EAST WEST BANCORP INC
Form 10-Q
November 09, 2010

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

FORM 10-Q

Mark One

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

For the quarterly period ended September 30, 2010

or

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

For the transition period from ________ to ________

Commission file number 000-24939

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

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

135 N. Los Robles Ave, 7th Floor, Pasadena, California 91101
(Address of principal executive offices) (Zip Code)

(626) 768-6000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the regis–trant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ 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 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 filed, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer and accelerated filer" in Rule 12b-2 of the

Exchange Act.

Large accelerated filer ¨ Accelerated filer þ 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 þ

Number of shares outstanding of the issuer's common stock on the latest practicable date: 148,004,889 shares of common stock as of October 31, 2010.

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Forward-Looking Statements

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

- our ability to integrate the former acquired institutions’, through Federal Deposit Insurance Corporation (“FDIC”) assisted acquisitions, and to achieve expected synergies, operating efficiencies or other benefits within expected time frames, or at all, or within expected cost projections;
- our ability to integrate and retain former depositors and borrowers of the acquired institutions;
- our ability to manage the loan portfolio acquired from these institutions within the limits of the loss protection provided by the FDIC;
- changes in our borrowers’ performance on loans;
- changes in the commercial and consumer real estate markets;
- changes in our costs of operation, compliance and expansion;
- changes in the economy, including inflation;
- changes in government interest rate policies;
- changes in laws or the regulatory environment;
- changes in critical accounting policies and judgments;
- changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies;
- changes in the equity and debt securities markets;
- changes in competitive pressures on financial institutions;
- effect of additional provision for loan losses;
- effect of any goodwill impairment;
- fluctuations of our stock price;
- success and timing of our business strategies;

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impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity;

- changes in our ability to receive dividends from our subsidiaries; and

- political developments, wars or other hostilities may disrupt or increase volatility in securities or otherwise affect economic conditions.

For a more detailed discussion of some of the factors that might cause such differences, see the Company’s 2009 Form 10-K under the heading “ITEM 1A. RISK FACTORS” and the information set forth under “RISK FACTORS” in this Form 10-Q. The Company does not undertake, and specifically disclaims any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

PART I - FINANCIAL INFORMATION

EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	September 30, 2010	December 31, 2009
ASSETS		
Cash and cash equivalents	$ 859,694	$ 835,141
Short-term investments	381,799	510,788
Fed funds sold	75,000	—
Securities purchased under resale agreements	350,000	227,444
Investment securities available for sale, at fair value (with amortized cost of $2,898,988 at September 30, 2010 and $2,563,043 at December 31, 2009)	2,907,349	2,564,081
Loans held for sale, at fair value	16,902	28,014
Loans receivable, excluding covered loans (net of allowance for loan losses of $240,286 at September 30, 2010 and $238,833 at December 31, 2009)	8,306,782	8,218,671
Covered loans (net of allowance for loan losses of $3,900 at September 30, 2010)	4,975,502	5,598,155
Total loans receivable, net	13,282,284	13,816,826
FDIC indemnification asset	874,759	1,091,814
Other real estate owned, net	16,936	13,832
Other real estate owned covered, net	137,353	44,273
Total other real estate owned	154,289	58,105
Accrued interest receivable	79,879	82,370
Due from customer acceptances	50,698	40,550
Investment in affordable housing partnerships	152,944	84,833
Premises and equipment, net	138,474	59,099
Premiums on deposits acquired, net	82,755	89,735
Goodwill	337,438	337,438
Other assets	672,982	732,974
TOTAL	$ 20,417,246	$ 20,559,212
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Customer deposit accounts:		
Noninterest-bearing	$ 2,571,750	$ 2,291,259
Interest-bearing	12,726,221	12,696,354
Total deposits	15,297,971	14,987,613
Federal Home Loan Bank advances	1,018,074	1,805,387

Securities sold under repurchase agreements		1,045,664		1,026,870
Notes payable and other borrowings		73,550		74,406
Bank acceptances outstanding		50,698		40,550
Long-term debt		235,570		235,570
Accrued interest payable, accrued expenses and other liabilities		310,959		104,157
Total liabilities		18,032,486		18,274,553
COMMITMENTS AND CONTINGENCIES (Note 10)				
STOCKHOLDERS' EQUITY				
Preferred stock, $0.001 par value, 5,000,000 shares authorized; Series A, non-cumulative				
convertible, 200,000 shares issued and 85,741 shares outstanding in 2010 and 2009; Series B,				
cumulative, 306,546 shares issued and outstanding in 2010 and 2009; Series C, cumulative				
convertible, 335,047 shares issued and outstanding in 2009		370,882		693,803
Common stock, $0.001 par value, 200,000,000 shares authorized; 155,092,439 and 116,754,403				
shares issued in 2010 and 2009, respectively; 147,981,714 and 109,962,965 shares				
outstanding in 2010 and 2009, respectively		155		117
Additional paid in capital		1,428,893		1,091,047
Retained earnings		689,356		604,223
Treasury stock, at cost - 7,110,725 shares in 2010 and 6,791,438 shares in 2009		(109,661)		(105,130)
Accumulated other comprehensive income, net of tax		5,135		599
Total stockholders' equity		2,384,760		2,284,659
TOTAL	$	20,417,246	$	20,559,212

See accompanying notes to condensed consolidated financial statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
INTEREST AND DIVIDEND INCOME				
Loans receivable, including fees	$ 210,086	$ 114,512	$ 731,813	$ 336,997
Investment securities	15,725	28,485	50,642	88,178
Securities purchased under resale agreements	2,410	2,153	11,303	4,695
Short-term investments	2,362	1,856	7,405	7,341
Investment in Federal Reserve Bank stock	623	552	2,042	1,604
Investment in Federal Home Loan Bank stock	194	366	431	365
Total interest and dividend income	231,400	147,924	803,636	439,180
INTEREST EXPENSE				
Customer deposit accounts	28,498	26,970	91,078	94,933
Securities sold under repurchase agreements	12,189	12,140	36,775	36,016
Federal Home Loan Bank advances	5,725	11,172	20,905	38,191
Long-term debt	1,685	1,760	4,823	6,211
Other borrowings	498	2	1,903	8
Total interest expense	48,595	52,044	155,484	175,359
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	182,805	95,880	648,152	263,821
Provision for loan losses	38,648	159,244	170,325	388,666
NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES	144,157	(63,364)	477,827	(124,845)
NONINTEREST INCOME (LOSS)				
Increase (decrease) in FDIC indemnification asset and receivable	5,826	—	(47,170)	—
Impairment loss on investment securities	(6,522)	(45,199)	(17,515)	(82,846)
Less: noncredit-related impairment loss recorded in other comprehensive income	5,634	20,950	7,186	20,950
	(888)	(24,249)	(10,329)	(61,896)

Net impairment loss on investment securities recognized in earnings				
Net gain on sale of investment securities	2,791	2,177	24,749	7,378
Branch fees	7,976	4,679	24,953	14,463
Gain on acquisition	—	—	27,571	—
Letters of credit fees and commissions	2,888	1,984	8,493	5,768
Ancillary loan fees	2,367	1,227	6,425	4,812
Income from life insurance policies	1,100	1,090	3,306	3,269
Net gain on sale of loans	4,177	8	12,250	19
Other operating income	3,078	1,204	6,301	1,902
Total noninterest income (loss)	29,315	(11,880)	56,549	(24,285)
NONINTEREST EXPENSE				
Compensation and employee benefits	38,693	15,875	131,051	49,492
Other real estate owned expense	5,694	767	44,689	16,480
Occupancy and equipment expense	13,963	6,262	39,022	19,950
Deposit insurance premiums and regulatory assessments	5,676	6,057	21,785	18,950
Prepayment penalty for Federal Home Loan Bank advances	—	—	13,832	—
Amortization of premiums on deposits acquired	3,352	1,069	10,046	3,286
Amortization of investments in affordable housing partnerships	1,442	1,709	7,117	5,121
Loan related expenses	6,316	2,197	14,567	5,274
Legal expense	5,301	1,323	14,391	4,856
Data processing	2,646	1,079	8,174	3,362
Consulting expense	1,612	759	5,672	1,879
Deposit-related expenses	1,239	948	3,381	2,863
Other operating expenses	14,011	8,019	50,446	23,869
Total noninterest expense	99,945	46,064	364,173	155,382
INCOME (LOSS) BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	73,527	(121,308)	170,203	(304,512)
Provision (benefit) for income taxes	26,576	(52,777)	61,988	(126,790)
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	46,951	(68,531)	108,215	(177,722)
Extraordinary item – impact of desecuritization, net of tax	—	—	—	(5,366)
NET INCOME (LOSS) AFTER EXTRAORDINARY ITEMS	46,951	(68,531)	108,215	(183,088)

Preferred stock dividends, amortization of preferred stock discount and inducement of preferred stock conversion		6,732		10,620			19,017		42,986	
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$	40,219	$	(79,151	)	$	89,198	$	(226,074	)
EARNINGS (LOSS) PER SHARE AVAILABLE TO COMMON STOCKHOLDERS										
Basic	$	0.27	$	(0.91	)	$	0.66	$	(3.19	)
Diluted	$	0.27	$	(0.91	)	$	0.61	$	(3.19	)
Dividends declared per common share	$	0.01	$	0.01		$	0.03	$	0.04	
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING										
Basic		146,454		86,538			134,396		70,967	
Diluted		147,113		86,538			146,993		70,967	

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(In thousands, except share data)
(Unaudited)

	Preferred Stock	Additional Paid In Capital Preferred Stock	Common Stock	Additional Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCE AS OF DECEMBER 31, 2008	$—	$472,311	$70	$695,521	$572,172	$(102,817)	$(86,491)		$1,550,766
Cumulative effect adjustment for reclassification of the previously recognized noncredit-related impairment loss on investment securities					8,110		(8,110)		—
BALANCE AS OF JANUARY 1, 2009	—	472,311	70	695,521	580,282	(102,817)	(94,601)		1,550,766
Comprehensive loss									
Net loss after extraordinary item for the year					(183,088)			$(183,088)	(183,088)
Net unrealized gain on investment securities available-for-sale							53,021	53,021	53,021
Net unrealized loss as a result of desecuritization							30,551	30,551	30,551
Noncredit-related impairment loss on investment securities recorded in the							(12,150)	(12,150)	(12,150)

current year					
Total comprehensive loss				$(111,666)	
Stock compensation costs			4,370		4,370
Tax provision from stock plans			(498)		(498)
Preferred stock issuance and conversion cost	(180)				(180)
Common stock issuance cost			(5,535)		(5,535)
Induced conversion of 110,764 shares of preferred stock	(107,474)				(107,474)
Issuance of 9,968,760 shares of common stock from					
converted 110,764 shares of Preferred Stock		10	107,464		107,474
Issuance of 5,000,000 shares of common stock from					
private placement		5	27,495		27,500
Issuance of 12,650,000 shares of common stock from					
public offering		12	80,316		80,328
Issuance of 423,597 shares of common stock pursuant to					
various stock plans and agreements		1	399		400
Issuance of 22,386 shares of common stock in lieu of					
Board of Director retainer fees			219		219

Cancellation of 60,578 shares of common stock due to forfeitures of issued restricted stock				1,467		(1,467)			—
Purchase of 11,166 shares of treasury stock due to the vesting of restricted stock						(54)			(54)
Amortization of Series B preferred stock discount		3,265			(3,265)				—
Preferred stock dividends					(21,381)				(21,381)
Common stock dividends					(2,487)				(2,487)
Inducement of preferred stock conversion				18,340	(18,340)				—
BALANCE AS OF SEPTEMBER 30, 2009	$—	$367,922	$98	$929,558	$351,721	$(104,338)	$(23,179)		$1,521,782
BALANCE AS OF JANUARY 1, 2010	$—	$693,803	$117	$1,091,047	$604,223	$(105,130)	$599		$2,284,659
Comprehensive income:									
Net income					108,215			$108,215	108,215
Net unrealized gain on investment securities available-for-sale							7,142	7,142	7,142
Noncredit-related impairment loss on investment securities recorded in the current year							(3,268)	(3,268)	(3,268)
Foreign currency translation							662	662	662

Total comprehensive income								$112,751	
Stock compensation costs				6,164					6,164
Tax provision from stock plans				(156)					(156)
Issuance of 1,234,302 shares of common stock pursuant to various stock plans and agreements			1	2,526					2,527
Conversion of 335,047 shares of Series C preferred stock into 37,103,734 shares of common stock		(325,299)	37	325,262					—
Cancellation of 293,105 shares of common stock due to forfeitures of issued restricted stock				4,050		(4,050)			—
Purchase of 26,182 shares of treasury stock due to the vesting of restricted stock						(481)			(481)
Amortization of Series B preferred stock discount		2,378			(2,378)				—
Preferred stock dividends					(16,640)				(16,640)
Common stock dividends					(4,064)				(4,064)
BALANCE AS OF SEPTEMBER 30, 2010	$—	$370,882	$155	$1,428,893	$689,356	$(109,661)	$5,135		$2,384,760

	Nine Months Ended September 30,	
	2010	2009
	(In thousands)	
Disclosure of reclassification amounts:		
Unrealized holding gain (loss) on securities arising during the period, net of tax expense of $(8,862) in 2010 and $(37,620) in 2009	$ 12,237	$ 51,952
Less: Reclassification adjustment for gain (loss) included in net income (loss), net of tax expense of $6,057 in 2010 and $(22,898) in 2009	(8,363)	31,620
Net unrealized gain (loss) on securities, net of tax expense of $(2,805) in 2010 and $(60,518) in 2009	$ 3,874	$ 83,572

See accompanying notes to condensed consolidated financial statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) after extraordinary items	$ 108,215	$ (183,088)
Adjustments to reconcile net income (loss) after extraordinary items to net cash provided by operating activities:		
Depreciation and amortization	48,153	16,847
Accretion of discount and premium	(159,226)	—
Decrease in FDIC indemnification asset and receivable	47,170	—
Gain on acquisition	(27,571)	—
Net impairment loss on investment securities recognized in earnings	10,329	61,896
Impairment writedown on mortgage servicing assets	348	660
Stock compensation costs	6,164	4,370
Deferred tax expense (benefit)	32,355	(16,886)
Provision for loan losses and impact of desecuritization	170,325	397,929
Impairment on other real estate owned	36,508	17,670
Impairment loss on other equity investment	—	581
Net gain on sales of investment securities, loans and other assets	(39,260)	(2,827)
Originations of loans held for sale	(22,013)	(33,248)
Proceeds from sale of loans held for sale	20,389	33,318
Prepayment penalty for Federal Home Loan Bank advances	13,832	—
Tax provision from stock plans	156	498
Net change in accrued interest receivable and other assets	278,386	(11,710)
Net change in accrued expenses and other liabilities	162,446	(97,694)
Total adjustments	578,491	371,404
Net cash provided by operating activities	686,706	188,316
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of WFIB assets	67,186	—
Net decrease in loans	662,655	318,232
Net decrease in short-term investments	103,989	(92,415)
Purchases of:		
Securities purchased under resale agreements	(880,000)	(50,000)
Investment securities held-to-maturity	—	(697,768)
Investment securities available-for-sale	(3,612,331)	(1,314,263)
Loans receivable	(580,396)	(350,000)
Federal Reserve Bank stock	(10,500)	(9,196)

Investments in affordable housing partnerships		(473)		(22)
Premises and equipment		(90,051)		(433)
Proceeds from sale of:				
Investment securities		1,047,173		336,710
Securities purchased under resale agreements		710,000		25,000
Loans receivable		427,087		105,227
Loans held for sale originated for investment		147,194		—
Other real estate owned		77,804		51,807
Premises and equipment		84		8
Repayments, maturity and redemption of investment securities available-for-sale		2,268,589		1,040,828
Dividends/redemption of Federal Home Loan Bank stock		13,427		182
Net cash provided by (used in) investing activities		351,437		(636,103)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net (payment for) proceeds from:				
Deposits		(87,053)		526,598
Short-term borrowings		2,214		(3,980)
Proceeds from:				
Issuance of long-term borrowings		350,000		—
Issuance of common stock from public offering		—		80,328
Issuance of common stock from private placement		—		27,500
Issuance of common stock pursuant to various stock plans and agreements		2,527		400
Payment for:				
Repayment of long-term borrowings		(1,223,137)		(430,000)
Repayment of notes payable and other borrowings		(37,300)		(9,395)
Purchase of treasury shares due to the vesting of restricted stock		(481)		(54)
Preferred stock issuance cost		—		(5,715)
Cash dividends on preferred stock		(16,640)		(20,530)
Cash dividends on common stock		(4,064)		(2,486)
Tax benefit from stock plans		(156)		(498)
Net cash (used in) provided by financing activities		(1,014,090)		162,168
Effect of exchange rate changes on cash and cash equivalents		500		—
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		24,553		(285,619)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		835,141		878,853
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	859,694	$	593,234
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$	159,742	$	184,054
Income tax (refunds) payments		24,292		(13,126)

Noncash investing and financing activities:		
Transfers to real estate owned/affordable housing partnership	203,276	116,124
Conversion of preferred stock to common stock	325,299	—
Desecuritization of loans receivable	—	635,614
Loans to facilitate sales of real estate owned	13,550	38,605
Loans transferred to loans held for sale	138,792	—
Loans to facilitate sales of loans	42,022	130,509
Issuance of common stock in lieu of Board of Director retainer fees	360	219

See accompanying notes to condensed consolidated financial statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2010 and 2009
(Unaudited)

NOTE 1 — BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of East West Bancorp, Inc. (referred to herein on an unconsolidated basis as “East West” and on a consolidated basis as the “Company”) and its wholly-owned subsidiaries, East West Bank and subsidiaries (the “Bank”) and East West Insurance Services, Inc. Intercompany transactions and accounts have been eliminated in consolidation. East West also has nine wholly-owned subsidiaries that are statutory business trusts (the “Trusts”). In accordance with Financial Accounting Standards Board Accounting Standards Codification (“ASC”) 810, the Trusts are not consolidated into the accounts of East West Bancorp, Inc.

The interim condensed consolidated financial statements, presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”), are unaudited and reflect all adjustments that, in the opinion of management, are necessary for a fair statement of financial condition and results of operations for the interim periods. All adjustments are of a normal and recurring nature. Results for the three months and nine months ended September 30, 2010 are not necessarily indicative of results that may be expected for any other interim period or for the year as a whole. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. Events subsequent to the condensed consolidated balance sheet date have been evaluated through the date the financial statements are issued for inclusion in the accompanying financial statements. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009.

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

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Standards

In September 2009, the Financial Accounting Standards Board (“FASB”) issued ASC 860 which requires additional information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a “qualifying special-purpose entity,” changes the requirements for derecognizing financial assets, and requires additional disclosures. It was effective for the Company on January 1, 2010. The adoption of this guidance did not have a material impact on the Company’s condensed consolidated financial statements.

In September 2009, the FASB issued ASC 810 that changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity’s purpose and design and a company’s ability to direct the activities of the entity that most significantly impact the entity’s economic performance. It was effective for the Company on January 1, 2010. The adoption of this guidance did not have a material effect on the Company’s condensed consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update (“ASU”) 2010-06, Improving Disclosures about Fair Value Measurements. ASU 2010-06 requires separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and reasons for the transfers and separate presentation of information about purchases, sales, issuances and settlements in the

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reconciliation for Level 3 fair value measurements. Additionally, ASU 2010-06 clarifies existing disclosures regarding level of disaggregation and inputs and valuation techniques. The new disclosures and clarifications of existing disclosures under ASU 2010-06 are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years ending after December 15, 2010 and for interim periods within those fiscal years. The Company adopted the disclosure requirements of significant transfers in and out of Level 1 and Level 2 fair value measurements (see Note 3). The Company does not expect the adoption of the disclosure requirements to have a material effect on its condensed consolidated financial statements.

In April 2010, the FASB issued ASU 2010-18, Receivables, Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset, which amends ASC 310-30. This ASU clarifies the treatment of loan modifications for loans accounted for within a loan pool. Loans accounted for under ASC 310-30, should not be removed from the pool even if the loan modification would otherwise be considered a troubled debt restructuring. An entity is still required to assess the entire pool for impairment. The update does not require additional disclosures. This clarified treatment of loan modifications is effective for interim and annual reporting periods beginning after July 15, 2010. The adoption of this guidance did not have a material effect on the Company’s condensed consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivable and Allowance for Credit Losses, which amends ASC 310, Receivables. ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity’s credit risk exposures and evaluating the adequacy of its allowance for credit losses. Companies will be required to provide more information about the credit quality of their financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure. The disclosures as of the end of a reporting period will be effective for interim and annual reporting periods ending on or after December 15, 2010. The Company does not expect the adoption of the disclosure requirements to have a material effect on its condensed consolidated financial statements.

NOTE 3 — FAIR VALUE

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

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

- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable and can be corroborated by market data. Level 2 financial instruments typically include U.S. Government debt and agency mortgage-backed securities, municipal securities, U.S. Government sponsored enterprise preferred stock securities, single issue trust preferred securities, equity swap agreements, foreign exchange options and other real estate owned (“OREO”).

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

The Company records investment securities available-for-sale, equity swap agreements, derivatives payable and foreign exchange options at fair value on a recurring basis. Certain other assets such as mortgage servicing assets, impaired loans, other real estate owned, goodwill, premiums on acquired deposits and private equity investments are recorded at fair value on a nonrecurring basis. Nonrecurring fair value measurements typically involve assets that are periodically evaluated for impairment and for which any impairment is recorded in the period in which the remeasurement is performed.

In determining the appropriate hierarchy levels, the Company performs a detailed analysis of assets and liabilities that are subject to fair value disclosure. The following tables present both financial and non-financial assets and liabilities that are measured at fair value on a recurring and non-recurring basis. These assets and liabilities are reported on the condensed consolidated balance sheets at their fair values as of September 30, 2010 and December 31, 2009. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. There were no transfers in and out of Levels 1 and 2 during the first nine months of 2010. There were also no transfers in and out of levels 1 and 3 or levels 2 and 3.

	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of September 30, 2010			
	Fair Value Measurements September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Investment securities available-for-sale:				
U.S. Treasury securities	$ 21,740	$ 21,740	$ —	$ —
U.S. Government agency and U.S. Government sponsored enterprise debt securities	1,206,835	—	1,206,835	—
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	20,495	—	20,495	—
Residential mortgage-backed securities	339,007	—	339,007	—
Municipal securities	—	—	—	—
Other residential mortgage-backed securities:				
Investment grade	—	—	—	—
Non-investment grade	12,834	—	—	12,834
Corporate debt securities:				
Investment grade	1,175,431	—	1,175,431	—
Non-investment grade	24,599	—	22,446	2,153
U.S. Government sponsored enterprise equity securities	—	—	—	—
Other securities	106,408	—	106,408	—
Total investment securities available-for-sale	$ 2,907,349	$ 21,740	$ 2,870,622	$ 14,987
	$ 2,828	$ —	$ 2,828	$ —

Equity swap agreements				
Derivatives payable	(2,601)	—	—	(2,601)
Foreign exchange options	1,065	—	1,065	—

	Assets (Liabilities) Measured at Fair Value on a Recurring Basis as of December 31, 2009			
	Fair Value Measurements December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Investment securities available-for-sale:				
U.S. Treasury securities	$ 303,472	$ 303,472	$ —	$ —
U.S. Government agency and U.S. Government sponsored enterprise debt securities	832,025	—	832,025	—
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	26,355	—	26,355	—
Residential mortgage-backed securities	724,348	—	724,348	—
Municipal securities	60,193	—	60,193	—
Other residential mortgage-backed securities:				
Investment grade	95,517	—	95,517	—
Non-investment grade	41,610	—	28,872	12,738
Corporate debt securities:				
Investment grade	460,895	—	459,917	978
Non-investment grade	8,861	—	6,906	1,955
U.S. Government sponsored enterprise equity securities	1,782	—	1,782	—
Other securities	9,023	9,023	—	—

Total investment securities available-for-sale	$	2,564,081	$	312,495	$	2,235,915	$	15,671
Equity swap agreements	$	14,177	$	—	$	14,177	$	—
Derivatives payable		(14,185)		—		—		(14,185)
Foreign exchange options		—		—		—		—

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	Assets Measured at Fair Value on a Non-Recurring Basis for the Three Months Ended September 30, 2010				
	Fair Value Measurements September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
			(In thousands)		
Non-covered impaired loans:					
Residential single-family	$ —	$ —	$ —	$ —	$ —
Residential multifamily	2,694	—	—	2,694	(772)
Commercial and industrial real estate, land	34,691	—	—	34,691	(15,222)
Construction	6,521	—	—	6,521	(824)
Commercial business	7,830	—	—	7,830	(3,053)
Other consumer	167	—	—	167	96
Total non-covered impaired loans	$ 51,903	$ —	$ —	$ 51,903	$ (19,775)
Mortgage servicing assets (single-family, multifamily and commercial)	$ 15,973	$ —	$ —	$ 15,973	$ (284)
Non-covered OREO	$ 2,574	$ —	$ 2,574	$ —	$ (1,099)
Covered OREO (1)	$ 27,205	$ —	$ 27,205	$ —	$ (6,569)

	Assets Measured at Fair Value on a Non-Recurring Basis for the Three Months Ended September 30, 2009				
	Fair Value Measurements September 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
			(In thousands)		
Non-covered impaired loans:					

Residential single-family	$	2,563	$	—	$	—	$	2,563	$	(707)
Residential multifamily		3,878		—		—		3,878		(1,798)
Commercial and industrial real estate, land		44,517		—		—		44,517		(27,261)
Construction		49,640		—		—		49,640		(17,056)
Commercial business		18,293		—		—		18,293		(7,917)
Other consumer		522		—		—		522		198
Total non-covered impaired loans	$	119,413	$	—	$	—	$	119,413	$	(54,541)
Mortgage servicing assets (single-family, multifamily and commercial)	$	9,060	$	—	$	—	$	9,060	$	(20)
Non-covered OREO	$	16,092	$	—	$	16,092	$	—	$	(4,644)
Covered OREO	$	—	$	—	$	—	$	—	$	—

(1) Covered OREO results from the WFIB and UCB FDIC-assisted acquisitions for which the Company entered into shared-loss agreements with the FDIC whereby the FDIC will reimburse the Company for 80% of eligible losses. As such, the Company's liability for losses is 20% of the $6.5 million or $1.3 million.

	Assets Measured at Fair Value on a Non-Recurring Basis for the Nine Months Ended September 30, 2010				
	Fair Value Measurements September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
			(In thousands)		
Non-covered impaired loans:					
Residential single-family	$ 900	$ —	$ —	$ 900	$ (251)
Residential multifamily	5,053	—	—	5,053	(1,983)
Commercial and industrial real estate, land	62,218	—	—	62,218	(27,919)
Construction	16,084	—	—	16,084	(9,839)
Commercial business	7,925	—	—	7,925	(4,836)
Other consumer	166	—	—	166	(245)
Total non-covered impaired loans	$ 92,346	$ —	$ —	$ 92,346	$ (45,073)
Mortgage servicing assets (single-family, multifamily and commercial)	$ 15,973	$ —	$ —	$ 15,973	$ (348)
Non-covered OREO	$ 4,101	$ —	$ 4,101	$ —	$ (4,012)
Covered OREO (1)	$ 57,234	$ —	$ 57,234	$ —	$ (32,496)

	Assets Measured at Fair Value on a Non-Recurring Basis for the Nine Months Ended September 30, 2009				
	Fair Value Measurements September 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
			(In thousands)		
Non-covered impaired loans:					

Residential single-family	$ 3,396	$ —	$ —	$ 3,396	$ (957)
Residential multifamily	4,127	—	—	4,127	(1,956)
Commercial and industrial real estate, land	48,644	—	—	48,644	(32,168)
Construction	62,598	—	—	62,598	(29,454)
Commercial business	21,743	—	—	21,743	(17,179)
Other consumer	248	—	—	248	167
Total non-covered impaired loans	$ 140,756	$ —	$ —	$ 140,756	$ (81,547)
Mortgage servicing assets (single-family, multifamily and commercial)	$ 9,060	$ —	$ —	$ 9,060	$ 660
Non-covered OREO	$ 16,920	$ —	$ 16,920	$ —	$ (6,792)
Covered OREO	$ —	$ —	$ —	$ —	$ —

(1) Covered OREO results from the WFIB and UCB FDIC-assisted acquisitions for which the Company entered into shared-loss agreements with the FDIC whereby the FDIC will reimburse the Company for 80% of eligible losses. As such, the Company's liability for losses is 20% of the $32.5 million or $6.5 million.

At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The following tables provide a reconciliation of the beginning and ending balances for major asset and liability categories measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2010 and 2009:

		Investment Securities Available-for-Sale			
			Corporate Debt Securities		
	Total	Other Residential Mortgage-Backed Securities, Non-Investment Grade	Investment Grade	Non-Investment Grade	Derivatives Payable
			(In thousands)		
Beginning balance, July 1, 2010	$ 15,350	$ 12,506	$ —	$ 2,844	$ (1,888)
Total gains or (losses): (1)					
Included in earnings	(864)	—	—	(864)	(459)
Included in other comprehensive loss (unrealized) (2)	508	328	—	180	—
Purchases, issuances, sales, settlements (3)	(7)	—	—	(7)	(254)
Transfer from investment grade to non-investment grade	—	—	—	—	—
Transfers in and/or out of Level 3 (4)	—	—	—	—	—
Ending balance, September 30, 2010	$ 14,987	$ 12,834	$ —	$ 2,153	$ (2,601)
Changes in unrealized losses included in earnings relating to assets and liabilities still held at September 30, 2010	$ (888)	$ —	$ —	$ (888)	$ 459

		Investment Securities Available-for-Sale			
		Other Residential Mortgage-Backed	Corporate Debt Securities		

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

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

(2) Unrealized gains or losses as well as the non-credit portion of other-than-temporary impairment (“OTTI”) on investment securities are reported in accumulated other comprehensive loss, net of tax, in the condensed consolidated statements of changes in stockholders’ equity and comprehensive income.

(3) Purchases, issuances, sales and settlements represent Level 3 assets and liabilities that were either purchased, issued, sold or settled during the period. The amounts are recorded at their end of period fair values.

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

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	Total	Investment Securities Available-for-Sale: Other Residential Mortgage-Backed Securities, Non-Investment Grade	Corporate Debt Securities: Investment Grade	Corporate Debt Securities: Non-Investment Grade	Derivatives Payable
	(In thousands)				
Beginning balance, January 1, 2010	$ 15,671	$ 12,738	$ 978	$ 1,955	$ (14,185)
Total gains or (losses): (1)					
Included in earnings	(7,589)	436	5	(8,030)	(625)
Included in other comprehensive loss (unrealized) (2)	7,047	90	308	6,649	—
Purchases, issuances, sales, settlements (3)	(142)	(430)	(9)	297	12,209
Transfer from investment grade to non-investment grade	—	—	(1,282)	1,282	—
Transfers in and/or out of Level 3 (4)	—	—	—	—	—
Ending balance, September 30, 2010	$ 14,987	$ 12,834	$ —	$ 2,153	$ (2,601)
Changes in unrealized losses included in earnings relating to assets and liabilities still held at September 30, 2010	$ (8,107)	$ —	$ —	$ (8,107)	$ 625

	Total	Investment Securities Available-for-Sale: Other Residential Mortgage-Backed Securities: Investment Grade	Other Residential Mortgage-Backed Securities: Non-Investment Grade	Corporate Debt Securities: Investment Grade	Corporate Debt Securities: Non-Investment Grade	Residual Securities	Derivatives Payable

(In thousands)

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

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

(2) Unrealized gains or losses as well as the non-credit portion of OTTI on investment securities are reported in accumulated other comprehensive loss, net of tax, in the condensed consolidated statements of changes in stockholders' equity and comprehensive income.

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

(4)

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

Valuation Methodologies

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

The Company's Level 3 available-for-sale securities include one private-label mortgage-backed security and three pooled trust preferred securities. The fair values of these investment securities represent less than 1% of the total available-for-sale investment securities. The fair values of the private-label mortgage-backed security and pooled trust preferred securities have traditionally been based on the average of at least two quoted market prices obtained from independent external brokers since broker quotes in an active market are given the highest priority. However, as a result of the global financial crisis and illiquidity in the U.S. markets, the market for these securities has been inactive since mid-2007. It is the Company's view that current broker prices (which are typically non-binding) on the private-label mortgage-backed security and certain pooled trust preferred securities are based on forced liquidation or distressed sale values in very inactive markets that are not representative of the fair value of these securities. As such, the Company considered what weight, if any, to place on transactions that are not orderly when estimating fair value.

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

Equity Swap Agreements – The Company has entered into equity swap agreements to hedge against market fluctuations in a promotional equity index certificate of deposit product offered to bank customers. This deposit product, which has a term of 5 years, pays interest based on the performance of the Hang Seng China Enterprise Index ("HSCEI"). The fair value of these equity swap agreements is based on the income approach. The fair value is based on the change in the value of the HSCEI and the volatility of the call option over the life of the individual swap agreement. The option value is derived based on the volatility, the interest rate and the time remaining to maturity of the call option. The Company's consideration of its counterparty's credit risk resulted in a $197.3 thousand adjustment to the valuation of the equity swap agreements for the three months ended September 30, 2010. The valuation of equity swap agreements falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of these derivative contracts. The fair value of the derivative contracts is provided by a third party that the Company places reliance on.

Derivatives Payable – The Company's derivatives payable are recorded in conjunction with certain certificate of deposits ("host instrument"). These CDs pay interest based on changes in either the HSCEI or based on changes in the Chinese currency Renminbi ("RMB") as designated and are included in interest-bearing deposits on the condensed consolidated balance sheets. The fair value of these embedded derivatives is based on the income approach. The Company's consideration of its own credit risk resulted in a $40.3 thousand adjustment to the valuation of the derivative liabilities for the three months ended September 30, 2010. The valuation of the derivatives payable falls within Level 3 of the fair value hierarchy since the significant inputs used in deriving the fair value of these derivative contracts are not directly observable.

Foreign Exchange Options – The Company has entered into foreign exchange option contracts with major investment firms. The settlement amount is determined based upon the performance of the RMB relative to the U.S. Dollar ("USD") over the 5-year term of the contract. The performance amount is computed based on the average quarterly value of the RMB per the USD as compared to the initial value. The fair value of the derivative contract is provided by third parties and is determined based on the change in the RMB and the volatility of the option over the life of the agreement. The option value is derived based on the volatility of the option, interest rate and time remaining to the maturity. The Company has also considered the counterparty's credit risk in determining the valuation. The valuation of the option contract falls within Level 2 of the fair value hierarchy due to the observable nature of the inputs used in deriving the fair value of this derivative contract.

Mortgage Servicing Assets ("MSAs") – The Company records MSAs in conjunction with its loan sale and securitization activities since the servicing of the underlying loans is retained by the Bank. MSAs are initially measured at fair value using an income approach. The initial fair value of MSAs is determined based on the present value of estimated net future cash flows related to contractually-specified servicing fees. The valuation for MSAs falls within Level 3 of the fair value hierarchy since there are no quoted prices for MSAs and the significant inputs used to determine fair value are not directly observable. The valuation of MSAs is determined using a discounted cash flow approach utilizing the appropriate yield curve and several market-derived assumptions including prepayment speeds, servicing cost, delinquency and foreclosure costs and behavior, and float earnings rate. Net cash flows are present valued using a market-derived discount rate. The resulting fair value is then compared to recently observed bulk market transactions with similar characteristics.

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

Other Real Estate Owned – The Company's OREO represents properties acquired through foreclosure or through full or partial satisfaction of loans, and are recorded at estimated fair value at the time of foreclosure and at the lower of cost or estimated fair value subsequent to acquisition. The fair values of OREO properties are based on third-party appraisals, broker price opinions or accepted written offers. These valuations are reviewed and approved by the Company's appraisal department, credit review department or OREO department. OREO properties are classified as Level 2 assets in the fair value hierarchy. The non-covered OREO balance of $16.9 million included in the condensed consolidated balance sheets as of September 30, 2010 is recorded net of estimated disposal costs.

Fair Value of Financial Instruments

The carrying amounts and fair values of financial instruments as of September 30, 2010 and December 31, 2009 were as follows:

	September 30, 2010		December 31, 2009	
	Carrying Notional or Contract Amount	Estimated Fair Value	Carrying Notional or Contract Amount	Estimated Fair Value
	(In thousands)			
Financial Assets:				
Cash and cash equivalents	$ 859,694	$ 859,694	$ 835,141	$ 835,141
Short-term investments	381,799	381,799	510,788	510,788
Fed Funds Sold	75,000	75,000	—	—
Securities purchased under resale agreements	350,000	350,276	227,444	232,693
Investment securities available-for-sale	2,907,349	2,907,349	2,564,081	2,564,081
Loans receivable, net	13,299,186	13,276,174	13,844,840	13,519,060
Investment in Federal Home Loan Bank stock	169,453	169,453	180,217	180,217
Investment in Federal Reserve Bank stock	47,285	47,285	36,785	36,785
Accrued interest receivable	79,879	79,879	82,370	82,370
Equity swap agreements	83,584	2,828	38,828	14,177
Foreign exchange options	25,000	1,065	—	—
Financial Liabilities:				
Customer deposit accounts:				
Demand, savings and money market deposits	8,480,110	7,771,750	7,088,822	6,214,848
Time deposits	6,817,861	6,825,371	7,898,791	7,912,384
Federal Home Loan Bank advances	1,018,074	1,037,512	1,805,387	1,791,326
Securities sold under repurchase agreements	1,045,664	1,279,892	1,026,870	1,265,565
Notes payable	45,223	45,223	7,366	7,366
Accrued interest payable	15,128	15,128	19,386	19,386
Long-term debt	235,570	122,107	235,570	103,442
Derivatives payable	75,628	2,601	38,828	14,185

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

Cash and Cash Equivalents – The carrying amounts approximate fair values due to the short-term nature of these instruments.

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

Securities Purchased Under Resale Agreements – Securities purchased under resale agreements with original maturities of 90 days or less are included in cash and cash equivalents. The fair value of securities purchased under resale agreements with original maturities of more than 90 days is estimated by discounting the cash flows based on expected maturities or repricing dates utilizing estimated market discount rates.

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

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

Investment in Federal Home Loan Bank Stock and Federal Reserve Bank Stock – The carrying amounts approximate fair value, as the stock may be sold back to the Federal Home Loan Bank and the Federal Reserve Bank at carrying value.

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

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

Foreign Exchange Options – The fair value of the derivative contracts is provided by third parties and is determined based on the change in the RMB and the volatility of the option over the life of the agreement. The option value is derived based on the volatility of the option, interest rate and time remaining to the maturity. We also considered the counterparty's credit risk in determining the fair value.

Customer Deposit Accounts – The fair value of customer deposit accounts is determined based on the discounted cash flow approach. The discount rate is derived from the associated yield curve, plus spread, if any. For core deposits (demand, savings and money market deposits), the cash outflows are projected by the decay rate based on the Bank's core deposit premium study and are discounted using the London Interbank Offered Rate ("LIBOR") yield curve. For time deposits, the cash flows are based on the contractual runoff and are discounted by the Bank's current offering rates, plus spread.

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

Securities Sold Under Repurchase Agreements – For securities sold under repurchase agreements with original maturities of 90 days or less, the carrying amounts approximate fair values due to the short-term nature of these instruments. At September 30, 2010 and December 31, 2009, most of the securities sold under repurchase agreements are long-term in nature and the fair values of securities sold under repurchase agreements are calculated by discounting future cash flows based on expected maturities or repricing dates, utilizing estimated market discount rates and taking into consideration the call features of each instrument.

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

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

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

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Derivatives Payable – Derivatives payable are recorded in conjunction with certain certificate of deposits (“host instrument”). These CDs pay interest based on changes in the either the HSCEI or based on changes in the RMB as designated. The fair value of derivatives payable is estimated using the income approach. Additionally, we considered our own credit risk in determining the valuation.

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

NOTE 4 — STOCK-BASED COMPENSATION

During the three and nine months ended September 30, 2010, total compensation cost recognized in the condensed consolidated statements of operations related to stock options and restricted stock awards amounted to $2.3 million and $6.2 million, respectively, with related tax benefit of $61 thousand and tax liability of $156 thousand, respectively.

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

Stock Options

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

A summary of activity for the Company’s stock options as of and for the nine months ended September 30, 2010 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (1) (In thousands)
Outstanding at beginning of period	1,927,515	$ 21.59		
Granted	-	-		
Exercised	(167,631)	11.41		
Forfeited or expired	(174,895)	16.29		
Outstanding at end of period	1,584,989	$ 23.25	2.65 years	$ 2,107
Vested or expected to vest at end of period	1,558,684	$ 23.28	2.62 years	$ 2,064

Exercisable at end of period	1,163,949	$	23.93	2.01 years	$	1,673

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

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The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions. The Company did not issue any stock options during the nine months ended September 30, 2010.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010 (5)	2009 (5)	2010 (5)	2009
Expected term (1)	—	—	—	4 years
Expected volatility (2)	—	—	—	60.5%
Expected dividend yield (3)	—	—	—	0.6%
Risk-free interest rate (4)	—	—	—	1.8%

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

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

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

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

(5) The Company did not issue any stock options during the nine months ended September 30, 2010 or the three months ended September 30, 2009.

During the three and nine months ended September 30, 2010 and 2009, information related to stock options is presented as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Weighted average fair value of stock options granted during the period (1)	—	—	—	$ 3.00
	$ 353	$ 8	$ 989	$ 13

Total intrinsic value of options exercised (in thousands)				
Total fair value of options vested (in thousands)	$ 32	$ 74	$ 2,108	$ 1,512

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(1) The Company did not issue any stock options during the nine months ended September 30, 2010 or the three months ended September 30, 2009.

As of September 30, 2010, total unrecognized compensation cost related to stock options amounted to $1.1 million. The cost is expected to be recognized over a weighted average period of 2.0 years.

Restricted Stock

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

The American Recovery and Reinvestment Act of 2009 ("ARRA") places additional restrictions on restricted stock grants. The executive compensation standards are more stringent under ARRA than those in effect under the U.S. Treasury's Troubled Asset Relief Program ("TARP").

A summary of the activity for restricted stock as of September 30, 2010, including changes during the nine months then ended, is presented below:

	Shares	Weighted Average Price
Outstanding at beginning of period	864,717	$ 20.12
Granted	1,027,380	$ 16.82
Vested	(125,175)	$ 28.59
Forfeited or expired	(293,105)	$ 17.75
Outstanding at end of period	1,473,817	$ 17.54

The weighted average fair values of restricted stock awards granted during the nine months ended September 30, 2010 and 2009 were $16.82 and $7.42, respectively.

As of September 30, 2010, total unrecognized compensation cost related to restricted stock awards amounted to $15.0 million. This cost is expected to be recognized over a weighted average period of 2.5 years.

NOTE 5 — INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In thousands)		
As of September 30, 2010				
Investment securities available-for-sale:				
U.S. Treasury securities	$ 20,838	$ 902	$ —	$ 21,740
U.S. Government agency and U.S. Government sponsored enterprise debt securities	1,201,878	4,987	(30)	1,206,835
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	19,791	704	—	20,495
Residential mortgage-backed securities	326,577	12,430	—	339,007
Municipal securities	—	—	—	—
Other residential mortgage-backed securities:				
Investment grade	—	—	—	—
Non-investment grade	21,335	—	(8,501)	12,834
Corporate debt securities:				
Investment grade	1,168,667	10,206	(3,442)	1,175,431
Non-investment grade (1)	35,915	80	(11,396)	24,599
U.S. Government sponsored enterprise equity securities	—	—	—	—
Other securities	103,987	2,596	(175)	106,408
Total investment securities available-for-sale	$ 2,898,988	$ 31,905	$ (23,544)	$ 2,907,349
As of December 31, 2009				
Investment securities available-for-sale:				
U.S. Treasury securities	$ 304,105	$ 8	$ (641)	$ 303,472
U.S. Government agency and U.S. Government sponsored enterprise debt securities	841,953	507	(10,435)	832,025
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:				
Commercial mortgage-backed securities	25,503	852	—	26,355
Residential mortgage-backed securities	707,290	17,863	(805)	724,348
Municipal securities	59,264	1,027	(98)	60,193
Other residential mortgage-backed securities:				

Investment grade	95,181	827	(492)	95,516
Non-investment grade	50,843	368	(9,601)	41,610
Corporate debt securities:				
Investment grade	441,606	20,428	(1,138)	460,896
Non-investment grade	26,277	—	(17,416)	8,861
U.S. Government sponsored enterprise equity securities	1,998	—	(216)	1,782
Other securities	9,023	—	—	9,023
Total investment securities available-for-sale	$ 2,563,043	$ 41,880	$ (40,842)	$ 2,564,081

(1) For the nine months ended September 30, 2010, the Company recorded $10.3 million, on a pre-tax basis, of OTTI through earnings and $7.2 million of the non-credit portion of OTTI for pooled trust preferred securities in other comprehensive income. The Company recorded $107.7 million, on a pre-tax basis, of the credit portion of OTTI through earnings and $8.2 million, net of tax, of the non-credit portion of OTTI for pooled trust preferred securities in other comprehensive income for the year ended December 31, 2009.

The Company did not have any investment securities held-to-maturity as of September 30, 2010 and December 31, 2009.

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

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

As a result of the global financial crisis and illiquidity in the U.S. markets, the Company believes current broker prices obtained on the private-label mortgage-backed security and certain pooled trust preferred securities are based on forced liquidation or distressed sale values in very inactive markets that are not representative of the fair value of these securities. In light of these circumstances, the Company has modified its approach in determining the fair values of these securities. For the pooled trust preferred securities and the private-label mortgage-backed security, the Company determined their fair values using the methodologies set forth in Note 3.

The following table shows the Company's rollforward of the amount related to OTTI credit losses for the periods shown:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Beginning balance	$ 114,891	$ 37,647	$ 107,671	$ —
Addition of other-than-temporary impairment that was not previously recognized	—	3,855	—	29,084
Additional increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized	888	20,394	8,108	32,812
Ending balance	$ 115,779	$ 61,896	$ 115,779	$ 61,896

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The following table shows the Company's investment portfolio's gross unrealized losses and related fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2010 and December 31, 2009:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
As of September 30, 2010						
Investment securities available-for-sale:						
U.S. Treasury securities	$ —	$ —	$ —	$ —	$ —	$ —
U.S. Government agency and U.S. Government sponsored enterprise debt securities	58,028	(30)	—	—	58,028	(30)
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:						
Commercial mortage-backed securities	—	—	—	—	—	—
Residential mortage-backed securities	—	—	—	—	—	—
Municipal securities	—	—	—	—	—	—
Other residential mortgage-backed securities:						
Investment grade	—	—	—	—	—	—
Non-investment grade	—	—	12,834	(8,501)	12,834	(8,501)
Corporate debt securities:						
Investment grade	449,442	(3,442)	—	—	449,442	(3,442)
Non-investment grade	8,263	(101)	9,264	(11,295)	17,527	(11,396)
U.S. Government sponsored enterprise equity securities	—	—	—	—	—	—
Other securities	15,377	(175)	—	—	15,377	(175)
	$ 531,110	$ (3,748)	$ 22,098	$ (19,796)	$ 553,208	$ (23,544)

Total investment securities available-for-sale						
As of December 31, 2009						
Investment securities available-for-sale:						
U.S. Treasury securities	$ 253,002	$ (641)	$ —	$ —	$ 253,002	$ (641)
U.S. Government agency and U.S. Government sponsored enterprise debt securities	673,067	(10,435)	—	—	673,067	(10,435)
U.S. Government agency and U.S. Government sponsored enterprise mortgage-backed securities:						
Commercial mortgage-backed securities	—	—	—	—	—	—
Residential mortage-backed securities	55,947	(805)	—	—	55,947	(805)
Municipal securities	12,369	(98)	—	—	12,369	(98)
Other residential mortgage-backed securities:						
Investment grade	47,343	(492)	—	—	47,343	(492)
Non-investment grade	19,970	(1,011)	12,739	(8,590)	32,709	(9,601)
Corporate debt securities:						
Investment grade	32,342	(97)	978	(1,041)	33,320	(1,138)
Non-investment grade	—	—	8,861	(17,416)	8,861	(17,416)
U.S. Government sponsored enterprise equity securities	1,782	(216)	—	—	1,782	(216)
Other securities	—	—	—	—	—	—
Total investment securities available-for-sale	$ 1,095,822	$ (13,795)	$ 22,578	$ (27,047)	$ 1,118,400	$ (40,842)

As of September 30, 2010, there were six individual securities that have been in a continuous unrealized loss position for 12 months or more. These securities are comprised of five trust preferred securities with a total fair value of $9.3 million and one mortgage-backed security with a fair value of $12.8 million. In addition, as of September 30, 2010, there were also 47 securities that have been in a continuous unrealized loss position for less than 12 months. The unrealized losses on these securities are primarily attributed to changes in interest rates as well as the liquidity crisis that has impacted all financial industries. The issuers of these securities have not, to our knowledge, established any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. The Company does not intend to sell these securities and it is not more likely than not that the company will be required to sell these securities before recovery of their amortized cost basis. As such, the Company does not deem these securities to be other-than-temporarily impaired.

Corporate Debt Securities

The majority of unrealized losses at September 30, 2010 are related to five trust preferred debt securities with unrealized losses of 12 months or longer. As of September 30, 2010, these trust preferred securities had an estimated fair value of $9.3 million, representing less than 1% of the total investment securities available-for-sale portfolio. One security was downgraded to non-investment grade during the second quarter of 2010. The ratings for the other four trust preferred securities were downgraded to non-investment grade status during 2009 due to increased deferral and default activity from the issuers of the underlying debt collateralizing these instruments. As of September 30, 2010, these non-investment grade debt instruments had gross unrealized losses amounting to $11.3 million, or 55% of the total amortized cost basis of these securities, comprised of $4.1 million in impairment losses on securities that are not other than temporarily impaired and $7.2 million in noncredit-related impairment losses on securities that are other than temporarily impaired as of September 30, 2010 pursuant to the provisions of ASC 320-10-65. As a result of the previously discussed diminishing collateral values, deteriorating cash flows and increasing estimates of future deferrals and defaults, we recorded an impairment loss of $888 thousand on our portfolio of pooled trust preferred securities during the third quarter of 2010 for additional increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized.

Mortgage-Backed Securities

As of September 30, 2010, the Company had one private-label available-for-sale mortgage-backed security with a fair value of $12.8 million, with a gross unrealized loss of $8.5 million, or 40% of the amortized cost basis of this security, for more than 12 months. This security is collateralized by single-family loans and secured by the first lien on these residential properties. Additionally, any principal and interest shortfall that may arise from the deterioration of the collateral will be covered by a monoline insurance provider. The Company does not intend to sell this security and it is not more likely than not that the Company will be required to sell this security before recovery of its amortized cost basis. As such, the Company does not deem this security to be other-than-temporarily impaired as of September 30, 2010.

The scheduled maturities of investment securities available-for-sale at September 30, 2010 are presented as follows:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due within one year	$ 1,127,432	$ 1,125,464
Due after one year through five years	652,851	660,797
Due after five years through ten years	598,459	601,553
Due after ten years	520,246	519,535
Total investment securities available-for-sale	$ 2,898,988	$ 2,907,349

NOTE 6 — COVERED ASSETS AND FDIC INDEMNIFICATION ASSET

Covered Assets

Covered assets consist of loans receivable and OREO that were acquired in the Washington First International Bank ("WFIB") Acquisition on June 11, 2010 and in the United Commercial Bank ("UCB") Acquisition on November 6, 2009 for which the Company entered into shared-loss agreements (the "shared-loss agreements") with the FDIC. The shared-loss agreements covered over 99% of the loans originated by WFIB and all of the loans originated by UCB, excluding the loans originated by UCB in

China under its United Commercial Bank China (Limited) subsidiary. The Company will share in the losses, which begins with the first dollar of loss incurred, on covered assets under the shared-loss agreements.

Pursuant to the terms of the shared-loss agreements, the FDIC is obligated to reimburse the Company 80% of eligible losses for both WFIB and UCB with respect to covered assets. For the UCB covered assets, the FDIC will reimburse the Company for 95% of eligible losses in excess of $2.05 billion. The Company has a corresponding obligation to reimburse the FDIC for 80% or 95%, as applicable, of eligible recoveries with respect to covered assets. The commercial loan shared-loss agreement and single-family residential mortgage loan shared-loss agreement are in effect for 5 years and 10 years, respectively, from the acquisition date and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date.

Forty-five days following the 10th anniversary of the respective acquisition date, the Company will be required to pay to the FDIC a calculated amount, based on the specific thresholds of losses not being reached. The calculation of this potential liability as stated in the shared-loss agreements is 50% of the excess, if any of (i) 20% of the Intrinsic Loss Estimate and (ii) the sum of (A) 25% of the asset discount plus (B) 25% of the Cumulative Shared-Loss Payments plus (C) the Cumulative Servicing Amount if net losses on covered loans subject to the stated threshold is not reached. As of September 30, 2010, the Company’s estimate for this liability for WFIB and UCB is $7.0 million and zero, respectively.

At each date of acquisition, we accounted for the loan portfolio acquired from the respective bank at fair value. This represents the discounted value of the expected cash flows from the portfolio. In estimating the nonaccretable difference, we (a) calculated the contractual amount and timing of undiscounted principal and interest payments (the “undiscounted contractual cash flows”) and (b) estimated the amount and timing of undiscounted expected principal and interest payments (the “undiscounted expected cash flows”). In the determination of contractual cash flows and cash flows expected to be collected, we assume no prepayment on the ASC 310-30 nonaccrual loan pools as we do not anticipate any significant prepayments on credit impaired loans. For the ASC 310-30 accrual loans for single-family, multifamily and commercial real estate, we used a third party vendor to obtain prepayment speeds, in order to be consistent with the market participant’s notion of the accounting standards. The third party vendor is recognized in the mortgage-industry for the delivery of prepayment and default models for the secondary market to identify loan level prepayment, delinquency, default, and loss propensities. The prepayment rates for the construction, land, and commercial and consumer pools have historically been low and so we applied the prepayment assumptions of our current portfolio using our internal modeling. The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference represents our estimate of the credit losses expected and was considered in determining the fair value of the loans as of the acquisition date. The amount by which the undiscounted expected cash flows exceed the estimated fair value (the “accretable yield”) is accreted into interest income over the life of the loans. The Company has elected to account for all covered loans acquired in the FDIC-assisted acquisitions under ASC 310-30.

As of the acquisition date, WFIB’s and UCB’s loan portfolios included unfunded commitments for commercial lines of credit, construction draws and other lending activity. The total commitment outstanding as of the acquisition date is covered under the shared-loss agreements. However, any additional advances on these loans subsequent to acquisition date are not accounted for under ASC 310-30. As the advances on these commitments have increased, the bank has considered these amounts in the general reserve of the allowance for loan losses calculation. Therefore, as of September 30, 2010, $3.9 million, or 1.6%, of the total allowance is allocated to covered loans not accounted for under ASC 310-30. However, any additional advances, up to the total commitment outstanding at the date of acquisition are still covered under the shared-loss agreements. The covered loans acquired are and will continue to be subject to the Bank’s internal and external credit review and monitoring. If credit deteriorates beyond the respective acquisition date fair value amount of the covered loans under ASC 310-30, such

deterioration will be measured through our loss reserving methodology and a provision for credit losses will be charged to earnings with a partially offsetting noninterest income item reflected in the increase to the FDIC indemnification asset or receivable. As of September 30, 2010, there is no allowance for the covered loans accounted for under ASC 310-30 due to deterioration of credit quality.

The carrying amounts and the composition of the covered loans as of September 30, 2010 and December 31, 2009 are as follows:

	Credit Impaired	Other Loans (In thousands)	Total
As of September 30, 2010			
Real estate loans:			
Residential single-family	$ 18,995	$ 571,524	$ 590,519
Residential multifamily	119,329	1,009,107	1,128,436
Commercial and industrial real estate	732,914	1,420,300	2,153,214
Construction and land	896,256	260,785	1,157,041
Total real estate loans	1,767,494	3,261,716	5,029,210
Other loans:			
Commercial business	347,738	745,547	1,093,285
Other consumer	235	109,346	109,581
Total other loans	347,973	854,893	1,202,866
Total principal balance	2,115,467	4,116,609	6,232,076
Covered discount	(804,597)	(448,077)	(1,252,674)
Net valuation of loans	1,310,870	3,668,532	4,979,402
Allowance on covered loans	—	(3,900)	(3,900)
Total covered loans, net	$ 1,310,870	$ 3,664,632	$ 4,975,502
As of December 31, 2009			
Real estate loans:			
Residential single-family	$ 22,325	$ 614,814	$ 637,139
Residential multifamily	158,452	1,012,073	1,170,525
Commercial and industrial real estate	900,165	1,521,536	2,421,701
Construction and land	1,236,228	237,142	1,473,370
Total real estate loans	2,317,170	3,385,565	5,702,735
Other loans:			
Commercial business	603,507	677,772	1,281,279
Other consumer	422	122,387	122,809

Total other loans		603,929			800,159			1,404,088
Total principal balance		2,921,099			4,185,724			7,106,823
Covered discount		(1,033,720	)		(474,948	)		(1,508,668	)
Net valuation of loans		1,887,379			3,710,776			5,598,155
Allowance on covered loans		—			—			—
Total covered loans, net	$	1,887,379		$	3,710,776		$	5,598,155

At September 30, 2010 and December 31, 2009, $425.0 million and $675.6 million, respectively, of the ASC 310-30 credit impaired loans were considered to be nonperforming loans. The following table sets forth information regarding covered nonperforming assets as of the dates indicated:

	September 30, 2010	December 31, 2009
	(In thousands)	
Covered nonaccrual loans (1)	$ 424,956	$ 675,625
Covered loans past due 90 days or more but not on nonaccrual	—	—
Total nonperforming loans	424,956	675,625
Other real estate owned covered, net	137,353	44,273
Total covered nonperforming assets	$ 562,309	$ 719,898

(1) Covered nonaccrual loans meet the criteria for nonaccrual but have a yield accreted through interest income under ASC 310-30.

As of September 30, 2010, we had 103 covered OREO properties with a combined aggregate carrying value of $137.4 million. Approximately 53% of covered OREO properties as of September 30, 2010 were located in California. As of December 31, 2009, we had 61 covered OREO properties with an aggregate carrying value of $44.3 million. During the first nine months of 2010, we added 81 properties with an aggregate carrying value of $188.2 million as of the date added. The aggregate carrying value at September 30, 2010 includes $32.5 million in net writedowns and $680 thousand in net principal reductions on covered OREO. Included in the $188.2 million are 26 properties acquired with a fair value of $23.4 million on June 11, 2010 through the WFIB acquisition. During the first nine months of 2010, we sold 65 covered OREO properties with a total carrying value of $61.2 million resulting in a total combined net loss on sale of $740 thousand.

The following table shows the carrying amounts for the covered loans as of September 30, 2010 and December 31, 2009, respectively:

	September 30, 2010	December 31, 2009
	(In thousands)	
Contractually required payments of interest and principal	$ 7,219,331	$ 8,178,212
Nonaccretable difference	(1,281,455)	(1,596,950)
Cash flows expected to be collected (1)	5,937,876	6,581,262
Accretable difference	(958,474)	(983,107)
Carrying value of covered loans	$ 4,979,402	$ 5,598,155

(1) Represents undiscounted expected principal and interest cash flows.

Changes in the accretable yield for the covered loans are as follows for the periods shown:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(In thousands)			
Balance at beginning of period	$ 986,389	$ —	$ 983,107	$ —
Additions (1)	—	—	84,556	—
Accretion	(3,601)	—	(11,118)	—
Cash receipts, disposals and change in cash flows	(24,314)	—	(98,071)	—
Balance at end of period	$ 958,474	$ —	$ 958,474	$ —

(1) The additions included above for the nine months ended September 30, 2010, resulted from the June 11, 2010 WFIB acquisition.

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The excess of cash flows expected to be collected over the initial fair value of acquired loans is referred to as the accretable yield and is accreted into interest income over the estimated life of the acquired loans using the effective yield method. The accretable yield will change due to:

- estimate of the remaining life of acquired loans which may change the amount of future interest income
- estimate of the amount of contractually required principal and interest payments over the estimated life that will not be collected (the nonaccretable difference); and
- indices for acquired loans with variable rates of interest.

From December 31, 2009 to September 30, 2010, excluding scheduled principal payments, a total of $834.7 million of loans were removed from the covered loans accounted for under ASC 310-30 due to loans being paid in full, sold or transferred to covered OREO. As a result of this activity, management adjusted the prepayment assumptions in the third quarter to reflect the shorter duration resulting from historical paydown activities. The loan discount of $91.4 million related to these payoffs and removals was recorded as an adjustment to interest income in the first nine months of 2010.

FDIC Indemnification Asset

For the three and nine months ended September 30, 2010, the Company recorded $7.1 million and $29.2 million, respectively, of accretion into income. Additionally, because of the high prepayment and removals activity during this timeframe, the Company reduced the FDIC indemnification asset by $79.4 million and $287.4 million for the three and nine months, respectively, ended September 30, 2010, and recorded the adjustment to noninterest income (loss). Due to the acquisition of WFIB in the second quarter of 2010, $41.1 million of additional FDIC indemnification asset was recorded.

The table below shows FDIC indemnification asset activity for the periods shown:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Balance at beginning of period	$ 947,011	$ —	$ 1,091,814	$ —
Addition due to WFIB acquisition	—	—	41,131	—
Accretion	7,118	—	29,210	—
Reductions (1) (2)	(79,370)	—	(287,396)	—
Balance at end of period	$ 874,759	$ —	$ 874,759	$ —

(1) Reductions relate to higher cash flows received from principal amortization, partial prepayments, loan payoffs and loan sales.

(2) For the three and nine months ended September 30, 2010, the reduction amounts of $79.4 million and $287.4 million, respectively, also include chargeoffs, of which $70.8 million and $188.8 million, respectively, of these chargeoffs are recoverable from the FDIC and recorded in other assets.

FDIC Receivable

As of September 30, 2010, the FDIC loss sharing receivable was $66.3 million. This receivable represents 80% of reimbursable amounts from the FDIC that have not yet been received. These reimbursable amounts include chargeoffs, loan related expenses and OREO related expenses. The 80% of any reimbursable expense is recorded as noninterest income. 100% of the loan related and OREO expenses are recorded as non-interest expense, netting to the 20% of actual expense paid by the Company. The FDIC shares in 80% of recoveries received. Thus, the FDIC receivable is reduced when we receive payment from the FDIC as well as when recoveries occur.

NOTE 7 — ALLOWANCE FOR LOAN LOSSES

The following table summarizes activity in the allowance for loan losses for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,
	2010	2009	