REPUBLIC BANCORP INC /KY/
Form 10-Q
October 27, 2010

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

FORM 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2010

or

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.
(Exact name of registrant as specified in its charter)

Kentucky	61-0862051
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
601 West Market Street, Louisville, Kentucky	40202
(Address of principal executive offices)	(Zip Code)

(502) 584-3600
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

o Yes o No

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

Large accelerated filer	o	Accelerated filer	þ
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).
o Yes þ No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date:

The number of shares outstanding of the registrant’s Class A Common Stock and Class B Common Stock, as of October 26, 2010, was 18,627,220 and 2,308,101, respectively.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS (in thousands) (unaudited)

	September 30, 2010	December 31, 2009
ASSETS:		
Cash and cash equivalents	$171,024	$1,068,179
Securities available for sale	561,483	416,311
Securities to be held to maturity (fair value of $39,695 in 2010 and $51,135 in 2009)	39,351	50,924
Mortgage loans held for sale	5,783	5,445
Loans, net of allowance for loan losses of $24,566 and $22,879 (2010 and 2009)	2,132,764	2,245,353
Federal Home Loan Bank stock, at cost	26,274	26,248
Premises and equipment, net	38,171	39,380
Goodwill	10,168	10,168
Other assets and accrued interest receivable	50,751	56,760
TOTAL ASSETS	$3,035,769	$3,918,768
LIABILITIES		
Deposits		
Non interest-bearing	$328,083	$318,275
Interest-bearing	1,409,019	2,284,206
Total deposits	1,737,102	2,602,481
Securities sold under agreements to repurchase and other short-term borrowings	286,510	299,580
Federal Home Loan Bank advances	565,424	637,607
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	34,668	21,840
Total liabilities	2,664,944	3,602,748
STOCKHOLDERS' EQUITY		
Preferred stock, no par value	-	-
Class A Common Stock and Class B Common Stock, no par value	4,944	4,917
Additional paid in capital	129,429	126,376
Retained earnings	229,552	178,944
Accumulated other comprehensive income	6,900	5,783
Total stockholders' equity	370,825	316,020
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,035,769	$3,918,768

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)
(in thousands, except per share data)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
INTEREST INCOME:				
Loans, including fees	$31,021	$33,413	$146,212	$159,136
Taxable investment securities	3,788	4,441	11,252	14,283
Tax exempt investment securities	-	5	11	17
Federal Home Loan Bank stock and other	461	406	1,911	1,692
Total interest income	35,270	38,265	159,386	175,128
INTEREST EXPENSE:				
Deposits	2,946	3,630	10,366	18,584
Securities sold under agreements to repurchase and other short-term borrowings	262	238	746	819
Federal Home Loan Bank advances	4,978	6,027	15,014	17,371
Subordinated note	632	634	1,883	1,881
Total interest expense	8,818	10,529	28,009	38,655
NET INTEREST INCOME	26,452	27,736	131,377	136,473
Provision for loan losses	(1,804)	1,427	17,966	28,778
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	28,256	26,309	113,411	107,695
NON INTEREST INCOME:				
Service charges on deposit accounts	3,847	4,990	11,728	14,404
Electronic refund check fees	293	137	58,513	25,272
Net RAL securitization income	8	26	228	498
Mortgage banking income	1,679	1,667	4,094	9,358
Debit card interchange fee income	1,213	1,321	3,745	3,792
			-	
Total impairment losses on investment securities	-	(850)	(126)	(5,871)
Loss recognized in other comprehensive income	-	-	-	-
Net impairment loss recognized in earnings	-	(850)	(126)	(5,871)
Other	783	597	1,822	1,844
Total non interest income	7,823	7,888	80,004	49,297
NON INTEREST EXPENSES:				
Salaries and employee benefits	13,399	12,652	43,743	39,815

Occupancy and equipment, net	5,114	5,474	16,585	16,811
Communication and transportation	887	1,056	4,075	4,000
Marketing and development	722	722	10,116	12,362
FDIC insurance expense	586	999	2,485	4,053
Bank franchise tax expense	642	685	2,432	1,957
Data processing	660	766	1,978	2,315
Debit card interchange expense	299	702	1,234	2,070
Supplies	219	463	1,597	1,739
Other real estate owned expense	562	82	1,365	2,065
Charitable contributions	282	343	6,064	1,085
FHLB advance prepayment expense	-	-	1,531	-
Other	1,750	1,795	7,701	7,663
Total non interest expenses	25,122	25,739	100,906	95,935
INCOME BEFORE INCOME TAX EXPENSE	10,957	8,458	92,509	61,057
INCOME TAX EXPENSE	3,647	2,797	32,174	22,770
NET INCOME	$7,310	$5,661	$60,335	$38,287

(continued)

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED) (continued)
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
OTHER COMPREHENSIVE INCOME, NET OF TAX				
Unrealized gain (loss) on securities available for sale, net	$(385)	$1,606	$693	$(130)
Other-than-temporary-impairment on available for sale securities recorded on other comprehensive income, net	-	-	-	1,800
Change in unrealized losses on securities available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings	81	-	506	-
Reclassification adjustment for losses (gains) realized in income	-	553	(82)	3,816
Other comprehensive income (loss)	(304)	2,159	1,117	5,486
COMPREHENSIVE INCOME	$7,006	$7,820	$61,452	$43,773
BASIC EARNINGS PER SHARE:				
Class A Common Stock	$0.35	$0.27	$2.90	$1.85
Class B Common Stock	0.34	0.26	2.86	1.82
DILUTED EARNINGS PER SHARE:				
Class A Common Stock	$0.35	$0.27	$2.89	$1.84
Class B Common Stock	0.34	0.26	2.85	1.80

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

(in thousands, except per share data)	Common Stock Class A Shares Outstanding	Common Stock Class B Shares Outstanding	Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, January 1, 2010	18,499	2,309	$4,917	$126,376	$178,944	$ 5,783	$ 316,020
Net income	-	-	-	-	60,335	-	60,335
Net change in accumulated other comprehensive income	-	-	-	-	-	1,117	1,117
Dividend declared Common Stock:							
Class A ($0.418 per share)	-	-	-	-	(7,759)	-	(7,759)
Class B ($0.380 per share)	-	-	-	-	(877)	-	(877)
Stock options exercised, net of shares redeemed	137	-	31	2,666	(814)	-	1,883
Repurchase of Class A Common Stock	(11)	-	(4)	(106)	(277)	-	(387)
Conversion of Class B Common Stock to Class A Common Stock	1	(1)	-	-	-	-	-
Notes receivable on Common Stock, net of cash payments	-	-	-	(26)	-	-	(26)
Deferred director compensation expense - Company Stock	1	-	-	118	-	-	118
Stock based compensation expense	-	-	-	401	-	-	401
Balance, September 30, 2010	18,627	2,308	$4,944	$129,429	$229,552	$ 6,900	$ 370,825

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (in thousands)

	2010	2009
OPERATING ACTIVITIES:		
Net income	$60,335	$38,287
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	8,719	8,615
Provision for loan losses	20,366	28,778
Net gain on sale of mortgage loans held for sale	(4,130)	(9,814)
Origination of mortgage loans held for sale	(196,853)	(507,757)
Proceeds from sale of mortgage loans held for sale	200,645	520,272
Net realized recovery of mortgage servicing rights	-	(1,255)
Increase in RAL securitization residual	(228)	(498)
Paydown of trading securities	228	498
Net realized impairment of mortgage servicing rights	157	-
Net realized loss on sales, calls and impairment of securities	126	8,640
Net gain on sale of other real estate owned	(135)	(7)
Writedowns of other real estate owned	993	1,873
Deferred director compensation expense - Company Stock	118	128
Stock based compensation expense	401	539
Net change in other assets and liabilities:		
Accrued interest receivable	18	2,769
Accrued interest payable	(659)	(3,881)
Other assets	5,009	(10,128)
Other liabilities	6,566	(5,626)
Net cash provided by operating activities	101,676	71,433
INVESTING ACTIVITIES		
Purchases of securities available for sale	(563,688)	(427,600)
Purchases of securities to be held to maturity	(685)	(18,525)
Purchases of Federal Home Loan Bank stock	(26)	(1,166)
Proceeds from calls, maturities and paydowns of securities available for sale	424,804	853,136
Proceeds from calls, maturities and paydowns of securities to be held to maturity	12,259	4,000
Proceeds from sales of other real estate owned	7,421	6,365
Net change in loans	82,494	(16,665)
Purchases of premises and equipment	(3,342)	(2,885)
Net cash provided by/(used in) investing activities	(40,763)	396,660
FINANCING ACTIVITIES		
Net change in deposits	(865,379)	(1,064,936)
Net change in securities sold under agreements to repurchase and other short-term borrowings	(13,070)	(58,171)
Payments on Federal Home Loan Bank advances	(117,183)	(50,545)
Proceeds from Federal Home Loan Bank advances	45,000	235,000
Repurchase of Common Stock	(387)	(867)
Net proceeds from Common Stock options exercised	1,883	1,692
Cash dividends paid	(8,932)	(7,663)

Net cash used in financing activities	(958,068)	(945,490)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(897,155)	(477,397)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,068,179	616,303
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$171,024	$138,906

(continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Continued)
NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (in thousands)

	2010	2009
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$28,758	$42,536
Income taxes	19,905	24,029
SUPPLEMENTAL NONCASH DISCLOSURES		
Transfers from loans to real estate acquired in settlement of loans	$9,703	$3,637

See accompanying footnotes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – SEPTEMBER 30, 2010 AND 2009 (UNAUDITED) AND DECEMBER 31, 2009

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The consolidated financial statements include the accounts of Republic Bancorp, Inc. (the “Parent Company”) and its wholly-owned subsidiaries: Republic Bank & Trust Company (“RB&T”) and Republic Bank (collectively referred together with RB&T as the “Bank”), Republic Funding Company and Republic Invest Co. Republic Invest Co. includes its subsidiary, Republic Capital LLC. The consolidated financial statements also include the wholly-owned subsidiaries of RB&T: Republic Financial Services, LLC, TRS RAL Funding, LLC and Republic Insurance Agency, LLC. Republic Bancorp Capital Trust (“RBCT”) is a Delaware statutory business trust that is a wholly-owned unconsolidated finance subsidiary of Republic Bancorp, Inc. All companies are collectively referred to as “Republic” or the “Company.” All significant intercompany balances and transactions are eliminated in consolidation.

Republic operates 44 banking centers, primarily in the retail banking industry, and conducts its operations predominately in metropolitan Louisville, Kentucky, central Kentucky, northern Kentucky, southern Indiana, metropolitan Tampa, Florida, metropolitan Cincinnati, Ohio and through an Internet banking delivery channel. Republic’s consolidated results of operations are primarily dependent upon net interest income, which represents the difference between the interest income and fees on interest-earning assets and the interest expense on interest-bearing liabilities. Principal interest-earning assets represent investment securities and real estate mortgage, commercial and consumer loans. Interest-bearing liabilities primarily consist of interest-bearing deposit accounts, securities sold under agreements to repurchase, as well as short-term and long-term borrowing sources.

Other sources of traditional banking income include service charges on deposit accounts, debit card interchange fee income, title insurance commissions, fees charged to customers for trust services and revenue generated from Mortgage Banking activities. Mortgage Banking activities represent both the origination and sale of loans in the secondary market and the servicing of loans for others.

Republic’s operating expenses consist primarily of salaries and employee benefits, occupancy and equipment expenses, communication and transportation costs, marketing and development expenses, Federal Deposit Insurance Corporation (“FDIC”) insurance expense, bank franchise tax expense, data processing, debit card interchange expense and other general and administrative costs. Republic’s results of operations are significantly impacted by general economic and competitive conditions, particularly changes in market interest rates, government laws and policies and actions of regulatory agencies.

Republic, through its Tax Refund Solutions (“TRS”) segment, is one of a limited number of financial institutions which facilitates the payment of federal and state tax refunds through third party tax-preparers located throughout the U.S., as well as tax-preparation software providers. The Company facilitates the payment of these tax refunds through three primary products: Electronic Refund Checks (“ERCs”), Electronic Refund Deposits (“ERDs”) and Refund Anticipation Loans (“RALs”). Substantially all of the business generated by TRS occurs in the first quarter of the year. TRS traditionally operates at a loss during the second half of the year, during which the segment incurs costs preparing for the upcoming tax season.

ERCs/ERDs are products whereby a tax refund is issued to the taxpayer after the Company has received the refund from the federal or state government. There is no credit risk or borrowing cost for the Company associated with these products because they are only delivered to the taxpayer upon receipt of the refund directly from the Internal Revenue Service (“IRS”). Fees earned on ERCs/ERDs are reported as non interest income under the line item “Electronic Refund Check fees.”

RALs are short-term consumer loans offered to taxpayers that are secured by the customer's anticipated tax refund, which represents the source of repayment. The Company underwrites the RAL application through an automated credit review process utilizing information contained in the taxpayer's tax return and the tax-preparer's history. If the application is approved, the Company advances the amount of the refund due on the taxpayer's return up to specified amounts less the loan fee due to the Company and, if requested by the taxpayer, the fees due for preparation of the return to the tax-preparer. As part of the RAL application process, each taxpayer signs an agreement directing the IRS to send the taxpayer's refund directly to the Company. The refund received from the IRS is used by the Company to pay off the RAL. Any amount due the taxpayer above the amount of the RAL is remitted to the taxpayer once the refund is received by the Company. The funds advanced by the Company are generally repaid by the IRS within two weeks. The fees earned on RALs are reported as interest income under the line item "Loans, including fees."

For additional discussion regarding TRS, see the following sections:

Part I Item 1 “Financial Statements:”
- o Footnote 3 “Loans and Allowance for Loan Losses”
- o Footnote 10 “Segment Information”
- o Footnote 11 “Regulatory Matters”

Part II Item 1A “Risk Factors”

Recently Issued Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, “Fair Value Measurements and Disclosures — Improving Disclosures about Fair Value Measurements.” The update requires new disclosures including significant transfers in and out of Level 1 and Level 2 fair value measurements. Also, the ASU provides an update on the reconciliation for fair value measurements using significant unobservable inputs (Level 3). The new guidance is effective for interim and annual periods beginning after December 15, 2009, except for the update on the reconciliation of Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010. The portion that is currently effective did not have an impact on the Company’s consolidated financial statements. The portion that is not yet effective is also not expected to have an impact on Company’s financial statements.

In July 2010, the FASB issued ASU No. 2010-20, “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,” which requires significant new disclosures about the allowance for credit losses and the credit quality of financing receivables, which for the Company includes loans and standby letters of credit. The requirements are intended to enhance transparency regarding credit losses and the credit quality of loan and lease receivables. Under this statement, allowance for loan losses is to be disclosed by portfolio segment, while credit quality information, impaired loans and nonaccrual status are to be presented by class. Disclosure of the nature and extent, the financial impact and segment information of troubled debt restructurings will also be required. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio’s risk and performance. This ASU is effective for interim and annual reporting periods after December 15, 2010. The adoption of ASU 2010-20 is expected to result in additional quarterly and annual disclosures beginning in the fourth quarter of 2010.

Recent Legislative Developments

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Act”) was signed into law on July 21, 2010. Generally, the Act is effective the day after it was signed into law, but different effective dates apply to specific sections of the law. Uncertainty remains as to the ultimate impact of the Act, which could have an adverse impact on the financial services industry as a whole and on the Company’s business, results of operations and financial condition.

Reclassifications – Certain amounts presented in prior periods have been reclassified to conform to the current period presentation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. For further information, refer to the consolidated financial statements and footnotes thereto included in Republic's Form 10-K for the year ended December 31, 2009.

2. INVESTMENT SECURITIES

Securities available for sale:

The gross amortized cost and fair value of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

September 30, 2010 (in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 176,868	$ 1,220	$ -	$ 178,088
Private label mortgage backed and other private label mortgage-related securities	6,769	104	(1,509)	5,364
Mortgage backed securities - residential	164,332	8,955	-	173,287
Collateralized mortgage obligations	202,898	1,879	(33)	204,744
Total securities available for sale	$ 550,867	$ 12,158	$ (1,542)	$ 561,483

December 31, 2009 (in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 48,000	$ 82	$ -	$ 48,082
Private label mortgage backed and other private label mortgage-related securities	8,085	-	(2,184)	5,901
Mortgage backed securities - residential	227,792	10,362	-	238,154
Collateralized mortgage obligations	123,536	765	(127)	124,174
Total securities available for sale	$ 407,413	$ 11,209	$ (2,311)	$ 416,311

Mortgage backed Securities

At September 30, 2010, with the exception of the $5.4 million private label mortgage backed and other private label mortgage-related securities, all other mortgage backed securities held by the Company were issued by U.S. government-sponsored entities and agencies, primarily Federal Home Loan Mortgage Corporation ("Freddie Mac" or "FHLMC") and Fannie Mae ("FNMA"), institutions which the government has affirmed its commitment to support. At September 30, 2010, there were gross unrealized losses of $56,000 related to available for sale and held to maturity mortgage backed securities other than the private label mortgage backed and other private label mortgage-related securities. Because the decline in fair value of these mortgage backed securities is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these mortgage backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at September 30, 2010.

As mentioned throughout this filing, the Company's mortgage backed securities portfolio includes private label mortgage backed and other private label mortgage-related securities with a fair value of $5.4 million which had net unrealized losses of approximately $1.5 million at September 30, 2010. As of September 30, 2010, the Company believes there is no further material credit loss component of other-than-temporary impairment ("OTTI") in addition to that which has already been recorded. Additionally, the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery.

Securities to be held to maturity:

The carrying value, gross unrecognized gains and losses, and fair value of securities to be held to maturity were as follows:

September 30, 2010 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 4,190	$ 34	$ -	$ 4,224
Obligations of states and political subdivisions	-	-	-	-
Mortgage backed securities - residential	2,140	122	-	2,262
Collateralized mortgage obligations	33,021	211	(23)	33,209
Total securities to be held to maturity	$ 39,351	$ 367	$ (23)	$ 39,695

December 31, 2009 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 9,187	$ 90	$ -	$ 9,277
Obligations of states and political subdivisions	384	38	-	422
Mortgage backed securities - residential	2,748	108	(1)	2,855
Collateralized mortgage obligations	38,605	84	(108)	38,581
Total securities to be held to maturity	$ 50,924	$ 320	$ (109)	$ 51,135

Sales of Securities Available for Sale

During the three and nine month periods ended September 30, 2010 and 2009, there were no sales or calls of securities available for sale.

Market Loss Analysis

Securities with unrealized losses at September 30, 2010 and December 31, 2009, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

September 30, 2010 (in thousands)	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 months or more Fair Value	12 months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
U.S. Treasury securities and U.S. Government agencies	$ -	$ -	$ -	$ -	$ -	$ -
Private label mortgage backed and other private label mortgage-related securities	-	-	4,529	(1,509)	4,529	(1,509)
Mortgage backed securities - residential, including Collateralized mortgage obligations	20,782	(56)	-	-	20,782	(56)
Total	$ 20,782	$ (56)	$ 4,529	$ (1,509)	$ 25,311	$ (1,565)

December 31, 2009 (in thousands)	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 months or more Fair Value	12 months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
U.S. Treasury securities and U.S. Government agencies	$ -	$ -	$ -	$ -	$ -	$ -
Private label mortgage backed and other private label mortgage-related securities	5,901	(2,184)	-	-	5,901	(2,184)
Mortgage backed securities - residential, including Collateralized mortgage obligations	19,738	(64)	12,093	(172)	31,831	(236)
Total	$ 25,639	$ (2,248)	$ 12,093	$ (172)	$ 37,732	$ (2,420)

As of September 30, 2010, the Company's security portfolio consisted of 154 securities, 8 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company's mortgage-backed and other securities, as discussed below.

The amortized cost and fair value of the investment securities portfolio by contractual maturity at September 30, 2010 follows. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are detailed separately.

	Securities available for sale		Securities held to maturity	
September 30 2010, (in thousands)	Amortized Cost	Fair Value	Carrying Value	Fair Value
Due in one year or less	$ -	$ -	$ 495	$ 506
Due from one year to five years	170,874	172,094	1,198	1,204
Due from five years to ten years	5,994	5,994	2,497	2,514
Private label mortgage backed and other private label mortgage-related securities	6,769	5,364	-	-
Mortgage backed securities - residential	164,332	173,287	2,140	2,262
Collateralized mortgage obligations	202,898	204,744	33,021	33,209
Total	$ 550,867	$ 561,483	$ 39,351	$ 39,695

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Other-than-temporary impairment ("OTTI")

Unrealized losses for all investment securities are reviewed to determine whether the losses are "other-than-temporary." Investment securities are evaluated for OTTI on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value below amortized cost is other-than-temporary. In conducting this assessment, the Company evaluates a number of factors including, but not limited to:

- The length of time and the extent to which fair value has been less than the amortized cost basis;
- The Company's intent to hold until maturity or sell the debt security prior to maturity;
- An analysis of whether it is more likely than not that the Company will be required to sell the debt security before its anticipated recovery;
- Adverse conditions specifically related to the security, an industry, or a geographic area;
- The historical and implied volatility of the fair value of the security;
- The payment structure of the security and the likelihood of the issuer being able to make payments;
- Failure of the issuer to make scheduled interest or principal payments;
- Any rating changes by a rating agency; and
- Recoveries or additional decline in fair value subsequent to the balance sheet date.

The term "other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a general lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized for the anticipated credit losses.

Nationally, residential real estate values have declined significantly since 2007. These declines in value, coupled with the reduced ability of certain homeowners to refinance or repay their residential real estate obligations, have led to elevated delinquencies and losses in residential real estate loans. Many of these loans have previously been securitized and sold to investors as private label mortgage backed and other private label mortgage-related securities. The Company owned and continues to own four private label mortgage backed and other private label mortgage-related securities with an amortized cost of $6.8 million at September 30, 2010. For one of these securities, the Company has fully reserved for its projected losses through OTTI charges. The Company has partially written off the principal associated with this security, as a portion of its losses were passed through by the servicer/trustee.

None of these private label securities are guaranteed by government agencies. Approximately $1.0 million (Securities 1 through 3 in the table below) of these securities is mostly backed by "Alternative A" first lien mortgage loans. The remaining $5.8 million (Security 4 in the table below) represents an asset backed security with an insurance "wrap" or guarantee. The average life of securities 1 through 3 is currently estimated to be 7 months. The average life of security 4 is currently estimated to be 5 years. Due to current market conditions, all of these assets remain extremely illiquid, and as such, the Company determined that these securities are Level 3 securities in accordance with FASB ASC topic 820, "Fair Value Measurements and Disclosures." Based on this determination, the Company utilized an income valuation model (present value model) approach, in determining the fair value of these securities. This approach is beneficial for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support for these investments. See Footnote 6, "Fair Value" for additional discussion.

The following table presents a rollforward of the credit losses recognized in earnings for the three and nine month periods ended September 30, 2010:

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(in thousands)	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Beginning balance	$ 13,115	$ 17,266
Realized pass through of actual losses	(2,304)	(6,581)
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized	-	126
Additions/Subtractions:		
Increases to the amount related to the credit loss for which other-than-temporary impairment was previously recognized	-	-
Ending balance, September 30, 2010	$ 10,811	$ 10,811

Further deterioration in economic conditions could cause the Company to record additional impairment charges related to credit losses of up to $6.8 million, which is the current gross amortized cost of the Company's private label mortgage backed securities and other private label mortgage-related securities.

The following table details the total impairment loss related to "all other factors" recorded as a component of accumulated other comprehensive income for the Company's private label mortgage backed and other private label mortgage-related securities as of September 30, 2010:

(in thousands)	Amortized Cost	Fair Value	Gross Unrealized Gains / (Losses)	Cumulative Credit OTTI Losses
Security 1	$ -	$ -	$ -	$ (3,701)
Security 2	731	835	104	(3,329)
Security 3	220	134	(86)	(1,766)
Security 4	5,818	4,395	(1,423)	(2,015)
Total	$ 6,769	$ 5,364	$ (1,405)	$ (10,811)

The credit ratings for the Company's private label mortgage backed and other private label mortgage-related securities range from "imminent default" to "speculative" at September 30, 2010.

Pledged Investment Securities

Investment securities pledged to secure public deposits, securities sold under agreements to repurchase and securities held for other purposes, as required or permitted by law are as follows:

(in thousands)	September 30, 2010	December 31, 2009
Carrying amount	$ 406,673	$ 427,444

Fair value	406,881	427,444

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3. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the loan portfolio follows:

(in thousands)	September 30, 2010	December 31, 2009
Residential real estate	$ 1,025,732	$ 1,097,311
Commercial real estate	638,763	641,451
Real estate construction	73,846	83,090
Commercial	98,701	104,274
Consumer	17,739	21,651
Overdrafts	1,072	2,006
Home equity	301,477	318,449
Total loans	2,157,330	2,268,232
Less: Allowance for loan losses	24,566	22,879
Loans, net	$ 2,132,764	$ 2,245,353

Activity in the allowance for loan losses follows:

(in thousands)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Allowance for loan losses at beginning of period	$26,659	$19,886	$22,879	$14,832
Charge offs - Traditional Banking	(4,057)	(2,588)	(8,451)	(5,114)
Charge offs - Tax Refund Solutions	-	-	(14,584)	(31,179)
Total charge offs	(4,057)	(2,588)	(23,035)	(36,293)
Recoveries - Traditional Banking	238	186	636	650
Recoveries - Tax Refund Solutions	3,530	882	6,120	11,826
Total recoveries	3,768	1,068	6,756	12,476
Net loan charge offs/recoveries - Traditional Banking	(3,819)	(2,402)	(7,815)	(4,464)
Net loan charge offs/recoveries - Tax Refund Solutions	3,530	882	(8,464)	(19,353)
Net loan charge offs/recoveries	(289)	(1,520)	(16,279)	(23,817)
Provision for loan losses - Traditional Banking	1,726	2,309	9,502	9,425
Provision for loan losses - Tax Refund Solutions	(3,530)	(882)	8,464	19,353
Provision for loan losses	(1,804)	1,427	17,966	28,778
Allowance for loan losses at end of period	$24,566	$19,793	$24,566	$19,793

Republic defines impaired loans to be those commercial related loans that the Company has classified as doubtful (collection of total amount due is improbable) or loss (all or a portion of the loan has been written off or a specific allowance for loss has been provided) or otherwise meet the definition of impaired. Impaired loans also include commercial and retail loans accounted for as troubled debt restructurings ("TDRs").

Information regarding Republic's impaired loans follows:

(in thousands)	September 30, 2010	December 31, 2009
Loans with no allocated allowance for loan losses	$ 8,492	$ 10,995
Loans with allocated allowance for loan losses	42,973	37,851
Total impaired loans	$ 51,465	$ 48,846

For the nine months ended September 30, 2010 and 2009, the Company had allocated $6 million and $5 million of the allowance for loan losses related to all impaired loans. The average of individually impaired loans for the nine months ended September 30, 2010 and 2009 was $48 million and $34 million.

A TDR is the situation where the Bank grants a concession to the borrower that the Bank would not otherwise have considered due to a borrower's financial difficulties. All TDRs are considered "Impaired." The substantial majority of the Company's residential real estate TDRs involves reducing the client's loan payment through a rate reduction or interest only payments for a set period of time based on the borrower's ability to service the modified loan payment. The majority of the Company's commercial related and construction TDRs involve a restructuring of loan terms such as a temporary forbearance or reduction in the payment amount to require only interest and escrow (if required) and/or extending the maturity date of the loan.

Detail of TDRs as of September 30, 2010 follows:

September 30, 2010 (in thousands)	TDRs on Non-Accrual Status	TDRs on Accrual Status	Total TDRs
Residential real estate	$ 468	$9,242	$9,710
Commercial real estate	5,903	10,000	15,903
Real estate construction	5,518	2,003	7,521
Commercial	-	4,236	4,236
Total TDRs	$ 11,889	$25,481	$37,370

A summary of the types of TDR loan modifications outstanding as of September 30, 2010 are as follows:

September 30, 2010 (in thousands)	TDRs Performing to Modified Terms	TDRs Not Perfoming to Modified Terms	Total TDRs
Residential real estate loans:			
Rate reduction	$ 6,133	$415	$6,548

Interest only payments for 12 months	1,376	378	1,754
Other	428	952	1,380
Total residential TDRs	7,937	1,745	9,682
Commerical related and construction loans:			
Interest only payments for 6 - 12 months	3,187	5,913	9,100
Interest only payments for 36 months	4,208	206	4,414
Rate reduction	2,750	165	2,915
Forbearance for 4 - 12 months	4,165	3,759	7,924
Extension and rate modification	3,335	-	3,335
Total commercial TDRs	17,645	10,043	27,688
Total TDRs	$ 25,582	$ 11,788	$ 37,370

As of September 30, 2010, 82% of the Company's total residential real estate TDRs are performing according to their modified terms, whereas 64% of the Company's total commercial related and construction TDRs are performing according to their modified terms. The approximately $10 million in commercial and construction TDRs that are not performing according to the modified terms includes five non accrual relationships totaling approximately $7 million.

The Company had allocated $3.9 million of specific reserves to customers whose loan terms have been modified in TDRs as of September 30, 2010. Specific reserves are generally assessed prior to loans being modified as a TDR, as most of these loans migrate from our watch list and have been specifically reserved for as part of the Company's normal reserving methodology.

Management determines whether to classify a TDR as non-performing based on its accrual status prior to modification. Non-accrual loans modified as TDRs remain on non-accrual status and continue to be reported as non-performing loans. Accruing loans modified as TDRs are evaluated for non-accrual status based on a current evaluation of the borrower's financial condition and ability and willingness to service the modified debt. At September 30, 2010 and December 31, 2009, $11.9 million and $18.6 million of TDRs were classified as non-performing loans.

Detail of non-performing loans and non-performing assets follows:

(in thousands)		September 30, 2010			December 31, 2009	
Loans on non-accrual status	$	36,358		$	43,136	
Loans past due 90 days or more and still on accrual		-			8	
Total non-performing loans		36,358			43,144	
Other real estate owned		6,203			4,772	
Total non-performing assets	$	42,561		$	47,916	
Non-performing loans to total loans - Total Company		1.69	%		1.90	%
Non-performing loans to total loans - Traditional Banking		1.69	%		1.90	%
Non-performing assets to total loans (including OREO)		1.97	%		2.11	%

The composition of non-performing loans by loan type follows:

(in thousands)		September 30, 2010		December 31, 2009
Residential real estate	$	16,776	$	14,832
Commercial real estate		8,347		16,850
Real estate construction		8,476		9,500
Commercial		343		647
Consumer		80		71
Home equity		2,336		1,244
Total non-performing loans	$	36,358	$	43,144

Non-accrual loans and loans past due 90 days or more and still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Non-accrual loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and held current for six consecutive months and future payments are reasonably assured. Non-accrual TDRs are reviewed for return to accrual status on an individual basis, with additional consideration given to the modification terms.

RAL Loss Reserves and Provision for Loan Losses:

Substantially all RALs issued by the Company are made during the first quarter, with RAL originations ending by the end of April each year. Losses associated with RALs result from the IRS not remitting taxpayer refunds to the Company associated with a particular tax return. This occurs for a number of reasons, including errors in the tax return, tax return fraud and tax debts not previously disclosed to the Company during its underwriting process. While the RAL application form is completed by the taxpayer in the tax-preparer's office, the credit approval criteria is established by TRS and the underwriting decision is made by TRS. TRS reviews and evaluates all tax returns to determine the likelihood of IRS payment. If any attribute of the tax return appears to fall outside of predetermined parameters, TRS will not originate the RAL.

At March 31st of each year the Company reserves for its estimated RAL losses for the year based on current year and historical funding patterns and based on information received from the IRS on current year payment processing. RAL funds advanced by the Company are generally repaid by the IRS within two weeks. RALs outstanding 30 days or longer are charged off at the end of each quarter with subsequent collections recorded as recoveries. Since the RAL season is over by the end of April of each year, essentially all uncollected RALs are charged off by June 30th of each year, except for those RALs management deems certain of collection.

Profitability in the Company's TRS segment is primarily driven by the volume of RAL transactions processed and the loss rate incurred on RALs, and is particularly sensitive to both measures. During the first nine months of 2010 (primarily the first quarter), the Company processed 22% more in dollars of RALs compared to the same period in 2009. The TRS segment's provision for loan losses decreased from $19.4 million during the first nine months of 2009 to $8.5 million during the first nine months of 2010. Included as a reduction to the first quarter 2009 TRS provision for loan losses was $2.8 million representing a limited preparer-provided guarantee for RAL product performance. Despite the increase in origination volume over 2009, the Company's provision for loan losses decreased primarily due to improved underwriting criteria developed from the Company's 2009 tax season funding history from the IRS.

For the quarter ended September 30, 2010 and 2009, the TRS provision for loan losses was a net credit of $3.5 million and a net credit of $882,000. The net credit provision resulted from better than projected paydowns in outstanding RALs subsequent to the first quarter of each year. The Company expects the actual loss rate realized will be less than the current uncollected amount, as the Company will continue to receive payments from the IRS throughout the year and make other collection efforts to obtain repayment on the RALs.

As of September 30, 2010 and 2009, $11.0 million and $24.4 million of total RALs originated remained uncollected, representing 0.37% and 0.99% of total gross RALs originated during the respective tax years by the Company. All of these loans were charged off prior to September 30, 2010 and 2009.

For additional discussion regarding TRS, see the following sections:

- Part I Item 1 "Financial Statements:"
  - o Footnote 1 "Basis of Presentation and Summary of Significant Accounting Policies"
  - o Footnote 10 "Segment Information"
  - o Footnote 11 "Regulatory Matters"
- Part II Item 1A "Risk Factors"

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4. DEPOSITS

Ending deposit balances were as follows at September 30, 2010 and December 31, 2009:

(in thousands)	September 30, 2010	December 31, 2009
Demand (NOW and SuperNOW)	$ 275,176	$ 245,502
Money market accounts	659,363	596,370
Brokered money market accounts	-	64,608
Savings	38,229	33,691
Individual retirement accounts*	34,033	34,651
Time deposits, $100,000 and over*	154,317	169,548
Other certificates of deposit*	133,135	135,171
Brokered certificates of deposit*	114,766	1,004,665
Total interest-bearing deposits	1,409,019	2,284,206
Total non interest-bearing deposits	328,083	318,275
Total	$ 1,737,102	$ 2,602,481

* - Represents a time deposit

During the fourth quarter of 2009, the Company obtained $921 million in brokered certificates of deposits to be utilized to fund the first quarter 2010 RAL program. These brokered certificates of deposits had a weighted average life of three months with a weighted average interest rate of 0.51%. Also, during January of 2010, the Company obtained an additional $542 million in brokered certificates of deposits to fund additional RAL demand. These brokered certificates of deposits acquired in January had a weighted average life of 55 days and a weighted average interest rate of 0.56%. There were no brokered certificates outstanding at September 30, 2010 related to the RAL program.

During September 2010, the Company exited a brokered money market relationship. This relationship maintained average balances with Republic of approximately $57 million during the first two months of the third quarter of 2010 and was paid a rate equivalent to three month LIBOR plus 0.25 basis points, which equated to an average rate of 0.65%. The withdrawal of funds was facilitated by Republic through a reduction in cash at the Federal Reserve, which earned 0.25% for the Company.

During the first nine months of 2010, the Company obtained $34 million in brokered deposits to be utilized by the Traditional Bank for on-going funding needs. These deposits had a weighted average maturity of five years and a weighted average cost of 2.86%.

5. FEDERAL HOME LOAN BANK ("FHLB") ADVANCES

At September 30, 2010 and December 31, 2009, FHLB advances outstanding were as follows:

(in thousands)	September 30, 2010	December 31, 2009
Putable fixed interest rate advances with a weighted average interest rate of 4.51%(1)	$ 150,000	$ 150,000
Fixed interest rate advances with a weighted average interest rate of 3.13% due through 2035	415,424	487,607
Total FHLB advances	$ 565,424	$ 637,607

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(1) - Represents putable advances with the FHLB. These advances have original fixed rate periods ranging from one to five years with original maturities ranging from three to ten years if not put back to the Company earlier by the FHLB. At the end of their respective fixed rate periods and on a quarterly basis thereafter, the FHLB has the right to require payoff of the advances by the Company at no penalty. During the first quarter of 2007, the Company entered into $100 million of putable advances with a final maturity of 10 years and a fixed rate period of 3 years. Based on market conditions at this time, the Company does not believe that any of its putable advances are likely to be "put back" to the Company in the short-term by the FHLB.

During the first quarter of 2010, the Company prepaid $87 million in FHLB advances. These advances had a weighted average cost of 3.48% and were all scheduled to mature between April 2010 and January 2011. The Company incurred a $1.5 million prepayment penalty in connection with this transaction.

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances that are paid off earlier than maturity. FHLB advances are collateralized by a blanket pledge of eligible real estate loans. At September 30, 2010, Republic had available collateral to borrow an additional $185 million from the FHLB. In addition to its borrowing line with the FHLB, Republic also had unsecured lines of credit totaling $216 million available through various other financial institutions.

Aggregate future principal payments on FHLB advances, based on contractual maturity dates are detailed below:

Year	(in thousands)
2010	$ -
2011	75,000
2012	85,000
2013	91,000
2014	178,000
Thereafter	136,424

Total	$	565,424

The following table illustrates real estate loans pledged to collateralize advances and letters of credit with the FHLB:

(in thousands)	September 30, 2010	December 31, 2009
First lien, single family residential real estate	$ 688,134	$ 733,511
Home equity lines of credit	35,480	91,014
Multi-family commercial real estate	16,615	38,526

6. FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Securities available for sale: For all securities available for sale, excluding private label mortgage backed and other private label mortgage-related securities, fair value is typically determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). With the exception of private label mortgage backed and other private label mortgage-related securities, all securities available for sale are classified as Level 2 in the fair value hierarchy.

With regards to the Company's private label mortgage backed and other private label mortgage-related securities, the Company recognized a $1.8 million cumulative effect of initially applying FASB ASC topic 320 "Investments – Debt and Equity Securities," as an adjustment to retained earnings at April 1, 2009, with a corresponding adjustment to accumulated other comprehensive income. Due to current market conditions, all of these assets are extremely illiquid, and as such, the Company determined that these securities are Level 3 securities in accordance with FASB ASC topic 820, "Fair Value Measurements and Disclosures." Based on this determination, the Company utilized an income valuation model (present value model) approach, in determining the fair value of these securities.

See Footnote 2 "Investment Securities" for additional discussion regarding the Company's private label mortgage backed and other private label mortgage-related securities.

Derivative instruments: Mortgage Banking derivatives used in the ordinary course of business consist of mandatory forward sales contracts ("forward contracts") and rate lock loan commitments. The fair value of the Company's derivative instruments is primarily measured by obtaining pricing from broker-dealers recognized to be market participants. The pricing is derived from market observable inputs that can generally be verified and do not typically involve significant judgment by the Company. Forward contracts and rate lock loan commitments are classified as Level 2 in the fair value hierarchy.

Mortgage loans held for sale: The fair value of mortgage loans held for sale is determined using quoted secondary market prices. Mortgage loans held for sale are classified as Level 2 in the fair value hierarchy.

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Other Real Estate Owned: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Mortgage Servicing Rights: The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. The Company is able to compare the valuation model inputs and results to widely available published industry data for reasonableness. Mortgage servicing rights are classified as Level 2 in the fair value hierarchy.

Assets and liabilities measured at fair value under on a recurring basis, including financial assets and liabilities for which the Company has elected the fair value option, are summarized below:

	Fair Value Measurements at September 30, 2010 Using:			
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Securities available for sale:				
U.S. Treasury securities and U.S. Government agencies	$ -	$ 178,088	$ -	$ 178,088
Private label mortgage backed and other private label mortgage-related securities	-	-	5,364	5,364
Mortgage backed securities - residential	-	173,287	-	173,287
Collateralized mortgage obligations	-	204,744	-	204,744
Total securities available for sale	$ -	$ 556,119	$ 5,364	$ 561,483
Mandatory forward contracts	$ -	$ 229	$ -	$ 229
Rate lock loan commitments	-	624	-	624
Mortgage loans held for sale	-	5,783	-	5,783
Mortgage servicing rights	-	4,837	-	4,837

(in thousands)	Fair Value Measurements at December 31, 2009 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Securities available for sale:				
U.S. Treasury securities and U.S. Government agencies	$ -	$ 48,082	$ -	$ 48,082
Private label mortgage backed and other private label mortgage-related securities	-	-	5,901	5,901
Mortgage backed securities - residential	-	238,154	-	238,154
Collateralized mortgage obligations	-	124,174	-	124,174
Total securities available for sale	$ -	$ 410,410	$ 5,901	$ 416,311
Mandatory forward contracts	$ -	$ 616	$ -	$ 616
Rate lock loan commitments	-	53	-	53
Mortgage loans held for sale	-	5,445	-	5,445

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine month periods ended September 30, 2010 and 2009:

Securities available for Sale - Private label mortgage backed and other private label mortgage-related securities

(in thousands)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Balance, beginning of period	$ 5,566	$ 8,095	$ 5,901	$ 14,678
Total gains or losses included in earnings:				
Net impairment loss recognized in earnings	-	(850)	(126)	(5,871)
Net change in unrealized gain / loss	2,430	117	7,330	773
Realized pass through of actual losses	(2,304)		(6,581)	-
Principal paydowns	(328)	(746)	(1,160)	(2,964)
Balance, end of period	$ 5,364	$ 6,616	$ 5,364	$ 6,616

There were no transfers into or out of Level 3 assets during the nine months ended September 30, 2010.

Assets measured at fair value on a non-recurring basis are summarized below:

(in thousands)	Carrying Value	Fair Value Measurements at September 30, 2010 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Impaired loans	$ 14,094	$ -	$ -	$ 12,092	$ 12,092
Other real estate owned	6,203	-	-	6,203	6,203

(in thousands)	Carrying Value	Fair Value Measurements at December 31, 2009 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Impaired loans	$ 11,469	$ -	$ -	$ 9,963	$ 9,963
Other real estate owned	4,772	-	-	4,772	4,772

The following section details impairment charges recognized during the period:

The Company recorded realized impairment losses related to its Level 3 private label mortgage backed and other private label mortgage-related securities as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2010	2009	2010	2009
Net impairment loss recognized in earnings	$ -	$ 850	$ 126	$ 5,871

See Footnote 2 “Investment Securities” for additional detail regarding impairment losses.

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount and valuation allowance as follows:

(in thousands)	September 30, 2010	December 31, 2009
Carrying amount of loans with a valuation allowance	$ 13,636	$ 11,469
Valuation allowance	2,002	1,506

Other real estate owned, which is carried at the lower of cost or fair value, is periodically assessed for impairment based on fair value at the reporting date. Fair value is determined from external appraisals using judgments and estimates of external professionals. Many of these inputs are not observable and, accordingly, these measurements are classified as Level 3. At September 30, 2010 and December 31, 2009, the carrying value of other real estate owned was $6 million and $5 million, respectively. The fair value of the Company's other real estate owned properties exceeded their carrying value at September 30, 2010 and December 31, 2009.

Detail of other real estate owned write downs follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2010	2009	2010	2009
Other real estate owned write-downs	$ 389	$ 34		