

VALLEY NATIONAL BANCORP

Form 10-Q

August 09, 2011

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended June 30, 2011

OR

☐ **Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the transition period from _____ to _____

Commission File Number 1-11277

VALLEY NATIONAL BANCORP

(Exact name of registrant as specified in its charter)

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New Jersey (State or other jurisdiction of Incorporation or Organization)	22-2477875 (I.R.S. Employer Identification Number)
1455 Valley Road Wayne, NJ (Address of principal executive office)	07470 (Zip code)
973-305-8800 (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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock (no par value), of which 169,997,703 shares were outstanding as of August 4, 2011.

Table of Contents

TABLE OF CONTENTS

	Page Number
PART I <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Financial Condition as of June 30, 2011 and December 31, 2010</u>	2
<u>Consolidated Statements of Income for the Three and Six Months Ended June 30, 2011 and 2010</u>	3
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2011 and 2010</u>	4
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	42
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	76
Item 4. <u>Controls and Procedures</u>	76
PART II <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	77
Item 1A. <u>Risk Factors</u>	77
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	77
Item 6. <u>Exhibits</u>	77
<u>SIGNATURES</u>	79

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****VALLEY NATIONAL BANCORP****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Unaudited)****(in thousands, except for share data)**

	June 30, 2011	December 31, 2010
Assets		
Cash and due from banks	\$ 360,816	\$ 302,629
Interest bearing deposits with banks	165,847	63,657
Investment securities:		
Held to maturity, fair value of \$2,002,359 at June 30, 2011 and \$1,898,872 at December 31, 2010	2,002,650	1,923,993
Available for sale	863,196	1,035,282
Trading securities	22,101	31,894
Total investment securities	2,887,947	2,991,169
Loans held for sale, at fair value	28,385	58,958
Non-covered loans	9,282,599	9,009,140
Covered loans	308,424	356,655
Less: Allowance for loan losses	(138,626)	(124,704)
Net loans	9,452,397	9,241,091
Premises and equipment, net	264,767	265,570
Bank owned life insurance	307,373	304,956
Accrued interest receivable	59,431	59,126
Due from customers on acceptances outstanding	7,017	6,028
FDIC loss-share receivable	80,179	89,359
Goodwill	317,891	317,891
Other intangible assets, net	24,002	25,650
Other assets	513,724	417,742
Total Assets	\$ 14,469,776	\$ 14,143,826
Liabilities		
Deposits:		
Non-interest bearing	\$ 2,561,515	\$ 2,524,299
Interest bearing:		
Savings, NOW and money market	4,316,742	4,106,464
Time	2,828,190	2,732,851
Total deposits	9,706,447	9,363,614

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Short-term borrowings	171,060	192,318
Long-term borrowings	2,727,481	2,933,858
Junior subordinated debentures issued to capital trusts (includes fair value of \$159,787 at June 30, 2011 and \$161,734 at December 31, 2010 for VNB Capital Trust I)	184,941	186,922
Bank acceptances outstanding	7,017	6,028
Accrued expenses and other liabilities	361,612	165,881
Total Liabilities	13,158,558	12,848,621
Shareholders' Equity*		
Preferred stock, no par value, authorized 30,000,000 shares; none issued		
Common stock, no par value, authorized 220,974,508 shares; issued 170,146,143 shares at June 30, 2011 and 170,131,085 shares at December 31, 2010	59,891	57,041
Surplus	1,176,673	1,178,325
Retained earnings	91,867	79,803
Accumulated other comprehensive loss	(10,288)	(5,719)
Treasury stock, at cost (294,771 common shares at June 30, 2011 and 597,459 common shares at December 31, 2010)	(6,925)	(14,245)
Total Shareholders' Equity	1,311,218	1,295,205
Total Liabilities and Shareholders' Equity	\$ 14,469,776	\$ 14,143,826

* Share data reflects the five percent common stock dividend issued on May 20, 2011.
See accompanying notes to consolidated financial statements.

Table of Contents**VALLEY NATIONAL BANCORP****CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

(in thousands, except for share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Interest Income				
Interest and fees on loans	\$ 135,084	\$ 136,420	\$ 268,707	\$ 271,789
Interest and dividends on investment securities:				
Taxable	28,602	30,813	58,182	60,500
Tax-exempt	2,429	2,597	4,934	5,143
Dividends	1,591	1,281	3,647	3,474
Interest on federal funds sold and other short-term investments	88	76	143	230
Total interest income	167,794	171,187	335,613	341,136
Interest Expense				
Interest on deposits:				
Savings, NOW, and money market	5,082	4,813	9,761	9,673
Time	12,616	14,720	24,782	30,318
Interest on short-term borrowings	276	330	617	661
Interest on long-term borrowings and junior subordinated debentures	32,150	34,298	65,891	68,607
Total interest expense	50,124	54,161	101,051	109,259
Net Interest Income	117,670	117,026	234,562	231,877
Provision for credit losses	6,026	12,438	30,188	25,049
Net Interest Income After Provision for Credit Losses	111,644	104,588	204,374	206,828
Non-Interest Income				
Trust and investment services	1,952	1,947	3,975	3,822
Insurance commissions	3,657	2,660	8,080	5,856
Service charges on deposit accounts	5,642	6,651	11,292	12,925
Gains on securities transactions, net	16,492	3,656	19,171	4,519
Other-than-temporary impairment losses on securities				(1,393)
Portion recognized in other comprehensive income (before taxes)		(2,049)	(825)	(3,249)
Net impairment losses on securities recognized in earnings		(2,049)	(825)	(4,642)
Trading (losses) gains, net	(1,048)	838	2,334	(2,192)
Fees from loan servicing	1,170	1,211	2,367	2,447
Gains on sales of loans, net	1,561	1,019	5,170	3,539
Gains on sales of assets, net	146	218	203	304
Bank owned life insurance	1,880	1,768	3,586	3,311
Change in FDIC loss-share receivable	(2,669)		13,566	
Other	4,752	4,557	9,403	8,264

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Total non-interest income	33,535	22,476	78,322	38,153
Non-Interest Expense				
Salary and employee benefits expense	44,109	42,935	88,234	87,208
Net occupancy and equipment expense	15,467	16,088	32,653	32,029
FDIC insurance assessment	3,302	3,543	6,631	6,976
Amortization of other intangible assets	1,796	2,445	3,758	4,145
Professional and legal fees	3,020	2,613	6,793	4,732
Advertising	2,703	1,111	4,185	2,023
Other	12,683	11,238	24,655	21,214
Total non-interest expense	83,080	79,973	166,909	158,327
Income Before Income Taxes	62,099	47,091	115,787	86,654
Income tax expense	25,205	14,081	42,308	26,281
Net Income	\$ 36,894	\$ 33,010	\$ 73,479	\$ 60,373
Earnings Per Common Share*:				
Basic	\$ 0.22	\$ 0.20	\$ 0.43	\$ 0.36
Diluted	0.22	0.20	0.43	0.36
Cash Dividends Declared per Common Share*	0.17	0.17	0.34	0.34
Weighted Average Number of Common Shares Outstanding*:				
Basic	169,843,354	169,009,302	169,757,717	168,921,009
Diluted	169,852,912	169,013,634	169,766,394	168,922,864

* Share data reflects the five percent common stock dividend issued on May 20, 2011.
See accompanying notes to consolidated financial statements.

Table of Contents**VALLEY NATIONAL BANCORP****CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

(in thousands)

	Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 73,479	\$ 60,373
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,077	7,959
Stock-based compensation	1,276	1,893
Provision for credit losses	30,188	25,049
Net amortization of premiums and accretion of discounts on securities and borrowings	5,102	5,858
Amortization of other intangible assets	3,758	4,145
Gains on securities transactions, net	(19,171)	(4,519)
Net impairment losses on securities recognized in earnings	825	4,642
Proceeds from sales of loans held for sale	173,081	159,479
Gains on sales of loans, net	(5,170)	(3,539)
Originations of loans held for sale	(137,338)	(137,786)
Gains on sales of assets, net	(203)	(304)
Change in FDIC loss-share receivable	(13,566)	
Net change in:		
Trading securities	9,793	345
Fair value of borrowings carried at fair value	(1,947)	1,847
Cash surrender value of bank owned life insurance	(3,586)	(3,311)
Accrued interest receivable	(305)	81
Other assets	25,298	29,414
Accrued expenses and other liabilities	(23,533)	7,821
Net cash provided by operating activities	126,058	159,447
Cash flows from investing activities:		
Net loan (originations) repayments	(241,027)	335,225
Investment securities held to maturity:		
Purchases	(272,825)	(504,364)
Maturities, calls and principal repayments	339,196	267,274
Investment securities available for sale:		
Purchases	(366,123)	(244,010)
Sales	390,861	373,766
Maturities, calls and principal repayments	102,250	193,926
Death benefit proceeds from bank owned life insurance	1,169	773
Proceeds from sales of real estate property and equipment	3,946	41
Purchases of real estate property and equipment	(7,513)	(5,139)
Reimbursements from the FDIC	22,746	
Cash and cash equivalents acquired in acquisitions		47,528
Net cash (used in) provided by investing activities	(27,320)	465,020
Cash flows from financing activities:		
Net change in deposits	342,833	(781,064)

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Net change in short-term borrowings	(21,258)	(44,193)
Repayments of long-term borrowings	(206,000)	(61,742)
Dividends paid to common shareholders	(58,151)	(57,214)
Common stock issued, net	4,215	4,530
Net cash provided by (used in) financing activities	61,639	(939,683)
Net change in cash and cash equivalents	160,377	(315,216)
Cash and cash equivalents at beginning of year	366,286	661,337
Cash and cash equivalents at end of period	\$ 526,663	\$ 346,121

See accompanying notes to consolidated financial statements.

Table of Contents**VALLEY NATIONAL BANCORP****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)****(in thousands)**

	Six Months Ended June 30,	
	2011	2010
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest on deposits and borrowings	\$ 100,522	\$ 109,961
Federal and state income taxes	28,741	37,876
Supplemental schedule of non-cash investing activities:		
Acquisitions:		
Non-cash assets acquired:		
Investment securities available for sale		73,743
Loans		412,331
Premises and equipment, net		123
Accrued interest receivable		2,787
FDIC loss-share receivable		108,000
Goodwill		19,497
Other intangible assets, net		1,560
Other assets		22,559
Total non-cash assets acquired		640,600
Liabilities assumed:		
Deposits		654,200
Short-term borrowings		12,688
Long-term borrowings		10,559
Accrued expenses and other liabilities		10,681
Total liabilities assumed		688,128
Net non-cash assets acquired	\$	\$ (47,528)
Cash and cash equivalents acquired in acquisitions	\$	\$ 47,528

See accompanying notes to consolidated financial statements.

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Note 1. Basis of Presentation**

The unaudited consolidated financial statements of Valley National Bancorp, a New Jersey Corporation (Valley), include the accounts of its commercial bank subsidiary, Valley National Bank (the Bank), and all of Valley's direct or indirect wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated. The accounting and reporting policies of Valley conform to U.S. generally accepted accounting principles (U.S. GAAP) and general practices within the financial services industry. In accordance with applicable accounting standards, Valley does not consolidate statutory trusts established for the sole purpose of issuing trust preferred securities and related trust common securities.

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly Valley's financial position, results of operations and cash flows at June 30, 2011 and for all periods presented have been made. The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of the results to be expected for the entire fiscal year.

In preparing the unaudited consolidated financial statements in conformity with U.S. GAAP, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial condition and results of operations for the periods indicated. Material estimates that are particularly susceptible to change are: the allowance for loan losses; the evaluation of goodwill and other intangible assets, and investment securities for impairment; fair value measurements of assets and liabilities; and income taxes. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are deemed necessary. While management uses its best judgment, actual amounts or results could differ significantly from those estimates. The current economic environment has increased the degree of uncertainty inherent in these material estimates.

Certain information and footnote disclosure normally included in financial statements prepared in accordance with U.S. GAAP and industry practice have been condensed or omitted pursuant to rules and regulations of the SEC. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Valley's Annual Report on Form 10-K for the year ended December 31, 2010.

On May 20, 2011, Valley paid a five percent common stock dividend to shareholders of record on May 6, 2011. All common share and per common share data presented in the consolidated financial statements and the accompanying notes below were adjusted to reflect the dividend.

Note 2. Earnings Per Common Share

The following table shows the calculation of both basic and diluted earnings per common share for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands, except for share data)			
Net income	\$ 36,894	\$ 33,010	\$ 73,479	\$ 60,373
Basic weighted-average number of common shares outstanding	169,843,354	169,009,302	169,757,717	168,921,009
Plus: Common stock equivalents	9,558	4,332	8,677	1,855
	169,852,912	169,013,634	169,766,394	168,922,864

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Diluted weighted-average number of common shares
outstanding

Earnings per common share:

Basic	\$	0.22	\$	0.20	\$	0.43	\$	0.36
Diluted		0.22		0.20		0.43		0.36

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Common stock equivalents, in the table above, represent the effect of outstanding common stock options and warrants to purchase Valley's common shares, excluding those with exercise prices that exceed the average market price of Valley's common stock during the periods presented and therefore, would have an anti-dilutive effect on the diluted earnings per common share calculation. Anti-dilutive common stock options and warrants totaled approximately 6.8 million shares for both the three and six months ended June 30, 2011 as compared to 6.9 million and 7.2 million shares for the three and six months ended June 30, 2010, respectively.

Note 3. Comprehensive Income

Valley's components of other comprehensive income, net of deferred tax, include unrealized gains (losses) on securities available for sale (including the non-credit portion of any other-than-temporary impairment charges relating to certain securities during the period); unrealized gains (losses) on derivatives used in cash flow hedging relationships; and the unfunded portion of its various employee, officer and director pension plans.

The following table shows changes in each component of comprehensive income for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands)			
Net income	\$ 36,894	\$ 33,010	\$ 73,479	\$ 60,373
Other comprehensive (loss) income, net of tax:				
Net change in unrealized gains and losses on securities available for sale	6,074	4,123	7,886	8,329
Net change in non-credit impairment losses on securities	491	376	593	659
Net pension benefits adjustment	291	253	583	506
Net change in unrealized gains and losses on derivatives used in cash flow hedging relationships	(3,792)	(1,562)	(2,960)	(2,760)
Less reclassification adjustment for gains and losses included in net income	(9,746)	(958)	(10,671)	355
Total other comprehensive (loss) income, net of tax	(6,682)	2,232	(4,569)	7,089
Total comprehensive income	\$ 30,212	\$ 35,242	\$ 68,910	\$ 67,462

Note 4. Business Combinations***Acquisitions***

On April 28, 2011, Valley entered into a merger agreement to acquire State Bancorp, Inc. (Nasdaq:STBC) (State Bancorp). State Bancorp is the holding company for State Bank of Long Island, a commercial bank with approximately \$1.6 billion in assets, \$1.1 billion in loans, and \$1.3 billion in deposits at June 30, 2011, covering 4 New York counties, and 17 branches in Nassau, Suffolk, Queens, and Manhattan. The shareholders of State Bancorp will receive a fixed one-for-one exchange ratio for Valley National Bancorp common stock. This fixed exchange ratio was determined after consideration of Valley's recently declared five percent stock dividend paid on May 20, 2011. The total consideration for the acquisition is estimated to be \$222 million, resulting in an estimated \$131 million of intangible assets which are dependent on the fair value of State Bancorp's assets and liabilities and Valley's stock price on the closing date of the merger. Valley has received approval from both the Office of the Comptroller of the Currency and the Federal Reserve Bank of New York to complete the merger. Valley anticipates the closing

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of the merger will occur during the fourth quarter of 2011, contingent upon receiving approval of State Bancorp shareholders, approval to repurchase State Bancorp's senior preferred stock under the Treasury's TARP program, and other customary closing conditions.

On December 14, 2010, Masters Coverage Corp., an all-line insurance agency that is a wholly-owned subsidiary of the Bank, acquired certain assets of S&M Klein Co. Inc., an independent insurance agency located in Queens, New York.

Table of Contents

VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The purchase price totaled \$5.3 million, consisting of \$3.3 million in cash and earn-out payments totaling \$2.0 million that are payable over a four year period, subject to certain customer retention and earnings performance. The transaction generated goodwill and other intangible assets totaling \$1.9 million and \$3.3 million, respectively. Other intangible assets consisted of a customer list, covenants not to compete, and a trade name with a weighted average amortization period of 16 years.

FDIC-Assisted Transactions

On March 11, 2010, the Bank assumed all of the deposits, and acquired certain assets of LibertyPointe Bank, a New York State chartered bank in an FDIC-assisted transaction. The Bank assumed \$198.3 million in customer deposits and acquired \$207.7 million in assets, including \$140.6 million in loans. The loans acquired by the Bank principally consist of commercial real estate loans. This transaction resulted in \$11.6 million of goodwill and generated \$370 thousand in core deposit intangibles.

On March 12, 2010, the Bank assumed all of the deposits, excluding brokered deposits, and borrowings, and acquired certain assets of The Park Avenue Bank, a New York State chartered bank in an FDIC-assisted transaction. The Bank assumed \$455.9 million in customer deposits and acquired \$480.5 million in assets, including \$271.8 million in loans. The loans acquired by the Bank principally consist of commercial and industrial loans, and commercial real estate loans. This transaction resulted in \$7.9 million of goodwill and generated \$1.2 million in core deposit intangibles.

The Bank and the FDIC will share in the losses on loans and real estate owned as a part of the loss-sharing agreements entered into by the Bank with the FDIC for both transactions. Under the terms of the loss-sharing agreement for the LibertyPointe Bank transaction, the FDIC is obligated to reimburse the Bank for 80 percent of any future losses on covered assets up to \$55.0 million, after the Bank absorbs such losses up to the first loss tranche of \$11.7 million, and 95 percent of losses in excess of \$55.0 million. Under the terms of the loss-sharing agreement for The Park Avenue Bank transaction, the FDIC is obligated to reimburse the Bank for 80 percent of any future losses on covered assets of up to \$66.0 million and 95 percent of losses in excess of \$66.0 million. The Bank will reimburse the FDIC for 80 percent of recoveries with respect to losses for which the FDIC paid the Bank 80 percent reimbursement under the loss-sharing agreements, and for 95 percent of recoveries with respect to losses for which the FDIC paid the Bank 95 percent reimbursement under the loss-sharing agreements.

In the event the losses under the loss-sharing agreements fail to reach expected levels, the Bank has agreed to pay to the FDIC, on approximately the tenth anniversary following the transactions closings, a cash payment pursuant to each loss-sharing agreement.

In addition, as part of the consideration for The Park Avenue Bank FDIC-assisted transaction, the Bank agreed to issue a cash-settled equity appreciation instrument to the FDIC. The equity appreciation instrument was initially recorded as a liability in the first quarter of 2010 and was settled in cash after the FDIC exercised the instrument on April 1, 2010. The valuation and settlement of the equity appreciation instrument did not significantly impact Valley's consolidated financial statements.

Note 5. New Authoritative Accounting Guidance

Accounting Standards Update (ASU) No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures About Fair Value Measurements, requires new disclosures and clarifies certain existing disclosure requirements about fair value measurement. Specifically, the update requires an entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for such transfers. A reporting entity is required to present separately information about purchases, sales, issuances, and settlements in the reconciliation of fair value measurements using Level 3 inputs. In addition, the update clarifies the following requirements of the existing disclosures: (i) for the purposes of reporting fair value measurements for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets; and (ii) a reporting entity is required to include disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The disclosures related to the gross presentation of purchases, sales, issuances and settlements of assets and liabilities included in Level 3 of the fair value hierarchy became effective for Valley on January 1, 2011. The other disclosure requirements and clarifications made by ASU No.

Table of Contents

VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

2010-06 became effective for Valley on January 1, 2010. All of the applicable new disclosures have been included in Note 6.

ASU No. 2010-20, *Receivables (Topic 310)* Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, requires significant new disclosures about the credit quality of financing receivables and the allowance for credit losses. The objective of these disclosures is to improve financial statement users' understanding of (i) the nature of an entity's credit risk associated with its financing receivables and (ii) the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The disclosures should be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio's risk and performance. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU No. 2010-20 became effective for Valley's financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period generally became effective for Valley's financial statements beginning on January 1, 2011. The effective date for disclosures related to troubled debt restructurings was deferred to coincide with the July 1, 2011 effective date of the ASU No. 2011-02, *Receivables (Topic 310) A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*, which is further discussed below. Since the provisions of ASU No. 2010-20 are only disclosure related, Valley's adoption of this guidance changed its disclosures but did not have a significant impact on its consolidated financial statements. See Notes 8 and 9 for the related disclosures.

ASU No. 2010-29, *Business Combinations (Topic 805)* Disclosure of Supplementary Pro Forma Information for Business Combinations, relates to disclosure of pro forma information for business combinations that have occurred in the current reporting period. It requires that an entity presenting comparative financial statements include revenue and earnings of the combined entity as though the combination had occurred as of the beginning of the comparable prior annual period only. This guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this guidance did not have an impact on Valley's consolidated financial statements.

ASU No. 2011-02, *Receivables (Topic 310) A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*, provides clarifying guidance intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude, under the guidance clarified by ASU No. 2011-02, that both of the following exist: (i) the restructuring constitutes a concession to the debtor; and (ii) the debtor is experiencing financial difficulties. ASU No. 2011-02 will be effective for Valley on July 1, 2011, and applies retrospectively to restructurings occurring on or after January 1, 2011. Valley's adoption of ASU No. 2011-02 is not expected to have a significant impact on its consolidated financial statements.

ASU No. 2011-04, *Fair Value Measurements (Topic 820)* Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, was issued as a result of the effort to develop common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). While ASU No. 2011-04 is largely consistent with existing fair value measurement principles in U.S. GAAP, it expands the existing disclosure requirements for fair value measurements and clarifies the existing guidance or wording changes to align with IFRS No. 13. Many of the requirements for the amendments in ASU No. 2011-04 do not result in a change in the application of the requirements in Topic 820. ASU No. 2011-04 will be effective for Valley for all interim and annual periods beginning after December 15, 2011. Valley's adoption of ASU No. 2011-04 is not expected to have a significant impact on its consolidated financial statements.

ASU No. 2011-05, *Comprehensive Income (Topic 220)* Presentation of Comprehensive Income, requires an entity to present components of comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. ASU No. 2011-05 must be applied retrospectively and is effective for Valley for all interim and annual periods beginning on or after

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

December 15, 2011. Valley's adoption of ASU No. 2011-05 is not expected to have a significant impact on its consolidated financial statements.

Note 6. Fair Value Measurement of Assets and Liabilities

ASC Topic 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 Unadjusted exchange quoted prices in active markets for identical assets or liabilities, or identical liabilities traded as assets that the reporting entity has the ability to access at the measurement date.
- Level 2 Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly (i.e., quoted prices on similar assets), for substantially the full term of the asset or liability.
- Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis by level within the fair value hierarchy as reported on the consolidated statements of financial condition at June 30, 2011 and December 31, 2010. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	June 30, 2011	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical	Significant Other Observable	Significant Unobservable
		Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
(in thousands)				
Assets:				
Investment securities:				
Available for sale:				
U.S. Treasury securities	\$ 100,238	\$ 100,238	\$	\$
U.S. government agency securities	84,944		84,944	
Obligations of states and political subdivisions	25,065		25,065	
Residential mortgage-backed securities	514,398		467,244	47,154
Trust preferred securities	44,773	20,088	20,621	4,064
Corporate and other debt securities	42,596	29,934	12,662	
Equity securities	51,182	31,216	19,966	
Total available for sale	863,196	181,476	630,502	51,218
Trading securities	22,101		22,101	

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Loans held for sale (1)	28,385		28,385	
Other assets (2)	4,984		4,984	
Total assets	\$ 918,666	\$ 181,476	\$ 685,972	\$ 51,218
Liabilities:				
Junior subordinated debentures issued to VNB Capital Trust I (3)	\$ 159,787	\$ 159,787	\$	\$
Other liabilities (2)	2,505		2,505	
Total liabilities	\$ 162,292	\$ 159,787	\$ 2,505	\$

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

	Fair Value Measurements at Reporting Date Using:			
		Quoted Prices in Active Markets for Identical Assets (Level 1) (in thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	December 31, 2010			
Assets:				
Investment securities:				
Available for sale:				
U.S. Treasury securities	\$ 163,810	\$ 163,810	\$	\$
U.S. government agency securities	88,800		88,800	
Obligations of states and political subdivisions	29,462		29,462	
Residential mortgage-backed securities	610,358		514,711	95,647
Trust preferred securities	41,083	20,343		20,740
Corporate and other debt securities	53,961	41,046		12,915
Equity securities	47,808	28,227	10,228	9,353
Total available for sale	1,035,282	253,426	643,201	138,655
Trading securities	31,894	9,991		21,903
Loans held for sale ⁽¹⁾	58,958		58,958	
Other assets ⁽²⁾	8,414		8,414	
Total assets	\$ 1,134,548	\$ 263,417	\$ 710,573	\$ 160,558
Liabilities:				
Junior subordinated debentures issued to VNB Capital Trust I ⁽³⁾	\$ 161,734	\$ 161,734	\$	\$
Other liabilities ⁽²⁾	1,379		1,379	
Total liabilities	\$ 163,113	\$ 161,734	\$ 1,379	\$

(1) Loans held for sale (which consists of residential mortgages) are carried at fair value and had contractual unpaid principal balances totaling approximately \$27.7 million and \$58.4 million at June 30, 2011 and December 31, 2010, respectively.

(2) Derivative financial instruments are included in this category.

(3) The junior subordinated debentures had contractual unpaid principal obligations totaling \$157.0 million at June 30, 2011 and December 31, 2010.

The changes in Level 3 assets measured at fair value on a recurring basis for the three and six months ended June 30, 2011 and 2010 are summarized below:

Three Months
Ended

Six Months Ended
June 30, 2011

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	June 30, 2011			
	Trading Securities	Available For Sale Securities	Trading Securities	Available For Sale Securities
	(in thousands)			
Balance, beginning of the period	\$	\$ 52,373	\$ 21,903	\$ 138,655
Transfers out of Level 3 ⁽¹⁾			(21,903)	(84,435)
Total net (losses) gains for the period included in:				
Net income				(825)
Other comprehensive income		851		2,212
Settlements		(2,006)		(4,389)
Balance, end of the period	\$	\$ 51,218	\$	\$ 51,218
Net unrealized losses included in net income for the period relating to assets held at June 30 ⁽²⁾	\$ ⁽³⁾	\$ ⁽⁴⁾	\$ ⁽³⁾	\$ ⁽⁴⁾ (825)

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

	Three Months Ended June 30, 2010		Six Months Ended June 30, 2010	
	Trading Securities	Available For Sale Securities	Trading Securities	Available For Sale Securities
	(in thousands)			
Balance, beginning of the period	\$ 33,186	\$ 148,823	\$ 32,950	\$ 156,612
Transfers out of Level 3 ⁽¹⁾	(10,567)	(532)	(10,567)	(1,384)
Total net (losses) gains for the period included in:				
Net income	195		431	
Other comprehensive income		(464)		919
Settlements		(5,082)		(13,402)
Balance, end of the period	\$ 22,814	\$ 142,745	\$ 22,814	\$ 142,745

Net unrealized gains (losses) included in net income for the period relating to assets held at June 30 ⁽²⁾

\$ 195 ⁽³⁾ \$ (2,049) ⁽⁴⁾ \$ 431 ⁽³⁾ \$ (4,642) ⁽⁴⁾

⁽¹⁾ All transfers into/or out of Level 3 are assumed to occur at the beginning of the reporting period.

⁽²⁾ Represents net losses that are due to changes in economic conditions and management's estimates of fair value.

⁽³⁾ Included in trading (losses) gains, net within the non-interest income category on the consolidated statements of income.

⁽⁴⁾ Represents the net impairment losses on securities recognized in earnings for the period.

During the second quarter of 2011, there were no transfers of assets into or out of Level 3. During the six months ended June 30, 2011, 21 trust preferred securities (including one pooled trust preferred security), 12 private labeled mortgage-backed securities and 4 corporate bonds classified as available-for-sale with fair values totaling \$26.7 million, \$44.8 million and \$12.9 million at January 1, 2011, respectively, were transferred out of Level 3 assets to Level 2 assets. Within the trading securities portfolio, 3 trust preferred securities with a combined fair value of \$21.9 million at January 1, 2011 were transferred out of Level 3 assets to Level 2 assets. All of the transfers were as a result of an increase in the availability of observable market data used in the securities pricing obtained through independent pricing services or dealer market participants.

During the three and six months ended June 30, 2011 there were no transfers of assets between Level 1 and Level 2. One trust preferred security (classified as a trading security), was called for early redemption and removed from Level 1 assets during the second quarter of 2011.

The following valuation techniques were used for financial instruments measured at fair value on a recurring basis. All the valuation techniques described below apply to the unpaid principal balance excluding any accrued interest or dividends at the measurement date. Interest income and expense and dividend income are recorded within the consolidated statements of income depending on the nature of the instrument using the effective interest method based on acquired discount or premium.

Available for sale and trading securities. All U.S. Treasury securities, certain corporate and other debt securities, and certain common and preferred equity securities (including certain trust preferred securities) are reported at fair values utilizing Level 1 inputs (exchange quoted prices). The majority of the other investment securities are reported at fair value utilizing Level 2 inputs. The prices for these instruments are obtained through an independent pricing service or dealer market participants with whom Valley has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other

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things. Management reviews the data and assumptions used in pricing the securities by its third party providers to ensure the highest level of significant inputs are derived from market observable data. For certain securities, the inputs used by either dealer market participants or independent pricing service, may be derived from unobservable market information. In these instances, Valley evaluated the appropriateness and quality of each price. In addition, Valley reviewed the volume and level of activity for all available for sale and trading securities and attempted to identify transactions which may not be orderly or reflective of a significant level of activity and volume. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service may be adjusted, as necessary, to estimate fair value and this

Table of Contents

VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

results in fair values based on Level 3 inputs. In determining fair value, Valley utilized unobservable inputs which reflect Valley's own assumptions about the inputs that market participants would use in pricing each security. In developing its assertion of market participant assumptions, Valley utilized the best information that is both reasonable and available without undue cost and effort.

In calculating the fair value for the available for sale securities under Level 3 at June 30, 2011, Valley prepared present value cash flow models for two pooled trust preferred securities, and certain private label mortgage-backed securities. The cash flows for the residential mortgage-backed securities incorporated the expected cash flow of each security adjusted for default rates, loss severities and prepayments of the individual loans collateralizing the security. The cash flows for trust preferred securities reflected the contractual cash flow, adjusted if necessary for potential changes in the amount or timing of cash flows due to the underlying credit worthiness of each issuer. Valuation techniques that were used for measuring the fair value of certain available for sale and trading securities, consisting of trust preferred securities, under Level 3 at December 31, 2010 are fully described in Valley's Annual Report on Form 10-K for the year ended December 31, 2010.

For the two available for sale pooled trust preferred securities, the resulting estimated future cash flows were discounted at a yield determined by reference to similarly structured securities for which observable orderly transactions occurred. The discount rate for each security was applied using a pricing matrix based on credit, security type and maturity characteristics to determine the fair value. The fair value calculations for both securities are received from an independent valuation advisor.

For certain available for sale private label mortgage-backed securities, cash flow assumptions incorporated independent third party market participant data based on vintage year for each security. The discount rate utilized in determining the present value of cash flows for the mortgage-backed securities was arrived at by combining the yield on orderly transactions for similar maturity government sponsored mortgage-backed securities with (i) the historical average risk premium of similar structured private label securities, (ii) a risk premium reflecting current market conditions, including liquidity risk and (iii) if applicable, a forecasted loss premium derived from the expected cash flows of each security. The estimated cash flows for each private label mortgage-backed security were then discounted at the aforementioned effective rate to determine the fair value. The quoted prices received from either market participants or independent pricing services are weighted with the internal price estimate to determine the fair value of each instrument.

Loans held for sale. The conforming residential mortgage loans originated for sale are reported at fair value using Level 2 (significant other observable) inputs. The fair values were calculated utilizing quoted prices for similar assets in active markets. To determine these fair values, the mortgages held for sale are put into multiple tranches, or pools, based on the coupon rate of each mortgage. If the mortgages held for sale are material, the market prices for each tranche are obtained from both Fannie Mae and Freddie Mac. The market prices represent a delivery price which reflects the underlying price each institution would pay Valley for an immediate sale of an aggregate pool of mortgages. The market prices received from Fannie Mae and Freddie Mac are then averaged and interpolated or extrapolated, where required, to calculate the fair value of each tranche. Depending upon the time elapsed since the origination of each loan held for sale, non-performance risk and changes therein were addressed in the estimate of fair value based upon the delinquency data provided to both Fannie Mae and Freddie Mac for market pricing and changes in market credit spreads. Non-performance risk did not materially impact the fair value of mortgage loans held for sale at June 30, 2011 and December 31, 2010 based on the short duration these assets were held, and the high credit quality of these loans.

Junior subordinated debentures issued to capital trusts. The junior subordinated debentures issued to VNB Capital Trust I are reported at fair value using Level 1 inputs. The fair value was estimated using quoted prices in active markets for similar assets, specifically the quoted price of the VNB Capital Trust I preferred stock traded under ticker symbol VLYPRA on the New York Stock Exchange. The preferred stock and Valley's junior subordinated debentures issued to the Trust have identical financial terms and therefore, the preferred stock's quoted price moves in a similar manner to the estimated fair value and current settlement price of the junior subordinated debentures. The preferred stock's quoted price includes market considerations for Valley's credit and non-performance risk and is deemed to represent the transfer price that would be used if the junior subordinated debenture were assumed by a third party. Valley's potential credit risk and changes in such risk did not materially impact the fair value measurement of the junior subordinated debentures at June 30, 2011 and December 31, 2010.

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The fair value of Valley's derivatives are determined using third party prices that are based on discounted cash flow analyses using observed market interest rate curves and volatilities. The fair values of the derivatives incorporate credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, to account for potential nonperformance risk of Valley and its counterparties. The credit valuation adjustments were not significant to the overall valuation of Valley's derivatives at June 30, 2011 and December 31, 2010.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Certain non-financial assets and non-financial liabilities are measured at fair value on a nonrecurring basis, including other real estate owned and other repossessed assets (upon initial recognition or subsequent impairment), goodwill measured at fair value in the second step of a goodwill impairment test, and loan servicing rights, core deposits, other intangible assets, and other long-lived assets measured at fair value for impairment assessment.

The following table summarizes assets measured at fair value on a non-recurring basis as of the dates indicated:

		Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Total	(in thousands)		
As of June 30, 2011				
Collateral dependent impaired loans ⁽¹⁾	\$ 57,467	\$	\$	\$ 57,467
Loan servicing rights	7,263			7,263
Foreclosed assets	9,152			9,152
As of December 31, 2010				
Collateral dependent impaired loans ⁽¹⁾	\$ 53,330	\$	\$	\$ 53,330
Loan servicing rights	11,328			11,328
Foreclosed assets	19,986			19,986

(1) Excludes pooled covered loans acquired in the FDIC-assisted transactions.

Impaired loans. Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral and are commonly referred to as collateral dependent impaired loans. Collateral values are typically estimated using Level 3 inputs, consisting of individual appraisals that are significantly adjusted based on customized discounting criteria. During the six months ended June 30, 2011, collateral dependent impaired loans were individually re-measured and reported at fair value through direct loan charge-offs to the allowance for loan losses and/or a specific valuation allowance allocation based on the fair value of the underlying collateral. The direct collateral dependent loan charge-offs to the allowance for loan losses totaled \$4.3 million and \$4.6 million for the three and six months ended June 30, 2011, respectively. At June 30, 2011, collateral dependent impaired loans (mainly consisting of commercial and construction loans) with a carrying value of \$60.0 million were reduced by specific valuation allowance allocations totaling \$2.5 million to a reported fair value of

\$57.5 million.

Loan servicing rights. Fair values for each risk-stratified group are calculated using a fair value model from a third party vendor that requires inputs that are both significant to the fair value measurement and unobservable (Level 3). The fair value model is based on various assumptions, including but not limited to, servicing cost, prepayment speed, internal rate of return, ancillary income, float rate, tax rate, and inflation. A significant degree of judgment is involved in valuing the loan servicing rights using Level 3 inputs. The use of different assumptions could have a significant positive or negative effect on the fair value estimate. Impairment charges are recognized on loan servicing rights when the book value of a risk-stratified group of loan servicing rights exceeds the estimated fair value. During the three and six months

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

ended June 30, 2011, Valley recognized net recoveries of impairment charges totaling \$49 thousand and \$101 thousand, respectively, on loan servicing rights. The loan servicing rights had an \$11.7 million carrying value, net of a \$1.1 million valuation allowance, at June 30, 2011. Of the \$11.7 million loan in total servicing rights, \$7.3 million relates to impaired loan servicing rights that were recorded at their estimated fair values as of June 30, 2011.

Foreclosed assets. Certain foreclosed assets (consisting of other real estate owned and other repossessed assets), upon initial recognition and transfer from loans, are re-measured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the foreclosed assets. The fair value of a foreclosed asset, upon initial recognition, is typically estimated using Level 3 inputs, consisting of an appraisal that is significantly adjusted based on customized discounting criteria. During the six months ended June 30, 2011, foreclosed assets measured at fair value upon initial recognition and subsequent re-measurement totaled \$9.2 million and are included in the repossessed assets balance at June 30, 2011. In connection with the measurement and initial recognition of the aforementioned foreclosed assets, Valley recognized charge-offs to the allowance for loan losses totaling \$1.2 million and \$2.3 million for the three and six months ended June 30, 2011, respectively. The re-measurement of repossessed assets at fair value subsequent to initial recognition resulted in losses totaling \$838 thousand and \$1.3 million, which are included in non-interest expense for the three and six months ended June 30, 2011, respectively.

Other Fair Value Disclosures

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets and liabilities carried at fair value for the three and six months ended June 30, 2011 and 2010:

Reported in Consolidated Statements of Financial Condition	Reported in Consolidated Statements of Income	Gains (Losses) on Change in Fair Value			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2011	2010	2011	2010
(in thousands)					
Assets:					
Available for sale securities	Net impairment losses on securities	\$	\$ (2,049)	\$ (825)	\$ (4,642)
Trading securities	Trading (losses) gains, net	(106)	(581)	387	(345)
Loans held for sale	Gains on sales of loans, net	1,561	1,019	5,170	3,539
Liabilities:					
Junior subordinated debentures issued to capital trusts	Trading (losses) gains, net	(942)	1,419	1,947	(1,847)
		\$ 513	\$ (192)	\$ 6,679	\$ (3,295)

ASC Topic 825, Financial Instruments, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis.

The fair value estimates presented in the following table were based on pertinent market data and relevant information on the financial instruments available as of the valuation date. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire portfolio of financial instruments. Because no market exists for a portion of the financial instruments, fair value estimates may be based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For instance, Valley has certain fee-generating business lines (e.g., its mortgage servicing operation, trust and investment management departments) that were not considered in these estimates since these activities are not financial instruments. In addition, the tax implications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The carrying amounts and estimated fair values of financial instruments were as follows at June 30, 2011 and December 31, 2010:

	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Financial assets:				
Cash and due from banks	\$ 360,816	\$ 360,816	\$ 302,629	\$ 302,629
Interest bearing deposits with banks	165,847	165,847	63,657	63,657
Investment securities held to maturity	2,002,650	2,002,359	1,923,993	1,898,872
Investment securities available for sale	863,196	863,196	1,035,282	1,035,282
Trading securities	22,101	22,101	31,894	31,894
Loans held for sale, at fair value	28,385	28,385	58,958	58,958
Net loans	9,452,397	9,304,055	9,241,091	9,035,066
Accrued interest receivable	59,431	59,431	59,126	59,126
Federal Reserve Bank and Federal Home Loan Bank stock	129,714	129,714	139,778	139,778
Other assets*	4,984	4,984	8,414	8,414
Financial liabilities:				
Deposits without stated maturities	6,878,257	6,878,257	6,630,763	6,630,763
Deposits with stated maturities	2,828,190	2,878,120	2,732,851	2,783,680
Short-term borrowings	171,060	173,822	192,318	195,360
Long-term borrowings	2,727,481	3,027,188	2,933,858	3,201,090
Junior subordinated debentures issued to capital trusts (carrying amount includes fair value of \$159,787 at June 30, 2011 and \$161,734 at December 31, 2010 for VNB Capital Trust I)	184,941	185,819	186,922	187,480
Accrued interest payable	4,879	4,879	4,344	4,344
Other liabilities*	2,505	2,505	1,379	1,379

* Derivative financial instruments are included in this category.

Financial instruments with off-balance sheet risk, consisting of loan commitments and standby letters of credit, had immaterial estimated fair values at June 30, 2011 and December 31, 2010.

The following methods and assumptions were used to estimate the fair value of other financial assets and financial liabilities not measured and reported at fair value on a recurring basis or a non-recurring basis:

Cash and due from banks and interest bearing deposits with banks. The carrying amount is considered to be a reasonable estimate of fair value.

Investment securities held to maturity. Fair values are based on prices obtained through an independent pricing service or dealer market participants with which Valley has historically transacted both purchases and sales of investment securities. Prices obtained from these sources include prices derived from market quotations and matrix pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things. For certain securities, for which the inputs used by either dealer

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market participants or independent pricing service were derived from unobservable market information, Valley evaluated the appropriateness and quality of each price. Additionally, Valley reviewed the volume and level of activity for all classes of held to maturity securities and attempted to identify transactions which may not be orderly or reflective of a significant level of activity and volume. For securities meeting these criteria, the quoted prices received from either market participants or an independent pricing service may be adjusted, as necessary, to estimate fair value (fair values based on Level 3 inputs). If applicable, the adjustment to fair value was derived based on present

Table of Contents

VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

value cash flow model projections prepared by Valley utilizing assumptions similar to those incorporated by market participants.

Loans. Fair values of non-covered and covered loans are estimated by discounting the projected future cash flows using market discount rates that reflect the credit and interest-rate risk inherent in current loan originations. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Fair values estimated in this manner do not fully incorporate an exit-price approach to fair value, but instead are based on a comparison to current market rates for comparable loans.

Accrued interest receivable and payable. The carrying amounts of accrued interest approximate their fair value.

Federal Reserve Bank and Federal Home Loan Bank stock. The redeemable carrying amount of these securities with limited marketability approximates their fair value. These securities are recorded in other assets on the consolidated statements of financial condition.

Deposits. Current carrying amounts approximate estimated fair value of demand deposits and savings accounts. The fair value of time deposits is based on the discounted value of contractual cash flows using estimated rates currently offered for alternative funding sources of similar remaining maturity.

Short-term and long-term borrowings. The fair value is estimated by obtaining quoted market prices of the identical or similar financial instruments when available. When these quoted prices are unavailable, the fair value of borrowings is estimated by discounting the estimated future cash flows using market discount rates of financial instruments with similar characteristics, terms and remaining maturity.

Junior subordinated debentures issued to GCB Capital Trust III. There is no active market for the trust preferred securities issued by GCB Capital Trust III. Therefore, the fair value is estimated utilizing the income approach, whereby the expected cash flows, over the remaining estimated life of the security, are discounted using Valley's credit spread over the current yield on a similar maturity U.S. Treasury security. Valley's credit spread was calculated based on Valley's trust preferred securities issued by VNB Capital Trust I, which are publicly traded in an active market.

Note 7. Investment Securities

As of June 30, 2011, Valley had approximately \$2.0 billion, \$863.2 million, and \$22.1 million in held to maturity, available for sale, and trading investment securities, respectively. Valley may be required to record impairment charges on its investment securities if they suffer a decline in value that is considered other-than-temporary. Numerous factors, including lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment could have a negative effect on Valley's investment portfolio and may result in other-than-temporary impairment on certain investment securities in future periods. Valley's investment portfolios include private label mortgage-backed securities, trust preferred securities principally issued by bank holding companies (referred to below as "bank issuers") (including three pooled trust preferred securities), corporate bonds primarily issued by banks, and perpetual preferred and common equity securities issued by banks. These investments may pose a higher risk of future impairment charges by Valley as a result of the persistently weak U.S. economy and its potential negative effect on the future performance of these bank issuers and/or the underlying mortgage loan collateral.

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)*****Held to Maturity***

The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at June 30, 2011 and December 31, 2010 were as follows:

	Amortized Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses (in thousands)	Fair Value
June 30, 2011				
U.S. Treasury securities	\$ 100,091	\$ 997	\$ (59)	\$ 101,029
Obligations of states and political subdivisions	405,650	5,790	(1,325)	410,115
Residential mortgage-backed securities	1,184,773	42,539	(96)	1,227,216
Trust preferred securities	259,430	5,093	(57,265)	207,258
Corporate and other debt securities	52,706	4,656	(621)	56,741
Total investment securities held to maturity	\$ 2,002,650	\$ 59,075	\$ (59,366)	\$ 2,002,359
December 31, 2010				
U.S. Treasury securities	\$ 100,161	\$ 251	\$ (909)	\$ 99,503
Obligations of states and political subdivisions	387,280	2,146	(3,467)	385,959
Residential mortgage-backed securities	1,114,469	30,728	(3,081)	1,142,116
Trust preferred securities	269,368	5,891	(59,365)	215,894
Corporate and other debt securities	52,715	2,911	(226)	55,400
Total investment securities held to maturity	\$ 1,923,993	\$ 41,927	\$ (67,048)	\$ 1,898,872

The age of unrealized losses and fair value of related securities held to maturity at June 30, 2011 and December 31, 2010 were as follows:

	Less than Twelve Months		June 30, 2011 More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value (in thousands)	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	\$ 57,688	\$ (59)	\$	\$	\$ 57,688	\$ (59)
Obligations of states and political subdivisions	65,843	(1,324)	50	(1)	65,893	(1,325)
Residential mortgage-backed securities	10,608	(96)			10,608	(96)
Trust preferred securities	19,427	(137)	75,615	(57,128)	95,042	(57,265)
Corporate and other debt securities	14,797	(141)	8,494	(480)	23,291	(621)
Total	\$ 168,363	\$ (1,757)	\$ 84,159	\$ (57,609)	\$ 252,522	\$ (59,366)

	Less than Twelve Months		December 31, 2010 More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value (in thousands)	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	\$ 57,027	\$ (909)	\$	\$	\$ 57,027	\$ (909)
Obligations of states and political subdivisions	123,399	(3,467)	50		123,449	(3,467)
Residential mortgage-backed securities	226,135	(3,081)			226,135	(3,081)
Trust preferred securities	14,152	(250)	75,477	(59,115)	89,629	(59,365)
Corporate and other debt securities	7,971	(13)	8,761	(213)	16,732	(226)
Total	\$ 428,684	\$ (7,720)	\$ 84,288	\$ (59,328)	\$ 512,972	\$ (67,048)

The unrealized losses on investment securities held to maturity are primarily due to changes in interest rates (including, in certain cases, changes in credit spreads) and lack of liquidity in the marketplace. The total number of security

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

positions in the securities held to maturity portfolio in an unrealized loss position at June 30, 2011 was 61 as compared to 153 at December 31, 2010.

At June 30, 2011, the unrealized losses reported for trust preferred securities relate to 15 single-issuer securities, mainly issued by bank holding companies. Of the 15 trust preferred securities, 7 were investment grade, 1 was non-investment grade, and 7 were not rated. Additionally, \$40.0 million of the \$57.3 million in unrealized losses in the trust preferred securities portfolio at June 30, 2011, relate to securities issued by one bank holding company with a combined amortized cost of \$55.0 million. Valley privately negotiated the purchase of the \$55.0 million in trust preferred securities from the bank issuer and holds all of the securities of the two issuances. Typical of most trust preferred issuances, the bank issuer may defer interest payments for up to five years with interest payable on the deferred balance. In 2009, the bank issuer elected to defer its scheduled interest payments on each respective security issuance. However, the issuer's principal subsidiary bank reported, in its most recent regulatory filing, that it meets the regulatory capital minimum requirements to be considered a well-capitalized institution as of June 30, 2011. Based on this information, management believes that we will receive all principal and interest contractually due on both security issuances. Valley will continue to closely monitor the credit risk of this issuer and we may be required to recognize other-than-temporary impairment charges on such securities in future periods. All other single-issuer bank trust preferred securities classified as held to maturity are paying in accordance with their terms, have no deferrals of interest or defaults and, if applicable, meet the regulatory capital requirements to be considered to be well-capitalized institutions at June 30, 2011.

Management does not believe that any individual unrealized loss as of June 30, 2011 included in the table above represents other-than-temporary impairment as management mainly attributes the declines in value to changes in interest rates, widening credit spreads, and lack of liquidity in the market place, not credit quality or other factors. Based on a comparison of the present value of expected cash flows to the amortized cost, management believes there are no credit losses on these securities. Valley does not have the intent to sell, nor is it more likely than not that Valley will be required to sell, the securities contained in the table above before the recovery of their amortized cost basis or maturity.

As of June 30, 2011, the fair value of investments held to maturity that were pledged to secure public deposits, repurchase agreements, lines of credit, and for other purposes required by law, was \$994 million.

The contractual maturities of investments in debt securities held to maturity at June 30, 2011 are set forth in the table below. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

	June 30, 2011	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	\$ 130,602	\$ 130,815
Due after one year through five years	56,043	58,058
Due after five years through ten years	168,915	176,171
Due after ten years	462,317	410,099
Residential mortgage-backed securities	1,184,773	1,227,216
Total investment securities held to maturity	\$ 2,002,650	\$ 2,002,359

Actual maturities of debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty.

The weighted-average remaining expected life for residential mortgage-backed securities held to maturity was 6.6 years at June 30, 2011.

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Available for Sale**

The amortized cost, gross unrealized gains and losses and fair value of securities available for sale at June 30, 2011 and December 31, 2010 were as follows:

	Amortized Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses (in thousands)	Fair Value
June 30, 2011				
U.S. Treasury securities	\$ 100,098	\$ 140	\$	\$ 100,238
U.S. government agency securities	84,578	575	(209)	84,944
Obligations of states and political subdivisions	23,781	1,284		25,065
Residential mortgage-backed securities	494,815	24,170	(4,587)	514,398
Trust preferred securities*	52,455	433	(8,115)	44,773
Corporate and other debt securities	42,746	1,678	(1,828)	42,596
Equity securities	47,924	4,467	(1,209)	51,182
Total investment securities available for sale	\$ 846,397	\$ 32,747	\$ (15,948)	\$ 863,196
December 31, 2010				
U.S. Treasury securities	\$ 162,404	\$ 1,406	\$	\$ 163,810
U.S. government agency securities	88,926	26	(152)	88,800
Obligations of states and political subdivisions	28,231	1,234	(3)	29,462
Residential mortgage-backed securities	578,282	35,016	(2,940)	610,358
Trust preferred securities*	54,060	1,142	(14,119)	41,083
Corporate and other debt securities	53,379	2,612	(2,030)	53,961
Equity securities	48,724	812	(1,728)	47,808
Total investment securities available for sale	\$ 1,014,006	\$ 42,248	\$ (20,972)	\$ 1,035,282

* Includes three pooled trust preferred securities, principally collateralized by securities issued by banks and insurance companies. The age of unrealized losses and fair value of related securities available for sale at June 30, 2011 and December 31, 2010 were as follows:

		June 30, 2011			
		Less than Twelve Months	More than Twelve Months	Total	
Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in thousands)					

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U.S. government agency securities	\$ 8,720	\$ (209)	\$	\$	\$ 8,720	\$ (209)
Residential mortgage-backed securities	48,277	(553)	25,668	(4,034)	73,945	(4,587)
Trust preferred securities	1,859	(98)	17,823	(8,017)	19,682	(8,115)
Corporate and other debt securities	3,497	(11)	8,158	(1,817)	11,655	(1,828)
Equity securities			14,103	(1,209)	14,103	(1,209)
Total	\$ 62,353	\$ (871)	\$ 65,752	\$ (15,077)	\$ 128,105	\$ (15,948)

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

	Less than Twelve Months		December 31, 2010 More than Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
U.S. government agency securities	\$ 66,157	\$ (152)	\$	\$	\$ 66,157	\$ (152)
Obligations of states and political subdivisions	1,146	(3)			1,146	(3)
Residential mortgage-backed securities	11,439	(350)	46,206	(2,590)	57,645	(2,940)
Trust preferred securities	1,262	(153)	33,831	(13,966)	35,093	(14,119)
Corporate and other debt securities			7,944	(2,030)	7,944	(2,030)
Equity securities	1,538	(243)	13,736	(1,485)	15,274	(1,728)
Total	\$ 81,542	\$ (901)	\$ 101,717	\$ (20,071)	\$ 183,259	\$ (20,972)

The total number of security positions in the securities available for sale portfolio in an unrealized loss position at June 30, 2011 was 35 as compared to 43 at December 31, 2010.

Within the residential mortgage-backed securities category of the available for sale portfolio at June 30, 2011, substantially all of the \$4.6 million of unrealized losses relate to 6 private label mortgage-backed securities. Of these 6 securities, 2 securities had an investment grade rating, while 4 had a non-investment grade rating at June 30, 2011. Three of the non-investment grade private label mortgage-backed securities with unrealized losses were other-than-temporarily impaired during 2009 and 2010. No additional estimated credit losses were recognized on these securities during the six months ended June 30, 2011. See the Other-Than-Temporary Impairment Analysis section below.

At June 30, 2011, the unrealized losses for trust preferred securities in the table above relate to 3 pooled trust preferred securities and 10 single-issuer bank issued trust preferred securities. Most of the unrealized losses were attributable to the pooled trust preferred securities with an aggregate amortized cost of \$22.0 million and a fair value of \$14.5 million. One of the three pooled trust preferred securities with an unrealized loss of \$6.2 million had an investment grade rating at June 30, 2011. The other two trust preferred securities were other-than-temporarily impaired in the first quarter of 2010, and additional estimated credit losses were recognized on one of these securities in the first quarter of 2011. See Other-Than-Temporarily Impaired Securities section below for more details. At June 30, 2011, all of the 10 single-issuer trust preferred securities classified as available for sale had investment grade ratings. These single-issuer securities are all paying in accordance with their terms and have no deferrals of interest or defaults.

Substantially all of the unrealized losses reported for corporate and other debt securities at June 30, 2011 relate to one investment rated bank issued corporate bond with a \$10.0 million amortized cost and a \$1.8 million unrealized loss that is paying in accordance with its contractual terms.

The unrealized losses on equity securities, including those more than twelve months, are related primarily to two perpetual preferred security positions from the same issuance with a combined \$9.8 million amortized cost and a \$1.1 million unrealized loss. At June 30, 2011, these perpetual preferred securities had investment grade ratings and are currently performing and paying quarterly dividends.

Management does not believe that any individual unrealized loss as of June 30, 2011 represents an other-than-temporary impairment, except for the previously discussed impaired securities above, as management mainly attributes the declines in value to changes in interest rates and recent market volatility, not credit quality or other factors. Based on a comparison of the present value of expected cash flows to the amortized cost, management believes there are no credit losses on these securities. Valley has no intent to sell, nor is it more likely than not that Valley will be required to sell, the securities contained in the table above before the recovery of their amortized cost basis or, if necessary, maturity.

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As of June 30, 2011, the fair value of securities available for sale that were pledged to secure public deposits, repurchase agreements, lines of credit, and for other purposes required by law, was \$498 million.

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The contractual maturities of investment securities available for sale at June 30, 2011, are set forth in the following table. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, residential mortgage-backed securities are not included in the maturity categories in the following summary.

	June 30, 2011	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year	\$ 105,767	\$ 105,934
Due after one year through five years	2,912	2,996
Due after five years through ten years	88,301	90,035
Due after ten years	106,678	98,651
Residential mortgage-backed securities	494,815	514,398
Equity securities	47,924	51,182
Total investment securities available for sale	\$ 846,397	\$ 863,196

Actual maturities of debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty.

The weighted-average remaining expected life for residential mortgage-backed securities available for sale at June 30, 2011 was 4.5 years.

Other-Than-Temporary Impairment Analysis

In assessing the level of other-than-temporary impairment attributable to credit loss for debt securities, Valley compares the present value of cash flows expected to be collected with the amortized cost basis of the security. The portion of the total other-than-temporary impairment related to credit loss is recognized in earnings, while the amount related to other factors is recognized in other comprehensive income. The total other-than-temporary impairment loss is presented in the consolidated statements of income, less the portion recognized in other comprehensive income. Subsequent assessments may result in additional estimated credit losses on previously impaired securities. These additional estimated credit losses are recorded as reclassifications from the portion of other-than-temporary impairment previously recognized in other comprehensive income to earnings in the period of such assessments. The amortized cost basis of an impaired debt security is reduced by the portion of the total impairment related to credit loss.

For residential mortgage-backed securities, Valley estimates loss projections for each security by stressing the cash flows from the individual loans collateralizing the security using expected default rates, loss severities, and prepayment speeds, in conjunction with the underlying credit enhancement (if applicable) for each security. Based on collateral and origination vintage specific assumptions, a range of possible cash flows was identified to determine whether other-than-temporary impairment existed at June 30, 2011.

For the single-issuer trust preferred securities and corporate and other debt securities, Valley reviews each portfolio to determine if all the securities are paying in accordance with their terms and have no deferrals of interest or defaults. Over the past several years, many banking institutions have been required to defer trust preferred payments and a growing number of banking institutions have been put in receivership by the FDIC. A deferral event by a bank holding company for which we hold trust preferred securities may require us to recognize an other-than-temporary impairment charge if we determine that we no longer expect to collect all contractual interest and principal. A FDIC receivership for any single-issuer would result in an impairment and significant loss. Valley analyzes the performance of the issuers on a quarterly basis, including a review of performance data from the issuer's most recent bank regulatory report, if applicable, to assess their credit

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risk and the probability of impairment of the contractual cash flows of the applicable security. Based upon management's quarterly review, all of the issuers' capital ratios are at or above the minimum amounts to be considered a well-capitalized financial institution, if applicable, and/or have maintained performance levels adequate to support the contractual cash flows.

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

For the three pooled trust preferred securities, Valley evaluates the projected cash flows from each of its tranches in the three securities to determine if they are adequate to support their future contractual principal and interest payments. Valley assesses the credit risk and probability of impairment of the contractual cash flows by projecting the default rates over the life of the security. Higher projected default rates will decrease the expected future cash flows from each security. If the projected decrease in cash flows in each tranche causes a change in contractual yield, the security would be considered to be other-than-temporarily impaired. Two of the pooled trust preferred securities were initially impaired in 2008 with additional estimated credit losses recognized during 2009 and the first quarter of 2010. One of the two pooled trust preferred securities had additional estimated credit losses recognized during the first quarter of 2011. See *Other-Than-Temporarily Impaired Securities* section below for further details.

The perpetual preferred securities, reported in equity securities, are hybrid investments that are assessed for impairment by Valley as if they were debt securities. Therefore, Valley assessed the creditworthiness of each security issuer, as well as any potential change in the anticipated cash flows of the securities as of June 30, 2011. Based on this analysis, management believes the declines in fair value of these securities are attributable to a lack of liquidity in the marketplace and are not reflective of any deterioration in the creditworthiness of the issuers.

Other-Than-Temporarily Impaired Securities

The following table provides information regarding our other-than-temporary impairment charges on securities recognized in earnings for the three and six months ended June 30, 2011 and 2010.

	Three Months			
	Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	(in thousands)			
Available for sale:				
Residential mortgage-backed securities	\$	\$ 2,049	\$	\$ 2,265
Trust preferred securities			825	2,377
Net impairment losses on securities recognized in earnings	\$	\$ 2,049	\$ 825	\$ 4,642

There were no net impairment losses on securities recognized in earnings during the second quarter of 2011 compared to \$2.0 million for the same period in 2010. During the second quarter of 2010, Valley recognized additional estimated credit losses on three previously impaired private label mortgage-backed securities.

For the six months ended June 30, 2011, Valley recognized net impairment losses on securities in earnings totaling \$825 thousand due to additional estimated credit losses on one of the two previously impaired pooled trust preferred securities. For the six months ended June 30, 2010, Valley recognized impairment charges on a total of five individual private label mortgage-backed securities and two previously impaired pooled trust preferred securities.

At June 30, 2011, the five previously impaired private label mortgage-backed securities had a combined amortized cost of \$47.0 million and fair value of \$47.2 million, while the two previously impaired pooled trust preferred securities had a combined amortized cost and fair value of \$5.4 million and \$4.1 million, respectively, after recognition of all credit impairments.

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)*****Realized Gains and Losses***

Gross gains (losses) realized on sales, maturities and other securities transactions related to investment securities included in earnings for the three and six months ended June 30, 2011 and 2010 were as follows:

	Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
	2010		2010	
	(in thousands)			
Sales transactions:				
Gross gains	\$ 16,294	\$ 3,752	\$ 18,968	\$ 4,634
Gross losses		(81)		(96)
	\$ 16,294	\$ 3,671	\$ 18,968	\$ 4,538
Maturities and other securities transactions:				
Gross gains	\$ 198	\$ 40	\$ 208	\$ 52
Gross losses		(55)	(5)	(71)
	\$ 198	\$ (15)	\$ 203	\$ (19)
Total gains on securities transactions, net	\$ 16,492	\$ 3,656	\$ 19,171	\$ 4,519

During the quarter ended June 30, 2011, Valley recognized gross gains on sales transactions of \$16.3 mainly due to the sale of \$253.0 million in residential mortgage-backed securities issued by government sponsored agencies, perpetual preferred securities issued by Freddie Mac and Fannie Mae, and U.S Treasury securities that were classified as available for sale. Of these sales, \$141.2 million in net proceeds were recorded as an unsettled trade date receivable included in other assets at June 30, 2011.

The following table presents the changes in the credit loss component of cumulative other-than-temporary impairment losses on debt securities classified as either held to maturity or available for sale that Valley has recognized in earnings, for which a portion of the impairment loss (non-credit factors) was recognized in other comprehensive income for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
	2010	2010	2011	2010
	(in thousands)			
Balance, beginning of period	\$ 11,169	\$ 8,664	\$ 10,500	\$ 6,119
Additions:				
Initial credit impairments				124
Subsequent credit impairments		2,049	825	4,518
Reductions:				

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Accretion of credit loss impairment due to an increase in expected cash flows	(93)	(53)	(249)	(101)
Balance, end of period	\$ 11,076	\$ 10,660	\$ 11,076	\$ 10,660

The credit loss component of the impairment loss represents the difference between the present value of expected future cash flows and the amortized cost basis of the security prior to considering credit losses. The beginning balance represents the credit loss component for debt securities for which other-than-temporary impairment occurred prior to the periods presented. Other-than-temporary impairments recognized in earnings for credit impaired debt securities are presented as additions in two components based upon whether the current period is the first time the debt security was credit impaired (initial credit impairment) or is not the first time the debt security was credit impaired (subsequent credit impairment). The credit loss component is reduced if Valley sells, intends to sell or believes it will be required to sell previously credit impaired debt securities. Additionally, the credit loss component is reduced if (i) Valley receives cash flows in excess of what it expected to receive over the remaining life of the credit impaired debt security, (ii) the security matures or (iii) the security is fully written down.

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)*****Trading Securities***

The fair value of trading securities (consisting of 3 and 4 single-issuer bank trust preferred securities at June 30, 2011 and December 31, 2010, respectively) was \$22.1 million and \$31.9 million at June 30, 2011 and December 31, 2010, respectively. Interest income on trading securities totaled \$500 thousand and \$642 thousand for the three months ended June 30, 2011 and 2010, respectively, and \$1.1 million and \$1.3 million for the six months ended June 30, 2011 and 2010, respectively.

Note 8. Loans

The detail of the loan portfolio as of June 30, 2011 and December 31, 2010 was as follows:

	June 30, 2011	December 31, 2010
	(in thousands)	
Non-covered loans:		
Commercial and industrial	\$ 1,825,782	\$ 1,825,066
Commercial real estate:		
Commercial real estate	3,486,597	3,378,252
Construction	413,951	428,232
Total commercial real estate loans	3,900,548	3,806,484
Residential mortgage	2,147,362	1,925,430
Consumer:		
Home equity	484,812	512,745
Automobile	807,489	850,801
Other consumer	116,606	88,614
Total consumer loans	1,408,907	1,452,160
Total non-covered loans	9,282,599	9,009,140
Covered loans:		
Commercial and industrial	\$ 97,739	\$ 121,151
Commercial real estate	182,591	195,646
Construction	6,302	16,153
Residential mortgage	15,324	17,026
Consumer	6,468	6,679
Total covered loans	308,424	356,655
Total loans	\$ 9,591,023	\$ 9,365,795

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FDIC under loss-share receivable related to covered loans and foreclosed assets	\$	80,179	\$	89,359
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Total non-covered loans are net of unearned discount and deferred loan fees totaling \$7.7 million and \$9.3 million at June 30, 2011 and December 31, 2010, respectively. Covered loans had outstanding contractual principal balances totaling approximately \$447.2 million and \$497.0 million at June 30, 2011 and December 31, 2010, respectively.

Covered Loans

Covered loans acquired through the FDIC-assisted transactions are accounted for in accordance with ASC Subtopic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, since all of these loans were acquired at a discount attributable, at least in part, to credit quality and are not subsequently accounted for at fair value. Covered loans were initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance (i.e., the allowance for loan losses). Under ASC Subtopic 310-30, loans may be aggregated and accounted for as pools of loans if the loans being aggregated have common risk characteristics. The difference between the undiscounted cash flows expected at acquisition and the investment in the covered loans, or the accretable yield, is recognized as interest income utilizing the level-yield method over the life of each pool. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the non-accretable difference, are not recognized as a yield adjustment, as a loss accrual or a valuation allowance. Increases in

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

expected cash flows subsequent to the acquisition are recognized prospectively through an adjustment of the yield on the pool over its remaining life, while decreases in expected cash flows are recognized as impairment through a loss provision and an increase in the allowance for loan losses. Valuation allowances (recognized in the allowance for loan losses) on these impaired pools reflect only losses incurred after the acquisition (representing all cash flows that were expected at acquisition but currently are not expected to be received). The allowance for loan losses on covered loans (acquired through two FDIC-assisted transactions) is determined without consideration of the amounts recoverable through the FDIC loss-share agreements (see **FDIC loss-share receivable** below).

The Bank periodically evaluates the remaining contractual required payments due and estimates of cash flows expected to be collected. These evaluations, performed quarterly, require the continued use of key assumptions and estimates, similar to the initial estimate of fair value. Changes in the contractual required payments due and estimated cash flows expected to be collected may result in changes in the accretable yield and non-accretable difference or reclassifications between accretable yield and the non-accretable difference. During the quarter ended June 30, 2011, on an aggregate basis the acquired pools of covered loans performed better than originally expected, and based on our current estimates, we expect to receive more future cash flows than originally modeled at the acquisition dates. For these pools with better than expected cash flows, the forecasted increase is recorded as an additional accretable yield that is recognized as a prospective increase to our interest income on loans. Additionally, the FDIC loss-share receivable is prospectively reduced by the guaranteed portion of the additional amount expected to be received with a corresponding reduction to non-interest income.

Changes in the accretable yield for covered loans were as follows for the three and six months ended June 30, 2011:

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
	(in thousands)	
Balance at the beginning of the period	\$ 109,435	\$ 101,052
Accretion	(8,706)	(16,518)
Net reclassification from non-accretable difference	788	16,983
Balance at the end of the period	\$ 101,517	\$ 101,517

Valley reclassified \$788 thousand and \$17.0 million from the non-accretable difference for covered loans because of increases in expected cash flows for certain pools of covered loans during the three and six months ended June 30, 2011, respectively. This amount will be recognized prospectively as an adjustment to yield over the life of the individual pools.

FDIC Loss-Share Receivable

The receivable arising from the loss-sharing agreements (referred to as the **FDIC loss-share receivable** on our consolidated statements of financial condition) is measured separately from the covered loan portfolio because the agreements are not contractually part of the covered loans and are not transferable should the Bank choose to dispose of the covered loans.

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Changes in the FDIC loss-share receivable for the six months ended June 30, 2011 were as follows:

	(in thousands)
Balance at December 31, 2010	\$ 89,359
Accretion, net*	(4,987)
Increase due to impairment on covered loans*	16,932
Other reimbursable expenses*	1,621
Reimbursements from the FDIC	(22,746)
Balance at June 30, 2011	\$ 80,179

* Valley recognized \$13.6 million in non-interest income for the six months ended June 30, 2011 representing the net effect on the FDIC loss-share receivable of additions for reimbursable expenses and impairment of certain covered loan pools, less a reduction for net accretion.

Loan Portfolio Risk Elements and Credit Risk Management

Credit risk management. For all of its loan types discussed below, Valley adheres to a credit policy designed to minimize credit risk while generating the maximum income given the level of risk. Management reviews and approves these policies and procedures on a regular basis with subsequent approval by the Board of Directors annually. Credit authority relating to a significant dollar percentage of the overall portfolio is centralized and controlled by the Credit Risk Management Division and by the Credit Committee. A reporting system supplements the management review process by providing management with frequent reports concerning loan production, loan quality, concentrations of credit, loan delinquencies, non-performing, and potential problem loans. Loan portfolio diversification is an important factor utilized by Valley to manage its risk across business sectors and through cyclical economic circumstances.

Commercial and industrial loans. A significant proportion of Valley's commercial and industrial loan portfolio is granted to long standing customers of proven ability, strong repayment performance, and high character. Underwriting standards are designed to assess the borrower's ability to generate recurring cash flow sufficient to meet the debt service requirements of loans granted. While such recurring cash flow serves as the primary source of repayment, a significant number of the loans are collateralized by borrower assets intended to serve as a secondary source of repayment should the need arise. Anticipated cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value, or in the case of loans secured by accounts receivable, the ability of the borrower to collect all amounts due from its customers. Short-term loans may be made on an unsecured basis based on a borrower's financial strength and past performance. Valley, in most cases, will obtain the personal guarantee of the borrower's principals to mitigate the risk. Unsecured loans, when made, are generally granted to the Bank's most credit worthy borrowers. At June 30, 2011, unsecured commercial and industrial loans totaled \$385.7 million.

Commercial real estate loans. Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans. Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real property. Loans generally involve larger principal balances and longer repayment periods as compared to commercial and industrial loans. Repayment of most loans is dependent upon the cash flow generated from the property securing the loan or the business that occupies the property. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy and accordingly conservative loan to value ratios are required at origination, as well as, stress tested to evaluate the impact of market changes relating to key underwriting elements. The properties securing the commercial real estate portfolio represent diverse types, with most properties located within Valley's primary markets.

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Construction loans. With respect to loans to developers and builders, Valley originates and manages construction loans structured on either a revolving or non-revolving basis, depending on the nature of the underlying development project. These loans are generally secured by the real estate to be developed and may also be secured by additional real estate to mitigate the risk. Non-revolving construction loans often involve the disbursement of substantially all committed funds with repayment substantially dependent on the successful completion and sale, or lease, of the project. Sources of repayment for these types of loans may be from pre-committed permanent loans from other lenders, sales of developed

Table of Contents

VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

property, or an interim loan commitment from Valley until permanent financing is obtained elsewhere. Revolving construction loans (generally relating to single family residential construction) are controlled with loan advances dependent upon the presale of housing units financed. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

Residential mortgages. Valley originates residential, first mortgage loans based on underwriting standards that comply with Fannie Mae and/or Freddie Mac requirements. Appraisals of real estate collateral are contracted directly with independent appraisers and not through appraisal management companies. The Bank's appraisal management policy and procedure is in accordance with regulatory requirements and guidance issued by the Bank's primary regulator. Credit scoring, using FICO® and other proprietary, credit scoring models, is employed in the ultimate, judgmental credit decision by Valley's underwriting staff. Valley does not use third party contract underwriting services. Residential mortgage loans include fixed and variable interest rate loans secured by one to four family homes generally located in northern and central New Jersey, New York City metropolitan area, and eastern Pennsylvania. Valley's ability to be repaid on such loans is closely linked to the economic and real estate market conditions in this region. In deciding whether to originate each residential mortgage, Valley considers the qualifications of the borrower as well as the value of the underlying property.

Home equity loans. Home equity lending consists of both fixed and variable interest rate products. Valley mainly provides home equity loans to its residential mortgage customers within the footprint of its primary lending territory. Valley generally will not exceed a combined (i.e., first and second mortgage) loan-to-value ratio of 70 percent when originating a home equity loan.

Automobile loans. Valley uses both judgmental and scoring systems in the credit decision process for automobile loans. Automobile originations (including light truck and sport utility vehicles) are largely produced via indirect channels, originated through approved automobile dealers. Automotive collateral is generally a depreciating asset and there are times in the life of an automobile loan where the amount owed on a vehicle may exceed its collateral value. Additionally, automobile charge-offs will vary based on strength or weakness in the used vehicle market, original advance rate, when in the life cycle of a loan a default occurs and the condition of the collateral being liquidated. Where permitted by law, and subject to the limitations of the bankruptcy code, deficiency judgments are sought and acted upon to ultimately collect all money owed, even when a default resulted in a loss at collateral liquidation. Valley uses a third party to actively track collision and comprehensive risk insurance required of the borrower on the automobile and this third party provides coverage to Valley in the event of an uninsured collateral loss.

Other consumer loans. Valley's other consumer loan portfolio includes direct consumer term loans, both secured and unsecured. The other consumer loan portfolio includes minor exposures in credit card loans, personal lines of credit, personal loans and loans secured by cash surrender value of life insurance. Valley believes the aggregate risk exposure of these loans and lines of credit was not significant at June 30, 2011. At June 30, 2011, unsecured consumer loans totaled approximately \$41.3 million, including \$9.0 million of credit card loans.

Credit Quality

Past due and non-accrual loans. All loans are deemed to be past due when the contractually required principal and interest payments have not been received as they become due. Loans are placed on non-accrual status generally when they become 90 days past due and the full and timely collection of principal and interest becomes uncertain. When a loan is placed on non-accrual status, interest accruals cease and uncollected accrued interest is reversed and charged against current income. Payments received on nonaccrual loans are applied against principal. A loan may be restored to an accruing basis when it becomes well secured and is in the process of collection, or all past due amounts become current under the loan agreement and collectability is no longer doubtful.

The covered loans acquired from the FDIC were aggregated into pools based on common risk characteristics in accordance with ASC Subtopic 310-30. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. The covered loans that may have been classified as non-performing loans by the acquired banks are no longer classified as non-performing because these loans are accounted for an a

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

pooled basis. Management's judgment is required in classifying loans in pools subject to ASC Subtopic 310-30 as performing loans, and is dependent on having a reasonable expectation about the timing and amount of the pool cash flows to be collected, even if certain loans within the pool are contractually past due.

The following tables present past due, non-accrual and current non-covered loans by loan portfolio class at June 30, 2011 and December 31, 2010:

		Past Due and Non-Accrual Loans*					
	30-89 Days Past Due Loans	Accruing Loans 90 Days Or More Past Due	Non-Accrual Loans (in thousands)	Total Past Due Loans	Current Non-Covered Loans	Total Non-Covered Loans	
June 30, 2011							
Commercial and industrial	\$ 10,915	\$ 12	\$ 15,882	\$ 26,809	\$ 1,798,973	\$ 1,825,782	
Commercial real estate:							
Commercial real estate	7,710	1,682	43,041	52,433	3,434,164	3,486,597	
Construction	1,710		22,004	23,714	390,237	413,951	
Total commercial real estate loans	9,420	1,682	65,045	76,147	3,824,401	3,900,548	
Residential mortgage	13,819	687	29,815	44,321	2,103,041	2,147,362	
Consumer loans:							
Home equity	481		2,509	2,990	481,822	484,812	
Automobile	7,846	295	469	8,610	798,879	807,489	
Other consumer	334	24	31	389	116,217	116,606	
Total consumer loans	8,661	319	3,009	11,989	1,396,918	1,408,907	
Total	\$ 42,815	\$ 2,700	\$ 113,751	\$ 159,266	\$ 9,123,333	\$ 9,282,599	

* Past due loans and non-accrual loans exclude loans that were acquired as part of the LibertyPointe Bank and The Park Avenue Bank FDIC-assisted transactions. These loans are accounted for on a pooled basis.

	30-89 Days Past Due Loans	Past Due and Non-Accrual Loans*			Current Non-Covered Loans	Total Non-Covered Loans
		Accruing Loans 90 Days Or More Past Due	Non-Accrual Loans (in thousands)	Total Past Due Loans		

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December 31, 2010

Commercial and industrial	\$ 13,852	\$ 12	\$ 13,721	\$ 27,585	\$ 1,797,481	\$ 1,825,066
Commercial real estate:						
Commercial real estate	14,563		32,981	47,544	3,330,708	3,378,252
Construction	2,804	196	27,312	30,312	397,920	428,232
Total commercial real estate loans	17,367	196	60,293	77,856	3,728,628	3,806,484
Residential mortgage	12,682	1,556	28,494	42,732	1,882,698	1,925,430
Consumer loans:						
Home equity	1,045		1,955	3,000	509,745	512,745
Automobile	13,328	686	539	14,553	836,248	850,801
Other consumer	265	37	53	355	88,259	88,614
Total consumer loans	14,638	723	2,547	17,908	1,434,252	1,452,160
Total	\$ 58,539	\$ 2,487	\$ 105,055	\$ 166,081	\$ 8,843,059	\$ 9,009,140

* Past due loans and non-accrual loans exclude loans that were acquired as part of the Liberty Pointe Bank and The Park Avenue Bank FDIC-assisted transactions. These loans are accounted for on a pooled basis.

Performing troubled debt restructured loans (restructured loans). Restructured loans within the non-covered loan portfolio with modified terms and not reported as loans 90 days or more past due and still accruing or as non-accrual loans, are performing restructured loans to customers experiencing financial difficulties where a concession has been granted. All loan modifications are made on a case-by-case basis. Substantially all of our loan modifications that are considered restructured loans involve lowering the monthly payments on such loans through either a reduction in interest rate below a market rate, an extension of the term of the loan without a corresponding adjustment to the risk premium reflected in the interest rate, or a combination of these two methods. These modifications rarely result in the

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

forgiveness of principal or interest. In addition, the Bank frequently obtains additional collateral or guarantor support when modifying such loans.

The following table presents information about restructured loans within the non-covered loan portfolio at June 30, 2011 and December 31, 2010:

	June 30, 2011		December 31, 2010	
	Amount	Number of Loans (\$ in thousands)	Amount	Number of Loans
Commercial and industrial	\$ 27,397	22	\$ 23,718	18
Commercial real estate:				
Commercial real estate	43,722	15	36,707	14
Construction	14,095	6	12,644	5
Total commercial real estate	57,817	21	49,351	19
Residential mortgage	16,148	5	16,544	5
Consumer loans:				
Home equity	82	2	83	2
Total consumer loans	82	2	83	2
Total restructured loans	\$ 101,444	50	\$ 89,696	44

Impaired loans. Non-accrual commercial and industrial loans and commercial real estate loans over \$250 thousand and all troubled debt restructured loans are individually evaluated for impairment. The value of an impaired loan is measured based upon the underlying anticipated method of payment consisting of either the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral, if the loan is collateral dependent, and its payment is expected solely based on the underlying collateral. If the value of an impaired loan is less than its carrying amount, impairment is recognized through a provision to the allowance for loan losses. Collateral dependent impaired loan balances are written down to the current fair value of each loan's underlying collateral resulting in an immediate charge-off to the allowance, excluding any consideration for personal guarantees that may be pursued in the Bank's collection process. If repayment is based upon future expected cash flows, the present value of the expected future cash flows discounted at the loan's original effective interest rate is compared to the carrying value of the loan, and any shortfall is recorded as a specific valuation allowance in the allowance for credit losses. Accrual of interest is discontinued on an impaired loan when management believes, after considering collection efforts and other factors, the borrower's financial condition is such that collection of interest is doubtful. Cash collections on impaired loans are generally credited to the loan balance, and no interest income is recognized on these loans until the principal balance has been determined to be fully collectible.

Residential mortgage loans and consumer loans generally consist of smaller balance homogeneous loans that are collectively evaluated for impairment, and are specifically excluded from the impaired loan portfolio, except where the loan is classified as a troubled debt restructured loan.

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The following tables present the information about non-covered impaired loans by loan portfolio class at June 30, 2011 and December 31, 2010:

	Recorded Investment * With No Related Allowance	Recorded Investment * With Related Allowance	Total Recorded Investment* (in thousands)	Unpaid Contractual Principal Balance	Related Allowance
June 30, 2011					
Commercial and industrial	\$ 5,857	\$ 33,155	\$ 39,012	\$ 52,102	\$ 7,168
Commercial real estate:					
Commercial real estate	25,504	54,906	80,410	87,724	5,035
Construction	15,981	19,842	35,823	36,297	2,709
Total commercial real estate loans	41,485	74,748	116,233	124,021	7,744
Residential mortgage	789	17,401	18,190	18,470	3,000
Consumer loans:					
Home equity		82	82	82	4
Total consumer loans		82	82	82	4
Total	\$ 48,131	\$ 125,386	\$ 173,517	\$ 194,675	\$ 17,916
December 31, 2010					
Commercial and industrial	\$ 3,707	\$ 28,590	\$ 32,297	\$ 42,940	\$ 6,397
Commercial real estate:					
Commercial real estate	19,860	43,393	63,253	66,869	3,991
Construction	24,215	15,854	40,069	40,867	2,150
Total commercial real estate loans	44,075	59,247	103,322	107,736	6,141
Residential mortgage	788	17,797	18,585	18,864	2,683
Consumer loans:					
Home equity		83	83	83	5
Total consumer loans		83	83	83	5
Total	\$ 48,570	\$ 105,717	\$ 154,287	\$ 169,623	\$ 15,226

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* Recorded investment equals the aggregate carrying value of the applicable loans.

The following table presents, by loan portfolio class, the average recorded investment and interest income recognized on impaired loans for the three and six months ended June 30, 2011:

	Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
	Average Recorded Investment	Interest Income Recognized (in thousands)	Average Recorded Investment	Interest Income Recognized
Commercial and industrial	\$ 38,274	\$ 256	\$ 38,158	\$ 739
Commercial real estate:				
Commercial real estate	71,384	689	67,054	1,356
Construction	34,809	96	34,296	262
Total commercial real estate loans	106,193	785	101,350	1,618
Residential mortgage	18,226	173	18,304	381
Consumer loans:				
Home equity	82	2	82	3
Total consumer loans	82	2	82	3
Total	\$ 162,775	\$ 1,216	\$ 157,894	\$ 2,741

Interest income recognized on a cash basis, included in the table above was immaterial for the three and six months ended June 30, 2011.

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Credit quality indicators. Valley utilizes an internal loan classification system as a means of reporting problem loans within commercial and industrial, commercial real estate, and construction loan portfolio classes. Under Valley's internal risk rating system, loan relationships could be classified as Special Mention, Substandard, Doubtful, and Loss. Substandard loans include loans that exhibit well-defined weaknesses and are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, based on currently existing facts, conditions and values, highly questionable and improbable. Loans classified as Loss are those considered uncollectible with insignificant value and are charged-off immediately to the allowance for loan losses. Loans that do not currently pose a sufficient risk to warrant classification in one of the aforementioned categories, but pose weaknesses that deserve management's close attention are deemed to be Special Mention. Loans rated as Pass loans do not currently pose any identified risk and can range from the highest to average quality, depending on the degree of potential risk. Risk ratings are updated any time the situation warrants.

The following table presents the risk category of loans by class of loans based on the most recent analysis performed at June 30, 2011 and December 31, 2010.

Credit exposure - by internally assigned risk rating	Pass	Special Mention	Substandard (in thousands)	Doubtful	Total
June 30, 2011					
Commercial and industrial	\$ 1,628,838	\$ 89,924	\$ 106,717	\$ 303	\$ 1,825,782
Commercial real estate	3,275,769	68,772	142,056		3,486,597
Construction	326,830	34,770	52,155	196	413,951
Total	\$ 5,231,437	\$ 193,466	\$ 300,928	\$ 499	\$ 5,726,330
December 31, 2010					
Commercial and industrial	\$ 1,638,939	\$ 92,131	\$ 93,920	\$ 76	\$ 1,825,066
Commercial real estate	3,175,333	77,186	125,733		3,378,252
Construction	324,292	48,442	55,498		428,232
Total	\$ 5,138,564	\$ 217,759	\$ 275,151	\$ 76	\$ 5,631,550

For residential mortgages, automobile, home equity, and other consumer loan portfolio classes, Valley also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in those loan classes based on payment activity as of June 30, 2011 and December 31, 2010:

Credit exposure - by payment activity	Performing Loans	Non-Performing Loans (in thousands)	Total Loans
June 30, 2011			
Residential mortgage	\$ 2,117,547	\$ 29,815	\$ 2,147,362
Home equity	482,303	2,509	484,812

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Automobile	807,020	469	807,489
Other consumer	116,575	31	116,606
Total	\$ 3,523,445	\$ 32,824	\$ 3,556,269
December 31, 2010			
Residential mortgage	\$ 1,896,936	\$ 28,494	\$ 1,925,430
Home equity	510,790	1,955	512,745
Automobile	850,262	539	850,801
Other consumer	88,561	53	88,614
Total	\$ 3,346,549	\$ 31,041	\$ 3,377,590

Valley evaluates the credit quality of its covered loan pools based on the expectation of the underlying cash flows. The balance of covered loan pools with an adverse change in the expected cash flows since the date of acquisition was

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

\$175.5 million and \$27.2 million at June 30, 2011 and December 31, 2010, respectively. The impaired loan pools mainly consisted of commercial and industrial loans.

Note 9. Allowance for Credit Losses

The allowance for credit losses consists of the allowance for losses on non-covered loans, the reserve for unfunded letters of credit, and the allowance for losses on covered loans related to credit impairment of certain covered loan pools subsequent to acquisition. Management maintains the allowance for credit losses at a level estimated to absorb probable loan losses of the loan portfolio and unfunded letter of credit commitments at the balance sheet date. The allowance for losses on non-covered loans is based on ongoing evaluations of the probable estimated losses inherent in the non-covered loan portfolio.

The following table summarizes the allowance for credit losses at June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
	(in thousands)	
Components of allowance for credit losses:		
Allowance for non-covered loans	\$ 119,907	\$ 118,326
Allowance for covered loans	18,719	6,378
Total allowance for loan losses	138,626	124,704
Allowance for unfunded letters of credit	2,267	1,800
Total allowance for credit losses	\$ 140,893	\$ 126,504

The following table summarizes the provision for credit losses for the periods indicated:

	Three Months Ended June 30, 2011	2010	Six Months Ended June 30, 2011	2010
	(in thousands)			
Components of provision for credit losses:				
Provision for non-covered loans	\$ 6,422	\$ 12,376	\$ 11,627	\$ 24,855
Provision for covered loans	(788)		18,094	
Total provision for loan losses	5,634	12,376	29,721	24,855
Provision for unfunded letters of credit	392	62	467	194
Total provision for credit losses	\$ 6,026	\$ 12,438	\$ 30,188	\$ 25,049

Loan charge-off policy. Loans identified as losses by management are charged-off. Loans are assessed for full or partial charge-off when they are between 90 and 120 days past due. Furthermore, residential mortgage and consumer loan accounts are charged-off in accordance with regulatory requirements.

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The following tables detail the activity in the allowance for loan losses by portfolio segment for the three months ended June 30, 2011 and 2010, including both covered and non-covered loans:

	Commercial and Industrial	Commercial Real Estate	Residential Mortgage (in thousands)	Consumer	Unallocated	Total
Three Months Ended June 30, 2011:						
Allowance for loan losses:						
Beginning balance	\$ 75,871	\$ 32,217	\$ 11,303	\$ 12,300	\$ 8,156	\$ 139,847
Loans charged-off ⁽¹⁾	(3,056)	(3,631)	(443)	(1,355)		(8,485)
Charged-off loans recovered	741	202	69	618		1,630
Net charge-offs	(2,315)	(3,429)	(374)	(737)		(6,855)
Provision for loan losses ⁽²⁾	2,130	3,947	107	(488)	(62)	5,634
Ending balance	\$ 75,686	\$ 32,735	\$ 11,036	\$ 11,075	\$ 8,094	\$ 138,626
Three Months Ended June 30, 2010:						
Allowance for loan losses:						
Beginning balance	\$ 48,131	\$ 29,159	\$ 6,156	\$ 14,290	\$ 5,750	\$ 103,486
Loans charged-off	(1,978)	(760)	(1,632)	(2,515)		(6,885)
Charged-off loans recovered	768	26	47	827		1,668
Net charge-offs	(1,210)	(734)	(1,585)	(1,688)		(5,217)
Provision for loan losses	6,882	1,672	1,841	714	1,267	12,376
Ending balance	\$ 53,803	\$ 30,097	\$ 6,412	\$ 13,316	\$ 7,017	\$ 110,645

(1) The allowance for covered loans was reduced by loan charge-offs totaling \$639 thousand during the second quarter of 2011.

(2) Includes a \$788 thousand reduction in the provision for covered loans (subject to our loss-sharing agreements with the FDIC) during the quarter ended June 30, 2011 due to slightly lower level of estimated credit impairment in certain loan pools, primarily consisting of commercial and industrial loans.

The following tables detail the activity in the allowance for loan losses by portfolio segment for the six months ended June 30, 2011 and 2010, including both covered and non-covered loans:

	Commercial and Industrial	Commercial Real Estate	Residential Mortgage (in thousands)	Consumer	Unallocated	Total
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Six Months Ended June 30, 2011:

Allowance for loan losses:

Beginning balance	\$ 61,967	\$ 30,409	\$ 9,476	\$ 14,499	\$ 8,353	\$ 124,704
Loans charged-off ⁽¹⁾	(9,728)	(4,454)	(1,226)	(3,113)		(18,521)
Charged-off loans recovered	1,189	223	90	1,220		2,722
Net charge-offs	(8,539)	(4,231)	(1,136)	(1,893)		(15,799)
Provision for loan losses ⁽²⁾	22,258	6,557	2,696	(1,531)	(259)	29,721
Ending balance	\$ 75,686	\$ 32,735	\$ 11,036	\$ 11,075	\$ 8,094	\$ 138,626

Six Months Ended June 30, 2010:

Allowance for loan losses:

Beginning balance	\$ 49,267	\$ 25,516	\$ 5,397	\$ 15,480	\$ 6,330	\$ 101,990
Loans charged-off	(10,659)	(1,835)	(2,167)	(6,388)		(21,049)
Charged-off loans recovered	3,130	120	52	1,547		4,849
Net charge-offs	(7,529)	(1,715)	(2,115)	(4,841)		(16,200)
Provision for loan losses	12,065	6,296	3,130	2,677	687	24,855
Ending balance	\$ 53,803	\$ 30,097	\$ 6,412	\$ 13,316	\$ 7,017	\$ 110,645

(1) The allowance for covered loans was reduced by loan charge-offs totaling \$5.7 million during the six months ended June 30, 2011.

(2) Includes an \$18.1 million provision for covered loans (subject to our loss-sharing agreements with the FDIC) during the six months ended June 30, 2011 due to declines in the expected cash flows caused by credit impairment in certain loan pools, primarily consisting of commercial and industrial loans.

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The following table represents the allocation of the allowance for loan losses and the related loans by loan portfolio segment disaggregated based on the impairment methodology at June 30, 2011 and December 31, 2010.

	Commercial and Industrial	Commercial Real Estate	Residential Mortgage (in thousands)	Consumer	Unallocated	Total
June 30, 2011						
Allowance for loan losses:						
Individually evaluated for impairment	\$ 7,168	\$ 7,744	\$ 3,000	\$ 4	\$	\$ 17,916
Collectively evaluated for impairment	50,484	24,429	7,913	11,071	8,094	101,991
Loans acquired with discounts related to credit quality	18,034	562	123			18,719
Total	\$ 75,686	\$ 32,735	\$ 11,036	\$ 11,075	\$ 8,094	\$ 138,626
Loans:						
Individually evaluated for impairment	\$ 39,012	\$ 116,233	\$ 18,190	\$ 82	\$	\$ 173,517
Collectively evaluated for impairment	1,786,770	3,784,315	2,129,172	1,408,825		9,109,082
Loans acquired with discounts related to credit quality	97,739	188,893	15,324	6,468		308,424
Total	\$ 1,923,521	\$ 4,089,441	\$ 2,162,686	\$ 1,415,375	\$	\$ 9,591,023
December 31, 2010						
Allowance for loan losses:						
Individually evaluated for impairment	\$ 6,397	\$ 6,141	\$ 2,683	\$ 5	\$	\$ 15,226
Collectively evaluated for impairment	50,032	23,776	6,445	14,494	8,353	103,100
Loans acquired with discounts related to credit quality	5,538	492	348			6,378
Total	\$ 61,967	\$ 30,409	\$ 9,476	\$ 14,499	\$ 8,353	\$ 124,704
Loans:						
Individually evaluated for impairment	\$ 32,297	\$ 103,322	\$ 18,585	\$ 83	\$	\$ 154,287
Collectively evaluated for impairment	1,792,769	3,703,162	1,906,845	1,452,077		8,854,853
Loans acquired with discounts related to credit quality	121,151	211,799	17,026	6,679		356,655
Total	\$ 1,946,217	\$ 4,018,283	\$ 1,942,456	\$ 1,458,839	\$	\$ 9,365,795

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There were no significant purchases of loans during the three and six months ended June 30, 2011. There were no sales of loans, other than from the held for sale loan portfolio, or transfers from loans held for investment to loans held for sale during the three and six months ended June 30, 2011.

Note 10. Goodwill and Other Intangible Assets

Goodwill totaled \$317.9 million at June 30, 2011 and December 31, 2010. There were no changes to the carrying amounts of goodwill allocated to Valley's business segments, or reporting units thereof, for goodwill impairment analysis (as reported in Valley's Annual Report on Form 10-K for the year ended December 31, 2010). There was no impairment of goodwill during the three and six months ended June 30, 2011 and 2010.

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The following table summarizes other intangible assets as of June 30, 2011 and December 31, 2010:

	Gross Intangible Assets	Accumulated Amortization (in thousands)	Valuation Allowance	Net Intangible Assets
June 30, 2011				
Loan servicing rights	\$ 67,507	\$ (54,782)	\$ (1,062)	\$ 11,663
Core deposits	27,144	(18,945)		8,199
Other	6,121	(1,981)		4,140
Total other intangible assets	\$ 100,772	\$ (75,708)	\$ (1,062)	\$ 24,002
December 31, 2010				
Loan servicing rights	\$ 65,701	\$ (53,210)	\$ (1,163)	\$ 11,328
Core deposits	27,144	(17,312)		9,832
Other	6,121	(1,631)		4,490
Total other intangible assets	\$ 98,966	\$ (72,153)	\$ (1,163)	\$ 25,650

Loan servicing rights are accounted for using the amortization method. Under this method, Valley amortizes the loan servicing assets in proportion to, and over the period of estimated net servicing revenues. On a quarterly basis, Valley stratifies its loan servicing assets into groupings based on risk characteristics and assesses each group for impairment based on fair value. Impairment charges on loan servicing rights are recognized in earnings when the book value of a stratified group of loan servicing rights exceeds its estimated fair value. Valley recorded net recoveries of impairment charges on its loan servicing rights totaling \$49 thousand and \$101 thousand for the three and six months ended June 30, 2011, respectively, as compared to impairment charges, net of recoveries totaling \$631 thousand and \$686 thousand the three and six months ended June 30, 2010, respectively.

Core deposits are amortized using an accelerated method and have a weighted average amortization period of 9 years. The line item labeled other included in the table above primarily consists of customer lists and covenants not to compete, which are amortized over their expected lives generally using a straight-line method and have a weighted average amortization period of 16 years.

Valley evaluates core deposits and other intangibles for impairment when an indication of impairment exists. No impairment was recognized during the three and six months ended June 30, 2011 and 2010.

The following presents the estimated future amortization expense of other intangible assets for the remainder of 2011 through 2015:

	Loan Servicing Rights	Core Deposits (in thousands)	Other
2011	\$ 1,444	\$ 1,418	\$ 334

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2012	2,659	2,455	656
2013	2,081	1,858	541
2014	1,569	1,262	466
2015	1,110	782	434

Valley recognized amortization expense on other intangible assets, including net impairment charges and recoveries of impairment charges on loan servicing rights, totaling \$1.8 million and \$2.4 million for the three months ended June 30, 2011 and 2010, respectively and \$3.8 million and \$4.1 million for the six months ended June 30, 2011 and 2010, respectively.

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 11. Pension Plan**

The Bank has a non-contributory defined benefit plan (qualified plan) covering most of its employees. Effective July 1, 2011, the Bank closed the qualified plan to new employees hired on or after such date. The Plan will continue to operate and accrue normal benefits for existing participants. In conjunction with the eligibility change for the qualified plan, the Bank amended its 401(k) plan to increase the Bank's matching percentage of employee contributions for non-pension participants, within certain statutory limits.

The qualified plan benefits are based upon years of credited service and the employee's highest average compensation as defined. It is the Bank's funding policy to contribute annually an amount that can be deducted for federal income tax purposes. Additionally, the Bank has a supplemental non-qualified, non-funded retirement plan (non-qualified plan) which is designed to supplement the pension plan for key officers.

The following table sets forth the components of net periodic pension expense related to the qualified and non-qualified plans for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands)			
Service cost	\$ 1,563	\$ 1,450	\$ 3,126	\$ 2,900
Interest cost	1,525	1,433	3,049	2,866
Expected return on plan assets	(1,665)	(1,581)	(3,330)	(3,163)
Amortization of prior service cost	160	160	320	320
Amortization of actuarial loss	342	275	685	551
Total net periodic pension expense	1,925	1,737	3,850	3,474
Other changes in plan assets and benefit obligations recognized in other comprehensive income:				
Amortization of prior service cost	(160)	(160)	(320)	(320)
Amortization of actuarial loss	(342)	(275)	(685)	(551)
	(502)	(435)	(1,005)	(871)
Total amount recognized in net periodic benefit cost and other comprehensive income (before tax)	\$ 1,423	\$ 1,302	\$ 2,845	\$ 2,603

The fair value of qualified plan assets increased approximately \$7.4 million, or 8.8 percent to \$91.3 million at June 30, 2011 from \$83.9 million at December 31, 2010. Valley contributed \$5.0 million to the qualified plan during the quarter ended June 30, 2011. Valley does not expect to make any additional contributions to the qualified plan for the remainder of 2011.

Note 12. Stock Based Compensation

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Valley currently has one active employee stock option plan, the 2009 Long-Term Stock Incentive Plan (the Employee Stock Incentive Plan), adopted by Valley's Board of Directors on November 17, 2008 and approved by its shareholders on April 14, 2009. The Long-Term Stock Incentive Plan is administered by the Compensation and Human Resources Committee (the Committee) appointed by Valley's Board of Directors. The Committee can grant awards to officers and key employees of Valley. The purpose of the Employee Stock Incentive Plan is to provide additional incentive to officers and key employees of Valley and its subsidiaries, whose substantial contributions are essential to the continued growth and success of Valley, and to attract and retain competent and dedicated officers and other key employees whose efforts will result in the continued and long-term growth of Valley's business.

Under the Employee Stock Incentive Plan, Valley may award shares to its employees for up to 7.1 million shares of common stock in the form of incentive stock options, non-qualified stock options, stock appreciation rights and restricted stock awards. The essential features of each award are described in the award agreement relating to that

Table of Contents

VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

award. The grant, exercise, vesting, settlement or payment of an award may be based upon the fair value of Valley's common stock on the last sale price reported for Valley's common stock on such date or the last sale price reported preceding such date. An incentive stock option's maximum term to exercise is ten years from the date of grant and is subject to a vesting schedule. There were no stock awards granted by Valley for the second quarters of 2011 and 2010. Valley awarded restricted stock totaling 158 shares and 1,208 shares during the six months ended June 30, 2011 and 2010, respectively. As of June 30, 2011, 6.5 million shares of common stock were available for issuance under the 2009 Employee Stock Incentive Plan.

Valley recorded stock-based compensation expense for incentive stock options and restricted stock awards of \$613 thousand and \$868 thousand for the three months ended June 30, 2011 and 2010, respectively and \$1.3 million and \$1.9 million for the six months ended June 30, 2011 and 2010, respectively. The fair values of stock awards are expensed over the vesting period. As of June 30, 2011, the unrecognized amortization expense for all stock-based compensation totaled approximately \$3.9 million and will be recognized over an average remaining vesting period of approximately 2 years.

In 2005, Valley's shareholders approved the 2004 Director Restricted Stock Plan. The plan provides the non-employee members of the Board of Directors with the opportunity to forego some or all of their annual cash retainer and meeting fees in exchange for shares of Valley restricted stock. The restricted shares under the plan vest in full at the end of a five year vesting period, but the Board of Directors retains the right to accelerate the vesting of the restricted shares, at its discretion. There were 23 thousand and 18 thousand shares granted under the plan during the three and six months ended June 30, 2011 and 2010, respectively. There were approximately 102 thousand shares outstanding under this plan and 244 thousand shares available for issuance as of June 30, 2011.

Note 13. Guarantees

Guarantees that have been entered into by Valley include standby letters of credit of \$239.6 million as of June 30, 2011. Standby letters of credit represent the guarantee by Valley of the obligations or performance of a customer in the event the customer is unable to meet or perform its obligations to a third party. Of the total standby letters of credit, \$144.4 million, or 60.3 percent are secured and, in the event of non-performance by the customer, Valley has rights to the underlying collateral, which includes commercial real estate, business assets (physical plant or property, inventory or receivables), marketable securities and cash in the form of bank savings accounts and certificates of deposit. As of June 30, 2011, Valley had a \$987 thousand liability related to the standby letters of credit.

Note 14. Derivative Instruments and Hedging Activities

Valley is exposed to certain risks arising from both its business operations and economic conditions. Valley principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. Valley manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities and, from time to time, the use of derivative financial instruments. Specifically, Valley enters into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Valley's derivative financial instruments are used to manage differences in the amount, timing, and duration of Valley's known or expected cash receipts and its known or expected cash payments mainly related to certain variable-rate borrowings and fixed-rate loan assets.

Cash Flow Hedges of Interest Rate Risk. Valley's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, Valley uses interest rate swaps and caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the payment of either fixed or variable-rate amounts in exchange for the receipt of variable or fixed-rate amounts from a counterparty. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium.

Table of Contents

VALLEY NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

At June 30, 2011, Valley had the following cash flow hedge derivatives:

Two forward starting interest rate swaps with a total notional amount of \$200 million to hedge the changes in cash flows associated with certain prime-rate-indexed deposits, consisting of consumer and commercial money market deposit accounts. The swaps will require Valley to pay fixed-rate amounts at approximately 4.73 percent in exchange for the receipt of variable-rate payments at the prime rate starting in October 2011 and expiring in October 2016.

Two interest rate caps with a total notional amount of \$100 million, strike rates of 2.50 percent and 2.75 percent, and a maturity date of May 1, 2013 used to hedge the variability in cash flows associated with customer repurchase agreements and money market deposit accounts that have variable interest rates based on the federal funds rate.

Two interest rate caps with a total notional amount of \$100 million, strike rates of 6.00 percent and 6.25 percent, and a maturity date of July 15, 2015 used to hedge the total change in cash flows associated with prime-rate-indexed deposits, consisting of consumer and commercial money market deposit accounts, which have variable interest rates indexed to the prime rate.

Fair Value Hedges of Fixed Rate Assets and Liabilities. Valley is exposed to changes in the fair value of certain of its fixed rate assets or liabilities due to changes in benchmark interest rates based on one month-LIBOR. From time to time, Valley uses interest rate swaps to manage its exposure to changes in fair value. Interest rate swaps designated as fair value hedges involve the receipt of variable rate payments from a counterparty in exchange for Valley making fixed rate payments over the life of the agreements without the exchange of the underlying notional amount.

At June 30, 2011, Valley had the following fair value hedge derivatives:

One interest rate swap with a notional amount of approximately \$9.0 million used to hedge the change in the fair value of a commercial loan.

One interest rate swap with a notional amount of \$51 million used to hedge the change in the fair value of certain fixed-rate brokered certificates of deposit.

For derivatives that are designated and qualify as fair value hedges, the gain or loss on the derivative as well as the loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. Valley includes the gain or loss on the hedged items in the same line item as the loss or gain on the related derivatives.

Non-designated Hedges. Derivatives not designated as hedges are used to manage Valley's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements under U.S. GAAP. Derivatives not designated as hedges are not speculative and result from a service Valley provides to certain customers, which was implemented by Valley during the first quarter of 2011. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. Valley executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. These interest rate swaps with customers are simultaneously offset by interest rate swaps that Valley executes with a third party, such that Valley minimizes its net risk exposure resulting from such transactions. As of June 30, 2011, Valley had four interest rate swaps with an aggregate notional amount of \$66.7 million related to this program.

Table of Contents**VALLEY NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Amounts included in the consolidated statements of financial condition related to the fair value of Valley's derivative financial instruments were as follows:

	Balance Sheet Line Item	Fair Value	
		June 30, 2011	December 31, 2010
		(in thousands)	
Asset Derivatives:			
Derivatives designated as hedging instruments:			
Cash flow hedge interest rate caps and swaps	Other Assets	\$ 3,349	\$ 8,414
Fair value hedge interest rate swaps	Other Assets	566	
Total derivatives designated as hedging instruments		\$ 3,915	\$ 8,414
Derivatives not designated as hedging instruments:			
Interest rate swaps	Other Assets	\$ 1,069	\$
Total derivatives not designated as hedging instruments		\$ 1,069	\$