Webster Financial Corporation Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you. Ladies and gentlemen, we will now be conducting a question-and-answer session. (Operator instructions) Our first question is coming from Ken Zerbe with Morgan Stanley. Please state your question.

Ken Zerbe – Morgan Stanley

Good morning.

James Smith

Good morning.

Ken Zerbe – Morgan Stanley

I understand you guys did do a great job in terms of cleaning up the balance sheet. Just looking forward, if you were to look at what you have now in terms of whether the remaining troughs or certain loan portfolios, where do you think that you could potentially see additional weakness from here?

Jerry Plush

Ken, it's Jerry. I think that, taken from the comments that Jim made, the A and lower rated troughs, we feel that we isolated what's left. The fair value there is, I'll call it just offhand, in and around the thirty some odd million dollars left in value. So we take that, and I'll reference the specific numbers in a sec when I grab the supplemental investment page, I would expect that there could be some defaults or deferrals of payments there, and that could create some of that collateral short folder drives, the OTTI impairments the way that we look at it, and we think that the way that a number of other external dealers look at it.

So I think that the good news is in that statement, you've got relatively a limited amount of dollars there. As I think about the mortgage backed securities portfolio, clearly, we were actually seeing, subsequent to 12/31, some real up tick in the value of the fixed rate and agency mortgage backed securities. So I actually see some positives there.

I think everyone notes from our – also though, from our investor presentations, we have about $135 million worth of CMBS in the investment portfolio. And I think in the investment schedules, it's combined in total mortgaged backed securities. We've seen some real market weakness there, in those. However, at this stage, given the collateral levels, we haven’t seen any casual issues underlying any of those. But clearly, there is an expectation of the fault in a number of those deals that we caused that type of fair value issue to those. We would say, arguably, a lot of it’s liquidity, or lack of liquidity, but we also think that we’re realistic and expect that there will be CRE deterioration in 2009, and we’ll see some of that potentially come through in the way of those types of values. But I think a lot of that’s taken into account when you think of the values that were shown.