

TRUSTCO BANK CORP N Y
Form 10-Q
May 04, 2018

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

Form 10-Q

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

For the quarterly period ended March 31, 2018 Commission File Number 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 website, 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer
Smaller reporting company Emerging growth company

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

If an emerging growth company, indicate by check mark if 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.

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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 April 30, 2018
\$1 Par Value	96,429,393

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 March 31,	
	<u>2018</u>	<u>2017</u>
Interest and dividend income:		
Interest and fees on loans	\$ 38,091	36,044
Interest and dividends on securities available for sale:		
U. S. government sponsored enterprises	750	595
State and political subdivisions	7	12
Mortgage-backed securities and collateralized mortgage obligations-residential	1,763	1,958
Corporate bonds	133	151
Small Business Administration-guaranteed participation securities	352	415
Mortgage-backed securities and collateralized mortgage obligations-commercial	42	23
Other securities	5	4
Total interest and dividends on securities available for sale	3,052	3,158
Interest on held to maturity securities:		
Mortgage-backed securities and collateralized mortgage obligations-residential	260	316
Corporate bonds	-	154
Total interest on held to maturity securities	260	470
Federal Reserve Bank and Federal Home Loan Bank stock	77	134
Interest on federal funds sold and other short-term investments	2,017	1,246
Total interest income	43,497	41,052
Interest expense:		
Interest on deposits:		
Interest-bearing checking	106	124
Savings	419	430
Money market deposit accounts	439	466
Time deposits	2,860	2,283
Interest on short-term borrowings	358	349
Total interest expense	4,182	3,652
Net interest income	39,315	37,400
Provision for loan losses	300	600
Net interest income after provision for loan losses	39,015	36,800
Noninterest income:		
Trustco financial services income	1,815	1,858
Fees for services to customers	2,645	2,637
Other	219	232
Total noninterest income	4,679	4,727
Noninterest expenses:		
Salaries and employee benefits	10,422	10,210

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Net occupancy expense	4,315	4,109
Equipment expense	1,751	1,556
Professional services	1,430	1,928
Outsourced services	1,925	1,500
Advertising expense	630	713
FDIC and other insurance	1,023	1,047
Other real estate expense, net	372	499
Other	2,287	2,457
Total noninterest expenses	24,155	24,019
Income before taxes	19,539	17,508
Income taxes	4,731	6,561
Net income	\$ 14,808	10,947
Net income per share:		
- Basic	\$ 0.154	0.114
- Diluted	\$ 0.153	0.114

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 March 31,	
	<u>2018</u>	<u>2017</u>
Net income	\$ 14,808	10,947
Net unrealized holding (loss) gain on securities available for sale	(7,160)	1,179
Tax effect	1,858	(472)
Net unrealized (loss) gain on securities available for sale, net of tax	(5,302)	707
Amortization of net actuarial gain	(72)	(63)
Amortization of prior service cost	23	23
Tax effect	13	16
Amortization of net actuarial gain and prior service cost on pension and postretirement plans, net of tax	(36)	(24)
Other comprehensive (loss) income, net of tax	(5,338)	683
Comprehensive income	\$ 9,470	11,630

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, except per share data)

(Unaudited)

	<u>March 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
ASSETS:		
Cash and due from banks	\$ 39,373	44,125
Federal funds sold and other short term investments	577,797	568,615
Total cash and cash equivalents	617,170	612,740
Securities available for sale	559,083	571,965
Held to maturity securities (fair value 2018 \$26,994; 2017 \$28,701)	26,174	27,551
Federal Reserve Bank and Federal Home Loan Bank stock	8,779	8,779
Loans, net of deferred net costs	3,666,975	3,636,407
Less:		
Allowance for loan losses	44,379	44,170
Net loans	3,622,596	3,592,237
Bank premises and equipment, net	35,240	35,157
Other assets	62,522	59,579
Total assets	\$ 4,931,564	4,908,008
LIABILITIES:		
Deposits:		
Demand	\$ 403,782	398,399
Interest-bearing checking	915,163	891,052
Savings accounts	1,266,852	1,260,447
Money market deposit accounts	539,839	556,462
Time deposits	1,109,444	1,066,966
Total deposits	4,235,080	4,173,326
Short-term borrowings	203,910	242,991
Accrued expenses and other liabilities	30,477	33,383
Total liabilities	\$ 4,469,467	4,449,700
SHAREHOLDERS' EQUITY:		
Capital stock par value \$1; 150,000,000 shares authorized; 100,002,482 and 99,998,482 shares issued at March 31, 2018 and December 31, 2017, respectively	100,002	99,998
Surplus	175,674	175,651

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Undivided profits	229,267	219,436
Accumulated other comprehensive loss, net of tax	(8,490) (1,806
Treasury stock at cost - 3,643,882 and 3,709,171 shares at March 31, 2018 and December 31, 2017, respectively	(34,356) (34,971
Total shareholders' equity	462,097	458,308
Total liabilities and shareholders' equity	\$ 4,931,564	4,908,008

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) Income	Treasury Stock	Total
Beginning balance, January 1, 2017	\$99,214	171,425	201,517	(6,251)	(33,219)	432,686
Net income	-	-	10,947	-	-	10,947
Other comprehensive income, net of tax	-	-	-	683	-	683
Stock options exercised (279,000 shares)	279	1,224	-	-	-	1,503
Cash dividend declared, \$.0656 per share	-	-	(6,291)	-	-	(6,291)
Purchase of treasury stock (213,356 shares)	-	-	-	-	(1,503)	(1,503)
Sale of treasury stock (71,925 shares)	-	(63)	-	-	696	633
Stock based compensation expense	-	42	-	-	-	42
Ending balance, March 31, 2017	\$99,493	172,628	206,173	(5,568)	(34,026)	438,700
Beginning balance, January 1, 2018	\$99,998	\$175,651	\$219,436	\$ (1,806)	\$(34,971)	\$458,308
Net income	-	-	14,808	-	-	14,808
Tax Cuts and Jobs Act of 2017, Reclassification from AOCI to Retained Earnings, Tax Effect	-	-	1,346	(1,346)	-	-
Other comprehensive income, net of tax	-	-	-	(5,338)	-	(5,338)
Stock options exercised (4,000 shares)	4	16	-	-	-	20
Cash dividend declared, \$.0656 per share	-	-	(6,323)	-	-	(6,323)
Sale of treasury stock (65,289 shares)	-	(21)	-	-	615	594
Stock based compensation expense	-	28	-	-	-	28
Ending balance, March 31, 2018	\$100,002	175,674	229,267	(8,490)	(34,356)	462,097

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)

	Three months ended March 31, 2018	2017
Cash flows from operating activities:		
Net income	\$ 14,808	10,947
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	942	946
Net gain on sale of other real estate owned	(137)	(191)
Writedown of other real estate owned	199	188
Provision for loan losses	300	600
Deferred tax (benefit) expense	(305)	368
Net amortization of securities	915	1,114
Stock based compensation expense	28	42
(Increase) decrease in taxes receivable	(1,787)	(411)
Decrease in interest receivable	862	328
Increase (decrease) in interest payable	128	(16)
Increase in other assets	(946)	(997)
Decrease in accrued expenses and other liabilities	(3,039)	(1,602)
Total adjustments	(2,840)	369
Net cash provided by operating activities	11,968	11,316
Cash flows from investing activities:		

Proceeds from calls of securities available for sale	25,028		20,770	
Proceeds from maturities of securities available for sale	25,000		-	
Proceeds from calls and maturities of held to maturity securities	1,377		2,220	
Purchases of securities available for sale	(45,224)	(47,905)
Net increase in loans	(31,151)	(19,579)
Proceeds from dispositions of other real estate owned	1,486		1,867	
Purchases of bank premises and equipment	(1,025)	(655)
Net cash (used in) provided by investing activities	(24,509)	(43,282)
Cash flows from financing activities:				
Net increase in deposits	61,754		2,306	
Net (decrease) increase in short-term borrowings	(39,081)	11,540	
Proceeds from exercise of stock options	20		1,503	
Stock based award tax withholding payments	-		(312)
Proceeds from sale of treasury stock	594		633	
Purchases of treasury stock	-		(1,503)
Dividends paid	(6,316)	(6,284)
Net cash provided by financing activities	16,971		7,883	
	4,430		(24,083)

Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents at beginning of period	612,740	707,274
Cash and cash equivalents at end of period	\$ 617,170	683,191

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for:

Interest paid		4,054	3,668
Income taxes paid		6,524	6,150
Other non cash items:			
Transfer of loans to other real estate owned		492	787
Increase in dividends payable		7	7
Change in unrealized (loss) gain on securities available for sale-gross of deferred taxes		(7,160)	1,179
Change in deferred tax effect on unrealized (loss) gain on securities available for sale		1,858	(472)
Amortization of net actuarial (gain) loss and prior service cost on pension and postretirement plans		(49)	(40)
Change in deferred tax effect of amortization of net actuarial (gain) loss and prior service cost on pension and postretirement plans		13	16

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 ended March 31, 2018 is not necessarily indicative of the results that may be expected for the year ending December 31, 2018, 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 March 31, 2018, the results of operations and cash flows for the three months ended March 31, 2018 and 2017. 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 the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. 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”). A reconciliation of the component parts of earnings per share for the three months ended March 31, 2018 and 2017 is as follows:

(in thousands, except per share data)	For the three months ended March 31:	
	2018	2017
Net income	\$ 14,808	10,947
Weighted average common shares	96,353	95,879
Stock Options	131	108
Weighted average common shares including potential dilutive shares	96,484	95,987
Basic EPS	\$ 0.154	0.114
Diluted EPS	\$ 0.153	0.114

For the three months ended March 31, 2018, there were no antidilutive stock options excluded from diluted earnings. For the three months ended March 31, 2017 the weighted average number of antidilutive stock options excluded from diluted earnings per share was approximately 553 thousand.

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(3) Benefit Plans

The table below outlines the components of the Company's net periodic benefit recognized during the three months ended March 31, 2018 and 2017 for its pension and other postretirement benefit plans:

(dollars in thousands)	For the three months ended March 31,			
	Pension Benefits		Other Postretirement Benefits	
	2018	2017	2018	2017
Service cost	\$ 11	11	26	28
Interest cost	326	329	54	56
Expected return on plan assets	(687)	(686)	(190)	(191)
Amortization of net loss (gain)	17	23	(89)	(86)
Amortization of prior service cost	-	-	23	23
Net periodic benefit	\$ (333)	(323)	(176)	(170)

The Company does not expect to make contributions to its pension and postretirement benefit plans in 2018. As of March 31, 2018, 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 medical benefits and postretirement medical benefits to a limited number of current and retired executives in accordance with the terms of their employment contracts.

(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)	March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored enterprises	\$ 154,861	-	3,534	151,327
State and political subdivisions	515	10	-	525
Corporate bonds	35,347	-	120	35,227
Mortgage backed securities and collateralized mortgage obligations - residential	307,679	75	10,121	297,633
Small Business Administration- guaranteed participation securities	66,153	-	2,040	64,113
Mortgage backed securities and collateralized mortgage obligations - commercial	9,743	-	170	9,573
Other	685	-	-	685
Total Securities Available for Sale	\$ 574,983	85	15,985	559,083

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(dollars in thousands)

	December 31, 2017			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. government sponsored enterprises	\$139,890	27	2,066	137,851
State and political subdivisions	515	10	-	525
Mortgage backed securities and collateralized mortgage obligations - residential	320,614	84	4,715	315,983
Corporate bonds	40,270	-	108	40,162
Small Business Administration- guaranteed participation securities	68,921	-	1,862	67,059
Mortgage backed securities and collateralized mortgage obligations - commercial	9,810	-	110	9,700
Other	685	-	-	685
Total Securities Available for Sale	\$580,705	121	8,861	571,965

The following table distributes the available for sale security portfolio as of March 31, 2018, based on the securities' final maturity. Actual maturities may differ because of securities prepayments and the right of certain issuers to call or prepay their obligations without penalty. Securities not due at a single maturity date are presented separately:

(dollars in thousands)

	Amortized Cost	Fair Value
Due in one year or less	\$30,717	30,617
Due in one year through five years	150,597	147,053
Due after five years through ten years	10,094	10,094
Mortgage backed securities and collateralized mortgage obligations - residential	307,679	297,633
Small Business Administration- guaranteed participation securities	66,153	64,113
Mortgage backed securities and collateralized mortgage obligations - commercial	9,743	9,573
	\$574,983	559,083

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:

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(dollars in thousands)

	March 31, 2018					
	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	\$59,076	895	82,251	2,639	141,327	3,534
Mortgage backed securities and collateralized mortgage obligations - residential	45,441	1,221	250,721	8,900	296,162	10,121
Corporate bonds	5,218	19	30,008	101	35,227	120
Small Business Administration- guaranteed participation securities	-	-	64,113	2,040	64,113	2,040
Mortgage backed securities and collateralized mortgage obligations - commercial	-	-	9,573	170	9,573	170
Total	\$109,735	2,135	436,666	13,850	546,401	15,985

(dollars in thousands)

	December 31, 2017					
	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	\$29,734	266	98,090	1,800	127,824	2,066
Mortgage backed securities and collateralized mortgage obligations - residential	48,080	371	266,394	4,344	314,474	4,715
Corporate bonds	-	-	40,162	108	40,162	108
Small Business Administration- guaranteed participation securities	-	-	67,059	1,862	67,059	1,862
Mortgage backed securities and collateralized mortgage obligations - commercial	-	-	9,700	110	9,700	110
Total	\$77,814	637	481,405	8,224	559,219	8,861

There were no gross realized gains or losses from calls of available for sale securities during the three months ended March 31, 2018 and 2017.

There were no sales of securities available for sale during the three months ended March 31, 2018 and 2017. There was \$25.0 million and \$20.7 million in proceeds from calls of securities available for sale during the three months ended March 31, 2018 and 2017, respectively.

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(b) Held to maturity securities

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

(dollars in thousands)	March 31, 2018			
	Amortized Cost	Gross Gains	Gross Unrecognized Losses	Fair Value
Mortgage backed securities and collateralized mortgage obligations - residential	\$26,174	882	62	26,994
Total held to maturity	\$26,174	882	62	26,994

(dollars in thousands)	December 31, 2017			
	Amortized Cost	Gross Gains	Gross Unrecognized Losses	Fair Value
Mortgage backed securities and collateralized mortgage obligations - residential	\$27,551	1,150	-	28,701
Total held to maturity	\$27,551	1,150	-	28,701

The following table distributes the held to maturity portfolio as of March 31, 2018, based on the securities' final maturity. Actual maturities may differ because of securities prepayments and the right of certain issuers to call or prepay their obligations without penalty. Securities not due at a single maturity date are presented separately:

(dollars in thousands)	Amortized Cost	Fair Value
Mortgage backed securities and collateralized mortgage obligations - residential	26,174	26,994
Total held to maturity	\$ 26,174	26,994

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Gross unrecognized losses on securities held to maturity and the related fair values aggregated by the length of time that individual securities have been in an unrecognized loss position, were as follows:

(dollars in thousands)	March 31, 2018					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrecog. Loss	Fair Value	Gross Unrecog. Loss	Fair Value	Gross Unrecog. Loss
Mortgage backed securities and collateralized mortgage obligations - residential	9,539	62	-	-	9,539	62
Total	\$9,539	62	-	-	9,539	62

There were no unrecognized losses on held to maturity investments as of December 31, 2017.

There were no sales or transfers of held to maturity securities during the three months ended March 31, 2018 and 2017.

(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 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 any 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 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.

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As of March 31, 2018, the Company's security portfolio included certain securities which were in an unrealized loss position. All such securities with the exception of corporate bonds were issuances from U.S. government sponsored entities. As it relates to corporate bonds, the company monitors the credit rating of the issuers and all were investment grade. The declines in fair value are 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 March 31, 2018.

(5) Loans and Allowance for Loan Losses

(dollars in thousands)	March 31, 2018		
	New York and other states*	Florida	Total
Commercial:			
Commercial real estate	\$ 149,357	11,709	161,066
Other	23,459	604	24,063
Real estate mortgage - 1 to 4 family:			
First mortgages	2,305,510	784,004	3,089,514
Home equity loans	67,841	14,193	82,034
Home equity lines of credit	257,714	44,171	301,885
Installment	7,405	1,008	8,413
Total loans, net	\$2,811,286	855,689	3,666,975
Less: Allowance for loan losses			44,379
Net loans			\$3,622,596

(dollars in thousands)	December 31, 2017		
	New York and other states*	Florida	Total
Commercial:			
Commercial real estate	\$ 149,368	12,524	161,892
Other	23,606	709	24,315
Real estate mortgage - 1 to 4 family:			
First mortgages	2,286,148	765,929	3,052,077
Home equity loans	66,455	13,989	80,444
Home equity lines of credit	263,275	45,641	308,916
Installment	7,141	1,622	8,763
Total loans, net	\$2,795,993	840,414	3,636,407
Less: Allowance for loan losses			44,170
Net loans			\$3,592,237

*Includes New York, New Jersey, Vermont and Massachusetts

At March 31, 2018 and December 31, 2017, the Company had approximately \$28.4 million and \$30.9 million of real estate construction loans, respectively. Of the \$28.4 million in real estate construction loans at March 31, 2018, approximately \$20.4 million are secured by first mortgages to residential borrowers while approximately \$8.0 million were to commercial borrowers for residential construction projects. Of the \$30.9 million in real estate construction

loans at December 31, 2017, approximately \$21.1 million are secured by first mortgages to residential borrowers while approximately \$9.8 million were to commercial borrowers for residential construction projects. The vast majority of construction loans are in the Company's New York market.

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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.

The following tables present the recorded investment in non-accrual loans by loan class:

(dollars in thousands)	March 31, 2018		
	New York and other states	Florida	Total
Loans in non-accrual status:			
Commercial:			
Commercial real estate	\$1,100	-	1,100
Other	113	-	113
Real estate mortgage - 1 to 4 family:			
First mortgages	17,687	2,025	19,712
Home equity loans	200	-	200
Home equity lines of credit	3,538	128	3,666
Installment	19	4	23
Total non-accrual loans	22,657	2,157	24,814
Restructured real estate mortgages - 1 to 4 family	38	-	38
Total nonperforming loans	\$22,695	2,157	24,852

(dollars in thousands)	December 31, 2017		
	New York and other states	Florida	Total
Loans in non-accrual status:			
Commercial:			
Commercial real estate	\$1,443	-	1,443
Other	100	-	100
Real estate mortgage - 1 to 4 family:			
First mortgages	16,654	2,259	18,913
Home equity loans	93	-	93
Home equity lines of credit	3,603	130	3,733
Installment	57	-	57
Total non-accrual loans	21,950	2,389	24,339
Restructured real estate mortgages - 1 to 4 family	38	-	38
Total nonperforming loans	\$21,988	2,389	24,377

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 March 31, 2018 and December 31, 2017, other real estate owned included \$2.2 million and \$2.7 million of residential foreclosed properties, respectively. In addition, non-accrual residential mortgage loans that are in the process of foreclosure had a recorded investment of \$12.7 million and \$12.6 million as of March 31, 2018 and December 31, 2017, 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 March 31, 2018 and December 31, 2017:

New York and other states:

(dollars in thousands)	March 31, 2018			Total 30+ days Past Due	Current	Total Loans
	30-59	60-89	90+			
	Days	Days	Days			
	Past Due	Past Due	Past Due			
Commercial:						
Commercial real estate	\$-	136	1,021	1,157	148,200	149,357
Other	-	-	113	113	23,346	23,459
Real estate mortgage - 1 to 4 family:						
First mortgages	4,831	759	9,633	15,223	2,290,287	2,305,510
Home equity loans	-	-	162	162	67,679	67,841
Home equity lines of credit	601	10	2,066	2,677	255,037	257,714
Installment	23	13	13	49	7,356	7,405
Total	\$5,455	918	13,008	19,381	2,791,905	2,811,286

Florida:

(dollars in thousands)	30-59	60-89	90+	Total 30+ days Past Due	Current	Total Loans
	Days	Days	Days			
	Past	Past	Past			
	Due	Due	Due			
Commercial:						
Commercial real estate	\$ -	-	-	-	11,709	11,709
Other	-	-	-	-	604	604
Real estate mortgage - 1 to 4 family:						
First mortgages	243	103	940	1,286	782,718	784,004
Home equity loans	-	-	-	-	14,193	14,193
Home equity lines of credit	16	-	50	66	44,105	44,171
Installment	13	5	4	22	986	1,008
Total	\$ 272	108	994	1,374	854,315	855,689

Total:

(dollars in thousands)	30-59	60-89	90+	Total 30+ days Past Due	Current	Total Loans
	Days	Days	Days			
	Past	Past	Past			
	Due	Due	Due			
Commercial:						
Commercial real estate	\$-	136	1,021	1,157	159,909	161,066
Other	-	-	113	113	23,950	24,063
Real estate mortgage - 1 to 4 family:						
First mortgages	5,074	862	10,573	16,509	3,073,005	3,089,514

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Home equity loans	-	-	162	162	81,872	82,034
Home equity lines of credit	617	10	2,116	2,743	299,142	301,885
Installment	36	18	17	71	8,342	8,413
Total	\$5,727	1,026	14,002	20,755	3,646,220	3,666,975

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New York and other states:

(dollars in thousands)	December 31, 2017			Total 30+ days Past Due	Current	Total Loans
	30-59 Days Past Due	60-89 Days Past Due	90 + Days Past Due			
Commercial:						
Commercial real estate	\$ 183	174	1,332	1,689	147,679	149,368
Other	-	-	100	100	23,506	23,606
Real estate mortgage - 1 to 4 family:						
First mortgages	5,669	1,300	9,014	15,983	2,270,165	2,286,148
Home equity loans	6	-	45	51	66,404	66,455
Home equity lines of credit	489	18	2,139	2,646	260,629	263,275
Installment	46	17	25	88	7,053	7,141
Total	\$6,393	1,509	12,655	20,557	2,775,436	2,795,993

Florida:

(dollars in thousands)	December 31, 2017			Total 30+ days Past Due	Current	Total Loans
	30-59 Days Past Due	60-89 Days Past Due	90 + Days Past Due			
Commercial:						
Commercial real estate	\$-	-	-	-	12,524	12,524
Other	-	-	-	-	709	709
Real estate mortgage - 1 to 4 family:						
First mortgages	277	-	1,404	1,681	764,248	765,929
Home equity loans	-	-	-	-	13,989	13,989
Home equity lines of credit	-	-	-	-	45,641	45,641
Installment	3	5	26	34	1,588	1,622
Total	\$280	5	1,430	1,715	838,699	840,414

Total:

(dollars in thousands)	December 31, 2017			Total 30+ days Past Due	Current	Total Loans
	30-59 Days Past Due	60-89 Days Past Due	90 + Days Past Due			
Commercial:						
Commercial real estate	\$ 183	174	1,332	1,689	160,203	161,892
Other	-	-	100	100	24,215	24,315
Real estate mortgage - 1 to 4 family:						
First mortgages	5,946	1,300	10,418	17,664	3,034,413	3,052,077
Home equity loans	6	-	45	51	80,393	80,444
Home equity lines of credit	489	18	2,139	2,646	306,270	308,916

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Installment	49	22	51	122	8,641	8,763
Total	\$6,673	1,514	14,085	22,272	3,614,135	3,636,407

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At March 31, 2018 and December 31, 2017, there were no loans that were 90 days past due and still accruing interest. As a result, non-accrual loans include all loans 90 days or more past due 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.

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

(dollars in thousands)	For the three months ended March 31, 2018			
	Commercial	Real Estate Mortgage- 1 to 4 Family	Installment	Total
Balance at beginning of period	\$ 4,324	39,077	769	44,170
Loans charged off:				
New York and other states*	-	131	71	202
Florida	-	-	3	3
Total loan chargeoffs	-	131	74	205
Recoveries of loans previously charged off:				
New York and other states*	6	103	6	115
Florida	-	-	-	-
Total recoveries	6	103	6	115
Net loans charged off (recoveries)	(6)	28	68	90
Provision for loan losses	(75)	310	64	300
Balance at end of period	\$ 4,255	39,359	765	44,379

(dollars in thousands)	For the three months ended March 31, 2017			
	Commercial	Real Estate Mortgage- 1 to 4 Family	Installment	Total
Balance at beginning of period	\$ 4,929	38,231	730	43,890
Loans charged off:				
New York and other states*	72	430	41	543
Florida	-	84	2	86
Total loan chargeoffs	72	514	43	629
Recoveries of loans previously charged off:				
New York and other states*	8	169	10	187
Florida	-	-	-	-
Total recoveries	8	169	10	187
Net loans charged off	64	345	33	442
Provision for loan losses	(55)	695	(40)	600
Balance at end of period	\$ 4,810	38,581	657	44,048

*Includes New York, New Jersey, Vermont and Massachusetts

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.

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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 March 31, 2018 and December 31, 2017:

(dollars in thousands)	March 31, 2018			
	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	4,255	39,359	765	44,379
Total ending allowance balance	\$4,255	39,359	765	44,379
Loans:				
Individually evaluated for impairment	\$1,923	22,510	-	24,433
Collectively evaluated for impairment	183,206	3,450,923	8,413	3,642,542
Total ending loans balance	\$185,129	3,473,433	8,413	3,666,975

(dollars in thousands)	December 31, 2017			
	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	4,324	39,077	769	44,170
Total ending allowance balance	\$4,324	39,077	769	44,170
Loans:				
Individually evaluated for impairment	\$2,248	22,032	-	24,280
Collectively evaluated for impairment	183,959	3,419,405	8,763	3,612,127
Total ending loans balance	\$186,207	3,441,437	8,763	3,636,407

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 March 31, 2018 and December 31, 2017 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 March 31, 2018 and December 31, 2017:

New York and other states:

(dollars in thousands)	March 31, 2018			Average Recorded Investment
	Recorded Investment	Unpaid Principal Balance	Related Allowance	
Commercial:				
Commercial real estate	\$1,710	2,680	-	2,264
Other	213	213	-	107
Real estate mortgage - 1 to 4 family:				
First mortgages	16,177	16,940	-	16,075
Home equity loans	265	285	-	267
Home equity lines of credit	2,751	2,992	-	2,692
Total	\$21,116	23,110	-	21,405

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	2,687	2,793	-	2,694
Home equity loans	88	88	-	88
Home equity lines of credit	542	542	-	521
Total	\$ 3,317	3,423	-	3,303

Total:

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Commercial:				
Commercial real estate	\$1,710	2,680	-	2,264
Other	213			