EAST WEST BANCORP INC
Form 10-Q
November 04, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Mark One

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

For the quarterly period ended September 30, 2009

or

o 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 000-24939

EAST WEST BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-4703316**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

135 N. Los Robles Ave, 7th Floor, Pasadena, California 91101

(Address of principal executive offices) (Zip Code)

(626) 768-6000

(Registrant s telephone number, including area code)

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

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

Number of shares outstanding of the issuer s common stock on the latest practicable date: 91,732,640 shares of common stock as of October 31, 2009.

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Forward-Looking Statements

Certain matters discussed in this Quarterly Report may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the 1933 Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and as such, may involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations of the environment in which the Company operates and projections of future performance including future earnings and financial condition. The Company s actual results, performance, or achievements may differ significantly from the results, performance, or achievements expected or implied in such forward-looking statements. Such risk and uncertainties and other factors include, but are not limited to, adverse developments or conditions related to or arising from:

- changes in our borrowers performance on loans;
- changes in the commercial and consumer real estate markets;
- changes in our costs of operation, compliance and expansion;
- changes in the economy, including inflation;
- changes in government interest rate policies;
- changes in laws or the regulatory environment;
- changes in critical accounting policies and judgments;
- changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies;
- changes in the equity and debt securities markets;
- changes in competitive pressures on financial institutions;
- effect of additional provision for loan losses;

- effect of any acquisitions we may make;
- effect of any goodwill impairment;
- fluctuations of our stock price;
- success and timing of our business strategies;
- impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity;
- changes in our ability to receive dividends from our subsidiaries; and
- political developments, wars or other hostilities that may disrupt or increase volatility in securities or otherwise affect economic conditions.

For a more detailed discussion of some of the factors that might cause such differences, see the Company s 2008 Form 10-K under the heading ITEM 1A. RISK FACTORS and the information set forth under RISK FACTORS in this Form 10-Q. The Company does not undertake, and specifically disclaims any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

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PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
Cash and due from banks	$ 132,569	$ 144,486
Short-term investments	460,665	734,367
Interest-bearing deposits in other banks	320,860	228,441
Securities purchased under resale agreements	75,000	50,000
Investment securities held-to-maturity, at amortized cost (with fair value of $799,729 at September 30, 2009 and $123,105 at December 31, 2008)	781,331	122,317
Investment securities available-for-sale, at fair value (with amortized cost of $1,496,992 at September 30, 2009 and $2,189,570 at December 31, 2008)	1,457,023	2,040,194
Loans receivable, net of allowance for loan losses of $230,650 at September 30, 2009 and $178,027 at December 31, 2008	8,156,838	8,069,377
Investment in Federal Home Loan Bank stock, at cost	86,729	86,729
Investment in Federal Reserve Bank stock, at cost	36,785	27,589
Other real estate owned, net	24,185	38,302
Investment in affordable housing partnerships	60,546	48,141
Premises and equipment, net	55,011	60,184
Due from customers on acceptances	5,414	5,538
Premiums on deposits acquired, net	17,904	21,190
Goodwill	337,438	337,438
Cash surrender value of life insurance policies	97,511	94,745
Deferred tax assets	156,047	184,588
Accrued interest receivable and other assets	224,074	129,190
TOTAL	**$ 12,485,930**	**$ 12,422,816**
LIABILITIES AND STOCKHOLDERS EQUITY		
Customer deposit accounts:		
Noninterest-bearing	$ 1,397,217	$ 1,292,997
Interest-bearing	7,271,340	6,848,962
Total customer deposits	8,668,557	8,141,959
Federal funds purchased	3,022	28,022
Federal Home Loan Bank advances	923,216	1,353,307
Securities sold under repurchase agreements	1,019,450	998,430
Notes payable	7,111	16,506
Bank acceptances outstanding	5,414	5,538
Long-term debt	235,570	235,570
Accrued interest payable, accrued expenses and other liabilities	101,808	92,718
Total liabilities	10,964,148	10,872,050
COMMITMENTS AND CONTINGENCIES (Note 8)		

STOCKHOLDERS EQUITY				
Preferred stock, $0.001 par value, 5,000,000 shares authorized; Series A, non-cumulative convertible, 200,000 shares issued and 85,741 shares outstanding in 2009 and 196,505 shares outstanding in 2008; Series B, cumulative, 306,546 shares issued and outstanding in 2009 and 2008.		367,922		472,311
Common stock, $0.001 par value, 200,000,000 shares authorized; 98,442,732 and 70,377,989 shares issued in 2009 and 2008, respectively; 91,693,532 and 63,745,624 shares outstanding in 2009 and 2008, respectively.		98		70
Additional paid in capital		929,558		695,521
Retained earnings		351,721		572,172
Treasury stock, at cost 6,749,200 shares in 2009 and 6,632,365 shares in 2008		(104,338)		(102,817)
Accumulated other comprehensive loss, net of tax		(23,179)		(86,491)
Total stockholders equity		1,521,782		1,550,766
TOTAL	**$**	**12,485,930**	**$**	**12,422,816**

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
INTEREST AND DIVIDEND INCOME				
Loans receivable, including fees	$ 114,512	$ 131,682	$ 336,997	$ 425,113
Investment securities held-to-maturity	12,060		31,077	
Investment securities available-for-sale	16,425	23,141	57,101	75,923
Securities purchased under resale agreements	2,153	1,276	4,695	5,533
Interest-bearing deposits in other banks	1,454	5	4,678	14
Short-term investments	402	1,953	2,663	3,093
Investment in Federal Reserve Bank stock	552	415	1,604	1,122
Investment in Federal Home Loan Bank stock	366	1,390	365	4,153
Total interest and dividend income	147,924	159,862	439,180	514,951
INTEREST EXPENSE				
Customer deposit accounts	26,970	40,757	94,933	136,546
Federal Home Loan Bank advances	11,172	17,140	38,191	54,363
Securities sold under repurchase agreements	12,140	12,063	36,016	33,881
Long-term debt	1,760	2,957	6,211	9,675
Federal funds purchased	2	430	8	2,176
Total interest expense	52,044	73,347	175,359	236,641
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	95,880	86,515	263,821	278,310
PROVISION FOR LOAN LOSSES	159,244	43,000	388,666	183,000
NET INTEREST (LOSS) INCOME AFTER PROVISION FOR LOAN LOSSES	(63,364)	43,515	(124,845)	95,310
NONINTEREST (LOSS) INCOME				
Impairment loss on investment securities	(45,199)	(53,567)	(82,846)	(63,512)
Less: Noncredit-related impairment loss recorded in other comprehensive income	20,950		20,950	
Net impairment loss on investment securities recognized in earnings	(24,249)	(53,567)	(61,896)	(63,512)
Branch fees	4,679	4,285	14,463	12,725
Net gain on sale of investment securities	2,177		7,378	7,767
Letters of credit fees and commissions	1,984	2,319	5,768	7,472
Ancillary loan fees	1,227	1,783	4,812	3,908
Income from life insurance policies	1,090	1,029	3,269	3,081
Net gain on sale of loans	8	144	19	2,272
Other operating income	1,204	457	1,902	2,088
Total noninterest (loss) income	(11,880)	(43,550)	(24,285)	(24,199)
NONINTEREST EXPENSE				
Compensation and employee benefits	15,875	17,520	49,492	66,578
Occupancy and equipment expense	6,262	6,817	19,950	20,364

Deposit insurance premiums and regulatory assessments	6,057	1,678	18,950	5,191
Other real estate owned expense	767	2,123	16,480	3,520
Loan-related expense	2,197	2,361	5,274	5,967
Amortization of investments in affordable housing partnerships	1,709	1,886	5,121	5,521
Legal expense	1,323	855	4,856	3,890
Data processing	1,079	1,055	3,362	3,386
Amortization and impairment loss on premiums on deposits acquired	1,069	1,581	3,286	6,145
Deposit-related expenses	948	1,231	2,863	3,416
Impairment loss on goodwill		272		858
Other operating expenses	8,778	11,147	25,748	32,235
Total noninterest expense	46,064	48,526	155,382	157,071
LOSS BEFORE BENEFIT FROM INCOME TAXES	(121,308)	(48,561)	(304,512)	(85,960)
BENEFIT FROM INCOME TAXES	(52,777)	(17,355)	(126,790)	(33,911)
Net loss before extraordinary item	(68,531)	(31,206)	(177,722)	(52,049)
Impact of desecuritization (Note 7)			5,366	
NET LOSS AFTER EXTRAORDINARY ITEM	**(68,531)**	**(31,206)**	**(183,088)**	**(52,049)**
PREFERRED STOCK DIVIDENDS, INDUCEMENT, AND AMORTIZATION OF PREFERRED STOCK DISCOUNT	(10,620)	(4,089)	(42,986)	(4,089)
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	**$ (79,151)**	**$ (35,295)**	**$ (226,074)**	**$ (56,138)**
LOSS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS				
BASIC	$ (0.91)	$ (0.56)	$ (3.19)	$ (0.90)
DILUTED	$ (0.91)	$ (0.56)	$ (3.19)	$ (0.90)
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.01	$ 0.10	$ 0.04	$ 0.30
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
BASIC	86,538	62,675	70,967	62,586
DILUTED	86,538	62,675	70,967	62,586

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(In thousands, except share data)

(Unaudited)

	Preferred Stock	Additional Paid In Capital Preferred Stock	Common Stock	Additional Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss, Net of Tax	Comprehensive Income (Loss)	Total Stockholders Equity
BALANCE, JANUARY 1, 2008	**$**		**$ 70**	**$ 652,297**	**$ 657,183**	**$ (98,925)**	**$ (38,802)**		**$ 1,171,823**
Comprehensive loss									
Net loss for the period					(52,049)			$ (52,049)	(52,049)
Net unrealized loss on investment securities available-for-sale							(33,797)	(33,797)	(33,797)
Total comprehensive loss								$ (85,846)	
Cumulative effect of change in accounting principle pursuant to adoption of ASC 715-60 (previously EITF 06-4)					(479)				(479)
Stock compensation costs				4,515					4,515
Tax provision from stock plans				(238)					(238)
Issuance of 200,000 shares Series A convertible preferred stock, net of stock issuance costs		194,068							194,068
Conversion of 2,600 shares of Preferred Stock		(2,523)							(2,523)
Issuance of 168,983 shares of Common Stock from converted 2,600 shares of Preferred Stock				2,523					2,523
Issuance of 400,834 shares pursuant to various stock plans and agreements				1,623					1,623
Issuance of 18,361 shares pursuant to Director retainer fee				219					219
Cancellation of 102,058 shares due to forfeitures of issued restricted stock				3,238		(3,238)			
Purchase accounting adjustment pursuant to DCB Acquisition				2,298					2,298
Purchase of 410 shares of treasury stock due to the vesting of restricted stock						(8)			(8)
Dividends paid on preferred stock					(4,089)				(4,089)
Dividends paid on common stock					(19,005)				(19,005)
BALANCE, SEPTEMBER 30, 2008	**$**	**$ 191,545**	**$ 70**	**$ 666,475**	**$ 581,561**	**$ (102,171)**	**$ (72,599)**		**$ 1,264,881**
BALANCE, DECEMBER 31, 2008	**$**	**$ 472,311**	**$ 70**	**$ 695,521**	**$ 572,172**	**$ (102,817)**	**$ (86,491)**		**$ 1,550,766**
Cumulative effect adjustment for reclassification of the previously recognized noncredit-related impairment loss on investment securities					8,110		(8,110)		
BALANCE, JANUARY 1, 2009	**$**	**$ 472,311**	**$ 70**	**$ 695,521**	**$ 580,282**	**$ (102,817)**	**$ (94,601)**		**$ 1,550,766**

Comprehensive loss									
Net loss after extraordinary item for the year					(183,088)			$ (183,088)	(183,088)
Net unrealized gain on investment securities available-for-sale							53,021	53,021	53,021
Net unrealized loss as a result of desecuritization							30,551	30,551	30,551
Noncredit-related impairment loss on investment securities recorded in the current year							(12,150)	(12,150)	(12,150)
Total comprehensive loss								$ (111,666)	
Stock compensation costs				4,370					4,370
Tax provision from stock plans				(498)					(498)
Preferred stock issuance and conversion cost		(180)							(180)
Common stock issuance cost				(5,535)					(5,535)
Induced conversion of 110,764 shares of Preferred Stock		(107,474)							(107,474)
Issuance of 9,968,760 shares of Common Stock from converted 110,764 shares of Preferred Stock			10	107,464					107,474
Issuance of 5,000,000 shares Common Stock from Private Placement			5	27,495					27,500
Issuance of 12,650,000 shares Common Stock from Public Offering			12	80,316					80,328
Issuance of 423,597 shares pursuant to various stock plans and agreements			1	399					400
Issuance of 22,386 shares pursuant to Director retainer fee				219					219
Cancellation of 60,578 shares due to forfeitures of issued restricted stock				1,467		(1,467)			
Purchase of 11,166 shares of treasury stock due to the vesting of restricted stock						(54)			(54)
Amortization of Series B preferred stock discount		3,265			(3,265)				
Preferred stock dividends					(21,381)				(21,381)
Common stock dividends					(2,487)				(2,487)
Inducement of preferred stock conversion				18,340	(18,340)				
BALANCE, SEPTEMBER 30, 2009	**$**	**$ 367,922**	**$ 98**	**$ 929,558**	**$ 351,721**	**$ (104,338)**	**$ (23,179)**		**$ 1,521,782**

	Nine Months Ended September 30, 2009	2008
	(In thousands)	
Disclosure of reclassification amounts:		
Unrealized holding gain (loss) on securities arising during the period, net of tax (expense) benefit of $ (37,620) in 2009 and $ 47,887 in 2008	$ 51,952	$ (66,129)
Less: Reclassification adjustment for gain included in net loss, net of tax expense of $(22,898) in 2009 and $(23,413) in 2008	31,620	32,332
Net unrealized gain (loss) on securities, net of tax (expense) benefit of $ (60,518) in 2009 and $ 24,474 in 2008	$ 83,572	$ (33,797)

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss after extraordinary item	$ (183,088)	$ (52,049)
Adjustments to reconcile net loss income to net cash provided by operating activities:		
Depreciation and amortization	16,847	12,754
Impairment loss on goodwill		858
Credit related impairment loss on investment securities available-for-sale	61,896	63,512
Impairment loss on other equity investment	581	
Stock compensation costs	4,370	4,515
Deferred tax benefit	(16,886)	(78,929)
Provision for loan losses and impact of desecuritization	397,929	183,000
Provision for loan loss on other real estate owned	17,670	2,121
Net gain on sales of investment securities, loans and other assets	(2,827)	(8,570)
Federal Home Loan Bank stock dividends		(3,777)
Originations of loans held for sale	(33,248)	(42,100)
Proceeds from sale of loans held for sale	33,318	42,458
Tax provision from stock plans	498	238
Net change in accrued interest receivable and other assets	(11,050)	25,755
Net change in accrued interest payable, accrued expenses and other liabilities	(97,694)	(5,485)
Total adjustments	371,404	196,350
Net cash provided by operating activities	188,316	144,301
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease in loans receivable	318,232	265,375
Purchases of:		
Interest-bearing deposits in other banks	(417,909)	(495)
Securities purchased under resale agreements	(50,000)	
Investment securities held-to-maturity	(697,768)	
Investment securities available-for-sale	(1,314,263)	(1,657,219)
Loans receivable	(350,000)	
Federal Home Loan Bank stock		(9,400)
Federal Reserve Bank stock	(9,196)	(5,904)
Investments in affordable housing partnerships	(22)	
Premises and equipment	(433)	(3,173)
Proceeds from:		
Sale of investment securities	336,710	376,148
Sale/call of securities purchased under resale agreements	25,000	100,000
Sale of loans receivable	105,227	148,254
Sale of other real estate owned	51,807	28,084
Sale of premises and equipment	8	85
Maturity of interest-bearing deposits in other banks	325,494	
Repayments, maturity and redemption of investment securities	1,040,828	1,011,854
Dividends/redemption of Federal Home Loan Bank stock	182	12,000
Acquisitions, net of cash paid		(1,158)

Net cash (used in) provided by investing activities		(636,103)		264,451
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from (payment for):				
Deposits		526,598		257,435
Issuance of short-term borrowings		(3,980)		(544,320)
Proceeds from:				
Issuance of long-term borrowings				250,000
Issuance of preferred stock				200,000
Issuance of common stock from public offering		80,328		
Issuance of common stock from private placement		27,500		
Issuance of common stock pursuant to various stock plans and agreements		400		1,623
Payment for:				
Repayment of long-term borrowings		(430,000)		(170,000)
Repayment of notes payable on affordable housing investments		(9,395)		(7,091)
Repurchase of treasury shares pursuant to stock repurchase program and vesting of restricted stock		(54)		(8)
Issuance and conversion costs of preferred stock & common stock		(5,715)		(5,932)
Cash dividends on preferred stock		(20,530)		(4,089)
Cash dividends on common stock		(2,486)		(19,005)
Tax provision from stock plans		(498)		(238)
Net cash provided by (used in) financing activities		162,168		(41,625)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(285,619)		367,127
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		878,853		160,347
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	593,234	$	527,474
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest		184,054		231,717
Income tax payments, net of refunds		(13,126)		39,743
Noncash investing and financing activities:				
Desecuritization of loans receivable		635,614		
Loans to facilitate sales of loans receivable		130,509		52,500
Transfers to real estate owned/affordable housing partnership		116,124		46,614
Loans to facilitate sales of real estate owned		38,605		
Issuance of common stock in lieu of Board of Director retainer fees		219		219
Afforadable housing investment financed through notes payable				3,000
Purchase accounting adjustment in connection with acquisition				2,298

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For Nine Months Ended September 30, 2009 and 2008

(Unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of East West Bancorp, Inc. (referred to herein on an unconsolidated basis as East West and on a consolidated basis as the Company) and its wholly-owned subsidiaries, East West Bank and subsidiaries (the Bank) and East West Insurance Services, Inc. Intercompany transactions and accounts have been eliminated in consolidation. East West also has nine wholly-owned subsidiaries that are statutory business trusts (the Trusts). In accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) 810, (previously FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities)*, the Trusts are not consolidated into the accounts of East West Bancorp, Inc.

The interim condensed consolidated financial statements, presented in accordance with accounting principles generally accepted in the United States of America (GAAP), are unaudited and reflect all adjustments which, in the opinion of management, are necessary for a fair statement of financial condition and results of operations for the interim periods. All adjustments are of a normal and recurring nature. Results for the nine months ended September 30, 2009 are not necessarily indicative of results that may be expected for any other interim period or for the year as a whole. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. Events subsequent to the condensed consolidated balance sheet date have been evaluated through November 3, 2009, the date the financial statements are available to be issued, for inclusion in the accompanying financial statements. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

Certain prior year balances have been reclassified to conform to current year presentation.

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Standards

In December 2007, the FASB issued ASC 805 (previously SFAS No. 141(R), *Business Combinations*). ASC 805 establishes principles and requirements for how an acquiring company (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree, (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. ASC 805 is effective for business combinations occurring on or after the beginning of the fiscal year beginning on or after December 15, 2008. ASC 805, effective for the Company on January 1, 2009, applies to all transactions or other events in which the Company obtains control of one or more businesses. Management will assess each transaction on a case-by-case basis as they occur.

In December 2007, the FASB issued ASC 810-10 (previously SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an Amendment of ARB No. 51*). This Statement requires

that noncontrolling or minority interests in subsidiaries be presented in the consolidated statement of financial position within equity, but separate from the parents equity, and that the amount of the consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. ASC 810-10 is effective for fiscal years beginning on or after December 15, 2008. The adoption of this guidance did not have a material effect on the Company s financial condition, results of operations, or cash flows.

In February 2008, the FASB issued ASC 860-10-35-2 and ASC 860-10-40-42 (previously FASB Staff Position FAS No. 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*), which provides a consistent framework for the evaluation of a transfer of a financial asset and subsequent repurchase agreement entered into with the same counterparty. ASC 860-10-35-2 and ASC 860-10-40-42 provide guidelines that must be met in order for an initial transfer and subsequent repurchase agreement to not be considered linked for evaluation. If the transactions do not meet the specified criteria, they are required to be accounted for as one transaction. This guidance is effective for fiscal years beginning after November 15, 2008, and shall be applied prospectively to initial transfers and repurchase financings for which the initial transfer is executed on or after adoption. The adoption of this guidance did not have a material effect on the Company s financial condition, results of operations, or cash flows.

In February 2008, the FASB issued ASC 820-10 (previously SFAS No. 157-2, *Effective Date of FASB Statement No. 157*), which provided for a one-year deferral of the implementation of this standard for other nonfinanical assets and liabilities, effective for fiscal years beginning after November 15, 2008. The adoption of this additional guidance did not have a material effect on the Company s financial condition, results of operations, or cash flows.

In March 2008, the FASB issued ASC 815-10-50 (previously SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*). ASC 815-10-50 requires specific disclosures regarding the location and amounts of derivative instruments in the financial statements; how derivative instruments and related hedged items are accounted for; and how derivative instruments and related hedged items affect the financial position, financial performance, and cash flows of the Company. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The adoption of this guidance did not have a material effect on the Company s financial condition, results of operations, or cash flows.

In April 2008, the FASB directed the FASB Staff to issue ASC 350-30-35-1 (previously FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*). ASC 350-30-35-1 amends the factors that should be considered in developing renewal or extension assumptions used for purposes of determining the useful life of a recognized intangible asset under ASC 350 (previously SFAS 142, *Goodwill and Other Intangible Assets*). ASC 350-30-35-1 is intended to improve the consistency between the useful life of a recognized intangible asset under ASC 350 and the period of expected cash flows used to measure the fair value of the asset under ASC 805 and other GAAP. ASC 350-30-35-1 is effective for fiscal years beginning after December 15, 2008. Earlier application is not permitted. The adoption of this guidance did not have a material effect on the Company s financial condition, results of operations, or cash flows.

In June 2008, the FASB issued ASC 260-10-45 (previously FSP EITF 03-06-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*). ASC 260-10-45 requires all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends to be considered participating securities and requires entities to apply the two-class method of computing basic and diluted earnings per share. This guidance is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption

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is prohibited. The adoption of this guidance did not have a material effect on the Company s basic and diluted earnings per share calculation.

In December 2008, the FASB issued ASC-10-50 (previously FSP FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) About Transfers of Financial Assets and Interests in Variable Interest Entities*). This disclosure-only ASC improves the transparency of transfers of financial assets and an enterprise s involvement with variable interest entities (VIEs), including qualifying special-purpose entities (QSPEs). The disclosures required by this ASC are intended to provide greater transparency to financial statement users about a transferor s continuing involvement with transferred financial assets and an enterprise s involvement with variable interest entities and qualifying SPEs. This ASC shall be effective for the first reporting period ending after December 15, 2008, with earlier application encouraged, and shall be applied for each annual and interim reporting period thereafter. The disclosure requirements related to the adoption of this guidance are presented in Note 3 and Note 8 of the Company s condensed consolidated financial statements.

In January 2009, the FASB issued ASC 325-40 (previously FSP EITF 99-20-1), *Amendments to the Impairment Guidance of EITF Issue No. 99-20*, which revises the other-than-temporary-impairment (OTTI) guidance on beneficial interests in securitized financial assets that are within the scope of EITF 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*). ASC 325-40 amends Issue 99-20, to more closely align its OTTI guidance with ASC 320-10 (previously FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*), by (1) removing the notion of a market participant and (2) inserting a probable concept related to the estimation of a beneficial interest s cash flows. ASC 325-40 is effective prospectively for interim and annual periods ending after December 15, 2008. Retrospective application of this ASC is prohibited. The adoption of this guidance did not have a material effect on the Company s financial condition, results of operations, or cash flows.

In April 2009, the FASB issued ASC 320-10-65 (previously FSP FAS 115-2 and FAS 124, *Recognition and Presentation of Other-Than-Temporary Impairments*), which makes changes to the timing of loss recognition and earnings for debt and similar investment securities classified as either available-for-sale or held-to-maturity . The ASC provides that if an entity intends to sell an impaired debt security prior to recovery of its amortized cost basis, or if it is more likely than not that it will have to sell the security prior to recovery, then the full amount of the impairment is to be classified as other-than-temporary and recognized in earnings. Otherwise, the portion of the impairment loss deemed to constitute a credit loss is considered an OTTI loss to be reported in earnings. The non-credit loss portion is recognized in other comprehensive income. This ASC also requires entities to initially apply the provisions of the standard to the noncredit portion of previously recorded OTTI impaired securities, existing as of the date of initial adoption, by making a cumulative-effect adjustment from the opening balance of retained earnings to other comprehensive income in the period of adjustment. Upon adoption of ASC 320-10-65, the Company reclassified the noncredit portion of previously recognized OTTI totaling $8.1 million, net of tax, from the opening balance of retained earnings to other comprehensive income. Additionally, upon implementation of this ASC as of March 31, 2009, the Company recorded $200 thousand, on a pre-tax basis, of the credit portion of OTTI through earnings and $7.6 million, net of tax, of the non-credit portion of OTTI in other comprehensive income.

In April 2009, the FASB issued ASC 820-10-65 (previously FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*), which provides additional guidance for estimating fair value in accordance with ASC 820 when the volume and level of activity for the asset or liability have significantly decreased. ASC 820-10-65 also requires additional disclosures relating to fair value measurement inputs and valuation techniques, as well as providing disclosures for all debt and equity investment securities by major security types rather than by major security categories that should be based on the nature and risks of the security during both interim and annual periods. The adoption of this ASC resulted in additional disclosures which are presented in Note 3 of the Company s condensed consolidated financial statements.

In April 2009, the FASB issued ASC 820-10-50, (previously FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*), which increases the frequency of fair value disclosures from an annual basis only to a quarterly basis. The guidance will require public entities to disclose in their interim financial statements the fair value of all financial instruments within the scope of ASC 825 (previously SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*), as well as the methods and significant assumptions used to estimate the fair value of those instruments. The ASC shall be effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity may early adopt this ASC only if it also elects to early adopt ASC 820-10-65 and ASC 320-10-65. This ASC does not require disclosures for earlier periods presented for comparative periods at initial adoption. In periods after initial adoption, this ASC requires comparative disclosures only for periods ending after the initial adoption. The adoption of this ASC on June 30, 2009 resulted in additional disclosures which are presented in Note 3 of the Company s condensed consolidated financial statements.

In May 2009, the FASB issued ASC 855, (previously SFAS No. 165, *Subsequent Events*). ASC 855 requires entities to recognize in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the balance sheet date, including the estimates inherent in the financial statement preparation process. Entities shall not recognize the impact of events or transactions that provide evidence about conditions that did not exist at the balance sheet date but arose after that date. ASC 855 also requires entities to disclose the date through which subsequent events have been evaluated. ASC 855 was effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this guidance did not have a material effect on the Company s financial condition, results of operations, or cash flows.

In June 2009, the FASB issued ASC 860 (previously SFAS No. 166, *Accounting for Transfers of Financial Assets*, which amends Statement 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*), and will require more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures. It is effective for financial statements issued for fiscal years beginning after November 15, 2009, and early adoption is prohibited. The Company is currently evaluating the impact that this statement will have on its financial condition, results of operations, or cash flows.

In June 2009, the FASB issued ASC 810 (previously SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*), which is a revision to FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, and changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. It is effective for financial statements issued for fiscal years beginning after November 15, 2009, and early adoption is prohibited. The Company does not expect the adoption of this guidance to have a material effect on its financial condition, results of operations, or cash flows.

In June 2009, the FASB issued ASC 105 (previously SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (GAAP) a replacement of FASB Statement No. 162 (Codification))*. This Codification is the source of

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authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. All of the contents of the Codification carries the same level of authority, effectively superseding SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. In other words, the GAAP hierarchy has been modified to include only two levels of GAAP: authoritative and nonauthoritative. The Codification is not intended to change GAAP, but it will change the way GAAP is organized and presented. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. In order to ease the transition to the Codification, the Company has provided the Codification cross-reference alongside the references to the standards issued and adopted prior to the adoption of the Codification.

In August 2009, the FASB issued ASU 2009-05, *Measuring Liabilities at Fair Value*, which provides guidance on measuring the fair value of liabilities under FASB ASC 820. ASU 2009-05 reaffirms that fair value measurement of a liability assumes the transfer of a liability to a market participant as of the measurement date. ASU 2009-05 is effective for the first interim reporting period after issuance. The Company does not expect the adoption of this guidance to have a material effect on its financial condition, results of operations, or cash flows.

3. FAIR VALUE

The Company adopted ASC 820 effective January 1, 2008, which provides a framework for measuring fair value under GAAP. This standard applies to all financial assets and liabilities that are being measured and reported at fair value on a recurring and non-recurring basis. For the Company, this includes the investment securities available-for-sale portfolio, equity swap agreements, derivatives payable, mortgage servicing assets, and impaired loans**.**

The Company adopted ASC 820-10 effective January 1, 2009, which provided for a one-year deferral of the implementation of ASC 820 for other nonfinanical assets and liabilities, effective for fiscal years beginning after November 15, 2008. For the Company, this includes other real estate owned (OREO).

Upon adoption of ASC 820-10-65 effective March 31, 2009, the Company has provided additional disclosures relating to fair value measurement inputs and valuation techniques as well as providing disclosures for all debt and equity investment securities by major security types rather than by major security categories that should be based on the nature and risks of the security during both interim and annual periods.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market and income approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Company is required to provide the following information according to the fair value hierarchy. The hierarchy ranks the quality and reliability of the information used to determine fair values. The hierarchy gives the highest priority to quoted prices available in active markets and the lowest priority to data lacking transparency. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

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• Level 1 Quoted prices for identical instruments that are highly liquid, observable and actively traded in over-the-counter markets. Level 1 financial instruments typically include U.S. Treasury securities.

• Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable and can be corroborated by market data. Level 2 financial instruments typically include U.S. Government debt and agency mortgage-backed securities, municipal securities, U.S. Government sponsored enterprise preferred stock securities, trust preferred securities, equity swap agreements, and OREO.

• Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category typically includes mortgage servicing assets, impaired loans, private label mortgage-backed securities, pooled trust preferred securities, and derivatives payable.

In determining the appropriate hierarchy levels, the Company performs a detailed analysis of assets and liabilities that are subject to fair value disclosure. The following table presents both financial and non-financial assets and liabilities that are measured at fair value on a recurring and non-recurring basis. These assets and liabilities are reported on the consolidated balance sheets at their fair values as of September 30, 2009. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of September 30, 2009			
	Fair Value Measurements September 30, 2009	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(In Thousands)		
Investment securities available-for-sale				
U.S. Treasury securities	$ 2,215	$ 2,215	$	$
U.S. Government agency securities and U.S. Government sponsored enterprise debt securities	476,735		476,735	
U.S. Government agency securities and U.S. Government sponsored enterprise residential mortgage-backed securities				
Commercial mortgage-backed securities	26,980		26,980	
Residential mortgage-backed securities	772,374		772,374	
Municipal securities	17,926		17,926	
Other residential mortgage-backed securities				
Investment grade	26,992		26,992	
Non-investment grade	15,534			15,534
Corporate debt securities				
Investment grade	103,278		102,418	860
Non-investment grade	11,701		6,210	5,491
U.S. Government sponsored enterprise equity securities	3,288		3,288	

Total investment securities available-for-sale	$	1,457,023	$	2,215	$	1,432,923	$	21,885
Equity swap agreements	$	13,728			$	13,728		
Derivatives payable		(13,733)						(13,733)

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Assets Measured at Fair Value on a Non-Recurring Basis for the Three Months Ended September 30, 2009

	Fair Value Measurements September 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
	(In Thousands)				
Mortgage Servicing Assets	$ 9,060	$	$	$ 9,060	$ (20)
Impaired Loans	119,413			119,413	(54,541)
OREO	16,092		16,092		(4,644)

Assets Measured at Fair Value on a Non-Recurring Basis for the Nine Months Ended September 30, 2009

	Fair Value Measurements September 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
	(In Thousands)				
Mortgage Servicing Assets	$ 9,060	$	$	$ 9,060	$ 660
Impaired Loans	140,756			140,756	(81,547)
OREO	16,920		16,920		(6,792)

At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The following table provides a reconciliation of the beginning and ending balances for available-for-sale investment securities by major security type and for major asset and liability categories measured at fair value using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2009:

		Investment Securities Available-for-Sale			
		Residential Mortgage-Backed Securities	Corporate Debt Securities		
	Total	Non-Investment Grade	Investment Grade	Non-Investment Grade	Derivatives Payable
Beginning balance, July 1, 2009	$ 32,460	$ 16,628	$ 1,245	$ 14,587	$ (13,323)
Total gains or (losses) (1)					
Included in earnings	(24,164)	1	5	(24,170)	(410)
Included in other comprehensive loss (unrealized) (2)	12,604	(1,095)	(374)	14,073	
Purchases, issuances, sales, settlements (3)	985		(16)	1,001	
Transfers in and/or out of Level 3 (4)					
Ending balance, September 30, 2009	$ 21,885	$ 15,534	$ 860	$ 5,491	$ (13,733)
Changes in unrealized losses included in earnings relating to assets and liabilities still held at September 30, 2009	$ (23,839)	$	$	$ (24,249)	$ 410

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	Investment Securities Available-for-Sale						
		Residential Mortgage-Backed Securities		Corporate Debt Securities			
	Total	Investment Grade	Non-Investment Grade	Investment Grade	Non-Investment Grade	Residual Securities	Derivatives Payable
Beginning balance, January 1, 2009	$624,351	$527,109	$10,216	$1,294	$35,670	$50,062	$(14,142)
Total gains or (losses) (1)							
Included in earnings	(55,119)	2,629	193	12	(61,810)	3,857	409
Included in other comprehensive loss (unrealized) (2)	105,387	101,456	1,363	(408)	27,996	(25,020)	
Purchases, issuances, sales, settlements (3)	(652,734)	(613,582)	(13,850)	(38)	3,635	(28,899)	
Transfers in and/or out of Level 3 (4)		(17,612)	17,612				
Ending balance, September 30, 2009	$21,885	$	$15,534	$860	$5,491	$	$(13,733)
Changes in unrealized losses included in earnings relating to assets and liabilities still held at September 30, 2009	$(62,305)	$	$	$	$(61,896)	$	$(409)

1) Total gains or losses represent the total realized and unrealized gains and losses recorded for Level 3 assets and liabilities. Realized gains or losses are reported in the consolidated statements of operations.

2) Unrealized gains or losses as well as the noncredit portion of OTTI on investment securities are reported in accumulated other comprehensive loss, net of tax, in the consolidated statements of changes in stockholders equity.

3) Purchases, issuances, sales and settlements represent Level 3 assets and liabilities that were either purchased, issued, sold, or settled during the period. The amounts are recorded at their end of period fair values. In May 2009, the Company desecuritized its portfolio of private-label mortgage backed securities resulting in a $635.6 million decrease in Level 3 investment grade mortgage-backed securities for the nine months ended September 30, 2009.

4) Transfers in and/or out represent existing assets and liabilities that were either previously categorized as a higher level and the inputs to the model became unobservable or assets and liabilities that were previously classified as Level 3 and the lowest significant input became observable during the period. These assets and liabilities are recorded at their end of period fair values.

Valuation Methodologies

Investment Securities Available-for-Sale The fair values of available-for-sale investment securities are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or prices obtained from independent external pricing service providers who have experience in valuing these securities. In obtaining such valuation information from third parties, the Company has reviewed the methodologies used to develop the resulting fair values.

The Company s Level 3 available-for-sale securities include one private-label mortgage-backed security and certain pooled trust preferred securities. The fair values of the private-label mortgage-backed security and pooled trust preferred securities have traditionally been based on the average of at least two quoted market prices obtained from independent external brokers since broker quotes in an active market are given the highest priority. However, as a result of the global financial crisis and illiquidity in the U.S. markets, the market for these securities has become increasingly inactive since mid-2007. It is the Company s view that current broker prices on the private-label mortgage-backed security and certain pooled trust preferred securities are based on forced liquidation or distressed sale values in very inactive markets that are not representative of the economic value of these securities. As such, the fair value of the private-label mortgage-backed security and pooled trust preferred securities have been below cost since the advent of the financial crisis. Additionally, most, if not all, of these broker quotes are nonbinding. The Company considered whether to place little, if any, weight on transactions that are not orderly when estimating fair value. Although length of time and severity of impairment are among the factors to consider when determining whether a security that is other-than-temporarily impaired, the private-label mortgage backed security and pooled trust preferred securities have only exhibited deep declines in value since the credit crisis began. The Company therefore believes that this is an indicator that the decline in price is solely a result of the lack of liquidity in the market for these securities and the broker quotes received stem from distressed sale transactions.

For the private-label mortgage-backed security, the Company determined fair value by using the appropriate combination of the market approach reflecting current broker prices and a discounted cash flow approach. The values resulting from each approach (i.e. market and income approaches) were weighted to derive the final fair value on the private-label mortgage-backed security. For the pooled trust preferred securities, the fair value was derived based on discounted cash flow analyses. In order to determine the appropriate discount rate used in calculating fair values derived from the income method for the private-label mortgage-backed security and pooled trust preferred securities, the Company has made assumptions using an exit pricing approach related to the implied rate of return which have been adjusted for general changes in market rates, estimated changes in credit quality and liquidity risk premium, specific non-performance and default experience in the collateral underlying the securities. The gains and losses recorded in the period are recognized in noninterest income. During the second quarter of 2009, the private-label mortgage-backed security was downgraded from investment grade to non-investment grade.

In May 2009, the desecuritization of the Company s Level 3 private-label mortgage backed securities resulted in a $635.6 million increase in single and multifamily loans receivable and is reflected in the decrease of Level 3 investment grade mortgage-backed investment securities for the nine months ended September 30, 2009 Level 3 reconciliation table described above.

Equity Swap Agreements The Company has entered into several equity swap agreements with a major investment brokerage firm to hedge against market fluctuations in a promotional equity index certificate of deposit product offered to bank customers. This deposit product, which has a term of 5 years or 5½ years, pays interest based on the performance of the Hang Seng China Enterprises Index (HSCEI). The fair value of these equity swap agreements is based on the income approach. The fair value is based on the change in the value of the HSCEI and the volatility of the call option over the life of the individual swap agreement. The option value is derived based on the volatility, the interest rate and the time remaining to maturity of the call option. The Company s consideration of its counterparty s credit risk resulted in a $26 thousand adjustment to the valuation of the equity swap agreements for the quarter ended September 30, 2009. The valuation of equity swap agreements falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of these derivative contracts.

Derivatives Payable The Company s derivatives payable are recorded in conjunction with the certificate of deposits (host instrument) that pays interest based on changes in the HSCEI and are included in interest-bearing deposits on the consolidated balance sheets. The fair value of these embedded derivatives is based on the income approach. **The Company s consideration of its own credit risk resulted in a $21 thousand adjustment to the valuation of the derivative liabilities, and a net gain of $10 thousand was recognized in noninterest income as the net difference between the valuation of the equity swap agreements and derivatives payable for the quarter ended** September 30**, 2009.** The valuation of the derivatives payable falls within Level 3 of the fair value hierarchy since the significant inputs used in deriving the fair value of these derivative contracts are not directly observable.

Mortgage Servicing Assets (MSAs) The Company records MSAs in conjunction with its loan sale and securitization activities since the servicing of the underlying loans is retained by the Bank. MSAs are initially measured at fair value using an income approach. The initial fair value of MSAs is determined based on the present value of estimated net future cash flows related to contractually

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specified servicing fees. The valuation for MSAs falls within Level 3 of the fair value hierarchy since there are no quoted prices for MSAs and the significant inputs used to determine fair value are not directly observable. The valuation of MSAs is determined using a discounted cash flow approach utilizing the appropriate yield curve and several market-derived assumptions including prepayment speeds, servicing cost, delinquency and foreclosure costs and behavior, and float earnings rate. Net cash flows are present valued using a market-derived discount rate. The resulting fair value is then compared to recently observed bulk market transactions with similar characteristics. The fair value is adjusted accordingly to be better aligned with current observed market trends and activity.

Impaired Loans The Company s impaired loans are generally measured using the fair value of the underlying collateral, which is determined based on the most recent valuation information received, which may be adjusted based on factors such as the Company s historical knowledge and changes in market conditions from the time of valuation. Impaired loans fall within Level 3 of the fair value hierarchy since they are measured at fair value based on the most recent valuation information received on the underlying collateral.

Other Real Estate Owned (OREO) The Company s OREO represents properties acquired through foreclosure or through full or partial satisfaction of loans, are considered held-for-sale, and are recorded at the lower of cost or estimated fair value at the time of foreclosure. The fair values of OREO properties are based on third-party appraisals, broker price opinions or accepted written offers. These valuations are reviewed and approved by the Company s appraisal department, credit review, or OREO department. OREO properties are classified as Level 2 assets in the fair value hierarchy. The OREO balance of $24.2 million included in the condensed consolidated balance sheets as of September 30, 2009 is recorded net of estimated disposal costs.

Fair Value of Financial Instruments

The Company adopted ASC 820-10-50 effective June 30, 2009, which increases the frequency of fair value disclosures from an annual basis only to a quarterly basis. The carrying amounts and fair values of the Company s financial instruments as of September 30, 2009 and December 31, 2008 were as follows:

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	As of September 30, 2009		As of December 31, 2008	
	Carrying Notional or Contract Amount	Estimated Fair Value	Carrying Notional or Contract Amount	Estimated Fair Value
	(In thousands)			
Financial Assets:				
Cash and due from banks	$ 132,569	$ 132,569	$ 144,486	$ 144,486
Short-term investments	460,665	460,665	734,367	734,367
Interest-bearing deposits in other banks	320,860	320,865	228,441	228,353
Securities purchased under resale agreements	75,000	86,292	50,000	51,581
Investment securities held-to-maturity	781,331	799,729	122,317	123,105
Investment securities available-for-sale	1,457,023	1,457,023	2,040,194	2,040,194
Loans receivable, net	8,156,838	8,064,302	8,069,377	8,036,406
Investment in Federal Home Loan Bank stock	86,729	86,729	86,729	86,729
Investment in Federal Reserve Bank stock	36,785	36,785	27,589	27,589
Accrued interest receivable	51,025	51,025	46,230	46,230
Equity swap agreements	38,828	13,728	43,453	13,853
Financial Liabilities:				
Customer deposit accounts:				
Demand, savings and money market deposits	4,428,646	4,008,980	3,399,817	3,141,126
Time deposits	4,239,911	4,248,498	4,742,142	4,750,957
Federal funds purchased	3,022	3,022	28,022	28,022
Federal Home Loan Bank advances	923,216	943,118	1,353,307	1,397,081
Securities sold under repurchase agreements	1,019,450	1,264,807	998,430	1,204,329
Notes payable	7,111	7,111	16,506	16,506
Accrued interest payable	10,283	10,283	18,977	18,977
Long-term debt	235,570	89,972	235,570	120,325
Derivatives payable	38,828	13,733	43,453	14,142
Off-balance sheet financial instruments:				
Commitments to extend credit	1,100,083	10,615	1,469,513	16,001
Standby letters of credit	642,452	3,699	656,979	3,614
Commercial letters of credit	32,290	(76)	39,426	(204)

The methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value are explained below:

Cash and Due From Banks The carrying amounts approximate fair values due to the short-term nature of these instruments.

Short-Term Investments -The fair values of short-term investments generally approximate their book values due to their short maturities.

Interest-Bearing Deposits in Other Banks The fair values of interest-bearing deposits in other banks is based on the discounted cash flow approach. The discount rate is derived from the Bank s time deposit rate curve.

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Securities Purchased Under Resale Agreements For securities purchased under resale agreements with original maturities of 90 days or less, the carrying amounts generally approximate fair values due to the short-term nature of these instruments. At September 30, 2009 and December 31, 2008, the securities purchased under resale agreements are long-term in nature and the fair value is estimated by discounting the cash flows based on expected maturities or repricing dates utilizing estimated market discount rates and taking into consideration the call features of each instrument.

Investment Securities Held-To-Maturity The fair values of the investment securities held-to-maturity are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or independent external pricing service providers who have experience in valuing these securities. In obtaining such valuation information from third parties, the Company has reviewed the methodologies used to develop the resulting fair values.

Investment Securities Available-For-Sale The fair values of the investment securities available-for-sale are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or independent external pricing service providers who have experience in valuing these securities. In obtaining such valuation information from third parties, the Company has reviewed the methodologies used to develop the resulting fair values. For the private-label mortgage-backed security, the fair value was derived based on a combination of broker prices and discounted cash flow analyses that is weighted as deemed appropriate. For the pooled trust preferred securities, the fair values were derived based on discounted cash flow analyses.

Loans Receivable, net - The fair value of loans is determined based on the discounted cash flow approach. The discount rate is derived from the associated yield curve plus spreads, and reflects the offering rates in the market for loans with similar financial characteristics. No adjustments have been made for changes in credit within the loan portfolio. It is management s opinion that the allowance for loan losses pertaining to performing and nonperforming loans results in a fair valuation of such loans.

Federal Home Loan Bank and Federal Reserve Bank Stock - The carrying amount of the Federal Home Loan Bank stock approximates fair value and its redemption price of $100 per share. The carrying value of the Federal Reserve Bank stock approximates fair value as the stock may be sold back at its carrying value.

Accrued Interest Receivable - The carrying amount of accrued interest receivable approximates fair value due to its short-term nature.

Equity Swap Agreements The fair value of the derivative contracts is provided by an independent third party and is determined based on the change in value of the HSCEI and the volatility of the call option over the life of the individual swap agreement. The option value is derived based on the volatility of the option, interest rate and time remaining to the maturity. The Company has also considered the counterparty s credit risk in determining the valuation.

Deposits The fair value of deposits is determined based on the discounted cash flow approach. The discount rate is derived from the associated yield curve, plus spread, if any. For core deposits, the cash outflows are projected by the decay rate based on the Bank s core deposit premium study. Cash flows for all non-time deposits are discounted using the LIBOR yield curve. For time deposits, the cash flows are based on the contractual runoff and are discounted by the Bank s current offering rates, plus spread.

Federal Funds Purchased The carrying amounts approximate fair values due to the short-term nature of these instruments.

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Federal Home Loan Bank Advances The fair value of FHLB advances is estimated based on the discounted value of contractual cash flows, using rates currently offered by the FHLB of San Francisco for fixed-rate credit advances with similar remaining maturities at each reporting date.

Securities Sold Under Repurchase Agreements For securities sold under repurchase agreements with original maturities of 90 days or less, the carrying amounts approximate fair values due to the short-term nature of these instruments. At September 30, 2009 and December 31, 2008, most of the securities sold under repurchase agreements are long-term in nature and the fair values of securities sold under repurchase agreements are calculated by discounting future cash flows based on expected maturities or repricing dates, utilizing estimated market discount rates and taking into consideration the call features of each instrument.

Notes Payable The carrying amount of notes payable approximates fair value as these notes are payable on demand.

Accrued Interest Payable - The carrying amount of accrued interest payable approximates fair value due to its short-term nature.

Long-Term Debt The fair values of long-term debt are estimated by discounting the cash flows through maturity based on current market rates the Bank would pay for new issuances.

Derivatives Payable The Company s derivatives payable are recorded in conjunction with the certificate of deposits (host instrument) that pays interest based on changes in the HSCEI. The Company s derivatives payable are estimated using the income approach. The Company has also considered its own credit risk in determining the valuation.

Commitments to Extend Credit, Standby and Commercial Letters of Credit - The fair values of commitments are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparty s credit standing.

The fair value estimates presented herein are based on pertinent information available to management as of each reporting date. Although the Company is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and therefore, current estimates of fair value may differ significantly from the amounts presented herein.

4. STOCK-BASED COMPENSATION

The Company issues stock-based compensation to certain employees, officers and directors under share-based compensation plans. The adoption of ASC 505 and ASC 718 (previously SFAS No. 123(R), *Share-Based Payment*), on January 1, 2006 has resulted in incremental stock-based compensation expense. Since the Company has previously recognized compensation expense on restricted stock awards, the incremental stock-based compensation expense recognized pursuant to ASC 505 and ASC 718 relates only to issued and unvested stock option grants.

During the three and nine months ended September 30, 2009, total compensation cost recognized in the consolidated statements of operations related to stock options and restricted stock awards amounted to $1.5 million and $4.4 million, respectively, with related tax benefits of $614 thousand and $1.8 million, respectively. During the three and nine months ended September 30, 2008, total compensation cost recognized in the consolidated statements of operations related to stock options and

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restricted stock awards amounted to $1.5 million and $4.5 million, respectively, with related tax benefits of $630 thousand and $1.9 million, respectively.

Stock Options

The Company issues fixed stock options to certain employees, officers, and directors. Stock options are issued at the current market price on the date of grant with a three-year or four-year vesting period and contractual terms of 7 years. Stock options issued prior to July 2002 had contractual terms of 10 years. The Company issues new shares upon the exercise of stock options.

A summary of activity for the Company s stock options as of and for the nine months ended September 30, 2009 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands) (1)
Outstanding at beginning of period	2,588,968	$ 20.67		
Granted	43,942	6.83		
Exercised	(6,198)	5.95		
Forfeited	(620,001)	17.23		
Outstanding at end of period	2,006,711	$ 21.48	3.57 years	$ 196
Vested or expected to vest	1,941,416	$ 21.46	3.51 years	$ 183
Exercisable at end of period	1,079,689	$ 21.01	2.15 years	$ 69

(1) Includes in-the-money options only.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Expected term (1)	(5)	(5)	4 years	4 years
Expected volatility (2)	(5)	(5)	60.5%	27.9%
Expected dividend yield (3)	(5)	(5)	0.6%	1.2%
Risk-free interest rate (4)	(5)	(5)	1.8%	2.6%

(1) The expected term (estimated period of time outstanding) of stock options granted was estimated using the historical exercise behavior of employees.

(2) The expected volatility was based on historical volatility for a period equal to the stock option s expected term.

(3) The expected dividend yield is based on the Company s prevailing dividend rate at the time of grant.

(4) The risk-free rate is based on the U.S. Treasury strips in effect at the time of grant equal to the stock option s expected term.

(5) The Company did not issue any stock options during the third quarter of 2009 and 2008.

During the three and nine months ended September 30, 2009 and 2008, information related to stock options is presented as follows:

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	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Weighted average fair value of stock options granted during the period	$ (1)	$ (1)	$ 3.00	$ 4.27
Total intrinsic value of options exercised (in thousands)	8	43	13	380
Total fair value of options vested (in thousands)	74	103	1,512	1,325

(1) The Company did not issue any stock options during the third quarter of 2009 and 2008.

As of September 30, 2009, total unrecognized compensation cost related to stock options amounted to $2.5 million. The cost is expected to be recognized over a weighted average period of 2.8 years.

Restricted Stock

In addition to stock options, the Company also grants restricted stock awards to directors, certain officers and employees. The restricted shares awarded become fully vested after three to five years of continued employment from the date of grant. The Company becomes entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted shares when the restrictions are released and the shares are issued. Restricted shares are forfeited if officers and employees terminate prior to the lapsing of restrictions. The Company records forfeitures of restricted stock as treasury share repurchases.

A summary of the activity for restricted stock as of September 30, 2009, including changes during the nine months then ended, is presented below:

	Shares	Weighted Average Price
Outstanding at beginning of period	753,165	$ 29.35
Granted	328,407	7.42
Vested	(32,609)	37.87
Forfeited	(105,669)	30.45
Outstanding at end of period	943,294	$ 21.30

The weighted average fair values of restricted stock awards granted during the nine months ended September 30, 2009 and 2008 were $7.42 and $19.66, respectively.

As of September 30, 2009, total unrecognized compensation cost related to restricted stock awards amounted to $9.3 million. This cost is expected to be recognized over a weighted average period of 2.6 years.

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5. INVESTMENT SECURITIES

An analysis of the held-to-maturity and available-for-sale investment securities portfolio is presented as follows:

	As of September 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Held-to-maturity				
U.S. Government agency and U.S. Government sponsored enterprise debt securities	$ 252,638	$ 530	$ (1,145)	$ 252,023
Municipal securities	36,118	1,720		37,838
Other residential mortgage-backed securities				
Investment grade	75,033	1,909	(115)	76,827
Non-investment grade	30,461		(1,770)	28,691
Corporate debt securities				
Investment grade	377,947	17,417	(89)	395,275
Non-investment grade	4,625		(59)	4,566
Other securities	4,509			4,509
Total investment securities held-to-maturity	$ 781,331	$ 21,576	$ (3,178)	$ 799,729
Available-for-sale				
U.S. Treasury securities	$ 2,214	$ 1	$	$ 2,215
U.S. Government agency and U.S. Government sponsored enterprise debt securities	474,896	2,311	(472)	476,735
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities				
Commercial mortgage-backed securities	26,107	873		26,980
Residential mortgage-backed securities	752,671	19,705	(2)	772,374
Municipal securities	17,759	193	(26)	17,926
Other residential mortgage-backed securities				
Investment grade	27,099		(107)	26,992
Non-investment grade	21,329		(5,795)	15,534
Corporate debt securities				
Investment grade	102,052	2,534	(1,308)	103,278
Non-investment grade (1)	69,824		(58,123)	11,701
U.S. Government sponsored enterprise equity securities	3,041	468	(221)	3,288
Total investment securities available-for-sale	$ 1,496,992	$ 26,085	$ (66,054)	$ 1,457,023
Total investment securities	$ 2,278,323	$ 47,661	$ (69,232)	$ 2,256,752

	As of December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Held-to-maturity				
Municipal securities	$ 5,772	$ 118	$	$ 5,890
Corporate debt securities	116,545	904	(234)	117,215

Total investment securities held-to-maturity	$	122,317	$	1,022	$	(234)	$	123,105
Available-for-sale								
U.S. Treasury securities	$	2,505	$	8	$		$	2,513
U.S. Government agency securities and U.S. Government sponsored enterprise debt securities		1,020,355		4,762		(1,183)		1,023,934
U.S. Government agency securities and U.S. Government sponsored enterprise mortgage-backed securities		373,690		6,758		(397)		380,051
Other mortgage-backed securities		645,940				(108,614)		537,326
Corporate debt securities (1)		116,127		266		(73,849)		42,544
U.S. Government sponsored enterprise equity securities (1)		3,340				(2,156)		1,184
Residual securities		25,043		25,019				50,062
Other securities (1)		2,570		10				2,580
Total investment securities available-for-sale	$	2,189,570	$	36,823	$	(186,199)	$	2,040,194
Total investment securities	$	2,311,887	$	37,845	$	(186,433)	$	2,163,299

(1) As of December 31, 2008, the Company recorded an OTTI charge of $13.6 million for corporate debt securities, $55.3 million for U.S. Government sponsored enterprise equity securities, and $4.3 million for other securities. Upon adoption of ASC 320, the Company reclassified the noncredit portion of previously recognized OTTI for pooled trust preferred securities totaling $8.1 million, on a net of tax basis, from the opening balance of retained earnings to other comprehensive income as of March 31, 2009. Additionally, the Company recorded $61.9 million, on a pre-tax basis, of the credit portion of OTTI through earnings and $12.2 million, net of tax, of the non-credit portion of OTTI for pooled trust preferred securities in other comprehensive income for the nine months ended September 30, 2009.

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The fair values of investment securities are generally determined by reference to the average of at least two quoted market prices obtained from independent external brokers or prices obtained from independent external pricing service providers who have experience in valuing these securities. The Company performs a monthly analysis on the broker quotes received from third parties to ensure that the prices represent a reasonable estimate of fair value. The procedures include, but are not limited to, initial and ongoing review of third party pricing methodologies, review of pricing trends, and monitoring of trading volumes. The Company assesses that prices received from independent brokers represent a reasonable estimate of fair value through the use of internal and external cash flow models developed that are based on spreads, and when available, market indices. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon available market data, the price received from third parties is adjusted accordingly.

Prices from third-party pricing services are often unavailable for securities that are rarely traded or are traded only in privately negotiated transactions. As a result, certain securities are priced via independent broker quotations which utilize inputs that may be difficult to corroborate with observable market based data. Additionally, the majority of these independent broker quotations are non-binding.

As a result of the global financial crisis and illiquidity in the U.S. markets, the Company believes current broker prices obtained on the private-label mortgage-backed security and certain pooled trust preferred securities are based on forced liquidation or distressed sale values in very inactive markets that are not representative of the economic value of these securities. The fair values of the private-label mortgage-backed security and pooled trust preferred securities have traditionally been based on the average of at least two quoted market prices obtained from independent external brokers since broker quotes in an active market are given the highest priority. However, in light of these circumstances, the Company has modified its approach in determining the fair values of these securities. For the pooled trust preferred securities, the Company believes that the cash flow analyses which demonstrate that the realizable value of these securities are equal to their carrying values should be the primary factor considered when making a judgment about other-than-temporary impairment. For the private-label mortgage-backed security, the Company determined fair value by using the appropriate combination of the market approach reflecting current broker prices and a discounted cash flow approach. The values resulting from each approach (i.e. market and income approaches) were weighted to derive the final fair value on the private-label mortgage-backed security. In calculating the fair value derived from the income approach, the Company made assumptions related to the implied rate of return, general change in market rates, estimated changes in credit quality and liquidity risk premium, specific non-performance and default experience in the collateral underlying the security, as well as broker discount rates.

The following tables show the Company s rollforward of the amount related to credit losses for the three and nine months ended September 30, 2009:

		Three Months Ended September 30, 2009 (In thousands)
Beginning balance, July 1, 2009	$	(37,647)
Additions of OTTI that was not previously recognized		(3,855)
Additional increases to the amount related to the credit loss for which an OTTI was previously recognized		(20,394)
Ending balance, September 30, 2009	$	(61,896)

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		Nine Months Ended September 30, 2009 (In thousands)
Beginning balance, January 1, 2009	$	
Additions of OTTI that was not previously recognized		(29,084)
Additional increases to the amount related to the credit loss for which an OTTI was previously recognized		(32,812)
Ending balance, September 30, 2009	$	(61,896)

The following table shows the Company s investment portfolio s gross unrealized losses and related fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2009 and December 31, 2008:

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	As of September 30, 2009					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
Held-to-maturity						
U.S. Government agency and U.S. Government sponsored enterprise debt securities	$ 126,494	$ (1,145)	$	$	$ 126,494	$ (1,145)
Other residential mortgage-backed securities						
Investment grade	17,106	(115)			17,106	(115)
Non-investment grade	28,691	(1,770)			28,691	(1,770)
Corporate debt securities						
Investment grade	4,039	(89)			4,039	(89)
Non-investment grade	4,566	(59)			4,566	(59)
Total temporarily impaired securities held-to-maturity	$ 180,896	$ (3,178)	$	$	$ 180,896	$ (3,178)
Available-for-sale						
U.S. Treasury securities	$	$	$	$	$	$
U.S. Government agency and U.S. Government sponsored enterprise debt securities	34,528	(472)			34,528	(472)
U.S. Government agency and U.S. Government sponsored enterprise residenial mortgage-backed securities	5,091	(2)			5,091	(2)
Municipal securities	2,430	(26)			2,430	(26)
Other residential mortgage-backed securities						
Investment grade	26,992	(107)			26,992	(107)
Non-investment grade			15,534	(5,795)	15,534	(5,795)
Corporate debt securities						
Investment grade	11,927	(76)	860	(1,232)	12,787	(1,308)
Non-investment grade (1)	419	(10,230)	11,282	(47,893)	11,701	(58,123)
U.S. Government sponsored enterprise equity securities			1,786	(221)	1,786	(221)
Total temporarily impaired securities available-for-sale	$ 81,387	$ (10,913)	$ 29,462	$ (55,141)	$ 110,849	$ (66,054)
Total temporarily impaired securities	$ 262,283	$ (14,091)	$ 29,462	$ (55,141)	$ 291,745	$ (69,232)

	As of December 31, 2008					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
Held-to-maturity						
Corporate debt securities	$ 40,057	$ (234)	$	$	$ 40,057	$ (234)
Total temporarily impaired securities held-to-maturity	$ 40,057	$ (234)	$	$	$ 40,057	$ (234)
Available-for-sale						
U.S. Government agency securities and U.S. Government sponsored	$ 143,727	$ (1,183)	$	$	$ 143,727	$ (1,183)

enterprise debt securities												
U.S. Government agency securities and U.S. Government sponsored enterprise mortgage-backed securities		72,245		(397)						72,245		(397)
Other mortgage-backed securities		17,984		(3,339)		519,090		(105,275)		537,074		(108,614)
Corporate debt securities		4,016		(2,946)		34,611		(70,903)		38,627		(73,849)
U.S. Government sponsored enterprise equity securities		1,184		(2,156)						1,184		(2,156)
Total temporarily impaired securities available-for-sale	$	239,156	$	(10,021)	$	553,701	$	(176,178)	$	792,857	$	(186,199)
Total temporarily impaired securities	$	279,213	$	(10,255)	$	553,701	$	(176,178)	$	832,914	$	(186,433)

(1) For the nine months ended September 30, 2009, the Company recorded $21.0 million, on a pre-tax basis, of the non-credit portion of OTTI for pooled trust preferred securities in other comprehensive income, which is included as gross unrealized losses.

Corporate Debt Securities (Available-for-Sale)

The majority of unrealized losses in the available-for-sale portfolio at September 30, 2009 are related to pooled trust preferred debt securities. As of September 30, 2009, the Company had $6.4 million in pooled trust preferred debt securities available-for-sale, representing less than 1% of the total investment securities available-for-sale portfolio. In April 2009, except for one security which was downgraded but remained at investment grade status, the ratings for the other twelve pooled trust

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preferred securities were downgraded to non-investment grade status due to increased deferral and default activity from the issuers of the underlying debt collateralizing these instruments. As of September 30, 2009, these debt instruments had gross unrealized losses amounting to $55.4 million, or 90% of the total amortized cost basis of these securities, comprised of $34.4 million in gross unrealized losses and $21.0 million, or $12.2 million on a net of tax basis, in noncredit-related impairment losses recorded during the first nine months of 2009 pursuant to the provisions of ASC 320-10-65.

Almost all of the pooled trust preferred securities held by the Company have underlying collateral issued by banks and insurance companies. Continued deterioration in market conditions have resulted in many more small banks either deferring or defaulting on their trust preferred debt during the third quarter of 2009. As a result of diminishing collateral values, deteriorating cash flows, and increasing estimates of future deferrals and defaults, the Company recorded an impairment loss of $45.2 million on its portfolio of trust preferred securities during the third quarter of 2009, of which $24.2 million was a pre-tax credit loss recorded through earnings. *The remaining $21.0 million, or $12.2 million on a net of tax basis, in noncredit-related impairment* loss was recorded in other comprehensive income as of September 30, 2009. The Company determined the amount of credit-related impairment by discounting the expected future cash flows with the effective yield of the security in accordance with generally accepted accounting principles. During the first quarter of 2009, the Company recorded an impairment loss of $13.4 million on a non-investment grade pooled trust preferred security. During the second quarter of 2009, the Company recorded an impairment loss of $100.8 million on its portfolio of trust preferred securities, of which $37.4 million was a pre-tax credit loss recorded in other comprehensive income. As of March 31, 2009, of the total impairment loss amount, $200 thousand was a pretax credit loss recorded through earnings. The remaining $13.2 million, or $7.6 million on a net of tax basis, in noncredit-related impairment loss was recorded in other comprehensive income.

During 2008 and 2007, the Company recorded $13.6 million and $405 thousand, respectively, in non-credit related impairment losses on three pooled trust preferred securities due to rating downgrades caused by increases in market spreads, concerns regarding the housing market, and lack of liquidity in the market. None of these securities have experienced any credit-related losses for which OTTI was previously recorded. Upon the implementation of ASC 320-10-65, the Company reclassified the combined $14.0 million, or $8.1 million on a net of tax basis, in noncredit-related OTTI impairment losses recognized during 2008 and 2007 from the opening balance of retained earnings to other comprehensive income as of March 31, 2009.

Mortgage-backed Securities (Held-to-Maturity)

As of September 30, 2009, the aggregate fair value of the non-agency held-to-maturity mortgage-backed securities amounted to $105.5 million. These securities are collateralized by single family loans and secured by first liens on these residential properties. During the second and third quarter of 2009, three mortgage-backed securities were downgraded from investment grade to non-investment grade. Except for these three non-investment grade securities, the remaining held-to-maturity mortgage-backed securities are investment grade. As of September 30, 2009, these debt instruments had gross unrealized losses for less than twelve months amounting to $1.9 million, or 2% of the aggregate amortized cost basis of held-to-maturity mortgage-backed securities, comprised of $1.8 million and $115 thousand that are non-investment grade and investment grade, respectively.

The decline in fair values of these securities is due to widening market spreads, concerns regarding the downturn in the housing market, and lack of liquidity in the market. However, these securities have strong credit support, low loan-to-values, low delinquency, and low OREO ratios. The Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before recovery of their amortized cost bases. As such, the Company does not deem these securities to be other-than-temporarily impaired as of September 30, 2009.

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Mortgage-backed Securities (Available-for-Sale)

As of September 30, 2009, the Company had one private-label available-for-sale mortgage-backed security with a fair value of $15.5 million, with a gross unrealized loss of $5.8 million, or 27% of the amortized cost basis of this security, for more than 12 months. During the second quarter of 2009, this security was downgraded from investment grade to non-investment grade. This security is collateralized by single family loans and secured by the first lien on these residential properties. Additionally, any principal and interest shortfall that may arise from the deterioration of the collateral will be covered by a monoline insurance provider. The Company does not intend to sell this security and it is not more likely than not that the Company will be required to sell this security before recovery of its amortized cost basis. As such, the Company does not deem this security to be other-than-temporarily impaired as of September 30, 2009.

In May 2009, the Company desecuritized its private-label mortgage backed securities which resulted in a $635.6 million increase in single and multifamily loans receivable with a corresponding decrease in available-for-sale investment securities. These single family and multifamily loans were previously originated by the Company and were securitized in 2006 and 2007 for additional liquidity purposes. All of the resulting securities were retained by the Company in its available-for-sale investment portfolio. The Company s decision to desecuritize these securities was prompted by the mark-to-market adjustments recorded on these securities that were based on price points observed in the general market for mortgage-backed securities that were not reflective of the better credit quality of the underlying loans. These loans had very low overall delinquency rates as of September 30, 2009. The accumulated mark-to-market adjustments on these securities, recorded in other comprehensive income, were negatively impacting the Company s tangible common equity. The desecuritization added $30.6 million to the Company s tangible common equity.

Government-Sponsored Equity Preferred Stock (Available-for Sale)

In September 2008, liquidity and credit concerns led the U.S. Federal Government to assume a conservatorship role in Fannie Mae and Freddie Mac. The rating on Fannie Mae and Freddie Mac preferred stock securities was downgraded from investment grade to non-investment grade status reflecting the cessation of dividend payments on these securities. These securities are non-cumulative perpetual preferred stock in which unpaid dividends do not accumulate. The purchase agreement between the U.S. Treasury and these government-sponsored entities contains a covenant prohibiting the payment of dividends on existing preferred stock. As the assessment on the status of any resumption in dividend payments on these securities was uncertain, the Company recorded $55.3 million in OTTI charges on Fannie Mae and Freddie Mac preferred stock securities in 2008. As of September 30, 2009, the fair value of these preferred stock securities was $3.3 million. Gross unrealized losses on these securities amounted to $221 thousand as of September 30, 2009, or 7% of the aggregate amortized cost basis of these securities. The outlook for these preferred securities remains stable. The Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before recovery of their amortized cost bases. As such, the Company does not deem these remaining securities to be other-than-temporarily impaired as of September 30, 2009.

The Company has thirteen individual securities that have been in a continuous unrealized loss position for twelve months or longer as of September 30, 2009. These securities are comprised of ten corporate debt securities with a total fair value of $12.1 million, two government-sponsored equity preferred securities with a total fair value of $1.8 million and one mortgage-backed security with a fair value of $15.5 million. As of September 30, 2009, there were also 28 securities that have been in a continuous unrealized loss position for less than twelve months. The unrealized losses on these securities are primarily attributed to changes in interest rates as well as the liquidity crisis that has impacted all

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financial industries. The issuers of these securities have not, to the Company s knowledge, established any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. The Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases. As such, the Company does not deem these securities to be other-than-temporarily impaired as of September 30, 2009.

The scheduled maturities of investment securities at September 30, 2009 are presented as follows:

	Held-to-maturity		Available-for-sale	
(In thousands)	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
Due within one year	$ 220,132	$ 222,276	$ 325,308	$ 316,192
Due after one year through five years				