

WSFS FINANCIAL CORP
Form 10-Q
May 10, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended

March 31, 2010

OR

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

For the transition
period from

to

Commission File Number 0-16668

WSFS FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
Incorporation or organization)

22-2866913
(I.R.S. Employer
Identification Number)

500 Delaware Avenue, Wilmington, Delaware
(Address of principal executive offices)

19801
(Zip Code)

(302) 792-6000

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to

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submit and post such files), ____ Yes ____ No

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

Large accelerated filer []

Accelerated filer [X]

Non-accelerated filer []

Smaller reporting company []

(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [] No [X]

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of May 3, 2010:

Common Stock, par value \$.01 per share
(Title of Class)

7,097,024
(Shares Outstanding)

WSFS FINANCIAL CORPORATION

FORM 10-Q

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WSFS FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS

Three months ended March 31,
2010 2009
(Unaudited)
(In Thousands, Except Per Share
Data)

Interest income:		
Interest and fees on loans	\$ 31,223	\$ 31,374
Interest on mortgage-backed securities	9,032	7,336
Interest and dividends on investment securities	303	97
	40,558	38,807
Interest expense:		
Interest on deposits	6,294	8,329
Interest on Federal Home Loan Bank advances	3,977	5,341
Interest on trust preferred borrowings	329	595
Interest on other borrowings	615	651
	11,215	14,916
Net interest income	29,343	23,891
Provision for loan losses	11,410	7,653
Net interest income after provision for loan losses	17,933	16,238
Noninterest income:		
Credit/debit card and ATM income	4,370	3,702
Deposit service charges	3,879	3,817
Loan fee income	680	1,250
Investment advisory income	604	531
Mortgage banking activities, net	252	202
Bank owned life insurance income	196	210
Security gains	—	423
Other income	1,160	966
	11,141	11,101
Noninterest expenses:		
Salaries, benefits and other compensation	11,986	12,331
Non-routine ATM loss	4,491	—
Occupancy expense	2,562	2,436
FDIC expenses	1,643	1,465
Equipment expense	1,469	1,579
Data processing and operations expenses	1,286	1,121
Professional Fees	1,170	962
Net costs of assets acquired through foreclosure	743	500
Marketing Expense	704	727
Other operating expense	3,579	3,253
	29,633	24,374
(Loss) income before taxes	(559)	2,965
Income tax (benefit) provision	(1,073)	25
Net income	514	2,940

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Dividends on preferred stock and accretion of discount		692		513
Net (loss) income allocable to common stockholders	\$	(178)	\$	2,427
Earnings per share:				
Basic	\$	(0.03)	\$	0.39
Diluted	\$	(0.03)	\$	0.39

The accompanying notes are an integral part of these consolidated Financial Statements.

WSFS FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CONDITION

	March 31, 2010	December 31, 2009
	(Unaudited)	
	(In Thousands, Except Per Share Data)	
Assets		
Cash and due from banks	\$ 58,920	\$ 55,756
Cash in non-owned ATMs	263,330	264,903
Federal funds sold	-	-
Interest-bearing deposits in other banks	750	1,090
Total cash and cash equivalents	323,000	321,749
Investment securities held-to-maturity	556	709
Investment securities-available-for-sale including reverse mortgages	44,468	44,808
Mortgage-backed securities - available-for-sale	747,560	669,059
Mortgages-backed securities-trading	12,183	12,183
Loans held-for-sale	5,074	8,366
Loans, net of allowance for loan losses of \$57,052 at March 31, 2010 and \$53,446 at December 31, 2009	2,459,765	2,470,789
Bank owned life insurance	60,450	60,254
Stock in Federal Home Loan Bank of Pittsburgh, at cost	39,305	39,305
Assets acquired through foreclosure	10,711	8,945
Premises and equipment	36,115	36,108
Goodwill	10,870	10,870
Intangible assets	2,636	2,781
Accrued interest receivable and other assets	59,638	62,581
 Total assets	 \$ 3,812,331	 \$ 3,748,507
 Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing demand	\$ 435,812	\$ 431,476
Interest-bearing demand	259,140	265,719
Money market	608,343	550,639
Savings	237,502	224,921
Time	470,287	470,139
Jumbo certificates of deposit – customer	198,211	203,126
Total customer deposits	2,209,295	2,146,020
Other jumbo certificates of deposit	79,329	69,208
Brokered deposits	328,787	346,643
Total deposits	2,617,411	2,561,871
 Federal funds purchased and securities sold under agreements to repurchase	 100,000	 100,000
Federal Home Loan Bank advances	615,454	613,144
Trust preferred borrowings	67,011	67,011

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Other borrowed funds	76,215	74,654
Accrued interest payable and other liabilities	29,725	30,027
Total liabilities	3,505,816	3,446,707
Stockholders' Equity:		
Serial preferred stock \$.01 par value, 7,500,000 shares authorized; issued 56,625 at March 31, 2010 and December 31, 2009	1	1
Common stock \$.01 par value, 20,000,000 shares authorized; issued 16,677,593 at March 31, 2010 and 16,660,588 at December 31, 2009	166	166
Capital in excess of par value	167,241	166,627
Accumulated other comprehensive income (loss)	3,107	(2,022)
Retained earnings	384,280	385,308
Treasury stock at cost, 9,580,569 shares at March 31, 2010 and December 31, 2009	(248,280)	(248,280)
Total stockholders' equity	306,515	301,800
Total liabilities and stockholders' equity	\$ 3,812,331	\$ 3,748,507

The accompanying notes are an integral part of these consolidated Financial Statements.

WSFS FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS

	Three months ended March 31,	
	2010	2009
	(Unaudited)	
	(In Thousands)	
Operating activities:		
Net Income	\$ 514	\$ 2,940
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	11,410	7,653
Depreciation, accretion and amortization	1,384	1,592
Increase in accrued interest receivable and other assets	(4,693)	(275)
Non-routine ATM loss	4,491	—
Origination of loans held-for-sale	(14,814)	(19,413)
Proceeds from sales of loans held-for-sale	18,162	16,648
Gain on mortgage banking activity	(252)	(202)
Loss on mark to market adjustment on trading securities	—	124
Gain on sale of investments	—	(547)
Stock-based compensation expense, net of tax benefit recognized	204	286
Excess tax benefits from share-based payment arrangements	(79)	—
Increase (decrease) in accrued interest payable and other liabilities	(292)	4,004
Loss on sale of assets acquired through foreclosure and valuation adjustments	226	723
Increase in value of bank-owned life insurance	(196)	(210)
Decrease (increase) in capitalized interest, net	(13)	301
Net cash provided by operating activities	16,052	13,624
Investing activities:		
Maturities of investment securities	500	16,025
Purchase of investments available-for-sale	—	(14,027)
Sales of mortgage-backed securities available-for sale	—	20,830
Repayments of mortgage-backed securities available-for-sale	46,372	30,895
Purchases of mortgage-backed securities available-for-sale	(116,297)	(143,343)
Repayments of reverse mortgages	—	50
Disbursements for reverse mortgages	(49)	(52)
Net increase in loans	(3,919)	(69,991)
Sales of assets acquired through foreclosure, net	1,627	1,007
Investment in premises and equipment, net	(1,184)	(1,640)
Net cash used for investing activities	(72,950)	(160,246)
Financing activities:		
Net increase in demand and saving deposits	69,603	104,879
Net (decrease) increase in time deposits	(12,711)	7,678
Receipts from federal funds purchased and securities sold under agreement to repurchase	4,435,000	4,425,000
	(4,435,000)	(4,400,000)

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Repayments of federal funds purchased and securities sold under agreement to repurchase		
Receipts from FHLB advances	6,321,940	11,371,780
Repayments of FHLB advances	(6,319,630)	(11,491,446)
Proceeds from issuance of unsecured bank debt	—	30,000
Dividends paid	(1,507)	(901)
Proceeds from issuance of preferred stock	—	52,625
Issuance of common stock and exercise of common stock options	375	297
Excess tax benefits from share-based payment arrangements	79	—
Net cash provided by financing activities	58,149	99,912
Increase (decrease) cash and cash equivalents	1,251	(46,710)
Cash and cash equivalents at beginning of period	321,749	248,558
Cash and cash equivalents at end of period	\$ 323,000	\$ 201,848
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest during the period	\$ 9,278	\$ 11,873
Cash paid for (refund of) income taxes, net	1,008	(851)
Loans transferred to assets acquired through foreclosure	3,619	5,076
Net change in other comprehensive income	5,129	3,734

The accompanying notes are an integral part of these consolidated Financial Statements.

WSFS FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED)

1. BASIS OF PRESENTATION

Our consolidated Financial Statements include the accounts of WSFS Financial Corporation (“the Company”, “our Company”, “we”, “our” or “us”), Wilmington Savings Fund Society, FSB (“WSFS Bank” or the “Bank”) and Montchanin Capital Management, Inc. (“Montchanin”) and its wholly owned subsidiary, Cypress Capital Management, LLC (“Cypress”). We also have one unconsolidated affiliate, WSFS Capital Trust III (“the Trust”). WSFS Bank has a fully-owned subsidiary, WSFS Investment Group, Inc., which markets various third-party insurance products and securities products to Bank customers through WSFS’ retail banking system. Founded in 1832, the Bank is one of the ten oldest banks continuously operating under the same name in the United States.

We provide residential and commercial real estate, commercial and consumer lending services, as well as retail deposit and cash management services. In addition, we offer a variety of wealth management and trust services through WSFS Trust and Wealth Management. Lending activities are funded primarily with retail deposits and borrowings. The Federal Deposit Insurance Corporation (“FDIC”) insures our customers’ deposits to their legal maximum. We serve our customers primarily from our 41 banking offices located in Delaware (36), Pennsylvania (4) and Virginia (1) and through our website at www.wsfsbank.com.

Although our current estimates contemplate current economic conditions and how we expect them to change in the future, it is reasonably possible that in 2010, actual conditions may be worse than anticipated in those estimates, which could materially affect our results of operations and financial condition. Amounts subject to significant estimates are items such as the allowance for loan losses and lending related commitments, goodwill and intangible assets, post-retirement obligations, the fair value of financial instruments and other-than-temporary impairments. Among other effects, such changes could result in future impairments of investment securities, goodwill and intangible assets and establishment of allowances for loan losses and lending related commitments as well as increased post-retirement expense.

Our accounting and reporting policies conform with U.S. generally accepted accounting principles and prevailing practices within the banking industry for interim financial information and Rule 10-01 of the SEC’s Regulation S-X. Rule 10-01 of Regulation S-X does not require us to include all information and notes for complete financial statements and prevailing practices within the banking industry. Operating results for the three month period ended March 31, 2010 are not necessarily indicative of the results that may be expected for any future quarters or for the year ending December 31, 2010. For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the Securities and Exchange Commission.

Accounting for Stock-Based Compensation

Stock-based compensation is accounted for in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 718 (formerly SFAS No. 123R, Share-Based Payment). We have stock options outstanding under two plans (collectively, “Stock Incentive Plans”) for officers, directors and Associates of the Company and its subsidiaries. After shareholder approval in 2005, the 1997 Stock Option Plan (“1997 Plan”) was replaced by the 2005 Incentive Plan (“2005 Plan”). No future awards may be granted under the 1997 Plan. The 2005 Plan will terminate on the tenth anniversary of its effective date, after which no awards may be granted. The number of shares reserved for issuance under the 2005 Plan is 862,000. At March 31, 2010 there were 67,485 shares available

for future grants under the 2005 Plan. At the April 2010 Annual Meeting of Shareholders a proposal was approved that increased the number of shares available for issuance by 335,000.

The Stock Incentive Plans provide for the granting of incentive stock options as defined in Section 422 of the Internal Revenue Code as well as non-incentive stock options (collectively, "Stock Options"). Additionally, the 2005 Plan provides for the granting of stock appreciation rights, performance awards, restricted stock and restricted stock unit awards, deferred stock units, dividend equivalents, other stock-based awards and cash awards. All Stock Options are to be granted at not less than the market price of our Corporation's common stock on the date of the grant. All Stock Options granted during 2010 vest in 25% per annum increments, start to become exercisable one year from the grant date and expire five years from the grant date. Generally, all awards become immediately exercisable in the event of a change in control, as defined within the Stock Incentive Plans.

We announced on April 18, 2007, that our Executive Committee of the Board of Directors adopted an administrative policy related to the future award of stock options under the 2005 Plan. The Executive Committee's policy provided that any change to the policy would only be made following the approval by our stockholders. At the 2010 Annual meeting of Shareholders, a proposal was approved to increase the maximum life of stock options and stock appreciation rights from five years to seven years.

A summary of the status of our Stock Incentive Plans at March 31, 2010 and March 31, 2009, respectively, and changes during the quarters then ended is presented below:

	March 31, 2010		March 31, 2009	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Stock Options:				
Outstanding at beginning of period	733,468	\$42.95	675,887	\$44.98
Granted	26,089	30.46	82,421	23.28
Exercised	(16,861)	14.13	0	0.00
Forfeited	(6,120)	54.93	(2,920)	59.26
Outstanding at end of period	736,576	43.06	755,388	42.56
Exercisable at end of period	544,912	\$43.66	475,617	\$39.93
Weighted-average fair value of awards granted	\$9.16		\$5.38	

Beginning January 1, 2010, 541,910 stock options were exercisable with an intrinsic value of \$1.5 million. In addition, at January 1, 2010, there were 191,558 non-vested options with a grant date fair value of \$8.92. During the first quarter of 2010, 24,201 options vested with an intrinsic value of \$328,000, and a grant date fair value of \$6.65 per option. Also during the quarter, there were 16,861 options exercised with an intrinsic value of \$351,000. In addition, 4,338 vested options and 1,782 non-vested options were forfeited with an intrinsic value of \$3,000 and \$10,000 and a grant date fair value of \$12.65 and \$9.69, respectively. There were 544,912 exercisable options remaining at March 31, 2010, with an intrinsic value of \$3.7 million and a remaining contractual term of 2.4 years. At March 31, 2010, there were 736,576 stock options outstanding with an intrinsic value of \$4.9 million and a remaining contractual term of 2.7 years. During the first quarter of 2009, no options were exercised and 3,624 options vested with a fair value of \$13.88 per option.

The total amount of compensation cost related to non-vested stock options as of March 31, 2010 was \$1.1 million. The weighted-average period over which they are expected to be recognized is 2.2 years. We issue new shares upon the exercise of options.

The Black-Scholes and other option-pricing models assume that options are freely tradable and immediately vested. Since options are not transferable, have vesting provisions, and are subject to trading blackout periods imposed by us, the value calculated by the Black-Scholes model may significantly overstate the true economic value of the options.

During the first quarter of 2010, we granted 26,089 options with a five-year life and a four-year vesting period. The Black-Scholes option-pricing model was used to determine the grant date fair value of options. Significant assumptions used in the model included a weighted-average risk-free rate of return of 1.8% for 2010; an expected

option life of three and three-quarters years; and an expected stock price volatility of 43.3% in 2010. For the purposes of this option-pricing model, a dividend yield of 1.6% was assumed. The expected option life was determined based on the mid-point between the vesting date and the end of the contractual term.

We issued 5,703 restricted stock units and awards during the first quarter of 2010. These awards generally vest over a four to five year period. In addition, for these stock awards made to certain executive officers, there are additional vesting limitations. Under these additional limitations; 25% of the awards will become transferrable at the time of repayment of at least 25% of the aggregate financial assistance received by the Company under the Emergency Economic Stabilization Act of 2008 ("EESA"); an additional 25% of the shares granted (for an aggregate total of 50% of the shares transferrable) at the time of repayment of at least 50% of the aggregate financial assistance received by the Company under EESA; an additional 25% of the shares granted (for an aggregate total of 75% of the shares transferrable) at the time of repayment of at least 75% of the aggregate financial assistance received by the Company under EESA. The remainder of the shares will vest following the time of repayment of 100% of the aggregate financial assistance received by the Company under EESA. If the date specified has not occurred by the tenth anniversary of the grant date, the grantee shall forfeit all of the restricted shares.

Compensation costs related to these issuances are recognized over the lives of the restricted stock and restricted stock units. We amortize the expense related to the restricted stock grants into salaries, benefits and other compensation expense on a straight-line basis over the requisite service period for the entire award. When we award restricted stock to individuals from whom we may not receive services in the future, such as those who are eligible for retirement, we recognize the expense of restricted stock grants when we make the award, instead of amortizing the expense over the vesting period of the award.

The Long-Term Performance-Based Restricted Stock Unit program (“Long-Term Program”) will award up to an aggregate of 109,200 shares of WSFS stock to seventeen participants, only after the achievement of targeted levels of return on assets (“ROA”). Under the terms of the plan, if an annual ROA performance level of 1.20% is achieved, up to 54,900 shares will be awarded. If an annual ROA performance level of 1.35% is achieved, up to 76,100 shares will be awarded. If an annual ROA performance level of 1.50% or greater is achieved, up to 109,200 shares will be awarded. If these targets are achieved in any year up until 2011, the awarded stock will vest in 25% increments over four years. We did not recognize any compensation expense related to this program in the first quarter of 2010. Compensation expense for the Long-Term Program was based on the closing stock price as of May 28, 2009 and will begin to be recognized once the achievement of target performance is considered probable.

At March 31, 2010 we had 67,485 remaining shares available for issuance under the 2005 Plan. Full share awards, such as restricted stock, have the equivalence of four option grants for the purpose of calculating shares available for issuance. Under the provisions of the Long-Term Program, if a performance level is achieved and there are insufficient shares available for grant, then we would have the option of granting the available shares with the remainder being paid in cash.

The impact of stock-based compensation for the three months ended March 31, 2010 was \$370,000 pre-tax (\$288,000 after tax) or \$0.04 per share, to salaries, benefits and other compensation. This compares to \$445,000 pre-tax (\$359,000 after tax) or \$0.06 per share for the three months ended March 31, 2009.

2. EARNINGS PER SHARE

The following table shows the computation of basic and diluted earnings per share:

	For the three months ended March 31, 2010 2009 (In Thousands, Except Per Share Data)	
Numerator:		
Net (loss) income allocable to common stockholders	\$ (178)	\$ 2,427
Denominator:		
Denominator for basic earnings per share - weighted average shares	7,084	6,173
Effect of dilutive employee stock options	-	68
Denominator for diluted earnings per share – adjusted weighted average shares and assumed exercise	7,084	6,241
Earnings per share:		
Basic:		
Net (loss) income allocable to common shareholders	\$ (0.03)	\$ 0.39

Diluted:

Net (loss) income allocable to common shareholders	\$	(0.03)	\$	0.39
Outstanding common stock equivalents having no dilutive effect		795		772

For the three months ended March 31, 2010, 795,000 employee stock options were excluded from the computation of diluted net loss per common share of which 78,000 were because the effect would have been antidilutive due to the net loss reported in this period.

3. INVESTMENT SECURITIES

The following tables detail the amortized cost and the estimated fair value of the Company's investment securities held-to-maturity and securities available-for-sale (which includes reverse mortgages):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities:				
March 31, 2010:				
Reverse mortgages	\$(468)	\$—	\$—	\$(468)
U.S. Government and agencies	40,653	622	(9)	41,266
State and political subdivisions	3,590	80	—	3,670
	\$43,775	\$702	\$(9)	\$44,468
December 31, 2009				
Reverse mortgages	\$(530)	\$—	\$—	\$(530)
U.S. Government and agencies	40,695	652	(35)	41,312
State and political subdivisions	3,935	91	—	4,026
	\$44,100	\$743	\$(35)	\$44,808
Held-to-maturity:				
March 31, 2010:				
State and political subdivisions	\$556	\$—	\$(16)	\$540
	\$556	\$—	\$(16)	\$540
December 31, 2009:				
State and political subdivisions	\$709	\$—	\$(38)	\$671
	\$709	\$—	\$(38)	\$671

Securities with market values aggregating \$40.3 million at March 31, 2010 were specifically pledged as collateral for WSFS' Treasury Tax and Loan account with the Federal Reserve Bank, securities sold under agreement to repurchase, and certain letters of credit and municipal deposits which require collateral. Accrued interest receivable relating to investment securities was \$379,000 and \$352,000 at March 31, 2010 and December 31, 2009, respectively.

The scheduled maturities of investment securities held-to-maturity and securities available-for-sale at March 31, 2010 and December 31, 2009 were as follows:

	Held-to-Maturity		Available-for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
2010				
Within one year (1)	\$340	\$340	\$17,930	\$18,204
After one year but within five years	—	—	25,725	26,141
After five years but within ten years	—	—	120	123
After ten years	216	200	—	—
	\$556	\$540	\$43,775	\$44,468

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2009

Within one year (1)	\$340	\$340	\$10,864	\$11,068
After one year but within five years	—	—	32,986	33,485
After five years but within ten years	—	—	250	255
After ten years	369	331	—	—
	\$709	\$671	\$44,100	\$44,808

(1) Reverse mortgages do not have contractual maturities. We have included reverse mortgages in maturities within one year.

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There were no sales of investment securities classified as available-for-sale during 2010 or 2009. As a result, there were no net gains/losses realized during 2010 or 2009. The cost basis for investment security sales was based on the specific identification method. Investment securities totaling \$240,000 and \$18.6 million were called by their issuers during 2010 and 2009, respectively.

At March 31, 2010, we owned investment securities totaling \$3.1 million where the amortized cost basis exceeded fair value. Total unrealized losses on those securities were \$25,000 at March 31, 2010. This temporary impairment is the result of changes in market interest rates subsequent to the purchase of the securities. Securities amounting to \$109,000 have been impaired for 12 months or longer. We have determined that these securities are not other than temporarily impaired. The investment portfolio is reviewed on a quarterly basis for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and new-term prospects of the issuer, including any specific events which may influence the operations of the issuer and the intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market. We evaluate our intent and ability to hold debt securities based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position. In addition, we do not have the intent to sell, nor is it more likely-than not we will be required to sell these securities before we are able to recover the amortized cost basis.

The table below shows our investment securities' gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at March, 31, 2010.

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In Thousands)					
Held-to-maturity						
State and political subdivisions	\$—	\$—	\$109	\$16	\$109	\$16
Available-for-sale						
State and political subdivisions	—	—	—	—	—	—
U.S Government and agencies	3,009	9	—	—	3,009	9
Total temporarily impaired investments	\$3,009	\$9	\$109	\$16	\$3,118	\$25

The table below shows our investment securities' gross unrealized losses and fair value by investment category and length of time that individual securities were in a continuous unrealized loss position at December 31, 2009.

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In Thousands)					
Held-to-maturity						
State and political subdivisions	\$—	\$—	\$242	\$38	\$242	\$38
Available-for-sale						
State and political subdivisions	—	—	—	—	—	—

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U.S Government and agencies	2,985	35	—	—	2,985	35
Total temporarily impaired investments	\$2,985	\$35	\$242	\$38	\$3,227	\$73

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4. MORTGAGE-BACKED SECURITIES

The following tables detail the amortized cost and the estimated fair value of the Company's mortgage-backed securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities:				
March 31, 2010:				
Collateralized mortgage obligations (1)	\$598,245	\$7,883	\$(5,926)	) \$600,202
FNMA	58,508	1,072	(129)	) 59,451
FHLMC	41,766	850	—	) 42,616
GNMA	43,989	1,328	(26)	) 45,291
	\$742,508	\$11,133	\$(6,081)	) \$747,560
Weighted average yield	5.12	%		
December 31, 2009:				
Collateralized mortgage obligations (1)	\$519,527	\$5,368	\$(10,383)	) \$514,512
FNMA	61,603	813	(454)	) 61,962
FHLMC	44,536	561	(83)	) 45,014
GNMA	46,629	1,129	(187)	) 47,571
	\$672,295	\$7,871	\$(11,107)	) \$669,059
Weighted average yield	5.00	%		
Trading securities:				
March 31, 2010:				
Collateralized mortgage obligations	\$12,183	\$—	\$—	) \$12,183
	\$12,183	\$—	\$—	) \$12,183
Weighted average yield	3.28	%		
December 31, 2009:				
Collateralized mortgage obligations	\$12,183	\$—	\$—	) \$12,183
	\$12,183	\$—	\$—	) \$12,183
Weighted average yield	3.74	%		

(1) Includes Agency CMO's classified as available-for-sale.

The portfolio of available-for-sale mortgage-backed securities consists of \$742.5 million of both Agency and non-Agency bonds. All bonds were AAA-rated at the time of purchase; \$90.8 million are now rated below AAA. Downgraded bonds were evaluated at March 31, 2010. The result of this evaluation shows no other-than-temporary impairment as of March 31, 2010. An evaluation of downgraded bonds at December 31, 2009

showed one bond (\$2.6 million) had other-than-temporary impairment which resulted in an earnings charge of \$86,000 or 9 basis points of downgraded bonds and only 1 basis point of the total mortgage-backed security portfolio. The \$86,000 of other-than-temporary impairment loss recognized during the fourth quarter of 2009 represents our only other-than-temporary impairment charge since the start of the credit cycle in 2008. The weighted average duration of the mortgage-backed securities was 2.5 years at March 31, 2010.

Accrued interest receivable relating to mortgage-backed securities was \$3.1 million at March 31, 2010 and \$2.8 million at December 31, 2009. At March 31, 2010, mortgage-backed securities with market values aggregating \$343.6 million were pledged as collateral for retail customer repurchase agreements and municipal deposits. From time to time, mortgage-backed securities are also

pledged as collateral for Federal Home Loan Bank (FHLB) borrowings and other obligations. The fair value of these pledged mortgage-backed securities at March 31, 2010 was \$114.4 million.

During the first three months of 2010, there were no sales of mortgage-backed securities available-for-sale. The cost basis of all mortgage-backed securities sales is based on the specific identification method. During the first three months of 2009, proceeds from the sale of mortgage-backed securities available-for-sale were \$20.8 million, resulting in a gain of \$547,000.

We own \$12.4 million par value of SASCO RM-1 2002 securities which are classified as trading, of which, \$1.4 million is accrued interest paid in kind. Because of seasoning and being well over-collateralized, we expect to recover all principal and interest. Based on FASB ASC 320, Investments – Debt and Equity Securities (“ASC 320”) (Formerly SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities) when these securities were acquired they were classified as trading. It was our intent to sell them in the near term. We have used the guidance under ASC 320 to provide a reasonable estimate of fair value in 2009. We estimated the value of these securities as of March 31, 2010 based on the pricing of BBB+ securities that have an active market through a technique which estimates the fair value of this asset using the income approach.

At March 31, 2010, we owned mortgage-backed securities totaling \$184.7 million where the amortized cost basis exceeded fair value. Total unrealized losses on these securities were \$6.1 million at March 31, 2010. This temporary impairment is the result of changes in market interest rates, a lack of liquidity in the mortgage-backed securities market and the reduction in credit ratings of 28 bonds out of 216 bonds. Most of these securities have been impaired for twelve months or longer. We have determined that these securities are not other-than-temporarily impaired. Quarterly, we evaluate the current characteristics of each of our mortgage-backed securities such as delinquency and foreclosure levels, credit enhancement, projected losses and coverage. In addition, we do not have the intent to sell, nor is it more likely-than not we will be required to sell these securities before we are able to recover the amortized cost basis.

The table below shows our mortgage-backed securities’ gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at March, 31, 2010.

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In Thousands)					
Available-for-sale						
CMO	\$74,524	\$1,446	\$90,340	\$4,480	\$164,864	\$5,926
FNMA	18,532	129	—	—	18,532	129
FHLMC	—	—	—	—	—	—
GNMA	1,346	26	—	—	1,346	26
Total temporarily impaired						
MBS	\$94,402	\$1,601	\$90,340	\$4,480	\$184,742	\$6,081

The table below shows our mortgage-backed securities’ gross unrealized losses and fair value by investment category and length of time that individual securities were in a continuous unrealized loss position at December 31, 2009.

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss

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(In Thousands)

Available-for-sale						
CMO	\$115,088	\$2,701	\$108,839	\$7,682	\$223,927	\$10,383
FNMA	29,360	454	—	—	29,360	454
FHLMC	25,434	83	—	—	25,434	83
GNMA	19,953	187	—	—	19,953	187
Total temporarily impaired						
MBS	\$189,835	\$3,425	\$108,839	\$7,682	\$298,674	\$11,107

5. IMPAIRED LOANS

Loans from which it is probable we will not collect all principal and interest due according to contractual terms are measured for impairment in accordance with the provisions of FASB ASC 310, Receivables (Formerly SFAS No. 114, Accounting for Creditors for Impairment of a Loan). The amount of impairment is required to be measured using one of three methods; (1) the present value of expected future cash flows discounted at the loan's effective interest rate; (2) the loan's observable market price; or (3) the fair value of collateral if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, a specific allowance is allocated for the impairment.

We had impaired loans (for which ASC 310 applied) of approximately \$71.4 million at March 31, 2010 compared to \$73.2 million at December 31, 2009. The average recorded balance of aggregate impaired loans was \$72.3 million for the three months ended March 31, 2010 and \$62.2 million for the year-ended December 31, 2009. The specific allowance for losses on these impaired loans was \$11.0 million at March 31, 2010 compared to \$11.8 million at December 31, 2009. The specific reserve at March 31, 2010 was associated with \$41.9 million of total impaired loans. The remaining \$29.5 million of impaired loans had no related specific reserve.

When there is little prospect of collecting principal or interest, loans, or portions of loans, may be charged-off to the allowance for loan losses. Losses are recognized in the period an obligation becomes uncollectible.

6. COMPREHENSIVE INCOME

The following schedule reconciles net income to total comprehensive income:

For the three months ended March 31, (In Thousands)	
2010	2009
	