For the three months ended June 30: 2015	2014	For the six months ended June 30: 2015	2014
Net income	$10,727	11,808	$21,442	22,819
Less: Net income allocated to participating securities	-	13	-	26
Net income allocated to common shareholders	$10,727	11,795	$21,442	22,793
Basic EPS:				
Distributed earnings allocated to common stock	$6,238	6,213	$12,466	12,419
Undistributed earnings allocated to common stock	4,489	5,582	8,976	10,374
Net income allocated to common shareholders	$10,727	11,795	$21,442	22,793
Weighted average common shares outstanding including participating securities	95,056	94,665	95,002	94,642
Less: Participating securities	-	106	-	106
Weighted average common shares	95,056	94,559	95,002	94,536
Basic EPS	$0.113	0.125	$0.226	0.241
Diluted EPS:				
Net income allocated to common shareholders	$10,727	11,795	$21,442	22,793
Weighted average common shares for basic EPS	95,056	94,559	95,002	94,536
Effect of Dilutive Securities:				
Stock Options	134	116	130	122
Weighted average common shares including potential dilutive shares	95,190	94,675	95,132	94,658
Diluted EPS	$0.113	0.125	$0.225	0.241

For both the three and six months ended June 30, 2015, the number of antidilutive stock options excluded from diluted earnings per share was approximately 1.4 million. For the three and six months ended June 30, 2014 the number of antidilutive stock options excluded from diluted earnings per share was approximately 2.4 million. The stock options are antidilutive because the strike price is greater than the average fair value of the Company’s common stock for the periods presented.

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(3) Benefit Plans

The table below outlines the components of the Company's net periodic benefit recognized during the three and six months ended June 30, 2015 and 2014 for its pension and other postretirement benefit plans:

	For the three months ended June 30,			
	Pension Benefits		Other Postretirement Benefits	
(dollars in thousands)	2015	2014	2015	2014
Service cost	$15	18	39	15
Interest cost	330	336	64	32
Expected return on plan assets	(684)	(609)	(180)	(169)
Amortization of net loss (gain)	121	-	(106)	(74)
Amortization of prior service cost (credit)	-	-	67	(45)
Net periodic benefit	$(218)	(255)	(116)	(241)

	For the six months ended June 30,			
	Pension Benefits		Other Postretirement Benefits	
(dollars in thousands)	2015	2014	2015	2014
Service cost	$30	36	78	29
Interest cost	660	672	129	64
Expected return on plan assets	(1,368)	(1,218)	(361)	(338)
Amortization of net loss (gain)	81	-	(71)	(146)
Amortization of prior service cost (credit)	-	-	45	(90)
Net periodic benefit	$(597)	(510)	(180)	(481)

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2014, that it did not expect to make contributions to its pension and postretirement benefit plans in 2015. As of June 30, 2015, no contributions have been made, however, this decision is reviewed each quarter and is subject to change based upon market conditions.

Since 2003, the Company has not subsidized retiree medical insurance premiums. However, it continues to provide postretirement medical benefits to a limited number of current and retired executives in accordance with the terms of their employment contracts.

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(4) Investment Securities

(a) Securities available for sale

The amortized cost and fair value of the securities available for sale are as follows:

(dollars in thousands)	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored enterprises	$152,216	87	221	152,082
State and political subdivisions	1,939	30	-	1,969
Mortgage backed securities and collateralized mortgage obligations - residential	434,780	550	6,125	429,205
Small Business Administration- guaranteed participation securities	98,059	-	2,736	95,323
Mortgage backed securities and collateralized mortgage obligations - commercial	10,560	-	161	10,399
Other	650	-	-	650
Total debt securities	698,204	667	9,243	689,628
Equity securities	35	-	-	35
Total securities available for sale	$698,239	667	9,243	689,663

(dollars in thousands)	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored enterprises	$78,420	2	622	77,800
State and political subdivisions	2,232	39	-	2,271
Mortgage backed securities and collateralized mortgage obligations - residential	486,107	1,108	3,655	483,560
Corporate bonds	1,500	-	-	1,500
Small Business Administration - guaranteed participation securities	103,273	-	2,777	100,496
Mortgage backed securities and collateralized mortgage obligations - commercial	10,696	-	249	10,447
Other	650	-	-	650
Total debt securities	682,878	1,149	7,303	676,724
Equity securities	35	-	-	35
Total securities available for sale	$682,913	1,149	7,303	676,759

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The following table distributes the debt securities included in the available for sale portfolio as of June 30, 2015, based on the securities' final maturity (mortgage backed securities and collateralized mortgage obligations are stated using an estimated average life):

(dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 2,546	2,542
Due in one year through five years	497,021	493,286
Due after five years through ten years	198,619	193,782
Due after ten years	18	18
	$ 698,204	689,628

Actual maturities may differ from the above because of securities prepayments and the right of certain issuers to call or prepay their obligations without penalty.

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Gross unrealized losses on securities available for sale and the related fair values aggregated by the length of time that individual securities have been in an unrealized loss position, were as follows:

(dollars in thousands)	June 30, 2015					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unreal. Loss	Fair Value	Gross Unreal. Loss	Fair Value	Gross Unreal. Loss
U.S. government sponsored enterprises	$31,493	51	56,351	170	87,844	221
Mortgage backed securities and collateralized mortgage obligations - residential	183,404	2,307	188,924	3,818	372,328	6,125
Small Business Administration - guaranteed participation securities	7,973	164	87,350	2,572	95,323	2,736
Mortgage backed securities and collateralized mortgage obligations - commercial	-	-	10,399	161	10,399	161
Total	$222,870	2,522	343,024	6,721	565,894	9,243

(dollars in thousands)	December 31, 2014					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unreal. Loss	Fair Value	Gross Unreal. Loss	Fair Value	Gross Unreal. Loss
U.S. government sponsored enterprises	$12,840	81	54,959	541	67,799	622
Mortgage backed securities and collateralized mortgage obligations - residential	65,549	492	325,476	3,163	391,025	3,655
Small Business Administration - guaranteed participation securities	-	-	100,496	2,777	100,496	2,777
Mortgage backed securities and collateralized mortgage obligations - commercial	-	-	10,447	249	10,447	249
Total	$78,389	573	491,378	6,730	569,767	7,303

The proceeds from sales and calls of securities available for sale, gross realized gains and gross realized losses from sales and calls during the three and six months ended June 30, 2015 and 2014 are as follows:

(dollars in thousands)	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Proceeds from sales	$-	-	$22,945	-
Proceeds from calls	28,891	39,301	58,571	180,623
Gross realized gains	-	-	249	6
Gross realized losses	-	-	-	-

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There were no net gains on sales of securities available for sale for the three months ended June 30, 2015 and 2014. Income tax expense recognized on net gains on sales of securities available for sale were approximately $100 thousand and $2 thousand for the six months ended June 30, 2015 and 2014, respectively.

(b) Held to maturity securities

The amortized cost and fair value of the held to maturity securities are as follows:

(dollars in thousands)	June 30, 2015			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Mortgage backed securities and collateralized mortgage obligations - residential	$53,576	3,225	-	56,801
Corporate bonds	9,967	921	-	10,888
Total held to maturity	$63,543	4,146	-	67,689

(dollars in thousands)	December 31, 2014			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Mortgage backed securities and collateralized mortgage obligations - residential	$60,986	3,334	-	64,320
Corporate bonds	9,960	1,062	-	11,022
Total held to maturity	$70,946	4,396	-	75,342

The following table distributes the debt securities included in the held to maturity portfolio as of June 30, 2015, based on the securities' final maturity (mortgage backed securities and collateralized mortgage obligations are stated using an estimated average life):

(dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ -	-
Due in one year through five years	63,543	67,689
Due in five years through ten years	-	-
	$ 63,543	67,689

Actual maturities may differ from the above because of securities prepayments and the right of certain issuers to call or prepay their obligations without penalty.

There were no held to maturity securities in an unrecognized loss position as of June 30, 2015 or December 31, 2014.

There were no sales or transfers of held to maturity securities during the three and six months ended June 30, 2015 and 2014.

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(c) Other-Than-Temporary Impairment

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio by type and applying the appropriate OTTI model. Investment securities classified as available for sale or held to maturity are generally evaluated for OTTI under ASC 320 "Investments – Debt and Equity Securities."

In determining OTTI under the FASB ASC 320 model, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI occurs, the amount of the OTTI recognized in earnings depends on whether management intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis. If management intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If management does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis, the OTTI on debt securities shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

As of June 30, 2015, the Company's security portfolio included certain securities which were in an unrealized loss position, and are discussed below.

U.S. government sponsored enterprises

In the case of unrealized losses on U.S. government sponsored enterprises, because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2015.

Mortgage backed securities and collateralized mortgage obligations - residential

All of the mortgage backed securities and collateralized mortgage obligations held by the Company were issued by U.S. government sponsored entities and agencies, primarily Ginnie Mae, Fannie Mae and Freddie Mac, which are institutions the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2015.

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Small Business Administration (SBA) - guaranteed participation securities

All of the SBA securities held by the Company were issued and guaranteed by U.S. Small Business Administration. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2015.

Mortgage backed securities and collateralized mortgage obligations – commercial

All of the mortgage backed securities and collateralized mortgage obligations held by the Company were issued by U.S. government-sponsored entities and agencies, are current as to the payment of interest and principal and the Company expects to collect the full amount of the principal and interest payments. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2015.

As a result of the above analysis, during the three and six months ended June 30, 2015, the Company did not recognize any other-than-temporary impairment losses for credit or any other reason.

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(5) Loans and Allowance for Loan Losses

The following table presents the recorded investment in loans by loan class:

(dollars in thousands)	June 30, 2015 New York and other states*	Florida	Total
Commercial:			
Commercial real estate	$169,957	15,922	185,879
Other	23,414	106	23,520
Real estate mortgage - 1 to 4 family:			
First mortgages	2,075,448	535,210	2,610,658
Home equity loans	51,857	7,414	59,271
Home equity lines of credit	307,519	47,427	354,946
Installment	7,663	1,011	8,674
Total loans, net	$2,635,858	607,090	3,242,948
Less: Allowance for loan losses			45,571
Net loans			$3,197,377

(dollars in thousands)	December 31, 2014 New York and other states*	Florida	Total
Commercial:			
Commercial real estate	$174,788	19,336	194,124
Other	29,200	58	29,258
Real estate mortgage - 1 to 4 family:			
First mortgages	2,041,140	476,427	2,517,567
Home equity loans	51,713	5,942	57,655
Home equity lines of credit	308,764	43,370	352,134
Installment	6,774	820	7,594
Total loans, net	$2,612,379	545,953	3,158,332
Less: Allowance for loan losses			46,327
Net loans			$3,112,005

*Includes New York, New Jersey, Vermont and Massachusetts

At June 30, 2015 and December 31, 2014, the Company had approximately $26.8 million and $38.5 million of real estate construction loans, respectively. Of the $26.8 million in real estate construction loans at June 30, 2015, approximately $12.4 million are secured by first mortgages to residential borrowers while approximately $14.4 million were to commercial borrowers for residential construction projects. Of the $38.5 million in real estate construction loans at December 31, 2014, approximately $17.6 million are secured by first mortgages to residential borrowers while approximately $20.9 million were to commercial borrowers for residential construction projects. The vast majority of construction loans are in the Company’s New York market.

TrustCo lends in the geographic territory of its branch locations in New York, Florida, Massachusetts, New Jersey and Vermont. Although the loan portfolio is diversified, a portion of its debtors’ ability to repay depends significantly on the economic conditions prevailing in the respective geographic territory.

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The following table presents the recorded investment in non-accrual loans by loan class:

(dollars in thousands)	June 30, 2015 New York and other states	Florida	Total
Loans in non-accrual status:			
Commercial:			
Commercial real estate	$3,260	-	3,260
Other	3	-	3
Real estate mortgage - 1 to 4 family:			
First mortgages	24,179	1,407	25,586
Home equity loans	284	-	284
Home equity lines of credit	2,903	271	3,174
Installment	79	10	89
Total non-accrual loans	30,708	1,688	32,396
Restructured real estate mortgages - 1 to 4 family	74	-	74
Total nonperforming loans	$30,782	1,688	32,470

(dollars in thousands)	December 31, 2014 New York and other states	Florida	Total
Loans in non-accrual status:			
Commercial:			
Commercial real estate	$3,835	-	3,835
Other	-	-	-
Real estate mortgage - 1 to 4 family:			
First mortgages	23,643	2,488	26,131
Home equity loans	349	-	349
Home equity lines of credit	3,229	252	3,481
Installment	77	13	90
Total non-accrual loans	31,133	2,753	33,886
Restructured real estate mortgages - 1 to 4 family	125	-	125
Total nonperforming loans	$31,258	2,753	34,011

The Company transfers loans to other real estate owned, at fair value less cost to sell, in the period the Company obtains physical possession of the property (through legal title or through a deed in lieu). As of June 30, 2015 and December 31, 2014, other estate owned included $3.6 million and $4.2 million, respectively of residential foreclosed properties. In addition, non-accrual residential mortgage loans that are in the process of foreclosure had a recorded investment of $17.1 million and $17.5 million as of June 30, 2015 and December 31, 2014, respectively.

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The following tables present the aging of the recorded investment in past due loans by loan class and by region as of June 30, 2015 and December 31, 2014:

New York and other states:

(dollars in thousands)	June 30, 2015 30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total 30+ days Past Due	Current	Total Loans
Commercial:						
Commercial real estate	$-	272	2,348	2,620	167,337	169,957
Other	-	-	3	3	23,411	23,414
Real estate mortgage - 1 to 4 family:						
First mortgages	2,781	937	16,742	20,460	2,054,988	2,075,448
Home equity loans	53	7	264	324	51,533	51,857
Home equity lines of credit	943	177	1,286	2,406	305,113	307,519
Installment	36	26	37	99	7,564	7,663
Total	$3,813	1,419	20,680	25,912	2,609,946	2,635,858

Florida:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total 30+ days Past Due	Current	Total Loans
Commercial:						
Commercial real estate	$33	-	-	33	15,889	15,922
Other	-	-	-	-	106	106
Real estate mortgage - 1 to 4 family:						
First mortgages	673	89	1,014	1,776	533,434	535,210
Home equity loans	-	-	-	-	7,414	7,414
Home equity lines of credit	-	-	99	99	47,328	47,427
Installment	-	3	-	3	1,008	1,011
Total	$706	92	1,113	1,911	605,179	607,090

Total:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total 30+ days Past Due	Current	Total Loans
Commercial:						

Commercial real estate	$33	272	2,348	2,653	183,226	185,879
Other	-	-	3	3	23,517	23,520
Real estate mortgage - 1 to 4 family:						
First mortgages	3,454	1,026	17,756	22,236	2,588,422	2,610,658
Home equity loans	53	7	264	324	58,947	59,271
Home equity lines of credit	943	177	1,385	2,505	352,441	354,946
Installment	36	29	37	102	8,572	8,674
Total	$4,519	1,511	21,793	27,823	3,215,125	3,242,948

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New York and other states:

(dollars in thousands)	December 31, 2014 30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total 30+ days Past Due	Current	Loans
Commercial:						
Commercial real estate	$618	52	2,627	3,297	171,491	174,788
Other	-	-	-	-	29,200	29,200
Real estate mortgage - 1 to 4 family:						
First mortgages	3,340	3,874	16,782	23,996	2,017,144	2,041,140
Home equity loans	141	59	337	537	51,176	51,713
Home equity lines of credit	568	342	1,198	2,108	306,656	308,764
Installment	79	10	58	147	6,627	6,774
Total	$4,746	4,337	21,002	30,085	2,582,294	2,612,379

Florida:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total 30+ days Past Due	Current	Total Loans
Commercial:						
Commercial real estate	$ -	-	-	-	19,336	19,336
Other	-	-	-	-	58	58
Real estate mortgage - 1 to 4 family:						
First mortgages	801	283	1,225	2,309	474,118	476,427
Home equity loans	-	-	-	-	5,942	5,942
Home equity lines of credit	173	-	116	289	43,081	43,370
Installment	17	-	-	17	803	820
Total	$991	283	1,341	2,615	543,338	545,953

Total:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total 30+ days Past Due	Current	Total Loans
Commercial:						
Commercial real estate	$618	52	2,627	3,297	190,827	194,124
Other	-	-	-	-	29,258	29,258
Real estate mortgage - 1 to 4 family:						

First mortgages	4,141	4,157	18,007	26,305	2,491,262	2,517,567
Home equity loans	141	59	337	537	57,118	57,655
Home equity lines of credit	741	342	1,314	2,397	349,737	352,134
Installment	96	10	58	164	7,430	7,594
Total	$5,737	4,620	22,343	32,700	3,125,632	3,158,332

At June 30, 2015 and December 31, 2014, there were no loans that were 90 days past due and still accruing interest. As a result, non-accrual loans includes all loans 90 days past due and greater as well as certain loans less than 90 days past due that were placed on non-accrual status for reasons other than delinquent status. There are no commitments to extend further credit on non-accrual or restructured loans.

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Activity in the allowance for loan losses by portfolio segment is summarized as follows:

(dollars in thousands)	For the three months ended June 30, 2015			
	Commercial	Real Estate Mortgage- 1 to 4 Family	Installment	Total
Balance at beginning of period	$4,024	41,529	391	45,944
Loans charged off:				
New York and other states*	50	1,066	33	1,149
Florida	-	169	-	169
Total loan chargeoffs	50	1,235	33	1,318
Recoveries of loans previously charged off:				
New York and other states*	-	133	9	142
Florida	1	2	-	3
Total recoveries	1	135	9	145
Net loans charged off	49	1,100	24	1,173
Provision for loan losses	47	658	95	800
Balance at end of period	$4,022	41,087	462	45,571

(dollars in thousands)	For the three months ended June 30, 2014			
	Commercial	Real Estate Mortgage- 1 to 4 Family	Installment	Total
Balance at beginning of period	$3,840	43,091	104	47,035
Loans charged off:				
New York and other states*	13	1,691	32	1,736
Florida	-	75	10	85
Total loan chargeoffs	13	1,766	42	1,821
Recoveries of loans previously charged off:				
New York and other states*	-	195	8	203
Florida	2	16	-	18
Total recoveries	2	211	8	221
Net loans charged off	11	1,555	34	1,600
Provision for loan losses	244	1,216	40	1,500
Balance at end of period	$4,073	42,752	110	46,935

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(dollars in thousands)	For the six months ended June 30, 2015			
	Commercial	Real Estate Mortgage- 1 to 4 Family	Installment	Total
Balance at beginning of period	$4,071	42,088	168	46,327
Loans charged off:				
New York and other states*	100	2,180	76	2,356
Florida	-	278	-	278
Total loan chargeoffs	100	2,458	76	2,634
Recoveries of loans previously charged off:				
New York and other states*	16	243	15	274
Florida	2	2	-	4
Total recoveries	18	245	15	278
Net loans charged off	82	2,213	61	2,356
Provision for loan losses	33	1,212	355	1,600
Balance at end of period	$4,022	41,087	462	45,571

(dollars in thousands)	For the six months ended June 30, 2014			
	Commercial	Real Estate Mortgage- 1 to 4 Family	Installment	Total
Balance at beginning of period	$4,019	43,597	98	47,714
Loans charged off:				
New York and other states*	273	2,617	81	2,971
Florida	613	542	12	1,167
Total loan chargeoffs	886	3,159	93	4,138
Recoveries of loans previously charged off:				
New York and other states*	18	270	13	301
Florida	3	55	-	58
Total recoveries	21	325	13	359
Net loans charged off	865	2,834	80	3,779
Provision for loan losses	919	1,989	92	3,000
Balance at end of period	$4,073	42,752	110	46,935

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The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2015 and December 31, 2014:

	June 30, 2015			
(dollars in thousands)	Commercial Loans	1-to-4 Family Residential Real Estate	Installment Loans	Total
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$-	-	-	-
Collectively evaluated for impairment	4,022	41,087	462	45,571
Total ending allowance balance	$4,022	41,087	462	45,571
Loans:				
Individually evaluated for impairment	$3,551	23,070	-	26,621
Collectively evaluated for impairment	205,848	3,001,805	8,674	3,216,327
Total ending loans balance	$209,399	3,024,875	8,674	3,242,948

	December 31, 2014			
(dollars in thousands)	Commercial Loans	1-to-4 Family Residential Real Estate	Installment Loans	Total
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$-	-	-	-
Collectively evaluated for impairment	4,071	42,088	168	46,327
Total ending allowance balance	$4,071	42,088	168	46,327
Loans:				
Individually evaluated for impairment	$4,129	22,406	-	26,535
Collectively evaluated for impairment	219,253	2,904,950	7,594	3,131,797
Total ending loans balance	$223,382	2,927,356	7,594	3,158,332

The Company has identified non-accrual commercial and commercial real estate loans, as well as all loans restructured under a troubled debt restructuring (“TDR”), as impaired loans. A loan is considered impaired when it is probable that the borrower will be unable to repay the loan according to the original contractual terms of the loan agreement or the loan is restructured as a TDR.

A loan for which the terms have been modified, and for which the borrower is experiencing financial difficulties, is considered a TDR and is classified as impaired. TDR’s at June 30, 2015 and December 31, 2014 are measured at the present value of estimated future cash flows using the loan’s effective rate at inception or the fair value of the underlying collateral if the loan is considered collateral dependent.

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The following tables present impaired loans by loan class as of June 30, 2015 and December 31, 2014:

New York and other states:

June 30, 2015

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Commercial:				
Commercial real estate	$3,548	3,726	-	3,527
Other	3	3	-	-
Real estate mortgage - 1 to 4 family:				
First mortgages	18,614	19,642	-	18,372
Home equity loans	467	510	-	362
Home equity lines of credit	2,029	2,217	-	2,294
Total	$24,661	26,098	-	24,555

Florida:

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Commercial:				
Commercial real estate	$ -	-	-	-
Other	-	-	-	-
Real estate mortgage - 1 to 4 family:				
First mortgages	1,255	1,347	-	1,339
Home equity loans	54	54	-	55
Home equity lines of credit	651	735	-	660
Total	$ 1,960	2,136	-	2,054

Total:

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Commercial:				
Commercial real estate	$ 3,548	3,726	-	3,527
Other	3	3	-	-
Real estate mortgage - 1 to 4 family:				
First mortgages	19,869	20,989	-	19,711
Home equity loans	521	564	-	417
Home equity lines of credit	2,680	2,952	-	2,954
Total	$ 26,621	28,234	-	26,609

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New York and other states:

(dollars in thousands)	December 31, 2014 Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Commercial:				
Commercial real estate	$4,129	5,499	-	4,798
Other	-	-	-	61
Real estate mortgage - 1 to 4 family:				
First mortgages	17,579	18,689	-	17,261
Home equity loans	366	410	-	454
Home equity lines of credit	2,492	2,778	-	2,578
Total	$24,566	27,376	-	25,152

Florida:

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Commercial:				
Commercial real estate	$ -	-	-	577
Other	-	-	-	-
Real estate mortgage - 1 to 4 family:				
First mortgages	1,289	1,380	-	1,422
Home equity loans	56	56	-	5
Home equity lines of credit	624	773	-	581
Total	$ 1,969	2,209	-	2,585

Total:

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Commercial:				
Commercial real estate	$ 4,129	5,499	-	5,375
Other	-	-	-	61
Real estate mortgage - 1 to 4 family:				
First mortgages	18,868	20,069	-	18,683
Home equity loans	422	466	-	459
Home equity lines of credit	3,116	3,551	-	3,159
Total	$ 26,535	29,585	-	27,737

The Company has not committed to lend additional amounts to customers with outstanding loans that are classified as impaired. Interest income recognized on impaired loans was not material during the three and six months ended June

30, 2015 and 2014.

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As of June 30, 2015 and December 31, 2014 impaired loans included approximately $11.0 million and $9.9 million of 1 to 4 family residential real estate loans in accruing status that were identified as TDR's in accordance with regulatory guidance related to Chapter 7 bankruptcy loans.

Management evaluates impairment on impaired loans on a quarterly basis. If, during this evaluation, impairment of the loan is identified, a charge off is taken at that time. As a result, as of June 30, 2015 and December 31, 2014, based upon management's evaluation and due to the sufficiency of chargeoffs taken, none of the allowance for loan losses has been allocated to a specific impaired loan(s).

The following table presents, by class, loans that were modified as TDR's:

New York and other states*:	Three months ended 6/30/2015			Three months ended 6/30/2014		
(dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial:						
Commercial real estate	-	$ -	$ -	1	$ 300	$ 300
Real estate mortgage - 1 to 4 family:						
First mortgages	13	1,542	1,542	12	1,611	1,611
Home equity loans	1	139	139	1	47	47
Home equity lines of credit	2	44	44	2	443	443
Total	16	$ 1,725	$ 1,725	16	$ 2,401	$ 2,401

Florida: (dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate mortgage - 1 to 4 family:						
First mortgages	-	$ -	$ -	2	$ 192	$ 192
Home equity lines of credit	-	-	-	-	-	-
Total	-	$ -	$ -	2	$ 192	$ 192

New York and other states*: (dollars in thousands)	Six months ended 6/30/2015			Six months ended 6/30/2014		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial:						
Commercial real estate	-	$ -	$ -	1	$ 300	$ 300
Real estate mortgage - 1 to 4 family:						

First mortgages	20	2,987	2,987	20	2,985	2,985
Home equity loans	1	139	139	2	51	51
Home equity lines of credit	2	44	44	3	565	565
Total	23	$ 3,170	$ 3,170	26	$ 3,901	$ 3,901

Florida: (dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate mortgage - 1 to 4 family:						
First mortgages	1	$ 157	$ 157	4	$ 364	$ 364
Home equity lines of credit	2	50	50	2	354	354
Total	3	$ 207	$ 207	6	$ 718	$ 718

The addition of these TDR's did not have a significant impact on the allowance for loan losses.

In situations where the Bank considers a loan modification, management determines whether the borrower is experiencing financial difficulty by performing an evaluation of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's underwriting policy.

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Generally, the modification of the terms of loans was the result of the borrower filing for bankruptcy protection. Chapter 13 bankruptcies generally include the deferral of all past due amounts for a period of generally 60 months in accordance with the bankruptcy court order. In the case of Chapter 7 bankruptcies, as previously noted, even though there is no modification of terms, the borrowers' debt to the Company was discharged and they did not reaffirm the debt.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. In situations involving a borrower filing for Chapter 13 bankruptcy protection, however, a loan is considered to be in payment default once it is 30 days contractually past due, consistent with the treatment by the bankruptcy court.

The following table presents, by class, TDR's that defaulted during the three and six months ended June 30, 2015 and 2014 which had been modified within the last twelve months:

New York and other states*: (dollars in thousands)	Three months ended 6/30/2015 Number of Contracts	Recorded Investment	Three months ended 6/30/2014 Number of Contracts	Recorded Investment
Real estate mortgage - 1 to 4 family:				
First mortgages	-	$ -	2	$ 161
Total	-	$ -	2	$ 161

Florida:

(dollars in thousands)	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Real estate mortgage - 1 to 4 family:				
Home equity lines of credit	-	$ -	-	$ -
Total	-	$ -	-	$ -

New York and other states*: (dollars in thousands)	Six months ended 6/30/2015 Number of Contracts	Recorded Investment	Six months ended 6/30/2014 Number of Contracts	Recorded Investment
Real estate mortgage - 1 to 4 family:				
First mortgages	-	$ -	4	$ 308
Total	-	$ -	4	$ 308

Florida:

(dollars in thousands)	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Real estate mortgage - 1 to 4 family:				
Home equity lines of credit	1	$ 50	1	$ 279
Total	1	$ 50	1	$ 279

The TDR's that subsequently defaulted described above did not have a material impact on the allowance for loan losses as the underlying collateral was evaluated at the time these loans were identified as TDR's, and a charge off was taken at that time, if necessary. Collateral values on these loans, as well as all non-accrual loans, are reviewed for collateral sufficiency on a quarterly basis.

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The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. On at least an annual basis, the Company's loan grading process analyzes non-homogeneous loans over $150 thousand, such as commercial and commercial real estate loans, individually by grading the loans based on credit risk. In addition, the Company's internal loan review department reviews non-homogeneous loans over $250 thousand by testing the loan grades assigned through the Company's grading process.

The Company uses the following definitions for classified loans:

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as such have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those loans classified as 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. All doubtful loans are considered impaired.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

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As of June 30, 2015 and December 31, 2014, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

June 30, 2015

New York and other states:

(dollars in thousands)

	Pass	Classified	Total
Commercial:			
Commercial real estate	$158,761	11,196	169,957
Other	22,557	857	23,414
	$181,318	12,053	193,371

Florida:

(dollars in thousands)

	Pass	Classified	Total
Commercial:			
Commercial real estate	$15,922	-	15,922
Other	106	-	106
	$16,028	-	16,028

Total:

(dollars in thousands)

	Pass	Classified	Total
Commercial:			
Commercial real estate	$174,683	11,196	185,879
Other	22,663	857	23,520
	$197,346	12,053	209,399

December 31, 2014

New York and other states:

(dollars in thousands)

	Pass	Classified	Total
Commercial:			
Commercial real estate	$162,589	12,199	174,788
Other	28,677	523	29,200
	$191,266	12,722	203,988

Florida:

(dollars in thousands)

	Pass	Classified	Total
Commercial:			

Commercial real estate	$19,336	-	19,336
Other	58	-	58
	$19,394	-	19,394

Total:

(dollars in thousands)

	Pass	Classified	Total
Commercial:			
Commercial real estate	$181,925	12,199	194,124
Other	28,735	523	29,258
	$210,660	12,722	223,382

Included in classified loans in the above tables are impaired loans of $3.6 million and $4.1 million at June 30, 2015 and December 31, 2014, respectively.

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For homogeneous loan pools, such as residential mortgages, home equity lines of credit, and installment loans, the Company uses payment status to identify the credit risk in these loan portfolios. Payment status is reviewed on a daily basis by the Bank's collection area and on a monthly basis with respect to determining the adequacy of the allowance for loan losses. The payment status of these homogeneous pools as of June 30, 2015 and December 31, 2014 is included in the aging of the recorded investment of past due loans table. In addition, the total nonperforming portion of these homogeneous loan pools as of June 30, 2015 and December 31, 2014 is presented in the non-accrual loans table.

(6) Fair Value of Financial Instruments

Fair value measurements (ASC 820) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity can access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the value that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of assets and liabilities:

Securities Available for Sale: The fair value of securities available for sale is determined utilizing an independent pricing service for identical assets or significantly similar securities. The pricing service uses a variety of techniques to arrive at fair value including market maker bids, quotes and pricing models. Inputs to the pricing models include recent trades, benchmark interest rates, spreads and actual and projected cash flows. This results in a Level 2 classification of the inputs for determining fair value. I