CHEMUNG FINANCIAL CORP
Form 10-Q
November 02, 2016

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

FORM 10-Q

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

For Quarterly period ended September 30, 2016
Or

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

Commission File No.
000-13888
CHEMUNG FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

New York	16-1237038
(State or other jurisdiction of incorporation or organization)	I.R.S. Employer Identification No.
One Chemung Canal Plaza, Elmira, NY	14901
(Address of principal executive offices)	(Zip Code)

(607) 737-3711 or (800) 836-3711
(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: X 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: X NO:____

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

Large accelerated filer	[ ]	Non-accelerated filer	[ ]
Accelerated filer	[X]	Smaller reporting company	[ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):
YES: NO: X

The number of shares of the registrant's common stock, $.01 par value, outstanding on November 1, 2016 was 4,703,034.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES

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GLOSSARY OF ABBREVIATIONS AND TERMS

To assist the reader the Corporation has provided the following list of commonly used abbreviations and terms included in the Notes to the Unaudited Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

Abbreviations	
ALCO	Asset-Liability Committee
ASU	Accounting Standards Update
Bank	Chemung Canal Trust Company
Basel III	The Third Basel Accord of the Basel Committee on Banking Supervision
CDARS	Certificate of Deposit Account Registry Service
Board of Directors	Board of Directors of Chemung Financial Corporation
CDO	Collateralized Debt Obligation
CFS	CFS Group, Inc.
Corporation	Chemung Financial Corporation
CRM	Chemung Risk Management, Inc.
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act
EPS	Earnings per share
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FHLBNY	Federal Home Loan Bank of New York
FRB	Board of Governors of the Federal Reserve System
FRBNY	Federal Reserve Bank of New York
Freddie Mac	Federal Home Loan Mortgage Corporation
GAAP	U.S. Generally Accepted Accounting Principles
ICS	Insured Cash Sweep Service
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
NAICS	North American Industry Classification System
N/M	Not meaningful
OPEB	Other postemployment benefits
OREO	Other real estate owned
OTTI	Other-than-temporary impairment
PCI	Purchased credit impaired
ROA	Return on average assets
ROE	Return on average equity
RWA	Risk-weighted assets
SBA	Small Business Administration
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933
TDRs	Troubled debt restructurings
WMG	Wealth Management Group

Terms	
Allowance for loan losses to total loans	Represents period-end allowance for loan losses divided by retained loans.
Assets under administration	Represents assets that are beneficially owned by clients and all investment decisions pertaining to these assets are also made by clients.

Assets under management	Represents assets that are managed on behalf of clients.

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Basel III	A comprehensive set of reform measures designed to improve the regulation, supervision, and risk management within the banking sector. The reforms require banks to maintain proper leverage ratios and meet certain capital requirements.
Benefit obligation	Refers to the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for OPEB plans.
Capital Bank	Division of Chemung Canal Trust Company located in the "Capital Region" of New York State and includes the counties of Albany and Saratoga.
CDARS	Product involving a network of financial institutions that exchange certificates of deposits among members in order to ensure FDIC insurance coverage on customer deposits above the single institution limit. Using a sophisticated matching system, funds are exchanged on a dollar-for-dollar basis, so that the equivalent of an original deposit comes back to the originating institution.
Captive insurance company	A company that provides risk-mitigation services for its parent company.
Collateralized debt obligation	A structured financial product that pools together cash flow-generating assets, such as mortgages, bonds, and loans.
Collateralized mortgage obligations	A type of mortgage-backed security with principal repayments organized according to their maturities and into different classes based on risk. The mortgages serve as collateral and are organized into classes based on their risk profile.
Dodd-Frank Act	The Dodd-Frank Act was enacted on July 21, 2010 and significantly changed the bank regulatory landscape and has impacted and will continue to impact the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare various studies and reports for Congress.
Fully taxable equivalent basis	Income from tax-exempt loans and investment securities that have been increased by an amount equivalent to the taxes that would have been paid if this income were taxable at statutory rates; the corresponding income tax impact related to tax-exempt items is recorded within income tax expense.
GAAP	Accounting principles generally accepted in the United States of America.
Holding company	Consists of the operations for Chemung Financial Corporation (parent only).
ICS	Product involving a network of financial institutions that exchange interest-bearing money market deposits among members in order to ensure FDIC insurance coverage on customer deposits above the single institution limit. Using a sophisticated matching system, funds are exchanged on a dollar-for-dollar basis, so that the equivalent of an original deposit comes back to the originating institution.
Loans held for sale	Residential real estate loans originated for sale on the secondary market with maturities from 15-30 years.
Long term lease obligation	An obligation extending beyond the current year, which is related to a long term capital lease that is considered to have the economic characteristics of asset ownership.
Mortgage-backed securities	A type of asset-backed security that is secured by a collection of mortgages.
Municipal clients	A political unit, such as a city, town, or village, incorporated for local self-government.
N/A	Data is not applicable or available for the period presented.
N/M	Not meaningful.
Non-GAAP	A calculation not made according to GAAP.
Obligations of state and political subdivisions	An obligation that is guaranteed by the full faith and credit of a state or political subdivision that has the power to tax.
Obligations of U.S. Government	A federally guaranteed obligation backed by the full power of the U.S. government, including Treasury bills, Treasury notes and Treasury bonds.

Obligations of U.S. Government sponsored enterprise obligations	Obligations of agencies originally established or chartered by the U.S. government to serve public purposes as specified by the U.S. Congress; these obligations are not explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.
OREO	Represents real property owned by the Corporation, which is not directly related to its business and is most frequently the result of a foreclosure on real property.

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OTTI	Impairment charge taken on a security whose fair value has fallen below the carrying value on the balance sheet and whose value is not expected to recover through the holding period of the security.
PCI loans	Represents loans that were acquired in the Fort Orange Financial Corp. transaction and deemed to be credit-impaired on the acquisition date in accordance with the guidance of FASB.
Political subdivision	A county, city, town, or other municipal corporation, a public authority, or a publicly-owned entity that is an instrumentality of a state or a municipal corporation.
Pre-provision profit/(loss)	Represents total net revenue less noninterest expense, before income tax expense (benefit). The Corporation believes that this financial measure is useful in assessing the ability of a bank to generate income in excess of its provision for credit losses.
RWA	Risk-weighted assets consist of on- and off-balance sheet assets that are assigned to one of several broad risk categories and weighted by factors representing their risk and potential for default. On-balance sheet assets are risk-weighted based on the perceived credit risk associated with the obligor or counterparty, the nature of any collateral, and the guarantor, if any. Off-balance sheet assets such as lending-related commitments, guarantees, derivatives and other applicable off-balance sheet positions are risk-weighted by multiplying the contractual amount by the appropriate credit conversion factor to determine the on-balance sheet credit equivalent amount, which is then risk-weighted based on the same factors used for on-balance sheet assets. Risk-weighted assets also incorporate a measure for market risk related to applicable trading assets-debt and equity instruments. The resulting risk-weighted values for each of the risk categories are then aggregated to determine total risk-weighted assets.
SBA loan pools	Business loans partially guaranteed by the SBA.
Securities sold under agreements to repurchase	Sale of securities together with an agreement for the seller to buy back the securities at a later date.
TDR	A TDR is deemed to occur when the Corporation modifies the original terms of a loan agreement by granting a concession to a borrower that is experiencing financial difficulty.
Trust preferred securities	A hybrid security with characteristics of both subordinated debt and preferred stock which allows for early redemption by the issuer, makes fixed or variable payments, and matures at face value.
Unaudited	Financial statements and information that have not been subjected to auditing procedures sufficient to permit an independent certified public accountant to express an opinion.
WMG	Provides services as executor and trustee under wills and agreements, and guardian, custodian, trustee and agent for pension, profit-sharing and other employee benefit trusts, as well as various investment, financial planning, pension, estate planning and employee benefit administration services.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(in thousands, except share and per share data)	September 30, 2016	December 31, 2015
ASSETS		
Cash and due from financial institutions	$ 35,345	$ 24,886
Interest-bearing deposits in other financial institutions	100,159	1,299
Total cash and cash equivalents	135,504	26,185
Trading assets, at fair value	720	701
Securities available for sale, at estimated fair value	303,259	344,820
Securities held to maturity, estimated fair value of $4,746 at September 30, 2016 and $4,822 at December 31, 2015	4,504	4,566
FHLBNY and FRBNY Stock, at cost	4,491	4,797
Loans, net of deferred loan fees	1,216,566	1,168,633
Allowance for loan losses	(15,325)	(14,260)
Loans, net	1,201,241	1,154,373
Loans held for sale	119	1,076
Premises and equipment, net	29,084	29,397
Goodwill	21,824	21,824
Other intangible assets, net	3,183	3,931
Bank-owned life insurance	2,894	2,839
Accrued interest receivable and other assets	22,042	25,455
Total assets	$ 1,728,865	$ 1,619,964
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	$ 424,243	$ 402,236
Interest-bearing	1,084,701	998,059
Total deposits	1,508,944	1,400,295
FHLBNY overnight advances	—	13,900
Securities sold under agreements to repurchase	30,002	28,453
FHLBNY term advances	19,121	19,203
Long term capital lease obligation	4,772	2,873
Dividends payable	1,222	1,214
Accrued interest payable and other liabilities	19,992	16,784
Total liabilities	1,584,053	1,482,722
Shareholders' equity:		
Common stock, $0.01 par value per share, 10,000,000 shares authorized; 5,310,076 issued at September 30, 2016 and December 31, 2015	53	53
Additional paid-in capital	45,724	45,537

Retained earnings	122,382	118,973
Treasury stock, at cost; 608,931 shares at September 30, 2016 and 641,721 shares at December 31, 2015	(15,542)	(16,379)
Accumulated other comprehensive loss	(7,805)	(10,942)
Total shareholders' equity	144,812	137,242
Total liabilities and shareholders' equity	$ 1,728,865	$ 1,619,964

See accompanying notes to unaudited consolidated financial statements.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share data)	2016	2015	2016	2015
Interest and dividend income:				
Loans, including fees	$12,487	$12,114	$37,054	$36,113
Taxable securities	1,225	1,237	3,943	3,490
Tax exempt securities	228	227	722	685
Interest-bearing deposits	85	17	180	60
Total interest and dividend income	14,025	13,595	41,899	40,348
Interest expense:				
Deposits	561	500	1,607	1,478
Securities sold under agreements to repurchase	214	213	636	634
Borrowed funds	210	191	623	556
Total interest expense	985	904	2,866	2,668
Net interest income	13,040	12,691	39,033	37,680
Provision for loan losses	1,050	307	2,033	956
Net interest income after provision for loan losses	11,990	12,384	37,000	36,724
Non-interest income:				
WMG fee income	2,027	2,122	6,240	6,446
Service charges on deposit accounts	1,361	1,275	3,781	3,637
Interchange revenue from debit card transactions	1,203	831	3,035	2,499
Net gains (losses) on securities transactions	75	(11)	983	291
Net gains on sales of loans held for sale	115	89	273	239
Net gains (losses) on sales of other real estate owned	10	—	(6)	120
Income from bank-owned life insurance	19	19	55	56
Other	625	587	1,891	2,136
Total non-interest income	5,435	4,912	16,252	15,424
Non-interest expenses:				
Salaries and wages	5,355	5,135	15,720	15,423
Pension and other employee benefits	1,573	1,562	4,894	4,848
Net occupancy expenses	1,503	1,701	5,287	5,308
Furniture and equipment expenses	685	742	2,286	2,264
Data processing expense	1,624	1,751	5,058	4,864
Professional services	502	200	1,418	889
Amortization of intangible assets	245	277	748	866
Marketing and advertising expenses	101	208	648	714
Other real estate owned expenses	41	79	150	387
FDIC insurance	324	277	895	843
Loan expense	162	212	462	527
Other	1,356	1,490	5,483	4,260
Total non-interest expenses	13,471	13,634	43,049	41,193
Income before income tax expense	3,954	3,662	10,203	10,955
Income tax expense	1,209	1,211	3,130	3,651

Net income	$2,745	$2,451	$7,073	$7,304
Weighted average shares outstanding	4,765	4,722	4,758	4,715
Basic and diluted earnings per share	$0.58	$0.52	$1.49	$1.55

See accompanying notes to unaudited consolidated financial statements.

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CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2016	2015	2016	2015
Net income	$2,745	$2,451	$7,073	$7,304
Other comprehensive income (loss):				
Unrealized holding gains (losses) on securities available for sale	(733)	968	4,899	4
Reclassification adjustment for gains (losses) realized in net income	(75)	11	(983)	(291)
Net unrealized gains (losses)	(808)	979	3,916	(287)
Tax effect	(305)	374	1,477	(116)
Net of tax amount	(503)	605	2,439	(171)
Change in funded status of defined benefit pension plan and other benefit plans:				
Reclassification adjustment for amortization of prior service costs	(22)	(22)	(67)	(65)
Reclassification adjustment for amortization of net actuarial loss	396	384	1,188	1,151
Total before tax effect	374	362	1,121	1,086
Tax effect	141	139	423	416
Net of tax amount	233	223	698	670
Total other comprehensive income (loss)	(270)	828	3,137	499
Comprehensive income	$2,475	$3,279	$10,210	$7,803

See accompanying notes to unaudited consolidated financial statements.

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CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)

(in thousands, except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balances at January 1, 2015	$ 53	$45,355	$114,383	$(17,378)	$ (8,785)	$133,628
Net income	—	—	7,304	—	—	7,304
Other comprehensive income	—	—	—	—	499	499
Restricted stock awards	—	156	—	—	—	156
Restricted stock units for directors' deferred compensation plan	—	72	—	—	—	72
Cash dividends declared ($0.78 per share)	—	—	(3,630)	—	—	(3,630)
Distribution of 9,673 shares of treasury stock for directors' compensation	—	24	—	247	—	271
Distribution of 3,303 shares of treasury stock for employee compensation	—	8	—	85	—	93
Distribution of 3,598 shares of treasury stock for deferred directors' compensation	—	(89)	—	92	—	3
Sale of 11,775 shares of treasury stock (a)	—	19	—	300	—	319
Balances at September 30, 2015	$ 53	$45,545	$118,057	$(16,654)	$ (8,286)	$138,715
Balances at January 1, 2016	$ 53	$45,537	$118,973	$(16,379)	$ (10,942)	$137,242
Net income	—	—	7,073	—	—	7,073
Other comprehensive income	—	—	—	—	3,137	3,137
Restricted stock awards	—	145	—	—	—	145
Restricted stock units for directors' deferred compensation plan	—	72	—	—	—	72
Cash dividends declared ($0.78 per share)	—	—	(3,664)	—	—	(3,664)
Distribution of 9,532 shares of treasury stock for directors' compensation	—	19	—	243	—	262
Distribution of 7,661 shares of treasury stock for employee compensation	—	15	—	195	—	210
Distribution of 3,740 shares of treasury stock for deferred directors' compensation	—	(92)	—	95	—	3
Sale of 11,857 shares of treasury stock (a)	—	28	—	304	—	332
Balances at September 30, 2016	$ 53	$45,724	$122,382	$(15,542)	$ (7,805)	$144,812

(a) All treasury stock sales were completed at arm's length for adequate consideration with the Chemung Canal Trust Company Profit Sharing, Savings, and Investment Plan and the Chemung Canal Trust Company - Finger Lakes Profit Sharing, Savings, and Investment Plan, which are defined contribution plans sponsored by the Bank.

See accompanying notes to unaudited consolidated financial statements.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in thousands)	Nine Months Ended September 30,	
CASH FLOWS FROM OPERATING ACTIVITIES:	2016	2015
Net income	$7,073	$7,304
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	748	866
Provision for loan losses	2,033	956
Gains on disposal of fixed assets	—	(13)
Depreciation and amortization of fixed assets	3,285	3,047
Amortization of premiums on securities, net	1,365	1,442
Gains on sales of loans held for sale, net	(273)	(239)
Proceeds from sales of loans held for sale	12,854	11,225
Loans originated and held for sale	(11,624)	(10,637)
Net (gains) losses on trading assets	(53)	25
Proceeds from sales of trading assets	99	—
Net gains on securities transactions	(983)	(291)
Net (gains) losses on sales of other real estate owned	6	(120)
Purchase of trading assets	(65)	(112)
Expense related to restricted stock units for directors' deferred compensation plan	72	72
Expense related to employee stock compensation	210	93
Expense related to employee restricted stock awards	145	156
Income from bank-owned life insurance	(55)	(56)
Decrease in other assets and accrued interest receivable	2,250	7,581
Decrease in accrued interest payable	(8)	(30)
Increase (decrease) in other liabilities	2,702	(11,212)
Net cash provided by operating activities	19,781	10,057
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and calls of securities available for sale	36,130	58,035
Proceeds from maturities and principal collected on securities available for sale	56,661	29,537
Proceeds from maturities and principal collected on securities held to maturity	2,797	3,022
Purchases of securities available for sale	(47,696)	(129,923)
Purchases of securities held to maturity	(2,735)	(1,795)
Purchase of FHLBNY and FRBNY stock	(5,458)	(6,158)
Redemption of FHLBNY and FRBNY stock	5,764	7,522
Proceeds from sale of equipment	—	13
Purchases of premises and equipment	(937)	(783)
Proceeds from sales of other real estate owned	1,499	699
Net increase in loans	(49,243)	(20,993)
Net cash used by investing activities	(3,218)	(60,824)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits, interest-bearing demand accounts, savings accounts, and insured money market accounts	126,309	169,065
Net decrease in time deposits	(17,660)	(38,638)
Net increase in securities sold under agreements to repurchase	1,549	706

Repayments of FHLBNY overnight advances, net	(13,900)	(30,830)
Repayments of FHLBNY long term advances	(82)	(80)
Payments made on capital lease	(136)	(66)
Sale of treasury stock	332	319
Cash dividends paid	(3,656)	(3,623)
Net cash provided by financing activities	92,756	96,853
Net increase in cash and cash equivalents	109,319	46,086
Cash and cash equivalents, beginning of period	26,185	29,163
Cash and cash equivalents, end of period	$135,504	$75,249

(continued)

See accompanying notes to unaudited consolidated financial statements.

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CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
(UNAUDITED)

(in thousands)	Nine Months Ended September 30,	
Supplemental disclosure of cash flow information:	2016	2015
Cash paid for:		
Interest	$2,874	$2,698
Income taxes	$2,680	$5,662
Supplemental disclosure of non-cash activity:		
Transfer of loans to other real estate owned	$342	$10
Dividends declared, not yet paid	$1,222	$1,211
Distribution of treasury stock for directors' compensation	$262	$271
Distribution of treasury stock for deferred directors' compensation	$3	$3
Assets acquired through long term capital lease obligations	$2,035	$—

See accompanying notes to unaudited consolidated financial statements.
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CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Corporation, through its wholly-owned subsidiaries, the Bank and CFS, provides a wide range of banking, financing, fiduciary and other financial services to its clients. The Corporation and the Bank are subject to the regulations of certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

CRM, a wholly-owned subsidiary of the Corporation which was formed and began operations on May 31, 2016, is a Nevada-based captive insurance company which insures against certain risks unique to the operations of the Corporation and its subsidiaries and for which insurance may not be currently available or economically feasible in today's insurance marketplace. CRM pools resources with several other similar insurance company subsidiaries of financial institutions to spread a limited amount of risk among themselves. CRM is subject to regulations of the State of Nevada and undergoes periodic examinations by the Nevada Division of Insurance.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. These financial statements include the accounts of the Corporation and its subsidiaries, and all significant intercompany balances and transactions are eliminated in consolidation. Amounts in the prior periods' consolidated financial statements are reclassified whenever necessary to conform to the current period's presentation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and disclosures provided, and actual results could differ. In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures necessary for the fair presentation of the accompanying consolidated financial statements have been included.

Recent Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, an amendment to Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). The objectives of the ASU are to (1) require equity investments to be measured at fair value, with changes in fair value recognized in net income, (2) simplify the impairment assessment of equity investments without readily determinable fair values, (3) eliminate the requirement to disclose methods and significant assumptions used to estimate fair value for financial instruments measured at amortized cost on the balance sheet, (4) require the use of the exit price notion when measuring the fair value of financial instruments, and (5) clarify the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Corporation intends to adopt the new guidance as of January 1, 2018 and believes the ASU will not have a material impact on its consolidated financial statements, as the Corporation's equity investment portfolio is less than $1.0 million as of September 30, 2016.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires companies that lease valuable assets to recognize on their balance sheets the assets and liabilities generated by contracts longer than a year. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, though early adoption is permitted. The Corporation intends to adopt the new lease guidance as of January 1, 2019 and is currently evaluating the impact that adoption of these updates will have on its consolidated financial statements. Currently, the Corporation believes the implementation of this ASU will create a right of use asset of less than $5.0 million for the Corporation's 13 leased facilities and a related capital obligation of the same amount as of January 1, 2019.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal Versus Agent Consideration - Reporting Revenue Gross Versus Net. The objective of the ASU is to align the recognition of revenue with the transfer of promised goods or services provided to customers in an amount that reflects the consideration which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Corporation intends to adopt the new revenue guidance as of January 1, 2018 and believes the ASU will not have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The objectives of the ASU are to simplify accounting for a stock payment's tax consequences and amend how excess tax benefits and a business's payments to cover the tax bills for the shares' recipients should be classified. The amendments allow companies to estimate the number of stock awards they expect to vest, and they revise the withholding requirements for classifying stock awards as equity. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2016, though early adoption is permitted. The adoption of ASU 2016-09 is not expected to have a significant impact on the Corporation's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The objective of the ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date by replacing the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to form credit loss estimates. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2019, though entities may adopt the amendments earlier for fiscal year beginning after December 15, 2018. The Corporation is evaluating the potential impact on the Corporation's consolidated financial statements and believes that the ASU may materially change the current process of evaluating the allowance for loan losses.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The objective of the ASU is to reduce the existing diversity in practice relating to eight specific cash flow issues: (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (6) distributions received from equity method investees, (7) beneficial interests in securitization transactions, and (8) separately identifiable cash flows and application of the predominance principal. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, though early adoption is permitted. The adoption of the ASU is not expected to have a significant impact on the Corporation's consolidated financial statements.

NOTE 2 EARNING PER COMMON SHARE (shares in thousands)

Basic earnings per share is net income divided by the weighted average number of common shares outstanding during the period. Issuable shares, including those related to directors' restricted stock units and directors' stock compensation, are considered outstanding and are included in the computation of basic earnings per share. All outstanding unvested share based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation. Restricted stock awards are grants of participating securities and are considered outstanding at grant date. Earnings per share information is adjusted to present comparative results for stock splits and stock dividends that occur. Earnings per share were computed by dividing net income by 4,765 and 4,722 weighted average shares outstanding for the three month periods ended September 30, 2016 and 2015, respectively. Earnings per share were computed by dividing net income by 4,758 and 4,715 weighted average shares outstanding for the nine month periods ended September 30, 2016 and 2015, respectively. There were no common stock equivalents during the three and nine month periods ended September 30, 2016 or 2015.

NOTE 3 SECURITIES

Amortized cost and estimated fair value of securities available for sale are as follows (in thousands):

	September 30, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government and U.S. Government sponsored enterprises	$38,312	$ 399	$ —	$38,711
Mortgage-backed securities, residential	219,847	3,026	202	222,671
Obligations of states and political subdivisions	39,724	840	12	40,552
Corporate bonds and notes	248	7	—	255
SBA loan pools	587	4	1	590
Corporate stocks	285	205	10	480
Total	$299,003	$ 4,481	$ 225	$303,259

	December 31, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government and U.S. Government sponsored enterprises	$99,430	$ 752	$ 16	$100,166
Mortgage-backed securities, residential	199,680	427	1,741	198,366
Obligations of states and political subdivisions	43,695	737	6	44,426
Corporate bonds and notes	747	5	—	752
SBA loan pools	643	5	1	647
Corporate stocks	285	178	—	463
Total	$344,480	$ 2,104	$ 1,764	$344,820

Amortized cost and estimated fair value of securities held to maturity are as follows (in thousands):

	September 30, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of states and political subdivisions	$3,524	$ 242	$ —	$ 3,766
Time deposits with other financial institutions	980	—	—	980
Total	$4,504	$ 242	$ —	$ 4,746

	December 31, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of states and political subdivisions	$4,566	$ 256	$ —	$ 4,822
Total	$4,566	$ 256	$ —	$ 4,822

The amortized cost and estimated fair value of debt securities are shown below by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately (in thousands):

	September 30, 2016			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$25,524	$25,640	$1,767	$1,787
After one, but within five years	41,911	42,675	2,556	2,750
After five, but within ten years	10,675	11,033	181	209
After ten years	174	170	—	—
	78,284	79,518	4,504	4,746
Mortgage-backed securities, residential	219,847	222,671	—	—
SBA loan pools	587	590	—	—
Total	$298,718	$302,779	$4,504	$4,746

The proceeds from sales and calls of securities resulting in gains or losses for the three months ended September 30, 2016 and 2015 are listed below (in thousands):

	2016	2015
Proceeds	$20,709	$2,936
Gross gains	75	24
Gross losses	—	(35)
Tax expense	28	(5)

The proceeds from sales and calls of securities resulting in gains or losses for the nine months ended September 30, 2016 and 2015 are listed below (in thousands):

	2016	2015
Proceeds	$36,130	$58,035
Gross gains	983	326
Gross losses	—	(35)
Tax expense	371	111

The following tables summarize the investment securities available for sale with unrealized losses at September 30, 2016 and December 31, 2015 by aggregated major security type and length of time in a continuous unrealized loss position (in thousands):

	Less than 12 months		12 months or longer		Total	
September 30, 2016	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities, residential	$50,681	$ 202	$—	$ —	$50,681	$ 202
Obligations of states and political subdivisions	5,057	12	202	—	5,259	12
SBA loan pools	—	—	231	1	231	1
Corporate stocks	90	10	—	—	90	10
Total temporarily impaired securities	$55,828	$ 224	$433	$ 1	$56,261	$ 225

December 31, 2015	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government and U.S. Government sponsored enterprises	$15,169	$ 16	$—	$ —	$15,169	$ 16
Mortgage-backed securities, residential	177,058	1,741	—	—	177,058	1,741
Obligations of states and political subdivisions	3,756	4	592	2	4,348	6
SBA loan pools	—	—	251	1	251	1
Total temporarily impaired securities	$195,983	$ 1,761	$843	$ 3	$196,826	$ 1,764

Other-Than-Temporary Impairment

As of September 30, 2016, the majority of the Corporation’s unrealized losses in the investment securities portfolio related to mortgage-backed securities. At September 30, 2016, all of the unrealized losses related to mortgage-backed securities were issued by U.S. government sponsored entities, Fannie Mae and Freddie Mac. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because it is not likely that the Corporation will be required to sell these securities before their anticipated recovery, the Corporation does not consider these securities to be other-than-temporarily impaired at September 30, 2016.

NOTE 4 LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the loan portfolio, net of deferred origination fees and costs, is summarized as follows (in thousands):

	September 30, 2016	December 31, 2015
Commercial and agricultural:		
Commercial and industrial	$ 183,508	$ 192,197
Agricultural	406	1,036
Commercial mortgages:		
Construction	35,051	41,131
Commercial mortgages, other	540,710	465,347
Residential mortgages	197,665	195,778
Consumer loans:		
Credit cards	1,352	1,483
Home equity lines and loans	98,378	101,726
Indirect consumer loans	141,489	151,327
Direct consumer loans	18,007	18,608
Total loans, net of deferred origination fees and costs	$ 1,216,566	$ 1,168,633
Interest receivable on loans	2,912	2,870
Total recorded investment in loans	$ 1,219,478	$ 1,171,503

The Corporation's concentrations of credit risk by loan type are reflected in the preceding table. The concentrations of credit risk with standby letters of credit, committed lines of credit and commitments to originate new loans generally follow the loan classifications in the table above.

The following tables present the activity in the allowance for loan losses by portfolio segment for the three and nine month periods ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30, 2016				
Allowance for loan losses	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Beginning balance	$1,771	$ 7,754	$ 1,504	$ 3,639	$14,668
Charge-offs	(104)	(52)	(7)	(280)	(443)
Recoveries	15	1	—	34	50
Net recoveries (charge-offs)	(89)	(51)	(7)	(246)	(393)
Provision	101	520	50	379	1,050
Ending balance	$1,783	$ 8,223	$ 1,547	$ 3,772	$15,325

	Three Months Ended September 30, 2015				
Allowance for loan losses	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Beginning balance	$1,825	$ 6,625	$ 1,545	$ 4,033	$14,028
Charge-offs	(113)	(1)	—	(304)	(418)
Recoveries	26	17	—	62	105
Net recoveries (charge-offs)	(87)	16	—	(242)	(313)
Provision	(162)	326	7	136	307
Ending balance	$1,576	$ 6,967	$ 1,552	$ 3,927	$14,022

	Nine Months Ended September 30, 2016				
Allowance for loan losses	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Beginning balance:	$1,831	$ 7,112	$ 1,464	$ 3,853	$14,260
Charge-offs:	(121)	(52)	(65)	(995)	(1,233)
Recoveries:	65	10	—	190	265
Net recoveries (charge-offs)	(56)	(42)	(65)	(805)	(968)
Provision	8	1,153	148	724	2,033
Ending balance	$1,783	$ 8,223	$ 1,547	$ 3,772	$15,325

	Nine Months Ended September 30, 2015				
Allowance for loan losses	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Beginning balance:	$1,460	$ 6,326	$ 1,572	$ 4,328	$13,686
Charge-offs:	(113)	(29)	(32)	(917)	(1,091)
Recoveries:	64	101	—	306	471
Net recoveries (charge-offs)	(49)	72	(32)	(611)	(620)
Provision	165	569	12	210	956
Ending balance	$1,576	$ 6,967	$ 1,552	$ 3,927	$14,022

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 September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016				
Allowance for loan losses:	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$100	$ 1,748	$ —	$ 141	$1,989
Collectively evaluated for impairment	1,683	6,416	1,522	3,631	13,252
Loans acquired with deteriorated credit quality	—	59	25	—	84
Total ending allowance balance	$1,783	$ 8,223	$ 1,547	$ 3,772	$15,325

	December 31, 2015				
Allowance for loan losses:	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$8	$ 1,481	$ —	$ 77	$1,566
Collectively evaluated for impairment	1,823	5,572	1,424	3,776	12,595
Loans acquired with deteriorated credit quality	—	59	40	—	99
Total ending allowance balance	$1,831	$ 7,112	$ 1,464	$ 3,853	$14,260

	September 30, 2016				
Loans:	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Loans individually evaluated for impairment	$846	$ 11,542	$ 399	$458	$13,245
Loans collectively evaluated for impairment	183,502	563,833	197,648	259,412	1,204,395
Loans acquired with deteriorated credit quality	—	1,743	95	—	1,838
Total ending loans balance	$184,348	$ 577,118	$ 198,142	$259,870	$1,219,478

	December 31, 2015				
Loans:	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Loans individually evaluated for impairment	$1,498	$ 12,773	$ 235	$474	$14,980
Loans collectively evaluated for impairment	192,202	493,102	195,731	273,393	1,154,428
Loans acquired with deteriorated credit quality	—	1,825	270	—	2,095
Total ending loans balance	$193,700	$ 507,700	$ 196,236	$273,867	$1,171,503

The following table presents loans individually evaluated for impairment recognized by class of loans as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016			December 31, 2015		
With no related allowance recorded:	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
Commercial and agricultural:						
Commercial and industrial	$740	$ 746	$ —	$1,487	$ 1,489	$ —
Commercial mortgages:						
Construction	285	286	—	349	350	—
Commercial mortgages, other	5,963	5,996	—	7,551	7,577	—
Residential mortgages	399	399	—	234	235	—
Consumer loans:						
Home equity lines and loans	97	98	—	107	108	—
With an allowance recorded:						
Commercial and agricultural:						
Commercial and industrial	100	100	100	9	9	8
Commercial mortgages:						
Commercial mortgages, other	5,327	5,260	1,748	4,913	4,846	1,481
Consumer loans:						
Home equity lines and loans	360	360	141	364	366	77
Total	$13,271	$ 13,245	$ 1,989	$15,014	$ 14,980	$ 1,566

The following table presents the average recorded investment and interest income of loans individually evaluated for impairment recognized by class of loans as of the three and nine month periods ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30, 2016		Three Months Ended September 30, 2015		Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
With no related allowance recorded:	Average Recorded Investment	Interest Income Recognized (1)	Average Recorded Investment	Interest Income Recognized (1)	Average Recorded Investment	Interest Income Recognized (1)	Average Recorded Investment	Interest Income Recognized (1)
Commercial and agricultural:								
Commercial and industrial	$900	$ 10	$1,133	$ 15	$1,083	$ 33	$1,325	$ 47
Commercial mortgages:								
Construction	310	4	402	4	329	11	1,153	33
Commercial mortgages, other	6,124	60	7,556	70	6,760	181	7,765	196
Residential mortgages	443	2	241	1	358	3	246	3
Consumer loans:								
Home equity lines & loans	101	1	479	6	104	4	468	18
With an allowance recorded:								
Commercial and agricultural:								
Commercial and industrial	45	1	165	—	29	4	180	3
Commercial mortgages:								
Commercial mortgages, other	5,151	1	4,975	1	4,998	4	4,418	48
Consumer loans:								
Home equity lines and loans	360	—	—	—	362	—	13	—
Total	$13,434	$ 79	$14,951	$ 97	$14,023	$ 240	$15,568	$ 348

(1)Cash basis interest income approximates interest income recognized.

The following tables present the recorded investment in non-accrual and loans past due 90 days or more and still accruing by class of loans as of September 30, 2016 and December 31, 2015 (in thousands):

	Non-accrual		Loans Past Due 90 Days or More and Still Accruing	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Commercial and agricultural:				
Commercial and industrial	$10	$ 13	$ 1	$ 3
Agricultural	—	—	—	—
Commercial mortgages:				
Construction	20	63	—	—
Commercial mortgages, other	6,577	7,203	—	—
Residential mortgages	4,225	3,610	—	—
Consumer loans:				
Credit cards	—	—	11	15
Home equity lines and loans	1,653	758	—	—
Indirect consumer loans	298	542	—	—
Direct consumer loans	120	43	—	—
Total	$12,903	$ 12,232	$ 12	$ 18

The following tables present the aging of the recorded investment in loans as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016						
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans Acquired with Deteriorated Credit Quality	Loans Not Past Due	Total
Commercial and agricultural:							
Commercial and industrial	$32	$1	$1	$34	$ —	$183,907	$183,941
Agricultural	—	—	—	—	—	407	407
Commercial mortgages:							
Construction	—	—	—	—	—	35,134	35,134
Commercial mortgages, other	848	5,513	3,316	9,677	1,743	530,564	541,984
Residential mortgages	1,697	928	2,160	4,785	95	193,262	198,142
Consumer loans:							
Credit cards	11	6	11	28	—	1,324	1,352
Home equity lines and loans	272	190	1,174	1,636	—	96,993	98,629
Indirect consumer loans	1,651	416	184	2,251	—	139,566	141,817
Direct consumer loans	90	22	98	210	—	17,862	18,072
Total	$4,601	$7,076	$6,944	$18,621	$ 1,838	$1,199,019	$1,219,478

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	December 31, 2015						
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans Acquired with Deteriorated Credit Quality	Loans Not Past Due	Total
Commercial and agricultural:							
Commercial and industrial	$398	$3	$12	$413	$ —	$192,248	$192,661
Agricultural	—	—	—	—	—	1,039	1,039
Commercial mortgages:							
Construction	—	—	—	—	—	41,231	41,231
Commercial mortgages, other	4,197	199	5,239	9,635	1,825	455,009	466,469
Residential mortgages	2,983	725	1,703	5,411	270	190,555	196,236
Consumer loans:							
Credit cards	30	4	15	49	—	1,433	1,482
Home equity lines and loans	233	77	239	549	—	101,428	101,977
Indirect consumer loans	1,744	4	447	2,195	—	149,531	151,726
Direct consumer loans	208	—	19	227	—	18,455	18,682
Total	$9,793	$1,012	$7,674	$18,479	$ 2,095	$1,150,929	$1,171,503

Troubled Debt Restructurings:

A modification of a loan may result in classification as a TDR when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Corporation offers various types of modifications which may involve a change in the schedule of payments, a reduction in the interest rate, an extension of the maturity date, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, requesting additional collateral, releasing collateral for consideration, substituting or adding a new borrower or guarantor, a permanent reduction of the recorded investment in the loan or a permanent reduction of the interest on the loan.

As of September 30, 2016 and December 31, 2015, the Corporation has a recorded investment in TDRs of $11.0 million and $12.0 million, respectively. There were specific reserves of $1.6 million and $1.4 million allocated for TDRs at September 30, 2016 and December 31, 2015, respectively. As of September 30, 2016, TDRs totaling $6.0 million were accruing interest under the modified terms and $5.0 million were on non-accrual status. As of December 31, 2015, TDRs totaling $7.6 million were accruing interest under the modified terms and $4.4 million were on non-accrual status. The Corporation had committed no additional amounts as of September 30, 2016, to customers with outstanding loans that are classified as TDRs. The Corporation had committed additional amounts up to $0.1 million as of December 31, 2015, to customers with outstanding loans that are classified as TDRs.

During the three months ended September 30, 2016, no loans were modified as TDRs. During the three months ended September 30, 2015, the terms of one loan was modified as a TDR. The modification of the terms of a commercial real estate loan during the three months ended September 30, 2015 included extending the maturity date and a corresponding reduction of the scheduled amortized payments of the loan due to the longer term.

During the nine months ended September 30, 2016 and 2015, the terms of certain loans were modified as TDRs. The modification of the terms of a residential mortgage loan during the nine months ended September 30, 2016 included an extension of the maturity date by thirteen years at a stated interest rate lower than the current market rate for new debt with similar risk and a corresponding reduction of the scheduled amortization payments of the loan due to the longer term. The modification of the terms of five commercial real estate loans and one residential home equity loan during the nine months ended September 30, 2016 included consolidating the loans into one commercial real estate loan and extending the maturity date at a stated interest rate lower than the current market rate for new debt with similar risk. The modification of the terms of a residential mortgage loan performed during the nine months ended September 30, 2016 included a reduction in the stated interest rate for three years and a corresponding reduction of the scheduled amortized payments of the loan due to the lower interest rate. Additionally, $4 thousand of interest and past due escrow payments were capitalized on the restructured loan. In addition to the modifications noted above, the modification of the terms of a commercial real estate loan during the nine months ended September 30, 2015 included a reduction of the scheduled amortized payments of the loan for the remaining term of the loan. Additionally, the modification of the terms of a commercial loan performed during the nine months ended September 30, 2015 included renewing a line of credit and extending the maturity date at a rate lower than the current market rate.

There were no loans modified as TDRs during the three months ended September 30, 2016.

The following table presents loans by class modified as TDRs that occurred during the three months ended September 30, 2015 (dollars in thousands):

September 30, 2015	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial mortgages:			
Commercial mortgages	1	$ 432	$ 432
Total	1	$ 432	$ 432

The TDRs described above did not increase the allowance for loan losses and resulted in no charge-offs during the three months ended September 30, 2015.

The following table presents loans by class modified as TDRs that occurred during the nine months ended September 30, 2016 and 2015 (dollars in thousands):

September 30, 2016	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial mortgages:			
Commercial mortgages	5	$ 312	$ 310
Residential mortgages	2	295	307
Consumer loans:			
Home equity lines and loans	1	74	74
Total	8	$ 681	$ 691
September 30, 2015	Number of Loans	Pre-Modification Outstanding Recorded	Post-Modification Outstanding Recorded

		Investment	Investment
Troubled debt restructurings:			
Commercial and agricultural:			
Commercial and industrial	1	$ 477	$ 477
Commercial mortgages:			
Commercial mortgages	2	542	542
Total	3	$ 1,019	$ 1,019

The TDRs described above did not increase the allowance for loan losses and resulted in no charge-offs during the nine months ended September 30, 2016. The TDRs described above increased the allowance for loan losses by less than $0.1 million and resulted in no charge-offs during the nine months ended September 30, 2015.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. There were no payment defaults on any loans previously modified as TDRs within twelve months following the modification during the three months ended September 30, 2016. The following table presents loans by class modified as TDRs for which there was a payment default within twelve months following the modification during the nine months ended September 30, 2016:

	Number of Loans	Recorded Investment
Commercial mortgages:		
Commercial mortgages	2	$ 2,100
Total	2	$ 2,100

The TDRs that subsequently defaulted described above did not increase the allowance for loan losses and resulted in no charge offs during the nine months ended September 30, 2016.

There were no payment defaults on any loans previously modified as TDRs within twelve months following the modification during the three and nine months ended September 30, 2015.

Credit Quality Indicators

The Corporation establishes a risk rating at origination for all commercial loans. The main factors considered in assigning risk ratings include, but are not limited to: historic and future debt service coverage, collateral position, operating performance, liquidity, leverage, payment history, management ability, and the customer's industry. Commercial relationship managers monitor all loans in their respective portfolios for any changes in the borrower's ability to service their debt and affirm the risk ratings for the loans at least annually.

For the retail loans, which include residential mortgages, indirect and direct consumer loans, home equity lines and loans, and credit cards, once a loan is properly approved and closed, the Corporation evaluates credit quality based upon loan repayment.

The Corporation uses the risk rating system to identify criticized and classified loans. Commercial relationships within the criticized and classified risk ratings are analyzed quarterly. The Corporation uses the following definitions for criticized and classified loans (which are consistent with regulatory guidelines):

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

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

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

Commercial loans not meeting the criteria above to be considered criticized or classified are considered to be pass rated loans. Loans listed as not rated are included in groups of homogeneous loans performing under terms of the loan notes. Based on the analyses performed as of September 30, 2016 and December 31, 2015, the risk category of the recorded investment of loans by class of loans is as follows (in thousands):

	September 30, 2016						
	Not Rated	Pass	Special Mention	Substandard	Doubtful	Loans acquired with deteriorated credit quality	Total
Commercial and agricultural:							
Commercial and industrial	$ —	$ 179,867	$ 2,281	$ 1,693	$ 100	$ —	$ 183,941
Agricultural	—	407	—		—	—	407
Commercial mortgages:							