WEBSTER FINANCIAL CORP
Form 10-Q
August 08, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2007.

or

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

WEBSTER FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

(203) 465-4364

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

The number of shares of common stock outstanding as of July 31, 2007 was 54,454,841.

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Webster Financial Corporation and Subsidiaries

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PART I FINANCIAL INFORMATION

ITEM 1. INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CONDITION (unaudited)

(In thousands, except share data)	June 30, 2007	December 31, 2006
Assets:		
Cash and due from depository institutions	$ 293,223	$ 311,888
Short-term investments	8,222	175,648
Securities:		
Trading, at fair value	5,935	4,842
Available for sale, at fair value	411,309	503,918
Held-to-maturity (fair value of $1,969,484 and $1,434,543)	2,046,891	1,453,973
Loans held for sale	372,891	354,798
Loans, net	12,295,298	12,775,772
Goodwill	770,489	770,001
Cash surrender value of life insurance	264,100	259,318
Premises and equipment	194,412	195,909
Accrued interest receivable	85,078	90,565
Other intangible assets	47,933	55,011
Deferred tax asset, net	35,709	33,262
Prepaid expenses and other assets	115,766	109,837
Total assets	$ 16,947,256	$ 17,094,742
Liabilities and Shareholders Equity:		
Deposits	$ 12,819,061	$ 12,458,396
Federal Home Loan Bank advances	531,117	1,074,933
Securities sold under agreements to repurchase and other short-term debt	899,852	893,206
Long-term debt	656,455	621,936
Reserve for unfunded credit commitments	7,776	7,275
Accrued expenses and other liabilities	185,767	155,285
Total liabilities	15,100,028	15,211,031
Preferred stock of subsidiary corporation	9,577	9,577
Shareholders equity:		
Common stock, $.01 par value;		
Authorized - 200,000,000 shares		
Issued - 56,582,089 shares and 56,388,707 shares	566	564
Paid-in capital	737,300	726,886
Retained earnings	1,189,713	1,150,008
Less: Treasury stock, at cost; 1,938,822 shares at June 30, 2007	(85,015)	
Accumulated other comprehensive loss, net	(4,913)	(3,324)
Total shareholders equity	1,837,651	1,874,134
Total liabilities and shareholders equity	$ 16,947,256	$ 17,094,742

See accompanying Notes to Consolidated Interim Financial Statements.

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CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(In thousands, except per share data)	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Interest Income:				
Loans	$ 210,337	$ 207,097	$ 419,501	$ 402,671
Securities and short-term investments	32,563	39,134	65,843	80,729
Loans held for sale	7,419	3,317	13,668	6,656
Total interest income	250,319	249,548	499,012	490,056
Interest Expense:				
Deposits	89,683	72,593	177,313	134,947
Federal Home Loan Bank advances and other borrowings	21,271	37,937	42,059	74,263
Long-term debt	9,012	12,213	21,206	23,882
Total interest expense	119,966	122,743	240,578	233,092
Net interest income	130,353	126,805	258,434	256,964
Provision for credit losses	4,250	3,000	7,250	5,000
Net interest income after provision for credit losses	126,103	123,805	251,184	251,964
Noninterest Income:				
Deposit service fees	28,758	24,150	54,112	46,019
Insurance revenue	9,141	9,988	19,262	20,712
Loan related fees	7,901	9,162	15,841	16,986
Wealth and investment services	7,637	6,930	14,515	13,284
Mortgage banking activities	3,962	2,538	6,191	5,811
Increase in cash surrender value of life insurance	2,586	2,314	5,120	4,685
Net gain on securities transactions	503	702	1,044	1,714
Gain on Webster Capital Trust I and II securities	2,130		2,130	
Other income	1,367	1,284	3,191	3,059
Total noninterest income	63,985	57,068	121,406	112,270
Noninterest Expenses:				
Compensation and benefits	66,888	64,585	135,279	129,588
Occupancy	13,200	11,824	26,583	24,006
Furniture and equipment	15,389	13,962	30,358	27,557
Intangible assets amortization	3,344	3,544	6,817	7,921
Marketing	4,209	4,292	8,420	7,916
Professional services	3,432	3,464	8,234	7,008
Debt redemption premium	8,940		8,940	
Severance and other costs	5,291		9,813	
Other expenses	17,398	15,647	34,927	32,493
Total noninterest expenses	138,091	117,318	269,371	236,489
Income before income taxes	51,997	63,555	103,219	127,745
Income taxes	16,530	20,412	32,716	40,750
Net Income	$ 35,467	$ 43,143	$ 70,503	$ 86,995

Basic earnings per share	$ 0.64	$ 0.82	$ 1.26	$ 1.65
Diluted earnings per share	0.63	0.81	1.25	1.63
Average shares outstanding:				
Basic	55,677	52,637	55,894	52,864
Diluted	56,243	53,252	56,497	53,468

See accompanying Notes to Consolidated Interim Financial Statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (unaudited)

(In thousands, except share and per share data)	Number of Common Shares Issued	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Six months ended June 30, 2006:							
Balance, December 31, 2005	54,117,218	$ 541	$ 619,644	$ 1,075,984	$ (21,065)	$ (27,878)	$ 1,647,226
Opening balance adjustment (see note 18)				(2,729)			(2,729)
Balance, December 31, 2005 (as adjusted)	54,117,218	541	619,644	1,073,255	(21,065)	(27,878)	1,644,497
Comprehensive income:							
Net income				86,995			86,995
Other comprehensive income (loss), net of taxes							
Net unrealized loss on securities available for sale						(14,834)	(14,834)
Amortization of unrealized loss on securities transferred to held to maturity						340	340
Amortization of deferred hedging gain						(84)	(84)
Other comprehensive loss							(14,578)
Comprehensive income							72,417
Dividends paid: $.52 per common share				(27,694)			(27,694)
Exercise of stock options			(1,274)		2,747		1,473
Excess tax benefit from stock options exercised			412				412
Repurchase of 1,145,247 shares					(53,542)		(53,542)
Stock-based compensation expense			2,318				2,318
Restricted stock grants and expense	4,806		910		942		1,852
Employee Stock Purchase Plan	10,479		492				492
Balance at June 30, 2006	54,132,503	$ 541	$ 622,502	$ 1,132,556	$ (70,918)	$ (42,456)	$ 1,642,225
Six months ended June 30, 2007:							
Balance, December 31, 2006	56,388,707	$ 564	$ 726,886	$ 1,152,737	$	$ (3,324)	$ 1,876,863
Opening balance adjustment (see note 18)				(2,729)			(2,729)
Balance, December 31, 2006 (as adjusted)	56,388,707	564	726,886	1,150,008		(3,324)	1,874,134
Comprehensive income:							
Net income				70,503			70,503
Other comprehensive income (loss), net of taxes							
Deferred gain on derivatives sold						2,636	2,636
Net unrealized loss on securities available for sale						(4,574)	(4,574)
Amortization of deferred hedging gain						(85)	(85)
Amortization of unrealized loss on securities transferred to held to maturity						200	200
Amortization of net actuarial loss and prior service cost						234	234

Other comprehensive loss							(1,589)
Comprehensive income							68,914
Dividends paid: $.57 per common share				(32,198)			(32,198)
Exercise of stock options	189,206	2	5,276				5,278
Excess tax benefit from stock options exercised			986				986
Repurchase of 1,973,753 shares					(87,032)		(87,032)
Stock-based compensation expense			1,674				1,674
Restricted stock grants and expense	4,176		2,373		537		2,910
Cumulative effect of change in accounting for uncertainties in income taxes				1,400			1,400
Contingent consideration in a business combination			105		1,480		1,585
Balance at June 30, 2007	56,582,089	$ 566	$ 737,300	$ 1,189,713	$ (85,015)	$ (4,913)	$ 1,837,651

See accompanying Notes to Consolidated Interim Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(In thousands)	Six months ended June 30, 2007	2006
Operating Activities:		
Net income	$ 70,503	$ 86,995
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	7,250	5,000
Provision for deferred taxes		
Depreciation and amortization	25,754	18,631
Amortization of intangible assets	6,817	7,921
Debt redemption premium	8,940	
Gain on Webster Capital Trust I and II securities	(2,130)	
Stock-based compensation	4,584	2,318
Net gain on sale of foreclosed properties	(35)	(36)
Net gain on sale of securities	(1,128)	(1,714)
Net gain on sale of loans and loan servicing	(6,191)	(5,811)
Net loss (gain) on trading securities	84	(154)
Increase in trading securities	(1,177)	(287)
Increase in cash surrender value of life insurance	(5,120)	(4,685)
Loans originated for sale	(1,632,814)	(774,301)
Proceeds from sale of loans originated for sale	1,524,588	772,791
Decrease in interest receivable	5,487	60
(Increase) decrease in prepaid expenses and other assets	(2,112)	17,594
Net increase in accrued expenses and other liabilities	38,377	3,202
Proceeds from surrender of life insurance contracts	338	
Net cash provided by operating activities	42,015	127,524
Investing Activities:		
Purchases of securities, available for sale	(240,581)	(37,710)
Proceeds from maturities and principal payments of securities available for sale	296,975	195,632
Proceeds from sales of securities, available for sale	29,807	58,653
Purchases of held-to-maturity securities	(57,702)	(9,818)
Proceeds from maturities and principal payments of held-to-maturity securities	97,380	64,341
Net decrease (increase) in short-term investments	167,426	(23,364)
Net increase in loans	(80,775)	(438,320)
Proceeds from sale of foreclosed properties	1,714	4,260
Net purchases of premises and equipment	(15,092)	(20,317)
Net cash provided by (used in) investing activities	199,152	(206,643)
Financing Activities:		
Net increase in deposits	360,665	585,320
Proceeds from FHLB advances	11,714,916	32,330,921
Repayment of FHLB advances	(12,256,687)	(32,734,200)
Increase in securities sold under agreements to repurchase and other short-term borrowings	7,066	8,001
Long-term debt issued	199,344	
Repayment of long-term debt	(172,170)	
Cash dividends to common shareholders	(32,198)	(27,694)
Exercise of stock options	5,278	1,473
Excess tax benefit from stock options exercised	986	412
Contribution to stock purchased by the Employee Stock Purchase Plan		492
Common stock repurchased	(87,032)	(53,542)

Net cash (used in) provided by financing activities	(259,832)	111,183
(Decrease) increase in cash and cash equivalents	(18,665)	32,064
Cash and cash equivalents at beginning of period	311,888	293,706
Cash and cash equivalents at end of period	$ 293,223	$ 325,770

See accompanying Notes to Consolidated Interim Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited), continued

(In thousands)	Six months ended June 30, 2007	2006
Supplemental Disclosures:		
Income taxes paid	$ 31,239	$ 19,924
Interest paid	241,021	231,151
Supplemental Schedule of Noncash Investing and Financing Activities:		
Mortgage loans securitized and transferred to mortgage-backed securities held-to-maturity	$ 632,897	$
Residential construction loans held-for-sale transferred to Residential construction loan portfolio	96,324	
Transfer of loans to foreclosed properties	4,894	801
Contingent consideration in a business combination	1,585	

See accompanying Notes to Consolidated Interim Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(Unaudited)

NOTE 1: Basis of Presentation and Principles of Consolidation

The Consolidated Interim Financial Statements include the accounts of Webster Financial Corporation (Webster or the Company) and its subsidiaries. The Consolidated Interim Financial Statements and Notes thereto have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant inter-company transactions have been eliminated in consolidation. Amounts in prior period financial statements are reclassified whenever necessary to conform to current period presentations. The results of operations for the three or six months ended June 30, 2007 are not necessarily indicative of the results which may be expected for the year as a whole.

The preparation of the Consolidated Interim Financial Statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as of the date of the Consolidated Interim Financial Statements, and the reported amounts of revenues and expenses for the periods presented. Actual results could differ from those estimates. Material estimates that are susceptible to near-term changes include the determination of the allowance for credit losses and the valuation allowance for the deferred tax asset. These Consolidated Interim Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto included in Webster s Annual Report on Form 10-K for the year ended December 31, 2006.

NOTE 2: Sale Transactions

On March 30, 2007, Webster announced the sale of certain branches of its People s Mortgage Corporation (PMC) subsidiary. The branch offices in Severna Park and Rockville, Maryland, and Hamden Connecticut were sold to 1st Mariner Mortgage, a division of 1st Mariner Bank of Baltimore, Maryland. In connection with this sale, Webster recorded a pre-tax charge of $2.3 million in its first quarter 2007 results. The expenses relate primarily to severance, lease termination and other transaction costs. On April 30, 2007, Webster sold a PMC branch office located in Andover, Massachusetts to 1st Mariner Mortgage. PMC is a subsidiary of Webster Bank, National Association (Webster Bank).

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NOTE 3: Securities

A summary of trading, available for sale and held to maturity securities follows:

	June 30, 2007				December 31, 2006			
		Unrealized		Estimated	Amortized	Unrealized		Estimated
(In thousands)	Amortized Cost	Gains	Losses	Fair Value	Cost	Gains	Losses	Fair Value
Trading:								
Municipal bonds and notes				$ 5,935				$ 4,842
Available for Sale:								
U.S Government Agency bonds	$				$ 104,774		(46)	104,728
Corporate bonds and notes	184,061	2,387	(573)	185,875	197,596	4,191	(515)	201,272
Equity securities	172,944	4,748	(1,001)	176,691	189,555	8,424	(61)	197,918
Mortgage-backed securities	49,918		(1,175)	48,743				
Total available for sale	$ 406,923	7,135	(2,749)	411,309	$ 491,925	12,615	(622)	503,918
Held to maturity:								
Municipal bonds and notes	$ 491,224	4,587	(4,929)	490,882	$ 444,755	10,170	(786)	454,139
Mortgage-backed securities	1,555,667	299	(77,364)	1,478,602	1,009,218	547	(29,361)	980,404
Total held to maturity	$ 2,046,891	4,886	(82,293)	1,969,484	$ 1,453,973	10,717	(30,147)	1,434,543

As of June 30, 2007, the fair value of equity securities consisted of FHLB stock of $69.3 million, FRB stock of $41.7 million, common stock of $45.0 million and preferred stock of $20.7 million. The fair value of equity securities at December 31, 2006 consisted of FHLB stock of $96.0 million, FRB stock of $41.7 million, common stock of $40.2 million and preferred stock of $20.0 million. During the six months ended June 30, 2007, Webster purchased $50.6 million of agency mortgage backed securities as part of its ongoing Community Reinvestment Act program that are classified as available for sale.

The following table identifies temporarily impaired investment securities as of June 30, 2007 segregated by length of time the securities have been in a continuous unrealized loss position.

	Less Than Twelve Months		Twelve Months or Longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale:						
Corporate bonds and notes	$ 38,810	(345)	10,798	(228)	49,608	(573)
Equity securities	19,289	(938)	283	(63)	19,572	(1,001)
Mortgage-backed securities	48,743	(1,175)			48,743	(1,175)
Total available for sale	$ 106,842	(2,458)	11,081	(291)	117,923	(2,749)
Held to maturity:						
Municipal bonds and notes	$ 220,970	(4,617)	20,094	(312)	241,064	(4,929)
Mortgage-backed securities	897,851	(47,476)	560,279	(29,888)	1,458,130	(77,364)
Total held to maturity	$ 1,118,821	(52,093)	580,373	(30,200)	1,699,194	(82,293)
Total securities	$ 1,225,663	(54,551)	591,454	(30,491)	1,817,117	(85,042)

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The following table identifies temporarily impaired investment securities as of December 31, 2006 segregated by length of time the securities had been in a continuous unrealized loss position.

	Less Than Twelve Months		Twelve Months or Longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale:						
U.S. Government agency Bonds	$ 104,728	$ (46)	$	$	$ 104,728	$ (46)
Corporate bonds and notes	14,615	(187)	15,307	(328)	29,922	(515)
Equity securities	1,733	(61)			1,733	(61)
Total available for sale	$ 121,076	$ (294)	$ 15,307	$ (328)	$ 136,383	$ (622)
Held to maturity:						
Municipal bonds and notes	$ 56,478	$ (324)	$ 25,815	$ (462)	$ 82,293	$ (786)
Mortgage-backed securities	295,797	(8,161)	616,885	(21,200)	912,682	(29,361)
Total held to maturity	$ 352,275	$ (8,485)	$ 642,700	$ (21,662)	$ 994,975	$ (30,147)
Total securities	$ 473,351	$ (8,779)	$ 658,007	$ (21,990)	$ 1,131,358	$ (30,769)

Unrealized losses on fixed income securities result from the cost basis of securities being greater than current market value. This will generally occur as a result of an increase in interest rates since the time of purchase, a structural change in an investment or from deterioration in credit quality of the issuer. Management has and will continue to evaluate impairments, whether caused by adverse interest rate or credit movements, to determine if they are other-than-temporary.

In accordance with applicable accounting literature, Webster must demonstrate an ability and intent to hold temporarily impaired securities until full recovery of their cost basis. Management uses both internal and external information sources to arrive at the most informed decision. This quantitative and qualitative assessment begins with a review of general market conditions and changes to market conditions, credit, investment performance and structure since the prior review period. The ability to hold temporarily impaired securities will involve a number of factors, including: forecasted recovery period based on average life; whether its return provides satisfactory carry relative to funding sources; Webster s capital, earnings and cash flow positions; and compliance with various debt covenants, among other things. As of June 30, 2007, Webster had the ability and intent to hold all temporarily impaired securities to full recovery, which may be until maturity.

Estimating the recovery period for equity securities will include analyst forecasts, earnings assumptions and other company specific financial performance metrics. In addition, this assessment will incorporate general market data, industry and sector cycles and related trends to determine a reasonable recovery period.

In November 2006, Webster announced its intention to securitize $1.0 billion of residential mortgage loans and hold the resulting securities in its held-to-maturity securities portfolio, primarily for collateral purposes. As of December 31, 2006, $371.1 million of these loans had been securitized; an additional $633.0 million in loans were securitized in January 2007. A separate mortgage servicing asset was not recognized in these transactions. The held-to-maturity securities were recorded at an amortized cost equal to the carrying amount of the securitized loans.

Management s evaluation of securities impairment losses at June 30, 2007 began with recognition that market yields still reflect the impact of 17 separate interest rate increases totaling 425 basis points by the Federal Reserve from June 2004 through June 2006. Through June 30, 2007, the Federal Reserve s Open Market Committee has held the federal funds rate target at 5.25%.

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Three available for sale corporate securities totaling $10.8 million at June 30, 2007, with an unrealized loss of $0.2 million, were impaired for twelve consecutive months or longer due to higher interest rates subsequent to their purchase. The Company invests in corporate securities that are unrated, below investment grade and investment grade. Securities that are unrated or below investment grade have undergone an internal credit review. As a result of the credit review of the issuers, management has determined that there has been no deterioration in credit quality subsequent to the purchase or last review period. These securities are performing as projected. Management does not consider these investments to be other-than temporarily impaired based on its credit reviews and Webster s ability and intent to hold these investments to full recovery of the cost basis.

Fifty-one held to maturity municipal securities totaling $20.1 million at June 30, 2007, with an unrealized loss of $0.3 million, were impaired for twelve consecutive months or longer due to higher interest rates subsequent to their purchase. Most of these bonds are insured AAA rated general obligation bonds with stable ratings. There were no significant credit downgrades since the last review period. These securities are currently performing as anticipated. Management does not consider these investments to be other-than-temporarily impaired. Webster has the ability and intent to hold these investments to full recovery of the cost basis.

At June 30, 2007, Webster had $580.4 million in held to maturity securities (including the municipal securities described above) with an unrealized loss of $30.2 million for twelve months or longer. These securities have had varying levels of unrealized loss due to higher interest rates subsequent to their purchase. Approximately 99 percent of that unrealized loss, or $29.9 million, was concentrated in 22 mortgage-backed securities held to maturity totaling $560.3 million in fair value. These securities carry AAA ratings or Agency-implied AAA credit ratings and are currently performing as expected. Management does not consider these investments to be other-than-temporarily impaired and Webster has the ability and intent to hold these investments to full recovery of the cost basis. Management expects that recovery of these temporarily impaired securities will occur over the weighted-average estimated remaining life of these securities.

There were no impairment write-downs of securities during the six months ended June 30, 2007 and 2006, respectively.

NOTE 4: Loans Held for Sale

Loans held for sale had a total carrying value of $372.9 million and $354.8 million at June 30, 2007 and December 31, 2006, respectively. The composition of loans held for sale at June 30, 2007 and December 31, 2006 follows:

	June 30, 2007		December 31, 2006	
(Dollars in thousands)	**Amount**	**%**	**Amount**	**%**
Residential mortgage loans:				
1-4 family units	$ 370,978	99.5	$ 261,896	73.8
Construction	1,837	0.5	91,547	25.8
Total residential mortgage loans	372,815	100.0	353,443	99.6
Consumer loans:				
Home equity credit loans	76		961	0.3
Home equity lines of credit			394	0.1
Total consumer loans	76		1,355	0.4
Total loans held for sale	$ 372,891	100.0	$ 354,798	100.0

At June 30, 2007 and December 31, 2006, residential mortgage origination commitments totaled $293.6 million and $305.1 million, respectively. Residential commitments outstanding at June 30, 2007 consisted of adjustable rate and fixed rate mortgages of $11.1 million and $282.5 million, respectively, at rates ranging from 5.375% to 10.15%. Residential commitments outstanding at December 31, 2006 consisted of adjustable rate and fixed rate mortgages of $17.5 million and $287.6 million, respectively, at rates ranging from 5.50% to 8.25%. Commitments to originate loans generally expire within 60 days. At June 30, 2007 and December 31, 2006, Webster also had outstanding commitments to sell residential mortgage loans of $573.1 million and $652.4 million, respectively. See Note 15 for a further discussion of loan origination and sale commitments.

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During the three months ended June 30, 2007, a lower of cost or market adjustment of $1.2 million was recorded on the construction loans held-for-sale portfolio. This adjustment was charged to noninterest income (mortgage banking activities). Subsequent to the write-down, $96.3 million of construction loans that were not under contract were transferred from the held-for-sale portfolio to the residential mortgage portfolio. Construction loans totaling $1.8 million remained in the held-for-sale portfolio at June 30, 2007 and will be sold and delivered in the third quarter. During the first quarter of 2007, the Company recorded a $700,000 write-down in value on one loan in Florida that had been classified as held-for-sale.

NOTE 5: Loans, Net

A summary of loans, net follows:

	June 30, 2007		December 31, 2006	
(Dollars in thousands)	**Amount**	**%**	**Amount**	**%**
Residential mortgage loans:				
1-4 family units	$ 3,465,141	27.9	$ 4,193,160	32.4
Construction	271,172	2.2	231,474	1.8
Total residential mortgage loans	3,736,313	30.1	4,424,634	34.2
Commercial loans:				
Commercial non-mortgage	1,780,024	14.3	1,730,554	13.4
Asset-based lending	816,785	6.6	765,895	5.9
Equipment financing	958,037	7.7	889,825	6.9
Total commercial loans	3,554,846	28.6	3,386,274	26.2
Commercial real estate:				
Commercial real estate	1,550,871	12.5	1,426,529	11.0
Commercial construction	387,785	3.1	478,068	3.7
Total commercial real estate	1,938,656	15.6	1,904,597	14.7
Consumer loans:				
Home equity credit loans and lines of credit	3,177,222	25.5	3,173,142	24.6
Other consumer loans	33,235	0.2	34,844	0.3
Total consumer loans	3,210,457	25.7	3,207,986	24.9
Total loans	12,440,272	100.0	12,923,491	100.0
Less: allowance for loan losses	(144,974)		(147,719)	
Loans, net	$ 12,295,298		$ 12,775,772	

At June 30, 2007, total loans included $18.5 million of net premiums and $48.1 million of net deferred costs, compared with $24.3 million of net premiums and $44.6 million of net deferred costs at December 31, 2006. The unadvanced portions of closed loans totaled $570.3 million and $512.9 million at June 30, 2007 and December 31, 2006, respectively.

At June 30, 2007, Webster had $342.6 million in construction loans within its portfolio of which $151.8 million were originated by its National Wholesale Construction Lending (NCL) operation using mortgage brokers approved by Webster. At June 30, 2007 and December 31, 2006, the amount of unused credit on construction loans was $124.3 million and $131.8 million, respectively.

At June 30, 2007 and December 31, 2006, unused portions of home equity credit lines extended were $2.2 billion and $2.0 billion, respectively. Unused commercial lines of credit, letters of credit, standby letters of credit, equipment financing commitments and outstanding commercial loan commitments totaled $2.6 billion at June 30, 2007 and $3.2 billion at December 31, 2006. Other consumer loan commitments totaled $50.5 million and $65.3 million at June 30, 2007 and December 31, 2006, respectively.

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Webster is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and commitments to sell residential first mortgage loans and commercial loans. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the Consolidated Statements of Condition.

Future loan commitments represent residential and commercial mortgage loan commitments, commercial loan and equipment financing commitments, letters of credit and commercial and home equity unused credit lines. The interest rates for these loans are generally established shortly before closing. The interest rates on home equity lines of credit adjust with changes in the prime rate.

A majority of the outstanding letters of credit are performance stand-by letters of credit within the scope of Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 45. These are irrevocable undertakings by Webster, as guarantor, to make payments in the event a specified third party fails to perform under a nonfinancial contractual obligation. Most of the performance stand-by letters of credit arise in connection with lending relationships and have a term of one year or less.

The risk involved in issuing stand-by letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers, and they are subject to the same credit origination, portfolio maintenance and management procedures in effect to monitor other credit and off-balance sheet products. At June 30, 2007, Webster s stand-by letters of credit totaled $168.6 million. At June 30, 2007, the fair value of stand-by letters of credit is considered insignificant to the unaudited interim financial statements.