WEBSTER FINANCIAL CORP
Form 10-Q
November 07, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2008.

or

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

WEBSTER FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**06-1187536**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
Webster Plaza, Waterbury, Connecticut	**06702**
(Address of principal executive offices)	**(Zip Code)**

(203) 465-4364

(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 ¨ No

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

Large accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of shares of common stock outstanding as of October 31, 2008 was 52,722,602.

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ITEM 1. INTERIM FINANCIAL STATEMENTS

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (unaudited)

(In thousands, except share and per share data)	September 30, 2008	December 31, 2007
Assets:		
Cash and due from depository institutions	$ 221,195	$ 306,654
Short-term investments	6,449	5,112
Investment securities:		
Trading, at fair value	1,197	2,340
Available for sale, at fair value	824,118	639,364
Held-to-maturity (fair value of $1,963,731 and $2,094,566)	2,031,665	2,107,227
Other securities	134,874	110,962
Total investment securities	2,991,854	2,859,893
Loans held for sale	3,247	221,568
Loans, net	12,677,220	12,287,857
Goodwill	718,525	728,038
Cash surrender value of life insurance	277,176	269,366
Premises and equipment	188,443	193,063
Accrued interest receivable	75,830	80,432
Assets held for disposition	900	51,603
Other intangible assets, net	35,501	39,977
Deferred tax assets, net	127,628	58,126
Unsettled trades	68,996	2,308
Prepaid expenses and other assets	123,073	97,963
Total assets	$ 17,516,037	$ 17,201,960
Liabilities and Shareholders Equity:		
Deposits	$ 11,832,375	$ 12,354,158
Federal Home Loan Bank advances	1,355,931	1,052,228
Securities sold under agreements to repurchase and other short-term debt	1,688,728	1,238,012
Long-term debt	657,004	650,643
Liabilities held for disposition		9,261
Accrued expenses and other liabilities	155,853	151,449
Total liabilities	15,689,891	15,455,751
Preferred stock of subsidiary corporation	9,577	9,577
Shareholders equity:		
Preferred stock, $0.01 par value; Authorized - 3,000,000 shares; Issued and outstanding - 225,000 shares at September 30, 2008	225,000	
Common stock, $0.01 par value; Authorized - 200,000,000 shares; Issued - 56,603,497 shares and 56,594,469 shares	566	566
Paid in capital	725,195	734,604
Retained earnings	1,109,114	1,183,621
Less: Treasury stock, at cost; 3,892,841 and 4,119,374 shares	(157,125)	(166,263)
Accumulated other comprehensive loss, net	(86,181)	(15,896)
Total shareholders equity	1,816,569	1,736,632

Total liabilities and shareholders equity	$ 17,516,037	$ 17,201,960

See accompanying Notes to Consolidated Interim Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(In thousands, except per share data)	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Interest Income:				
Loans	$ 175,363	$ 212,847	$ 542,421	$ 632,348
Investments	39,210	34,163	116,657	100,006
Loans held for sale	54	4,616	1,546	18,284
Total interest income	214,627	251,626	660,624	750,638
Interest Expense:				
Deposits	57,731	94,484	193,028	271,797
Borrowings	27,715	30,083	87,873	93,348
Total interest expense	85,446	124,567	280,901	365,145
Net interest income	129,181	127,059	379,723	385,493
Provision for credit losses	45,500	15,250	86,300	22,500
Net interest income after provision for credit losses	83,681	111,809	293,423	362,993
Non-Interest Income:				
Deposit service fees	31,738	29,956	90,114	84,068
Loan related fees	7,171	7,661	21,920	23,502
Wealth and investment services	7,070	7,142	21,660	21,657
Mortgage banking activities	50	1,849	894	8,040
Increase in cash surrender value of life insurance	2,606	2,629	7,810	7,749
Net (loss) gain on investment securities	(50)	482	199	1,526
Loss on write-down of investments to fair value	(33,507)		(89,684)	
Loss on sale of FNMA/FHLMC preferred stock	(2,060)		(2,060)	
Gain on Webster Capital Trust I and II securities				2,130
Visa share redemption			1,625	
Other income	2,731	1,688	5,369	5,591
Total non-interest income	15,749	51,407	57,847	154,263
Non-interest Expenses:				
Compensation and benefits	61,314	61,171	187,623	183,605
Occupancy	12,827	11,932	39,637	36,557
Furniture and equipment	14,892	14,846	45,686	44,418
Intangible assets amortization	1,464	2,027	4,476	8,493
Marketing	2,478	4,123	11,061	12,486
Outside services	3,798	3,625	11,657	11,317
Debt redemption premium				8,940
Goodwill impairment	1,013		9,513	
Severance and other costs	1,535	452	10,253	10,265
Foreclosed and repossessed property expenses	3,464	231	5,529	376
Other expenses	14,759	15,146	45,943	47,189
Total non-interest expenses	117,544	113,553	371,378	363,646

(Loss) income from continuing operations before income tax (benefit) expense		(18,114)		49,663		(20,108)		153,610
Income tax (benefit) provision		(1,878)		15,088		(1,860)		48,083
(Loss) income from continuing operations		(16,236)		34,575		(18,248)		105,527
(Loss) income from discontinued operations, net of tax		(518)		393		(3,081)		(56)
Net (loss) income		(16,754)		34,968		(21,329)		105,471
Preferred stock dividends		4,994				4,994		
Net (loss) income applicable to common shareholders	$	(21,748)	$	34,968	$	(26,323)	$	105,471
Net (loss) income per common share:								
Basic								
(Loss) income from continuing operations	$	(0.41)	$	0.64	$	(0.45)	$	1.91
Net (loss) income applicable to common shareholders		(0.42)		0.65		(0.51)		1.91
Diluted								
(Loss) income from continuing operations		(0.41)		0.64		(0.45)		1.89
Net (loss) income applicable to common shareholders		(0.42)		0.64		(0.51)		1.89

See accompanying Notes to Consolidated Interim Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME (unaudited)

	Nine months ended September 30, 2007							
		Common Stock					Accumulated Other Comprehensive (Loss)	
(In thousands, except share and per share data)	Preferred Stock	Shares	Amount	Paid-in Capital	Retained Earnings	Treasury Stock	Income	Total
Balance, December 31, 2006	$	56,388,707	$ 564	$ 726,886	$ 1,150,008	$	$ (3,324)	$ 1,874,134
Comprehensive income:								
Net income					105,471			105,471
Other comprehensive income (loss), net of taxes:								
Deferred gain on derivatives sold							2,571	2,571
Net unrealized loss on securities available for sale, net of taxes							(10,069)	(10,069)
Amortization of unrealized loss on securities transferred to held-to-maturity, net of taxes							339	339
Amortization of net actuarial loss and prior service costs							350	350
Amortization of deferred hedging gain							(126)	(126)
Other comprehensive loss								(6,935)
Comprehensive income								98,536
Dividends paid on common stock of $.87 per share					(48,515)			(48,515)
Exercise of stock options, including excess tax benefits		191,471	2	6,171		953		7,126
Repurchase of 1,973,753 common shares						(136,046)		(136,046)
Stock-based compensation expense				2,684				2,684
Restricted stock grants and expense		4,176		3,687		452		4,139
Cumulative impact of change in accounting for uncertainties in income taxes					1,400			1,400
Contingent consideration in a business combination				105		1,480		1,585
Balance, September 30, 2007	$	56,584,354	$ 566	$ 739,533	$ 1,208,364	$ (133,161)	$ (10,259)	$ 1,805,043

	Nine months ended September 30, 2008							
		Common Stock					Accumulated Other Comprehensive (Loss)	
(In thousands, except share and per share data)	Preferred Stock	Shares	Amount	Paid-in Capital	Retained Earnings	Treasury Stock	Income	Total
Balance, December 31, 2007	$	56,594,469	$ 566	$ 734,604	$ 1,183,621	$ (166,263)	$ (15,896)	$ 1,736,632
Comprehensive income (loss):								
Net loss					(21,329)			(21,329)

Other comprehensive income (loss), net of taxes:								
Net unrealized loss on securities available for sale, net of taxes							(71,251)	(71,251)
Amortization of unrealized loss on securities transferred to held to maturity							266	266
Net actuarial loss and prior service cost for pension and other postretirement benefits							35	35
Unrealized gain on cash flow hedge							990	990
Amortization of deferred hedging gain							(325)	(325)
Other comprehensive loss								(70,285)
Comprehensive loss								(91,614)
Dividends paid on common stock of $.90 per share					(47,260)			(47,260)
Dividends paid on preferred stock $22.19 per share					(4,994)			(4,994)
Exercise of stock options, including excess tax benefits		4,695		(228)		760		532
Repurchase of 13,142 common shares						(382)		(382)
Stock-based compensation expense				1,989				1,989
Restricted stock grants and expense		4,333		(3,772)		8,760		4,988
Issuance of convertible preferred stock, net of issuance costs	225,000			(7,398)				217,602
EITF 06-4 Adoption					(924)			(924)
Balance, September 30, 2008	$ 225,000	56,603,497	$ 566	$ 725,195	$ 1,109,114	$ (157,125)	$ (86,181)	$ 1,816,569

See accompanying Notes to Consolidated Interim Financial Statements

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(In thousands)	Nine months ended September 30, 2008	2007
Operating Activities:		
Net (loss) income	$ (21,329)	$ 105,471
Loss from discontinued operations, net of tax	(3,081)	(56)
(Loss) income from continuing operations	(18,248)	105,527
Adjustments to reconcile (loss) income from continuing operations to net cash provided by operating activities:		
Provision for credit losses	86,300	22,500
Depreciation and amortization	38,065	39,495
Amortization of intangible assets	4,476	8,493
Gain on Webster Capital Trust I and II securities		(2,130)
Debt redemption premium		8,940
Stock-based compensation	6,978	6,823
Excess tax benefits from stock-based compensation	(1)	(613)
Net loss (gain) on sale of foreclosed properties	2,424	(40)
Loss on write-down of investments to fair value	89,684	
Impairment of goodwill	9,513	
Net loss (gain) on sale of securities	2,014	(1,728)
Net gain on sale of loans and loan servicing	(894)	(8,040)
Net (gain) loss on trading securities	(153)	202
Decrease in trading securities	1,296	4,005
Increase in cash surrender value of life insurance	(7,810)	(7,749)
Loans originated for sale	(182,639)	(2,257,050)
Proceeds from sale of loans originated for sale	401,854	2,311,905
Decrease in interest receivable	4,602	3,911
Net (increase) decrease in prepaid expenses and other assets	(17,528)	681
Net (decrease) increase in accrued expenses and other liabilities	(10,574)	43,216
Proceeds from surrender of life insurance contracts		340
Net cash provided by operating activities	409,359	278,688
Investing Activities:		
Purchases of securities, available for sale	(428,279)	(301,456)
Proceeds from maturities and principal payments of securities available for sale	15,114	296,847
Proceeds from sales of securities, available for sale	15,659	37,663
Purchases of held-to-maturity securities	(88,582)	(61,871)
Proceeds from maturities and principal payments of held-to-maturity securities	163,929	97,380
Purchases of other securities	(23,912)	
Net (increase) decrease in short-term investments	(1,337)	95,378
Net increase in loans	(499,038)	(76,834)
Proceeds from sale of foreclosed properties	10,173	2,081
Net purchases of premises and equipment	(22,671)	(26,489)
Net cash (used for) provided by investing activities	(858,944)	62,699
Financing Activities:		
Net (decrease) increase in deposits	(580,283)	95,597
Proceeds from FHLB advances	77,132,552	12,537,426

Repayment of FHLB advances	(76,826,409)	(12,981,433)
Increase in securities sold under agreements to repurchase and other short-term borrowings	451,506	101,662
Net proceeds from issuance of preferred stock	217,602	
Issuance of long term debt		199,344
Payments on long term debt		(163,453)
Cash dividends to common shareholders	(47,260)	(48,515)
Cash dividends paid to preferred shareholders	(4,994)	
Exercise of stock options	532	6,132
Excess tax benefits from stock-based compensation	1	613
Common stock repurchased	(382)	(136,046)
Net cash provided by (used for) financing activities	342,865	(388,673)

See accompanying Notes to Consolidated Interim Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited), continued

(In thousands)	Nine months ended September 30, 2008	2007
Cash Flows from Discontinued Operations:		
Operating activities	$ (2,659)	$ 327
Proceeds from sale of discontinued operations	23,920	
Net cash provided by discontinued operations	21,261	327
Net change in cash and cash equivalents	(85,459)	(46,959)
Cash and cash equivalents at beginning of period	306,654	311,888
Cash and cash equivalents at end of period	$ 221,195	$ 264,929
Supplemental disclosures of cash flow information:		
Interest paid	$ 282,406	$ 373,081
Income taxes paid	25,478	36,874
Noncash investing and financing activities:		
Transfer of loans and leases, net to foreclosed properties	$ 27,191	$ 7,981
Issuance of loan to finance sale of subsidiary	18,000	
Transfer of property from premises and equipment to assets held for disposition	900	
Unsettled trade to sell securities	10,496	
Unsettled trade to acquire brokered deposit	58,500	
Mortgage loans securitized and transferred to mortgage-backed securities held-to-maturity		632,897
Residential construction loans held-for-sale transferred to residential construction loan portfolio		96,324
Contingent consideration in a business combination		1,585
Sale transactions:		
Fair value of noncash assets sold	$ 40,833	$
Fair value of liabilities extinguished	7,117	

See accompanying Notes to Consolidated Interim Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Interim Financial Statements

(Unaudited)

NOTE 1: Summary of Significant Accounting Policies and Other Matters

The Consolidated Interim Financial Statements include the accounts of Webster Financial Corporation (Webster or the Company) and its subsidiaries. The Consolidated Interim Financial Statements and Notes thereto have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant inter-company transactions have been eliminated in consolidation. Amounts in prior period financial statements are reclassified whenever necessary to conform to current period presentations. The results of operations for the three or nine months ended September 30, 2008 are not necessarily indicative of the results which may be expected for the year as a whole.

The preparation of the Consolidated Interim Financial Statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as of the date of the Consolidated Interim Financial Statements, and the reported amounts of revenues and expenses for the periods presented. Actual results could differ from those estimates. Material estimates that are susceptible to near-term changes include goodwill impairment, other-than-temporary impairment on securities, the determination of the allowance for credit losses and the valuation allowance for the deferred tax asset. These Consolidated Interim Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto included in Webster s Annual Report on Form 10-K for the year ended December 31, 2007.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued revised Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations,* (SFAS No. 141(R)). SFAS No. 141(R) retains the fundamental requirements of SFAS No. 141 that the acquisition method of accounting (formerly the purchase method) be used for all business combinations; that an acquirer be identified for each business combination; and that intangible assets be identified and recognized separately from goodwill. SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. Additionally, SFAS No. 141(R) changes the requirements for recognizing assets acquired and liabilities assumed arising from contingencies and recognizing and measuring contingent consideration. SFAS No. 141(R) also enhances the disclosure requirements for business combinations. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 and may not be applied before that date.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No.* 51 (SFAS No. 160). SFAS No. 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements* to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Among other things, SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. SFAS No. 160 also amends SFAS No. 128, *Earnings per Share,* so that earnings per share calculations in consolidated financial statements will continue to be based on amounts attributable to the parent. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 and is applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirements which are to be applied retrospectively for all periods presented. SFAS No. 160 is not expected to have a material impact on Webster s financial condition or results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related items are accounted for under SFAS No. 133 and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The new standard is effective for Webster on January 1, 2009. Webster is currently evaluating the impact of adopting SFAS No. 161 on the Consolidated Interim Financial Statements.

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In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). The guidance provided by SFAS No. 162 did not have an effect on the Consolidated Interim Financial Statements.

On October 10, 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. The FSP clarifies the application of FASB Statement No. 157, Fair Value Measurements, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The FSP is effective immediately, and includes prior period financial statements that have not yet been issued, and therefore Webster is subject to the provisions of the FSP effective September 30, 2008. The adoption of the FSP did not have a material impact on Webster s financial results or fair value determinations. See Notes 3 and 11 for additional information regarding the application of this FSP.

On October 14, 2008, the SEC s Office of the Chief Accountant (OCA), clarified its views on the application of other-than-temporary impairment guidance in FAS 115, Accounting for Certain Investments in Debt and Equity Securities, to certain perpetual preferred securities. The OCA concluded that it would not object to a registrant applying an other-than-temporary impairment model to investment in perpetual preferred securities that possess significant debt-like characteristics that is similar to the impairment model applied to debt securities, provided there has been no evidence of deterioration in credit of the issuer. An entity is permitted to apply the OCA s views in its financial statement included in filings subsequent to the date of the letter. At September 30, 2008, based on the OCA guidance, Webster did not record an other-than-temporary impairment for its investments in investment-grade perpetual preferred securities that had no evidence of credit deterioration and that it has the intent and ability to hold to market recovery.

Recent Economic Developments

There have been historic disruptions in the financial system during the past year and many lenders and financial institutions have reduced or ceased to provide funding to borrowers, including other lending institutions. The availability of credit, confidence in the entire financial sector, and volatility in financial markets has been adversely affected. The Federal Reserve Bank has been providing vast amounts of liquidity into the banking system to compensate for weaknesses in short-term borrowing markets and other capital markets. Federal regulators, as well as the federal government, have enacted legislation to provide stability to the current financial market. See Note 19 for additional information regarding actions taken by Webster in response to enacted federal legislation.

NOTE 2: Sale Transactions

On February 1, 2008, Webster completed the sale of Webster Insurance to USI Holdings Corporation. In connection with the sale, Webster Bank entered into a joint marketing arrangement with USI to provide expanded products and services to their respective clients. The sale resulted in the recording of a loss of $2.2 million, net of tax, in the first quarter of 2008. A total of $40.4 million of assets held for disposition were transferred to the buyer as well as $6.3 million of liabilities.

On April 22, 2008, Webster announced that a definitive agreement had been reached to sell Webster Risk Services, a third-party workers compensation administrator. A $0.2 million loss, net of tax, was recorded upon completion of the sale on June 30, 2008.

The activities related to Webster Insurance and Webster Risk Services have been reported separately, with current and prior period amounts reclassified as assets and liabilities held for disposition in the Consolidated Balance Sheets and operating results reclassified as discontinued operations in the Consolidated Statements of Operations. Related prior period disclosures in the Notes to Consolidated Interim Financial Statements have also been revised to incorporate the effect of the discontinued operations. Excluding the $2.4 million loss, net of taxes, on the sale of Webster Insurance and Webster Risk Services, the operating results from discontinued operations for both the three and nine months ended September 30, 2008 was a loss of $0.5 million, net of taxes, and $0.7 million, net of taxes, respectively. Although the sales of Webster Insurance and Webster Risk Services were completed by June 30, 2008, $0.5 million in settlement expenses were incurred during the three months ended September 30, 2008 which have been reflected as loss from discontinued operations in the accompanying Consolidated Statement of Operations.

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NOTE 3: Investment Securities

The following table presents a summary of the cost and fair value of Webster s investment securities:

	September 30, 2008				December 31, 2007			
	Amortized	Unrealized		Estimated	Amortized	Unrealized		Estimated
(In thousands)	Cost [c]	Gains	Losses	Fair Value	Cost [c]	Gains	Losses	Fair Value
Trading:								
Municipal bonds and notes				$ 1,197				$ 2,340
Available for Sale:								
Government Treasury Bills [a]	$ 1,988	$ 6	$	$ 1,994	$	$	$	$
Corporate bonds and notes [b]	282,704	373	(97,887)	185,190	350,209	2,672	(20,583)	332,298
Equity securities	40,588	4,259	(7,050)	37,797	78,354	1,763	(4,944)	75,173
Mortgage-backed securities	626,073	1,582	(28,518)	599,137	230,116	1,831	(54)	231,893
Total available for sale	$ 951,353	$ 6,220	$ (133,455)	$ 824,118	$ 658,679	$ 6,266	$ (25,581)	$ 639,364
Held-to-maturity:								
Municipal bonds and notes	$ 693,188	$ 1,815	$ (48,271)	$ 646,732	$ 635,103	$ 10,580	$ (2,470)	$ 643,213
Mortgage-backed securities	1,338,477	2,082	(23,560)	1,316,999	1,472,124	2,748	(23,519)	1,451,353
Total held-to-maturity	$ 2,031,665	$ 3,897	$ (71,831)	$ 1,963,731	$ 2,107,227	$ 13,328	$ (25,989)	$ 2,094,566
Other securities:								
Federal Home Loan Bank stock	$ 93,159	$	$	$ 93,159	$ 69,249	$	$	$ 69,249
Federal Reserve Bank stock	41,715			41,715	41,713			41,713
Total other securities	$ 134,874	$	$	$ 134,874	$ 110,962	$	$	$ 110,962

(a) Par value of available for sale Government Treasury Bills at September 30, 2008 was $2.0 million

(b) Par value of available for sale corporate bonds and notes at September 30, 2008 and December 31, 2007 was $387.3 million and $390.2 million, respectively.

(c) Includes write-downs for other-than-temporary impairments, as applicable.

Management evaluates all investment securities with an unrealized loss in value, whether caused by adverse interest rates, credit movements or some other factor to determine if the loss is other-than-temporary. The following table provides information on the gross unrealized losses and fair value of Webster 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 September 30, 2008.

	As of September 30, 2008					
	Less Than Twelve Months		Twelve Months or Longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

Available for Sale:						
U.S. Government agency Bonds	$					
Corporate bonds and notes	$ 115,178	$ (83,811)	$ 22,361	$ (14,076)	$ 137,539	$ (97,887)
Equity securities	4,761	(7,048)	6,901	(2)	11,662	(7,050)
Mortgage-backed securities	410,425	(28,518)			410,425	(28,518)
Total available for sale	$ 530,364	$ (119,377)	$ 29,262	$ (14,078)	$ 559,626	$ (133,455)
Held-to-maturity:						
Municipal bonds and notes	$ 548,972	$ (44,779)	$ 28,279	$ (3,492)	$ 577,251	$ (48,271)
Mortgage-backed securities	402,103	(5,209)	536,452	(18,351)	938,555	(23,560)
Total held-to-maturity	$ 951,075	$ (49,988)	$ 564,731	$ (21,843)	$ 1,515,806	$ (71,831)
Total investment securities	$ 1,481,439	$ (169,365)	$ 593,993	$ (35,921)	$ 2,075,432	$ (205,286)

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The following table provides information on the gross unrealized losses and fair value of Webster 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 December 31, 2007.

	As of December 31, 2007					
	Less Than Twelve Months		Twelve Months or Longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale:						
Corporate bonds and notes	$ 284,385	$ (19,686)	$ 4,504	$ (897)	$ 288,889	$ (20,583)
Equity securities	47,001	(4,764)	639	(180)	47,640	(4,944)
Mortgage-backed securities	70,819	(54)			70,819	(54)
Total available for sale	$ 402,205	$ (24,504)	$ 5,143	$ (1,077)	$ 407,348	$ (25,581)
Held-to-maturity:						
Municipal bonds and notes	$ 143,177	$ (2,210)	$ 19,118	$ (260)	$ 162,295	$ (2,470)
Mortgage-backed securities			1,034,467	(23,519)	1,034,467	(23,519)
Total held-to-maturity	$ 143,177	$ (2,210)	$ 1,053,585	$ (23,779)	$ 1,196,762	$ (25,989)
Total investment securities	$ 545,382	$ (26,714)	$ 1,058,728	$ (24,856)	$ 1,604,110	$ (51,570)

The following summarizes, by investment security type, the basis for the conclusion that the applicable investment securities within the Company s available for sale portfolio were not other-than-temporarily impaired at September 30, 2008:

Corporate bonds and notes - The unrealized losses on the Company s investment in corporate bonds and notes increased to $97.9 million at September 30, 2008 from $20.6 million at December 31, 2007, after the other-than-temporary impairment charges of $24.5 million and $66.1 million for the three and nine months ended September 30, 2008, respectively. This portfolio consists of various trust preferred securities, both pooled and single issuer, that are investment grade, below investment grade and unrated. The decline in market value is attributable primarily to changes in interest rates. Therefore; the Company continues to believe it will collect all scheduled payments. The Company also has the ability and intent to hold these investments until a recovery of amortized cost, which may be at maturity. As a result, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2008.

Equity securities - The unrealized losses on the Company s investment in equity securities increased to $7.1 million at September 30, 2008 from $4.9 million at December 31, 2007, after the other-than-temporary impairment charges of $9.0 million and $21.6 million for the three and nine months ended September 30, 2008, respectively. This portfolio consists primarily of investments in the common and perpetual preferred stock of other financial institutions ($36.8 million of the total fair value and $7.1 million of the total unrealized losses) and perpetual preferred stock of government sponsored enterprises ($1.0 million of the total fair value at September 30, 2008). Estimating the recovery period for equity securities in an unrealized loss position includes 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. Based on that evaluation and the Company s ability and intent to hold the investments for a reasonable period of time sufficient for a forecasted recovery of amortized cost, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2008. For its investments in perpetual preferred stock, Webster analyzed these securities for other-than-temporary impairment using an impairment model that is applied to debt securities, which is consistent with recent SEC guidance. Based on this analysis, Webster determined that there was no deterioration in the credit of one specific issuer; therefore, Webster did not consider that investment to be other-than-temporarily impaired at September 30, 2008. Investments in certain government sponsored enterprises, that were perpetual preferred stocks, were determined to be other-than-temporarily impaired under the debt impairment model (See discussion above and the discussion that follows for additional information on other-than-temporary charges recognized for the three and nine months ended September 30, 2008).

Mortgage-backed securities - The unrealized losses on the Company s investment in mortgage-backed securities increased to $28.5 million at September 30, 2008 from $54,000 at December 31, 2007. There were no other-than-temporary impairment charges for mortgage-backed securities for the three and nine months ended September 30, 2008. The contractual cash flows for these investments are performing as expected.

As the decline in market value is attributable to changes in interest rates and not due to underlying credit deterioration, and because the Company has the ability and intent to hold these investments until a recovery of amortized cost, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2008.

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The following summarizes by investment security 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 September 30, 2008:

Municipal bonds and notes The unrealized losses on the Company s investment in municipal bonds and notes increased to $48.3 million at September 30, 2008 from $2.5 million at December 31, 2007. Approximately $3.5 million of the $48.3 million unrealized losses at September 30, 2008 had been in an unrealized loss position for twelve consecutive months or longer as compared to $0.3 million of the $2.5 million at December 31, 2007. These securities are primarily insured AAA and AA rated general obligation bonds with stable ratings. The $3.5 million unrealized loss was concentrated in 46 municipal bonds and notes with a fair value of $28.3 million.

Mortgage backed securities The unrealized losses on the Company s investment in mortgage backed securities of $23.6 million at September 30, 2008 remained relatively consistent with the $23.5 million in unrealized losses at December 31, 2007. Approximately $18.4 million of the $23.6 million at September 30, 2008 had been in an unrealized loss position for twelve consecutive months or longer as compared to $23.5 million of the $23.5 million at December 31, 2007, a $5.1 million improvement. These securities carry AAA ratings or Agency implied AAA credit ratings and are currently performing as expected. The $18.4 million unrealized loss was concentrated in seven securities with a total fair value of $536.5 million.

There were no significant credit downgrades during the third quarter of 2008, and these securities are currently performing as anticipated. Management does not consider these investments to be other-than-temporarily impaired and Webster has the ability and intent to hold these investments to full recovery of the cost basis. Management expects that recovery of these temporarily impaired securities will occur over the weighted-average estimated remaining life of these securities.

The following table shows the impact of the recognition of other-than-temporary impairments and net realized gains and losses on the sale of securities from the available for sale portfolio for the three and nine months ended September 30, 2008 and 2007.

(In thousands)	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Corporate bonds and notes				
Gross gains	$	$	$ 309	$ 49
Gross losses [(a)]	(24,482)	(889)	(66,160)	
Net gains (losses) on corporate bonds and notes	(24,482)	(889)	(65,851)	49
Equity securities				
Gross gains	201	1,691	281	2,949
Gross losses [(b)]	(11,557)	(203)	(24,262)	(381)
Net gains (losses) on equity securities	(11,356)	1,488	(23,981)	2,568
Net gains (losses) on investment securities	$ (35,838)	$ 599	$ (89,832)	$ 2,617

(a) Other-than-temporary impairment charges were $24.5 million and $66.1 million for the three and nine months ended September 30, 2008. There were no impairment losses for the three and nine months ended September 30, 2007.

(b) Other-than-temporary impairment charges were $9.0 million and $21.6 million for the three and nine months ended September 30, 2008, respectively. There were no impairment charges for the three and nine months ended September 30, 2007.

The following summarizes, by investment security 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 September 30, 2008:

Corporate bonds and notes:

Trust preferred securities - the other-than-temporary impairment charges for these securities for the three and nine months ended September 30, 2008 was $13.5 million and $50.9 million, respectively. Approximately $9.1 million was due to an unexpected disruption in expected cash flows due to the increase in the amount of participants in the pool electing to defer interest payments for the three months ended September 30, 2008. Based on information received from the securities   underwriters and the trustees, it is expected that these securities will resume payments in 2009 and/or 2010. Approximately $4.4 million of the impairment charges were due to management s determination that the best estimate of cash flows that a market participant would use in determining the current fair value of the beneficial interest was adversely impacted. Accordingly, these securities were determined to be other-than-temporarily impaired and were written down to fair value as of September 30, 2008.

Income notes - the other-than-temporary impairment charge for these securities was $11.0 million and $15.2 million for the three and nine months ended September 30, 2008, respectively, due to management s determination that based on the best estimate of cash flows that a market participant would use in determining the current fair value of the beneficial interest, there was an implied adverse change in expected cash flows; accordingly, these securities were determined to be other-than-temporarily impaired and were written down to fair value as of September 30, 2008.

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Equity securities the other-than-temporary impairment charge for these securities was $9.0 million and $21.6 million for the three and nine months ended September 30, 2008, respectively. Of that amount, $8.0 million and $8.9 million, respectively, represents impairment charges taken on Fannie Mae and Freddie Mac preferred stock for the three and nine months ended September 30, 2008, respectively. The conclusion that the above equity securities were other-than-temporarily impaired was based on management s review of these securities and their prospects for a near term recovery.

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 additional impairment charges for other-than-temporary impairment in future periods.

NOTE 4: Loans, Net

A summary of loans, net follows:

	September 30, 2008		December 31, 2007	
(Dollars in thousands)	Amount	%	Amount	%
Residential mortgage loans:				
1-4 family	$ 3,456,953	26.9	$ 3,440,056	27.5
Construction	58,924	0.5	106,553	0.9
Liquidating portfolio				
Construction	25,409	0.2	83,253	0.7
1-4 family	16,039	0.1		
Total residential mortgage loans	3,557,325	27.7	3,629,862	29.1
Commercial loans:				
Commercial non-mortgage	1,801,913	13.9	1,736,644	13.9
Asset-based loans	868,177	6.7	793,023	6.4
Equipment financing	992,190	7.7	970,857	7.8
Total commercial loans	3,662,280	28.3	3,500,524	28.1
Commercial real estate:				
Commercial real estate	1,957,623	15.3	1,635,385	13.1
Commercial construction	193,814	1.5	185,983	1.5
Residential development	217,564	1.7	242,039	1.9
Total commercial real estate	2,369,001	18.5	2,063,407	16.5
Consumer loans:				
Home equity loans	2,893,534	22.5	2,844,094	22.8
Liquidating portfolio-home equity loans	295,823	2.3	340,662	2.7
Other consumer	30,198	0.2	32,498	0.3
Total consumer loans	3,219,555	25.0	3,217,254	25.8
Net unamortized premiums	15,133	0.1	18,055	0.1
Net deferred costs	43,095	0.4	46,841	0.4
Total net unamortized premiums and deferred costs	58,228	0.5	64,896	0.5
Total loans	12,866,389	100.0	12,475,943	100.0
Less: allowance for loan losses	(189,169)		(188,086)	

Loans, net	$ 12,677,220	$ 12,287,857

In 2007, Webster discontinued indirect residential construction lending and indirect home equity lending outside of its primary market area. At December 31, 2007, these two indirect out of market loan portfolios totaling $424.0 million ($340.7 million of indirect home equity products and $83.3 million of residential construction products) were placed into liquidating portfolios and are currently being managed by a designated credit team. At September 30, 2008, the liquidating portfolios had declined to $337.3 million ($295.8 million of indirect home equity, $25.4 million of residential construction and $16.1 million of 1-4 family residential mortgages).

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Financial instruments with off-balance sheet risk

Webster is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the Consolidated Balance Sheets.

The following table summarizes financial instruments with off-balance sheet risk:

(In thousands)	September 30, 2008	December 31, 2007
Unused commercial letters and lines of credit	$ 2,431,687	$ 2,350,367
Unused portion of home equity credit lines		
Continuing portfolio	1,988,630	1,994,279
Liquidating portfolio	26,168	65,000
Unadvanced portion of closed loans	290,391	452,321
Outstanding loan commitments	57,680	114,356
Total financial instruments with off-balance sheet risk	$ 4,794,556	$ 4,976,323

The interest rates for outstanding loan commitments are generally established shortly before closing. The interest rates on home equity lines of credit adjust with changes in the prime rate. At September 30, 2008, the fair value of financial instruments with off-balance sheet risk is considered insignificant to the financial statements taken as a whole.

NOTE 5: Allowance for Credit Losses

Significant disruption and volatility in the domestic and global financial and capital markets have continued through the third quarter of 2008, and along with turmoil in the mortgage market have led to a significant credit and liquidity crisis. These market conditions were attributable to a variety of factors; in particular the fallout associated with subprime mortgage loans (a type of lending never actively pursued by Webster). The disruption has been exacerbated by the continued value declines in the real estate and housing markets. Webster is not immune to some negative consequences arising from overall economic weakness and, in particular, a sharp downturn in the housing market, both locally and nationally. Decreases in real estate values could adversely affect the value of property used as collateral for loans. Adverse changes in the economy may have a negative effect on the ability of Webster s borrowers to make timely loan payments, which would have an adverse impact on the Company s earnings. A further increase in loan delinquencies would decrease net interest income and increase loan losses, causing potential increases in the provision and allowance for credit losses.

The allowance for credit losses is maintained at a level adequate to absorb probable losses inherent in the loan portfolio and in unfunded credit commitments. This allowance is increased by provisions charged to operating expense and by recoveries on loans previously charged-off and reduced by charge-offs on loans.

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A summary of the changes in the allowance for credit losses follows:

(In thousands)	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Continuing portfolio:				
Beginning balance	$ 161,497	$ 152,750	$ 147,680	$ 154,994
Provision	29,883	15,250	70,683	22,500
Charge-offs				
Commercial [a]	(13,837)	(1,609)	(28,689)	(5,337)
Equipment financing	(998)	(266)	(2,160)	(865)
Commercial real estate		(117)	(378)	(117)
Residential development	(161)		(3,872)	
Residential	(1,624)	(433)	(4,140)	(3,300)
Consumer	(4,643)	(2,582)	(11,124)	(7,751)
Total charge-offs	(21,263)	(5,007)	(50,363)	(17,370)
Recoveries	714	1,018	2,831	3,887
Net loan charge-offs	(20,549)	(3,989)	(47,532)	(13,483)
Ending balance - continuing portfolio	$ 170,831	$ 164,011	$ 170,831	$ 164,011
Liquidating portfolio:[b]				
Beginning balance	$ 32,871	$ N/A	$ 49,906	$ N/A
Provision	15,617	N/A	15,617	N/A
Charge-offs				
NCLC	(14,025)	N/A	(22,569)	N/A
Consumer (home equity)	(6,767)	N/A	(15,665)	N/A
Total charge-offs	(20,792)	N/A	(38,234)	N/A
Recoveries	142	N/A	549	N/A
Net loan charge-offs	(20,650)	N/A	(37,685)	N/A
Ending balance - liquidating portfolio	$ 27,838	N/A	$ 27,838	N/A
Ending balance - total allowance for credit losses	$ 198,669	$ 164,011	$ 198,669	$ 164,011
Components:				
Allowance for loan losses	$ 189,169	$ 154,532	$ 189,169	$ 154,532
Reserve for unfunded credit commitments [d]	9,500	9,479	9,500	9,479
Allowance for credit losses	$ 198,669	$ 164,011	$ 198,669	$ 164,011
Net loan charge-offs as a percentage of average total loans [c]	1.29%	0.13%	0.90%	0.15%
Allowance for loan losses as a percentage of total loans	1.47	1.24	1.47	1.24
Allowance for credit losses as a percentage of total loans	1.54	1.32	1.54	1.32

(a) All Business & Professional Banking loans, both commercial and commercial real estate, are considered commercial for purposes of reporting charge-offs and recoveries.

(b) In 2007 Webster discontinued indirect residential construction lending and indirect home equity lending outside of its primary market area. Webster placed these two portfolios into a liquidating portfolio and disclosed this as a separate category from its continuing portfolio. Comparable information for the liquidating portfolio for the three and nine month periods ended September 30, 2007 is therefore not available as the portfolio was established in the fourth quarter of 2007.

(c) Net loan charge-offs as a percentage of average loans is calculated by annualizing the net charge off amounts for the three and nine month period and dividing the result by average total loans for the respective periods.

(d) Reserve for unfunded credit commitments is reported as a component of accrued expenses and other liabilities in the accompanying Consolidated Balance Sheets.

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NOTE 6: Goodwill and Other Intangible Assets

The following tables set forth the carrying values of goodwill and other intangible assets, net of accumulated amortization:

(In thousands)	September 30, 2008	December 31, 2007
Balances not subject to amortization:		
Goodwill	$ 718,525	$ 728,038
Balances subject to amortization:		
Core deposit intangibles	34,187	38,612
Other identified intangibles	1,314	1,365
Total other intangible assets	35,501	39,977
Total goodwill and other intangible assets	$ 754,026	$ 768,015

Goodwill is allocated to Webster s business segments as follows:

(In thousands)	September 30, 2008	December 31, 2007
Commercial Banking	$ 6,681	$ 6,681
Retail Banking	516,332	516,332
Consumer Finance	149,391	149,391
Other	46,121	55,634
Total goodwill	$ 718,525	$ 728,038

Webster tests its goodwill for impairment annually in its third quarter. The estimated fair values of the Company s reporting units with goodwill were calculated using both market and income approaches. Based upon the annual impairment testing performed, there was no impairment indicated for Webster s goodwill with the exception of its insurance premium financing reporting unit. The fair value of this reporting unit was determined using both market and income approaches. Webster then determined the implied fair value of the reporting unit s goodwill as compared to its carried balance. Based upon this comparison Webster reduced the carrying value of goodwill by $1.0 million through a charge to third quarter earnings. This charge had no effect on Webster s cash balances or liquidity. In addition, as goodwill and other intangible assets are not included in the calculation of regulatory capital, the regulatory ratios of Webster and Webster Bank, N.A., were not affected by this non-cash charge.

Accounting principles generally accepted in the U.S. require additional testing if events or circumstances indicate that impairment may exist. A continuing period of market disruption, or further market capitalization to book value deterioration, will result in the requirement to continue to perform testing for impairment between annual assessments. Management will continue to monitor the relationship of the Company s market capitalization to its book value, which management attributes primarily to financial services industry-wide factors and to evaluate the carrying value of goodwill. To the extent that additional testing results in the identification of impairment, the Company may be required to record additional charges for the impairment of goodwill. For the three and nine months ended September 30, 2008, Webster reduced the carrying value of the goodwill associated with its insurance premium financing reporting unit by $1.0 million and $9.5 million, respectively.

Amortization of intangible assets for the three and nine months ended September 30, 2008, totaled $1.5 million and $4.5 million, respectively. Estimated annual amortization expense of current intangible assets with finite useful lives, absent any impairment or change in estimated useful lives, is summarized below.

(In thousands)	
For years ending December 31,	
2008 (full year)	$ 5,939
2009	5,754
2010	5,684
2011	5,684
2012	5,516
Thereafter	11,400

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NOTE 7: Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at September 30, 2008 and December 31, 2007 are summarized below. Temporary differences result from the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

(In thousands)	September 30, 2008	December 31, 2007
Deferred tax assets:		
Allowance for credit losses	$ 77,231	$ 76,955
Net operating loss and tax credit carry forwards	42,583	34,190
Compensation and employee benefit plans	23,379	17,423
Net unrealized loss on securities available for sale	44,532	6,760
Impairment losses on securities available for sale	35,017	
Other	18,011	15,422
Total deferred tax assets	240,753	150,750
Valuation allowance	(64,035)	(41,374)
Deferred tax assets, net of valuation allowance	176,718	109,376
Deferred tax liabilities:		
Deferred loan costs	16,706	19,918
Premises and equipment	4,559	3,454
Equipment financing leases	17,874	16,202
Purchase accounting and fair-value adjustments	5,846	7,341
Other	4,105	4,335
Total deferred tax liabilities	49,090	51,250
Deferred tax assets, net	$ 127,628	$ 58,126

Due to uncertainties of realization, a valuation allowance has been established for the full amount of the net state deferred tax asset applicable to Connecticut, and for substantially all Massachusetts and Rhode Island net state deferred tax assets.

Additionally, as a result of the capital-loss limitations and realization uncertainties, a $9.5 million valuation allowance has been established during the first nine months of 2008 for that portion of securities losses treated as capital for U.S. corporation income tax purposes and in excess of available capital gains. $8.6 million of that valuation allowance at September 30, 2008 was recognized as a reduction in the income tax benefit applicable to continuing operations ($7.9 million in the third quarter), and $0.9 million was recognized as an increase in the accumulated other comprehensive loss, net at September 30, 2008. As more fully described below, approximately $3.8 million of that valuation allowance will be recognized in the fourth quarter as a reduction of income tax expense applicable to continuing operations.

The $22.6 million increase in the valuation allowance for the first nine months of 2008 (from $41.4 million at December 31, 2007, to $64.0 million at September 30, 2008) consists of approximately $13 million for net state deferred tax assets (primarily Connecticut), for which a full valuation allowance has been recognized, and the $9.5 million for securities losses discussed above.

Management believes it is more likely than not that Webster will realize its net deferred tax assets, based upon its recent historical and anticipated future levels of pre-tax income. There can be no absolute assurance, however, that any specific level of future income will be generated.

As a result of the October 3, 2008, enactment of the Emergency Economic Stabilization Act of 2008, Webster will recognize a $3.8 million tax benefit in the fourth quarter related to a provision of that legislation permitting banks to treat losses on Fannie Mae and Freddie Mac preferred stock as ordinary instead of capital for U.S. corporation income tax purposes.

At September 30, 2008, Webster s total amount of unrecognized tax benefits (UTBs), determined under the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109* (FIN 48), was $7.5 million. If recognized, $4.5 million of that amount would impact the effective tax rate. During the nine months ended September 30, 2008, Webster s UTBs decreased by $3.2 million as a result of settlements with taxing authorities.

Additionally, Webster recognizes interest and, where applicable, penalties related to UTBs as a component of income tax expense. During the nine months ended September 30, 2008, Webster recognized $0.9 million of interest and penalties and, at September 30, 2008, had accrued interest and penalties related to UTBs of $1.7 million.

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Webster has determined it is reasonably possible that its UTBs could decrease within the next 12 months by an amount in the range of $0.5 million to $2.8 million, as a result of potential settlements with state taxing authorities.

NOTE 8: Deposits

The following table summarizes the period end balance and the composition of deposits:

	September 30, 2008		December 31, 2007	
(In thousands)	Amount	Percentage of Total	Amount	Percentage of Total
Demand	$ 1,509,319	12.8%	$ 1,538,083	12.5%
NOW	1,225,253	10.3	1,314,899	10.6
Money market	1,591,599	13.4	1,828,656	14.8
Savings	2,318,014	19.6	2,259,747	18.3
Health savings accounts (HSA)	515,397	4.4	403,858	3.3
Retail certificates of deposit	4,492,767	38.0	4,772,624	38.6
Brokered deposit	180,026	1.5	236,291	1.9
Total	$ 11,832,375	100.0%	$ 12,354,158	100.0%

Interest expense on deposits is summarized as follows:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2008	2007	2008	2007
NOW	$ 645	$ 1,685	$ 2,517	$ 5,104
Money market	9,098	20,508	29,096	55,031
Savings	7,228	9,786	23,416	25,884
HSA	2,688	2,854	8,115	7,964
Retail certificates of deposit	36,511	55,605	124,094	164,367
Brokered deposit	1,561	4,046	5,790	13,447
Total	$ 57,731	$ 94,484	$ 193,028	$ 271,797

NOTE 9: Federal Home Loan Bank Advances

Advances payable to the Federal Home Loan Bank (FHLB) are summarized as follows:

	September 30, 2008		December 31, 2007	
(In thousands)	Total Outstanding	Callable	Total Outstanding	Callable
Fixed Rate:				
1.00 % to 1.81 % due in 2008	$ 469,000	$	$ 613,956	$ 67,000
2.52 % to 5.96 % due in 2009	342,616	123,000	142,616	123,000
4.16 % to 8.44 % due in 2010	235,118	135,000	235,175	135,000
3.19 % to 6.60 % due in 2011	100,752		947	
4.00 % to 4.00 % due in 2012	51,400			
2.82 % to 5.49 % due in 2013	149,000	49,000	49,000	49,000
0.00 % to 6.00 % due after 2013	2,415		2,464	

	1,350,301	307,000	1,044,158	374,000
Unamortized premiums	5,630		8,310	
Hedge accounting adjustments			(240)	
Total advances	$ 1,355,931	$ 307,000	$ 1,052,228	$ 374,000

Webster Bank had additional borrowing capacity from the FHLB of approximately $1.2 billion at both September 30, 2008 and December 31, 2007. Advances are secured by a blanket security agreement against certain qualifying assets, principally residential mortgage loans. At September 30, 2008 and December 31, 2007, Webster Bank had unencumbered investment securities available to secure additional borrowings. If these securities had been used to secure FHLB advances, borrowing capacity at September 30, 2008 and December 31, 2007 would have been increased by an additional $503.9 million and $449.6 million, respectively. At September 30, 2008 Webster Bank was in compliance with the FHLB collateral requirements.

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On October 21, 2008 Webster announced that it is in the process of evaluating the securitization of part of its residential loan portfolio in the fourth quarter for approximately $500 million. To the extent the securitization is completed before year end, Webster would reduce total loans and increase unencumbered investment securities available to secure additional borrowings. If these securities were to be combined with existing unencumbered securities, Webster s borrowing capacity would be increased by an additional $1.0 billion as of December 31, 2008.

NOTE 10: Securities Sold Under Agreements to Repurchase and Other Short-term Debt

The following table summarizes securities sold under agreements to repurchase and other short-term borrowings:

(In thousands)	September 30, 2008	December 31, 2007
Securities sold under agreements to repurchase	$ 832,293	$ 754,792
Federal funds purchased	697,554	348,820
Treasury tax and loan	155,000	130,000
Other	280	9
	1,685,127	1,233,621
Unamortized premiums	3,601	5,110
Hedge accounting adjustments		(719)
Total	$ 1,688,728	$ 1,238,012

The following table sets forth certain information on short-term repurchase agreements:

(Dollars in thousands)	September 30, 2008	December 31, 2007
Quarter end balance	$ 259,293	$ 268,766
Quarter average balance	297,201	285,499
Highest month end balance during quarter	364,738	298,537
Weighted-average maturity (in months)	0.18	8.50
Weighted-average interest rate at end of period	1.34%	2.53%

NOTE 11: Fair Value Measurements

Effective January 1, 2008, Webster adopted the provisions of SFAS No. 157, *Fair Value Measurements* , for financial assets and financial liabilities. In accordance with FASB Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157,* Webster will delay application of SFAS No. 157 for non-financial assets and non-financial liabilities, until January 1, 2009. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

SFAS No. 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis