

WEBSTER FINANCIAL CORP

Form 10-Q

August 01, 2012

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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 the quarterly period ended June 30, 2012.

or

.. **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File Number: 001-31486

WEBSTER FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of

06-1187536
(I.R.S. Employer

incorporation or organization)

Identification No.)

145 Bank Street (Webster Plaza), Waterbury, Connecticut
(Address of principal executive offices)

06702
(Zip Code)

(203) 578-2202

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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). b 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 ☐

Accelerated filer ..

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company **

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

The number of shares of common stock, par value \$.01 per share, outstanding as of July 18, 2012 was 87,884,976

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2012 (Unaudited)	December 31, 2011
<i>(In thousands, except share data)</i>		
Assets:		
Cash and due from banks	\$ 197,229	\$ 195,957
Interest-bearing deposits	73,598	96,062
Securities available for sale, at fair value	3,153,580	2,874,764
Securities held-to-maturity (fair value of \$3,234,656 and \$3,130,546)	3,076,226	2,973,727
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	142,595	143,874
Loans held for sale	89,228	57,391
Loans and leases	11,539,997	11,225,404
Allowance for loan and lease losses	(198,757)	(233,487)
Loans and leases, net	11,341,240	10,991,917
Deferred tax asset, net	79,011	105,665
Premises and equipment, net	137,420	147,379
Goodwill	529,887	529,887
Other intangible assets, net	12,896	15,690
Cash surrender value of life insurance policies	312,117	307,039
Prepaid FDIC premiums	27,062	37,946
Accrued interest receivable and other assets	257,660	237,042
Total assets	\$ 19,429,749	\$ 18,714,340
Liabilities and Equity:		
Deposits:		
Non-interest-bearing	\$ 2,611,297	\$ 2,473,693
Interest-bearing	11,362,630	11,182,332
Total deposits	13,973,927	13,656,025
Securities sold under agreements to repurchase and other short-term borrowings	1,203,378	1,164,706
Federal Home Loan Bank advances	1,529,102	1,252,609
Long-term debt	472,928	552,589
Accrued expenses and other liabilities	318,866	242,637
Total liabilities	17,498,201	16,868,566
Shareholders' equity:		
Preferred stock, \$.01 par value; Authorized - 3,000,000 shares:		
Series A issued and outstanding - 28,939 shares	28,939	28,939
Common stock, \$.01 par value; Authorized - 200,000,000 shares		
Issued - 90,721,171 and 90,709,350 shares	907	907
Paid-in capital	1,146,292	1,145,346
Retained earnings	928,523	865,427
Less: Treasury stock, at cost (3,375,355 and 3,493,915 shares)	(129,235)	(134,641)
Accumulated other comprehensive loss, net	(43,878)	(60,204)

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Total equity	1,931,548	1,845,774
Total liabilities and equity	\$ 19,429,749	\$ 18,714,340

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
<i>(In thousands, except per share data)</i>				
Interest Income:				
Interest and fees on loans and leases	\$ 121,379	\$ 122,395	\$ 242,120	\$ 244,338
Taxable interest and dividends on securities	45,662	46,258	91,550	92,751
Non-taxable interest on securities	6,935	7,269	13,915	14,620
Loans held for sale	657	177	1,155	599
Total interest income	174,633	176,099	348,740	352,308
Interest Expense:				
Deposits	15,102	21,841	31,158	44,610
Securities sold under agreements to repurchase and other short-term borrowings	5,360	3,777	9,794	7,339
Federal Home Loan Bank advances	4,426	3,295	8,990	6,650
Long-term debt	5,367	6,273	11,052	12,635
Total interest expense	30,255	35,186	60,994	71,234
Net interest income	144,378	140,913	287,746	281,074
Provision for loan and lease losses	5,000	5,000	9,000	15,000
Net interest income after provision for loan and lease losses	139,378	135,913	278,746	266,074
Non-interest Income:				
Deposit service fees	23,719	26,095	47,082	51,435
Loan related fees	3,565	5,590	8,434	10,033
Wealth and investment services	7,249	7,454	14,470	14,176
Mortgage banking activities	3,624	1,234	8,007	2,487
Increase in cash surrender value of life insurance policies	2,561	2,576	5,078	5,109
Net loss on trading securities				(1,799)
Net gain on sale of investment securities	2,537	1,647	2,537	3,823
Other income	4,098	1,593	5,731	4,841
Total non-interest income	47,353	46,189	91,339	90,105
Non-interest Expense:				
Compensation and benefits	63,587	65,592	132,206	132,604
Occupancy	12,578	12,856	25,460	27,591
Technology and equipment	16,021	15,134	31,603	30,526
Intangible assets amortization	1,397	1,397	2,794	2,794
Marketing	5,094	4,252	9,194	9,772
Professional and outside services	3,387	2,813	6,079	5,243
Deposit insurance	5,723	5,918	11,432	11,699
Litigation		194		486
Other expense	19,392	23,905	36,224	40,471
Total non-interest expense	127,179	132,061	254,992	261,186

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Income from continuing operations before income tax expense	59,552	50,041	115,093	94,993
Income tax expense	18,312	15,857	34,915	28,225
Income from continuing operations	41,240	34,184	80,178	66,768
Income from discontinued operations, net of tax				1,995
Net income	41,240	34,184	80,178	68,763
Less: Net loss attributable to non controlling interests				(1)
Net income attributable to Webster Financial Corporation	41,240	34,184	80,178	68,764
Preferred stock dividends	(615)	(831)	(1,230)	(1,662)
Net income available to common shareholders	\$ 40,625	\$ 33,353	\$ 78,948	\$ 67,102
Net income per common share:				
Basic				
Net income from continuing operations	\$ 0.46	\$ 0.38	\$ 0.90	\$ 0.75
Net income available to common shareholders	0.46	0.38	0.90	0.77
Diluted				
Net income from continuing operations	0.44	0.36	0.86	0.70
Net income available to common shareholders	0.44	0.36	0.86	0.72
<i>See accompanying Notes to Condensed Consolidated Financial Statements.</i>				

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	Three months ended June 30,		Six months ended June 30,	
<i>(In thousands, except per share data)</i>	2012	2011	2012	2011
Net income	\$ 41,240	\$ 34,184	\$ 80,178	\$ 68,763
Other comprehensive income, net of taxes:				
Securities:				
Net change in unrealized gain on securities available for sale	2,104	6,124	13,723	10,432
Net change in non-credit related other-than-temporary impairment				746
Amortization of unrealized loss on securities transferred to held to maturity	39	22	78	50
Change in unrealized (loss) gain on derivative instruments	(553)	(4,581)	488	(2,716)
Defined benefit pension plans:				
Amortization of net loss	966	405	2,014	811
Amortization of prior service cost	11	12	23	24
Current year actuarial gain				365
Other comprehensive income, net of taxes	2,567	1,982	16,326	9,712
Comprehensive income, net of taxes	43,807	36,166	96,504	78,475
Less: comprehensive loss attributable to non controlling interests				(1)
Comprehensive income attributable to Webster Financial Corporation	\$ 43,807	\$ 36,166	\$ 96,504	\$ 78,476

See accompanying Notes to Condensed Consolidated Financial Statements.

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	Six months ended June 30, 2012							Total
	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss, net	Non Controlling Interests	
<i>(In thousands, except share and per share data)</i>								
Balance, December 31, 2011	\$ 28,939	\$ 907	\$ 1,145,346	\$ 865,427	\$ (134,641)	\$ (60,204)	\$	\$ 1,845,774
Net income				80,178				80,178
Other comprehensive income						16,326		16,326
Dividends declared on common stock of \$.15 per share				(13,148)				(13,148)
Dividends declared on Series A preferred stock \$42.50 per share				(1,230)				(1,230)
Common stock warrants repurchased			(337)					(337)
Exercise of stock options			(858)		1,280			422
Net shares acquired related to employee share-based compensation plans					(1,677)			(1,677)
Stock-based compensation expense			1,891	(2,704)	5,803			4,990
Issuance of common stock			250					250
Balance, June 30, 2012	\$ 28,939	\$ 907	\$ 1,146,292	\$ 928,523	\$ (129,235)	\$ (43,878)	\$	\$ 1,931,548

	Six months ended June 30, 2011							Total
	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss, net	Non Controlling Interests	
<i>(In thousands, except share and per share data)</i>								
Balance, December 31, 2010	\$ 28,939	\$ 907	\$ 1,160,690	\$ 741,870	\$ (149,462)	\$ (13,709)	\$ 9,644	\$ 1,778,879
Net income (loss)				68,764			(1)	68,763
Other comprehensive income						9,712		9,712
Dividends declared on common stock of \$.06 per share				(5,243)				(5,243)
Dividends declared on Series A preferred stock \$42.50 per share				(1,230)				(1,230)
Subsidiary preferred stock dividends \$0.43 per share				(432)				(432)
Disolution of joint venture							(66)	(66)
Common stock warrants repurchased			(14,674)					(14,674)
Exercise of stock options			(206)		313			107
Net shares acquired related to employee share-based compensation plans					(537)			(537)
Stock-based compensation expense			470	(3,233)	5,711			2,948
Issuance of common stock			117	(313)	700			504
Balance, June 30, 2011	\$ 28,939	\$ 907	\$ 1,146,397	\$ 800,183	\$ (143,275)	\$ (3,997)	\$ 9,577	\$ 1,838,731

See accompanying Notes to Condensed Consolidated Financial Statements.

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<i>(In thousands)</i>	Six months ended June 30, 2012	2011
Operating Activities:		
Net income	\$ 80,178	\$ 68,763
Income from discontinued operations, net of tax		1,995
Income from continuing operations	80,178	66,768
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Provision for loan and lease losses	9,000	15,000
Deferred tax expense	18,341	11,341
Depreciation and amortization	51,768	39,609
Stock-based compensation	4,990	2,948
Excess tax benefits from stock-based compensation	(1,076)	(35)
(Gain) loss on sale and write-down of foreclosed and repossessed assets	(1,484)	5,552
Loss on sale of premises and equipment	173	129
Loss (gain) on fair value adjustment of private equities	163	(1,397)
(Gain) loss on fair value adjustment of derivative instruments	(217)	837
Net gain on the sale of investment securities	(2,537)	(3,823)
Net decrease in trading securities		11,554
Increase in cash surrender value of life insurance policies	(5,078)	(5,109)
Net (increase) decrease in loans held for sale	(31,837)	30,574
Net decrease in accrued interest receivable and other assets	(16,503)	10,405
Net decrease in accrued expenses and other liabilities	(10,281)	(4,502)
Net cash provided by operating activities	95,600	179,851
Investing Activities:		
Net decrease (increase) in interest-bearing deposits	22,464	(5,052)
Purchases of available for sale securities	(634,113)	(285,336)
Proceeds from maturities and principal payments of available for sale securities	383,737	289,150
Proceeds from sales of available for sale securities	45,855	278,757
Purchases of held-to-maturity securities	(459,212)	(337,164)
Proceeds from maturities and principal payments of held-to-maturity securities	366,692	280,205
Sale of Federal Home Loan Bank and Federal Reserve Board stock	1,279	
Net increase in loans	(364,202)	(62,363)
Proceeds from the sale of foreclosed properties and repossessed assets	5,733	7,789
Proceeds from the sale of premises and equipment	887	3,901
Purchases of premises and equipment	(7,678)	(13,159)
Net cash (used for) provided by investing activities	(638,558)	156,728
Financing Activities:		
Net increase in deposits	317,902	107,742
Proceeds from Federal Home Loan Bank advances	1,826,265	45,934
Repayments of Federal Home Loan Bank advances	(1,549,064)	(410,456)
Net increase (decrease) in securities sold under agreements to repurchase and other short-term borrowings	38,672	(11,612)
Repayment of long-term debt	(74,901)	(12,380)
Cash dividends paid to common shareholders	(13,148)	(5,243)
Cash dividends paid to preferred shareholders of consolidated subsidiary		(432)
Cash dividends paid to preferred shareholders	(1,230)	(1,230)

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Exercise of stock options	422	107
Excess tax benefits from stock-based compensation	1,076	35
Issuance of common stock	250	504
Common stock repurchased	(1,677)	(537)
Common stock warrants repurchased	(337)	(14,674)
Net cash provided by (used for) financing activities	544,230	(302,242)

Cash Flows from Discontinued Operations:

Operating activities		1,995
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Net cash provided by discontinued operations		1,995
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Net increase in cash and due from banks	1,272	36,332
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Cash and due from banks at beginning of period	195,957	159,849
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Cash and due from banks at end of period	\$ 197,229	\$ 196,181
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Supplemental disclosure of cash flow information:

Interest paid	\$ 64,831	\$ 75,604
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Income taxes paid	9,793	12,341
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Noncash investing and financing activities:

Transfer of loans and leases, net to foreclosed properties and repossessed assets	\$ 3,656	\$ 6,973
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See accompanying Notes to Condensed Consolidated Financial Statements.

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NOTE 1: Summary of Significant Accounting Policies

Nature of Operations. Webster Financial Corporation (together, with its consolidated subsidiaries, Webster, the Company, our company, we or us), is a bank holding company and financial holding company under the Bank Holding Company Act of 1956, as amended, headquartered in Waterbury, Connecticut and incorporated under the laws of Delaware in 1986. Webster Financial Corporation's principal asset at June 30, 2012 was all of the outstanding capital stock of Webster Bank, National Association (Webster Bank).

Webster, through Webster Bank and various non-banking financial services subsidiaries, delivers financial services to individuals, families and businesses throughout southern New England and into Westchester County, New York. Webster provides business and consumer banking, mortgage lending, financial planning, trust and investment services through banking offices, ATMs, telephone banking, mobile banking and its Internet website (www.websterbank.com). Webster Bank offers, through its HSA Bank division, health savings accounts on a nationwide basis. Webster also offers equipment financing, commercial real estate lending, and asset-based lending.

Basis of Presentation. The Condensed Consolidated Financial Statements include the accounts of Webster and all other entities in which Webster has a controlling financial interest (collectively referred to as Webster or the Company). All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and financial reporting policies Webster follows conform, in all material respects, to accounting principles generally accepted in the United States (GAAP) and to general practices within the financial services industry.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity (VIE) under GAAP. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holder with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. The Company consolidates voting interest entities in which it has all or at least a majority of, the voting interest. VIEs are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when the Company has both the power and ability to direct the activities of the VIE that most significantly impact the VIEs economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

The Company owns the common stock of trusts which have issued trust preferred securities. These trusts are VIEs in which the Company is not the primary beneficiary and therefore are not consolidated. The trusts' only assets are junior subordinated debentures issued by the Company, which were acquired by the trusts using the proceeds from the issuance of the trust preferred securities and common stock. The junior subordinated debentures are included in long-term debt and the Company's equity interests in the trusts are included in other assets in the Condensed Consolidated Balance Sheets. Interest expense on the junior subordinated debentures is reported in interest expense on long-term debt in the Condensed Consolidated Statements of Operations. See Note 10 Long-Term Debt.

The Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q have not been audited by an independent registered public accounting firm, but, in the opinion of management, reflect all adjustments necessary for a fair presentation of the Company's financial position and results of operations. All such adjustments were of a normal and recurring nature. The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission (SEC). Accordingly, the Condensed Consolidated Financial Statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Company's Consolidated Financial Statements, and Notes thereto, for the year ended December 31, 2011, included in Webster's Annual Report on Form 10-K filed with the SEC on February 29, 2012 (the 2011 Form 10-K). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

Use of Estimates. The preparation of the Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements. Actual results could differ from those estimates. The allowance for loan and lease losses, the fair value of financial instruments, the deferred tax asset valuation allowance, status of contingencies, valuation of investments for other-than-temporary impairment (OTTI), and the goodwill valuation are particularly subject to change.

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Correction of Immaterial Error Related to Prior Periods. During the year ended December 31, 2011, the Company identified an error related to the accounting for certain Commercial loan origination and amendment fees. The Company determined that these fees were recognized immediately and not properly amortized over the term of the loan, as required by ASC Topic 310-20, *Nonrefundable Fees and Other Costs*. As a result, these fees were not recognized as Interest and Fees on Loans and Leases but were recognized in Loan Related Fees, which is a component of other non-interest income in the Condensed Consolidated Statements of Operations. The Company reviewed the impact of this error on the prior periods in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 99, *Materiality*, and determined that the error was immaterial to previously reported amounts contained in its periodic reports. Accordingly, the Company has revised its Condensed Consolidated Statement of Shareholders' Equity at June 30, 2011 and the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2011.

The effects of recording this immaterial correction are as follows:

(In thousands, except per share data)	At or for the three months ended June 30, 2011		At or for the six months ended June 30, 2011	
	As Filed	As Revised	As Filed	As Revised
Retained earnings	\$ 804,109	\$ 800,183	\$ 804,109	\$ 800,183
Interest and fees on loans and leases	121,599	122,395	242,830	244,338
Net interest income	140,117	140,913	279,566	281,074
Loan related fees	6,419	5,590	11,248	10,033
Total non-interest income	47,018	46,189	91,320	90,105
Net income before taxes	50,074	50,041	94,700	94,993
Net income after taxes	34,207	34,184	66,507	66,768
Earnings per common share:				
Basic	0.38	0.38	0.76	0.77
Diluted	0.36	0.36	0.72	0.72

Reclassifications. Certain items in prior financial statements have been reclassified to conform to current presentation. These reclassifications had no impact on the Company's consolidated financial position, results of operations or net change in cash or cash equivalents. There have been no changes to our significant accounting policies that were disclosed in the Company's 2011 Form 10-K.

Investment Securities. Investment securities are classified at the time of purchase as available for sale, or held to maturity. Classification is re-evaluated each quarter to ensure appropriate classification and to maintain consistency with corporate objectives. Debt securities held to maturity are those which Webster has the ability and intent to hold to maturity. Securities held to maturity are recorded at amortized cost. Amortized cost includes the amortization of premiums or accretion of discounts. Such amortization and accretion is included in interest income from securities. Securities classified as available for sale are recorded at fair value. Unrealized gains and losses, net of taxes, are calculated each reporting period and presented as a separate component of other comprehensive income (OCI). Securities transferred from available for sale to held to maturity are recorded at fair value at the time of transfer. The respective gain or loss is reclassified as a separate component of OCI and amortized as an adjustment to interest income over the remaining life of the security.

Investment securities are reviewed quarterly for OTTI. All securities classified as available for sale or held to maturity that are in an unrealized loss position are evaluated for OTTI. The evaluation considers several qualitative factors including the amount of the unrealized loss and the period of time the security has been in a loss position. If the Company intends to sell the security or, if it is more than likely the Company will be required to sell the security prior to recovery of its amortized cost basis, the security is written down to fair value and the respective loss is recorded as a loss in non-interest income in the Condensed Consolidated Statements of Operations. If the Company does not intend to sell the security and if it is more likely than not that the Company will not be required to sell the security prior to recovery of its amortized cost basis, only the credit component of any impairment charge of a debt security would be recognized as a loss in non-interest income in the Condensed Consolidated Statement of Operations. The remaining loss component would be recorded in OCI. A decline in the value of an equity security that is considered OTTI is recorded as a loss in non-interest income on the Condensed Consolidated Statements of Operations.

The specific identification method is used to determine realized gains and losses on sales of securities.

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Loans. Loans are stated at the principal amounts outstanding, net of charged off amounts and unamortized premiums and discounts and net of deferred loan fees and/or costs which are recognized as a yield adjustment using the interest method. These yield adjustments are amortized over the contractual life of the related loans adjusted for estimated prepayments when applicable. Interest on loans is credited to interest income as earned based on the interest rate applied to principal amounts outstanding. Loans are placed on non-accrual status when timely collection of principal and interest in accordance with contractual terms is doubtful. A loan is transferred to a non-accrual basis generally when principal or interest payments become 90 days delinquent, unless the loan is well secured and in process of collection, or sooner if management concludes circumstances indicate that the borrower may be unable to meet contractual principal or interest payments.

Accrual of interest is discontinued if the loan is placed on non-accrual status. Residential real estate and consumer loans are placed on non-accrual status at 90 days past due and a charge-off is recorded at 180 days if the loan balance exceeds the fair value of the collateral less costs to sell. All commercial, commercial real estate and equipment finance loans are subject to a detailed review by the Company's credit risk team to determine accrual status. A charge off is recorded on a case-by-case basis when all or a portion of the loan is deemed to be uncollectible.

When a loan is put on non-accrual status, unpaid accrued interest is reversed and charged against interest income. If ultimate repayment of a non-accrual loan is expected, any payments received are applied in accordance with contractual terms. If ultimate repayment is not expected on commercial, commercial real estate and equipment finance loans, any payment received on a non-accrual loan is applied to principal until the unpaid balance has been fully recovered. Any excess is then credited to interest income when received. If the Company determines, through a current valuation analysis, that principal can be repaid on residential real estate and consumer loans, interest payments may be taken into income as received or on a cash basis. Loans are removed from non-accrual status when they become current as to principal and interest or demonstrate a period of performance under contractual terms and, in the opinion of management, are fully collectible as to principal and interest.

Allowance for Credit Losses. The allowance for credit losses includes the allowance for loan and lease losses and the reserve for unfunded credit commitments.

Allowance for Loan and Lease Losses (ALLL). The allowance for loan and lease losses is a reserve established through a provision for loan and lease losses charged to expense, and represents management's best estimate of probable losses that may be incurred within the existing loan portfolio as of the balance sheet date. The level of the allowance reflects management's view of trends in loan loss activity, current loan portfolio quality and present economic, political and regulatory conditions. Portions of the allowance may be allocated for specific loans; however, the entire allowance is available for any loan that is charged off. While management utilizes its best judgment based on the information available at the time, the ultimate adequacy of the allowance is dependent upon a variety of factors that are beyond the Company's control, which include the performance of the Company's loan portfolio, economic conditions, interest rate sensitivity and the view of the regulatory authorities regarding loan classifications.

The Company's allowance for loan and lease losses consists of three elements: (i) specific valuation allowances established for probable losses on impaired loans; (ii) quantitative valuation allowances calculated using loan loss experience for like loans with similar characteristics and trends, adjusted, as necessary, to reflect the impact of current conditions; and (iii) qualitative factors determined based on general economic conditions and other qualitative risk factors both internal and external to the Company.

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated on a pooled basis for smaller-balance loans of a similar nature and on an individual loan basis depending on risk rating, accrual status and loan size for other loans primarily residential and consumer loans. Commercial, commercial real estate and equipment financing loans over a specific dollar amount and all troubled debt restructurings are evaluated individually for impairment. A loan identified as a troubled debt restructuring (TDR) is considered an impaired loan for the entire term of the loan, with few exceptions. If a loan is impaired, a specific valuation allowance may be established, and the loan is reported net, at the present value of estimated future cash flows using the loan's original interest rate or at the fair value of collateral less cost to sell if repayment is expected from collateral liquidation. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible. Factors considered by management in determining impairment include payment status, collateral value, and the likelihood of collecting scheduled principal and interest payments. Consumer modified loans are analyzed for re-default probability which is factored into the impaired reserve calculation for ALLL. The current or weighted average (for multiple notes within a commercial borrowing arrangement) interest rate of the loan is used as the discount rate when the interest rate floats with a specified index. A change in terms or payments would be included in the impairment calculation.

Reserve for Unfunded Commitments. The reserve for unfunded commitments provides for probable losses inherent with funding the unused portion of legal commitments to lend. The unfunded reserve calculation includes factors that are consistent with ALLL methodology for funded loans using the loss given default, probability of default and a draw down factor applied to the underlying borrower risk and facility grades.

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Troubled Debt Restructurings. A modified loan is considered a troubled debt restructuring (TDR) when two conditions are met: 1) the borrower is experiencing financial difficulties and 2) the modification constitutes a concession. Modified terms are dependent upon the financial position and needs of the individual borrower. The Company does not employ modification programs for temporary or trial periods. The most common types of modifications include covenant modifications, forbearance and/or other concessions. If the modification agreement is violated, the loan is handled by the Company's Restructuring and Recovery group for resolution, which may result in foreclosure.

The Company's policy is to place all consumer loan TDRs on non-accrual status for a minimum period of six months. Commercial TDRs are evaluated on a case-by-case basis for determination of whether or not to place on non-accrual status. Loans qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement for a minimum of six months. Initially, all TDRs are reported as impaired. Generally, TDRs are classified as impaired loans and TDRs for the remaining life of the loan. Impaired and TDR classification may be removed if the borrower demonstrates compliance with the modified terms for a minimum of six months and through one fiscal year-end and the restructuring agreement specifies a market rate of interest equal to that which would be provided to a borrower with similar credit at the time of restructuring. In the limited circumstances that a loan is removed from TDR classification it is the Company's policy to continue to base its measure of loan impairment on the contractual terms specified by the loan agreement.

Accounting Standards Updates

ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. In December 2011, the FASB issued ASU No. 2011-11 which expands required disclosures of information related to the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments, in an effort to enhance comparability between financial statements prepared with GAAP and IFRS. The requirements include disclosure of net and gross positions in covered financial instruments and derivative instruments which are either (1) offset in accordance with ASC Sections 210-20-45 or 815-10-45, or (2) subject to an enforceable netting or other similar arrangement. The guidance is effective for the Company's interim and annual periods beginning on January 1, 2013 and will be applied retrospectively. The Company is currently evaluating the impact of the adoption of this accounting standards update on the Company's financial statements.

ASU No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. In December 2011, the FASB issued ASU No. 2011-12 which defers the effective date for the part of ASU No. 2011-05 that would have required adjustments of items out of accumulated other comprehensive income to be presented on the components of both net income and other comprehensive income in the financial statements until FASB can adequately evaluate the costs and benefits of this presentation requirement. The Company has deferred this presentation, as permitted, and continues to evaluate the impact of the adoption of this accounting standards update on the Company's financial statements.

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A summary of the amortized cost, carrying value, and fair value of Webster's investment securities is presented below:

	At June 30, 2012						
		Recognized in OCI			Not Recognized in OCI		
	Amortized	Gross	Gross	Carrying	Gross	Gross	
	cost	unrealized	unrealized	value	unrealized	unrealized	Fair value
		gains	losses		gains	losses	
(Dollars in thousands)							
Available for sale:							
U.S. Treasury Bills	\$ 200	\$	\$	\$ 200	\$	\$	\$ 200
Agency collateralized mortgage obligations							
(CMOs) - GSE	1,617,938	28,974	(569)	1,646,343			1,646,343
Corporate debt	112,427	2,165	(30)	114,562			114,562
Pooled trust preferred securities ^(a)	51,738		(22,916)	28,822			28,822
Single issuer trust preferred securities	66,331		(10,822)	55,509			55,509
Equity securities-financial institutions ^(b)	6,232	1,856	(20)	8,068			8,068
Mortgage-backed securities (MBS) - GSE	906,851	24,054	(820)	930,085			930,085
Commercial mortgage-backed securities							
(CMBS)	345,183	31,385	(6,577)	369,991			369,991
Total available for sale	\$ 3,106,900	\$ 88,434	\$ (41,754)	\$ 3,153,580	\$	\$	\$ 3,153,580
Held-to-maturity:							
Municipal bonds and notes	\$ 622,703	\$	\$	\$ 622,703	\$ 33,636	\$ (148)	\$ 656,191
Agency CMOs - GSE	631,162			631,162	21,056		652,218
MBS - GSE	1,638,235			1,638,235	93,544	(1,565)	1,730,214
CMBS	165,146			165,146	11,377		176,523
Private Label MBS	18,980			18,980	530		19,510
Total held-to-maturity	\$ 3,076,226	\$	\$	\$ 3,076,226	\$ 160,143	\$ (1,713)	\$ 3,234,656
Total investment securities	\$ 6,183,126	\$ 88,434	\$ (41,754)	\$ 6,229,806	\$ 160,143	\$ (1,713)	\$ 6,388,236

(a) Amortized cost is net of \$10.5 million of credit related other-than-temporary impairment at June 30, 2012.

(b) Amortized cost is net of \$21.3 million of other-than-temporary impairments at June 30, 2012.

	At December 31, 2011						
	Amortized cost	Recognized in OCI Gross unrealized gains	Recognized in OCI Gross unrealized losses	Carrying value	Not Recognized in OCI Gross unrealized gains	Not Recognized in OCI Gross unrealized losses	Fair value
(Dollars in thousands)							
Available for sale:							
U.S. Treasury Bills	\$ 200	\$	\$	\$ 200	\$	\$	\$ 200
Agency CMOs - GSE	1,916,372	27,211	(3,341)	1,940,242			1,940,242
Pooled trust preferred securities ^(a)	52,606		(23,608)	28,998			28,998
Single issuer trust preferred securities	51,027		(12,813)	38,214			38,214
Equity securities-financial institutions ^(b)	7,669	1,802	(24)	9,447			9,447
MBS - GSE	502,389	25,079	(158)	527,310			527,310
CMBS	319,200	22,395	(11,242)	330,353			330,353

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Total available for sale	\$ 2,849,463	\$ 76,487	\$ (51,186)	\$ 2,874,764	\$	\$	\$ 2,874,764
Held-to-maturity:							
Municipal bonds and notes	\$ 646,358	\$	\$	\$ 646,358	\$ 30,960	\$ (174)	\$ 677,144
Agency CMOs - GSE	733,889			733,889	20,555		754,444
MBS - GSE	1,411,008			1,411,008	98,449		1,509,457
CMBS	158,451			158,451	6,588		165,039
Private Label MBS	24,021			24,021	441		24,462
Total held-to-maturity	\$ 2,973,727	\$	\$	\$ 2,973,727	\$ 156,993	\$ (174)	\$ 3,130,546
Total investment securities	\$ 5,823,190	\$ 76,487	\$ (51,186)	\$ 5,848,491	\$ 156,993	\$ (174)	\$ 6,005,310

- (a) Amortized cost is net of \$10.5 million of credit related other-than-temporary impairment at December 31, 2011.
- (b) Amortized cost is net of \$21.6 million of other-than-temporary impairments at December 31, 2011.

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The amortized cost and fair value of debt securities at June 30, 2012, by contractual maturity, are set forth below:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<i>(Dollars in thousands)</i>				
Due in one year or less	\$ 15,425	\$ 15,323	\$ 28,898	\$ 28,902
Due after one year through five years	5,169	5,274	11,677	12,316
Due after five through ten years	115,236	117,279	246,574	261,581
Due after ten years	2,964,838	3,007,636	2,789,077	2,931,857
Total debt securities	\$ 3,100,668	\$ 3,145,512	\$ 3,076,226	\$ 3,234,656

For the purposes of the maturity schedule, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the expected maturity of the underlying collateral. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. At June 30, 2012, the Company had \$607.9 million carrying value of callable securities in its investment portfolio.

The following tables provide information on the gross unrealized losses and fair value of the Company's investment securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment security category and length of time that individual investment securities have been in a continuous unrealized loss position:

	June 30, 2012						
	Less Than Twelve Months		Twelve Months or Longer			Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	# of Holdings	Fair Value	Unrealized Losses
(Dollars in thousands)							
Available for Sale:							
Agency CMOs - GSE	\$ 150,825	\$ (569)	\$	\$	5	\$ 150,825	\$ (569)
Corporate debt	24,788	(30)			3	24,788	(30)
Pooled trust preferred securities			28,822	(22,916)	8	28,822	(22,916)
Single issuer trust preferred securities	18,732	(611)	36,776				