WEBSTER FINANCIAL CORP
Form 10-Q/A
November 06, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2014
or
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 001-31486

WEBSTER FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	06-1187536
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

145 Bank Street (Webster Plaza), Waterbury, Connecticut 06702
(Address and zip code of principal executive offices)

(203) 578-2202
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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). þ 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 þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). o Yes þ No
The number of shares of common stock, par value $.01 per share, outstanding as of October 31, 2014 was 90,245,947.

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Explanatory Note

The Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2014 filed by Webster Financial Corporation (the “Company”) with the Securities and Exchange Commission on November 5, 2014 inadvertently omitted the following exhibits:

EXHIBIT 31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
EXHIBIT 31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
EXHIBIT 32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
EXHIBIT 32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

The exhibits are included with this Amendment No. 1 to Quarterly Report on Form 10-Q/A. No revisions are being made to the Company's Form 10-Q except for the filing of the exhibits listed above. This amendment does not reflect events occurring after the filing of the Form 10-Q, or modify or update those disclosures that may be affected by subsequent events, and no other changes are being made to any other disclosure contained in the Form 10-Q.

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PART I. – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	September 30, 2014 (Unaudited)	December 31, 2013
Assets:		
Cash and due from banks	$207,128	$223,616
Interest-bearing deposits	105,394	23,674
Securities available-for-sale, at fair value	2,873,886	3,106,931
Securities held-to-maturity (fair value of $3,699,825 and $3,370,912)	3,641,979	3,358,721
Federal Home Loan Bank and Federal Reserve Bank stock	171,174	158,878
Loans held for sale	26,083	20,802
Loans and leases	13,513,502	12,699,776
Allowance for loan and lease losses	(156,482)	(152,573)
Loans and leases, net	13,357,020	12,547,203
Deferred tax asset, net	62,884	65,109
Premises and equipment, net	118,608	121,605
Goodwill	529,887	529,887
Other intangible assets, net	3,082	5,351
Cash surrender value of life insurance policies	438,100	430,535
Accrued interest receivable and other assets	291,657	260,687
Total assets	$21,826,882	$20,852,999
Liabilities and shareholders' equity:		
Deposits:		
Non-interest-bearing	$3,256,741	$3,128,152
Interest-bearing	12,290,177	11,726,268
Total deposits	15,546,918	14,854,420
Securities sold under agreements to repurchase and other borrowings	1,236,975	1,331,662
Federal Home Loan Bank advances	2,290,204	2,052,421
Long-term debt	226,208	228,365
Accrued expenses and other liabilities	215,727	176,943
Total liabilities	19,516,032	18,643,811
Shareholders’ equity:		
Preferred stock, $.01 par value; Authorized - 3,000,000 shares:		
Series A issued and outstanding - 28,939 shares	28,939	28,939
Series E issued and outstanding - 5,060 shares	122,710	122,710
Common stock, $.01 par value; Authorized - 200,000,000 shares:		
Issued - 93,381,269 and 93,366,673 shares	934	934
Paid-in capital	1,128,453	1,125,584
Retained earnings	1,172,372	1,080,488
Treasury stock, at cost (3,292,072 and 3,407,256 shares)	(106,639)	(100,918)
Accumulated other comprehensive loss	(35,919)	(48,549)
Total shareholders' equity	2,310,850	2,209,188
Total liabilities and shareholders' equity	$21,826,882	$20,852,999

See accompanying Notes to Condensed Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
(In thousands, except per share data)	2014	2013	2014	2013
Interest Income:				
Interest and fees on loans and leases	$129,227	$123,257	$379,008	$365,262
Taxable interest and dividends on securities	46,349	42,722	142,442	128,320
Non-taxable interest on securities	4,099	5,201	13,109	16,586
Loans held for sale	239	573	631	1,761
Total interest income	179,914	171,753	535,190	511,929
Interest Expense:				
Deposits	11,345	10,908	32,840	35,782
Securities sold under agreements to repurchase and other borrowings	4,587	5,283	14,874	15,522
Federal Home Loan Bank advances	4,203	3,753	12,052	12,299
Long-term debt	2,409	1,822	7,631	5,482
Total interest expense	22,544	21,766	67,397	69,085
Net interest income	157,370	149,987	467,793	442,844
Provision for loan and lease losses	9,500	8,500	27,750	24,500
Net interest income after provision for loan and lease losses	147,870	141,487	440,043	418,344
Non-interest Income:				
Deposit service fees	26,489	25,170	77,503	73,786
Loan related fees	5,479	5,840	14,851	15,930
Wealth and investment services	8,762	8,095	26,429	24,781
Mortgage banking activities	1,805	665	3,093	13,584
Increase in cash surrender value of life insurance policies	3,346	3,516	9,900	10,348
Net gain on sale of investment securities	42	269	4,378	708
Impairment loss recognized in earnings	(85)	—	(246)	—
Other income	5,071	2,702	12,425	7,649
Total non-interest income	50,909	46,257	148,333	146,786
Non-interest Expense:				
Compensation and benefits	66,849	64,862	198,931	196,680
Occupancy	11,557	11,994	35,807	36,710
Technology and equipment	15,419	14,895	46,166	45,743
Intangible assets amortization	432	1,242	2,269	3,726
Marketing	4,032	3,649	11,461	12,277
Professional and outside services	2,470	2,254	6,441	5,931
Deposit insurance	5,938	5,300	16,814	15,998
Other expense	17,945	18,085	53,955	54,355
Total non-interest expense	124,642	122,281	371,844	371,420
Income before income tax expense	74,137	65,463	216,532	193,710
Income tax expense	23,679	18,158	67,795	57,915
Net income	50,458	47,305	148,737	135,795
Preferred stock dividends	(2,639)	(2,639)	(7,917)	(8,164)
Net income available to common shareholders	$47,819	$44,666	$140,820	$127,631
Net income per common share:				
Basic	$0.53	$0.50	$1.56	$1.44

Diluted	0.53	0.49	1.55	1.41

See accompanying Notes to Condensed Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2014	2013	2014	2013
Net income	$50,458	$47,305	$148,737	$135,795
Other comprehensive (loss) income, net of tax	(5,924)	6,198	12,630	(26,675)
Comprehensive income	$44,534	$53,503	$161,367	$109,120

See accompanying Notes to Condensed Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

(In thousands, except per share data)	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity
Balance at December 31, 2013	$151,649	$934	$1,125,584	$1,080,488	$(100,918)	$(48,549)	$2,209,188
Net income	—	—	—	148,737	—	—	148,737
Other comprehensive income, net of tax	—	—	—	—	—	12,630	12,630
Dividends on common stock and dividend equivalents declared $0.55 per share	—	—	41	(49,672)	—	—	(49,631)
Dividends on Series A preferred stock $63.75 per share	—	—	—	(1,845)	—	—	(1,845)
Dividends on Series E preferred stock $1,200.00 per share	—	—	—	(6,072)	—	—	(6,072)
Exercise of stock options	—	—	(1,517)	—	3,256	—	1,739
Common stock repurchased	—	—	—	—	(10,741)	—	(10,741)
Shares acquired related to employee share-based compensation plans	—	—	—	—	(2,218)	—	(2,218)
Stock-based compensation, net of tax impact	—	—	3,909	736	3,982	—	8,627
Common stock issued	—	—	436	—	—	—	436
Balance at September 30, 2014	$151,649	$934	$1,128,453	$1,172,372	$(106,639)	$(35,919)	$2,310,850

(In thousands, except per share data)	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity
Balance at December 31, 2012	$151,649	$907	$1,145,620	$1,000,427	$(172,807)	$(32,266)	$2,093,530
Net income	—	—	—	135,795	—	—	135,795
Other comprehensive loss, net of tax	—	—	—	—	—	(26,675)	(26,675)
Dividends on common stock and dividend equivalents declared $0.40 per share	—	—	10	(35,280)	—	—	(35,270)
Dividends on Series A preferred stock $63.75 per share	—	—	—	(1,845)	—	—	(1,845)
Dividends on Series E preferred stock $1,248.89 per share	—	—	—	(6,319)	—	—	(6,319)
Common stock warrants repurchased	—	—	(30)	—	—	—	(30)
Exercise of stock options	—	—	(729)	—	1,713	—	984
Shares acquired related to employee share-based compensation plans	—	—	—	—	(381)	—	(381)

Stock-based compensation, net of tax impact	—	—	2,747	(2,407)	7,335	—	7,675
Common stock issued	—	26	(21,274)	(36,254)	57,697	—	195
Balance at September 30, 2013	$151,649	$933	$1,126,344	$1,054,117	$(106,443)	$(58,941)	$2,167,659

See accompanying Notes to Condensed Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine months ended September 30,	
(In thousands)	2014	2013
Operating Activities:		
Net income	$148,737	$135,795
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	27,750	24,500
Deferred tax expense	4,388	11,221
Depreciation and amortization	23,509	27,455
Amortization of earning assets and funding premium/discount, net	37,127	50,781
Stock-based compensation	7,793	7,757
Gain on sale, net of write-down, on foreclosed and repossessed assets	(1,059)	(1,072)
Gain on sale, net of write-down, on premises and equipment	(349)	(59)
Impairment loss recognized in earnings	246	—
(Gain) loss on alternative investments	(713)	354
Loss on fair value adjustment of derivative instruments	585	290
Net gain on the sale of investment securities	(4,378)	(708)
Increase in cash surrender value of life insurance policies	(9,900)	(10,348)
Gain from life insurance policies	(671)	(1,070)
Gain on sale of loans held for sale	(3,093)	(13,584)
Proceeds from sale of loans held for sale	207,530	670,226
Originations of loans held for sale	(209,585)	(592,368)
Net (increase) decrease in accrued interest receivable and other assets	(51,113)	82,805
Net increase (decrease) in accrued expenses and other liabilities	18,953	(16,743)
Net cash provided by operating activities	195,757	375,232
Investing Activities:		
Net (increase) decrease in interest-bearing deposits	(81,720)	37,243
Purchases of available-for-sale securities	(92,343)	(835,364)
Proceeds from maturities and principal payments of available-for-sale securities	317,973	621,385
Proceeds from sales of available-for-sale securities	38,075	44,261
Purchases of held-to-maturity securities	(732,767)	(702,017)
Proceeds from maturities and principal payments of held-to-maturity securities	431,571	587,998
Net purchase of Federal Home Loan Bank stock	(12,296)	(3,248)
Net increase in loans	(840,342)	(503,397)
Proceeds from life insurance policies	760	1,768
Proceeds from the sale of foreclosed properties and repossessed assets	7,804	5,741
Proceeds from the sale of premises and equipment	2,641	1,304
Purchases of premises and equipment	(19,908)	(11,247)
Net cash used for investing activities	(980,552)	(755,573)
Financing Activities:		
Net increase in deposits	692,498	468,696
Proceeds from Federal Home Loan Bank advances	5,352,931	3,178,120
Repayments of Federal Home Loan Bank advances	(5,115,130)	(3,403,245)
Net (decrease) increase in securities sold under agreements to repurchase and other borrowings	(94,687)	296,130
Issuance of long-term debt	150,000	—
Repayment of long-term debt	(150,000)	(102,579)

Dividends paid to common shareholders	(49,672)	(35,176)
Dividends paid to preferred shareholders	(7,917)	(8,164)
Exercise of stock options	1,739	984
Excess tax benefits from stock-based compensation	1,068	255
Common stock issued	436	195
Common stock repurchased	(10,741)	—
Shares acquired related to employee share-based compensation plans	(2,218)	(381)
Common stock warrants repurchased	—	(30)
Net cash provided by financing activities	768,307	394,805

See accompanying Notes to Condensed Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited), continued

	Nine months ended September 30,	
(In thousands)	2014	2013
Net (decrease) increase in cash and due from banks	(16,488)	14,464
Cash and due from banks at beginning of period	223,616	252,283
Cash and due from banks at end of period	$207,128	$266,747
Supplemental disclosure of cash flow information:		
Interest paid	$69,737	$66,582
Income taxes paid	82,155	42,507
Noncash investing and financing activities:		
Transfer of loans and leases, net to foreclosed properties and repossessed assets	$3,289	$9,295

See accompanying Notes to Condensed Consolidated Financial Statements.

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NOTE 1: Summary of Significant Accounting Policies

Nature of Operations. Webster Financial Corporation (collectively, with its consolidated subsidiaries, “Webster” or the “Company”) is a financial holding company under the Bank Holding Company Act of 1956, as amended, incorporated under the laws of Delaware in 1986 and headquartered in Waterbury, Connecticut. At September 30, 2014, Webster Financial Corporation's principal asset is all of the outstanding capital stock of Webster Bank, National Association ("Webster Bank").

Webster, through Webster Bank and various non-banking financial services subsidiaries, delivers financial services to individuals, families and businesses throughout southern New England and into Westchester County, New York. Webster provides business and consumer banking, mortgage lending, financial planning, trust and investment services through banking offices, ATMs, telephone banking, mobile banking and its Internet website (www.websterbank.com). Webster also offers equipment financing, commercial real estate lending, and asset-based lending across the Northeast. Webster Bank offers, through its HSA Bank division, health savings accounts on a nationwide basis.

Basis of Presentation. The Condensed Consolidated Financial Statements include the accounts of Webster Financial Corporation and all other entities in which it has a controlling financial interest. All significant intercompany balances and transactions have been eliminated in consolidation. Webster's accounting and financial reporting policies conform, in all material respects, to U.S. generally accepted accounting principles (“GAAP”) and to general practices within the financial services industry.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity (“VIE”) under GAAP. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holder with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity’s activities. The Company consolidates voting interest entities in which it has at least a majority of the voting interest. VIEs are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when the Company has both the power and ability to direct the activities of the VIE that most significantly impact the VIE's economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

The Company owns the common stock of a trust which has issued trust preferred securities. The trust is a VIE in which the Company is not the primary beneficiary and, therefore, is not consolidated. The trust's only assets are junior subordinated debentures issued by the Company, which were acquired by the trust using the proceeds from the issuance of the trust preferred securities and common stock. The junior subordinated debentures are included in long-term debt and the Company’s equity interest in the trust is included in other assets in the accompanying Condensed Consolidated Balance Sheets. Interest expense on the junior subordinated debentures is reported in interest expense on long-term debt in the accompanying Condensed Consolidated Statements of Income.

Certain prior period amounts have been reclassified to conform to the current year's presentation. These reclassifications had no impact on the Company's consolidated financial position, results of operations or net change in cash or cash equivalents.

Use of Estimates. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these Condensed Consolidated Financial Statements. Actual results could differ from those estimates. The allowance for loan and lease losses, the fair value measurements of financial instruments and evaluation of investments for other-than-temporary impairment, the valuation of goodwill, the deferred tax asset valuation allowance, and pension and other postretirement benefits, as well as the status of contingencies, are particularly subject to change.

Cash Equivalents and Cash Flows. For the purposes of the Condensed Consolidated Statements of Cash Flows, cash equivalents include cash on hand and due from banks and, interest-bearing deposits at the Federal Reserve. Cash equivalents have a maturity of three months or less.

Cash flows from loans, either originated or acquired, are classified at that time according to management's original intent to either sell or hold the loan for the foreseeable future. When management's intent is to sell the loan, the cash flows of that loan are presented as operating cash flows. When management's intent is to hold the loan for the foreseeable future, the cash flows of that loan are presented as investing cash flows.

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Investment Securities. Investment securities are classified as available-for-sale or held-to-maturity at the time of purchase and any subsequent change to classification is reviewed for compliance with corporate objectives and accounting policy. Debt securities classified as held-to-maturity are those which Webster has the ability and intent to hold to maturity. Securities in the held-to-maturity portfolio are recorded at amortized cost net of unamortized premiums and discounts. Discount accretion income and premium amortization expense are recognized as interest income according to a constant yield methodology. Securities classified as available-for-sale are recorded at fair value with unrealized gains and losses, net of taxes, recorded as a component of other comprehensive income (“OCI”). Securities transferred from available-for-sale to held-to-maturity are recorded at fair value at the time of transfer and the respective gain or loss is recorded as a separate component of OCI and then amortized as an adjustment to interest income over the remaining life of the security.

All securities classified as available-for-sale or held-to-maturity that are in an unrealized loss position are evaluated for other-than-temporary impairment ("OTTI") on a quarterly basis. The evaluation considers several qualitative factors, including the period of time the security has been in a loss position, in addition to the amount of the unrealized loss. If the Company intends to sell the security or it is more than likely the Company will be required to sell the security prior to recovery of its amortized cost basis, the security is written down to fair value and the loss is recorded in non-interest income in the accompanying Condensed Consolidated Statements of Income. If the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security prior to recovery of its amortized cost basis, only the credit component of any impairment charge to a debt security would be recognized as a loss in non-interest income in the accompanying Condensed Consolidated Statements of Income. The remaining loss component would be recorded to accumulated other comprehensive income ("AOCI"). A decline in the value of an equity security that is considered OTTI is recorded as a loss in non-interest income in the accompanying Condensed Consolidated Statements of Income.

The specific identification method is used to determine realized gains and losses on sales of securities.

Loans Held for Sale. Loans typically are classified as held for sale upon origination based on management's intent to sell such loans. Loans held for sale are carried at the lower of cost or fair value. Non-residential mortgage loans held for sale are carried at the lower of cost or fair value and are valued on an individual asset basis. Any cost amount in excess of fair value is recorded as a valuation allowance and recognized as a reduction of other income in the Condensed Consolidated Statements of Income. Gains or losses on the sale of loans held for sale are recorded as non-interest income. Direct loan origination costs and fees are deferred and are recognized as part of the gain or loss at the time of sale.

Loans. Loans are stated at the principal amount outstanding, net of amounts charged off, unamortized premiums and discounts, and deferred loan fees and/or costs which are recognized as yield adjustments using the interest method. These yield adjustments are amortized over the contractual life of the related loans adjusted for estimated prepayments when applicable. Interest on loans is credited to interest income as earned based on the interest rate applied to principal amounts outstanding.

Loans are placed on non-accrual status when collection of principal and interest in accordance with contractual terms is doubtful. A loan is transferred to a non-accrual basis generally when principal or interest payments become 90 days delinquent, unless the loan is well secured and in process of collection, or sooner if management concludes circumstances indicate that the borrower may be unable to meet contractual principal or interest payments. Residential real estate and consumer loans are placed on non-accrual status at 90 days past due, or at the date when the Company is notified that the borrower is discharged in bankruptcy. A charge-off is recorded at 180 days if the loan balance exceeds the fair value of the collateral less costs to sell. Commercial, commercial real estate, and equipment finance loans are subject to a detailed review when 90 days past due to determine accrual status, or when payment is uncertain and a specific consideration is made to put a loan or lease on non-accrual status.

When a loan is placed on non-accrual status, the accrual of interest is discontinued and any unpaid accrued interest is reversed and charged against interest income. If ultimate repayment of a non-accrual loan is expected, any payments received are applied in accordance with contractual terms. If ultimate repayment is not expected on commercial, commercial real estate, and equipment finance loans, any payment received on a non-accrual loan is applied to principal until the unpaid balance has been fully recovered. Any excess is then credited to interest income when received. If the Company determines, through a current valuation analysis, that principal can be repaid on residential real estate and consumer loans, interest payments may be taken into income as received on a cash basis. Except for loans discharged under Chapter 7 of the Bankruptcy Code, loans are removed from non-accrual status when they become current as to principal and interest or demonstrate a period of performance under contractual terms and, in the opinion of management, are fully collectible as to principal and interest. Pursuant to regulatory guidance, a Chapter 7 discharged bankruptcy loan is removed from non-accrual status when the bank expects full repayment of the remaining pre-discharged contractual principal and interest, is a closed-end amortizing loan, fully collateralized, and post-discharge had at least six consecutive months of current payments.

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Allowance for Loan and Lease Losses. The allowance for loan and lease losses ("ALLL") is a reserve established through a provision for loan and lease losses charged to expense and represents management’s best estimate of probable losses that may be incurred within the existing loan and lease portfolio as of the balance sheet date. The level of the allowance reflects management’s view of trends in losses, current portfolio quality, and present economic, political, and regulatory conditions. Portions of the allowance may be allocated for specific loans and leases; however, the entire allowance is available for any loan or lease that is charged off. A charge-off is recorded on a case-by-case basis when all or a portion of the loan or lease is deemed to be uncollectible. Back-testing is performed to compare original estimated losses and actual observed losses, resulting in ongoing refinements. While management utilizes its best judgment based on the information available at the time, the ultimate adequacy of the allowance is dependent upon a variety of factors that are beyond the Company’s control, which include the performance of the Company’s portfolio, economic conditions, interest rate sensitivity, and the view of the regulatory authorities regarding loan classifications.

The ALLL consists of the following three elements: (i) specific valuation allowances established for probable losses on impaired loans and leases; (ii) quantitative valuation allowances calculated using loss experience for like loans and leases with similar characteristics and trends, adjusted, as necessary, to reflect the impact of current conditions; and (iii) qualitative factors determined based on general economic conditions and other factors that may be internal or external to the Company.

Loans and leases are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated on a pooled basis for smaller-balance homogeneous residential and consumer loans. Commercial, commercial real estate, and equipment financing loans and leases over a specific dollar amount and all troubled debt restructurings ("TDR") are evaluated individually for impairment. A loan identified as a TDR is considered an impaired loan for the entire term of the loan, with few exceptions. If a loan is impaired, a specific valuation allowance may be established, and the loan is reported net, at the present value of estimated future cash flows using the loan’s original interest rate or at the fair value of collateral less cost to sell if repayment is expected from collateral liquidation. Interest payments on non-accruing impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible. Factors considered by management in determining impairment include payment status, collateral value, discharged bankruptcy, and the likelihood of collecting scheduled principal and interest payments. Consumer modified loans are analyzed for re-default probability, which is considered when determining the impaired reserve for ALLL. The current or weighted average (for multiple notes within a commercial borrowing arrangement) interest rate of the loan is used as the discount rate when the interest rate floats with a specified index. A change in terms or payments would be included in the impairment calculation.

Reserve for Unfunded Commitments. The reserve for unfunded commitments provides for probable losses inherent with funding the unused portion of legal commitments available to lend. The unfunded reserve calculation includes factors that are consistent with ALLL methodology for funded loans using the loss given default, probability of default and a draw down factor applied to the underlying borrower risk and facility grades. Changes in the reserve for unfunded credit commitments, included within other liabilities, are reported as a component of other expense in the accompanying Condensed Consolidated Statements of Income.

Troubled Debt Restructurings. A modified loan is considered a TDR when the following two conditions are met: (i) the borrower is experiencing financial difficulties and (ii) the modification constitutes a concession. The Company considers all aspects of the restructuring in determining whether a concession has been granted, including the debtor's ability to access funds at a market rate. In general, a concession exists when the modified terms of the loan are more attractive to the borrower than standard market terms. Modified terms are dependent upon the financial position and needs of the individual borrower. The most common types of modifications include covenant modifications, forbearance and/or other concessions. Loans for which the borrower has been discharged under Chapter 7 bankruptcy are considered collateral dependent TDRs, impaired at the date of discharge, and charged down to the fair value of collateral less cost to sell, if management considers that loss potential likely exists.

The Company's policy is to place consumer loan TDRs, except those that were performing prior to TDR status, on non-accrual status for a minimum period of six months. Commercial TDRs are evaluated on a case-by-case basis for determination of whether or not to place on non-accrual status. Loans qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement for a minimum of six months. Initially, all TDRs are reported as impaired. Generally, TDRs are classified as impaired loans and reported as TDRs for the remaining life of the loan. Impaired and TDR classification, may be removed if the borrower demonstrates compliance with the modified terms for a minimum of six months and through one fiscal year-end and the restructuring agreement specifies a market rate of interest equal to that which would be provided to a borrower with similar credit at the time of restructuring. In the limited circumstance that a loan is removed from TDR classification it is the Company's policy to continue to base its measure of loan impairment on the contractual terms specified by the loan agreement.

Transfers and Servicing of Financial Assets. Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is generally considered to have been surrendered when (i) the transferred assets are legally isolated from the Company or its consolidated affiliates, even in bankruptcy or other receivership, (ii) the transferee has the right to pledge or exchange the assets with no conditions that constrain the transferee and provide more than a trivial benefit to the Company, and (iii) the Company does not maintain the obligation or unilateral ability to reclaim or repurchase the assets.

The Company sells financial assets in the normal course of business, the majority of which are residential mortgage loan sales primarily to government-sponsored enterprises through established programs, commercial loan sales through participation agreements, and other individual or portfolio loan and securities sales. In accordance with accounting guidance for asset transfers, the Company considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. With the exception of servicing and certain performance-based guarantees, the Company's continuing involvement with financial assets sold is minimal and generally limited to market customary representation and warranty clauses.

When the Company sells financial assets, it may retain servicing rights and/or other interests in the financial assets. The gain or loss on sale depends on the previous carrying amount of the transferred financial assets and the consideration received and any liabilities incurred in exchange for the transferred assets. Upon transfer, any servicing assets and other interests held by the Company are carried at the lower of cost or fair value.

Recently Adopted Accounting Standards Updates

ASU No. 2013-11 - Income Taxes (Topic 740) - "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)." The ASU requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, as applicable. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit shall be presented in the financial statements as a liability and shall not be combined with deferred tax assets. This update was adopted effective January 1, 2014 and will be applied prospectively; however, its netting provisions are consistent with the Company's previous presentation, as applicable, and as a result do not require additional disclosures.

Recently Issued Accounting Standards Updates

ASU No. 2014-01 - Investments - Equity Method and Joint Ventures (Topic 323) - "Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)." The ASU permits an entity to make an accounting policy election to account for its investment in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportionate amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The decision to apply the proportionate amortization method of accounting should be applied consistently to all qualifying affordable housing project investments. A reporting entity that uses the effective yield or other method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply such method to those preexisting investments. The amendments are effective for annual and interim periods beginning after January 1, 2015. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

ASU No. 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)." The ASU clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (i) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (ii) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar agreement. In addition, the amendments require disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure in accordance with local requirements of the applicable jurisdiction. An entity can elect to adopt the amendments using either a modified retrospective method or a prospective transition method. The amendments are effective for annual and interim periods beginning after January 1, 2015. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

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ASU No. 2014-09 - Revenue from Contracts with Customers (Topic 606). The ASU establishes a single comprehensive model for an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled, and will supersede nearly all existing revenue recognition guidance, to clarify and converge revenue recognition principles under US GAAP and IFRS. The update outlines five steps to recognizing revenue: (i) identify the contracts with the customer; (ii) identify the separate performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the separate performance obligations; (v) recognize revenue when each performance obligation is satisfied. The update requires more comprehensive disclosures, relating to quantitative and qualitative information for amounts, timing, the nature and uncertainty of revenue, and cash flows arising from contracts with customers, which will mainly impact construction and high-tech industries. The most significant potential impact to banking entities relates to less prescriptive derecognition requirements on the sale of OREO property. The amendments are effective for annual and interim periods beginning after January 1, 2017. An entity may elect either a full retrospective or a modified retrospective application. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

ASU No. 2014-11 - Transfers and Servicing (Topic 860) - “Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.” The ASU requires two accounting changes: (i) the accounting for repurchase-to-maturity transactions are to be accounted for as secured borrowings; (ii) repurchase financing arrangements, separate accounting is required for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. Additionally, disclosure requirements have been expanded to include a disaggregation of collateral used for secured borrowings, and contractual maturity disclosure has been expanded to interim periods. The amendments are effective for annual and interim periods beginning after January 1, 2015. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

ASU No. 2014-12, Compensation-Stock Compensation (Topic 718) - “Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force).” The ASU provides explicit guidance to account for a performance target that could be achieved after the requisite service period as a performance condition. For awards within the scope of this Update, the Task Force decided that an entity should apply existing guidance in Topic 718 as it relates to share-based payments with performance conditions that affect vesting. Consistent with that guidance, performance conditions that affect vesting should not be reflected in estimating the fair value of an award at the grant date. Compensation cost should be recognized when it is probable that the performance target will be achieved and should represent the compensation cost attributable to the period for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The amendments are effective for annual and interim periods beginning after January 1, 2016. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

ASU No. 2014-14, Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40) - "Classification of Certain Government-Guaranteed Residential Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)." The ASU has been issued to reduce diversity in practice in the classification of foreclosed residential mortgage loans held by creditors that are fully guaranteed under certain government programs, including the Federal Housing Administration guarantees. A residential mortgage loan would be derecognized and a separate other receivable would be recognized upon foreclosure if the loan has both of the following characteristics: (i) the loan has a government guarantee that is not separable from the loan before foreclosure entitling the creditor to the full unpaid principal balance of the loan; and (ii) at the time of foreclosure, the creditor has the intent to make a claim on the guarantee and the ability to recover the full unpaid principal balance of the loan through the guarantee. Notably, upon foreclosure, the separate other receivable would be measured based on the current amount of the loan balance expected to be recovered under the guarantee. The amendments are effective for annual and interim periods beginning after January 1, 2015. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40) - "Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern." The ASU has been issued to require an entity to evaluate going concern uncertainties by assessing information about conditions and events that exist at the date the financial statements are issued and provide footnote disclosures when it is either (i) more likely than not that the entity will be unable to meet its obligations within twelve months after the financial statement date without taking actions outside the ordinary course of business, or (ii) known or probable that the entity will be unable to meet its obligations within twenty-four months after the financial statement date without taking actions outside the ordinary course of business. The amendments are effective for annual periods beginning after January 1, 2017 and also for interim periods beginning after January 1, 2018. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

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NOTE 2: Investment Securities

Summaries of the amortized cost, carrying value, and fair value of Webster's investment securities are presented below:

	At September 30, 2014						
		Recognized in OCI			Not Recognized in OCI		
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:							
U.S. Treasury Bills	$525	$—	$—	$525	$—	$—	$525
Agency collateralized mortgage obligations ("CMO")	628,737	10,543	(1,057)	638,223	—	—	638,223
Agency mortgage-backed securities ("MBS")	1,103,345	11,014	(23,539)	1,090,820	—	—	1,090,820
Agency commercial mortgage-backed securities ("ACMBS")	80,732	—	(349)	80,383	—	—	80,383
Commercial mortgage-backed securities ("CMBS")	510,922	21,975	(55)	532,842	—	—	532,842
Collateralized loan obligations ("CLO") (1)	379,741	912	(142)	380,511	—	—	380,511
Pooled trust preferred securities	—	—	—	—	—	—	—
Single issuer trust preferred securities	41,936	83	(2,637)	39,382	—	—	39,382
Corporate debt securities	107,132	4,068	—	111,200	—	—	111,200
Equity securities - financial institutions	—	—	—	—	—	—	—
Total available-for-sale	$2,853,070	$48,595	$(27,779)	$2,873,886	$—	$—	$2,873,886
Held-to-maturity:							
Agency CMO	$411,128	$—	$—	$411,128	$7,374	$(1,409)	$417,093
Agency MBS	2,181,225	—	—	2,181,225	52,799	(23,068)	2,210,956
Agency CMBS	377,382	—	—	377,382	650	(622)	377,410
Municipal bonds and notes	377,074	—	—	377,074	15,332	(38)	392,368
CMBS	288,692	—	—	288,692	8,833	(2,122)	295,403
Private Label MBS	6,478	—	—	6,478	117	—	6,595
Total held-to-maturity	$3,641,979	$—	$—	$3,641,979	$85,105	$(27,259)	$3,699,825

(1) Amortized cost is net of $2.8 million of other-than-temporary impairments at September 30, 2014.

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	At December 31, 2013						
		Recognized in OCI			Not Recognized in OCI		
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:							
U.S. Treasury Bills	$325	$—	$—	$325	$—	$—	$325
Agency CMO	794,397	14,383	(1,868)	806,912	—	—	806,912
Agency MBS	1,265,276	9,124	(47,698)	1,226,702	—	—	1,226,702
Agency CMBS	71,759	—	(782)	70,977	—	—	70,977
CMBS	436,872	28,398	(996)	464,274	—	—	464,274
CLO (1)	357,326	315	—	357,641	—	—	357,641
Pooled trust preferred securities (2)	31,900	—	(3,410)	28,490	—	—	28,490
Single issuer trust preferred securities	41,807	—	(6,872)	34,935	—	—	34,935
Corporate debt securities	108,936	4,155	—	113,091	—	—	113,091
Equity securities - financial institutions (3)	2,314	1,270	—	3,584	—	—	3,584
Total available-for-sale	$3,110,912	$57,645	$(61,626)	$3,106,931	$—	$—	$3,106,931
Held-to-maturity:							
Agency CMO	$365,081	$—	$—	$365,081	$10,135	$(1,009)	$374,207
Agency MBS	2,130,685	—	—	2,130,685	43,315	(53,188)	2,120,812
Agency CMBS	115,995	—	—	115,995	44	(818)	115,221
Municipal bonds and notes	448,405	—	—	448,405	11,104	(1,228)	458,281
CMBS	290,057	—	—	290,057	8,635	(4,975)	293,717
Private Label MBS	8,498	—	—	8,498	176	—	8,674
Total held-to-maturity	$3,358,721	$—	$—	$3,358,721	$73,409	$(61,218)	$3,370,912

(1) Amortized cost is net of $2.6 million of other-than-temporary impairments at December 31, 2013.
(2) Amortized cost is net of $14.0 million of other-than-temporary impairments at December 31, 2013.
(3) Amortized cost is net of $20.4 million of other-than-temporary impairments at December 31, 2013.

Contractual Maturities

The amortized cost and fair value of debt securities at September 30, 2014, by contractual maturity, are set forth below:

(In thousands)	Available-for-Sale Amortized Cost	Available-for-Sale Fair Value	Held-to-Maturity Amortized Cost	Held-to-Maturity Fair Value
Due in one year or less	$15,518	$15,546	$15	$15
Due after one year through five years	107,131	111,200	70,092	73,095
Due after five through ten years	260,350	260,884	67,799	70,457
Due after ten years	2,470,071	2,486,256	3,504,073	3,556,258
Total debt securities	$2,853,070	$2,873,886	$3,641,979	$3,699,825

For the maturity schedule above, mortgage-backed securities and collateralized loan obligations, which are not due at a single maturity date, have been categorized based on the maturity date of the underlying collateral. Actual principal cash flows may differ from this maturity date presentation because borrowers have the right to prepay obligations with or without prepayment penalties. At September 30, 2014, the Company had a carrying value of $818.0 million in callable securities in its CMBS, CLO, and municipal bond portfolios. The Company considers these factors in the evaluation of its interest rate risk profile and effective duration. These maturities do not reflect actual duration which is impacted by prepayment assumptions.

Securities with a carrying value totaling $2.9 billion at September 30, 2014 and $2.7 billion at December 31, 2013 were pledged to secure public funds, trust deposits, repurchase agreements and for other purposes, as required or permitted by law. At September 30, 2014 and December 31, 2013, the Company had no investments in obligations of individual states, counties, or municipalities which exceeded 10% of consolidated shareholders’ equity.

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Gross Unrealized Losses and Fair Value

The following tables provide information on the gross unrealized losses and fair value of the Company's investment securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment security type and length of time that individual investment securities have been in a continuous unrealized loss position:

	At September 30, 2014						
	Less Than Twelve Months		Twelve Months or Longer		Total		
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	# of Holdings	Fair Value	Unrealized Losses
Available-for-sale:							
Agency CMO	$82,646	$(278)	$ 35,915	$ (779)	10	$118,561	$(1,057)
Agency MBS	55,408	(262)	665,932	(23,277)	73	721,340	(23,539)
Agency CMBS	36,325	(88)	44,057	(261)	4	80,382	(349)
CMBS	15,000	(41)	9,390	(14)	3	24,390	(55)
CLO	31,858	(142)	—	—	2	31,858	(142)
Pooled trust preferred securities	—	—	—	—	—	—	—
Single issuer trust preferred securities	—	—	35,120	(2,637)	7	35,120	(2,637)
Total available-for-sale in an unrealized loss position	$221,237	$(811)	$ 790,414	$ (26,968)	99	$1,011,651	$(27,779)
Held-to-maturity:							
Agency CMO	$111,069	$(798)	$ 25,943	$ (611)	10	$137,012	$(1,409)
Agency MBS	258,608	(1,161)	671,769	(21,907)	64	930,377	(23,068)
Agency CMBS	196,139	(622)	—	—	9	196,139	(622)
Municipal bonds and notes	4,311	(6)	3,075	(32)	14	7,386	(38)
CMBS	5,494	(10)	73,167	(2,112)	8	78,661	(2,122)
Total held-to-maturity in an unrealized loss position	$575,621	$(2,597)	$ 773,954	$ (24,662)	105	$1,349,575	$(27,259)

	At December 31, 2013						
	Less Than Twelve Months		Twelve Months or Longer		Total		
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	# of Holdings	Fair Value	Unrealized Losses
Available-for-sale:							
Agency CMO	$149,894	$(1,713)	$ 9,011	$ (155)	15	$158,905	$(1,868)
Agency MBS	616,286	(29,537)	279,680	(18,161)	88	895,966	(47,698)
Agency CMBS	70,977	(782)	—	—	3	70,977	(782)
CMBS	52,340	(996)	—	—	7	52,340	(996)
CLO	—	—	—	—	—	—	—
Pooled trust preferred securities	—	—	11,141	(3,410)	2	11,141	(3,410)
Single issuer trust preferred securities	3,777	(381)	31,158	(6,491)	8	34,935	(6,872)
Total available-for-sale in an unrealized loss position	$893,274	$(33,409)	$ 330,990	$ (28,217)	123	$1,224,264	$(61,626)
Held-to-maturity:							
Agency CMO	$53,789	$(1,009)	$ —	$ —	4	$53,789	$(1,009)
Agency MBS	1,045,693	(42,181)	170,780	(11,007)	94	1,216,473	(53,188)
Agency CMBS	90,218	(818)	—	—	4	90,218	(818)
Municipal bonds and notes	46,587	(1,193)	2,166	(35)	51	48,753	(1,228)

CMBS	106,527	(4,059)	14,832	(916)	11	121,359	(4,975)
Total held-to-maturity in an unrealized loss position	$1,342,814	$(49,260)	$ 187,778	$ (11,958)	164	$1,530,592	$(61,218)

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Available-for-Sale Impairment Analysis

The following discussion summarizes, by investment security type, the basis for evaluating if the applicable investment securities within the Company’s available-for-sale portfolio were other-than-temporarily impaired at September 30, 2014. Unless otherwise noted for an investment security type, management does not intend to sell these investments and has determined, based upon available evidence, that it is more likely than not that the Company will not be required to sell these securities before the recovery of its amortized cost.

Agency collateralized mortgage obligations (CMO) – There were unrealized losses of $1.1 million on the Company’s investment in agency CMO at September 30, 2014, compared to $1.9 million at December 31, 2013. Unrealized losses decreased due to lower market rates which resulted in higher security prices since December 31, 2013. The contractual cash flows for these investments are performing as expected and there has been no change in the underlying credit quality. As such, the Company does not consider these securities to be other-than-temporarily impaired at September 30, 2014.

Agency mortgage-backed securities (MBS) – There were unrealized losses of $23.5 million on the Company’s investment in residential mortgage-backed securities issued by government agencies at September 30, 2014, compared to $47.7 million at December 31, 2013. Unrealized losses decreased due to lower market rates which resulted in higher security prices since December 31, 2013. These investments are issued by a government or a government sponsored agency and therefore are backed by certain government guarantees, either direct or indirect. There has been no change in the credit quality and the contractual cash flows are performing as expected. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2014.

Agency commercial mortgage-backed securities (ACMBS) - There were unrealized losses of $0.3 million on the Company's investment in commercial mortgage-backed securities issued by government agencies at September 30, 2014, compared to $0.8 million at December 31, 2013. Unrealized losses decreased due to lower market rates which resulted in higher security prices since December 31, 2013. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2014.

Commercial mortgage-backed securities (CMBS) – There were unrealized losses of $55 thousand on the Company’s investment in commercial mortgage-backed securities issued by entities other than government agencies at September 30, 2014, compared to $1.0 million at December 31, 2013. Unrealized losses decreased due to lower market rates which resulted in higher security prices since December 31, 2013. Internal and external metrics are considered when evaluating potential OTTI. Internal stress tests are performed on individual bonds to monitor potential losses under stress scenarios. In addition, market analytics are performed to validate internal results. Contractual cash flows for the bonds continue to perform as expected. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2014.

Collateralized loan obligations (CLO) – There were unrealized losses of $142 thousand on the Company’s investment in Volcker compliant collateralized loan obligations at September 30, 2014 compared to no unrealized losses at December 31, 2013. The unrealized losses increased due to increased CLO spreads during the period. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2014. The Company continues to recognize the full write down of CLO positions to market value if they meet the definition of a covered fund under the Volcker Rule effective December 10, 2013.

Pooled trust preferred securities – There were no unrealized losses on the Company's investment in pooled trust preferred securities at September 30, 2014, compared to $3.4 million at December 31, 2013. The decrease in unrealized loss is due to the sale of the remaining two non-investment grade pooled trust preferred securities during the third quarter of 2014. The Company does not hold investments in pooled trust preferred securities at September 30, 2014.

Single issuer trust preferred securities - There were unrealized losses of $2.6 million on the Company's investment in single issuer trust preferred securities at September 30, 2014, compared to $6.9 million at December 31, 2013. Unrealized losses decreased due to lower market spreads which resulted in higher security prices since December 31, 2013. The single issuer portfolio consists of four investments issued by three large capitalization money center financial institutions, which continue to service the debt. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2014.

Corporate debt securities – There were no unrealized losses on the Company’s investment in corporate debt securities at September 30, 2014 and December 31, 2013. These securities are currently performing as expected at September 30, 2014.

Equity securities - financial institutions – There were no unrealized losses on the Company’s investment in equity securities at September 30, 2014 and December 31, 2013. The equity portfolio was sold at a gain during the current quarter. The Company does not hold investments in equity securities at September 30, 2014.

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Held-to-Maturity Impairment Analysis

The following discussion summarizes, by investment type, the basis for the conclusion that the applicable investment securities within the Company’s held-to-maturity portfolio were not other-than-temporarily impaired at September 30, 2014. Unless otherwise noted under an investment security type, management does not intend to sell these investments and has determined, based upon available evidence, that it is more likely than not that the Company will not be required to sell these securities before the recovery of its amortized cost.

Agency CMO – There were unrealized losses of $1.4 million on the Company’s investment in agency CMO at September 30, 2014, compared to $1.0 million at December 31, 2013. Unrealized losses increased due to higher market rates on CMO purchased during the quarter. The contractual cash flows for these investments are performing as expected and there has been no change in the underlying credit quality. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2014.

Agency mortgage-backed securities (MBS) – There were unrealized losses of $23.1 million on the Company’s investment in residential mortgage-backed securities issued by government agencies at September 30, 2014, compared to $53.2 million at December 31, 2013. Unrealized losses decreased due to lower market rates which resulted in higher security prices since December 31, 2013. These investments are issued by a government or a government sponsored agency and therefore are backed by certain government guarantees, either direct or indirect. There has been no change in the credit quality and the contractual cash flows are performing as expected. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2014.

Agency commercial mortgage-backed securities (ACMBS) - There were unrealized losses of $0.6 million on the Company’s investment in commercial mortgage-backed securities issued by government agencies at September 30, 2014, compared to $0.8 million at December 31, 2013. Unrealized losses decreased due to lower market rates which resulted in higher security prices since December 31, 2013. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2014.

Municipal bonds and notes – There were unrealized losses of $38 thousand on the Company’s investment in municipal bonds and notes at September 30, 2014, compared to $1.2 million at December 31, 2013. Unrealized losses decreased due to lower market rates which resulted in higher security prices since December 31, 2013. The municipal portfolio is primarily comprised of bank qualified bonds, over 99.3% with credit ratings of A or better. In addition, the portfolio is comprised of 86.0% general obligation bonds, 13.5% revenue bonds, and 0.5% other bonds. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2014.

Commercial mortgage-backed securities (CMBS) – There were unrealized losses of $2.1 million on the Company’s investment in commercial mortgage-backed securities issued by entities other than government agencies at September 30, 2014, compared to $5.0 million unrealized losses at December 31, 2013. Unrealized losses decreased due to lower market rates which resulted in higher security prices since December 31, 2013. Internal and external metrics are considered when evaluating potential OTTI. Internal stress tests are performed on individual bonds to monitor potential losses under stress scenarios. In addition, market analytics are performed to validate internal results. The contractual cash flows for these investments are performing as expected. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2014.

Private Label MBS - There were no unrealized losses on the Company's investment in private label residential mortgage-backed securities issued by entities other than government agencies at September 30, 2014 and December 31, 2013. These securities are currently performing as expected at September 30, 2014.

Other-Than-Temporary Impairment

There were additions to OTTI of $85 thousand and $246 thousand for the three and nine months ended September 30, 2014, respectively, and no additions for the three and nine months ended September 30, 2013. The cumulative OTTI related to previously impaired securities was reduced due to the sale of four trust preferred securities during the first quarter of 2014, and the sale of two trust preferred securities and refinancing of two CLO during the third quarter of 2014. To the extent that changes in interest rates, credit movements, and other factors that influence the fair value of investments occur, the Company may be required to record impairment charges for OTTI in future periods.

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The following is a roll forward of the amount of OTTI related to debt securities:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2014	2013	2014	2013
Balance of OTTI, beginning of period	$9,738	$10,460	$16,633	$10,460
Reduction for securities sold, called	(7,026)	(1,104)	(14,082)	(1,104)
Additions for OTTI not previously recognized	85	—	246	—
Balance of OTTI, end of period	$2,797	$9,356	$2,797	$9,356

Realized Gains and Losses

The following table summarizes proceeds from available-for-sale securities, the gross realized gains and losses from those sales, and the impact of the recognition of other-than-temporary impairments for the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2014	2013	2014	2013
Proceeds from sales[(1)]	$16,380	$7,740	$38,075	$44,261
Gross realized gains	$1,812	$269	$6,148	$708
Gross realized losses	(1,770)	—	(1,770)	—
OTTI write-down	(85)	—	(246)	—
Net realized (losses) gains from investment securities	$(43)	$269	$4,132	$708

(1) Proceeds from sales, for the three and nine months ended September 30, 2014, does not include $25.3 million of unsettled sales transactions at September 30, 2014. The gross realized gains and gross realized losses for the three and nine months ended September 30, 2014 reflect the unsettled sales transactions.

NOTE 3: Loans and Leases

Recorded Investment in Loans and Leases. The following tables summarize the recorded investment in loans and leases by portfolio segment:

	At September 30, 2014					
(In thousands)	Residential	Consumer	Commercial	Commercial Real Estate [(1)]	Equipment Financing	Total [(2)]
Recorded Investment:						
Individually evaluated for impairment	$144,355	$51,503	$41,329	$100,560	$1,759	$339,506
Collectively evaluated for impairment	3,321,447	2,538,505	3,602,406	3,261,898	488,391	13,212,647
Recorded investment in loans and leases	3,465,802	2,590,008	3,643,735	3,362,458	490,150	13,552,153
Less: Accrued interest	10,448	8,108	11,744	8,351	—	38,651
Loans and leases	$3,455,354	$2,581,900	$3,631,991	$3,354,107	$490,150	$13,513,502

	At December 31, 2013					
(In thousands)	Residential	Consumer	Commercial	Commercial Real Estate [(1)]	Equipment Financing	Total [(2)]
Recorded Investment:						
Individually evaluated for impairment	$142,871	$52,179	$52,199	$105,046	$210	$352,505
Collectively evaluated for impairment	3,228,688	2,492,353	3,241,045	2,961,378	460,240	12,383,704
Recorded investment in loans and leases	3,371,559	2,544,532	3,293,244	3,066,424	460,450	12,736,209
Less: Accrued interest	10,134	7,844	10,393	8,062	—	36,433
Loans and leases	$3,361,425	$2,536,688	$3,282,851	$3,058,362	$460,450	$12,699,776

(1) Includes certain loans individually evaluated for impairment under the Company's loan policy that were deemed not to be impaired at both September 30, 2014 and December 31, 2013.

(2) Loans and leases include net deferred fees and unamortized premiums of $14.5 million and $13.3 million at September 30, 2014 and December 31, 2013, respectively.

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At September 30, 2014, the Company had pledged $5.4 billion of eligible loan collateral to support available borrowing capacity at the Federal Home Loan Bank of Boston ("FHLB") and the Federal Reserve Bank of Boston.
Loans and Leases Portfolio Aging. The following tables summarize the aging of the recorded investment in loans and leases by portfolio class:

	At September 30, 2014						
(In thousands)	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	> 90 Days Past Due and Accruing	Non-accrual	Total Past Due and Non-accrual	Current	Total Loans and Leases
Residential: (1)	$9,906	$ 6,295	$—	$ 68,402	$ 84,603	$3,381,199	$3,465,802
Consumer:							
Home equity (1)	9,498	7,068	—	38,959	55,525	2,429,571	2,485,096
Other consumer	671	334	—	244	1,249	103,663	104,912
Commercial:							
Commercial non-mortgage	8,402	450	795	12,454	22,101	2,972,897	2,994,998
Asset-based	—	—	—	—	—	648,737	648,737
Commercial real estate:							
Commercial real estate	991	670	488	14,443	16,592	3,131,467	3,148,059
Commercial construction	—	—	—	3,919	3,919	210,480	214,399
Equipment financing	241	192	—	1,659	2,092	488,058	490,150
Total	$29,709	$ 15,009	$1,283	$ 140,080	$ 186,081	$13,366,072	$13,552,153

(1) A total of $17.6 million residential and consumer loans was reclassified from non-accrual to accrual status as a result of updated regulatory guidance issued in the first quarter of 2014.

	At December 31, 2013						
(In thousands)	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	> 90 Days Past Due and Accruing	Non-accrual	Total Past Due and Non-accrual	Current	Total Loans and Leases
Residential:	$11,721	$ 6,839	$—	$ 81,520	$ 100,080	$3,271,479	$3,371,559
Consumer:							
Home equity	15,332	5,120	—	51,788	$ 72,240	2,410,953	$2,483,193
Other consumer	462	193	—	140	795	60,543	61,338
Commercial:							
Commercial non-mortgage	3,208	984	4,305	10,946	19,443	2,712,870	2,732,313
Asset-based	—	—	—	—	—	560,931	560,931
Commercial real estate:							
Commercial real estate	4,387	587	235	13,456	18,665	2,842,637	2,861,302
Commercial construction	—	—	—	4,237	4,237	200,886	205,123
Equipment financing	299	63	—	1,141	1,503	458,947	460,450
Total	$35,409	$ 13,786	$4,540	$ 163,228	$ 216,963	$12,519,246	$12,736,209

Interest on non-accrual loans and leases that would have been recorded as additional interest income for the three and nine months ended September 30, 2014 and 2013, had the loans and leases been current in accordance with their original terms, totaled $3.0 million and $7.6 million and $3.5 million and $10.9 million, respectively.

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Allowance for Loan and Lease Losses. The following tables summarize the ALLL by portfolio segment:

(In thousands)	At or for the three months ended September 30, 2014						
	Residential	Consumer	Commercial	Commercial Real Estate	Equipment Financing	Unallocated	Total
Allowance for loan and lease losses:							
Balance, beginning of period	$19,054	$33,867	$51,632	$34,144	$5,539	$10,632	$154,868
Provision (benefit) charged to expense	2,006	5,357	2,051	68	344	(326)	9,500
Losses charged off	(1,870)	(6,329)	(2,738)	(139)	(491)	—	(11,567)
Recoveries	261	1,947	1,017	120	336	—	3,681
Balance, end of period	$19,451	$34,842	$51,962	$34,193	$5,728	$10,306	$156,482
Individually evaluated for impairment	$11,501	4,165	$1,717	3,818	$29	$—	$21,230
Collectively evaluated for impairment	$7,950	$30,677	$50,245	$30,375	$5,699	$10,306	$135,252

(In thousands)	At or for the three months ended September 30, 2013						
	Residential	Consumer	Commercial	Commercial Real Estate	Equipment Financing	Unallocated	Total
Allowance for loan and lease losses:							
Balance, beginning of period	$26,876	$49,659	$43,847	$28,457	$3,603	$11,000	$163,442
Provision (benefit) charged to expense	1,075	(1,732)	3,783	6,046	(672)	—	8,500
Losses charged off	(3,800)	(5,827)	(3,245)	(4,069)	(10)	—	(16,951)
Recoveries	152	1,188	426	105	683	—	2,554
Balance, end of period	$24,303	$43,288	$44,811	$30,539	$3,604	$11,000	$157,545
Individually evaluated for impairment	$13,003	$3,281	$1,630	$5,397	$—	$—	$23,311
Collectively evaluated for impairment	$11,300	$40,007	$43,181	$25,142	$3,604	$11,000	$134,234

(In thousands)	At or for the nine months ended September 30, 2014						
	Residential	Consumer	Commercial	Commercial Real Estate	Equipment Financing	Unallocated	Total
Allowance for loan and lease losses:							
Balance, beginning of period	$20,580	$39,551	$47,706	$29,883	$3,912	$10,941	$152,573
Provision (benefit) charged to expense	2,711	7,530	10,716	6,633	795	(635)	27,750
Losses charged off	(4,868)	(16,501)	(9,571)	(2,991)	(511)	—	(34,442)
Recoveries	1,028	4,262	3,111	668	1,532	—	10,601
Balance, end of period	$19,451	$34,842	$51,962	$34,193	$5,728	$10,306	$156,482
Individually evaluated for impairment	$11,501	$4,165	$1,717	$3,818	$29	$—	$21,230
Collectively evaluated for impairment	$7,950	$30,677	$50,245	$30,375	$5,699	$10,306	$135,252

At or for the nine months ended September 30, 2013

(In thousands)	Residential	Consumer	Commercial	Commercial Real Estate	Equipment Financing	Unallocated	Total
Allowance for loan and lease losses:							
Balance, beginning of period	$29,474	$54,254	$46,566	$30,834	$4,001	$12,000	$177,129
Provision (benefit) charged to expense	2,835	7,328	8,902	9,146	(2,711)	(1,000)	24,500
Losses charged off	(8,848)	(23,565)	(13,740)	(10,339)	(101)	—	(56,593)
Recoveries	842	5,271	3,083	898	2,415	—	12,509
Balance, end of period	$24,303	$43,288	$44,811	$30,539	$3,604	$11,000	$157,545
Individually evaluated for impairment	$13,003	$3,281	$1,630	$5,397	$—	$—	$23,311
Collectively evaluated for impairment	$11,300	$40,007	$43,181	$25,142	$3,604	$11,000	$134,234

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Impaired Loans and Leases. The following tables summarize impaired loans and leases by portfolio class:

	At September 30, 2014				
(In thousands)	Unpaid Principal Balance	Total Recorded Investment	Recorded Investment No Allowance	Recorded Investment With Allowance	Related Valuation Allowance
Residential:					
1-4 family	$159,486	$144,355	$ 24,272	$ 120,083	$11,501
Consumer:					
Home equity	60,717	51,503	26,885	24,618	4,165
Commercial:					
Commercial non-mortgage	50,359	41,329	17,754	23,575	1,717
Commercial real estate:					
Commercial real estate	90,230	88,209	42,743	45,466	3,786
Commercial construction	9,438	8,230	7,517	713	32
Equipment financing	2,258	1,759	1,114	645	29
Totals:					
Residential	159,486	144,355	24,272	120,083	11,501
Consumer	60,717	51,503	26,885	24,618	4,165
Commercial	50,359	41,329	17,754	23,575	1,717
Commercial real estate	99,668	96,439	50,260	46,179	3,818
Equipment financing	2,258	1,759	1,114	645	29
Total	$372,488	$335,385	$ 120,285	$ 215,100	$21,230

	At December 31, 2013				
(In thousands)	Unpaid Principal Balance	Total Recorded Investment	Recorded Investment No Allowance	Recorded Investment With Allowance	Related Valuation Allowance
Residential:					
1-4 family	$158,361	$142,871	$ 23,988	$ 118,883	$10,534
Consumer:					
Home equity	63,886	52,179	27,323	24,856	4,595
Commercial:					
Commercial non-mortgage	59,279	52,199	23,138	29,061	1,878
Commercial real estate:					
Commercial real estate	95,013	90,976	42,774	48,202	3,444
Commercial construction	11,725	10,625	10,625	—	—
Equipment financing	249	210	210	—	—
Totals:					
Residential	158,361	142,871	23,988	118,883	10,534
Consumer	63,886	52,179	27,323	24,856	4,595
Commercial	59,279	52,199	23,138	29,061	1,878
Commercial real estate	106,738	101,601	53,399	48,202	3,444
Equipment financing	249	210	210	—	—
Total	$388,513	$349,060	$ 128,058	$ 221,002	$20,451

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The following table summarizes the average recorded investment and interest income recognized for impaired loans and leases by portfolio class:

	September 30, 2014	Three months ended September 30, 2014		Nine months ended September 30, 2014		September 30, 2013	Three months ended September 30, 2013		Nine months ended September 30, 2013	
(In thousands)	Average Recorded Investment	Accrued Interest Income	Cash Basis Interest Income	Accrued Interest Income	Cash Basis Interest Income	Average Recorded Investment	Accrued Interest Income	Cash Basis Interest Income	Accrued Interest Income	Cash Basis Interest Income
Residential:										
1-4 family	$143,613	$1,144	$305	$3,482	$912	$145,240	$1,015	$520	$3,098	$1,476
Consumer:										
Home equity	51,841	372	307	1,100	930	53,850	250	413	748	1,301
Commercial:										
Commercial non-mortgage	46,764	617	—	1,787	—	65,808	794	—	2,187	—
Commercial real estate:										
Commercial real estate	89,593	933	—	2,585	—	116,307	1,109	—	3,675	—
Commercial construction	9,428	75	—	216	—	16,323	161	—	482	—
Equipment financing	985	11	—	17	—	1,136	6	—	19	—
Totals:										
Residential	143,613	1,144	305	3,482	912	145,240	1,015	520	3,098	1,476
Consumer	51,841	372	307	1,100	930	53,850	250	413	748	1,301
Commercial	46,764	617	—	1,787	—	65,808	794	—	2,187	—
Commercial real estate	99,021	1,008	—	2,801	—	132,630	1,270	—	4,157	—
Equipment financing	985	11	—	17	—	1,136	6	—	19	—
Total	$342,224	$3,152	$612	$9,187	$1,842	$398,664	$3,335	$933	$10,209	$2,777

Credit Risk Management. The Company has credit policies and procedures in place designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis and reviews reports related to loan production, loan quality, concentrations, delinquencies, non-performing and potential problem loans.

Commercial loans are underwritten after evaluating and understanding the borrower’s ability to operate profitably. Underwriting standards are designed to promote relationships rather than transactional banking. Once it is determined that the borrower’s management possesses sound ethics and solid business acumen, the Company’s management examines current and projected cash flows to determine the ability of the borrower to repay obligations as agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed and may incorporate personal guarantees of the principals.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those specific to real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Repayment of these loans is largely dependent on the successful operation of the property securing the loan, the market in which the property is located, and the tenants of the property securing the loan. The properties securing the Company’s commercial real estate portfolio are diverse in terms of type and geographic location, which reduces the Company's exposure to adverse economic events that may affect a particular market. Management monitors and evaluates commercial real estate loans based on collateral, geography, and risk grade criteria. Commercial real estate loans may be adversely affected by conditions in the real estate markets or in the general economy. The Company also utilizes third-party experts to provide insight and guidance about economic conditions and trends affecting its commercial real estate loan portfolio.

Construction loans on commercial properties have unique risk characteristics and are provided to experienced developers/sponsors with strong track records of successful completion and sound financial condition and are underwritten utilizing feasibility studies, independent appraisals, sensitivity analysis of absorption and lease rates, and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project. These estimates may be subject to change as the construction project proceeds. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property, or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections by third-party professionals and the Company's internal staff.

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Policies and procedures are in place to manage consumer loan risk and are developed and modified, as needed. Policies and procedures, coupled with relatively small loan amounts, and predominately collateralized structures spread across many individual borrowers, minimize risk. Trend and outlook reports are reviewed by management on a regular basis. Underwriting factors for mortgage and home equity loans include the borrower's FICO score, the loan amount relative to property value, and the borrower's debt to income level and are also influenced by regulatory requirements. Additionally, Webster Bank originates both qualified mortgage (QM) and non-QM loans as defined by the Consumer Financial Protection Bureau rules that went into effect on January 10, 2014, with appropriate policies, procedures, and underwriting guidelines that include ability-to-repay standards.

Credit Quality Indicators. To measure credit risk for the commercial, commercial real estate, and equipment financing portfolios, the Company employs a dual grade credit risk grading system for estimating the probability of borrower default and the loss given default. The credit risk grade system assigns a rating to each borrower and to the facility, which together form a Composite Credit Risk Profile ("CCRP"). The credit risk grade system categorizes borrowers by common financial characteristics that measure the credit strength of borrowers and facilities by common structural characteristics. The CCRP has 10 grades, with each grade corresponding to a progressively greater risk of default. Grades 1 through 6 are considered pass ratings, and 7 through 10 are criticized as defined by the regulatory agencies. Risk ratings, assigned to differentiate risk within the portfolio, are reviewed on an ongoing basis and revised to reflect changes in the borrowers' current financial positions and outlooks, risk profiles, and the related collateral and structural positions. Loan officers review updated financial information on at least an annual basis for all pass rated loans to assess the accuracy of the risk grade. All criticized loans undergo frequent review and enhanced monitoring of the underlying borrower.

A "Special Mention" (7) credit has the potential weakness that, if left uncorrected, may result in deterioration of the repayment prospects for the asset. "Substandard" (8) assets have a well defined weakness that jeopardizes the full repayment of the debt. An asset rated "Doubtful" (9) has all of the same weaknesses as a substandard credit with the added characteristic that the weakness makes collection or liquidation in full, given current facts, conditions, and values, improbable. Assets classified as "Loss" (10) in accordance with regulatory guidelines are considered uncollectible and charged off.

The recorded investment in commercial and commercial real estate loans and equipment financing leases segregated by risk rating exposure is as follows:

	Commercial		Commercial Real Estate		Equipment Financing	
(In thousands)	At September 30, 2014	At December 31, 2013	At September 30, 2014	At December 31, 2013	At September 30, 2014	At December 31, 2013
(1) - (6) Pass	$3,474,698	$3,091,154	$3,191,834	$2,947,116	$468,407	$437,033
(7) Special Mention	63,830	87,451	61,354	20,901	2,080	7,979
(8) Substandard	105,008	114,199	108,762	97,822	19,663	15,438
(9) Doubtful	199	440	508	585	—	—
(10) Loss	—	—	—	—	—	—
Total	$3,643,735	$3,293,244	$3,362,458	$3,066,424	$490,150	$460,450

For residential and consumer loans, the Company considers factors such as updated FICO scores, employment status, home prices, loan to value, geography, loans discharged in bankruptcy, and the status of first lien position loans on second lien position loans as credit quality indicators. On an ongoing basis for portfolio monitoring purposes, the Company estimates the current value of property secured as collateral for both home equity and residential first mortgage lending products. The estimate is based on home price indices compiled by the S&P/Case-Shiller Home Price Indices. The Case-Shiller data indicates trends for Metropolitan Statistical Areas. The trend data is applied to the loan portfolios taking into account the age of the most recent valuation and geographic area.

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Troubled Debt Restructurings. The following table summarizes information for TDRs:

(Dollars in thousands)	At September 30, 2014		At December 31, 2013	
Recorded investment of TDRs:				
Accrual status [1]	$236,128		$238,926	
Non-accrual status [1]	87,003		102,972	
Total recorded investment of TDRs	$323,131		$341,898	
Accruing TDRs performing under modified terms more than one year	68.4	%	58.2	%
Specific reserves for TDRs included in the balance of allowance for loan and lease losses	$20,745		$20,360	
Additional funds committed to borrowers in TDR status	495		1,262	

(1) A total of $17.6 million in residential and consumer loans was reclassified from non-accrual to accrual status in the nine months ended September 30, 2014 as a result of updated regulatory guidance issued in the first quarter of 2014.

For the three and nine months ended September 30, 2014 and 2013, Webster charged off $2.1 million and $10.3 million and $3.2 million and $17.3 million, respectively, for the portion of TDRs deemed to be uncollectible.

TDRs may be modified by means of extended maturity, below market adjusted interest rates, a combination of rate and maturity, or other means, including covenant modifications, forbearance, loans discharged under Chapter 7 bankruptcy, or other concessions.

The following table provides information on how loans and leases were modified as TDRs:

	Three months ended September 30,				Nine months ended September 30,			
	2014		2013		2014		2013	
Type of concession (Dollars in thousands)	Number of Loans and Leases	Post-Modification Recorded Investment [1]	Number of Loans and Leases	Post-Modification Recorded Investment [1]	Number of Loans and Leases	Post-Modification Recorded Investment [1]	Number of Loans and Leases	Post-Modification Recorded Investment [1]
Residential:								
Extended Maturity	10	$ 1,383	10	$ 1,898	24	$ 3,191	22	$ 4,418
Adjusted Interest rates	1	103	1	654	3	448	6	1,888
Combination Rate and Maturity	2	275	8	1,142	16	3,522	38	7,213
Other	32	7,600	5	1,177	47	10,433	30	5,611
Consumer:								
Extended Maturity	4	143	10	307	18	911	20	961
Adjusted Interest rates	—	—	—	—	1	51	4	154
Combination Rate and Maturity	1	110	3	164	6	412	13	1,381
Other	34	1,750	28	811	73	3,717	78	3,197
Commercial:								
Extended Maturity	—	—	—	—	4	356	2	7,520
Adjusted Interest rates	—	—	—	—	1	25	—	—
Combination Rate and Maturity	5	342	12	353	18	974	19	982
Other	2	101	2	4,568	5	6,647	3	4,607
Commercial real estate:								
Extended Maturity	—	—	—	—	—	—	3	227
Combination Rate and Maturity	—	—	2	340	—	—	4	12,015

Equipment Financing								
Extended Maturity	1	492	—	—	1	492	—	—
TOTAL TDRs	92	$ 12,299	81	$ 11,414	217	$ 31,179	242	$ 50,174

(1) Post-modification balances approximate pre-modification balances. The aggregate amount of charge-offs as a result of the restructurings was not significant.

The Company's loan and lease portfolio at September 30, 2014 included loans with an A Note/B Note structure. The loans were restructured into A Note/B Note structures as a result of evaluating the cash flow of the borrowers to support repayment. Webster immediately charged off the balance of B Notes. The restructuring agreements specify a market interest rate equal to that which would be provided to a borrower with similar credit at the time of restructuring.

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The following table provides information on loans and leases modified as TDRs within the previous 12 months and for which there was a payment default during the periods presented:

(Dollars in thousands)	Three months ended September 30, 2014 Number of Loans and Leases	Three months ended September 30, 2014 Recorded Investment	2013 Number of Loans and Leases	2013 Recorded Investment	Nine months ended September 30, 2014 Number of Loans and Leases	Nine months ended September 30, 2014 Recorded Investment	2013 Number of Loans and Leases	2013 Recorded Investment
Residential:								
1-4 family	3	$196	8	$1,116	3	$196	12	$1,814
Consumer:								
Home equity	2	22	3	53	4	48	7	343
Commercial real estate:								
Commercial real estate	—	—	1	500	—	—	1	500
Total	5	$218	12	$1,669	7	$244	20	$2,657

The recorded investment in commercial, commercial real estate, and equipment financing TDRs segregated by risk rating exposure is as follows:

(In thousands)	At September 30, 2014	At December 31, 2013
(1) - (6) Pass	$37,861	$55,973
(7) Special Mention	18,268	—
(8) Substandard	70,601	90,461
(9) Doubtful	346	414
(10) Loss	—	—
Total	$127,076	$146,848

NOTE 4: Transfers of Financial Assets and Mortgage Servicing Assets

Transfers of Financial Assets

The Company sells financial assets in the normal course of business, the majority of which are residential mortgage loans primarily to government-sponsored enterprises through established programs, commercial loans through participation agreements, and other individual or portfolio loans and securities. In accordance with the accounting guidance for asset transfers, the Company considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. For loans sold under participation agreements, the Company also considers the terms of the loan participation agreement and whether they meet the definition of a participating interest, and thus, qualify for derecognition.

With the exception of servicing rights and certain performance-based guarantees, the Company’s continuing involvement with financial assets sold is minimal and limited to customary market representations and warranties covering certain characteristics of the mortgage loans sold and the Company's origination process, which the Company makes in the sale agreements. The Company may be required to repurchase a loan in the event of certain breaches of these representations and warranties or in the event of default of the borrower within 90 days of sale. The gain or loss on loans sold depends on the previous carrying amount of the transferred financial assets, the consideration received, and any liabilities incurred in exchange for the transferred assets, and is included as mortgage banking activities in the accompanying Condensed Consolidated Statements of Income.

A reserve provides for estimated losses associated with the repurchase of loans sold in connection with the Company’s mortgage banking operations. The reserve for loan repurchases reflects management’s monthly evaluation of counterparty, the vintage of the loans sold, the amount of open repurchase requests, specific loss estimates for each open request, current level of loan losses in similar vintages held in the residential loan portfolio, and estimated recoveries on the underlying collateral. This reserve also reflects management’s expectation of losses from repurchase requests for which the Company has not yet been notified. While management uses its best judgment and information available, the adequacy of the reserve is dependent upon factors outside the Company's control including the performance of loans sold and the quality of the servicing provided by the acquirer. The provision recorded at the time of loan sale is netted from the gain or loss recorded in mortgage banking activities, while any incremental provision, post loan sale, is recorded in other non-interest expense in the accompanying Condensed Consolidated Statements of Income.

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The following table provides a summary of activity in the reserve for loan repurchases:

(In thousands)	Three months ended September 30, 2014	2013	Nine months ended September 30, 2014	2013
Beginning balance	$1,575	$2,648	$2,254	$2,617
Provision (benefit)	132	447	(391)	1,462
Loss on repurchased loans and settlements	—	(586)	(156)	(1,570)
Ending balance	$1,707	$2,509	$1,707	$2,509

The following table provides detail of activity related to loan sales:

(In thousands)	Three months ended September 30, 2014	2013	Nine months ended September 30, 2014	2013
Residential mortgage loans:				
Proceeds from the sale of loans held for sale	$85,311	$199,903	$207,530	$657,541
Net gain on sale included as mortgage banking activities	1,805	665	3,093	13,900
Loans sold with servicing rights retained	78,848	192,283	193,781	622,550
Commercial loans:				
Proceeds from the sale of loans held for sale	—	—	—	12,685
Net loss on sale included as mortgage banking activities	—	—	—	(316)

Mortgage Servicing Assets

The Company has retained servicing rights on consumer loans totaling $2.4 billion at both September 30, 2014 and December 31, 2013, resulting in mortgage servicing assets of $19.7 million at September 30, 2014 and $21.0 million at December 31, 2013, which are carried at the lower of cost or fair value. See Note 14 - Fair Value Measurements for a further discussion on the fair value of mortgage servicing assets.

Loan servicing fees, net of mortgage servicing rights amortization, were $0.7 million and $1.4 million and $0.4 million and $2.5 million for the three and nine months ended September 30, 2014 and 2013, respectively, and are included as a component of loan related fees in the accompanying Condensed Consolidated Statements of Income.

NOTE 5: Goodwill and Other Intangible Assets

The following table presents the carrying value for goodwill allocated to the segments:

(In thousands)	At September 30, 2014	At December 31, 2013
Segment:		
Community Banking	$516,560	$516,560
Other	13,327	13,327
Goodwill	$529,887	$529,887

The gross carrying amount and accumulated amortization of other intangible assets (core deposits) allocated to the business segments are as follows:

	At September 30, 2014			At December 31, 2013		
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Community Banking	$49,420	$(46,338)	$3,082	$49,420	$(44,069)	$5,351

Amortization of intangible assets for the three and nine months ended September 30, 2014 and 2013, totaled $0.4 million and $2.3 million and $1.2 million and $3.7 million, respectively. Future estimated annual amortization expense is summarized below:

(In thousands)	
Years ending December 31:	
Remainder of 2014	$415
2015	1,524

2016	1,143

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NOTE 6: Deposits

A summary of deposits by type follows:

(In thousands)	At September 30, 2014	At December 31, 2013
Non-interest-bearing:		
Demand	$3,256,741	$3,128,152
Interest-bearing:		
Checking	2,105,481	1,934,291
Health savings accounts	1,765,671	1,533,310
Money market	2,239,106	2,167,593
Savings	3,877,673	3,863,930
Time deposits	2,302,246	2,227,144
Total interest-bearing	12,290,177	11,726,268
Total deposits	$15,546,918	$14,854,420
Demand deposit overdrafts reclassified as loan balances	$1,791	$1,455

At September 30, 2014, the scheduled maturities of time deposits are as follows:

(In thousands)	Years ending December 31:
2014	$357,663
2015	1,041,544
2016	305,677
2017	120,685
2018	149,111
Thereafter	327,566
Time deposits	$2,302,246

Included in the balances above are time deposits and interest-bearing checking accounts obtained through brokers, totaling $350.5 million and $205.9 million at September 30, 2014 and December 31, 2013, respectively.

NOTE 7: Securities Sold Under Agreements to Repurchase and Other Borrowings

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

(In thousands)	At September 30, 2014	At December 31, 2013
Securities sold under agreements to repurchase:		
Original maturity of one year or less	$398,975	$359,662
Original maturity of greater than one year, non-callable	550,000	550,000
Callable at the option of the counterparty [(1)]	—	100,000
	948,975	1,009,662
Other borrowings:		
Federal funds purchased	288,000	322,000
Securities sold under agreements to repurchase and other borrowings	$1,236,975	$1,331,662

(1) There were $100 million of securities sold under agreements to repurchase that had callable options for June 23, 2014 and were classified as callable at the option of the counterparty at December 31, 2013. The callable options were not exercised as of the call date and were reclassified as original maturity of greater than one year, non-callable during the quarter ended September 30, 2014.

Repurchase agreements are used as a source of borrowed funds and are collateralized by U.S. Government agency mortgage-backed securities which are delivered to broker/dealers. Repurchase agreements with counterparties are limited to primary dealers in government securities or commercial and municipal customers through Webster's Treasury Sales desk. Dealer counterparties have the right to pledge, transfer, or hypothecate purchased securities during the term of the transaction. The Company has right of offset with respect to all repurchase agreement assets and liabilities. At September 30, 2014, the Company has a gross repurchase agreement liability of $0.9 billion.

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NOTE 8: Federal Home Loan Bank Advances

The following table summarizes Federal Home Loan Bank advances:

(Dollars in thousands)	At September 30, 2014 Total Outstanding	At September 30, 2014 Weighted-Average Contractual Coupon Rate		At December 31, 2013 Total Outstanding	At December 31, 2013 Weighted-Average Contractual Coupon Rate	
FHLB advances maturing:						
Within 1 year	$1,775,000	0.20	%	$1,550,000	0.25	%
After 1 but within 2 years	145,934	1.80		—	—	
After 2 but within 3 years	—	—		145,934	1.80	
After 3 but within 4 years	100,500	1.49		500	5.66	
After 4 but within 5 years	108,731	1.33		200,000	1.36	
After 5 years	159,996	1.25		155,926	1.25	
	2,290,161	0.48	%	2,052,360	0.54	%
Unamortized premiums	43			61		
Federal Home Loan Bank advances	$2,290,204			$2,052,421		

At September 30, 2014, Webster Bank had pledged loans with an aggregate carrying value of $5.0 billion as collateral for borrowings and had additional borrowing capacity from the FHLB of approximately $1.0 billion, as well as an unused line of credit of approximately $5.0 million. At December 31, 2013, Webster Bank had pledged loans with an aggregate carrying value of $4.8 billion as collateral for borrowings and had additional borrowing capacity from the FHLB of approximately $1.0 billion, as well as an unused line of credit of approximately $5.0 million. At September 30, 2014 and December 31, 2013, Webster Bank was in compliance with FHLB collateral requirements.

NOTE 9: Long-Term Debt

The following table summarizes long-term debt:

(Dollars in thousands)	At September 30, 2014		At December 31, 2013	
4.375% senior fixed-rate notes due 2024 (1)	$150,000		$—	
5.125% senior fixed-rate notes due 2014	—		150,000	
Junior subordinated debt Webster Statutory Trust I floating-rate notes due 2033 (2)	77,320		77,320	
Total notes and subordinated debt	227,320		227,320	
Unamortized discount, net (3)	(1,112	)	(21	)
Hedge accounting adjustments (3)	—		1,066	
Long-term debt	$226,208		$228,365	

(1) On February 11, 2014, Webster completed an underwritten public offering of $150.0 million aggregate principal amount of 4.375% senior notes maturing February 15, 2024. Webster received net proceeds of $148.0 million from the public offering

(2) The interest rate on Webster Statutory Trust I floating-rate notes, which varies quarterly based on 3-month LIBOR plus 2.95%, was 3.185% at September 30, 2014 and 3.194% at December 31, 2013

(3) Related to senior fixed-rate notes due 2024 at September 30, 2014 and senior fixed-rate notes due 2014 at December 31, 2013

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NOTE 10: Accumulated Other Comprehensive Loss

The following tables summarize the changes in accumulated other comprehensive loss by component:

	Three months ended September 30, 2014			
(In thousands)	Available For Sale and Transferred Securities	Derivative Instruments	Defined Benefit Pension and Postretirement Benefit Plans	Total
Beginning balance	$21,256	$ (24,450)	$ (26,801)	$(29,995)
Other comprehensive (loss) income before reclassifications	(8,133)	493	437	(7,203)
Amounts reclassified from accumulated other comprehensive (loss) income	36	1,180	63	1,279
Net current-period other comprehensive (loss) income, net of tax	(8,097)	1,673	500	(5,924)
Ending balance	$13,159	$ (22,777)	$ (26,301)	$(35,919)

	Three months ended September 30, 2013			
(In thousands)	Available For Sale and Transferred Securities	Derivative Instruments	Defined Benefit Pension and Postretirement Benefit Plans	Total
Beginning balance	$2,729	$ (22,872)	$ (44,996)	$(65,139)
Other comprehensive income (loss) before reclassifications	5,330	(1,413)	528	4,445
Amounts reclassified from accumulated other comprehensive income (loss)	(173)	1,400	526	1,753
Net current-period other comprehensive income (loss), net of tax	5,157	(13)	1,054	6,198
Ending balance	$7,886	$ (22,885)	$ (43,942)	$(58,941)

	Nine months ended September 30, 2014			
(In thousands)	Available For Sale and Transferred Securities	Derivative Instruments	Defined Benefit Pension and Postretirement Benefit Plans	Total
Beginning balance	$(2,617)	$ (18,206)	$ (27,726)	$(48,549)
Other comprehensive income (loss) before reclassifications	18,420	(8,534)	1,372	11,258
Amounts reclassified from accumulated other comprehensive income (loss)	(2,644)	3,963	53	1,372
Net current-period other comprehensive income (loss), net of tax	15,776	(4,571)	1,425	12,630
Ending balance	$13,159	$ (22,777)	$ (26,301)	$(35,919)

	Nine months ended September 30, 2013			
(In thousands)	Available For Sale and Transferred Securities	Derivative Instruments	Defined Benefit Pension and Postretirement Benefit Plans	Total
Beginning balance	$42,741	$ (27,902)	$ (47,105)	$(32,266)
Other comprehensive (loss) income before reclassifications	(34,400)	467	1,584	(32,349)
Amounts reclassified from accumulated other comprehensive (loss) income	(455)	4,550	1,579	5,674
Net current-period other comprehensive (loss) income, net of tax	(34,855)	5,017	3,163	(26,675)

Ending balance	$7,886	$ (22,885)	$ (43,942)	$(58,941)

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The following tables summarize the reclassifications out of accumulated other comprehensive loss:

Accumulated Other Comprehensive Loss Components	Three months ended September 30, 2014 Amount Reclassified From Accumulated Other Comprehensive Loss	Three months ended September 30, 2013 Amount Reclassified From Accumulated Other Comprehensive Loss	Associated Line Item in the Condensed Consolidated Statements Of Income
(In thousands)			
Available-for-sale and transferred securities:			
Unrealized gains (losses) on investment securities	$42	$ 269	Net gain on sale of investment securities
Unrealized gains (losses) on investment securities	(85)	—	Impairment loss recognized in earnings
Tax benefit (expense)	7	(96)	Income tax expense
Net of tax	$(36)	$ 173	
Derivative instruments:			
Cash flow hedges	$(1,853)	$ (2,182)	Total interest expense
Tax benefit	673	782	Income tax expense
Net of tax	$(1,180)	$ (1,400)	
Defined benefit pension and postretirement benefit plans:			
Amortization of net loss	$(80)	$ (803)	Compensation and benefits
Prior service costs	(19)	(18)	Compensation and benefits
Tax benefit	36	295	Income tax expense
Net of tax	$(63)	$ (526)	

Accumulated Other Comprehensive Loss Components	Nine months ended September 30, 2014 Amount Reclassified From Accumulated Other Comprehensive Loss	Nine months ended September 30, 2013 Amount Reclassified From Accumulated Other Comprehensive Loss	Associated Line Item in the Condensed Consolidated Statements Of Income
(In thousands)			
Available-for-sale and transferred securities:			
Unrealized gains (losses) on investment securities	$4,378	$ 708	Net gain on sale of investment securities
Unrealized gains (losses) on investment securities	(246)	—	Impairment loss recognized in earnings
Tax expense	(1,488)	(253)	Income tax expense
Net of tax	$2,644	$ 455	
Derivative instruments:			
Cash flow hedges	$(6,189)	$ (7,090)	Total interest expense

Tax benefit	2,226	2,540	Income tax expense
Net of tax	$(3,963)	$(4,550)	
Defined benefit pension and postretirement benefit plans:			
Amortization of net loss	$(28)	$(2,407)	Compensation and benefits
Prior service costs	(55)	(54)	Compensation and benefits
Tax benefit	30	882	Income tax expense
Net of tax	$(53)	$(1,579)	

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NOTE 11: Regulatory Matters

Regulatory Capital Requirements. Banks and bank holding companies are subject to various regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. These quantitative measures, to ensure capital adequacy, require minimum amounts and ratios.

As defined in the regulations, the Total risk-based and Tier 1 capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets. Risk-weighted assets are calculated based on regulatory requirements and include total assets, excluding goodwill and other intangible assets, allocated by risk-weight category, and certain off-balance sheet items, primarily loan commitments. As defined in the regulations, the Tier 1 leverage capital ratio is calculated by dividing Tier 1 capital by adjusted quarterly average total assets. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk-weighting, and other factors.

The following table provides information on the capital ratios for Webster Financial Corporation and Webster Bank, N.A.:

	Capital			Capital Requirements					
	Actual			Minimum			Well Capitalized		
(Dollars in thousands)	Amount	Ratio		Amount	Ratio		Amount	Ratio	
At September 30, 2014									
Webster Financial Corporation									
Total risk-based capital	$2,060,208	14.2	%	$1,163,206	8.0	%	$1,454,008	10.0	%
Tier 1 capital	1,898,704	13.1		581,603	4.0		872,405	6.0	
Tier 1 leverage capital	1,898,704	9.0		840,727	4.0		1,050,909	5.0	
Webster Bank, N.A.									
Total risk-based capital	$1,901,130	13.1	%	$1,161,080	8.0	%	$1,451,350	10.0	%
Tier 1 capital	1,739,626	12.0		580,540	4.0		870,810	6.0	
Tier 1 leverage capital	1,739,626	8.3		839,728	4.0		1,049,660	5.0	
At December 31, 2013									
Webster Financial Corporation									
Total risk-based capital	$1,965,171	14.2	%	$1,106,203	8.0	%	$1,382,754	10.0	%
Tier 1 capital	1,807,642	13.1		553,101	4.0		829,652	6.0	
Tier 1 leverage capital	1,807,642	9.0		801,535	4.0		1,001,919	5.0	
Webster Bank, N.A.									
Total risk-based capital	$1,815,423	13.2	%	$1,104,200	8.0	%	$1,380,250	10.0	%
Tier 1 capital	1,658,466	12.0		552,100	4.0		828,150	6.0	
Tier 1 leverage capital	1,658,466	8.3		800,063	4.0		1,000,079	5.0	

Webster is subject to regulatory capital requirements administered by the Federal Reserve, while Webster Bank is subject to regulatory capital requirements administered by the Office of the Comptroller of the Currency ("OCC"). Regulatory authorities can initiate certain mandatory actions if Webster or Webster Bank fail to meet minimum capital requirements, which could have a direct material effect on the Company’s financial statements.

Dividend Restrictions. In the ordinary course of business, Webster is dependent upon dividends from Webster Bank to provide funds for its cash requirements, including payments of dividends to shareholders. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of Webster Bank to fall below specified minimum levels, or if dividends declared exceed the net income for that year combined with the undistributed net income for the preceding two years. In addition, the OCC has discretion to prohibit any otherwise permitted capital distribution on general safety and soundness grounds. Dividends paid by Webster Bank to Webster totaled $80.0 million and $70.0 million during the nine months ended September 30, 2014 and 2013, respectively.

Trust Preferred Securities. The Company owns the common stock of a trust which has issued trust preferred securities. The trust is a VIE of which the Company is not the primary beneficiary and, therefore, is not consolidated. At

September 30, 2014 and December 31, 2013, $75.0 million of trust preferred securities have been included in the Tier 1 capital of Webster for regulatory reporting purposes pursuant to the Federal Reserve's capital adequacy guidelines. Certain provisions of the Basel III capital framework require the Company to phase out trust preferred securities from Tier 1 capital beginning January 1, 2015. Excluding trust preferred securities from the Tier 1 capital will not affect Webster's ability to meet all capital adequacy requirements to which it is subject.

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NOTE 12: Earnings Per Common Share

The calculation of basic and diluted earnings per common share follows:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands, except per share data)	2014	2013	2014	2013
Earnings for basic and diluted earnings per common share:				
Net income available to common shareholders	$47,819	$44,666	$140,820	$127,631
Less: Earnings allocated to participating securities	171	162	530	497
Net income allocated to common shareholders	$47,648	$44,504	$140,290	$127,134
Shares:				
Weighted-average common shares outstanding - basic	89,888	89,759	89,850	88,318
Effect of dilutive securities:				
Stock options and restricted stock	464	451	471	406
Warrants - Series A1 and A2	—	—	—	1,300
Warrants - other	262	213	270	169
Weighted-average common shares outstanding - diluted	90,614	90,423	90,591	90,193
Earnings per common share:				
Basic	$0.53	$0.50	$1.56	$1.44
Diluted	0.53	0.49	1.55	1.41

Stock Options

Options to purchase 0.8 million shares for both the three and nine months ended September 30, 2014, respectively, and 1.1 million shares and 1.2 million for the three and nine months ended September 30, 2013, respectively, were excluded from the calculation of diluted earnings per share because the options' exercise prices were greater than the average market price of Webster's common stock for the respective periods presented.

Restricted Stock

Non-participating restricted stock awards of 157 thousand shares and 178 thousand shares for the three and nine months ended September 30, 2014, respectively, and 189 thousand shares and 224 thousand shares for the three and nine months ended September 30, 2013, respectively, whose issuance is contingent upon the satisfaction of certain performance conditions, were deemed to be anti-dilutive and, therefore, are excluded from the calculation of diluted earnings per share for the respective periods presented.

Warrants

Series A1 and A2: The Series A1 and A2 warrants issued in connection with the Warburg investment were exchanged in a cashless exercise on March 22, 2013. The weighted-average dilutive effect of these warrants prior to the exchange is included in the calculation of diluted earnings per share for the nine months ended September 30, 2013 because the exercise price of the warrants was less than the average market price of Webster's common stock for that period.

Other: Warrants initially issued to the U.S. Treasury and sold in a secondary public offering on June 8, 2011 represent 0.7 million potential issuable shares of common stock at both September 30, 2014 and 2013. The weighted-average dilutive effect of these warrants is included in the calculation of diluted earnings per share for the three and nine months ended September 30, 2014 and 2013 because the exercise price of the warrants was less than the average market price of Webster's common stock for the respective periods presented.

Series A Preferred Stock

The Series A Preferred Stock represents potential issuable common stock at September 30, 2014 and 2013. The weighted-average effect of 1.1 million shares of common stock associated with the Series A Preferred Stock was deemed to be anti-dilutive and, therefore, is excluded from the calculation of diluted earnings per share for the three and nine months ended September 30, 2014 and 2013.

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NOTE 13: Derivative Financial Instruments

Risk Management Objective of Using Derivatives

Webster manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, Webster enters into derivative financial instruments to manage exposure that arises from business activities, that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Cash flow or fair value hedge designation, for accounting, depends on the specific risk being hedged. Webster uses fair value hedges to mitigate changes in fair values due to fixed rates or prices, while changes in cash flows due to variable rates or prices may be reduced or eliminated by cash flow hedges.

Cash Flow Hedges of Interest Rate Risk

Webster's primary objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish these objectives, Webster uses interest rate swaps and caps as part of its interest rate risk management strategy. Interest rate swaps and caps designated as cash flow hedges are designed to manage the risk associated with a forecasted event or an uncertain variable rate cash flow. The change in fair value of interest rate swaps and caps is recorded in accumulated other comprehensive income ("AOCI") during the term of the cash flow hedge.

Webster uses forward-settle interest rate swaps to protect the Company against adverse fluctuations in interest rates by reducing its exposure to variability in cash flows relating to interest payments on forecasted debt issuances. The current forward-settle interest rate swaps are structured as pay fixed-receive 1-month LIBOR. Forward-settle swaps are typically terminated and cash settled to coincide with a debt issuance. Upon the termination of a swap at the time of debt issuance, the gain or loss that has been recorded in AOCI is amortized into interest expense over the life of the debt.

The table below presents information for Webster's forward-settle interest rate swaps outstanding at September 30, 2014:

(Dollars in thousands)

Number of Instruments	Total Notional Amount	Trade Date	Effective Date	Maturity Date	Debt Issuance Expected
1	$25,000	September 2013	June 2014	June 2019	At or before March 2015
4	$100,000	October 2013, November 2013	October 2014, November 2014	October 2019, November 2019	At or before May 2015
2	$50,000	January 2014	January 2015	January 2020	October 2014 - July 2015
2	$50,000	April 2014, May 2014	June 2015	June 2020	March 2015 - December 2015

Webster uses interest rate swaps and caps to protect the Company from exposure to variability in cash flows relating to interest payments on floating-rate funding instruments. The swaps and caps are structured to offset fluctuations in interest rates on floating-rate debt during the life of the funding instrument.

The table below presents information for Webster's interest rate swaps and caps outstanding at September 30, 2014:

(Dollars in thousands)

Number of Instruments	Total Notional Amount	Instrument Type	Trade Date	Index Rate	Hedged Debt	Maturity Date
6	$150,000	Cap	April 2013, January 2014, February 2014, April 2014	3.0% strike	$150 million 3-month LIBOR indexed floating-rate FHLB advance	December 2021

4	$100,000	Swap	June 2014, July 2014	1-month LIBOR	$100 million 28 day rolling FHLB advance for a 5 year term	July 2019, August 2019, September 2019

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The table below presents the notional amount and fair value for Webster's interest rate derivatives designated as cash flow hedges as well as their classification in the accompanying Condensed Consolidated Balance Sheets:

		At September 30, 2014			At December 31, 2013		
(Dollars in thousands)	Balance Sheet Classification	# of Instruments	Notional Amount	Fair Value	# of Instruments	Notional Amount	Fair Value
Forward-settle interest rate swap	Other assets	—	$—	$—	8	$200,000	$3,027
Forward-settle interest rate swap	Other liabilities	9	225,000	(2,812)	5	125,000	(622)
Interest rate swap	Other assets	4	100,000	263	—	—	—
Interest rate cap	Other assets	6	150,000	6,094	2	50,000	3,554

AOCI related to cash flow hedges

The changes in fair value of derivatives designated as cash flow hedges are recorded in AOCI. These amounts are reclassified to interest expense as interest payments are made on the Company's variable-rate debt. An unamortized interest rate cap premium balance of $8.0 million will be reclassified to interest expense over the term of the cap transactions according to a predetermined cap value schedule. Over the next twelve months, the Company estimates that $4.6 million will be reclassified from AOCI as an increase to interest expense.

Webster records swap gains and losses related to forward-settle terminations in AOCI with the amortization impacting earnings over the respective term of the hedged debt instruments. There was no hedge ineffectiveness for the three months ended September 30, 2014, while a loss of $107 thousand was recognized for hedge ineffectiveness for the nine months ended September 30, 2014. There was no hedge ineffectiveness for the three and nine months ended September 30, 2013. At September 30, 2014, the remaining unamortized loss on the termination of cash flow hedges is $30.9 million. Over the next twelve months, the Company estimates that $7.5 million will be reclassified from AOCI as an increase to interest expense.

The increase/(reduction) to interest expense on borrowings related to cash flow hedges is presented below:

	Three months ended September 30,			
	2014		2013	
(In thousands)	Interest Expense	Amount Reclassified From AOCI	Interest Expense	Amount Reclassified From AOCI
Interest rate swaps on FHLB advances	$188	$1,355	$—	$1,353
Interest rate swaps on senior fixed-rate notes	—	76	—	—
Interest rate swaps on junior subordinated debt	—	—	—	—
Interest rate swaps on repurchase agreements	—	361	—	829
Interest rate swaps on brokered certificates of deposit	—	61	—	—
Net increase to interest expense on borrowings	$188	$1,853	$—	$2,182

	Nine months ended September 30,			
	2014		2013	
(In thousands)	Interest Expense	Amount Reclassified From AOCI	Interest Expense	Amount Reclassified From AOCI
Interest rate swaps on FHLB advances	$188	$4,060	$498	$4,604
Interest rate swaps on senior fixed-rate notes	—	191	—	—
Interest rate swaps on junior subordinated debt	—	—	—	(3)
Interest rate swaps on repurchase agreements	—	1,864	—	2,489
Interest rate swaps on brokered certificates of deposit	—	74	—	—
Net increase to interest expense on borrowings	$188	$6,189	$498	$7,090

Fair Value Hedges of Interest Rate Risk

Webster is exposed to changes in the fair value of certain of its fixed-rate obligations due to changes in benchmark interest rates. Webster, on occasion, uses interest rate swaps to manage its exposure to changes in fair value on these obligations attributable to changes in the benchmark interest rates. Interest rate swaps designated as fair value hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for Webster making variable-rate payments over the life of the agreements without the exchange of the underlying notional amount. Webster did not have any derivative financial instruments designated as fair value hedges as of September 30, 2014 and December 31, 2013.

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For a qualifying derivative designated as a fair value hedge, the gain or loss on the derivative, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, is recognized in interest expense. Webster includes the gain or loss from the period end mark-to-market ("MTM") adjustments on the hedged items in the same line item as the offsetting gain or loss on the related derivatives. The impact of derivative net settlements, hedge ineffectiveness, basis amortization adjustments, and amortization of deferred hedge terminations are also recognized in interest expense.

The reduction to interest expense on borrowings related to fair value hedges is presented below:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2014	2013	2014	2013
Interest rate swaps on senior fixed-rate notes	$—	$(799)	$(1,066)	$(2,398)
Interest rate swaps on junior subordinated debt	—	—	—	(207)
Net reduction to interest expense on borrowings	$—	$(799)	$(1,066)	$(2,605)

Non-Hedge Accounting Derivatives / Non-designated Hedges

Webster has derivatives that do not meet hedge accounting requirements and are accounted for as free-standing derivatives with changes in fair value recorded in non interest income. The Company's risk management strategy includes the use of derivatives to modify the repricing risk of assets and liabilities. As part of this strategy, the Company uses futures contracts to hedge certain loans. Other derivative instruments include interest rate swap and cap contracts sold to commercial and other customers who wish to modify interest rate sensitivity. These contracts are offset with dealer counterparty transactions structured with matching terms. As a result, there is minimal impact on earnings.

Webster had the following derivative positions that were not designated for hedge accounting:

		At September 30, 2014				
				Fair Value		
(Dollars in thousands)	Balance Sheet Classification	# of Instruments	Notional Amount	Gain	Loss	Net
Webster with customer position:						
Commercial loan interest rate derivatives	Other assets	196	$1,245,748	$35,207	$—	$35,207
Commercial loan interest rate derivatives	Other liabilities	73	685,273	—	(5,534)	(5,534)
Total customer position		269	$1,931,021	$35,207	$(5,534)	$29,673

Webster with counterparty position: