

BankUnited, Inc.
Form 10-Q
November 14, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from _____ to _____

Commission File Number: 001-35039

BankUnited, Inc.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction
of incorporation or organization)

27-0162450
(I.R.S. Employer
Identification No.)

14817 Oak Lane, Miami Lakes, FL
(Address of principal executive offices)

33016
(Zip Code)

Registrant's telephone number, including area code: **(305) 569-2000**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

Class
Common Stock, \$0.01 Par Value

November 10, 2011
97,283,922 Shares

Table of Contents

BankUnited, Inc.

Form 10-Q

For the Quarter Ended September 30, 2011

TABLE OF CONTENTS

	Page
<u>PART I.</u>	
<u>FINANCIAL INFORMATION</u>	
<u>ITEM 1.</u>	
<u>Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Income</u>	4
<u>Consolidated Statements of Cash Flows</u>	5
<u>Consolidated Statements of Stockholders' Equity and Comprehensive Income</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
<u>ITEM 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	41
<u>ITEM 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	71
<u>ITEM 4.</u>	
<u>Controls and Procedures</u>	71
<u>PART II.</u>	
<u>OTHER INFORMATION</u>	
<u>ITEM 1.</u>	
<u>Legal Proceedings</u>	71
<u>ITEM 1A.</u>	
<u>Risk Factors</u>	71
<u>ITEM 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	71
<u>ITEM 3.</u>	
<u>Defaults Upon Senior Securities</u>	71
<u>ITEM 4.</u>	
<u>(Removed and Reserved)</u>	71
<u>ITEM 5.</u>	
<u>Other Information</u>	72
<u>ITEM 6.</u>	
<u>Exhibits</u>	72
<u>SIGNATURES</u>	73

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS - UNAUDITED

(Dollars in thousands, except per share data)

	September 30, 2011	December 31, 2010
ASSETS		
Cash and due from banks:		
Non-interest bearing	\$ 31,950	\$ 44,860
Interest bearing	12,990	12,523
Due from Federal Reserve Bank	336,700	502,828
Federal funds sold	3,446	4,563
Cash and cash equivalents	385,086	564,774
Investment securities available for sale, at fair value (including covered securities of \$242,292 and \$263,568)	3,893,076	2,926,602
Federal Home Loan Bank stock	165,547	217,408
Loans held for sale	2,142	2,659
Loans (including covered loans of \$2,743,887 and \$3,396,047)	4,015,074	3,934,217
Allowance for loan losses	(55,058)	(58,360)
Loans, net	3,960,016	3,875,857
FDIC indemnification asset	2,107,605	2,667,401
Bank owned life insurance	175,089	207,061
Other real estate owned, covered by loss sharing agreements	124,990	206,680
Income tax receivable	6,296	10,862
Goodwill and other intangible assets	68,751	69,011
Other assets	125,422	121,245
Total assets	\$ 11,014,020	\$ 10,869,560
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Demand deposits:		
Non-interest bearing	\$ 645,695	\$ 494,499
Interest bearing	394,502	349,985
Savings and money market	3,487,959	3,134,884
Time	2,420,256	3,184,360
Total deposits	6,948,412	7,163,728
Securities sold under agreements to repurchase	284	492
Federal Home Loan Bank advances	2,240,937	2,255,200
Deferred tax liability, net	31,245	4,618
Advance payments by borrowers for taxes and insurance	47,732	22,563

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Other liabilities	244,504	169,451
Total liabilities	9,513,114	9,616,052
Commitments and contingencies		
Stockholders equity:		
Common Stock, par value \$0.01 per share 400,000,000 and 110,000,000 shares authorized; 97,282,905 and 92,971,850 shares issued and outstanding	973	930
Paid-in capital	1,230,819	950,831
Retained earnings	249,124	269,781
Accumulated other comprehensive income	19,990	31,966
Total stockholders equity	1,500,906	1,253,508
Total liabilities and stockholders equity	\$ 11,014,020	\$ 10,869,560

The accompanying notes are an integral part of these consolidated financial statements.

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Table of Contents

BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED

(Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest income:				
Interest and fees on loans	\$ 133,649	\$ 108,422	\$ 370,543	\$ 320,092
Interest and dividends on investment securities available for sale	28,984	32,255	90,770	93,382
Other	522	697	2,145	1,485
Total interest income	163,155	141,374	463,458	414,959
Interest expense:				
Interest on deposits	18,437	26,717	57,767	83,631
Interest on borrowings	15,920	15,869	47,244	43,864
Total interest expense	34,357	42,586	105,011	127,495
Net interest income before provision for loan losses	128,798	98,788	358,447	287,464
Provision for loan losses	1,252	19,066	9,816	45,157
Net interest income after provision for loan losses	127,546	79,722	348,631	242,307
Non-interest income:				
Accretion of discount on FDIC indemnification asset	10,804	25,755	45,247	116,915
Income from resolution of covered assets, net	4,702	17,787	7,068	112,777
Net gain (loss) on indemnification asset	(777)	5,053	36,857	(44,932)
FDIC reimbursement of costs of resolution of covered assets	5,859	8,078	24,600	22,393
Service charges	2,730	2,674	8,062	7,894
Gain (loss) on sale or exchange of investment securities available for sale	1,112	518	1,215	(2,292)
Mortgage insurance income	4,143	7,040	12,228	12,097
Investment services income	1,645	1,717	6,160	4,421
Other non-interest income	2,537	2,693	8,438	8,247
Total non-interest income	32,755	71,315	149,875	237,520
Non-interest expense:				
Employee compensation and benefits	41,350	36,830	232,020	100,334
Occupancy and equipment	9,879	6,502	26,275	20,144
Impairment of other real estate owned	4,037	6,263	21,823	12,164
Foreclosure expense	3,859	7,616	14,386	26,991
(Gain) loss on sale of other real estate owned	2,865	897	27,339	(2,270)
Other real estate owned expense	2,188	4,287	9,120	13,173
Change in value of FDIC warrant		1,297		4,502
Deposit insurance expense	134	3,469	6,652	10,420
Professional fees	5,468	4,407	12,204	9,069
Telecommunications and data processing	2,951	3,036	9,817	8,772

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Other non-interest expense	7,021	5,309	20,344	16,749
Total non-interest expense	79,752	79,913	379,980	220,048
Income before income taxes	80,549	71,124	118,526	259,779
Provision for income taxes	34,996	26,085	96,638	102,857
Net income	\$ 45,553	\$ 45,039	\$ 21,888	\$ 156,922
Earnings per common share, basic (see Note 13)	\$ 0.45	\$ 0.48	\$ 0.21	\$ 1.69
Earnings per common share, diluted (see Note 13)	\$ 0.45	\$ 0.48	\$ 0.20	\$ 1.69
Cash dividends declared per common share	\$ 0.14	\$ 0.15	\$ 0.42	\$ 0.15

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(Dollars in thousands)

	Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 21,888	\$ 156,922
Adjustments to reconcile net income to net cash used in operating activities:		
Accretion of fair values of assets acquired and liabilities assumed	(351,509)	(336,219)
Amortization of fees, discounts and premiums, net	(3,116)	(24,591)
Provision for loan losses	9,816	45,157
Accretion of discount on FDIC indemnification asset	(45,247)	(116,915)
Income from resolution of covered assets	(7,068)	(112,777)
Net (gain) loss on indemnification asset	(36,857)	44,932
Net gain on sale of loans	(403)	
Increase in cash surrender value of bank owned life insurance	(2,887)	(3,836)
Income from life insurance proceeds		(544)
(Gain) loss on sale or exchange of investment securities available for sale	(1,215)	2,292
(Gain) loss on sale of other real estate owned	27,339	(2,270)
Loss on disposal of premises and equipment	11	316
Stock-based compensation	135,744	873
Change in fair value of equity instruments classified as liabilities		24,490
Depreciation and amortization	5,333	1,765
Impairment of other real estate owned	21,823	12,164
Deferred income taxes	34,368	38,884
Proceeds from sale of loans held for sale	22,095	
Loans originated for sale, net of repayments	(21,175)	(534)
Realized tax benefits from equity based compensation	(433)	
Other:		
(Increase) decrease in other assets	991	(46,811)
Increase (decrease) in other liabilities	7,369	(76,845)
Net cash used in operating activities	(183,133)	(393,547)
Cash flows from investing activities:		
Decrease in due to FDIC		(2,950)
Purchase of investment securities available for sale	(1,452,980)	(1,331,883)
Proceeds from repayments of investment securities available for sale	407,595	494,324
Proceeds from sale of investment securities available for sale	199,843	67,867
Maturities and calls of investment securities available for sale	162	10,000
Purchases of loans	(254,732)	(23,718)
Loan repayments and resolutions, net of originations	251,691	618,061
Proceeds from redemption of Federal Home Loan Bank stock	51,861	17,432
Decrease in FDIC indemnification asset for claims filed	641,900	628,089
Purchase of bank owned life insurance	(22,016)	
Bank owned life insurance proceeds	77,721	717
Purchase of office properties and equipment, net	(26,651)	(20,979)
Proceeds from sale of other real estate owned	282,836	197,173
Net cash provided by investing activities	157,230	654,133

(Continued)

Table of Contents

BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(Dollars in thousands)

	Nine Months Ended September 30,	
	2011	2010
Cash flows from financing activities:		
Net decrease in deposits	(208,941)	(347,989)
Additions to Federal Home Loan Bank advances		605,000
Repayments of Federal Home Loan Bank advances		(405,000)
Net decrease in securities sold under agreements to repurchase	(208)	(2,586)
Settlement of FDIC warrant liability	(25,000)	
Increase in advances from borrowers for taxes and insurance	22,955	25,860
Issuance of common stock	98,620	2,500
Dividends paid	(41,914)	
Realized tax benefits from equity based compensation	433	
Exercise of stock options	270	
Net cash used in financing activities	(153,785)	(122,215)
Increase (decrease) in cash and cash equivalents	(179,688)	138,371
Cash and cash equivalents, beginning of period	564,774	356,215
Cash and cash equivalents, end of period	\$ 385,086	\$ 494,586
Supplemental disclosures of cash flow information:		
Interest paid on deposits and borrowings	\$ 125,461	\$ 168,200
Income taxes paid	\$ 30,626	\$ 197,166
Supplemental schedule of non-cash investing and financing activities:		
Transfers from loans to other real estate owned	\$ 273,345	\$ 283,220
Dividends declared	\$ 14,631	\$ 14,000
Unsettled securities trades	\$ 112,731	\$
Reclassification of PIU liability to equity	\$ 44,964	\$
Rescission of surrender of bank owned life insurance	\$ 20,846	\$

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

BANKUNITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME -UNAUDITED

(Dollars in thousands)

	Common stock	Paid-in capital	Retained earnings	Accumulated other comprehensive income	Total stockholders equity
Balance at December 31, 2010	\$ 930	\$ 950,831	\$ 269,781	\$ 31,966	\$ 1,253,508
Comprehensive income:					
Net income			21,888		21,888
Other comprehensive income (loss):					
Unrealized gains on investment securities available for sale arising during the period, net of taxes of \$(2,303)				3,688	3,688
Reclassification adjustment for realized gains on investment securities available for sale, net of taxes of \$468				(747)	(747)
Unrealized losses on cash flow hedges, net of taxes of \$(9,368)				(14,917)	(14,917)
Total comprehensive income			21,888	(11,976)	9,912
Proceeds from issuance of common stock, net of direct costs of \$3,979	42	98,578			98,620
Dividends			(42,545)		(42,545)
Reclassification of PIU liability to equity		44,964			44,964
Stock based compensation	1	135,743			135,744
Proceeds from exercise of stock options		270			270
Tax benefits from dividend equivalents and stock options		433			433
Balance at September 30, 2011	\$ 973	\$ 1,230,819	\$ 249,124	\$ 19,990	\$ 1,500,906
Balance at December 31, 2009	\$ 928	\$ 947,032	\$ 119,046	\$ 27,254	\$ 1,094,260
Comprehensive income:					
Net income			156,922		156,922
Other comprehensive income:					
Unrealized gains on investment securities available for sale arising during the period, net of taxes of \$23,511				37,437	37,437
Reclassification adjustment for realized losses on investment securities available for sale, net of taxes of \$884				1,408	1,408
Unrealized losses on cash flow hedges, net of taxes of \$22,964				(36,561)	(36,561)
Total comprehensive income			156,922	2,284	159,206
Capital contribution	2	2,498			2,500
Dividends			(14,000)		(14,000)
Stock based compensation		873			873

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Balance at September 30, 2010	\$	930	\$	950,403	\$	261,968	\$	29,538	\$	1,242,839
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The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

BANKUNITED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

September 30, 2011

Note 1 Basis of Presentation

BankUnited, Inc. (BankUnited, Inc. or BKU) is the holding company for BankUnited (BankUnited or the Bank), a federally chartered, federally insured savings association headquartered in Miami Lakes, Florida. On May 21, 2009, BankUnited was granted a savings association charter and the newly formed bank acquired substantially all of the assets and assumed all of the non-brokered deposits and substantially all of the other liabilities of BankUnited, FSB from the Federal Deposit Insurance Corporation (FDIC) in a transaction referred to as the Acquisition . In connection with the Acquisition, the Bank entered into Loss Sharing Agreements with the FDIC (Loss Sharing Agreements) that cover single family residential mortgage loans, commercial real estate, commercial and industrial and consumer loans, certain investment securities and other real estate owned (OREO), collectively referred to as the covered assets . Pursuant to the terms of the Loss Sharing Agreements, the covered assets are subject to a stated loss threshold whereby the FDIC will reimburse the Bank for 80% of losses of up to \$4.0 billion, and 95% of losses in excess of this amount, beginning with the first dollar of loss incurred.

BankUnited, Inc. 's wholly owned subsidiaries include BankUnited and BankUnited Investment Services, Inc. (collectively the Company). BankUnited provides a full range of banking and related services to individual and corporate customers through 85 branch offices located in 13 Florida counties.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (the SEC). Accordingly, they do not include all of the information and footnotes required for a fair presentation of financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles (GAAP) and should be read in conjunction with the Company 's consolidated financial statements and the notes thereto appearing in the Company 's Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected in future periods.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and disclosures of contingent assets and liabilities. Management has made significant estimates in certain areas, such as the allowance for loan losses, the amount and timing of expected cash flows from covered assets and the FDIC indemnification asset, the valuation of other real estate owned (OREO), the valuation of deferred tax assets, the evaluation of investment securities for other than-temporary impairment and the fair values of financial instruments. Actual results could differ from these estimates.

Certain amounts for the prior period have been reclassified to conform to the current period presentation.

Note 2 Recent Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2011-02, *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*. This update clarifies existing guidance on a creditor's evaluation of whether a restructuring constitutes a troubled debt restructuring, including clarification of a creditor's evaluation of whether it has granted a concession and of whether a debtor is experiencing financial difficulties. The Company adopted this update during the quarter ending September 30, 2011. Adoption of this update did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In April 2011, the FASB issued Accounting Standards Update 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*. This update removes from the assessment of effective control: (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation

Table of Contents

BANKUNITED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

September 30, 2011

guidance related to that criterion. The update is required to be adopted prospectively by the Company for the quarter ending March 31, 2012. Management does not anticipate that adoption will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In May 2011, the FASB issued Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). The amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Some of the amendments clarify the FASB's intent about the application of fair value measurement requirements and others change principles or requirements for measuring fair value or disclosing information about fair value measurements. The Company is required to adopt this update prospectively for the quarter ending March 31, 2012. This update will result in expanded disclosures in the Company's financial statements; however, management does not anticipate that adoption will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued Accounting Standards Update 2011-05, *Presentation of Comprehensive Income*. This update provides entities with an option of presenting the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The Company is required to adopt this update retrospectively for the quarter ending March 31, 2012. Adoption of this update will affect the manner of presentation of the components of comprehensive income in the Company's financial statements, but will not have an impact on the Company's consolidated financial position, results of operations or cash flows.

In September 2011, the FASB issued Accounting Standards Update 2011-08, *Testing Goodwill for Impairment*. This update simplifies how entities test goodwill for impairment. It permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under the amendments in this update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The Company is required to adopt this update for fiscal years beginning after December 15, 2011. Management does not anticipate that adoption will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Note 3 Acquisition Activity

On June 2, 2011, BKU entered into a Merger Agreement with Herald National Bank (Herald), a national banking association based in the New York metropolitan area (Merger Agreement). The Merger Agreement provides that, upon the terms and subject to the conditions set forth

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therein, a to-be-formed direct, wholly-owned national bank subsidiary of BKU will merge with and into Herald, with Herald continuing as the surviving entity and a wholly-owned subsidiary of BKU. Upon completion of the merger, holders of Herald common and preferred stock will receive cash or shares of BKU common stock having a value equal to \$1.35 plus the value of 0.099 shares of BKU common stock as of the effective time of the Merger. The Merger Agreement provides that the surviving bank will be merged with and into BankUnited, with BankUnited surviving, in August 2012. Completion of the Merger is subject to various customary conditions, including, among others, (a) ratification and confirmation of the Merger Agreement by Herald shareholders, (b) effectiveness of the registration statement for the BKU common stock to be issued in the Merger and approval of the listing on the New York Stock Exchange of the BKU common stock to be issued in the Merger, (c) the absence of any law or order prohibiting the closing of the Merger and (d) receipt of required regulatory approvals.

Table of Contents

BANKUNITED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

September 30, 2011

Note 4 Investment Securities Available for Sale

Investment securities available for sale at September 30, 2011 and December 31, 2010 consisted of the following (in thousands):

	September 30, 2011							
	Amortized Cost	Covered Securities Gross Unrealized Gains	Covered Securities Gross Unrealized Losses	Fair Value	Amortized Cost	Non-Covered Securities Gross Unrealized Gains	Non-Covered Securities Gross Unrealized Losses	Fair Value
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	\$	\$	\$	\$	\$ 1,822,470	\$ 31,435	\$ (441)	\$ 1,853,464
Resecuritized real estate mortgage investment conduits (Re-Remics)					484,928	9,022	(268)	493,682
Private label residential mortgage backed securities and CMO s	170,951	48,324	(278)	218,997	185,473	1,921	(131)	187,263
Private label commercial mortgage backed securities					157,553	1,697		159,250
Non mortgage asset-backed securities					418,001	4,963	(1,191)	421,773
Mutual funds and preferred stocks	16,382	949	(461)	16,870	235,689	1,408	(5,795)	231,302
State and municipal obligations					24,851	259	(6)	25,104
Small Business Administration securities					277,166	1,788	(8)	278,946
Other debt securities	3,860	2,565		6,425				
Total	\$ 191,193	\$ 51,838	\$ (739)	\$ 242,292	\$ 3,606,131	\$ 52,493	\$ (7,840)	\$ 3,650,784

	December 31, 2010							
	Amortized Cost	Covered Securities Gross Unrealized Gains	Covered Securities Gross Unrealized Losses	Fair Value	Amortized Cost	Non-Covered Securities Gross Unrealized Gains	Non-Covered Securities Gross Unrealized Losses	Fair Value
U.S. Government agency and sponsored enterprise residential mortgage-backed securities	\$	\$	\$	\$	\$ 1,282,757	\$ 11,411	\$ (3,258)	\$ 1,290,910
Resecuritized real estate mortgage investment conduits (Re-Remics)					599,682	14,054	(1,105)	612,631
Private label residential mortgage backed securities and CMO s	181,337	61,679	(1,726)	241,290	138,759	2,906	(35)	141,630
Non mortgage asset-backed securities					407,158	1,908	(72)	408,994
Mutual funds and preferred stocks	16,382	57	(922)	15,517	120,107	3,402	(491)	123,018
State and municipal obligations					22,898	101	(39)	22,960

Small Business Administration
securities

62,831