FIDELITY SOUTHERN CORP
Form 10-Q
August 03, 2018

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the quarterly period ended June 30, 2018
Commission file number 001-34981

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

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

(404) 639-6500
(Registrant's telephone number, including area code)

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

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

Emerging growth company o
If an emerging growth company, indicate by check mark if the the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of July 31, 2018 (the most recent practicable date), the Registrant had outstanding 27,214,286 shares of Common Stock.

FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
Quarterly Report on Form 10-Q
For the Three and Six Months Ended June 30, 2018

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

($ in thousands)	(Unaudited) June 30, 2018	December 31, 2017
Assets		
Cash and due from banks	$28,449	$ 33,874
Interest-bearing deposits with banks	124,716	104,032
Federal funds sold	4,421	48,396
Cash and cash equivalents	157,586	186,302
Investment securities available-for-sale	148,155	120,121
Investment securities held-to-maturity (fair value of $20,433 and $21,685, respectively)	20,984	21,689
Loans held-for-sale (includes loans at fair value of $399,630 and $269,140, respectively)	444,686	357,755
Loans	3,792,886	3,580,966
Allowance for loan losses	(31,623)	(29,772)
Loans, net of allowance for loan losses	3,761,263	3,551,194
Premises and equipment, net	90,246	88,463
Other real estate, net	6,834	7,621
Bank owned life insurance	72,703	71,883
Servicing rights, net	125,704	112,615
Other assets	64,208	59,215
Total assets	$4,892,369	$4,576,858
Liabilities		
Deposits		
Noninterest-bearing demand deposits	$1,225,657	$1,125,598
Interest-bearing deposits	2,843,973	2,741,602
Total deposits	4,069,630	3,867,200
Short-term borrowings	237,886	150,580
Subordinated debt, net	120,653	120,587
Other liabilities	43,238	36,859
Total liabilities	4,471,407	4,175,226
Shareholders’ equity		
Preferred stock, no par value. Authorized 10,000,000; zero issued and outstanding	—	—
Common stock, no par value. Authorized 50,000,000; issued and outstanding 27,191,787 and 27,019,201, respectively	223,771	217,555
Accumulated other comprehensive (loss)/income, net of tax	(1,096)	383
Retained earnings	198,287	183,694
Total shareholders’ equity	420,962	401,632
Total liabilities and shareholders’ equity	$4,892,369	$4,576,858

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands, except per share data)	2018	2017	2018	2017
Interest income:				
Loans, including fees	$42,845	$37,560	$82,694	$73,643
Investment securities:				
Taxable interest income	1,284	1,135	2,382	2,297
Nontaxable interest income	70	35	147	81
Other	541	848	1,079	1,199
Total interest income	44,740	39,578	86,302	77,220
Interest expense:				
Deposits	4,823	3,891	9,136	7,340
Short-term borrowings	1,812	502	2,722	894
Subordinated debt	1,633	1,439	3,204	3,006
Total interest expense	8,268	5,832	15,062	11,240
Net interest income	36,472	33,746	71,240	65,980
Provision for loan losses	2,286	750	4,416	2,850
Net interest income after provision for loan losses	34,186	32,996	66,824	63,130
Noninterest income:				
Service charges on deposit accounts	1,468	1,481	2,940	2,936
Other fees and charges	2,449	2,006	4,684	3,863
Mortgage banking activities	29,383	26,956	57,945	52,825
Indirect lending activities	1,270	3,640	3,418	8,066
SBA lending activities	1,217	681	2,374	2,499
Trust and wealth management fees	574	240	1,106	529
Other	616	52	1,643	1,708
Total noninterest income	36,977	35,056	74,110	72,426
Noninterest expense:				
Salaries and employee benefits	28,215	25,852	55,776	51,290
Commissions	11,242	9,384	18,748	16,882
Occupancy and equipment	4,541	4,700	9,473	8,864
Professional and other services	4,635	5,052	9,433	9,119
Other	10,219	9,563	20,164	18,967
Total noninterest expense	58,852	54,551	113,594	105,122
Income before income tax expense	12,311	13,501	27,340	30,434
Income tax expense	2,921	4,609	6,183	11,015
Net income	$9,390	$8,892	$21,157	$19,419
Earnings per common share:				
Basic	$0.35	$0.34	$0.78	$0.74
Diluted	$0.34	$0.33	$0.78	$0.73
Cash dividends declared per common share	$0.12	$0.12	$0.24	$0.24
Net income	$9,390	$8,892	$21,157	$19,419
Other comprehensive (loss)/income, net of tax:				

Change in net unrealized (losses)/gains on available-for-sale debt securities, net of tax effect of ($155), $159, ($520), and $164, respectively	(465)	260	(1,559)	267
Total other comprehensive (loss)/income, net of tax	(465)	260	(1,559)	267
Comprehensive income	$8,925	$9,152	$19,598	$19,686

See accompanying notes to unaudited consolidated financial statements.

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

	Preferred Stock		Common Stock		Accumulated Other Comprehensive Income/(Loss), Net of Tax	Retained Earnings	Total
(in thousands)	Shares	Amount	Shares	Amount			
Balance at December 31, 2016	—	$ —	26,318	$205,309	$ 692	$156,646	$362,647
Net income						19,419	19,419
Other comprehensive income, net of tax					267		267
Comprehensive income							19,686
Common stock issued under various employee plans, net			385	3,390			3,390
Cash dividends paid						(6,324)	(6,324)
Balance at June 30, 2017	—	$ —	26,703	$208,699	$ 959	$169,741	$379,399
Balance at December 31, 2017	—	$ —	27,019	$217,555	$ 383	$183,694	$401,632
Net income						21,157	21,157
Impact of adoption of new accounting standard [1]					80	(80)	—
Other comprehensive loss, net of tax					(1,559)		(1,559)
Comprehensive income							19,598
Common stock issued under various employee plans, net			173	6,216			6,216
Cash dividends paid						(6,484)	(6,484)
Balance at June 30, 2018	—	$ —	27,192	$223,771	$ (1,096)	$198,287	$420,962

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

See accompanying notes to unaudited consolidated financial statements.

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

(in thousands)	Six Months Ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	$21,157	$ 19,419
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses	4,416	2,850
Depreciation and amortization of premises and equipment	2,162	2,259
Amortization of FDIC indemnification asset, net	4	1,159
Accretion of purchase discounts or premiums, net	(670)	(1,287)
Other amortization	486	802
Impairment of other real estate	319	893
Amortization and impairment of servicing rights, net	3,851	7,921
Share-based compensation expense	2,834	1,583
Postretirement benefits, net	1,236	1,965
Gains on loan sales, including origination of servicing rights	(37,365)	(42,991)
Net gain on sales of other real estate	(42)	(377)
Cash surrender value income on bank owned life insurance	(820)	(876)
Net change in deferred income tax	1,179	46
Net change in fair value of loans held-for-sale	(4,182)	(5,116)
Originations of loans held-for-sale	(1,518,253)	(1,552,573)
Proceeds from sales of loans held-for-sale	1,457,917	1,654,456
Net payments (paid to) received from FDIC under loss-share agreements	(888)	485
(Increase) decrease in other assets	(815)	4,530
Increase in other liabilities	5,085	9,854
Net cash (used in) provided by operating activities	(62,389)	105,002
Cash flows from investing activities:		
Purchases of investment securities available-for-sale	(39,993)	—
Maturities, calls, and repayment of investment securities available-for-sale	9,531	13,623
Maturities, calls and repayment of investment securities held-to-maturity	669	940
Purchases of FHLB stock	(13,983)	(6,681)
Redemption of FHLB stock	9,775	9,563
Net increase in loans	(215,657)	(32,448)
Proceeds from sales of other real estate	642	6,616
Purchases of premises and equipment	(3,945)	(2,009)
Net cash used in investing activities	(252,961)	(10,396)

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

	Six Months Ended June 30,	
(in thousands)	2018	2017
Cash flows from financing activities:		
Net increase in noninterest-bearing deposits	$100,059	$118,066
Net increase in interest-bearing deposits	102,371	151,136
Net decrease in other short-term borrowings	(7,694)	(3,455)
Proceeds from FHLB advances	1,845,000	350,000
Repayments on FHLB advances	(1,750,000)	(425,000)
Proceeds from the issuance of common stock, net	3,382	1,807
Cash dividends paid on common stock	(6,484)	(6,324)
Net cash provided by financing activities	286,634	186,230
Net (decrease) increase in cash and cash equivalents	(28,716)	280,836
Cash and cash equivalents, beginning of period	186,302	149,711
Cash and cash equivalents, end of period	$157,586	$430,547
Supplemental cash flow information and non-cash disclosures:		
Cash paid during the period for:		
Interest on deposits and borrowings	$14,849	$10,768
Income taxes	4,391	4,315
Transfers of loans from held-for-sale to held for investment	1,988	1,971
Transfers of loans to other real estate	132	1,700

See accompanying notes to unaudited consolidated financial statements.

FIDELITY SOUTHERN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(UNAUDITED)

1. Basis of Presentation and Summary of Significant Accounting Policies

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

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

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

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

Operating results for the six-month period ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission (“SEC”).

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

Contingencies

Due to the nature of their activities, the Company and its subsidiaries are at times engaged in various legal proceedings that arise in the course of normal business, some of which were outstanding as of June 30, 2018. Although the ultimate outcome of all claims and lawsuits outstanding as of June 30, 2018 cannot be ascertained at this time, it is the opinion of management that these matters, when resolved, will not have a material adverse effect on the Company’s results of operations or financial condition.

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Tax Cuts and Jobs Act

Public Law No. 115-97, known as the Tax Cuts and Jobs Act (the "Tax Act"), was enacted on December 22, 2017 and reduced the U.S. Federal corporate tax rate from 35% to 21% effective January 1, 2018. Additionally, on December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provides guidance on accounting for provisions of the Tax Act. SAB 118 provides a measurement period of up to one year from the enactment date to complete the accounting. Any adjustments during this measurement period will be included in net earnings from continuing operations as an adjustment to income tax expense in the reporting period when such adjustments are determined. Based on the information available and current interpretation of the provisions of the Tax Act, the Company completed the remeasurement of its net deferred tax liability at December 31, 2017 which reduced income tax expense by $4.9 million for the fourth quarter of 2017. For the three and six months ended June 30, 2018, no further adjustments were recorded related to the remeasurement of the Company's net deferred tax liability balance as a result of the Tax Act. The final impact of the Tax Act may differ from estimates used to calculate the remeasurement of its net deferred tax liability balance as a result of changes in management’s interpretations and assumptions, as well as new guidance that may be issued by the Internal Revenue Service.

Recently Adopted Accounting Pronouncements

In March 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") No. 2018-05, “Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SAB 118). This ASU was effective upon issuance. The adoption of this ASU did not have a significant impact on the Company's Consolidated Financial Statements.

In March 2018, the FASB issued ASU No. 2018-04, “Investments-Debt Securities (Topic 320) and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273. For public business entities, the Update was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this ASU did not have a significant impact on the Company's Consolidated Financial Statements.

In February 2018, the FASB issued ASU No. 2018-03, “Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2018-03"). This guidance amended ASU No. 2016-01, “Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”) on recognizing and measuring financial instruments to clarify certain aspects of the guidance originally issued in January 2016. The amendments in this Update were effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018 with early adoption permitted, including adoption in any interim period, for public business entities. The adoption of this Update effective January 1, 2018 did not have a significant impact on the Company's Consolidated Financial Statements.

In February 2018, the FASB issued ASU No. 2018-02, “Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income” ("ASU 2018-02"), that allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act that passed U.S. Congress in December 2017. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with early adoption permitted, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not yet been issued. The Company elected to early adopt this guidance effective January 1, 2018. The adoption of ASU 2018-02 resulted in a reclassification of stranded tax effects of $80,000 to accumulated other comprehensive income (loss) from retained earnings.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting,” (“ASU 2017-09”) that provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this ASU were effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption was permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued and should be applied prospectively to an award modified on or after the adoption date. The adoption of this ASU effective January 1, 2018 did not have a significant impact on the

Company's Consolidated Financial Statements.

In March 2017, the FASB issued ASU No. 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," ("ASU 2017-07") that will change how employers who sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. The guidance was effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods therein. Early adoption was permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. That is, early adoption must be within the first interim period if an employer issues interim financial statements. The adoption of this ASU effective January 1, 2018 did not have a significant impact on the Company's Consolidated Financial Statements.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," ("ASU 2017-04") which simplifies the accounting for goodwill impairment by removing Step 2 of the

goodwill impairment test. The new guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and is required to be applied prospectively, with early adoption permitted for any impairment tests performed on testing dates after January 1, 2017. The early adoption of this ASU in the fourth quarter of 2017 did not have a significant impact on the Company's Consolidated Financial Statements.

In January 2017, the FASB issued ASU No. 2017-03, "Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and Joint Ventures (Topic 323)," ("ASU 2017-03"). ASU 2017-03 amends the Codification for SEC staff announcements made at two Emerging Issues Task Force (EITF) meetings. That Topic required registrants to disclose the effect that recently issued accounting standards will have on their financial statements when adopted in a future period. The Company adopted this guidance in the fourth quarter of 2016. The adoption of this ASU did not have a significant impact on the Company's Consolidated Financial Statements.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805) - Clarifying the Definition of a Business," ("ASU 2017-01") which provides clarification on the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance was effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods with early adoption permitted. The amendments in this ASU should be applied prospectively on or after the effective date and no disclosures are required at transition. The adoption of this ASU effective January 1, 2018 did not have a significant impact on the Company's Consolidated Financial Statements.

In December 2016, the FASB issued ASU No. 2016-20, "Technical Corrections and Improvements to Topic 606: Revenue from Contracts with Customers." ASU 2016-20 updates the new revenue standard by clarifying issues that had arisen from ASU No. 2014-09 but does not change the core principle of the new standard. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date" which deferred the effective date of ASU No. 2014-09, "Revenue from Contracts with Customers," ("ASU 2014-09") by one year to annual reporting periods beginning after December 15, 2017, and interim reporting periods therein. The FASB had previously issued ASU 2014-09 in May 2014. The Company adopted the guidance on January 1, 2018 utilizing the modified retrospective approach. The Company did not record a cumulative effect adjustment to opening retained earnings as the adoption of ASU 2014-09 did not have a significant impact on the Company's Consolidated Financial Statements. The Company also completed its evaluation of the expanded disclosure requirements for disaggregation of revenue and other information regarding material contracts and began presenting the required disclosures in its Consolidated Financial Statements for the quarter ended March 31, 2018. See Note 11. Revenue Recognition for more information.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230) - Restricted Cash," ("ASU 2016-18"). The ASU is to be applied retrospectively and was effective for the Company beginning in fiscal year 2018, including interim periods therein with early adoption was permitted, including adoption in an interim period, with retrospective application. The adoption of this ASU effective January 1, 2018 did not have a significant impact on the Company's Consolidated Financial Statements.

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory," ("ASU 2016-16") that addresses the income tax consequences of intra-entity transfers of assets other than inventory. This standard was effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption was permitted as of the beginning of an annual reporting period for which financial statements have not been issued or made available for issuance. The adoption of this ASU effective January 1, 2018 did not have a significant impact on the Company's Consolidated Financial Statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," ("ASU 2016-15") intended to reduce diversity in practice in how certain cash receipts and cash payments are classified in the statement of cash flows. The amendments in this ASU are to be applied retrospectively and were effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those years. Early adoption was permitted, including adoption in an interim period, with adoption of all of the guidance in the same period. The adoption of this ASU effective January 1, 2018 did not have a significant impact on the Company's Consolidated Financial Statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,” (“ASU 2017-12”) that is intended to improve and simplify rules relevant to hedge accounting. This ASU refines and expands hedge accounting for both financial (e.g., interest rate) and commodity risks. ASU 2017-12 is intended to improve transparency and accounting through a focus on: (1) measurement and hedging strategies; (2) presentation and disclosure; and (3) easing the administrative burden that hedge accounting can create for an entity. Entities will (a) measure the hedged item in a partial-term fair value hedge of interest rate risk by assuming the hedged item has a term that reflects only the designated cash flows being hedged; (b) consider only how changes in the benchmark interest rate affect a decision to settle a pre-payable instrument before its scheduled maturity when calculating the fair value of the hedged item; and (c) measure the fair value of the hedged item using the benchmark rate component of the contracted coupon cash flows determined at inception.

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The amendments in this ASU shall take effect for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted in any interim period or fiscal years before the effective date of the standard. The adoption of this ASU is not expected to have a significant impact on the Company's Consolidated Financial Statements based on its current hedging strategies. However, the Company is currently evaluating this ASU to determine whether its provisions will enhance its risk management strategies.

In March 2017, the FASB issued ASU No. 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities," ("ASU 2017-08") that amends the amortization period for certain purchased callable debt securities held at a premium. The guidance is effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods therein. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. These amendments should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the adoption period. In addition, in the period of adoption, disclosures should be provided about a change in accounting principle. The adoption of this ASU is not expected to have a significant impact on the Company's Consolidated Financial Statements.

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

In February 2016, the FASB issued ASU No. 2016-02, "Leases" which requires the recognition of assets and liabilities arising from most lease transactions on the balance sheet and the disclosure of key information about leasing arrangements. The new standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. In transition, lessees are required to recognize and measure leases at

the beginning of the earliest period presented using a modified retrospective approach, which means applying the new balance sheet presentation and income statement classification guidance from the beginning of the earliest comparative period presented in the year of adoption. As of June 30, 2018, the Company's total outstanding lease obligations, all of which are classified as operating leases, was $20.4 million, or 0.42% of total assets. The Company is currently evaluating these lease obligations, as well as any embedded leases contained in its contractual outsourcing arrangements, as potential lease assets and liabilities as defined by the guidance as well as assessing the impact on its regulatory capital ratios. For regulated banking institutions such as the Company, the recognition of right-of-use assets on the balance sheet may impact the calculation of regulatory capital ratios by increasing the assets in the denominator of the risk-based capital ratios (risk-weighted assets) and leverage capital ratio (adjusted asset). All other things being equal, a higher denominator will result in lower regulatory capital ratios for the Company. The Company is implementing a software package supported by a third-party vendor to automate the calculation of the right of use asset and the corresponding lease liability. The Company anticipates that the adoption of ASU 2016-02 will not have a significant impact on its Consolidated Financial Statements or its regulatory capital ratios, but will likely require changes to its systems, controls and processes. The Company is continuing to evaluate the full impact of this ASU on the Company's Consolidated Financial Statements.

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

2. Investment Securities

Management’s primary objective in managing the investment securities portfolio includes maintaining a portfolio of high quality investments with competitive returns while providing for pledging and liquidity needs within overall asset and liability management parameters. The Company is required under federal regulations to maintain adequate liquidity to ensure safe and sound operations. As such, management regularly evaluates the investment portfolio for cash flows, the level of loan production and sales, current interest rate risk strategies and the potential future direction of market interest rate changes. Individual investment securities differ in terms of default, interest rate, liquidity and expected rate of return risk.

The following table summarizes the amortized cost and fair value of debt securities and the related gross unrealized gains and losses at June 30, 2018, and December 31, 2017:

	June 30, 2018			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available-for-sale:				
Obligations of U.S. Government sponsored enterprises	$22,163	$ 37	$ (368)	$21,832
Municipal securities	8,286	223	(56)	8,453
SBA pool securities	12,008	—	(406)	11,602
Residential mortgage-backed securities	85,028	459	(440)	85,047
Commercial mortgage-backed securities	22,101	—	(880)	21,221
Total available-for-sale	$149,586	$ 719	$ (2,150)	$148,155
Investment securities held-to-maturity:				
Municipal securities	$8,550	$ —	$ (245)	$8,305
Residential mortgage-backed securities	8,481	66	(372)	8,175
Commercial mortgage-backed securities	3,953	—	—	3,953
Total held-to-maturity	$20,984	$ 66	$ (617)	$20,433

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

The Company held 33 and 19 investment securities available-for-sale that were in an unrealized loss position at June 30, 2018, and December 31, 2017, respectively. There were eight and six investment securities held-to-maturity that were in an unrealized loss position at June 30, 2018, and December 31, 2017, respectively.

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

	June 30, 2018			
	Less Than 12 Months		12 Months or Longer	
(in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available-for-sale:				
Obligations of U.S. Government sponsored enterprises	$19,699	$ (368)	$—	$ —
Municipal securities	$1,797	$ (14)	$1,022	$ (42)
SBA pool securities	7,124	(185)	4,478	(221)
Residential mortgage-backed securities	41,360	(271)	4,703	(169)
Commercial mortgage-backed securities	9,741	(323)	11,480	(557)
Total available-for-sale	$79,721	$ (1,161)	$21,683	$ (989)
Investment securities held-to-maturity:				
Municipal securities	$8,305	$ (245)	$—	$ —
Residential mortgage-backed securities	$—	$ —	$7,013	$ (372)
Total held-to-maturity	$8,305	$ (245)	$7,013	$ (372)

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

At June 30, 2018 and December 31, 2017, the unrealized losses on investment securities were unrelated to credit losses. Management does not intend to sell the temporarily impaired securities and it is not more likely than not that the Company will be required to sell the investments before recovery of the amortized cost, which may be maturity. The unrealized loss position has increased during 2017 and 2018, primarily in the mortgage-backed securities and SBA pool securities categories, and is the result of the increase in interest rates.

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

Accordingly, as of June 30, 2018, management has reviewed its portfolio for other-than-temporary-impairment and believes the impairment detailed in the table above is temporary, and no other-than-temporary impairment loss has

been recognized in the Company's Consolidated Statements of Comprehensive Income. Management continues to monitor all of its securities with a high degree of scrutiny. There can be no assurance that the Company will not conclude in future periods that conditions existing at that time indicate some or all of these securities may be sold or are other than temporarily impaired, which would require a charge to earnings in such periods.

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The amortized cost and fair value of investment securities at June 30, 2018, and December 31, 2017, are categorized in the following table by remaining contractual maturity. The amortized cost and fair value of securities not due at a single maturity (i.e., mortgage-backed securities) are shown separately and are calculated based on estimated average remaining life:

(in thousands)	June 30, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Investment securities available-for-sale:				
Obligations of U.S. Government sponsored enterprises				
Due after one year through five years	$21,160	$20,802	$21,179	$21,160
Due after five years through ten years	1,003	1,030	1,003	1,065
Municipal securities				
Due after one year through five years	1,494	1,455	1,503	1,488
Due after five years through ten years	1,747	1,822	2,753	2,877
Due after ten years	5,045	5,176	5,062	5,270
SBA pool securities				
Due after five years through ten years	7,309	7,124	7,967	7,931
Due after ten years	4,699	4,478	5,064	4,979
Residential mortgage-backed securities	85,028	85,047	50,251	50,978
Commercial mortgage-backed securities	22,101	21,221	24,721	24,373
Total available-for-sale	$149,586	$148,155	$119,503	$120,121
Investment securities held-to-maturity:				
Municipal securities				
Due after five years through ten years	$1,588	$1,571	$1,588	$1,641
Due after ten years	6,962	6,734	7,000	7,000
Residential mortgage-backed securities	8,481	8,175	9,100	9,043
Commercial mortgage-backed securities	3,953	3,953	4,001	4,001
Total held-to-maturity	$20,984	$20,433	$21,689	$21,685

There were three investment securities available-for-sale called, matured, or paid off during the six months ended June 30, 2018, and 10 investment securities called, matured, or paid off during the six months ended June 30, 2017. There were no gross gains or losses for the investment securities that were called, matured, or paid off during the six months ended June 30, 2018, or 2017.

There were no transfers from investment securities available-for-sale to investment securities held-to-maturity during the six months ended June 30, 2018, or 2017.

The following table summarizes the investment securities that were pledged as collateral at June 30, 2018, and December 31, 2017:

(in thousands)	June 30, 2018	December 31, 2017
Public deposits	$88,083	$ 60,415
Securities sold under repurchase agreements	22,999	19,485
Total pledged securities	$111,082	$ 79,900

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3. Loans Held-for-Sale
Residential mortgage loans held-for-sale are carried at fair value and SBA and indirect automobile loans held-for-sale are carried at the lower of cost or fair value. The following table summarizes loans held-for-sale at June 30, 2018, and December 31, 2017:

(in thousands)	June 30, 2018	December 31, 2017
Residential mortgage	$399,630	$ 269,140
SBA	20,056	13,615
Indirect automobile	25,000	75,000
Total loans held-for-sale	$444,686	$ 357,755

During each of the six months ended June 30, 2018, and 2017, the Company transferred loans with unpaid principal balances of $2.0 million to the held for investment residential mortgage portfolio.
The Company had residential mortgage loans held-for-sale with unpaid principal balances of $256.3 million and $154.2 million pledged to the FHLB at June 30, 2018, and December 31, 2017, respectively.
4. Loans
Loans outstanding, by class, are summarized in the following table at carrying value and include net unamortized costs of $34.3 million and $35.9 million at June 30, 2018, and December 31, 2017, respectively. Acquired loans represent previously acquired loans including $2.3 million in loans covered under Loss Share Agreements with the FDIC at December 31, 2017. On June 27, 2018, the Bank entered into an agreement with the Federal Deposit Insurance Corporation (the "FDIC") to terminate the loss share agreements entered into with the FDIC in 2011 and 2012. Fidelity made a cash payment, previously accrued, of approximately $632,000 to the FDIC as consideration for the early termination of the agreements. As a result, at June 30, 2018 there were no loans covered by Loss Share Agreements.
Legacy loans represent existing portfolio loans originated by the Bank prior to each acquisition, additional loans originated subsequent to each acquisition and Government National Mortgage Association ("GNMA") optional repurchase loans (collectively, “legacy loans”).

	June 30, 2018		
	Loans		
(in thousands)	Legacy	Acquired	Total
Commercial	$819,266	$118,937	$938,203
SBA	139,440	7,068	146,508
Total commercial loans	958,706	126,005	1,084,711
Construction	266,990	2,340	269,330
Indirect automobile	1,698,879	—	1,698,879
Installment loans and personal lines of credit	30,612	1,195	31,807
Total consumer loans	1,729,491	1,195	1,730,686
Residential mortgage	533,869	21,767	555,636
Home equity lines of credit	138,527	13,996	152,523
Total mortgage loans	672,396	35,763	708,159
Total loans	$3,627,583	$165,303	$3,792,886

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

The Company has extended loans to certain officers and directors. The Company does not believe these loans involve more than the normal risk of collectability or present other unfavorable features when originated. None of the related party loans were classified as nonaccrual, past due, restructured, or potential problem loans at June 30, 2018, or December 31, 2017.

Nonaccrual Loans

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

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

(in thousands)	June 30, 2018	December 31, 2017
Commercial	$11,801	$ 11,314
SBA	8,404	2,503
Total commercial loans	20,205	13,817
Construction	252	4,520
Indirect automobile	1,526	1,912
Installment loans and personal lines of credit	419	440
Total consumer loans	1,945	2,352

Residential mortgage	31,917	23,169
Home equity lines of credit	3,708	3,154
Total mortgage loans	35,625	26,323
Total nonaccrual loans	$58,027	$ 47,012

If such nonaccrual loans had been on a full accrual basis, interest income on these loans for the three months ended June 30, 2018, and 2017, would have been $645,000 and $494,000, respectively. For the six months ended June 30, 2018, and 2017, the interest income on these loans would have been $1.2 million and $876,000, respectively. The amount of repurchased GNMA

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government-guaranteed loans, primarily residential mortgage loans, included in the table above was $27.2 million and $19.5 million at June 30, 2018, and December 31, 2017, respectively.
Accruing loans delinquent 30-89 days, 90 days or more, and troubled debt restructured loans ("TDRs") accruing interest, including PCI loans, presented by class of loans at June 30, 2018, and December 31, 2017, were as follows:

(in thousands)	June 30, 2018			December 31, 2017		
	Accruing Delinquent 30-89 Days	Accruing Delinquent 90 Days or More	TDRs Accruing	Accruing Delinquent 30-89 Days	Accruing Delinquent 90 Days or More	TDRs Accruing
Commercial	$1,351	$ 7,362	$8,176	$3,821	$ 5,722	$8,468
SBA	890	105	1,439	5,560	70	3,800
Construction	—	46	—	—	102	—
Indirect automobile	2,407	—	1,997	3,971	87	1,960
Installment and personal lines of credit	185	—	27	449	—	33
Residential mortgage	1,452	752	323	7,447	268	495
Home equity lines of credit	229	13	128	831	64	51
Total	$6,514	$ 8,278	$12,090	$22,079	$ 6,313	$14,807

TDR Loans

During the three months ended June 30, 2018, loans in the amount of $3.4 million were restructured and were modified for term, and no loans were modified for interest. The modified loans were mortgage, indirect automobile and home equity lines of credit. During the six months ended June 30, 2018, the amount of loans that were modified for term was $4.5 million, which were mortgage, indirect automobile and home equity loans. There were no loans modified for interest rate. During the three months ended June 30, 2017, $4.4 million of loans were modified for term and $2.6 million for interest, all of which were commercial loans. During the the six months ended June 30, 2017, $4.4 million loans were modified for term and $2.8 million were modified for interest, all of which were commercial loans. Modified PCI loans are not removed from their accounting pool and accounted for as TDRs, even if those loans would otherwise be deemed TDRs.

During the three months ended June 30, 2018, and 2017, the amount of loans which were restructured in the past twelve months and subsequently redefaulted was $2.3 million and $194,000, respectively. The defaulted loans were commercial, mortgage indirect, and home equity lines of credit. During the six months ended June 30, 2018, and 2017, $2.6 million and $198,000 respectively, of loans were restructured and subsequently defaulted, which was comprised of commercial, mortgage, indirect, and HELOCs. The Company defines subsequently redefaulted as a payment default within 12 months of the restructuring date.

The Company had total TDRs with a balance of $23.5 million and $20.7 million at June 30, 2018, and December 31, 2017, respectively. There were no net charge-offs of TDR loans for the three and six months ended June 30, 2018 and net charge-offs of $17,000 and $60,000 for the three and six months ended June 30, 2017. Net charge-offs on such loans are factored into the rolling historical loss rate, which is used in the calculation of the allowance for loan losses. The Company was not committed to lend additional amounts to customers with outstanding loans classified as TDRs as of June 30, 2018 or December 31, 2017.

Pledged Loans

Presented in the following table is the unpaid principal balance of loans held for investment that were pledged to the Federal Home Loan Bank of Atlanta ("FHLB of Atlanta") as collateral for borrowings under a blanket lien arrangement at June 30, 2018, and December 31, 2017:

(in thousands)	June 30, 2018	December 31, 2017
Commercial	$305,162	$ 242,695
Home equity lines of credit	108,505	94,526
Residential mortgage	391,109	351,591
Total	$804,776	$ 688,812

Indirect automobile loans with an unpaid principal balance of approximately $330.0 million at June 30, 2018, and December 31, 2017, respectively, were pledged to the Federal Reserve Bank of Atlanta ("FRB") as collateral for potential Discount Window borrowings under a blanket lien arrangement.

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Impaired Loans

The following tables present by class the unpaid principal balance, recorded investment and related allowance for impaired legacy loans and acquired non PCI loans at June 30, 2018, and December 31, 2017. Legacy impaired loans include all TDRs and all other nonaccrual loans, excluding nonaccrual loans below the Company's specific review threshold:

(in thousands)	June 30, 2018 Unpaid Principal Balance	Recorded Investment[(1)]	Related Allowance	December 31, 2017 Unpaid Principal Balance	Recorded Investment[(1)]	Related Allowance
Impaired Loans with Allowance						
Commercial	$18,507	$ 16,570	$ 795	$11,877	$ 11,824	$ 839
SBA	5,190	3,832	226	6,634	5,664	294
Construction	—	—	—	—	—	—
Installment and personal lines of credit	329	273	210	343	290	219
Residential mortgage	4,505	4,886	680	4,838	4,799	616
Home equity lines of credit	1,180	1,049	474	831	745	633
Loans	$29,711	$ 26,610	$ 2,385	$24,523	$ 23,322	$ 2,601

(in thousands)	June 30, 2018 Unpaid Principal Balance	Recorded Investment[(1)]	December 31, 2017 Unpaid Principal Balance	Recorded Investment[(1)]
Impaired Loans with No Allowance				
Commercial	$8,001	$ 7,002	$14,839	$ 12,509
SBA	8,095	6,315	1,815	1,133
Construction	987	252	5,995	4,520
Installment and personal lines of credit	1,445	163	1,445	163
Residential mortgage	30,990	29,696	21,955	21,398
Home equity lines of credit	2,572	2,412	2,452	2,318
Loans	$52,090	$ 45,840	$48,501	$ 42,041

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

Included in impaired loans with no allowance are $27.2 million and $19.5 million in government-guaranteed residential mortgage loans at June 30, 2018, and December 31, 2017, respectively. These loans are collateralized by first mortgages on the underlying real estate collateral and are individually reviewed for a specific allowance.

The average recorded investment in impaired loans and interest income recognized for the three and six months ended June 30, 2018, and 2017, by class, are summarized in the table below. Impaired loans include legacy impaired loans, all TDRs and all other nonaccrual loans including GNMA optional repurchase loans.

(in thousands)	Three Months Ended June 30, 2018 Average Recorded Investment	Interest Income Recognized	2017 Average Recorded Investment	Interest Income Recognized
Commercial	$23,749	$ 120	$23,477	$ 247
SBA	8,879	161	8,665	89
Construction	1,614	—	6,072	—
Indirect automobile	3,099	92	2,425	57
Installment and personal lines of credit	437	55	451	45
Residential mortgage	34,487	240	14,920	59

Home equity lines of credit	3,554	8	2,364	23
Total	$75,819	$ 676	$58,374	$ 520

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(in thousands)	Six Months Ended June 30, 2018		2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial	$24,016	$ 271	$21,816	$ 386
SBA	7,654	257	8,857	190
Construction	3,019	7	6,173	1
Indirect automobile	3,179	156	2,331	109
Installment and personal lines of credit	442	101	423	79
Residential mortgage	32,902	448	14,341	107
Home equity lines of credit	3,517	27	2,158	39
Total	$74,729	$ 1,267	$56,099	$ 911

Credit Quality Indicators

The Company uses an asset quality ratings system to assign a numeric indicator of the credit quality and level of existing credit risk inherent in a loan ranging from 1 to 8, where a higher rating represents higher risk. Management regularly reviews loans in the portfolio to assess credit quality indicators and to determine appropriate loan classification and grading in accordance with the Company’s internal loan policy. These ratings are adjusted periodically as the Company becomes aware of changes in the credit quality of the underlying loans through its ongoing monitoring of the credit quality of the loan portfolio.

Indirect automobile loans typically receive a risk rating only when being downgraded to an adverse rating which typically occurs when payments of principal and interest are greater than 90 days past due. The Company uses a number of factors, including FICO scoring, to help evaluate the likelihood consumer borrowers will pay their credit obligations as agreed. The weighted-average FICO score for the indirect automobile portfolio was 763 and 762 at June 30, 2018, and December 31, 2017, respectively.

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

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

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

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

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

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

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The following tables present the recorded investment in loans, by loan class and risk rating category, as of June 30, 2018, and December 31, 2017:

(in thousands)	June 30, 2018							
Asset Rating	Commercial	SBA	Construction	Indirect Automobile	Installment and Personal Lines of Credit	Residential Mortgage	Home Equity Lines of Credit	Total
Pass	$888,538	$132,540	$ 254,293	$—	$ 31,195	$ 518,104	$147,894	$1,972,564
Special Mention	18,885	3,529	14,731	—	108	1,013	619	38,885
Substandard	30,780	10,439	306	5,130	504	36,519	4,010	87,688
	938,203	146,508	269,330	5,130	31,807	555,636	152,523	2,099,137
Ungraded Performing	—	—	—	1,693,749	—	—	—	1,693,749
Total	$938,203	$146,508	$ 269,330	$1,698,879	$ 31,807	$ 555,636	$152,523	$3,792,886

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

Acquired Loans

The carrying amount and outstanding balance at June 30, 2018, of the PCI loans from acquisitions prior to 2018 was $23.8 million and $31.7 million, respectively, and $26.6 million and $35.3 million, respectively, at December 31, 2017. There were no loans acquired during the six months ended June 30, 2018.

Changes in the accretable yield, or income expected to be collected on PCI loans, for the six months ended June 30, 2018, and 2017, were as follows:

	For the Six Months Ended June 30,	
(in thousands)	2018	2017
Beginning balance	$3,005	$4,403
Accretion of income	(947)	(1,376)
Other activity, net [(1)]	880	—
Ending balance	$2,938	$3,027

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

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5. Allowance for Loan Losses

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

	Three Months Ended June 30, 2018						
	Commercial Loans						
(in thousands)	Commercial	SBA	Construction	Consumer	Mortgage	Unallocated	Total
Beginning balance	$9,737	$1,980	$ 2,600	$10,359	$6,264	$ —	$30,940
Charge-offs	(613)	(134)	(38)	(1,386)	(402)	—	(2,573)
Recoveries	207	26	210	524	3	—	970
Net (charge-offs) / recoveries	(406)	(108)	172	(862)	(399)	—	(1,603)
Provision for loan losses	867	227	(87)	211	1,068	—	2,286
Ending balance	$10,198	$2,099	$ 2,685	$9,708	$6,933	$ —	$31,623

	Three Months Ended June 30, 2017						
	Commercial Loans						
(in thousands)	Commercial	SBA	Construction	Consumer	Mortgage	Unallocated	Total
Beginning balance	$9,449	$2,128	$ 2,322	$9,935	$5,810	$ 811	$30,455
Charge-offs	(123)	—	—	(1,700)	—	—	(1,823)
Recoveries	300	7	383	341	12	—	1,043
Net recoveries / (charge-offs)	177	7	383	(1,359)	12	—	(780)
Provision for loan losses [(1)]	345	(186)	(341)	1,689	(132)	(625)	750
Ending balance	$9,971	$1,949	$ 2,364	$10,265	$5,690	$ 186	$30,425

	Six Months Ended June 30, 2018						
	Commercial Loans						
(in thousands)	Commercial	SBA	Construction	Consumer	Mortgage	Unallocated	Total
Beginning balance	$7,846	$1,968	$ 2,396	$10,758	$5,928	$ 876	$29,772
Charge-offs	(612)	(240)	(38)	(2,820)	(442)	—	(4,152)
Recoveries	132	30	574	833	18	—	1,587
Net (charge-offs) / recoveries	(480)	(210)	536	(1,987)	(424)	—	(2,565)
Provision for loan losses	2,832	341	(247)	937	1,429	(876)	4,416
Ending balance	$10,198	$2,099	$ 2,685	$9,708	$6,933	$ —	$31,623

	Six Months Ended June 30, 2017						
	Commercial Loans						
(in thousands)	Commercial	SBA	Construction	Consumer	Mortgage	Unallocated	Total
Beginning balance	$9,331	$1,978	$ 2,176	$9,812	$5,755	$ 779	$29,831
Charge-offs	(255)	(85)	—	(3,535)	(41)	—	(3,916)
Recoveries	460	51	589	632	38	—	1,770
Net recoveries / (charge-offs)	205	(34)	589	(2,903)	(3)	—	(2,146)
Decrease in FDIC indemnification asset	(110)	—	—	—	—	—	(110)
Provision for loan losses [(1)]	545	5	(401)	3,356	(62)	(593)	2,850
Ending balance	$9,971	$1,949	$ 2,364	$10,265	$5,690	$ 186	$30,425

(1) Net of benefit attributable to FDIC indemnification asset

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The following tables present, by loan portfolio type, the balance in the ALL disaggregated on the basis of the Company's impairment measurement method and the related recorded investment in loans:

	June 30, 2018						
	Commercial Loans						
(in thousands)	Commercial	SBA	Construction	Consumer	Mortgage	Unallocated	Total
Individually evaluated	$795	$226	$ —	$ 210	$ 1,154	$ —	$2,385
Collectively evaluated	9,330	1,873	2,660	9,498	5,743	—	29,104
Acquired with deteriorated credit quality	73	—	25	—	36	—	134
Total ALL	$10,198	$2,099	$ 2,685	$ 9,708	$ 6,933	$ —	$31,623