BERKSHIRE HILLS BANCORP INC
Form 10-Q
May 10, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended: **March 31, 2012**

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _________ to __________

Commission File Number: **000-51584**

BERKSHIRE HILLS BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	04-3510455
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
24 North Street, Pittsfield, Massachusetts	01201
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: **(413) 443-5601**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

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

Yes x No ¨

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 definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer ¨ Accelerated Filer x Non-Accelerated Filer ¨ Smaller Reporting Company ¨

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

Yes ¨ No x

The Registrant had 22,165,541 shares of common stock, par value $0.01 per share, outstanding as of May 3, 2012.

BERKSHIRE HILLS BANCORP, INC.

FORM 10-Q

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PART I

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	March 31, 2012	December 31, 2011
Assets		
Cash and due from banks	$34,117	$46,713
Short-term investments	11,186	28,646
Total cash and cash equivalents	45,303	75,359
Trading security	16,847	17,395
Securities available for sale, at fair value	423,580	419,756
Securities held to maturity (fair values of $60,332 and $60,395)	59,533	58,912
Federal Home Loan Bank stock and other restricted securities	35,282	37,118
Total securities	535,242	533,181
Loans held for sale	-	1,455
Residential mortgages	1,100,663	1,020,435
Commercial mortgages	1,147,455	1,156,241
Commercial business loans	429,627	410,292
Consumer loans	361,255	369,602
Total loans	3,039,000	2,956,570
Less: Allowance for loan losses	(32,657)	(32,444)
Net loans	3,006,343	2,924,126
Premises and equipment, net	61,661	60,139
Other real estate owned	439	1,900
Goodwill	202,397	202,391
Other intangible assets	19,662	20,973
Cash surrender value of bank-owned life insurance policies	75,652	75,009
Other assets	82,628	91,309
Assets from discontinued operations	-	5,362
Total assets	$4,029,327	$3,991,204
Liabilities		
Demand deposits	$450,497	$447,414

NOW deposits	294,411	272,204
Money market deposits	1,089,742	1,055,306
Savings deposits	365,289	350,517
Time deposits	984,228	975,734
Total deposits	3,184,167	3,101,175
Short-term debt	14,360	10,000
Long-term Federal Home Loan Bank advances	221,880	211,938
Junior subordinated debentures	15,464	15,464
Total borrowings	251,704	237,402
Other liabilities	36,622	43,759
Liabilities from discontinued operations	-	55,504
Total liabilities	3,472,493	3,437,839
Stockholders' equity		
Common stock ($.01 par value; 50,000,000 shares authorized and 22,860,368 shares issued; 21,191,594 shares outstanding in 2012; 21,147,736 shares outstanding in 2011)	229	229
Additional paid-in capital	494,199	494,304
Unearned compensation	(3,585)	(2,790)
Retained earnings	111,712	109,477
Accumulated other comprehensive loss	(3,892)	(4,885)
Treasury stock, at cost (1,668,774 shares in 2012 and 1,712,632 shares in 2011)	(41,829)	(42,970)
Total stockholders' equity	556,834	553,365
Total liabilities and stockholders' equity	$4,029,327	$3,991,204

The accompanying notes are an integral part of these consolidated financial statements.

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BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31,	
(In thousands, except per share data)	2012	2011
Interest and dividend income		
Loans	$ 35,051	$ 24,606
Securities and other	3,621	3,307
Total interest and dividend income	38,672	27,913
Interest expense		
Deposits	5,502	5,715
Borrowings and junior subordinated debentures	2,025	2,052
Total interest expense	7,527	7,767
Net interest income	31,145	20,146
Non-interest income		
Loan related fees	1,373	591
Deposit related fees	3,500	2,541
Insurance commissions and fees	2,746	3,730
Wealth management fees	1,900	1,192
Total fee income	9,519	8,054
Other	241	80
Non-recurring gain	42	-
Total non-interest income	9,802	8,134
Total net revenue	40,947	28,280
Provision for loan losses	2,000	1,600
Non-interest expense		
Compensation and benefits	13,589	11,151
Occupancy and equipment	4,395	3,435
Technology and communications	1,958	1,466
Marketing and professional services	1,716	1,213
Supplies, postage and delivery	562	454
FDIC premiums and assessments	681	1,027
Other real estate owned	179	609
Amortization of intangible assets	1,311	716
Nonrecurring and merger related expenses	4,223	1,708
Other	1,580	1,410
Total non-interest expense	30,194	23,189
Income from continuing operations before income taxes	8,753	3,491
Income tax expense	2,272	656
Net income from continuing operations	6,481	2,835
Loss from discontinued operations before income taxes (including gain on disposal of $63)	(261)	-
Income tax expense	376	-
Net loss from discontinued operations	(637)	

Net income	$5,844	$2,835
Basic and diluted earnings per share:		
Continuing operations	$0.31	$0.20
Discontinued operations	(0.03)	-
Total basic and diluted earnings per share	$0.28	$0.20
Weighted average common shares outstanding:		
Basic	20,956	13,943
Diluted	21,063	13,981

The accompanying notes are an integral part of these consolidated financial statements.

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BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME - UNAUDITED

(In thousands)	Three Months Ended March 31, 2012	2011
Net income	$5,844	$2,835
Other comprehensive income		
Changes in unrealized gains and losses on securities available-for-sale	1,293	1,015
Changes in unrealized gains and losses on derivative hedges	284	1,253
Changes in unrealized gains and losses on terminated swaps	235	235
Income taxes related to other comprehensive income	(819)	(981)
Total other comprehensive income	993	1,522
Comprehensive income attributable to Berkshire Hills Bancorp, Inc.	$6,837	$4,357

The accompanying notes are an integral part of these consolidated financial statements.

BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands)	Common stock Shares	Amount	Additional paid-in capital	Unearned compen-sation	Retained earnings	Accumulated other comp-rehensive loss	Treasury stock	Total
Balance at December 31, 2010	14,076	$ 158	$ 337,537	$ (1,776)	$ 103,972	$ (6,410)	$ (44,834)	$ 388,647
Comprehensive income:								
Net income	-	-	-	-	2,835	-	-	2,835
Other net comprehensive income	-	-	-	-	-	1,522	-	1,522
Total comprehensive income								4,357
Cash dividends declared ($0.16 per share)	-	-	-	-	(2,251)	-	-	(2,251)
Forfeited shares	(7)	-	3	167	-	-	(170)	-
Exercise of stock options	13	-	-	-	(112)	-	326	214
Restricted stock grants	55	-	(226)	(1,159)	-	-	1,385	-
Stock-based compensation	-	-	1	207	-	-	-	208
Other, net	(22)	-	-	-	-	-	(453)	(453)
Balance at March 31, 2011	14,115	$ 158	$ 337,315	$ (2,561)	$ 104,444	$ (4,888)	$ (43,746)	$ 390,722
Balance at December 31, 2011	21,148	$ 229	$ 494,304	$ (2,790)	$ 109,477	$ (4,885)	$ (42,970)	$ 553,365
Comprehensive income:								
Net income	-	-	-	-	5,844	-	-	5,844
Other net comprehensive income	-	-	-	-	-	993	-	993
Total comprehensive income								6,837
Cash dividends declared ($0.17 per share)	-	-	-	-	(3,603)	-	-	(3,603)
Forfeited shares	(6)	-	11	119	-	-	(130)	-
Exercise of stock options	1	-	-	-	(6)	-	22	16
Restricted stock grants	60	-	(134)	(1,380)	-	-	1,514	-
Stock-based compensation	-	-	-	466	-	-	-	466
Net tax benefit related to stock-based compensation	-	-	18	-	-	-	-	18
Other, net	(11)	-	-	-	-	-	(265)	(265)
Balance at March 31, 2012	21,192	$ 229	$ 494,199	$ (3,585)	$ 111,712	$ (3,892)	$ (41,829)	$ 556,834

The accompanying notes are an integral part of these consolidated financial statements.

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BERKSHIRE HILLS BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
(In thousands)	2012	2011
Cash flows from operating activities:		
Net income	$ 5,844	$ 2,835
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,000	1,600
Net amortization of securities	488	340
Change in unamortized net loan costs and premiums	(3,669)	390
Premises depreciation and amortization expense	1,441	1,062
Stock-based compensation expense	466	208
(Accretion)/Amortization of purchase accounting entries	(1,248)	(155)
Amortization of other intangibles	1,311	716
Excess tax loss from stock-based payment arrangements	(18)	-
Income from cash surrender value of bank-owned life insurance policies	(643)	(380)
(Gain) Loss on sales of securities, net	(41)	-
Net decrease in loans held for sale	1,455	901
Loss on disposition of assets	1,527	-
Loss on sale of other real estate	40	-
Net change in other	792	1,399
Net cash provided by operating activities	9,745	8,916
Cash flows from investing activities:		
Net decrease in trading security	120	116
Proceeds from sales of securities available for sale	3,040	-
Proceeds from maturities, calls and prepayments of securities available for sale	23,190	40,355
Purchases of securities available for sale	(29,208)	(44,772)
Proceeds from maturities, calls and prepayments of securities held to maturity	1,436	2,105
Purchases of securities held to maturity	(2,057)	(2,296)
Net investment in limited partnership tax credits	-	(4,166)
Net change in loans	(80,102)	(5,044)
Net cash used for Divestiture	(48,890)	-
Proceeds from sale of Federal Home Loan Bank stock	1,836	-
Proceeds from sale of other real estate	1,671	382
Purchase of premises and equipment, net	(4,468)	(1,647)
Net cash (used) by investing activities	(133,432)	(14,967)
Cash flows from financing activities:		
Net increase in deposits	82,475	36,608
Proceeds from Federal Home Loan Bank advances and other borrowings	44,360	15,480
Repayments of Federal Home Loan Bank advances and other borrowings	(30,058)	(46,915)
Net proceeds from reissuance of treasury stock	16	214

Excess tax loss from stock based payment arrangements	18	-
Common stock cash dividends paid	(3,603)	(2,251)
Net impact of preferred stock and warrant including repurchase and dividends	-	55
Net cash provided by financing activities	93,208	3,136
Net change in cash and cash equivalents	(30,479)	(2,915)
Cash and cash equivalents at beginning of period	75,782	44,140
Cash and cash equivalents at end of period	$ 45,303	$ 41,225
Supplemental cash flow information:		
Interest paid on deposits	5,539	5,753
Interest paid on borrowed funds	2,025	2,052
Income taxes paid, net	1,233	55
Real estate owned acquired in settlement of loans	(250)	-
Other net comprehensive loss	(993)	1,522

The accompanying notes are an integral part of these consolidated financial statements.

Note*: The Consolidated Statements of Cash Flows for the three months ended March, 2012 and the cash and cash equivalents at beginning of period includes the cash flows from activities associated with discontinued operations.*

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NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and contain all adjustments, consisting solely of normal, recurring adjustments, necessary for a fair presentation of results for such periods.

In addition, these interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X, and accordingly, certain information and footnote disclosures normally included in financial statements prepared according to U.S. GAAP have been omitted.

The results for any interim period are not necessarily indicative of results for the full year. These consolidated financial statements should be read in conjunction with the audited financial statements and note disclosures for Berkshire Bancorp, Inc. ("the Company") previously filed with the Securities and Exchange Commission in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

ASU No. 2011-01, "Receivables (Topic 310) - Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20." In January 2011, the FASB issued ASU 2011-01 to temporarily delay the effective date of the disclosures about troubled debt restructurings ("TDRs") that are included in ASU No. 2010-20. The TDR disclosure guidance was effective beginning with the Company's interim period ended September 30, 2011. The required disclosures are incorporated in Note 7 to the Company's financial statements.

ASU No. 2011-02, "A Creditor's Determination of Whether Restructuring Is a Troubled Debt Restructuring". In April 2011, the FASB issued ASU 2011-02 clarifying when a loan modification or restructuring is considered a troubled debt restructuring. The guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and is to be applied retrospectively to modifications occurring on or after the beginning of the annual period of adoption. The adoption of this guidance did not have a significant impact on the Company's financial statements.

ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." In May 2011, the FASB issued ASU 2011-04 result in a consistent definition of fair value and common requirements for the measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards ("IFRS"). The changes to U.S. GAAP as a result of ASU No. 2011-04 are as follows: (1) The concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets; (2) U.S. GAAP currently prohibits application of a blockage factor in valuing financial instruments with quoted prices in active markets. ASU No. 2011-04 extends that prohibition to all fair value measurements; (3) An exception is provided to the basic fair value measurement principles for an entity that holds a group of financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk that are managed on the basis of the entity’s net exposure to either of those risks. This exception allows the entity, if certain criteria are met, to measure the fair value of the net asset or liability position in a manner consistent with how market participants would price the net risk position; (4) The fair value measurement of instruments classified within an entity’s shareholders’ equity is aligned with the guidance for liabilities; and (5) Disclosure requirements have been enhanced for Level 3 fair value measurements to disclose quantitative information about unobservable inputs and assumptions used, to describe the valuation processes used by the entity, and to qualitatively describe the sensitivity of fair value measurements to changes in unobservable inputs and the interrelationships between those inputs. In addition, entities must report the level in the fair value hierarchy of items that are not measured at fair value in the statement of condition but whose fair value must be disclosed. The Company adopted the provisions of ASU No. 2011-04 effective January 1, 2012. The fair value measurement provisions of ASU No. 2011-04 had no impact on the Company’s financial statements. The required disclosures are incorporated in Note 14 to the Company’s financial statements.

ASU 2011-05, "Comprehensive Income (Topic 220) - Presentation of Comprehensive Income." ASU 2011-05 amends Topic 220, "Comprehensive Income," to require that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-05 is effective for annual and interim periods beginning after December 15, 2011; however, certain provisions related to the presentation of reclassification adjustments have been deferred by ASU 2011-12 "Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05," as further discussed below.

ASU No. 2011-08, “Testing Goodwill for Impairment”. In September 2011, the FASB issued ASU 2011-08 which will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount . The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company performs its annual test for goodwill impairment in the fourth quarter, and adoption of this guidance is not expected to have an impact on its financial statements.

ASU 2011-11, "Balance Sheet (Topic 210) - "Disclosures about Offsetting Assets and Liabilities." ASU 2011-11 amends Topic 210, "Balance Sheet," to require an entity to disclose both gross and net information about financial instruments, such as sales and repurchase agreements and reverse sale and repurchase agreements and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the statement of financial position and/or subject to a master netting arrangement or similar agreement. ASU 2011-11 is effective for annual and interim periods beginning on January 1, 2013, and is limited to matters of presentation with no impact expected on the Company’s financial statements.

ASU 2011-12 "Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." ASU 2011-12 defers changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments to allow the FASB time to redeliberate whether to require presentation of such adjustments on the face of the financial statements to show the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12. ASU 2011-12 is effective for annual and interim periods beginning after December 15, 2011. The enhanced disclosures required are incorporated in Note 9 to the Company’s financial statements.

NOTE 3. CORRECTION OF IMMATERIAL ERROR

During the second quarter of 2011, the Company corrected an immaterial error in its prior period accounting treatment for certain tax credit investment limited partnership interests. These interests primarily relate to low income housing, community development, and solar energy related investments. As a result of this error, the Company’s non-interest income and income tax expense were overstated in the first quarter of 2011. On the corresponding balance sheet, the Company’s tax credit investment limited partnership interests were overstated in the first quarter of 2011. The overstatement of the tax credit investment balance in this period was more than offset by an understatement of the Company’s deferred tax asset balance. These balances are included as components of other assets in the accompanying consolidated balance sheets.

The Company assessed the materiality of this error for each previously issued quarterly and annual period that was effected in accordance with generally accepted accounting principles, and determined that the error was immaterial. The Company determined that the cumulative error is immaterial to our estimated income for the full fiscal year ending December 31, 2011 but was material to our trend in earnings. Accordingly, the Company has revised its Consolidated Statements of Income for the three month period ended March 31, 2011. The Company has evaluated the effects of these errors and concluded that they are immaterial to any of the Company's previously issued quarterly or annual financial statements. The effect of correcting this immaterial error in the consolidated statement of income for the first quarter of 2011 to be reported in subsequent periodic filings is as follows:

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(in thousands, except per share data)	For the Quarter Ended March 31, 2011 As Reported	As Revised
Consolidated statement of operations information:		
Non-interest income	$8,502	$8,134
Income tax expense	1,061	656
Net income	2,798	2,835
Basic earnings per share	0.20	0.20
Diluted earnings per share	0.20	0.20
Consolidated balance sheet information:		
Other assets	59,122	59,846
Retained earnings	103,720	104,444

NOTE 4. DISCONTINUED OPERATIONS

In order to minimize potential anti-competitive effects of the Legacy acquisition, the Company agreed to sell four Legacy Berkshire branches in conjunction with the Legacy merger agreement dated July 21, 2011. On October 21, 2011, the Company completed the divestiture of four Massachusetts bank branches in Berkshire County to NBT Bank, NA (“NBT”), a subsidiary of NBT Bancorp Inc. The Company continued to operate these branches until the divestiture was completed on October 21, 2011. Berkshire received a 6% deposit premium on these branches and paid a related divestiture dividend to former Legacy shareholders for a portion of these proceeds pursuant to the Legacy merger agreement. The sale resulted in a pre-tax gain of $5.0 million and tax expense of $3.9 million resulting in a gain on discontinued operations of $1.1 million, net of tax, for the fiscal year 2011. The above actions and subsequent divestiture have resulted in the discontinuance of these operations in the third quarter of 2011.

Additionally, Berkshire made a separate determination to sell four former Legacy New York branches that were not within its financial performance objectives. In the third quarter of 2011, management committed to a plan to sell the four branches and initiated the process to locate a buyer. Berkshire entered into an agreement to divest these branches for a 2.5% deposit premium, and continued to operate these branches until the divestiture was completed on January 20, 2012. The sale resulted in a pre-tax gain of $63 thousand and tax expense of $507 thousand resulting in a loss on sale of discontinued operations, net of tax of $443 thousand at March 31, 2012. The tax expense from discontinued operations included a tax charge of $481 thousand, as the removal of $1.2 million of goodwill associated with these branches is not deductible for determining taxable income. These branches were also designated as discontinued operations in Berkshire’s financial statements in the third quarter of 2011.

As of March 31, 2012 the Bank has not reclassified any assets or liabilities to discontinued operations. As of December 31, 2011, the Bank reclassified $5.4 million of assets and $55.5 million of liabilities to discontinued operations. Assets and liabilities of discontinued operations, all of which were classified as held-for-sale, were estimated as follows as of December 31, 2011, in thousands:

(In thousand)	2011
Assets	
Loans	$2,465
Cash	423
Premises and equipment, net	690
Goodwill	1,197
Intangibles	574
Other	13
Total assets	5,362
Liabilities	
Deposits	55,504
Total liabilities	55,504
Net liabilities	$50,142

The following table provides financial information for the discontinued operations for the three months ended March 31, 2012.

(In thousands)	2012
Net Interest Income	$8
Non-interest Income	13
Total Net Revenue	21
Non-Interest Expense	345
(Loss) on disposal of discontinued operations	(324)
Gain on disposal of discontinued operations	63
(Loss) Gain on discontiued operations	(261)
Income tax expense	376
(Loss) Gain from discontinued operations, net of tax	$(637)

The Company did not have any discontinued operations for the three months ended March 31, 2011.

NOTE 5. TRADING ACCOUNT SECURITY

The Company holds a tax advantaged economic development bond that is being accounted for at fair value. The security had an amortized cost of $14.0 million and $14.1 million, and a fair value of $16.8 million and $17.4 million, at March 31, 2012 and December 31, 2011, respectively. As discussed further in Note 13 - Derivative Financial Instruments and Hedging Activities, the Company has entered into a swap contract to swap-out the fixed rate of the security in exchange for a variable rate. The Company does not purchase securities with the intent of selling them in the near term, and there are no other securities in the trading portfolio at March 31, 2012.

NOTE 6. SECURITIES AVAILABLE FOR SALE AND HELD TO MATURITY

The following is a summary of securities available for sale and held to maturity:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2012				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	$75,067	$4,641	$(52)	$79,656
Government guaranteed residential mortgage-backed securities	40,212	890	-	41,102
Government-sponsored residential mortgage-backed securities	251,626	3,117	(133)	254,610
Corporate bonds	9,997	-	(358)	9,639
Trust preferred securities	20,036	686	(2,350)	18,372
Other bonds and obligations	624	2	-	626
Total debt securities	397,562	9,336	(2,893)	404,005
Equity securities:				
Marketable equity securities	18,427	1,258	(110)	19,575
Total securities available for sale	415,989	10,594	(3,003)	423,580
Securities held to maturity				
Municipal bonds and obligations	11,353	-	-	11,353
Government-sponsored residential mortgage-backed securities	78	9	-	87
Tax advantaged economic development bonds	47,488	1,184	(394)	48,278
Other bonds and obligations	614	-	-	614
Total securities held to maturity	59,533	1,193	(394)	60,332
Total	$475,522	$11,787	$(3,397)	$483,912
December 31, 2011				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	$73,436	$4,418	$-	$77,854
Government guaranteed residential mortgage-backed securities	44,051	1,045	-	45,096
Government-sponsored residential mortgage-backed securities	245,033	2,990	(412)	247,611
Corporate bonds	9,996	-	(269)	9,727
Trust preferred securities	20,064	343	(2,592)	17,815
Other bonds and obligations	642	2	-	644
Total debt securities	393,222	8,798	(3,273)	398,747
Equity securities:				
Marketable equity securities	20,236	1,555	(782)	21,009
Total securities available for sale	413,458	10,353	(4,055)	419,756

Securities held to maturity				
Municipal bonds and obligations	10,349	-	-	10,349
Government-sponsored residential mortgage-backed securities	79	4	-	83
Tax advantaged economic development bonds	47,869	1,479	-	49,348
Other bonds and obligations	615	-	-	615
Total securities held to maturity	58,912	1,483	-	60,395
Total	$472,370	$ 11,836	$ (4,055)	$480,151

The amortized cost and estimated fair value of available for sale ("AFS") and held to maturity ("HTM") securities, segregated by contractual maturity at March 31, 2012 are presented below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities are shown in total, as their maturities are highly variable. Equity securities have no maturity and are also shown in total.

	Available for sale		Held to maturity	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$301	$301	$7,613	$7,613
Over 1 year to 5 years	8,499	8,261	2,612	2,612
Over 5 years to 10 years	16,553	17,199	30,701	31,254
Over 10 years	80,371	82,532	18,529	18,766
Total bonds and obligations	105,724	108,293	59,455	60,245
Marketable equity securities	18,427	19,575	-	-
Residential mortgage-backed securities	291,838	295,712	78	87
Total	$415,989	$423,580	$59,533	$60,332

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Securities with unrealized losses, segregated by the duration of their continuous unrealized loss positions, are summarized as follows:

	Less Than Twelve Months		Over Twelve Months		Total	
(In thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
March 31, 2012						
Securities available for sale						
Debt securities:						
Municipal bonds and obligations	$ 52	$ 2,309	$ -	$ -	$ 52	$ 2,309
Government-sponsored residential mortgage-backed securities	124	32,879	9	3,434	133	36,313
Corporate bonds	321	6,679	37	2,960	358	9,639
Trust preferred securities	-	-	2,350	3,285	2,350	3,285
Total debt securities	497	41,867	2,396	9,679	2,893	51,546
Marketable equity securities	110	2,903	-	-	110	2,903
Total securities available for sale	607	44,770	2,396	9,679	3,003	54,449
Securities held to maturity						
Tax advantaged economic development bonds	394	13,083	-	-	394	13,083
Total securities held to maturity	394	13,083	-	-	394	13,083
Total	$ 1,001	$ 57,853	$ 2,396	$ 9,679	$ 3,397	$ 67,532
December 31, 2011						
Securities available for sale						
Debt securities:						
Government guaranteed residential mortgage-backed securities	$ 1	$ 48	$ -	$ -	$ 1	$ 48
Government-sponsored residential mortgage-backed securities	375	76,278	36	5,766	411	82,044
Corporate bonds	224	6,776	45	2,951	269	9,727
Trust preferred securities	20	2,541	2,572	3,065	2,592	5,606
Total debt securities	620	85,643	2,653	11,782	3,273	97,425
Marketable equity securities	782	6,229	-	-	782	6,229
Total securities available for sale	$ 1,402	$ 91,872	$ 2,653	$ 11,782	$ 4,055	$ 103,654

Debt Securities

The Company expects to recover its amortized cost basis on all debt securities in its AFS and HTM portfolios. Furthermore, the Company does not intend to sell nor does it anticipate that it will be required to sell any of its securities in an unrealized loss position as of March 31, 2012, prior to this recovery. The Company’s ability and intent to hold these securities until recovery is supported by the Company’s strong capital and liquidity positions as well as its historically low portfolio turnover. The following summarizes, by investment security type, the basis for the conclusion that the debt securities in an unrealized loss position within the Company’s AFS and HTM portfolios were not other-than-temporarily impaired at March 31, 2012:

AFS municipal bonds and obligations

At March 31, 2012, 3 out of a total of 131 securities in the Company’s portfolio of AFS municipal bonds and obligations were in unrealized loss positions. The aggregate unrealized losses represented 2% of the amortized cost of the securities in unrealized loss positions. The Company has the intent to hold these securities for recovery. There were no material underlying credit downgrades during the past quarter. All securities are considered performing.

AFS and HTM residential mortgage-backed securities

At March 31, 2012, 9 out of a total of 157 securities in the Company's portfolios of AFS residential mortgage-backed and none of the 4 securities in the Company's portfolios of HTM residential mortgage-backed were in unrealized loss positions. Aggregate unrealized losses represented less than 1% of the amortized cost of securities in unrealized loss positions within the AFS portfolio. The Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC") and Government National Mortgage Association ("GNMA") guarantee the contractual cash flows of all of the Company's residential mortgage-backed securities. The securities are investment grade rated and there were no material underlying credit downgrades during the past quarter. All securities are considered performing.

AFS corporate bonds

At March 31, 2012, 3 out of a total of 3 securities in the Company's portfolio of AFS corporate bonds were in an unrealized loss position. The aggregate unrealized loss represented 4% of the amortized cost of the securities. The securities are investment grade rated, and there was no material underlying credit downgrade during the past quarter. The securities are considered performing.

AFS trust preferred securities

At March 31, 2012, 3 out of a total of 6 securities in the Company's portfolio of AFS trust preferred securities were in unrealized loss positions. Aggregate unrealized losses represented 42% of the amortized cost of securities in unrealized loss positions. The Company's evaluation of the present value of expected cash flows on these securities supports its conclusions about the recoverability of the securities' amortized cost bases.

At March 31, 2012, $2.1 million of the total unrealized losses was attributable to a $2.6 million investment in a Mezzanine Class B tranche of a $360 million pooled trust preferred security issued by banking and insurance entities. The Company evaluated the security, with a Level 3 fair value of $0.5 million, for potential other-than-temporary-impairment ("OTTI") at March 31, 2012 and determined that OTTI was not evident based on both the Company's ability and intent to hold the security until the recovery of its remaining amortized cost and the protection from credit loss afforded by $33 million in excess subordination above current and projected losses. The security is considered performing.

AFS other bonds and obligations

At March 31, 2012, none of the 8 securities in the Company’s portfolio of other bonds and obligations were in unrealized loss positions. The securities are investment grade rated and there were no material underlying credit downgrades during the last quarter. All securities are considered performing.

HTM tax advantaged economic development bonds

At March 31, 2012, 3 of the 10 securities in the Company’s portfolio of tax advantaged economic d