HEARTLAND FINANCIAL USA INC
Form 10-Q
May 09, 2014

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

FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended March 31, 2014

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

For transition period __________ to __________

Commission File Number: 001-15393

HEARTLAND FINANCIAL USA, INC.
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

42-1405748
(I.R.S. employer identification number)

1398 Central Avenue, Dubuque, Iowa 52001
(Address of principal executive offices)(Zip Code)

(563) 589-2000
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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 “accelerated filer,” “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Act.

Large accelerated filer ¨	Accelerated Filer x
Non-accelerated filer ¨	Smaller reporting company ¨

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined by Rule 12b-2 of the Securities Exchange Act of 1934). Yes o No x

Indicate the number of shares outstanding of each of the classes of Registrant's common stock as of the latest practicable date: As of May 7, 2014, the Registrant had outstanding 18,454,149 shares of common stock, $1.00 par value per share.

HEARTLAND FINANCIAL USA, INC.
Form 10-Q Quarterly Report

PART I

ITEM 1. FINANCIAL STATEMENTS
HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Cash and due from banks	$84,744	$118,441
Federal funds sold and other short-term investments	3,884	6,829
Cash and cash equivalents	88,628	125,270
Time deposits in other financial institutions	3,355	3,355
Securities:		
Trading, at fair value	—	1,801
Available for sale, at fair value (cost of $1,405,816 at March 31, 2014, and $1,659,456 at December 31, 2013)	1,400,756	1,633,902
Held to maturity, at cost (fair value of $263,169 at March 31, 2014, and $237,437 at December 31, 2013)	257,927	237,498
Other investments, at cost	18,755	21,843
Loans held for sale	54,862	46,665
Loans and leases receivable:		
Held to maturity	3,577,776	3,496,952
Loans covered by loss share agreements	5,466	5,749
Allowance for loan and lease losses	(38,573)	(41,685)
Loans and leases receivable, net	3,544,669	3,461,016
Premises, furniture and equipment, net	135,054	135,714
Other real estate, net	28,083	29,852
Goodwill	35,583	35,583
Other intangible assets, net	32,690	32,959
Cash surrender value on life insurance	81,486	81,110
FDIC indemnification asset	190	249
Other assets	65,064	76,899
TOTAL ASSETS	$5,747,102	$5,923,716
LIABILITIES AND EQUITY		
LIABILITIES:		
Deposits:		
Demand	$1,195,457	$1,238,581
Savings	2,582,166	2,535,242
Time	885,741	892,676
Total deposits	4,663,364	4,666,499
Short-term borrowings	256,250	408,756
Other borrowings	334,916	350,109
Accrued expenses and other liabilities	35,237	58,892
TOTAL LIABILITIES	5,289,767	5,484,256
STOCKHOLDERS' EQUITY:		
Preferred stock (par value $1 per share; authorized 20,604 shares; none issued or outstanding)	—	—
	—	—

Series A Junior Participating preferred stock (par value $1 per share; authorized 16,000 shares; none issued or outstanding)		
Series C Fixed Rate Non-Cumulative Perpetual preferred stock (par value $1 per share; liquidation value $81.7 million; authorized, issued and outstanding 81,698 shares)	81,698	81,698
Common stock (par value $1 per share; authorized 25,000,000 shares; issued 18,454,828 shares at March 31, 2014 and 18,399,156 shares at December 31, 2013)	18,455	18,399
Capital surplus	92,199	91,632
Retained earnings	269,908	265,067
Accumulated other comprehensive loss	(4,903)	(17,336)
Treasury stock at cost (780 shares at March 31, 2014, and 0 shares at December 31, 2013)	(22)	—
TOTAL STOCKHOLDERS' EQUITY	457,335	439,460
TOTAL LIABILITIES AND EQUITY	$5,747,102	$5,923,716

See accompanying notes to consolidated financial statements.

HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended March 31,	
	2014	2013
INTEREST INCOME:		
Interest and fees on loans and leases	$46,384	$39,827
Interest on securities:		
Taxable	7,761	4,659
Nontaxable	3,122	3,198
Interest on interest bearing deposits in other financial institutions	7	4
TOTAL INTEREST INCOME	57,274	47,688
INTEREST EXPENSE:		
Interest on deposits	4,778	5,076
Interest on short-term borrowings	226	148
Interest on other borrowings (includes $521 and $505 of interest expense related to derivatives reclassified from accumulated other comprehensive loss for the three months ended March 31, 2014 and 2013, respectively)	3,658	3,797
TOTAL INTEREST EXPENSE	8,662	9,021
NET INTEREST INCOME	48,612	38,667
Provision for loan and lease losses	6,331	637
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	42,281	38,030
NONINTEREST INCOME:		
Service charges and fees	4,896	4,008
Loan servicing income	1,511	126
Trust fees	3,210	2,904
Brokerage and insurance commissions	1,123	951
Securities gains, net (includes $781 and $3,427 of net security gains reclassified from accumulated other comprehensive loss for the three months ended March 31, 2014 and 2013, respectively)	781	3,427
Gain (loss) on trading account securities	(38)	314
Gains on sale of loans held for sale	6,379	13,157
Loss on sales/valuations of other real estate and repossessed assets, net	(123)	(502)
Valuation adjustment on mortgage servicing rights	—	496
Income on bank owned life insurance	363	405
Other noninterest income	625	680
TOTAL NONINTEREST INCOME	18,727	25,966
NONINTEREST EXPENSES:		
Salaries and employee benefits	32,319	29,740
Occupancy	4,050	3,185
Furniture and equipment	1,890	2,051
Professional fees	4,526	3,543
FDIC insurance assessments	980	902
Advertising	1,188	1,228
Intangible assets amortization	624	200
Other real estate and loan collection expenses	1,052	838
Other noninterest expenses	5,786	4,558
TOTAL NONINTEREST EXPENSES	52,415	46,245

INCOME BEFORE INCOME TAXES	8,593	17,751
Income taxes (includes $97 and $1,099 of income tax expense reclassified from accumulated other comprehensive loss for the three months ended March 31, 2014 and 2013, respectively)	1,703	5,199
NET INCOME	6,890	12,552
Net income available to noncontrolling interest, net of tax	—	(64)
NET INCOME ATTRIBUTABLE TO HEARTLAND	6,890	12,488
Preferred dividends and discount	(204)	(408)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$6,686	$12,080
EARNINGS PER COMMON SHARE - BASIC	$0.36	$0.72
EARNINGS PER COMMON SHARE - DILUTED	$0.36	$0.70
CASH DIVIDENDS DECLARED PER COMMON SHARE	$0.10	$0.10

See accompanying notes to consolidated financial statements.

HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(Dollars in thousands)

	Three Months Ended March 31,	
	2014	2013
NET INCOME	$6,890	$12,552
OTHER COMPREHENSIVE INCOME		
Securities:		
Net change in unrealized gain (loss) on securities	20,909	(1,681)
Reclassification adjustment for net gain realized in net income	(781)	(3,427)
Net change in non-credit related other than temporary impairment	24	24
Income taxes	(7,959)	1,901
Other comprehensive income (loss) on securities	12,193	(3,183)
Derivatives used in cash flow hedging relationships:		
Net change in unrealized gain (loss) on derivatives	(139)	82
Reclassification adjustment for net loss on derivatives realized in net income	521	505
Income taxes	(142)	(214)
Other comprehensive income on cash flow hedges	240	373
Other comprehensive income (loss)	12,433	(2,810)
Comprehensive income	19,323	9,742
Less: comprehensive income attributable to noncontrolling interest	—	(64)
COMPREHENSIVE INCOME ATTRIBUTABLE TO HEARTLAND	$19,323	$9,678

See accompanying notes to consolidated financial statements.

HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Dollars in thousands)

	Three Months Ended March 31, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$6,890	$12,552
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,090	4,071
Provision for loan and lease losses	6,331	637
Net amortization of premium on securities	6,659	7,604
Securities gains, net	(781)	(3,427)
(Increase) decrease in trading account securities	1,801	(314)
Stock based compensation	1,098	989
Loss on sale of OREO and other repossessed property	123	502
Loans originated for sale	(158,779)	(448,971)
Proceeds on sales of loans held for sale	155,526	463,340
Net gains on sales of loans held for sale	(4,944)	(9,912)
Decrease in accrued interest receivable	2,304	508
Increase in prepaid expenses	(359)	(398)
Decrease in accrued interest payable	(750)	(213)
Capitalization of mortgage servicing rights	(1,435)	(3,245)
Valuation adjustment on mortgage servicing rights	—	(496)
Other, net	(6,319)	(10,862)
NET CASH PROVIDED BY OPERATING ACTIVITIES	11,455	12,365
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of time deposits in other financial institutions	—	(3,605)
Proceeds from the sale of securities available for sale	355,288	91,840
Proceeds from the sale of other investments	2,005	955
Proceeds from the maturity of and principal paydowns on securities available for sale	34,446	65,461
Proceeds from the maturity of and principal paydowns on securities held to maturity	182	140
Proceeds from the maturity of and principal paydowns on other securities	2,041	—
Purchase of securities available for sale	(160,286)	(207,456)
Purchase of securities held to maturity	(16,784)	—
Purchase of other investments	(958)	(2)
Net (increase) decrease in loans and leases	(93,020)	25,014
Capital expenditures	(2,710)	(2,812)
Proceeds on sale of OREO and other repossessed assets	5,079	3,513
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	125,283	(26,952)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits and savings accounts	3,800	15,097
Net decrease in time deposit accounts	(6,935)	(18,301)
Net decrease in short-term borrowings	(152,506)	(21,932)
Proceeds from other borrowings	5,000	—
Repayments of other borrowings	(20,193)	(52,448)

Purchase of treasury stock	(606)	(258)
Proceeds from issuance of common stock	247	1,038
Excess tax benefits (liability) on exercised stock options	(138)	16
Dividends paid	(2,049)	(2,092)
NET CASH USED BY FINANCING ACTIVITIES	(173,380)	(78,880)
Net decrease in cash and cash equivalents	(36,642)	(93,467)
Cash and cash equivalents at beginning of year	125,270	168,054
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$88,628	$74,587
Supplemental disclosures:		
Cash paid for income/franchise taxes	$980	$3,375
Cash paid for interest	$9,412	$9,234
Loans transferred to OREO	$3,036	$4,843
Purchases of securities available for sale, accrued, not paid	$—	$59,877
Sales of securities available for sale, accrued, not settled	$—	$19,307
Purchase of securities held to maturity, accrued, not paid	$4,160	$—

See accompanying notes to consolidated financial statements.

HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)
(Dollars in thousands, except per share data)

	Heartland Financial USA, Inc. Stockholders' Equity							
	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-controlling Interest	Total Equity
Balance at January 1, 2013	$81,698	$16,828	$50,359	$236,279	$ 16,641	$—	$ 2,734	$404,539
Comprehensive income				12,488	(2,810)		64	9,742
Preferred, $5.00 per share				(408)				(408)
Common, $0.10 per share				(1,684)				(1,684)
Purchase of 10,050 shares of common stock						(258)		(258)
Issuance of 48,134 shares of common stock		39	783			232		1,054
Commitments to issue common stock			989					989
Balance at March 31, 2013	$81,698	$16,867	$52,131	$246,675	$ 13,831	$(26)	$ 2,798	$413,974
Balance at January 1, 2014	$81,698	$18,399	$91,632	$265,067	$ (17,336)	$—	$ —	$439,460
Comprehensive income				6,890	12,433			19,323
Cash dividends declared:								
Preferred, $2.50 per share				(204)				(204)
Common, $0.10 per share				(1,845)				(1,845)
Purchase of noncontrolling interest							—	—
Purchase of 23,285 shares of common stock						(606)		(606)
Issuance of 78,177 shares of common stock		56	(531)			584		109
Commitments to issue common stock			1,098					1,098
Balance at March 31, 2014	$81,698	$18,455	$92,199	$269,908	$ (4,903)	$(22)	$ —	$457,335

See accompanying notes to consolidated financial statements.

HEARTLAND FINANCIAL USA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: BASIS OF PRESENTATION

The interim unaudited consolidated financial statements contained herein should be read in conjunction with the audited consolidated financial statements and accompanying notes to the consolidated financial statements for the fiscal year ended December 31, 2013, included in the Form 10-K of Heartland Financial USA, Inc. ("Heartland") filed with the Securities and Exchange Commission on March 14, 2014. Accordingly, footnote disclosures which would substantially duplicate the disclosure contained in the audited consolidated financial statements have been omitted.

The financial information of Heartland included herein has been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments), that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of the interim period ended March 31, 2014, are not necessarily indicative of the results expected for the year ending December 31, 2014.

Earnings Per Share

Basic earnings per share is determined using net income available to common stockholders and weighted average common shares outstanding. Diluted earnings per share is computed by dividing net income available to common stockholders by the weighted average common shares and assumed incremental common shares issued. Amounts used in the determination of basic and diluted earnings per share for the three-month periods ended March 31, 2014 and 2013, are shown in the table below:

	Three Months Ended March 31,	
(Dollars and number of shares in thousands, except per share data)	2014	2013
Net income attributable to Heartland	$6,890	$12,488
Preferred dividends and discount	(204)	(408)
Net income available to common stockholders	$6,686	$12,080
Weighted average common shares outstanding for basic earnings per share	18,437	16,852
Assumed incremental common shares issued for common stock equivalents	288	335
Weighted average common shares for diluted earnings per share	18,725	17,187
Earnings per common share — basic	$0.36	$0.72
Earnings per common share — diluted	$0.36	$0.70
Number of antidilutive common stock equivalents excluded from diluted earnings per share computation	95	105

Stock-Based Compensation

Heartland may grant, through its Nominating and Compensation Committee (the "Compensation Committee"), non-qualified and incentive stock options, stock appreciation rights, stock awards, restricted stock, restricted stock units and cash incentive awards, under its 2012 Long-Term Incentive Plan (the "Plan"). The Plan, which was approved by stockholders in May 2012 and replaced Heartland's 2005 Long-Term Incentive Plan with respect to grants after such approval, reserved 355,616 shares of common stock at March 31, 2014, for issuance under future awards that may be granted under the Plan to employees and directors of, and service providers to, Heartland or its subsidiaries.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, "Compensation-Stock Compensation" requires the measurement of the cost of employee services received in exchange for an award of equity instruments based upon the fair value of the award on the grant date. The cost of the award is based upon its fair value estimated on the date of grant and recognized in the consolidated statements of income over the vesting period of the award. The fair market value of restricted stock and restricted stock units is based on the fair value of the underlying shares of common stock on the date of grant. The fair value of stock options is estimated on the date of grant using the Black-Scholes model.

The amount of tax benefit (expense) related to the exercise, vesting, and forfeiture of equity-based awards reflected in additional paid-in-capital, not taxes payable, was ($138,000) and $16,000 during the three months ended March 31, 2014, and 2013, respectively.

Restricted Stock Units

The Plan permits the Compensation Committee to grant restricted stock units ("RSUs"). On March 11, 2014, the Compensation Committee granted time-based RSUs with respect to 67,065 shares of common stock and on January 22, 2013, granted time-based RSUs with respect to 72,595 shares of common stock, to selected officers. The time-based RSUs, which represent the right, without payment, to receive shares of Heartland common stock at a specified date in the future based on specific vesting conditions, vest over five years in three equal installments on the third, fourth and fifth anniversaries of the grant date, will be settled in common stock upon vesting, and will not be entitled to dividends until vested. The time-based RSUs granted in 2014 vest upon a "qualified retirement" (as defined in the RSU agreement) while the RSUs granted in 2013 allow the Compensation Committee to exercise its discretion to provide for vesting upon retirement. In both cases, the retiree is required to sign a non-solicitation and non-compete agreement as a condition to vesting.

In addition to the time-based RSUs referenced in the preceding paragraph, the Compensation Committee granted performance-based RSUs with respect to 32,645 shares of common stock on March 11, 2014, and performance-based RSUs with respect to 40,990 shares of common stock on January 22, 2013, to Heartland executives and subsidiary presidents. These performance-based RSUs vest based first on performance measures tied to Heartland's earnings and loans on December 31, 2014, for the 2014 RSUs, and earnings and assets on December 31, 2013, for the 2013 RSUs, and then on time-based vesting conditions. For the grants awarded in 2014, the portion of the RSUs earned based on performance vest on December 31, 2016, if the executive remains employed on that date, and for the grants awarded in 2013, the portion of the RSUs earned based on performance vest on December 31, 2015, subject to employment on that date.

The Compensation Committee also has the authority to issue shares in conjunction with employment agreements for executive level employees and may also elect to compensate members of the Board of Directors by awarding RSUs. During the three months ended March 31, 2014, 9,000 RSUs were granted under this authority. There were no RSUs granted during the three months ended March 31, 2013, related to employment contracts or board members.

A summary of the status of the RSUs as of March 31, 2014 and 2013, and changes during the three months ended March 31, 2014 and 2013, follows:

	2014		2013	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1	353,070	$18.48	348,897	$15.75
Granted	108,710	27.29	113,585	26.86
Vested	(67,024)	15.82	(30,288)	13.95
Forfeited	(2,003)	17.26	(170)	20.64
Outstanding at March 31	392,753	$21.50	432,024	$19.06

Total compensation costs recorded for RSUs were $1.1 million and $989,000 for the three months ended March 31, 2014, and 2013, respectively. As of March 31, 2014, there were $4.0 million of total unrecognized compensation costs related to the 2005 and 2012 Long-Term Incentive Plans for RSUs which are expected to be recognized through 2019.

Options

Although the Plan provides authority to the Compensation Committee to grant stock options, no options were granted during the first three months of 2014 and 2013. Prior to 2009, options were typically granted annually with an expiration date ten years after the date of grant. Vesting was generally over a five-year service period with portions of a grant becoming exercisable at three years, four years, and five years after the date of grant. A summary of the status of the stock options as of March 31, 2014 and 2013, and changes during the three months ended March 31, 2014 and 2013, follows:

	2014		2013	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at January 1	261,936	$23.60	377,907	$22.62
Granted	—	—	—	—
Exercised	(5,000)	19.13	(9,835)	16.69
Forfeited	(5,500)	26.88	(1,800)	26.68
Outstanding at March 31	251,436	$23.62	366,272	$22.76
Options exercisable at March 31	251,436	$23.62	366,272	$22.76

At March 31, 2014, the vested options totaled 251,436 shares with a weighted average exercise price of $23.62 per share and a weighted average remaining contractual life of 2.72 years. The intrinsic value (the difference between the market price and the aggregate exercise price) for the vested options as of March 31, 2014, was $1.1 million. The intrinsic value for the total of all options exercised during the three months ended March 31, 2014, was $39,000.

The exercise price of stock options granted is established by the Compensation Committee, but the exercise price for the stock options may not be less than the fair market value of the shares on the date that the option is granted or, if greater, the par value of a share of stock. Each option granted is exercisable in full at any time or from time to time, subject to vesting provisions, as determined by the Compensation Committee and as provided in the option agreement, but such time may not exceed ten years from the grant date. Cash received from options exercised was $96,000 for the three months ended March 31, 2014, and $164,000 for the three months ended March 31, 2013.

Total compensation costs recorded for options were $0 and $10,000 for the three months ended March 31, 2014, and 2013, respectively. There are no unrecorded compensation costs related to options at March 31, 2014.

Subsequent Events

Heartland had no subsequent events through the filing date of this quarterly report on Form 10-Q with the SEC.

Effect of New Financial Accounting Standards

In July 2013, the FASB issued ASU No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," to eliminate the diversity in practice and to increase the comparability of financial statements among companies. The guidance requires that a reporting entity generally must show an unrecognized tax benefit, or a portion of an unrecognized tax benefit, for a net operating loss carryforward, similar tax loss or a tax credit carryforward as a reduction of a deferred tax asset. However, the entity should present the unrecognized tax benefit as a liability and not as a reduction of a deferred tax asset if the carryforward or tax loss is not available on the financial statement date to settle any additional income tax liability that would result from the disallowance of the tax position under the applicable tax law, or the applicable tax law does not require the company to use, and the company does not intend to use, the carryforward or tax loss to settle additional income taxes resulting from the disallowance of the tax position. The guidance does not require any new recurring disclosures because it does not affect the recognition or measurement of uncertain tax positions. Heartland adopted this standard on January 1, 2014, and the adoption did not have a material impact on the results of operations, financial position, and liquidity.

In January 2014, the FASB issued ASU 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects." The amendments in ASU 2014-01 to Topic 323, "Equity Investments and Joint Ventures," provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments are effective for fiscal years, and interim periods within those years, beginning after December 31, 2014, and should be applied retrospectively to all periods presented. Early adoption is permitted. Heartland is in the process of evaluating the impact that adoption of this guidance will have on the results of operations, financial position, and liquidity.

In January 2014, the FASB issued ASU 2014-04, "Receivables-Troubled Debt Restructurings by Creditors: Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure." The amendments in ASU 2014-04 clarify that an in-substance foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (i) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (ii) the borrower conveying all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or similar legal agreement. ASU 2014-04 also requires disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in loans collateralized by residential real estate property that are in the process of foreclosure. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014, with early adoption permitted. Once adopted, an entity can elect either (i) a modified retrospective transition method or (ii) a prospective transition method. The modified retrospective transition method is applied by means of a cumulative-effect adjustment to residential mortgage loans and foreclosed residential real estate properties existing as of the beginning of the period for which the amendments of ASU 2014-04 are effective, with real estate reclassified to loans measured at the carrying value of the real estate at the date of adoption and loans reclassified to real estate measured at the lower of net carrying value of the loan or the fair value of the real estate less costs to sell at the date of adoption. The prospective transition method is applied by means of applying the amendments of ASU 2014-04 to all instances of receiving physical possession of residential real estate properties that occur after the date of adoption. Heartland does not expect the adoption of this standard to have a material impact on the results of operations, financial position, and liquidity.

Reclassifications

In the first quarter of 2014, Heartland revised the classification of mortgage servicing rights income from loan servicing income to gain on sale of loans held for sale. The reclassification is presented in both the current and prior reporting periods. For the three months ended March 31, 2014, $1.4 million was reclassified from loan servicing income to gain on sale of loans held for sale. For the three months ended March 31, 2013, $3.2 million was reclassified from loan servicing income to gain on sale of loans held for sale.

During the first quarter of 2014, Heartland revised the classification of loss on sales/valuations of other real estate and repossessed assets, net, from other real estate and loan collection expenses to a specific noninterest income classification. This reclassification is presented in both the current and prior reporting periods. For the three months ended March 31, 2014, losses of $123,000 were reclassified from other real estate and loan collection expenses to other noninterest income. For the three months ended March 31, 2013, losses of $502,000 were reclassified from other real estate and loan collection expenses to other noninterest income. This reclassification results in other real estate and loan collection expenses for the three months ended March 31, 2013, decreasing from $1.3 million as previously reported to $838,000.

These reclassifications do not have a material impact on Heartland's financial statements and do not affect the financial results. Heartland believes these reclassifications are more consistent with industry reporting practices.

NOTE 2: SECURITIES

The amortized cost, gross unrealized gains and losses, and estimated fair values of securities available for sale as of March 31, 2014, and December 31, 2013, are summarized in the table below, in thousands:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2014				
U.S. government corporations and agencies	$147,350	$115	$(769)	$146,696
Mortgage-backed securities	1,052,695	10,035	(13,109)	1,049,621
Obligations of states and political subdivisions	200,766	2,423	(3,791)	199,398
Total debt securities	1,400,811	12,573	(17,669)	1,395,715
Equity securities	5,005	36	—	5,041
Total	$1,405,816	$12,609	$(17,669)	$1,400,756
December 31, 2013				
U.S. government corporations and agencies	$220,157	$147	$(2,001)	$218,303
Mortgage-backed securities	1,156,983	9,538	(22,574)	1,143,947
Obligations of states and political subdivisions	277,320	1,706	(12,402)	266,624
Total debt securities	1,654,460	11,391	(36,977)	1,628,874
Equity securities	4,996	32	—	5,028
Total	$1,659,456	$11,423	$(36,977)	$1,633,902

At both March 31, 2014, and December 31, 2013, the amortized cost of the available for sale securities is net of $184,000 of credit related other-than-temporary impairment ("OTTI").

The amortized cost, gross unrealized gains and losses and estimated fair values of held to maturity securities as of March 31, 2014, and December 31, 2013, are summarized in the table below, in thousands:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2014				
Mortgage-backed securities	$5,933	$245	$(372)	$5,806
Obligations of states and political subdivisions	251,994	8,416	(3,047)	257,363
Total	$257,927	$8,661	$(3,419)	$263,169
December 31, 2013				
Mortgage-backed securities	$5,973	$199	$(321)	$5,851
Obligations of states and political subdivisions	231,525	5,801	(5,740)	231,586
Total	$237,498	$6,000	$(6,061)	$237,437

At March 31, 2014, the amortized cost of the held to maturity securities is net of $797,000 of credit related OTTI and $493,000 of non-credit related OTTI. At December 31, 2013, the amortized cost of the held to maturity securities was net of $797,000 of credit related OTTI and $517,000 of non-credit related OTTI.

Approximately 95% of Heartland's mortgage-backed securities are issuances of government-sponsored enterprises.

The amortized cost and estimated fair value of debt securities available for sale at March 31, 2014, by contractual maturity are as follows, in thousands. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$8,858	$8,977
Due in 1 to 5 years	94,678	94,865
Due in 5 to 10 years	83,887	82,963
Due after 10 years	160,693	159,289
Total debt securities	348,116	346,094
Mortgage-backed securities	1,052,695	1,049,621
Equity securities	5,005	5,041
Total investment securities	$1,405,816	$1,400,756

The amortized cost and estimated fair value of debt securities held to maturity at March 31, 2014, by contractual maturity are as follows, in thousands. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$—	$—
Due in 1 to 5 years	12,588	13,416
Due in 5 to 10 years	42,216	43,656
Due after 10 years	197,190	200,291
Total debt securities	251,994	257,363
Mortgage-backed securities	5,933	5,806
Total investment securities	$257,927	$263,169

Gross gains and losses realized related to the sales of securities available for sale for the three month periods ended March 31, 2014, and 2013, are summarized as follows, in thousands:

	Three Months Ended March 31,	
	2014	2013
Proceeds from sales	$355,288	$91,840
Gross security gains	2,472	3,622
Gross security losses	1,691	195

The following tables summarize, in thousands, the amount of unrealized losses, defined as the amount by which cost or amortized cost exceeds fair value, and the related fair value of investments with unrealized losses in Heartland's securities portfolio as of March 31, 2014, and December 31, 2013. The investments were segregated into two categories: those that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months. The reference point for determining how long an investment was in an unrealized loss position was March 31, 2013, and December 31, 2012, respectively. Securities for which Heartland has taken credit-related OTTI write-downs are categorized as being "less than 12 months" or "12 months or longer" in a continuous loss position based on the point in time that the fair value declined to below the cost basis and not the period of time since the credit-related OTTI write-down.

Securities available for sale	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2014						
U.S. government corporations and agencies	$130,411	$(769)	$—	$—	$130,411	$(769)
Mortgage-backed securities	506,526	(8,413)	132,248	(4,696)	638,774	(13,109)
Obligations of states and political subdivisions	89,022	(2,414)	26,568	(1,377)	115,590	(3,791)
Total temporarily impaired securities	$725,959	$(11,596)	$158,816	$(6,073)	$884,775	$(17,669)
December 31, 2013						
U.S. government corporations and agencies	$196,345	$(2,001)	$—	$—	$196,345	$(2,001)
Mortgage-backed securities	640,684	(17,064)	118,229	(5,510)	758,913	(22,574)
Obligations of states and political subdivisions	196,987	(11,452)	10,714	(950)	207,701	(12,402)
Total temporarily impaired securities	$1,034,016	$(30,517)	$128,943	$(6,460)	$1,162,959	$(36,977)

Securities held to maturity	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2014						
Mortgage-backed securities	$2,163	$(372)	$—	$—	$2,163	$(372)
Obligations of states and political subdivisions	32,364	(769)	33,131	(2,278)	65,495	(3,047)
Total temporarily impaired securities	$34,527	$(1,141)	$33,131	$(2,278)	$67,658	$(3,419)
December 31, 2013						
Mortgage-backed securities	$2,170	$(319)	$834	$(2)	$3,004	$(321)
Obligations of states and political subdivisions	47,175	(3,508)	21,505	(2,232)	68,680	(5,740)
Total temporarily impaired securities	$49,345	$(3,827)	$22,339	$(2,234)	$71,684	$(6,061)

Heartland reviews the investment securities portfolio on a quarterly basis to monitor its exposure to OTTI. A determination as to whether a security's decline in fair value is other-than-temporary takes into consideration numerous factors and the relative significance of any single factor can vary by security. Some factors Heartland may consider in the OTTI analysis include the length of time the security has been in an unrealized loss position, changes in security ratings, financial condition of the issuer, as well as security and industry specific economic conditions. In addition, with regard to debt securities, Heartland may also evaluate payment structure, whether there are defaulted payments or expected defaults, prepayment speeds, and the value of any underlying collateral. For certain debt securities in unrealized loss positions, Heartland prepares cash flow analyses to compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. During 2012, Heartland experienced deterioration in the credit support on three private label mortgage-backed securities which resulted in a credit-related OTTI loss. The underlying collateral on these securities experienced an increased level of defaults and a slowing of voluntary prepayments causing the present value of the forward expected cash flows, using prepayment and default vectors, to be below the amortized cost basis of the securities. Based on Heartland's evaluation, a $981,000 OTTI on three private label mortgage-backed securities attributable to credit-related losses was recorded in March 2012. The other-than-temporary credit-related losses were $797,000 in the held to maturity category and $184,000 in the available for sale category.

The remaining unrealized losses on Heartland's mortgage-backed securities are the result of changes in market interest rates or widening of market spreads subsequent to the initial purchase of the securities and not related to concerns regarding the underlying credit of the issuers or the underlying collateral. It is expected that the securities will not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because Heartland has the intent and ability to hold these investments until a market price recovery or to maturity and does not believe it will be required to sell the securities before maturity, these investments are not considered other-than-temporarily impaired.

Unrealized losses on Heartland's obligations of states and political subdivisions are the result of changes in market interest rates or widening of market spreads subsequent to the initial purchase of the securities. Management monitors the credit quality and financial stability of the underlying municipalities. Because the decline in fair value is attributable to changes in interest rates or widening market spreads due to insurance company downgrades and not underlying credit quality, and because Heartland has the intent and ability to hold these investments until a market price recovery or to maturity and does not believe it will be required to sell the securities before maturity, these investments are not considered other-than-temporarily impaired.

There were no gross realized gains or losses on the sale of available for sale securities with OTTI write-downs for the periods ended March 31, 2014, or December 31, 2013.

The following table shows the detail of OTTI write-downs on debt securities included in earnings and the related changes in other accumulated comprehensive income ("AOCI") for the same securities, in thousands:

	Three Months Ended March 31,	
	2014	2013
Recorded as part of gross realized losses:		
Credit related OTTI	$—	$—
Intent to sell OTTI	—	—
Total recorded as part of gross realized losses	—	—
Recorded directly to AOCI for non-credit related impairment:		
Residential mortgage backed securities	—	—
Accretion of non-credit related impairment	(24)	(24)
Total changes to AOCI for non-credit related impairment	(24)	(24)
Total OTTI losses (accretion) recorded on debt securities, net	$(24)	$(24)

Heartland has not experienced any OTTI writedowns since the initial impairment charge in 2012.

Included in other securities at March 31, 2014, and December 31, 2013, were shares of stock in each Federal Home Loan Bank (the "FHLB") of Des Moines, Chicago, Dallas, San Francisco, Seattle, and Topeka at an amortized cost of $12.5 million and $15.6 million , respectively.

NOTE 3: LOANS AND LEASES

Loans and leases as of March 31, 2014, and December 31, 2013, were as follows, in thousands:

	March 31, 2014	December 31, 2013
Loans and leases receivable held to maturity:		
Commercial	$986,713	$950,197
Commercial real estate	1,560,912	1,529,683
Agricultural and agricultural real estate	370,348	376,735
Residential real estate	365,162	349,349
Consumer	297,978	294,145
Gross loans and leases receivable held to maturity	3,581,113	3,500,109
Unearned discount	(136)	(168)
Deferred loan fees	(3,201)	(2,989)
Total net loans and leases receivable held to maturity	3,577,776	3,496,952
Loans covered under loss share agreements:		
Commercial and commercial real estate	2,292	2,314
Agricultural and agricultural real estate	502	543
Residential real estate	2,062	2,280
Consumer	610	612
Total loans covered under loss share agreements	5,466	5,749
Allowance for loan and lease losses	(38,573)	(41,685)
Loans and leases receivable, net	$3,544,669	$3,461,016

Heartland has certain lending policies and procedures in place that are designed to provide for an acceptable level of credit risk. The board of directors reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management and the board with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans. Diversification in the loan portfolio is also a means of managing risk associated with fluctuations in economic conditions.

The commercial and commercial real estate loan portfolio includes a wide range of business loans, including lines of credit for working capital and operational purposes and term loans for the acquisition of equipment and real estate. Although most loans are made on a secured basis, loans may be made on an unsecured basis where warranted by the overall financial condition of the borrower. Terms of commercial business loans generally range from one to five years. Commercial loans and leases are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The collateral that Heartland requires for most of these loans and leases is based upon the discounted market value of the collateral. The primary repayment risks of commercial loans and leases are that the cash flow of the borrowers may be unpredictable, and the collateral securing these loans may fluctuate in value. Heartland seeks to minimize these risks in a variety of ways. The underwriting analysis includes credit verification, analysis of global cash flows, appraisals and a review of the financial condition of the borrower. Personal guarantees are frequently required as a tertiary form of repayment. In addition, when underwriting loans for commercial real estate, careful consideration is given to the property's operating history, future operating projections, current and projected occupancy, location and physical condition. Heartland also utilizes government guaranteed lending through the U.S. Small Business Administration and the USDA Rural Development Business and Industry Program to assist customers with longer-term funding and to reduce risk.

Agricultural loans, many of which are secured by crops, machinery and real estate, are provided to finance capital improvements and farm operations as well as acquisitions of livestock and machinery. Agricultural loans present unique credit risks relating to adverse weather conditions, loss of livestock due to disease or other factors, declines in market prices for agricultural products and the impact of government regulations. The ultimate repayment of agricultural loans is dependent upon the profitable operation or management of the agricultural entity. In underwriting agricultural loans, lending personnel work closely with their customers to review budgets and cash flow projections for the ensuing crop year. These budgets and cash flow projections are monitored closely during the year and reviewed with the customers at least annually. Lending personnel also work closely with governmental agencies, including the Farm Service Agency, to help agricultural customers obtain credit enhancement products such as loan guarantees or interest assistance.

Heartland originates first-lien, adjustable-rate and fixed-rate, one-to-four-family residential real estate loans for the construction, purchase or refinancing of a single family residential property. These loans are principally collateralized by owner-occupied properties and are amortized over 10 to 30 years. Heartland typically sells longer-term, low-rate, residential mortgage loans in the secondary market with servicing rights retained. This practice allows Heartland to better manage interest rate risk and liquidity risk. The Heartland bank subsidiaries participate in lending programs sponsored by U.S. government agencies such as Veterans Administration and Federal Home Administration when justified by market conditions.

Consumer lending includes motor vehicle, home improvement, home equity and small personal credit lines. Consumer loans typically have shorter terms, lower balances, higher yields and higher risks of default than one-to-four-family residential mortgage loans. Consumer loan collections are dependent on the borrower's continuing financial stability, and are therefore more likely to be affected by adverse personal circumstances. Risk is reduced through underwriting criteria, which include credit verification, appraisals, a review of the borrower's financial condition, and personal cash flows. A security interest, with title insurance when necessary, is taken in the underlying real estate. Heartland's consumer finance subsidiaries, Citizens Finance Co. and Citizens Finance of Illinois Co., typically lend to borrowers with past credit problems or limited credit histories, which comprise approximately 25% of Heartland's total consumer loan portfolio.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Heartland’s policy is to discontinue the accrual of interest income on any loan or lease when, in the opinion of management, there is a reasonable doubt as to the timely collection of the interest and principal, normally when a loan or lease is 90 days past due. When interest accruals are deemed uncollectible, interest credited to income in the current year is reversed and interest accrued in prior years is charged to the allowance for loan and lease losses. Nonaccrual loans and leases are returned to an accrual status when, in the opinion of management, the financial position of the borrower indicates that there is no longer any reasonable doubt as to the timely payment of interest and principal.

Under Heartland’s credit practices, a loan is impaired when, based on current information and events, it is probable that Heartland will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loan impairment is measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate, except where more practical, at the observable market price of the loan or the fair value of the collateral if the loan is collateral dependent.

The following table shows the balance in the allowance for loan and lease losses at March 31, 2014, and December 31, 2013, and the related loan balances, disaggregated on the basis of impairment methodology, in thousands. Loans evaluated under ASC 310-10-35 include loans on nonaccrual status and troubled debt restructurings, which are individually evaluated for impairment, and other impaired loans deemed to have similar risk characteristics. All other loans are collectively evaluated for impairment under ASC 450-20. Heartland has made no significant changes to the accounting for the allowance for loan and lease losses policy during 2014.

	Allowance For Loan and Lease Losses			Gross Loans and Leases Receivable Held to Maturity		
	Ending Balance Under ASC 310-10-35	Ending Balance Under ASC 450-20	Total	Ending Balance Evaluated for Impairment Under ASC 310-10-35	Ending Balance Evaluated for Impairment Under ASC 450-20	Total
March 31, 2014						
Commercial	$603	$11,030	$11,633	$8,172	$978,541	$986,713
Commercial real estate	365	12,645	13,010	27,403	1,533,509	1,560,912
Agricultural and agricultural real estate	15	2,556	2,571	9,006	361,342	370,348
Residential real estate	538	3,133	3,671	7,668	357,494	365,162
Consumer	1,745	5,631	7,376	6,175	291,803	297,978
Unallocated	—	312	312	—	—	—
Total	$3,266	$35,307	$38,573	$58,424	$3,522,689	$3,581,113
December 31, 2013						
Commercial	$2,817	$10,282	$13,099	$14,644	$935,553	$950,197
Commercial real estate	818	13,334	14,152	28,299	1,501,384	1,529,683
Agricultural and agricultural real estate	756	2,236	2,992	16,667	360,068	376,735
Residential real estate	605	3,115	3,720	7,214	342,135	349,349
Consumer	1,721	6,001	7,722	5,137	289,008	294,145
Unallocated	—	—	—	—	—	—
Total	$6,717	$34,968	$41,685	$71,961	$3,428,148	$3,500,109

The following table presents nonaccrual loans, accruing loans past due 90 days or more and troubled debt restructured loans not covered under loss share agreements at March 31, 2014, and December 31, 2013, in thousands. There were no nonaccrual leases, accruing leases past due 90 days or more or restructured leases at March 31, 2014, and December 31, 2013.

	March 31, 2014	December 31, 2013
Nonaccrual loans	$26,630	$29,313
Nonaccrual troubled debt restructured loans	5,298	13,081
Total nonaccrual loans	$31,928	$42,394
Accruing loans past due 90 days or more	$—	$24
Performing troubled debt restructured loans	$12,548	$19,353

The following tables provide information on troubled debt restructured loans that were modified during the three months ended March 31, 2014, and March 31, 2013, dollars in thousands:

	Three Months Ended March 31, 2014			2013		
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial	—	$—	$—	2	$4,670	$4,670
Commercial real estate	1	368	368	—	—	—
Total commercial and commercial real estate	1	368	368	2	4,670	4,670
Agricultural and agricultural real estate	—	—	—	3	2,576	2,576
Residential real estate	—	—	—	2	646	646
Consumer	—	—	—	—	—	—
Total	1	$368	$368	7	$7,892	$7,892

The pre-modification and post-modification recorded investment represents amounts as of the date of loan modification. Since the modifications on these loans have been only interest rate concessions and term extensions, not principal reductions, the pre-modification and post-modification recorded investment amounts are the same. At March 31, 2014, there were no commitments to extend credit to any of the borrowers with an existing troubled debt restructuring.

Heartland had no troubled debt restructured loans for which there was a payment default during the three months ended March 31, 2014, and March 31, 2013, that had been modified during the twelve-month period prior to the default.

Heartland's internal rating system is a series of grades reflecting management's risk assessment, based on its analysis of the borrower's financial condition. The "pass" category consists of all loans that are not in the "nonpass" category, categorized into a range of loan grades that reflect increasing, though still acceptable, risk. Movement of risk through the various grade levels in the pass category is monitored for early identification of credit deterioration. The "nonpass" category consists of special mention, substandard, doubtful and loss loans. The "special mention" rating is attached to loans where the borrower exhibits negative financial trends due to borrower specific or systemic conditions that, if left uncorrected, threaten its capacity to meet its debt obligations. The borrower is believed to have sufficient financial flexibility to react to and resolve its negative financial situation. These credits are closely monitored for improvement or deterioration. The "substandard" rating is assigned to loans that are inadequately protected by the current sound net worth and paying capacity of the borrower and may be further at risk due to deterioration in the value of collateral pledged. Well-defined weaknesses jeopardize liquidation of the debt. These loans are still considered collectible, however, a distinct possibility exists that Heartland will sustain some loss if deficiencies are not corrected. Substandard loans may exhibit some or all of the following weaknesses: deteriorating trends, lack of earnings, inadequate debt service capacity, excessive debt and/or lack of liquidity. The "doubtful" rating is assigned to loans where identified weaknesses make collection or liquidation in full, on the basis of existing facts, conditions and values, highly questionable and improbable. These borrowers are usually in default, lack liquidity and capital, as well as, resources necessary to remain an operating entity. Specific pending events, such as capital injections, liquidations or perfection of liens on additional collateral, may strengthen the credit, thus deferring classification of the loan as loss until exact status can be determined. The "loss" rating is assigned to loans considered uncollectible. As of March 31, 2014, Heartland had no loans classified as doubtful or loss. Loans are placed on "nonaccrual" when management does not expect to collect payments of principal and interest in full or when principal or interest has been in default for a period of 90 days or more, unless the loan is both well secured and in the process of collection.

The following table presents loans and leases not covered by loss share agreements by credit quality indicator at March 31, 2014, and December 31, 2013, in thousands:

	Pass	Nonpass	Total
March 31, 2014			
Commercial	$896,019	$90,694	$986,713
Commercial real estate	1,401,965	158,947	1,560,912
Total commercial and commercial real estate	2,297,984	249,641	2,547,625
Agricultural and agricultural real estate	330,764	39,584	370,348
Residential real estate	340,936	24,226	365,162
Consumer	288,653	9,325	297,978
Total gross loans and leases receivable held to maturity	$3,258,337	$322,776	$3,581,113
December 31, 2013			
Commercial	$871,825	$78,372	$950,197
Commercial real estate	1,390,820	138,863	1,529,683
Total commercial and commercial real estate	2,262,645	217,235	2,479,880
Agricultural and agricultural real estate	335,821	40,914	376,735
Residential real estate	333,161	16,188	349,349
Consumer	284,148	9,997	294,145
Total gross loans and leases receivable held to maturity	$3,215,775	$284,334	$3,500,109

The nonpass category in the table above is comprised of approximately 70% special mention and 30% substandard as of March 31, 2014. The percent of nonpass loans on nonaccrual status as of March 31, 2014, was 10%. As of December 31, 2013, the nonpass category in the table above was comprised of approximately 59% special mention, 38% substandard, and 3% doubtful. The percent of nonpass loans on nonaccrual status as of December 31, 2013, was 15%. Loans delinquent 30 to 89 days as a percent of total loans were 0.31% at March 31, 2014 compared to .30% at December 31, 2013. Changes in credit risk are monitored on a continuous basis and changes in risk ratings are made when identified. All impaired loans are reviewed at least annually.

The following table sets forth information regarding Heartland's accruing and nonaccrual loans and leases not covered by loss share agreements at March 31, 2014, and December 31, 2013, in thousands:

	Accruing Loans and Leases						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Nonaccrual	Total Loans and Leases
March 31, 2014							
Commercial	$657	$919	$—	$1,576	$978,621	$6,516	$986,713
Commercial real estate	3,363	1,349	—	4,712	1,543,649	12,551	1,560,912
Total commercial and commercial real estate	4,020	2,268	—	6,288	2,522,270	19,067	2,547,625
Agricultural and agricultural real estate	417	82	—	499	364,791	5,058	370,348
Residential real estate	1,580	—	—	1,580	358,051	5,531	365,162
Consumer	2,178	566	—	2,744	292,962	2,272	297,978
Total gross loans and leases receivable held to maturity	$8,195	$2,916	$—	$11,111	$3,538,074	$31,928	$3,581,113
December 31, 2013							
Commercial	$697	$741	$—	$1,438	$935,508	$13,251	$950,197
Commercial real estate	3,042	199	24	3,265	1,511,618	14,800	1,529,683
Total commercial and commercial real estate	3,739	940	24	4,703	2,447,126	28,051	2,479,880
Agricultural and agricultural real estate	818	—	—	818	369,907	6,010	376,735
Residential real estate	1,199	56	—	1,255	342,735	5,359	349,349
Consumer	2,624	1,089	—	3,713	287,458	2,974	294,145
Total gross loans and leases receivable held to maturity	$8,380	$2,085	$24	$10,489	$3,447,226	$42,394	$3,500,109

The majority of Heartland's impaired loans are those that are nonaccrual, are past due 90 days or more and still accruing or have had their terms restructured in a troubled debt restructuring. The following tables present, for impaired loans not covered by loss share agreements and by category of loan, the unpaid contractual balance at March 31, 2014, and December 31, 2013; the outstanding loan balance recorded on the consolidated balance sheets at March 31, 2014, and December 31, 2013; any related allowance recorded for those loans as of March 31, 2014, and December 31, 2013; the average outstanding loan balance recorded on the consolidated balance sheets during the three months ended March 31, 2014, and year ended December 31, 2013; and the interest income recognized on the impaired loans during the three months ended March 31, 2014, and year ended December 31, 2013, in thousands:

	Unpaid Contractual Balance	Loan Balance	Related Allowance Recorded	Year-to-Date Avg. Loan Balance	Year-to-Date Interest Income Recognized
March 31, 2014					
Impaired loans with a related allowance:					
Commercial	$5,063	$4,987	$603	$7,690	$5
Commercial real estate	906	887	365	3,971	8
Total commercial and commercial real estate	5,969	5,874	968	11,661	13
Agricultural and agricultural real estate	472	472	15	7,070	2
Residential real estate	1,875	1,875	538	2,286	4
Consumer	4,358	4,358	1,745	4,451	30
Total loans held to maturity	$12,674	$12,579	$		