WEBSTER FINANCIAL CORP
Form 10-Q
May 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2014
or
o 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)

Delaware	06-1187536
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

145 Bank Street (Webster Plaza), Waterbury, Connecticut 06702
(Address and zip code of principal executive offices)

(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. þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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). þ Yes o 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 þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

The number of shares of common stock, par value $.01 per share, outstanding as of April 30, 2014 was 90,316,763

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PART I. – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	March 31, 2014 (Unaudited)	December 31, 2013
Assets:		
Cash and due from banks	$251,886	$223,616
Interest-bearing deposits	29,893	23,674
Securities available for sale, at fair value	3,008,856	3,106,931
Securities held-to-maturity (fair value of $3,478,433 and $3,370,912)	3,448,195	3,358,721
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	166,133	158,878
Loans held for sale	14,631	20,802
Loans and leases	12,994,742	12,699,776
Allowance for loan and lease losses	(153,600)	(152,573)
Loans and leases, net	12,841,142	12,547,203
Deferred tax asset, net	55,316	65,109
Premises and equipment, net	121,473	121,605
Goodwill	529,887	529,887
Other intangible assets, net	4,183	5,351
Cash surrender value of life insurance policies	433,793	430,535
Accrued interest receivable and other assets	270,357	260,687
Total assets	$21,175,745	$20,852,999
Liabilities and shareholders' equity:		
Deposits:		
Non-interest-bearing	$3,028,625	$3,128,152
Interest-bearing	12,011,364	11,726,268
Total deposits	15,039,989	14,854,420
Securities sold under agreements to repurchase and other borrowings	1,147,882	1,331,662
Federal Home Loan Bank advances	2,203,606	2,052,421
Long-term debt	376,412	228,365
Accrued expenses and other liabilities	168,227	176,943
Total liabilities	18,936,116	18,643,811
Shareholders’ equity:		
Preferred stock, $.01 par value; Authorized - 3,000,000 shares:		
Series A issued and outstanding - 28,939 shares	28,939	28,939
Series E issued and outstanding - 5,060 shares	122,710	122,710
Common stock, $.01 par value; Authorized - 200,000,000 shares:		
Issued - 93,373,197 and 93,366,673 shares	934	934
Paid-in capital	1,126,875	1,125,584
Retained earnings	1,114,088	1,080,488
Less: Treasury stock, at cost (3,575,423 and 3,407,256 shares)	(110,226)	(100,918)
Accumulated other comprehensive loss	(43,691)	(48,549)
Total shareholders' equity	2,239,629	2,209,188
Total liabilities and shareholders' equity	$21,175,745	$20,852,999

See accompanying Notes to Condensed Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three months ended March 31,	
(In thousands, except per share data)	2014	2013
Interest Income:		
Interest and fees on loans and leases	$124,010	$120,692
Taxable interest and dividends on securities	48,396	42,626
Income related to tax exempt securities	5,196	6,128
Loans held for sale	177	637
Total interest income	177,779	170,083
Interest Expense:		
Deposits	10,644	12,850
Securities sold under agreements to repurchase and other borrowings	5,205	5,055
Federal Home Loan Bank advances	3,847	4,539
Long-term debt	2,782	1,843
Total interest expense	22,478	24,287
Net interest income	155,301	145,796
Provision for loan and lease losses	9,000	7,500
Net interest income after provision for loan and lease losses	146,301	138,296
Non-interest Income:		
Deposit service fees	24,712	23,994
Loan related fees	4,482	4,585
Wealth and investment services	8,838	7,766
Mortgage banking activities	775	7,031
Increase in cash surrender value of life insurance policies	3,258	3,384
Net gain on sale of investment securities	4,336	106
Impairment loss recognized in earnings	(88)	—
Other income	3,515	1,412
Total non-interest income	49,828	48,278
Non-interest Expense:		
Compensation and benefits	66,371	66,050
Occupancy	12,759	12,879
Technology and equipment	15,010	15,353
Intangible assets amortization	1,168	1,242
Marketing	3,180	4,811
Professional and outside services	2,702	2,150
Deposit insurance	5,311	5,174
Other expense	18,116	17,876
Total non-interest expense	124,617	125,535
Income before income tax expense	71,512	61,039
Income tax expense	21,089	18,922
Net income	50,423	42,117
Preferred stock dividends	(2,639)	(2,886)
Net income available to common shareholders	$47,784	$39,231
Net income per common share:		
Basic	$0.53	$0.46

Diluted	0.53	0.44

See accompanying Notes to Condensed Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three months ended March 31,	
(In thousands)	2014	2013
Net income	$50,423	$42,117
Other comprehensive income, net of tax	4,858	1,355
Comprehensive income	$55,281	$43,472

See accompanying Notes to Condensed Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

(In thousands, except per share data)	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity
Balance at December 31, 2013	$151,649	$934	$1,125,584	$1,080,488	$(100,918)	$(48,549)	$2,209,188
Net income	—	—	—	50,423	—	—	50,423
Other comprehensive income, net of tax	—	—	—	—	—	4,858	4,858
Dividends paid on common stock of $0.15 per share	—	—	—	(13,493)	—	—	(13,493)
Dividends paid on Series A preferred stock $21.25 per share	—	—	—	(615)	—	—	(615)
Dividends paid on series E preferred stock $400.00 per share	—	—	—	(2,024)	—	—	(2,024)
Repurchase of common stock	—	—	—	—	(10,067)	—	(10,067)
Shares acquired related to employee share-based compensation plans	—	—	—	—	(2,098)	—	(2,098)
Stock-based compensation, net of tax effects	—	—	1,093	(691)	2,857	—	3,259
Issuance of common stock	—	—	198	—	—	—	198
Balance at March 31, 2014	$151,649	$934	$1,126,875	$1,114,088	$(110,226)	$(43,691)	$2,239,629

(In thousands, except per share data)	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity
Balance at December 31, 2012	$151,649	$907	$1,145,620	$1,000,427	$(172,807)	$(32,266)	$2,093,530
Net income	—	—	—	42,117	—	—	42,117
Other comprehensive income, net of tax	—	—	—	—	—	1,355	1,355
Dividends paid on common stock of $0.10 per share	—	—	—	(8,504)	—	—	(8,504)
Dividends paid on Series A preferred stock $21.25 per share	—	—	—	(615)	—	—	(615)
Dividends paid on series E preferred stock $448.89 per share	—	—	—	(2,271)	—	—	(2,271)
Common stock warrants repurchased	—	—	(30)	—	—	—	(30)
Shares acquired related to employee share-based compensation plans	—	—	—	—	(92)	—	(92)
Stock-based compensation, net of tax	—	—	829	(1,010)	2,678	—	2,497
Issuance of common stock	—	26	(21,324)	(36,255)	57,697	—	144
Balance at March 31, 2013	$151,649	$933	$1,125,095	$993,889	$(112,524)	$(30,911)	$2,128,131

See accompanying Notes to Condensed Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three months ended March 31,	
(In thousands)	2014	2013
Operating Activities:		
Net income	$50,423	$42,117
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	9,000	7,500
Deferred tax expense	7,423	12,256
Depreciation and amortization	8,418	9,283
Amortization of earning assets and funding premium/discount, net	11,606	17,544
Stock-based compensation	2,773	2,473
Excess tax benefits from stock-based compensation	(507)	(20)
Gain on sale, net of write-down, on foreclosed and repossessed assets	(260)	(284)
Loss on sale, net of write-down, on premises and equipment	58	83
Impairment loss recognized in earnings	88	—
(Gain) loss on fair value adjustment of alternative investments	(18)	264
Loss (gain) on fair value adjustment of derivative instruments	275	(52)
Net gain on the sale of investment securities	(4,336)	(106)
Increase in cash surrender value of life insurance policies	(3,258)	(3,384)
Gain from life insurance policies	—	(653)
Gain on sale of loans held for sale	(775)	(7,031)
Proceeds from sale of loans held for sale	65,643	244,386
Originations of loans held for sale	(58,560)	(228,984)
Net (increase) decrease in accrued interest receivable and other assets	(17,328)	2,986
Net decrease in accrued expenses and other liabilities	(8,726)	(32,575)
Net cash provided by operating activities	61,939	65,803
Investing Activities:		
Net (increase) decrease in interest-bearing deposits	(6,219)	46,853
Purchases of available for sale securities	(9,908)	(482,860)
Proceeds from maturities and principal payments of available for sale securities	96,983	216,013
Proceeds from sales of available for sale securities	21,695	11,771
Purchases of held-to-maturity securities	(225,839)	(215,783)
Proceeds from maturities and principal payments of held-to-maturity securities	131,364	207,321
Net purchase of Federal Home Loan Bank stock	(7,255)	(3,248)
Net (increase) decrease in loans	(304,732)	6,836
Proceeds from life insurance policies	—	1,768
Proceeds from the sale of foreclosed properties and repossessed assets	2,824	1,748
Proceeds from the sale of premises and equipment	—	226
Purchases of premises and equipment	(7,970)	(1,758)
Net cash used for investing activities	(309,057)	(211,113)
Financing Activities:		
Net increase in deposits	185,569	93,047
Proceeds from Federal Home Loan Bank advances	1,401,234	900,000
Repayments of Federal Home Loan Bank advances	(1,250,043)	(825,043)
Net decrease in securities sold under agreements to repurchase and other borrowings	(183,780)	(42,393)
Issuance of long-term debt	150,000	—
Repayment of long-term debt	—	(102,579)

Cash dividends paid to common shareholders	(13,493)	(8,504)
Cash dividends paid to preferred shareholders	(2,639)	(2,886)
Excess tax benefits from stock-based compensation	507	20
Issuance of common stock	198	144
Repurchases of common stock	(10,067)	—
Shares acquired related to employee share-based compensation plans	(2,098)	(92)
Common stock warrants repurchased	—	(30)
Net cash provided by financing activities	275,388	11,684

See accompanying Notes to Condensed Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited), continued

	Three months ended March 31,	
(In thousands)	2014	2013
Net increase (decrease) in cash and due from banks	28,270	(133,626)
Cash and due from banks at beginning of period	223,616	252,283
Cash and due from banks at end of period	$251,886	$118,657
Supplemental disclosure of cash flow information:		
Interest paid	$19,419	$23,828
Income taxes paid	9,764	6,929
Noncash investing and financing activities:		
Transfer of loans and leases, net to foreclosed properties and repossessed assets	$1,661	$2,627

See accompanying Notes to Condensed Consolidated Financial Statements.

NOTE 1: Summary of Significant Accounting Policies

Nature of Operations. Webster Financial Corporation (collectively, with its consolidated subsidiaries, “Webster” or the “Company”), is a 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. At March 31, 2014, Webster Financial Corporation's principal asset 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 also offers equipment financing, commercial real estate lending, and asset-based lending. Webster Bank offers, through its HSA Bank division, health savings accounts on a nationwide basis.

Basis of Presentation. The Condensed Consolidated Financial Statements include the accounts of Webster Financial Corporation and all other entities in which it has a controlling financial interest. All significant intercompany balances and transactions have been eliminated in consolidation. Webster's accounting and financial reporting policies conform, in all material respects, to U.S. generally accepted accounting principles (“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 VIE's 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 a trust which has issued trust preferred securities. The trust is a VIE in which the Company is not the primary beneficiary and, therefore, is not consolidated. The trust's only assets are junior subordinated debentures issued by the Company, which were acquired by the trust 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 interest in the trust is included in other assets in the accompanying Condensed Consolidated Balance Sheets. Interest expense on the junior subordinated debentures is reported in interest expense on long-term debt in the accompanying Condensed Consolidated Statements of Income.

Certain prior period amounts have been reclassified to conform to the current year's presentation. These reclassifications had no impact on the Company's consolidated financial position, results of operations or net change in cash or cash equivalents.

Use of Estimates. The preparation of consolidated financial statements in conformity with GAAP 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 these Condensed Consolidated Financial Statements. Actual results could differ from those estimates. The allowance for loan and lease losses, the fair value measurements of financial instruments and evaluation of investments for other-than-temporary impairment (“OTTI”), the valuation of goodwill, the deferred tax asset valuation allowance, and pension and other postretirement benefits, as well as the status of contingencies, are particularly subject to change.

Cash Equivalents and Cash Flows. For the purposes of the Condensed Consolidated Statements of Cash Flows, cash equivalents include cash on hand and due from banks and, interest-bearing deposits at the Federal Reserve. Cash equivalents have a maturity of three months or less.

Cash flows from loans, either originated or acquired, are classified at that time according to management's original intent to either sell or hold the loan for the foreseeable future. When management's intent is to sell the loan, the cash flows of that loan are presented as operating cash flows. When management's intent is to hold the loan for the foreseeable future, the cash flows of that loan are presented as investing cash flows.

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Investment Securities. Investment securities are classified at the time of purchase as available for sale or held-to-maturity. Classification is determined at purchase, any subsequent changes to classification are reviewed for compliance with corporate objectives and accounting policy. Debt securities classified as held-to-maturity are those which Webster has the ability and intent to hold to maturity. Securities in the held-to-maturity portfolio are recorded at amortized cost net of unamortized premiums and discounts. Discount accretion income and premium amortization expense is recognized in investment securities interest income according to a constant yield methodology. Securities classified as available for sale are recorded at fair value with unrealized gains and losses, net of taxes, recorded 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. All securities classified as available for sale or held-to-maturity that are in an unrealized loss position are evaluated for other-than-temporary impairment on a quarterly basis. The evaluation considers several qualitative factors including the period of time the security has been in a loss position, in addition to the amount of the unrealized loss. If the Company intends to sell the security or 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 loss is recorded in non-interest income in the accompanying Condensed Consolidated Statements of Income. If the Company does not intend to sell the security and 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 accompanying Condensed Consolidated Statements of Income. The remaining loss component would be recorded in accumulated other comprehensive income ("AOCI"). A decline in the value of an equity security that is considered OTTI is recorded as a loss in non-interest income in the accompanying Condensed Consolidated Statements of Income.

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

Loans Held for Sale. Loans held for sale are primarily residential real estate mortgage loans. Loans typically are assigned this classification upon origination based on management's intent to sell when the loans are underwritten. Loans held for sale are carried at the lower of cost or fair value. Non-residential mortgage loans held for sale are carried at the lower of cost or fair value and are valued on an individual asset basis. Any cost amount in excess of fair value is recorded as a valuation allowance and recognized as a reduction of other income. Gains or losses on the sale of loans held for sale are included in non-interest income in the accompanying Condensed Consolidated Statements of Income. Direct loan origination costs and fees are deferred and are recognized at the time of sale.

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 yield adjustments 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. Residential real estate and consumer loans are placed on non-accrual status at 90 days past due, or at the date when the Company is notified that the borrower is discharged in bankruptcy. A charge-off is recorded at 180 days if the loan balance exceeds the fair value of the collateral less costs to sell. Commercial, commercial real estate, and equipment finance loans are subject to a detailed review when 90 days past due to determine accrual status, or when payment is uncertain and a specific consideration is made to put a loan or lease on non-accrual status.

When a loan is placed on non-accrual status, the accrual of interest is discontinued and any 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. Except for loans discharged under Chapter 7 under the Bankruptcy Code, 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. Pursuant to regulatory guidance, a Chapter 7 discharged bankruptcy loan is removed from non-accrual status when the bank expects full repayment of the remaining pre-discharged contractual principal and interest, is a closed-end amortizing loan, fully collateralized, and post-discharge had at least six consecutive months of current payments.

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Allowance for Loan and Lease Losses. The allowance for loan and lease losses ("ALLL") 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 and lease portfolio as of the balance sheet date. The level of the allowance reflects management’s view of trends in losses, current portfolio quality, and present economic, political, and regulatory conditions. Portions of the allowance may be allocated for specific loans and leases; however, the entire allowance is available for any loan or lease that is charged off. A charge-off is recorded on a case-by-case basis when all or a portion of the loan or lease is deemed to be uncollectible. Back-testing is performed to compare original estimated losses and actual observed losses, resulting in ongoing refinements. 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 portfolio, economic conditions, interest rate sensitivity, and the view of the regulatory authorities regarding loan classifications.

The allowance for loan and lease losses consists of three elements: (i) specific valuation allowances established for probable losses on impaired loans and leases; (ii) quantitative valuation allowances calculated using loss experience for like loans and leases 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 factors that may be internal or external to the Company.

Loans and leases 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 homogeneous residential and consumer loans. Commercial, commercial real estate, and equipment financing loans and leases over a specific dollar amount and all troubled debt restructurings ("TDR") are evaluated individually for impairment. A loan identified as a 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 non-accruing 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, discharged bankruptcy, and the likelihood of collecting scheduled principal and interest payments. Consumer modified loans are analyzed for re-default probability, which is considered when determining the impaired reserve 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 available 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. Changes in the reserve for unfunded credit commitments, within other liabilities, are reported as a component of other expense in the accompanying Condensed Consolidated Statements of Income.

Troubled Debt Restructurings. A modified loan is considered a TDR when two conditions are met: (i) the borrower is experiencing financial difficulties and (ii) the modification constitutes a concession. The Company considers all aspects of the restructuring in determining whether a concession has been granted, including the debtor's ability to access funds at a market rate. In general, a concession exists when the modified terms of the loan are more attractive to the borrower than standard market terms. 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 reevaluated to determine if it should be handled by the Company’s Restructuring and Recovery group for resolution, which may result in foreclosure. Loans for which the borrower has been discharged under Chapter 7 bankruptcy are considered collateral dependent TDRs, impaired at the date of discharge, and charged down to the fair value of collateral less cost to sell.

The Company’s policy is to place consumer loan TDRs, except those that were performing prior to TDR status, on non-accrual status for a minimum period of 6 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 6 months.

Initially, all TDRs are reported as impaired. Generally, TDRs are classified as impaired loans and reported as 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 6 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 circumstance 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.

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Transfers and Servicing of Financial Assets. Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is generally considered to have been surrendered when (i) the transferred assets are legally isolated from the Company or its consolidated affiliates, even in bankruptcy or other receivership, (ii) the transferee has the right to pledge or exchange the assets with no conditions that constrain the transferee and provide more than a trivial benefit to the Company, and (iii) the Company does not maintain the obligation or unilateral ability to reclaim or repurchase the assets.

The Company sells financial assets in the normal course of business, the majority of which are residential mortgage loan sales primarily to government-sponsored enterprises through established programs, commercial loan sales through participation agreements, and other individual or portfolio loan and securities sales. In accordance with accounting guidance for asset transfers, the Company considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. With the exception of servicing and certain performance-based guarantees, the Company’s continuing involvement with financial assets sold is minimal and generally limited to market customary representation and warranty clauses.

When the Company sells financial assets, it may retain servicing rights and/or other interests in the financial assets. The gain or loss on sale depends on the previous carrying amount of the transferred financial assets and the consideration received and any liabilities incurred in exchange for the transferred assets. Upon transfer, any servicing assets and other interests held by the Company are carried at the lower of cost or fair value.

Recently Adopted Accounting Standards Updates

ASU No. 2013-11 - Income Taxes (Topic 740) - "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward,a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)." The ASU requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, as applicable. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit shall be presented in the financial statements as a liability and shall not be combined with deferred tax assets. This update was adopted effective January 1, 2014 and will be applied prospectively; however, its netting provisions are consistent with the Company’s previous presentation, as applicable, and as a result do not require additional disclosures.

Recently Issued Accounting Standards Updates

ASU No. 2014-01 - Investments - Equity Method and Joint Ventures (Topic 323) - "Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)." The ASU permits an entity to make an accounting policy election to account for its investment in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportionate 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 decision to apply the proportionate amortization method of accounting should be applied consistently to all qualifying affordable housing project investments. A reporting entity that uses the effective yield or other method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply such method to those preexisting investments. The amendments are effective for annual and interim periods beginning after January 1, 2015. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

ASU No. 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)." The ASU clarifies that an in substance repossession or 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 that loan through completion of a deed in lieu of foreclosure or through a similar agreement. In addition, the amendments require disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure in accordance with local requirements of the applicable jurisdiction. An entity can elect to adopt the amendments using either a modified retrospective method or a prospective transition method. The amendments are effective for annual and interim periods beginning after January 1, 2015. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

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NOTE 2: Investment Securities

Summaries of the amortized cost, carrying value, and fair value of Webster's investment securities are presented below:

	At March 31, 2014						
		Recognized in OCI			Not Recognized in OCI		
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:							
U.S. Treasury Bills	$425	$—	$—	$425	$—	$—	$425
Agency collateralized mortgage obligations ("CMOs")	736,820	12,266	(1,595)	747,491	—	—	747,491
Agency mortgage-backed securities ("MBS")	1,220,847	10,420	(37,788)	1,193,479	—	—	1,193,479
Agency commercial mortgage-backed securities ("ACMBS")	81,341	—	(915)	80,426	—	—	80,426
Commercial mortgage-backed securities ("CMBS")	436,217	27,913	(313)	463,817	—	—	463,817
Collateralized loan obligations ("CLOs") (1)	357,374	443	—	357,817	—	—	357,817
Pooled trust preferred securities (2)	14,551	—	(2,610)	11,941	—	—	11,941
Single issuer trust preferred securities	41,849	—	(4,912)	36,937	—	—	36,937
Corporate debt securities	108,339	4,603	—	112,942	—	—	112,942
Equity securities - financial institutions (3)	2,314	1,267	—	3,581	—	—	3,581
Total available for sale	$3,000,077	$56,912	$(48,133)	$3,008,856	$—	$—	$3,008,856
Held-to-maturity:							
Agency CMOs	$342,397	$—	$—	$342,397	$9,004	$(762)	$350,639
Agency MBS	2,195,566	—	—	2,195,566	46,086	(41,319)	2,200,333
Agency CMBS	195,912	—	—	195,912	—	(1,542)	194,370
Municipal bonds and notes	416,903	—	—	416,903	13,131	(94)	429,940
CMBS	289,488	—	—	289,488	9,282	(3,705)	295,065
Private Label MBS	7,929	—	—	7,929	157	—	8,086
Total held-to-maturity	$3,448,195	$—	$—	$3,448,195	$77,660	$(47,422)	$3,478,433
Total investment securities	$6,448,272	$56,912	$(48,133)	$6,457,051	$77,660	$(47,422)	$6,487,289

(1) Amortized cost is net of $2.7 million of other-than-temporary impairments at March 31, 2014.
(2) Amortized cost is net of $7.0 million of other-than-temporary impairment at March 31, 2014.
(3) Amortized cost is net of $20.4 million of other-than-temporary impairment at March 31, 2014.

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	At December 31, 2013						
		Recognized in OCI			Not Recognized in OCI		
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:							
U.S. Treasury Bills	$325	$—	$—	$325	$—	$—	$325
Agency CMOs	794,397	14,383	(1,868)	806,912	—	—	806,912
Agency MBS	1,265,276	9,124	(47,698)	1,226,702	—	—	1,226,702
Agency CMBS	71,759	—	(782)	70,977	—	—	70,977
CMBS	436,872	28,398	(996)	464,274	—	—	464,274
CLOs (1)	357,326	315	—	357,641	—	—	357,641
Pooled trust preferred securities (2)	31,900	—	(3,410)	28,490	—	—	28,490
Single issuer trust preferred securities	41,807	—	(6,872)	34,935	—	—	34,935
Corporate debt securities	108,936	4,155	—	113,091	—	—	113,091
Equity securities - financial institutions (3)	2,314	1,270	—	3,584	—	—	3,584
Total available for sale	$3,110,912	$57,645	$(61,626)	$3,106,931	$—	$—	$3,106,931
Held-to-maturity:							
Agency CMOs	$365,081	$—	$—	$365,081	$10,135	$(1,009)	$374,207
Agency MBS	2,130,685	—	—	2,130,685	43,315	(53,188)	2,120,812
Agency CMBS	115,995	—	—	115,995	44	(818)	115,221
Municipal bonds and notes	448,405	—	—	448,405	11,104	(1,228)	458,281
CMBS	290,057	—	—	290,057	8,635	(4,975)	293,717
Private Label MBS	8,498	—	—	8,498	176	—	8,674
Total held-to-maturity	$3,358,721	$—	$—	$3,358,721	$73,409	$(61,218)	$3,370,912
Total investment securities	$6,469,633	$57,645	$(61,626)	$6,465,652	$73,409	$(61,218)	$6,477,843

(1) Amortized cost is net of $2.6 million of other-than-temporary impairment at December 31, 2013.
(2) Amortized cost is net of $14.0 million of other-than-temporary impairment at December 31, 2013.
(3) Amortized cost is net of $20.4 million of other-than-temporary impairment at December 31, 2013.

The amortized cost and fair value of debt securities at March 31, 2014, by contractual maturity, are set forth below:

	Available for Sale		Held-to-Maturity	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$425	$425	$15	$16
Due after one year through five years	100,425	104,611	77,810	81,779
Due after five through ten years	237,962	238,841	83,064	85,931
Due after ten years	2,658,951	2,661,398	3,287,306	3,310,707
Total debt securities	$2,997,763	$3,005,275	$3,448,195	$3,478,433

For the maturity schedule above, mortgage-backed securities and collateralized loan obligations, which are not due at a single maturity date, have been categorized based on the maturity date of the underlying collateral. Actual principal cash flows may differ from this maturity date presentation because borrowers have the right to prepay obligations with or without prepayment penalties. At March 31, 2014, the Company had a carrying value of $818.1 million in callable securities in its CMBS, CLO, and municipal bond portfolios. The Company considers these factors in the evaluation of its effective duration and interest rate risk profile.

Securities with a carrying value totaling $2.8 billion at March 31, 2014 and $2.7 billion at December 31, 2013 were pledged to secure public funds, trust deposits, repurchase agreements and for other purposes, as required or permitted by law. At March 31, 2014 and December 31, 2013, the Company had no investments in obligations of individual states, counties, or municipalities which exceeded 10% of consolidated shareholders’ equity.

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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:

	At March 31, 2014						
	Less Than Twelve Months		Twelve Months or Longer		Total		
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	# of Holdings	Fair Value	Unrealized Losses
Available for sale:							
Agency CMOs	$117,472	$(1,475)	$ 8,350	$ (120)	11	$125,822	$(1,595)
Agency MBS	535,508	(21,128)	294,392	(16,660)	82	829,900	(37,788)
Agency CMBS	80,426	(915)	—	—	4	80,426	(915)
CMBS	32,532	(291)	4,387	(22)	5	36,919	(313)
Pooled trust preferred securities	—	—	11,941	(2,610)	2	11,941	(2,610)
Single issuer trust preferred securities	4,100	(65)	32,837	(4,847)	8	36,937	(4,912)
Total available for sale in an unrealized loss position	$770,038	$(23,874)	$ 351,907	$ (24,259)	112	$1,121,945	$(48,133)
Held-to-maturity:							
Agency CMOs	$51,439	$(762)	$ —	$ —	3	$51,439	$(762)
Agency MBS	1,019,663	(32,170)	167,623	(9,149)	89	1,187,286	(41,319)
Agency CMBS	194,371	(1,542)	—	—	9	194,371	(1,542)
Municipal bonds and notes	8,302	(62)	2,166	(32)	14	10,468	(94)
CMBS	62,338	(2,917)	14,936	(788)	8	77,274	(3,705)
Total held-to-maturity in an unrealized loss position	$1,336,113	$(37,453)	$ 184,725	$ (9,969)	123	$1,520,838	$(47,422)
Total investment securities in an unrealized loss position	$2,106,151	$(61,327)	$ 536,632	$ (34,228)	235	$2,642,783	$(95,555)

	At December 31, 2013						
	Less Than Twelve Months		Twelve Months or Longer		Total		
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	# of Holdings	Fair Value	Unrealized Losses
Available for sale:							
Agency CMOs	$149,894	$(1,713)	$ 9,011	$ (155)	15	$158,905	$(1,868)
Agency MBS	616,286	(29,537)	279,680	(18,161)	88	895,966	(47,698)
Agency CMBS	70,977	(782)	—	—	3	70,977	(782)
CMBS	52,340	(996)	—	—	7	52,340	(996)
Pooled trust preferred securities	—	—	11,141	(3,410)	2	11,141	(3,410)
Single issuer trust preferred securities	3,777	(381)	31,158	(6,491)	8	34,935	(6,872)
Total available for sale in an unrealized loss position	$893,274	$(33,409)	$ 330,990	$ (28,217)	123	$1,224,264	$(61,626)
Held-to-maturity:							
Agency CMOs	$53,789	$(1,009)	$ —	$ —	4	$53,789	$(1,009)
Agency MBS	1,045,693	(42,181)	170,780	(11,007)	94	1,216,473	(53,188)
Agency CMBS	90,218	(818)	—	—	4	90,218	(818)
Municipal bonds and notes	46,587	(1,193)	2,166	(35)	51	48,753	(1,228)

CMBS	106,527	(4,059)	14,832	(916)	11	121,359	(4,975)
Total held-to-maturity in an unrealized loss position	$1,342,814	$(49,260)	$187,778	$(11,958)	164	$1,530,592	$(61,218)
Total investment securities in an unrealized loss position	$2,236,088	$(82,669)	$518,768	$(40,175)	287	$2,754,856	$(122,844)

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Available for Sale Securities

The following discussion summarizes, by investment security type, the basis for evaluating if the applicable investment securities within the Company’s available for sale portfolio were other-than-temporarily impaired at March 31, 2014. Unless otherwise noted for an investment security type, management does not intend to sell these investments and has determined, based upon available evidence, that it is more likely than not that the Company will not be required to sell these securities before the recovery of its amortized cost.

Agency collateralized mortgage obligations (CMOs) – There were $1.6 million in unrealized losses in the Company’s investment in agency CMOs at March 31, 2014 compared to $1.9 million at December 31, 2013. The unrealized loss is attributed to an increase in market interest rates which resulted in lower prices. The contractual cash flows for these investments are performing as expected and there has been no change in the underlying credit quality. As such, the Company does not consider these securities to be other-than-temporarily impaired at March 31, 2014.

Agency mortgage-backed securities (MBS) – There were $37.8 million in unrealized losses in the Company’s investment in residential mortgage-backed securities issued by government agencies at March 31, 2014, compared to $47.7 million at December 31, 2013. The decrease in unrealized losses was primarily due to lower market rates, which resulted in higher security prices over the quarter. The contractual cash flows for these investments are performing as expected. The Company does not consider these securities to be other-than-temporarily impaired at March 31, 2014.

Agency commercial mortgage-backed securities (ACMBS) - There were $0.9 million in unrealized losses in the Company's investment in commercial mortgage-backed securities issued by government agencies at March 31, 2014, compared to $0.8 million at December 31, 2013. The unrealized loss is representative of the bid/ask spreads and marginally higher market rates. The Company does not consider these securities to be other-than-temporarily impaired at March 31, 2014.

Commercial mortgage-backed securities (CMBS) – The unrealized losses on the Company’s investment in commercial mortgage-backed securities issued by entities other than government agencies decreased to $0.3 million at March 31, 2014, from $1.0 million at December 31, 2013. As of March 31, 2014, the unrealized loss is comprised of five positions in three deals with small unrealized losses as a result of increased market rates. Internal and external metrics are considered when evaluating potential OTTI. Internal stress tests are performed on individual bonds to monitor potential losses under stress scenarios. In addition, market analytics are performed to validate internal results. Contractual cash flows for the bonds continue to perform as expected. The Company does not consider these securities to be other-than-temporarily impaired at March 31, 2014.

Collateralized loan obligations (CLOs) – There were no unrealized losses on the Company’s investment in collateralized loan obligations at March 31, 2014 or December 31, 2013. The Company continues to recognize the full write down of CLO positions to market value based on the current definition of covered funds under the Volcker Rule adopted December 10, 2013.

Pooled trust preferred securities – The pooled trust preferred portfolio consists of two non-investment grade collateralized debt obligations (“CDOs”) containing insurance company collateral. The unrealized losses in the Company's investment in pooled trust preferred securities were $2.6 million at March 31, 2014, a decrease of $0.8 million from $3.4 million at December 31, 2013. The decrease in unrealized loss is related to an improvement in pricing driven by tighter credit spreads, improved collateral performance, improved shadow ratings and higher forward LIBOR rates. An internal model is used to value the pooled trust preferred securities as similar rated holdings continue to reflect an inactive market. The Company employs an internal CDO model for projection of future cash flows and discounting those cash flows to a net present value. Based on the valuation analysis, the Company does not consider the remaining two securities with unrealized losses to be other-than-temporarily impaired at March 31, 2014.

The following table summarizes information that was also considered by management in its overall OTTI evaluation of the Pooled Trust Preferred Securities portfolio at or for the three months ended March 31, 2014:

(Dollars in thousands)	Class	Amortized Cost [(1)]	Gross Unrealized Losses	Fair Value	Lowest Credit Ratings as of March 31, 2014 [(2)]	Total OTTI through March 31, 2014	% of Performing Bank Issuers	Deferrals/ Defaults (As a % of Current Collateral)

Deal Name:								
Security K	A	$7,456	$(1,060)	$6,396	CCC	$(2,040)	80.9%	29.3%
Security M	A	7,095	(1,550)	5,545	D	(4,926)	62.9%	35.7%
Pooled trust preferred securities		$14,551	$(2,610)	$11,941		$(6,966)		

(1) For the securities previously deemed impaired, the amortized cost is reflective of previous OTTI recognized in earnings.

(2) The Company utilized credit ratings provided by Moody's and S&P in its evaluation of issuers.

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Single issuer trust preferred securities - The unrealized losses in the Company's investment in single issuer trust preferred securities were $4.9 million at March 31, 2014, a decrease of $2.0 million from $6.9 million at December 31, 2013. The single issuer portfolio consists of four investments issued by three large capitalization money center financial institutions, which continue to service the debt and showed significantly improved capital levels in recent years and remain well above current regulatory capital standards. Based on the review of the qualitative and quantitative factors presented above, the Company does not consider these securities to be other-than-temporarily impaired at March 31, 2014.

The following table summarizes the lowest credit rating information that was considered by management in evaluating OTTI for the Single Issuer Trust Preferred Securities portfolio at or for the three months ended March 31, 2014:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value	Lowest Credit Ratings as of March 31, 2014 (1)
Deal Name:				
Security B	$6,941	$(941)	$6,000	BB
Security C	8,727	(901)	7,826	BBB
Security E	11,830	(879)	10,951	BBB
Security F	14,351	(2,191)	12,160	BBB
Single issuer trust preferred securities	$41,849	$(4,912)	$36,937	

(1) The Company utilized credit ratings provided by Moody’s and S&P in its evaluation of issuers.

Corporate debt securities – There were no unrealized losses on the Company’s investment in corporate debt securities at March 31, 2014 or December 31, 2013.

Equity securities - financial institutions – There were no unrealized losses on the Company’s investment in equity securities at March 31, 2014 and December 31, 2013. This portfolio consists primarily of investments in the common stock of small capitalization financial institutions based in New England. When estimating the recovery period for equity securities in an unrealized loss position, management utilizes analyst forecasts, earnings assumptions, and other company-specific financial performance metrics. In addition, this assessment incorporates general market data, industry and sector cycles, and related trends to determine a reasonable recovery period. The Company evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. The Company does not consider these securities to be other-than-temporarily impaired at March 31, 2014.

Available for Sale - Impairment

The following discussion summarizes, by investment type, the basis for the conclusion that the applicable investment securities within the Company’s available for sale portfolio were other-than-temporarily impaired at March 31, 2014. On December 10, 2013, Federal banking agencies jointly adopted final regulations to implement Section 619 of the Dodd-Frank Act, commonly known as the Volcker Rule. The Volcker Rule restricts the ability of banking entities to engage in proprietary trading or have an ownership interest in transactions with Covered Funds. Under the final rule, a Covered Fund includes investments such as CLO and CDO investments. As of March 31, 2014, based on the current status of the Volcker Rule, the company anticipates it will be required to divest CLO investments defined as Covered Fund investments in accordance with the conformance period defined in the Final Rule. Non-Volcker compliant CDOs were sold during the current quarter ended March 31, 2014. In accordance with GAAP, OTTI is immediately triggered if it becomes more likely than not that a company would be required to divest of a security with a current unrealized loss before achieving full recovery of cost. Unlike credit-driven OTTI, when only the credit portion of the impairment is charged against earnings, a required divestiture situation requires a full write-down to market value in the current period. Refer to Recent Legislation in Management's Discussion and Analysis of Financial Condition and Results of Operations for further information on the Volcker Rule.

Collateralized loan obligations - As of March 31, 2014, the unrealized loss for CLO securities prior to OTTI was $88 thousand and attributable to increased market spreads since time of purchase. The final Volcker Rule precludes banks from owning an ownership interest in Covered Funds which include investments such as certain CLOs. The Company anticipates it is more likely than not that it will be required to divest any Covered Fund investments in accordance with the conformance period defined in the Final Rule. As a result, the Company recognized $88 thousand other-than-temporary impairments for these securities in the current period ending March 31, 2014.

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Held-to-Maturity Securities
The following discussion summarizes, by investment type, the basis for the conclusion that the applicable investment securities within the Company’s held-to-maturity portfolio were not other-than-temporarily impaired at March 31, 2014. Unless otherwise noted under an investment security type, management does not intend to sell these investments and has determined, based upon available evidence, that it is more likely than not that the Company will not be required to sell these securities before the recovery of its amortized cost. There were no significant credit downgrades on held-to-maturity securities during the year ended March 31, 2014.
Agency CMOs – There were unrealized losses of $0.8 million on the Company’s investment in agency CMOs at March 31, 2014, compared to $1.0 million at December 31, 2013. Unrealized losses are due to an increase in market rates since purchase which resulted in lower prices. The contractual cash flows for these investments are performing as expected. The Company does not consider these securities to be other-than-temporarily impaired at March 31, 2014.
Agency mortgage-backed securities – There were unrealized losses on the Company’s investment in residential mortgage-backed securities issued by government agencies of $41.3 million at March 31, 2014, compared to $53.2 million at December 31, 2013. The unrealized losses are a result of increased market rates since purchase. The contractual cash flows for these investments are performing as expected. The Company does not consider these securities to be other-than-temporarily impaired at March 31, 2014.
Agency commercial mortgage-backed securities - There were unrealized losses on the Company’s investment in commercial mortgage-backed securities issued by government agencies of $1.5 million at March 31, 2014, compared to $0.8 million at December 31, 2013, due primarily to marginally higher market spreads. The Company does not consider these securities to be other-than-temporarily impaired at March 31, 2014.
Municipal bonds and notes – There were unrealized losses of $94 thousand on the Company’s investment in municipal bonds and notes at March 31, 2014 compared to $1.2 million at December 31, 2013. This decrease is primarily the result of lower market rates. The municipal portfolio is primarily comprised of bank qualified bonds, over 93.7% with credit ratings of A or better. These ratings do not consider prefunded municipal holdings to be rated AA. If prefunded municipal holdings were considered to be rated AA, the percentage of holdings rated A or better would be 95.3%. In addition, the portfolio is comprised of 85.2% general obligation bonds, 14.3% revenue bonds, and 0.5% other bonds. The Company does not consider these securities to be other-than-temporarily impaired at March 31, 2014.
Commercial mortgage-backed securities – There were unrealized losses of $3.7 million on the Company’s investment in commercial mortgage-backed securities issued by entities other than government agencies at March 31, 2014 compared to $5.0 million unrealized losses at December 31, 2013. As of March 31, 2014, the unrealized loss is comprised of eight positions in three deals that have unrealized losses as a result of increased market rates since the time of purchase. These securities are currently performing as expected. The Company does not consider these securities to be other-than-temporarily impaired at March 31, 2014.
Private Label MBS - There were no unrealized losses on the Company's investment in residential mortgage-backed securities issued by entities other than government agencies at March 31, 2014 or December 31, 2013. These securities are currently performing as expected. The Company does not consider these securities to be other-than-temporarily impaired at March 31, 2014.
There were no additions to credit-related OTTI for the three months ended March 31, 2014 or 2013. There was a reduction in outstanding credit-related OTTI due to the sale of four debt securities during the three months ended March 31, 2014. To the extent that changes in interest rates, credit movements, and other factors that influence the fair value of investments occur, the Company may be required to record impairment charges for other-than-temporary impairment in future periods.
The following is a roll forward of the amount of OTTI related to debt securities:

	Three months ended March 31,	
(In thousands)	2014	2013
Balance of OTTI, beginning of period	$16,633	$10,460
Reduction for securities sold	(7,056)	—

Additions for OTTI not previously recognized	88	—
Balance of OTTI, end of period	$9,665	$10,460

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The following table summarizes the proceeds from the sale of available for sale securities:

(In thousands)	Three months ended March 31, 2014	2013
Available for sale:		
Agency MBS	$—	$11,771
Pooled trust preferred securities	21,695	—
Available for sale securities	$21,695	$11,771

The following table summarizes the impact of realized gains and losses from the sale of available for sale securities and the impact of the recognition of other-than-temporary impairments for the periods presented:

	Three months ended March 31, 2014				2013			
(In thousands)	Gains	Losses	OTTI Charges	Net	Gains	Losses	OTTI Charges	Net
Available for sale:								
Agency MBS	$—	$—	$—	$—	$106	$—	$—	$106
CLOs	—	—	(88)	(88)	—	—	—	—
Pooled trust preferred securities	4,336	—	—	4,336	—	—	—	—
Available for sale securities	$4,336	$—	$(88)	$4,248	$106	$—	$—	$106

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NOTE 3: Loans and Leases

Recorded Investment in Loans and Leases. The following tables summarize the recorded investment in loans and leases by portfolio segment:

	At March 31, 2014					
(In thousands)	Residential	Consumer	Commercial	Commercial Real Estate (1)	Equipment Financing	Total (2)
Recorded Investment:						
Individually evaluated for impairment	$142,665	$52,358	$48,159	$106,831	$183	$350,196
Collectively evaluated for impairment	3,224,150	2,480,345	3,475,982	3,044,995	457,486	12,682,958
Recorded investment in loans and leases	3,366,815	2,532,703	3,524,141	3,151,826	457,669	13,033,154
Less: Accrued interest	10,276	7,620	12,303	8,213	—	38,412
Loans and leases	$3,356,539	$2,525,083	$3,511,838	$3,143,613	$457,669	$12,994,742

	At December 31, 2013					
(In thousands)	Residential	Consumer	Commercial	Commercial Real Estate (1)	Equipment Financing	Total (2)
Recorded Investment:						
Individually evaluated for impairment	$142,871	$52,179	$52,199	$105,046	$210	$352,505
Collectively evaluated for impairment	3,228,688	2,492,353	3,241,045	2,961,378	460,240	12,383,704
Recorded investment in loans and leases	3,371,559	2,544,532	3,293,244	3,066,424	460,450	12,736,209
Less: Accrued interest	10,134	7,844	10,393	8,062	—	36,433
Loans and leases	$3,361,425	$2,536,688	$3,282,851	$3,058,362	$460,450	$12,699,776

(1) Includes certain loans individually evaluated for impairment, under the Company's loan policy, that were deemed not to be impaired at both March 31, 2014 and December 31, 2013.

(2) Loans and leases include net deferred fees and unamortized premiums of $12.4 million and $13.3 million at March 31, 2014 and December 31, 2013, respectively.

At March 31, 2014, the Company had pledged $5.5 billion of eligible loan collateral to support available borrowing capacity at the Federal Home Loan Bank of Boston ("FHLB") and the Federal Reserve Bank of Boston.

Loans and Leases Portfolio Aging. The following tables summarize the aging of the recorded investment in loans and leases by portfolio class:

	At March 31, 2014						
(In thousands)	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	> 90 Days Past Due and Accruing	Non-accrual	Total Past Due and Non-accrual	Current	Total Loans and Leases
Residential:							
1-4 family (1)	$13,044	$ 6,203	$—	$ 65,752	$ 84,999	$3,233,394	$3,318,393
Construction	—	—	—	743	743	47,679	48,422
Consumer:							
Home equity (1)	10,908	3,182	—	38,658	52,748	2,313,661	2,366,409
Liquidating-home equity	2,009	364	—	5,910	8,283	95,648	103,931
Other consumer	372	326	—	102	800	61,563	62,363
Commercial:							
Commercial non-mortgage	5,927	2,073	391	12,899	21,290	2,915,700	2,936,990
Asset-based	—	—	—	—	—	587,151	587,151
Commercial real estate:							

Commercial real estate	1,778	715	470	15,957	18,920	2,951,269	2,970,189
Commercial construction	234	—	—	4,085	4,319	177,318	181,637
Equipment financing	682	17	—	1,325	2,024	455,645	457,669
Total	$34,954	$ 12,880	$861	$ 145,431	$ 194,126	$12,839,028	$13,033,154

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(In thousands)	At December 31, 2013 30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	> 90 Days Past Due and Accruing	Non-accrual	Total Past Due and Non-accrual	Current	Total Loans and Leases
Residential:							
1-4 family	$11,721	$ 6,476	$—	$ 81,133	$ 99,330	$3,226,077	$3,325,407
Construction	—	363	—	387	750	45,402	46,152
Consumer:							
Home equity	13,892	4,696	—	45,517	64,105	2,312,874	2,376,979
Liquidating-home equity	1,440	424	—	6,271	8,135	98,079	106,214
Other consumer	462	193	—	140	795	60,543	61,338
Commercial:							
Commercial non-mortgage	3,208	984	4,305	10,946	19,443	2,712,870	2,732,313
Asset-based	—	—	—	—	—	560,931	560,931
Commercial real estate:							
Commercial real estate	4,387	587	235	13,456	18,665	2,842,637	2,861,302
Commercial construction	—	—	—	4,237	4,237	200,886	205,123
Equipment financing	299	63	—	1,141	1,503	458,947	460,450
Total	$35,409	$ 13,786	$4,540	$ 163,228	$ 216,963	$12,519,246	$12,736,209

(1) A total of $17.6 million residential and consumer loans were reclassified from non-accrual to accrual status in the three months ended March 31, 2014 as a result of updated regulatory guidance issued in the first quarter of 2014.

Interest on non-accrual loans and leases that would have been recorded as additional interest income for the three months ended March 31, 2014 and 2013, had the loans and leases been current in accordance with their original terms, totaled $3.5 million and $3.9 million, respectively.

Allowance for Loan and Lease Losses. The following tables summarize the ALLL by portfolio segment:

(In thousands)	At or for the three months ended March 31, 2014 Residential	Consumer	Commercial	Commercial Real Estate	Equipment Financing	Unallocated	Total
Allowance for loan and lease losses:							
Balance, beginning of period	$20,580	$39,551	$47,706	$29,883	$3,912	$10,941	$152,573
Provision (benefit) charged to expense	(263)	(489)	7,579	3,173	(822)	(178)	9,000
Losses charged off	(1,158)	(4,886)	(3,148)	(2,405)	—	—	(11,597)
Recoveries	260	1,113	973	479	799	—	3,624
Balance, end of period	$19,419	$35,289	$53,110	$31,130	$3,889	$10,763	$153,600
Individually evaluated for impairment	$10,993	$4,109	$989	$4,013	$—	$—	$20,104
Collectively evaluated for impairment	$8,426	$31,180	$52,121	$27,117	$3,889	$10,763	$133,496

(In thousands)	At or for the three months ended March 31, 2013 Residential	Consumer	Commercial	Commercial Real Estate	Equipment Financing	Unallocated	Total
Allowance for loan and lease losses:							
Balance, beginning of period	$29,474	$54,254	$46,566	$30,834	$4,001	$12,000	$177,129
	1,103	4,700	224	3,579	(1,106)	(1,000)	7,500

Provision (benefit) charged to expense							
Losses charged off	(2,936)	(10,407)	(4,339)	(3,760)	(87)	—	(21,529)
Recoveries	250	1,822	1,599	241	828	—	4,740
Balance, end of period	$27,891	$50,369	$44,050	$30,894	$3,636	$11,000	$167,840
Individually evaluated for impairment	$13,871	$3,520	$4,310	$5,511	$8	$—	$27,220
Collectively evaluated for impairment	$14,020	$46,849	$39,740	$25,383	$3,628	$11,000	$140,620

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Impaired Loans and Leases. The following tables summarize impaired loans and leases by portfolio class:

	At March 31, 2014				
(In thousands)	Unpaid Principal Balance	Total Recorded Investment	Recorded Investment No Allowance	Recorded Investment With Allowance	Related Valuation Allowance
Residential:					
1-4 family	$156,967	$142,663	$ 24,027	$ 118,637	$10,993
Construction	446	2	2	—	—
Consumer:					
Home equity	52,969	45,895	23,693	22,202	3,512
Liquidating-home equity	8,109	6,463	3,668	2,795	597
Commercial:					
Commercial non-mortgage	54,918	48,159	28,335	19,824	989
Commercial real estate:					
Commercial real estate	94,252	92,484	38,010	54,474	4,013
Commercial construction	11,338	10,161	10,161	—	—
Equipment financing	182	183	183	—	—
Totals:					
Residential	157,413	142,665	24,029	118,637	10,993
Consumer	61,078	52,358	27,361	24,997	4,109
Commercial	54,918	48,159	28,335	19,824	989
Commercial real estate	105,590	102,645	48,171	54,474	4,013
Equipment financing	182	183	183	—	—
Total	$379,181	$346,010	$ 128,079	$ 217,932	$20,104

	At December 31, 2013				
(In thousands)	Unpaid Principal Balance	Total Recorded Investment	Recorded Investment No Allowance	Recorded Investment With Allowance	Related Valuation Allowance
Residential:					
1-4 family	$157,915	$142,869	$ 23,987	$ 118,882	$10,534
Construction	446	2	1	1	—
Consumer:					
Home equity	54,991	45,577	23,622	21,955	3,926
Liquidating-home equity	8,895	6,602	3,701	2,901	669
Commercial:					
Commercial non-mortgage	59,279	52,199	23,138	29,061	1,878
Commercial real estate:					
Commercial real estate	95,013	90,976	42,774	48,202	3,444
Commercial construction	11,725	10,625	10,625	—	—
Equipment financing	249	210	210	—	—
Totals:					
Residential	158,361	142,871	23,988	118,883	10,534
Consumer	63,886	52,179	27,323	24,856	4,595
Commercial	59,279	52,199	23,138	29,061	1,878
Commercial real estate	106,738	101,601	53,399	48,202	3,444
Equipment financing	249	210	210	—	—
Total	$388,513	$349,060	$ 128,058	$ 221,002	$20,451

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The following table summarizes the average recorded investment and interest income recognized for impaired loans and leases by portfolio class:

	Three months ended March 31,					
	2014			2013		
(In thousands)	Average Recorded Investment	Accrued Interest Income	Cash Basis Interest Income	Average Recorded Investment	Accrued Interest Income	Cash Basis Interest Income
Residential:						
1-4 family	$142,766	$1,192	$324	$146,088	$996	$478
Construction	2	—	—	261	2	—
Consumer:						
Home equity	45,736	318	263	47,794	201	370
Liquidating-home equity	6,533	52	61	6,957	38	80
Commercial:						
Commercial non-mortgage	50,179	628	—	66,415	708	—
Commercial real estate:						
Commercial real estate	91,730	801	—	130,631	1,401	—
Commercial construction	10,393	82	—	19,993	159	—
Equipment financing	197	3	—	1,811	7	—
Totals:						
Residential	142,768	1,192	324	146,349	998	478
Consumer	52,269	370	324	54,751	239	450
Commercial	50,179	628	—	66,415	708	—
Commercial real estate	102,123	883	—	150,624	1,560	—
Equipment financing	197	3	—	1,811	7	—
Total	$347,536	$3,076	$648	$419,950	$3,512	$928

Credit Risk Management. The Company has certain credit policies and procedures in place designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis and reviews reports related to loan production, loan quality, concentration of credit, loan delinquencies, and non-performing and potential problem loans.

Commercial loans are underwritten after evaluating and understanding the borrower’s ability to operate profitably and prudently expand its business. Underwriting standards are designed to promote relationships rather than transactional banking. Once it is determined that the borrower’s management possesses sound ethics and solid business acumen, the Company’s management examines current and projected cash flows to determine the ability of the borrower to repay obligations as agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed and may incorporate a personal guarantee.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those specific to real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Repayment of these loans is largely dependent on the successful operation of the property securing the loan, the market in which the property is located, and the tenants that conduct business at the property securing the loan. Commercial real estate loans may be adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company’s commercial real estate portfolio are diverse in terms of type and geographic location, which helps reduce the Company's exposure to adverse economic events that may affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography, and risk grade criteria. The Company also utilizes third-party experts to provide insight and guidance about economic conditions and trends affecting its loan portfolio.

Construction loans on commercial properties have unique risk characteristics and are provided to experienced developers/sponsors with strong track records of successful completion and sound financial condition and are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates, and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project. These estimates may be subject to change as the construction project proceeds. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property, or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections by third-party professionals and the internal staff.

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To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed, jointly by line and Risk Management personnel. Policies and procedures, coupled with relatively small loan amounts, and predominately collateralized structures spread across many individual borrowers, minimize risk. Trend and outlook reports are reviewed by management on a regular basis. Underwriting factors for mortgage and home equity loans include the borrower's FICO score, the loan amount relative to property value, and the borrower's debt to income level and are also influenced by regulatory requirements. Additionally, Webster Bank originates both QM and non-QM loans as defined by the Consumer Financial Protection Bureau rules that went into effect on January 10, 2014, with appropriate policies, procedures and underwriting guidelines that include ability-to-repay standards.

Credit Quality Indicators. To measure credit risk for the commercial, commercial real estate, and equipment financing portfolios, the Company employs a dual grade credit risk grading system for estimating the probability of borrower default and the loss given default. The credit risk grade system assigns a rating to each borrower and to the facility, which together form a Composite Credit Risk Profile ("CCRP"). The credit risk grade system categorizes borrowers by common financial characteristics that measure the credit strength of borrowers and facilities by common structural characteristics. The CCRP has 10 grades, with each grade corresponding to a progressively greater risk of default. Grades 1 through 6 are considered pass ratings, and 7 through 10 are criticized as defined by the regulatory agencies. Risk ratings, assigned to differentiate risk within the portfolio, are reviewed on an ongoing basis and revised to reflect changes in the borrowers' current financial position and outlook, risk profiles, and the related collateral and structural positions. Loan officers review updated financial information on at least an annual basis for all pass rated loans to assess the accuracy of the risk grade. All criticized loans undergo frequent review and enhanced monitoring of the underlying borrower.

A "Special Mention" (7) credit has the potential weakness that, if left uncorrected, may result in deterioration of the repayment prospects for the asset. "Substandard" (8) assets have a well defined weakness that jeopardizes the full repayment of the debt. An asset rated "Doubtful" (9) has all the same weaknesses as a substandard credit with the added characteristic that the weakness makes collection or liquidation in full, given current facts, conditions, and values, improbable. Assets classified as "Loss" (10) in accordance with regulatory guidelines are considered uncollectible and charged off.

The recorded investment in commercial and commercial real estate loans and equipment financing leases segregated by risk rating exposure is as follows:

	Commercial		Commercial Real Estate		Equipment Financing	
(In thousands)	At March 31, 2014	At December 31, 2013	At March 31, 2014	At December 31, 2013	At March 31, 2014	At December 31, 2013
(1) - (6) Pass	$3,327,191	$3,091,154	$3,020,591	$2,947,116	$436,952	$437,033
(7) Special Mention	70,977	87,451	36,136	20,901	1,657	7,979
(8) Substandard	125,619	114,199	94,482	97,822	19,060	15,438
(9) Doubtful	354	440	617	585	—	—
(10) Loss	—	—	—	—	—	—
Total	$3,524,141	$3,293,244	$3,151,826	$3,066,424	$457,669	$460,450

For residential and consumer loans, the Company considers factors such as updated FICO scores, employment status, home prices, loan to value, geography, loans discharged in bankruptcy, and the status of first lien position loans on second lien position loans as credit quality indicators. On an ongoing basis for portfolio monitoring purposes, the Company estimates the current value of property secured as collateral for both home equity and residential first mortgage lending products. The estimate is based on home price indices compiled by the S&P/Case-Shiller Home Price Indices. The Case-Shiller data indicates trends for Metropolitan Statistical Areas. The trend data is applied to the loan portfolios taking into account the age of the most recent valuation and geographic area.

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Troubled Debt Restructurings. The following table summarizes information for TDRs:

(Dollars in thousands)	At March 31, 2014	At December 31, 2013
Recorded investment of TDRs:		
Accrual status [(1)]	$251,042	$238,926
Non-accrual status [(1)]	82,871	102,972
Total recorded investment of TDRs	$333,913	$341,898
Accruing TDRs performing under modified terms more than one year	67.4 %	58.2 %
Specific reserves for TDRs included in the balance of allowance for loan and lease losses	$19,709	$20,360
Additional funds committed to borrowers in TDR status	1,242	1,262

(1) A total of $17.6 million residential and consumer loans were reclassified from non-accrual to accrual status in the three months ended March 31, 2014 as a result of updated regulatory guidance issued in the first quarter of 2014.

For the three months ended March 31, 2014 and 2013, Webster charged off $6.2 million and $5.0 million, respectively, for the portion of TDRs deemed to be uncollectible.

The following table provides information on loans and leases modified as TDRs:

	Three months ended March 31,							
	2014				2013			
			Post-Modification				Post-Modification	
(Dollars in thousands)	Number of Loans and Leases	Pre-Modification Recorded Investment	Recorded Investment	Coupon Rate	Number of Loans and Leases	Pre-Modification Recorded Investment	Recorded Investment	Coupon Rate
Residential:								
1-4 family	26	$ 5,599	$5,599	4.6 %	32	$ 6,413	$6,413	3.9%
Consumer:								
Home equity	40	2,158	2,158	4.7	37	2,397	2,397	4.2
Liquidating-home equity	1	62	62	5.0	5	89	89	7.3
Commercial:								
Commercial non-mortgage	9	445	445	6.2	3	888	888	5.3
Commercial real estate:								
Commercial real estate	—	—	—	—	2	11,675	11,675	2.7
Commercial construction	—	—	—	—	2	189	189	5.3
Total	76	$ 8,264	$8,264	4.7 %	81	$ 21,651	$21,651	3.4 %

TDRs may be modified by means of extended maturity, below market adjusted interest rates, a combination of rate and maturity, or other means, including covenant modifications, forbearance, loans discharged under Chapter 7 bankruptcy, or other concessions.

The following table provides information on how loans and leases were modified as TDRs:

	Three months ended March 31,							
	2014				2013			
(In thousands)	Extended Maturity	Adjusted Interest Rates	Rate and Maturity	Other	Extended Maturity	Adjusted Interest Rates	Rate and Maturity	Other
Residential:								
1-4 family	$706	$227	$2,589	$2,077	$905	$741	$3,349	$1,418
Consumer:								
Home equity	470	51	255	1,382	108	154	1,084	1,051

Liquidating-home equity	—	—	—	62	—	—	—	89
Commercial:								
Commercial non-mortgage	54	—	241	150	502	—	347	39
Commercial real estate:								
Commercial real estate	—	—	—	—	—	—	11,675	—
Commercial construction	—	—	—	—	189	—	—	—
Total	$1,230	$278	$3,085	$3,671	$1,704	$895	$16,455	$2,597

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The Company's loan and lease portfolio at March 31, 2014 included six loans with an A Note/B Note structure, with a combined recorded investment of $24.9 million. The loans were restructured into A Note/B Note structures as a result of evaluating the cash flow of the borrowers to support repayment. Webster immediately charged off the balance of B Notes totaling $10.0 million. TDR classification has been removed from two A Notes with a recorded investment of $4.0 million, as the borrowers have passed the minimum compliance with the modified terms requirements. The restructuring agreements specify a market interest rate equal to that which would be provided to a borrower with similar credit at the time of restructuring. The A Notes are paying under the terms of the modified loan agreements. All six A Notes are on accrual status, as the borrowers are paying under the terms of the loan agreements prior to and subsequent to the modification.

The following table provides information on loans and leases modified as TDRs within the previous 12 months and for which there was a payment default during the periods presented:

	Three months ended March 31,			
	2014		2013	
(Dollars in thousands)	Number of Loans and Leases	Recorded Investment	Number of Loans and Leases	Recorded Investment
Residential:				
1-4 family	6	$ 645	1	$ 198
Consumer:				
Home equity	3	190	4	87
Commercial:				
Commercial non-mortgage	1	76	—	—
Total	10	$ 911	5	$ 285

The recorded investment in commercial, commercial real estate, and equipment financing TDRs segregated by risk rating exposure is as follows:

(In thousands)	At March 31, 2014	At December 31, 2013
(1) - (6) Pass	$ 55,454	$ 55,973
(7) Special Mention	—	—
(8) Substandard	83,026	90,461
(9) Doubtful	409	414
(10) Loss	—	—
Total	$ 138,889	$ 146,848

NOTE 4: Transfers of Financial Assets and Mortgage Servicing Assets

Transfers of Financial Assets

The Company sells financial assets in the normal course of business, the majority of which are residential mortgage loans primarily to government-sponsored enterprises through established programs, commercial loans through participation agreements, and other individual or portfolio loans and securities. In accordance with the accounting guidance for asset transfers, the Company considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. For loans sold under participation agreements, the Company also considers the terms of the loan participation agreement and whether they meet the definition of a participating interest, and thus, qualify for derecognition.

With the exception of servicing rights and certain performance-based guarantees, the Company's continuing involvement with financial assets sold is minimal and limited to market customary representations and warranties, for which the Company enters into agreements covering certain characteristics of the mortgage loans sold and its origination process. The Company may be required to repurchase a loan in the event of certain breaches of these representations and warranties or in the event of default of the borrower within 90 days of origination. The gain or loss on loans sold depends on the previous carrying amount of the transferred financial assets, the consideration received, and any liabilities incurred in exchange for the transferred assets, and is included as mortgage banking activities in the accompanying Condensed Consolidated Statements of Income.

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The reserve for loan repurchases provides for estimated losses associated with the repurchase of loans sold in connection with the Company's mortgage banking operations. The reserve reflects management's continual evaluation of loss experience and the quality of loan originations. It also reflects management's expectation of losses from repurchase requests for which management has not yet been notified. Factors considered in the evaluation process for establishing the reserves include the identity of counterparty, the vintage of the loans sold, the amount of open repurchase requests, specific loss estimates for each open request, current level of loan losses in similar vintages held in the residential loan portfolio, and estimated recoveries on the underlying collateral. While management uses its best judgment and information available, the adequacy of this reserve is dependent upon factors outside the Company's control including the performance of loans sold and the quality of the servicing provided by the acquirer. The provision recorded at the time of loan sale is netted from the gain or loss recorded in mortgage banking activities, while any incremental provision, post loan sale, is recorded in other non-interest expense in the accompanying Condensed Consolidated Statements of Income.

The following table provides a summary of activity in the reserve for loan repurchases:

	Three months ended March 31,	
(In thousands)	2014	2013
Beginning balance	$2,254	$2,617
(Benefit) provision	(310)	458
Loss on repurchased loans and settlements	(43)	(981)
Ending balance	$1,901	$2,094

The following table provides detail of activity related to loan sales:

	Three months ended March 31,	
(In thousands)	2014	2013
Residential mortgage loans:		
Proceeds from the sale of loans held for sale	$65,643	$234,050
Net gain on sale included as mortgage banking activities	775	6,695
Loans sold with servicing rights retained	48,552	220,193
Commercial loans:		
Proceeds from the sale of loans held for sale	—	10,336
Net gain on sale included as mortgage banking activities	—	336

Mortgage Servicing Assets

The Company has retained servicing rights on consumer loans totaling $2.4 billion at both March 31, 2014 and December 31, 2013, resulting in mortgage servicing assets of $20.5 million at March 31, 2014 and $21.0 million at December 31, 2013, which are carried at the lower of cost or fair value. See Note 14 - Fair Value Measurements for a further discussion on the fair value of mortgage servicing assets.

Loan servicing fees, net of mortgage servicing rights amortization, were $0.4 million and $1.4 million for the three months ended March 31, 2014 and 2013, respectively, and are included as a component of loan related fees in the accompanying Condensed Consolidated Statements of Income.

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NOTE 5: Goodwill and Other Intangible Assets

The following table presents the carrying value for goodwill allocated to the segments:

(In thousands)	At March 31, 2014	At December 31, 2013
Segment:		
Community Banking	$516,560	$516,560
Other	13,327	13,327
Goodwill	$529,887	$529,887

Webster uses a valuation methodology that addresses market concerns and Basel III to fully allocate capital. Capital allocation for segment reporting is based on regulatory targets aimed at risk-weighted assets, tangible assets, and deposits. Actual regulatory targets are applied to each of the asset bases and an implied target is used for deposits. The methodology creates two asset bases, risk-weighted assets and tangible assets, as well as a deposit base, intangibles, and management assessment.

Webster tests its goodwill for impairment annually as of August 31 (the “Measurement Date”). In performing Step 1 of the goodwill impairment testing process, the Company primarily relies on the income approach to arrive at an indicated range of fair value for the reporting units, which is then corroborated with the market approach comparable company method, and the market capitalization reconciliation. The income approach consists of discounting projected long-term future cash flows, which are derived from internal forecasts and economic expectations, for the respective reporting units. The internal forecasts are developed for each reporting unit by considering several key business drivers such as new business initiatives, market share changes, anticipated loan and deposit growth, forward interest rates, historical performance, and industry and economic trends, among other considerations.

The projected future cash flows are discounted using estimated rates based on the Capital Asset Pricing Model, which considers the risk-free interest rate, market risk premium, beta, and unsystematic risk and size premium adjustments specific to the reporting unit. As the results of our goodwill impairment analysis are dependent upon estimates and assumptions related to discount rates, future projected earnings, and other factors, if actual results are not achieved with these estimates and assumptions, there is a risk that future impairment of goodwill may occur.

There was no impairment indicated as a result of the Step 1 test performed as of August 31, 2013. Key changes in the market and our operations were monitored from our impairment test date of August 31, 2013 to March 31, 2014, in order to determine if circumstances necessitating further testing for impairment were evident. No such changes were evident that would require reassessment of the carrying value of goodwill.

The gross carrying amount and accumulated amortization of other intangible assets (core deposits) allocated to the business segments are as follows:

	At March 31, 2014			At December 31, 2013		
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Community Banking	$49,420	$(45,237)	$4,183	$49,420	$(44,069)	$5,351

Amortization of intangible assets for each of the three months ended March 31, 2014 and 2013, totaled $1.2 million.

Future estimated annual amortization expense is summarized below:

(In thousands)	
Years ending December 31:	
Remainder of 2014	$1,517
2015	1,523
2016	1,143

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NOTE 6: Deposits

A summary of deposits by type follows:

(In thousands)	At March 31, 2014	At December 31, 2013
Non-interest-bearing:		
Demand	$3,028,625	$3,128,152
Interest-bearing:		
Checking	1,958,027	1,934,291
Health savings accounts	1,719,890	1,533,310
Money market	2,133,036	2,167,593
Savings	3,920,171	3,863,930
Time deposits	2,280,240	2,227,144
Total interest-bearing	12,011,364	11,726,268
Total deposits	$15,039,989	$14,854,420
Demand deposit overdrafts reclassified as loan balances	$1,092	$1,455

At March 31, 2014, the scheduled maturities of time deposits (certificates of deposit and brokered deposits) are as follows:

(In thousands)	
Years ending December 31:	
2014	$1,042,052
2015	620,991
2016	237,736
2017	81,963
2018	144,883