EverBank Financial Corp
Form 10-Q
May 30, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

for the quarterly period ended March 31, 2012

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2012

or

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ______ to ______

EverBank Financial Corp

(Exact name of registrant as specified in its charter)

Delaware	**001-35533**	**52-2024090**
(State of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

501 Riverside Ave., Jacksonville, Florida	**32202**
(Address of principal executive offices)	(Zip Code)

904-281-6000

(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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ¨ No x

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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	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 x

As of May 15, 2012, there were 116,317,343 shares of common stock outstanding.

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Part I - Financial Information

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Part I. Financial Information

Item 1. Financial Statements (unaudited)

EverBank Financial Corp and Subsidiaries

Condensed Consolidated Balance Sheets (unaudited)

(Dollars in thousands, except per share data)

		March 31, 2012		December 31, 2011
Assets				
Cash and due from banks	$	29,142	$	31,441
Interest-bearing deposits in banks		355,581		263,540
Total cash and cash equivalents		384,723		294,981
Investment securities:				
Available for sale, at fair value		1,937,748		1,903,922
Held to maturity (fair value of $194,867 and $194,350 as of March 31, 2012 and December 31, 2011, respectively)		190,642		189,518
Other investments		99,915		98,392
Total investment securities		2,228,305		2,191,832
Loans held for sale (includes $672,651 and $777,280 carried at fair value as of March 31, 2012 and December 31, 2011, respectively)		2,530,966		2,725,286
Loans and leases held for investment:				
Covered by loss share or indemnification agreements		788,129		841,146
Not covered by loss share or indemnification agreements		6,535,058		5,678,135
Loans and leases held for investment, net of unearned income		7,323,187		6,519,281
Allowance for loan and lease losses		(78,254)		(77,765)
Total loans and leases held for investment, net		7,244,933		6,441,516
Equipment under operating leases, net		67,899		56,399
Mortgage servicing rights (MSR), net		462,420		489,496
Deferred income taxes, net		143,218		151,634
Premises and equipment, net		45,744		43,738
Other assets		666,613		646,796
Total Assets	$	13,774,821	$	13,041,678
Liabilities				
Deposits				
Noninterest-bearing	$	1,367,592	$	1,234,615
Interest-bearing		9,185,368		9,031,148

Total deposits		10,552,960		10,265,763
Other borrowings		1,706,298		1,257,879
Trust preferred securities		103,750		103,750
Accounts payable and accrued liabilities		417,124		446,621
Total Liabilities		12,780,132		12,074,013
Commitments and Contingencies (Note 13)				
Shareholders Equity				
Series A 6% Cumulative Convertible Preferred Stock, $0.01 par value (1,000,000 shares authorized; 0 and 186,744 issued and outstanding at March 31, 2012 and December 31, 2011, respectively)		-		2
Series B 4% Cumulative Convertible Preferred Stock, $0.01 par value (liquidation preference of $1,000 per share; 1,000,000 shares authorized inclusive of Series A Preferred Stock; 136,544 issued and outstanding at March 31, 2012 and December 31, 2011)		1		1
Common Stock, $0.01 par value (150,000,000 shares authorized; 77,994,699 and 75,094,375 issued and outstanding at March 31, 2012 and December 31, 2011 respectively)		780		751
Additional paid-in capital		562,327		561,247
Retained earnings		520,777		513,413
Accumulated other comprehensive loss		(89,196)		(107,749)
Total Shareholders Equity		994,689		967,665
Total Liabilities and Shareholders Equity	$	13,774,821	$	13,041,678

See notes to unaudited condensed consolidated financial statements.

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EverBank Financial Corp and Subsidiaries

Condensed Consolidated Statements of Income (unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Interest Income		
Interest and fees on loans and leases	$ 124,778	$ 122,993
Interest and dividends on investment securities	20,549	26,244
Other interest income	104	842
Total interest income	145,431	150,079
Interest Expense		
Deposits	20,974	26,190
Other borrowings	8,834	10,196
Total interest expense	29,808	36,386
Net Interest Income	115,623	113,693
Provision for Loan and Lease Losses	11,355	18,030
Net Interest Income after Provision for Loan and Lease Losses	104,268	95,663
Noninterest Income		
Loan servicing fee income	45,556	48,876
Amortization and impairment of mortgage servicing rights	(44,483)	(22,788)
Net loan servicing income	1,073	26,088
Gain on sale of loans	48,177	13,477
Loan production revenue	7,437	6,407
Deposit fee income	6,239	5,160
Other lease income	8,663	6,732
Other	1,604	7,988
Total noninterest income	73,193	65,852
Noninterest Expense		
Salaries, commissions and other employee benefits expense	66,590	57,373
Equipment expense	15,948	10,760
Occupancy expense	5,349	4,540
General and administrative expense	70,934	72,566
Total noninterest expense	158,821	145,239
Income before Income Taxes	18,640	16,276
Provision for Income Taxes	6,794	6,860

Net Income	$	11,846	$	9,416
Less: Net Income Allocated to Participating Preferred Stock		(5,879)		(2,407)
Net Income Allocated to Common Shareholders	$	5,967	$	7,009
Net Earnings per Common Share, Basic	$	0.08	$	0.09
Net Earnings per Common Share, Diluted	$	0.08	$	0.09

See notes to unaudited condensed consolidated financial statements.

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EverBank Financial Corp and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (unaudited)

(Dollars in thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net Income	$ 11,846	$ 9,416
Unrealized Holding Gains (Losses) on Debt Securities		
Reclassification of unrealized gains to earnings	-	(2,739)
Unrealized gains (losses) due to changes in fair value	21,286	(10,172)
Other-than-temporary impairment (OTTI) (noncredit portion), net of accretion	-	502
Tax effect	(8,029)	4,552
Change in unrealized holding gains (losses) on debt securities	13,257	(7,857)
Changes in Interest Rate Swaps for the Period:		
Net unrealized gains due to changes in fair value	6,628	4,887
Reclassification of unrealized losses to earnings	1,710	2,029
Tax effect	(3,042)	(2,410)
Changes in interest rate swaps	5,296	4,506
Total Other Comprehensive Income (Loss)	18,553	(3,351)
Total Comprehensive Income	$ 30,399	$ 6,065

See notes to unaudited condensed consolidated financial statements.

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EverBank Financial Corp and Subsidiaries

Condensed Consolidated Statements of Shareholders Equity (unaudited)

(Dollars in thousands)

	Shareholders Equity					
	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total Equity
Balance, January 1, 2012	$ 3	$ 751	$ 561,247	$ 513,413	$ (107,749)	$ 967,665
Net income	-	-	-	11,846	-	11,846
Total other comprehensive income	-	-	-	-	18,553	18,553
Conversion of Series A Preferred Stock	(2)	28	(26)	-	-	-
Issuance of common stock	-	1	57	-	-	58
Repurchase of common stock	-	-	(360)	-	-	(360)
Share-based grants (including income tax benefits)	-	-	1,409	-	-	1,409
Dividends paid on Series A Preferred Stock	-	-	-	(4,482)	-	(4,482)
Balance, March 31, 2012	$ 1	$ 780	$ 562,327	$ 520,777	$ (89,196)	$ 994,689
Balance, January 1, 2011	$ 3	$ 747	$ 556,001	$ 461,503	$ (5,056)	$ 1,013,198
Net income	-	-	-	9,416	-	9,416
Total other comprehensive loss	-	-	-	-	(3,351)	(3,351)
Issuance of common stock	-	1	64	-	-	65
Repurchase of common stock	-	-	(267)	-	-	(267)
Share-based grants (including income tax benefits)	-	-	1,579	-	-	1,579
Dividends paid on Series A Preferred Stock	-	-	-	(56)	-	(56)
Paid-in-kind dividends on Series B Preferred Stock	-	-	592	(592)	-	-
Balance, March 31, 2011	$ 3	$ 748	$ 557,969	$ 470,271	$ (8,407)	$ 1,020,584

See notes to unaudited condensed consolidated financial statements.

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EverBank Financial Corp and Subsidiaries

Condensed Consolidated Statements of Cash Flows (unaudited)

(Dollars in thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Operating Activities:		
Net income	$ 11,846	$ 9,416
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of premiums on investments	2,582	1,113
Depreciation and amortization of tangible and intangible assets	8,804	4,458
Amortization of loss on settlement of interest rate swaps	1,710	2,029
Amortization and impairment of mortgage servicing rights	44,483	22,788
Deferred income taxes	(2,654)	11,808
Provision for loan and lease losses	11,355	18,030
Loss on other real estate owned	2,731	6,768
Share-based compensation expense	1,282	1,579
Payments for settlement of forward interest rate swaps	(3,552)	(1,281)
Other operating activities	(2,632)	2,725
Changes in operating assets and liabilities, net of acquired assets and liabilities:		
Loans held for sale, including proceeds from sales and repayments	79,718	595,662
Other assets	51,567	39,972
Accounts payable and accrued liabilities	(14,641)	(7,665)
Net cash provided by operating activities	192,599	707,402
Investing Activities:		
Investment securities available for sale:		
Purchases	(138,186)	(850,784)
Proceeds from sales	-	60,961
Proceeds from prepayments and maturities	123,477	162,292
Investment securities held to maturity:		
Purchases	(7,965)	-
Proceeds from prepayments and maturities	6,705	-
Purchases of other investments	(1,547)	(10,219)
Decrease (increase) in loans held for investment, net of discount accretion, premium amortization and principal repayments	(830,144)	(544,163)
Purchases of premises and equipment, including equipment under operating leases	(20,659)	(8,998)
Proceeds related to sale or settlement of real estate owned	9,024	16,437
Proceeds from insured foreclosure claims	28,037	55,694
Other investing activities	(1,463)	(524)
Net cash provided by (used in) investing activities	(832,721)	(1,119,304)
Financing Activities:		
Net increase (decrease) in nonmaturity deposits	190,742	(29,536)
Net increase in time deposits	95,036	31,971
Increase (decrease) in short-term Federal Home Loan Bank (FHLB) advances	35,000	(100,000)
Proceeds from long-term FHLB advances	500,000	6,158
Repayments of long-term FHLB advances, including early extinguishment	(86,200)	(10,004)
Other financing activities	(4,714)	(5,878)
Net cash provided by (used in) financing activities	729,864	(107,289)
Net Increase (Decrease) in Cash and Cash Equivalents	89,742	(519,191)

Cash and Cash Equivalents				
Beginning of period		294,981		1,169,221
End of period	$	384,723	$	650,030
Supplemental Schedules of Noncash Investing Activities:				
Loans transferred to foreclosure claims from loans held for investment	$	13,906	$	62,704
Loans transferred to foreclosure claims from loans held for sale		68,591		5,746

See notes to unaudited condensed consolidated financial statements.

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EverBank Financial Corp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

(Dollars in thousands, except per share data)

1. Organization and Basis of Presentation

a) Organization EverBank Financial Corp (the Company) is a thrift holding company with one direct subsidiary, EverBank (EB). EB is a federally chartered thrift institution with its home office located in Jacksonville, Florida. In addition, its direct banking services are offered nationwide. EB operates 14 financial centers in Florida. EB (a) accepts deposits from the general public; (b) originates, purchases, services and sells residential real estate mortgage loans; (c) originates, services, and sells commercial real estate loans; (d) originates consumer, home equity, and commercial loans and leases; and (e) offers full-service securities brokerage and investment advisory services.

EB s subsidiaries are:

- AMC Holding, Inc., the parent of CustomerOne Financial Network, Inc.;
- Tygris Commercial Finance Group (TCFG);
- EverInsurance, Inc.;
- Elite Lender Services, Inc.; and
- EverBank Wealth Management (EWM).

On January 31, 2012, as part of a tax-free reorganization, the assets, liabilities and business activities of EWM were transferred to EB.

b) Reincorporation In September 2010, EverBank Financial Corp, a Florida corporation, or EverBank Florida, formed EverBank Financial Corp, a Delaware corporation, or EverBank Delaware. Subsequent to its formation, EverBank Delaware held no assets and had no subsidiaries having never engaged in any business or other activities except in connection with its formation. In May 2012, EverBank Delaware completed an initial public offering with its common stock listed on the New York Stock Exchange LLC (NYSE) under the symbol EVER . Immediately preceding the consummation of that offering, EverBank Florida merged with and into EverBank Delaware, with EverBank Delaware continuing as the surviving corporation and succeeding to all of the assets, liabilities and business of EverBank Florida. The merger resulted in the following:

- All of the outstanding shares of common stock of EverBank Florida were converted into approximately 77,994,699 shares of EverBank Delaware common stock;
- All of the outstanding shares of Series B Preferred Stock were converted into 15,964,644 shares of EverBank Delaware common stock;

The reincorporation of EverBank Florida in Delaware results in the Company now being governed by the laws of the State of Delaware.

Reincorporation of EverBank Florida in Delaware did not result in any change of the business, management, fiscal year, assets, liabilities or location of the principal facilities of the Company.

c) Basis of Presentation The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles. These interim financial statements should be read in conjunction with the audited financial statements and note disclosures as of and for the year ended December 31, 2011, which are included in the Company s registration statement on Form S-1 for the years ended December 31, 2011, 2010 and 2009.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its majority-owned subsidiary. All intercompany balances and transactions have been eliminated in consolidation. In management s opinion, all adjustments (which include normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made.

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EverBank Financial Corp and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

(Dollars in thousands, except per share data)

GAAP requires management to make estimates that affect the reported amounts and disclosures of contingencies in the consolidated financial statements. Estimates by their nature are based on judgment and available information. Material estimates relate to the Company s allowance for loan and lease losses, loans and leases acquired with evidence of credit deterioration, repurchase obligations, lease residuals, contingent liabilities, and the fair values of investment securities, loans held for sale, MSR, share-based compensation and derivative instruments. Because of the inherent uncertainties associated with any estimation process and future changes in market and economic conditions, it is possible that actual results could differ significantly from those estimates.

2. Recent Accounting Pronouncements and Updates to Significant Accounting Policies

Recent Accounting Pronouncements

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820) Fair Value Measurement*, to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. ASU 2011-04 is effective for the first quarter of 2012 and should be applied prospectively. Adoption of this standard resulted in additional disclosures as presented in Note 12 but did not have any impact on the Company s results of operations.

Presentation of Comprehensive Income In June 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income*, to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of shareholders equity. ASU 2011-05 is effective for the first quarter of 2012 and should be applied retrospectively. Adoption of this standard resulted in the presentation of Condensed Consolidated Statements of Comprehensive Income separate from the statement of shareholders equity but did not have any impact on the Company s results of operations. In December 2011, the FASB issued ASU 2011-12,*Comprehensive Income (Topic 220)- Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05,* to allow time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. Adoption of this ASU will not have any impact on the Company s consolidated financial statements or results of operations since it reinstates the presentation requirements before ASU 2011-05 was issued.

Updates to Significant Accounting Policies

There have been no material changes to our significant accounting policies as compared to the significant accounting policies described in the Company s registration statement on Form S-1.

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EverBank Financial Corp and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Dollars in thousands, except per share data)

3. Investment Securities

The amortized cost and fair value of investment securities with gross unrealized gains and losses were as follows as of March 31, 2012 and December 31, 2011:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Amount
March 31, 2012					
Available for sale:					
Residential collateralized mortgage obligations (CMO) securities - agency	$ 80	$ 7	$ -	$ 87	$ 87
Residential CMO securities - nonagency	1,931,621	22,276	24,103	1,929,794	1,929,794
Residential mortgage-backed securities (MBS) - agency	291	17	-	308	308
Asset-backed securities (ABS)	10,556	-	3,211	7,345	7,345
Equity securities	77	137	-	214	214
	1,942,625	22,437	27,314	1,937,748	1,937,748
Held to maturity:					
Residential CMO securities - agency	151,919	5,275	-	157,194	151,919
Residential MBS - agency	28,263	1,427	67	29,623	28,263
Corporate securities	10,460	-	2,410	8,050	10,460
	190,642	6,702	2,477	194,867	190,642
	$ 2,133,267	$ 29,139	$ 29,791	$ 2,132,615	$ 2,128,390
December 31, 2011					
Available for sale:					
Residential CMO securities - agency	$ 96	$ 8	$ -	$ 104	$ 104
Residential CMO securities - nonagency	1,919,046	17,609	40,837	1,895,818	1,895,818
Residential MBS agency	317	21	-	338	338
Asset-backed securities (ABS)	10,573	-	3,096	7,477	7,477
Equity securities	77	108	-	185	185

	1,930,109	17,746	43,933	1,903,922	1,903,922
Held to maturity:					
Residential CMO securities - agency	159,882	6,029	78	165,833	159,882
Residential MBS - agency	19,132	1,464	-	20,596	19,132
Corporate securities	10,504	-	2,583	7,921	10,504
	189,518	7,493	2,661	194,350	189,518
	$ 2,119,627	$ 25,239	$ 46,594	$ 2,098,272	$ 2,093,440

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EverBank Financial Corp and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Dollars in thousands, except per share data)

At March 31, 2012 and December 31, 2011, investment securities with a carrying value of $515,483 and $543,705, respectively, were pledged to secure other borrowings, public deposits, securities sold under agreements to repurchase, and for other purposes as required or permitted by law.

For the three months ended March 31, 2012, there were neither gross gains nor gross losses realized on available for sale investments. For the three months ended March 31, 2011, gross gains of $2,739 and zero losses were realized on available for sale investments in other noninterest income. The cost of investments sold is calculated using the specific identification method.

The gross unrealized losses and fair value of the Company s investments with unrealized losses, aggregated by investment category and the length of time individual securities have been in a continuous unrealized loss position, at March 31, 2012 and December 31, 2011 are as follows:

	Less Than 12 Months		12 Months or Greater		Total		Other-Than-Temporary Impairment (OTTI)
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Realized Losses
March 31, 2012							
Debt securities:							
Residential CMO securities - nonagency	$ 526,918	$ 9,054	$ 266,131	$ 15,049	$ 793,049	$ 24,103	$ -
Residential MBS - agency	10,333	67	-	-	10,333	67	-
Asset-backed securities	-	-	7,345	3,211	7,345	3,211	-
Corporate securities	-	-	8,050	2,410	8,050	2,410	-
Total debt securities	$ 537,251	$ 9,121	$ 281,526	$ 20,670	$ 818,777	$ 29,791	$ -
December 31, 2011							
Debt securities:							
Residential CMO securities - nonagency	$ 573,928	$ 16,646	$ 226,507	$ 24,191	$ 800,435	$ 40,837	$ -
Residential CMO securities - agency	6,224	78	-	-	6,224	78	-
Asset-backed securities	-	-	7,477	3,096	7,477	3,096	-
Corporate securities	-	-	2,404	2,583	2,404	2,583	685
Total debt securities	$ 580,152	$ 16,724	$ 236,388	$ 29,870	$ 816,540	$ 46,594	$ 685

The Company had unrealized losses at March 31, 2012 and December 31, 2011 on residential CMO securities, MBS, ABS and corporate securities. These unrealized losses are primarily attributable to market conditions. Based on the nature of impairment, these unrealized losses are considered temporary. The Company does not intend to sell nor is it more likely than not that it will be required to sell these investments before their anticipated recovery.

At March 31, 2012, the Company had 68 debt securities in an unrealized loss position. A total of 34 were in an unrealized loss position for less than 12 months. These 34 consisted of 32 nonagency residential CMO securities and 2 agency residential MBS. Of these, 57% in amortized cost attained credit ratings of A or better. The remaining 34 debt securities were in an unrealized loss position for 12 months or longer. These 34 securities consisted of three ABS, one corporate security and 30 nonagency residential CMO securities. Of these debt securities in an unrealized loss position, 24% in amortized cost had credit ratings of A or better.

At December 31, 2011, the Company had 71 debt securities in an unrealized loss position. A total of 42 were in an unrealized loss position for less than 12 months, all of which were residential CMO

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EverBank Financial Corp and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Dollars in thousands, except per share data)

securities. Of these, 84% in amortized cost had credit ratings of A or better. The remaining 29 debt securities were in an unrealized loss position for 12 months or longer. These 29 securities consisted of three ABS, one corporate security and 25 nonagency residential CMO securities. Of these 25 nonagency securities, 68% in amortized cost had credit ratings of A or better.

In assessing whether these securities were impaired, the Company performed cash flow analyses that projected prepayments, default rates and loss severities on the collateral supporting each security. If the net present value of the investment is less than the amortized cost, the difference would be recognized in earnings as a credit-related impairment, while the remaining difference between the fair value and the amortized cost is recognized in accumulated other comprehensive income (AOCI). The Company recognized credit-related OTTI losses of $0 and $685 in other noninterest income for the three months ended March 31, 2012 and 2011, respectively, primarily due to a continued decline in the collateral value of a corporate security.

There were no OTTI losses recognized on AFS and HTM securities during the three months ended March 31, 2012.

Information regarding impairment related to credit loss recognized on securities in other noninterest income and impairment related to all other factors recognized in AOCI for the three months ended March 31, 2011 is as follows:

Debt securities:	**Impairment Related to Credit Loss**	**Impairment Related to All Other Factors**	**Total Impairment**
Balance, January 1, 2011	$ 3,354	$ 502	$ 3,856
Additional charges on securities for which OTTI was previously recognized	685	(499)	186
Reduction for securities on which a reduction in value was taken against earnings (1)	(4,039)	-	(4,039)
Accretion of impairment related to all other factors	-	(3)	(3)
Balance, March 31, 2011	$ -	$ -	$ -

(1) The value for these securities for which impairment is related to credit loss were written to a zero value during 2011 reflecting that the Company does not anticipate the ability to collect cash flows on these investments at any point in the future. This reduction in value was taken through earnings and thus, is reflected in the rollforward as a reduction of the credit loss balance to zero.

During the three months ended March 31, 2012 and 2011, interest and dividend income on investment securities is comprised of the following:

	Three Months Ended March 31,	
	2012	**2011**

Interest income on available for sale securities	$	18,871	$	25,628
Interest income on held to maturity securities		1,400		372
Other interest and dividend income		278		244
	$	20,549	$	26,244

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EverBank Financial Corp and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Dollars in thousands, except per share data)

All interest income recognized by the Company during the three months ended March 31, 2012 and 2011 is taxable.

4. Loans Held for Sale

Loans held for sale as of March 31, 2012 and December 31, 2011, consist of the following:

	March 31, 2012	December 31, 2011
Residential mortgages	$ 2,530,966	$ 2,709,825
Commercial and commercial real estate	-	15,461
	$ 2,530,966	$ 2,725,286

The Company sells loans to various financial institutions, government agencies, government-sponsored enterprises, and individual investors. Currently, the Company sells a concentration of loans to government-sponsored entities. The Company does not originate, acquire or sell subprime mortgage loans.

The Company securitizes a portion of its residential mortgage loan originations through government agencies. The following is a summary of cash flows between the Company and the agencies for securitized loans for the three months ended March 31, 2012 and 2011:

	Three Months Ended March 31,	
	2012	2011
Proceeds received from new securitizations	$ 1,920,970	$ 1,429,121
Net fees paid to agencies	11,752	11,170
Servicing fees collected	755	683
Repurchased loans	1,471	847

During the three months ended March 31, 2012, the Company transferred $154,340 of conforming residential mortgages to Ginnie Mae (GNMA) in exchange for mortgage-backed securities, which the Company may sell in the market to third party investors for cash. As of March 31, 2012, the Company retained all of the securities backed by the transferred loans and maintained effective control over the transferred assets. Accordingly, the Company has not recorded the transfers as sales. The transferred assets are recorded in the condensed consolidated balance sheet as loans held for sale.

During the three months ended March 31, 2012, the Company sold $4,919 of loans previously described as loans held for investment that were transferred to loans held for sale in 2011 and recognized a gain of $329, which is recorded as gain on sale of loans.

On March 31, 2012, the Company transferred $14,946 in commercial real estate loans held for sale to loans held for investment at lower of cost or market as the Company has the intent to hold these loans for the foreseeable future.

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5. Loans and Leases Held for Investment, Net

Loans and leases held for investment as of March 31, 2012 and December 31, 2011 are comprised of the following:

	March 31, 2012	December 31, 2011
Residential mortgages	$ 5,277,707	$ 4,556,841
Commercial and commercial real estate	1,237,376	1,165,384
Lease financing receivables	605,763	588,501
Home equity lines	195,178	200,112
Consumer and credit card	7,163	8,443
Total loans and leases, net of discounts	7,323,187	6,519,281
Allowance for loan and lease losses	(78,254)	(77,765)
Total loans and leases, net	$ 7,244,933	$ 6,441,516

As of March 31, 2012 and December 31, 2011, the carrying values presented above include net purchase loan and lease discounts and net deferred loan and lease origination costs as follows:

	March 31, 2012	December 31, 2011
Net purchase loan and lease discounts	$ 203,100	$ 237,170
Net deferred loan and lease origination costs	20,202	19,057

Loans and Leases Acquired with Evidence of Credit Deterioration At acquisition, the Company estimates the fair value of acquired loans and leases by segregating the portfolio into pools with similar risk characteristics. Fair value estimates for acquired loans and leases require estimates of the amounts and timing of expected future principal, interest and other cash flows. For each pool, the Company uses certain loan and lease information, including outstanding principal balance, probability of default and the estimated loss in the event of default to estimate the expected future cash flows for each loan and lease pool.

Information pertaining to the acquired portfolio of loans and leases with evidence of credit deterioration as of March 31, 2012 and December 31, 2011 is as follows:

	Bank of Florida	Other Acquired Loans	Total
March 31, 2012			
Carrying value, net of allowance	$ 590,674	$ 498,882	$ 1,089,556
Outstanding unpaid principal balance or contractual net investment	653,410	519,997	1,173,407
Allowance for loan and lease losses, beginning of period	11,638	4,351	15,989
Allowance for loan and lease losses, end of period	15,081	4,548	19,629

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	Bank of Florida	TCFG	Other Acquired Loans	Total
December 31, 2011				
Carrying value, net of allowance	$ 621,116	$ -	$ 522,071	$ 1,143,187
Outstanding unpaid principal balance or contractual net investment	685,967	-	543,240	1,229,207
Allowance for loan and lease losses, beginning of period	6,189	97	3,695	9,981
Allowance for loan and lease losses, end of year	11,638	-	4,351	15,989

The following is a summary of the accretable yield activity for the loans and leases acquired with evidence of credit deterioration during the three months ended March 31, 2012 and 2011:

	Bank of Florida	TCFG	Other Acquired Loans	Total
Balance, January 1, 2012	$ 141,750	$ -	$ 65,973	$ 207,723
Accretion	(9,679)	-	(6,308)	(15,987)
Reclassifications (from) to accretable yield	(11,923)	-	8,463	(3,460)
Balance, March 31, 2012	$ 120,148	$ -	$ 68,128	$ 188,276
Balance, January 1, 2011	$ 198,633	$ 9,745	$ 44,603	$ 252,981
Accretion	(12,510)	(1,666)	(2,927)	(17,103)
Reclassifications (from) to accretable yield	(1,333)	974	289	(70)
Balance, March 31, 2011	$ 184,790	$ 9,053	$ 41,965	$ 235,808

The Company recorded $3,640 and $824 in provision for loan and lease losses for the three months ended March 31, 2012 and 2011, respectively, as a result of a decrease in expected cash flows on acquired loans with evidence of credit deterioration.

Covered Loans and Leases Covered loans and leases are acquired and recorded at fair value, exclusive of the loss share agreements with the FDIC and the indemnification agreement with former shareholders of TCFG. All loans acquired through the loss share agreement with the FDIC and all loans and leases acquired in the purchase of TCFG are considered covered during the applicable indemnification period.

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The following is a summary of the recorded investment of major categories of covered loans and leases outstanding as of March 31, 2012 and December 31, 2011:

	Bank of Florida	TCFG	Total
March 31, 2012			
Residential mortgages	$ 74,104	$ -	$ 74,104
Commercial and commercial real estate	546,358	-	546,358
Lease financing receivables	-	147,125	147,125
Home equity lines	18,424	-	18,424
Consumer and credit card	2,118	-	2,118
Total recorded investment of covered loans and leases	$ 641,004	$ 147,125	$ 788,129
December 31, 2011			
Residential mortgages	$ 74,580	$ -	$ 74,580
Commercial and commercial real estate	569,014	-	569,014
Lease financing receivables	-	176,125	176,125
Home equity lines	19,082	-	19,082
Consumer and credit card	2,345	-	2,345
Total recorded investment of covered loans and leases	$ 665,021	$ 176,125	$ 841,146

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6. Allowance for Loan and Lease Losses

Changes in the allowance for loan and lease losses for the three months ended March 31, 2012 and 2011 are as follows:

	Three Months Ended March 31, 2012					
	Residential Mortgages	Commercial and Commercial Real Estate	Lease Financing Receivables	Home Equity Lines	Consumer and Credit Card	Total
Balance, beginning of period	$ 43,454	$ 28,209	$ 3,766	$ 2,186	$ 150	$ 77,765
Provision for loan and lease losses	3,836	5,308	723	1,493	(5)	11,355
Charge-offs	(6,694)	(2,294)	(1,181)	(1,108)	(11)	(11,288)
Recoveries	143	168	36	61	14	422
Balance, end of period	$ 40,739	$ 31,391	$ 3,344	$ 2,632	$ 148	$ 78,254

	Three Months Ended March 31, 2011					
	Residential Mortgages	Commercial and Commercial Real Estate	Lease Financing Receivables	Home Equity Lines	Consumer and Credit Card	Total
Balance, beginning of period	$ 46,584	$ 33,490	$ 2,454	$ 10,907	$ 254	$ 93,689
Change in estimate	10,154	(682)	(802)	(6,323)	(440)	1,907
Provision for loan and lease losses	9,770	3,231	1,570	1,217	335	16,123
Charge-offs	(9,238)	(9,088)	(2,096)	(2,172)	(2)	(22,596)
Recoveries	5	522	8	1	-	536
Balance, end of period	$ 57,275	$ 27,473	$ 1,134	$ 3,630	$ 147	$ 89,659

The following tables provide a breakdown of the allowance for loan and lease losses and the recorded investment in loans and leases based on the method for determining the allowance as of March 31, 2012 and December 31, 2011:

	Allowance for Loan and Lease Losses			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Loans and Leases Acquired with Deteriorated Credit Quality	Total
March 31, 2012				
Residential mortgages	$ 7,702	$ 27,377	$ 5,660	$ 40,739
Commercial and commercial real estate	5,445	11,977	13,969	31,391
Lease financing receivables	-	3,344	-	3,344
Home equity lines	-	2,632	-	2,632
Consumer and credit card	-	148	-	148
	$ 13,147	$ 45,478	$ 19,629	$ 78,254

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	Loans and Leases Held for Investment at Recorded Investment			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Loans and Leases Acquired with Deteriorated Credit Quality	Total
March 31, 2012				
Residential mortgages	$ 92,684	$ 4,595,525	$ 589,498	$ 5,277,707
Commercial and commercial real estate	127,204	590,485	519,687	1,237,376
Lease financing receivables	-	605,763	-	605,763
Home equity lines	-	195,178	-	195,178
Consumer and credit card	-	7,163	-	7,163
	$ 219,888	$ 5,994,114	$ 1,109,185	$ 7,323,187

	Allowance for Loan and Lease Losses			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Loans and Leases Acquired with Deteriorated Credit Quality	Total
December 31, 2011				
Residential mortgages	$ 7,436	$ 30,554	$ 5,464	$ 43,454
Commercial and commercial real estate	6,021	11,663	10,525	28,209
Lease financing receivables	-	3,766	-	3,766
Home equity lines	-	2,186	-	2,186
Consumer and credit card	-	150	-	150
	$ 13,457	$ 48,319	$ 15,989	$ 77,765

	Loans and Leases Held for Investment at Recorded Investment			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Loans and Leases Acquired with Deteriorated Credit Quality	Total
December 31, 2011				
Residential mortgages	$ 90,927	$ 3,852,119	$ 613,795	$ 4,556,841
Commercial and commercial real estate	142,360	477,643	545,381	1,165,384
Lease financing receivables	-	588,501	-	588,501
Home equity lines	-	200,112	-	200,112
Consumer and credit card	-	8,443	-	8,443

	$ 233,287	$ 5,126,818	$ 1,159,176	$ 6,519,281

The Company uses a risk grading matrix to monitor credit quality for commercial and commercial real estate loans. Risk grades are continuously monitored and updated quarterly by credit administration personnel based on current information and events. The Company monitors the quarterly credit quality of all other loan types based on performing status.

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The following tables present the recorded investment for loans and leases by credit quality indicator as of March 31, 2012 and December 31, 2011:

	Performing	Non-performing	Total
March 31, 2012			
Residential mortgages:			
Residential	$ 4,412,462	$ 71,485	$ 4,483,947
Government insured pool buyouts	632,329	161,431	793,760
Lease financing receivables	603,901	1,862	605,763
Home equity lines	191,408	3,770	195,178
Consumer and credit card	6,590	573	7,163
	$ 5,846,690	$ 239,121	$ 6,085,811

	Pass	Special Mention	Substandard	Doubtful	Total
March 31, 2012					
Commercial and commercial real estate:					
Commercial	$ 197,324	$ 187	$ 13,170	$ 4,589	$ 215,270
Commercial real estate	635,513	97,516	289,077	-	1,022,106
	$ 832,837	$ 97,703	$ 302,247	$ 4,589	$ 1,237,376

	Performing	Non-performing	Total
December 31, 2011			
Residential mortgages:			
Residential	$ 3,655,884	$ 71,658	$ 3,727,542
Government insured pool buyouts	649,391	179,908	829,299
Lease financing receivables	586,116	2,385	588,501
Home equity lines	195,861	4,251	200,112
Consumer and credit card	8,024	419	8,443
	$ 5,095,276	$ 258,621	$ 5,353,897

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	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2011					
Commercial and commercial real estate:					
Commercial	$ 151,473	$ 1,527	$ 18,279	$ 4,136	$ 175,415
Commercial real estate	639,883	78,385	270,656	1,045	989,969
	$ 791,356	$ 79,912	$ 288,935	$ 5,181	$ 1,165,384

The following tables present an aging analysis of the recorded investment for loans and leases by class as of March 31, 2012 and December 31, 2011:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans Held for Investment Excluding ASC 310-30
March 31, 2012						
Residential mortgages:						
Residential	$ 15,812	$ 5,187	$ 71,485	$ 92,484	$ 4,255,959	$ 4,348,443
Government insured pool buyouts	20,277	12,976	161,431	194,684	145,081	339,765
Commercial and commercial real estate:						
Commercial	75	90	4,512	4,677	184,345	189,022
Commercial real estate	5,436	950	45,718	52,104	476,564	528,668
Lease financing receivables	2,026	1,362	979	4,367	601,396	605,763
Home equity lines	2,568	533	3,770	6,871	188,307	195,178
Consumer and credit card	191	94	243	528	6,635	7,163
	$ 46,385	$ 21,192	$ 288,138	$ 355,715	$ 5,858,287	$ 6,214,002
December 31, 2011						
Residential mortgages:						
Residential	$ 16,966	$ 12,673	$ 71,658	$ 101,297	$ 3,487,525	$ 3,588,822
Government insured pool buyouts	23,396	17,909	179,908	221,213	133,011	354,224
Commercial and commercial real estate:						
Commercial	-	32	10,751	10,783	137,216	147,999
Commercial real estate	2,117	4,450	48,611	55,178	416,826	472,004
Lease financing receivables	3,394	971	962	5,327	583,174	588,501
Home equity lines	1,953	498	4,251	6,702	193,410	200,112
Consumer and credit card	106	50	233	389	8,054	8,443
	$ 47,932	$ 36,583	$ 316,374	$ 400,889	$ 4,959,216	$ 5,360,105

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Impaired Loans Impaired loans include loans identified as troubled loans as a result of a borrower s financial difficulties and other loans on which the accrual of interest income is suspended. The Company continues to collect payments on certain impaired loan balances on which accrual is suspended.

The following tables present the recorded investment and the related allowance for impaired loans as of March 31, 2012 and December 31, 2011:

	March 31, 2012		December 31, 2011	
	Recorded Investment	Related Allowance	Recorded Investment	Related Allowance
With an allowance recorded:				
Residential mortgages:				
Residential	$ 68,278	$ 7,702	$ 74,189	$ 7,436
Commercial and commercial real estate:				
Commercial	3,032	432	4,697	779
Commercial real estate	33,626	5,013	37,189	5,242
	$ 104,936	$ 13,147	$ 116,075	$ 13,457

	March 31, 2012		December 31, 2011	
	Recorded Investment	Related Allowance	Recorded Investment	Related Allowance
Without a related allowance recorded:				
Residential mortgages:				
Residential	$ 24,406	$ -	$ 16,738	$ -
Commercial and commercial real estate:				
Commercial	5,826	-	9,814	-
Commercial real estate	84,720	-	90,661	-
	$ 114,952	$ -	$ 117,213	$ -

The following table presents the average investment and interest income recognized on impaired loans for the three months ended March 31, 2012 and 2011:

	Three Months Ended	
	March 31, 2012	March 31, 2011

	Average Investment	Interest Income Recognized	Average Investment	Interest Income Recognized
With and without a related allowance recorded:				
Residential mortgages:				
Residential	$ 91,806	$ 660	$ 75,605	$ 523
Commercial and commercial real estate:				
Commercial	11,685	23	1,344	11
Commercial real estate	123,098	558	171,892	346
	$ 226,589	$ 1,241	$ 248,841	$ 880

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The following table presents the recorded investment for loans and leases on nonaccrual status by class and loans greater than 90 days past due and still accruing as of March 31, 2012 and December 31, 2011:

	March 31, 2012		December 31, 2011	
	Nonaccrual Status	Greater than 90 Days Past Due and Accruing	Nonaccrual Status	Greater than 90 Days Past Due and Accruing
Residential mortgages:				
Residential	$ 71,485	$ -	$ 71,658	$ -
Government insured pool buyouts	-	161,431	-	179,908
Commercial and commercial real estate:				
Commercial	7,107	-	12,294	-
Commercial real estate	82,478	-	86,772	-
Lease financing receivables	1,862	-	2,385	-
Home equity lines	3,770	-	4,251	-
Consumer and credit card	573	-	419	-
	$ 167,275	$ 161,431	$ 177,779	$ 179,908

Troubled Debt Restructurings Modifications considered to be TDRs are individually evaluated for credit loss based on a discounted cash flow model using the loan s effective interest rate at the time of origination. The discounted cash flow model used in this evaluation is adjusted to reflect the modified loan s elevated probability of future default based on the Company s historical redefault rate. These loans are classified as nonaccrual and have been included in the Company s impaired loan disclosures in the tables above. A loan is considered to redefault when it is 30 days past due. Once a modified loan demonstrates a consistent period of performance under the modified terms, generally six months, the Company returns the loan to an accrual classification. If, however, a modified loan defaults under the terms of the modified agreement, the Company measures the allowance for loan and lease losses based on the fair value of collateral less cost to sell.

The following is a summary of information relating to modifications considered to be TDRs for the three months ended March 31, 2012:

	Three Months Ended March 31, 2012		
	Number of	Pre-modification Recorded	Post-modification Recorded

	Contracts	Investment	Investment
Residential mortgages:			
Residential	16	$ 6,014	$ 6,021
Commercial and commercial real estate:			
Commercial	3	3,035	3,035
Commercial real estate	6	8,241	8,241
	25	$ 17,290	$ 17,297

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Modifications made to residential loans during the period included extension of original contractual maturity date, extension of the period of below market rate interest only payments, or contingent reduction of past due interest. Commercial loan modifications made during the period included extension of original contractual maturity date, payment forbearance, reduction of interest rates, or extension of interest only periods.

The number of contracts and recorded investment of loans that were modified during the last 12 months and subsequently defaulted during the three months ended March 31, 2012 are as follows:

	Three Months Ended March 31, 2012	
	Number of Contracts	Recorded Investment
Residential mortgages:		
Residential	8	$ 2,222
Commercial and commercial real estate:		
Commercial	3	1,802
Commercial real estate	1	98
	12	$ 4,122

The recorded investment of TDRs as of March 31, 2012 and December 31, 2011 are summarized as follows:

	March 31, 2012	December 31, 2011
Loan Type:		
Residential mortgages	$ 92,684	$ 90,927
Commercial and commercial real estate	51,067	61,481
	$ 143,751	$ 152,408
Accrual Status:		
Current	$ 88,379	$ 85,905
30-89 days past-due accruing	4,423	6,723
90+ days past-due accruing	-	-
Nonaccrual	50,949	59,780
	$ 143,751	$ 152,408

TDRs classified as impaired loans	$ 143,751	$ 152,408
Valuation allowance on TDRs	9,016	9,743

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7. Servicing Activities and Mortgage Servicing Rights

A summary of MSR activities for the three months ended March 31, 2012 and 2011 is as follows:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Balance, beginning of period	$ 489,496	$ 573,196
Originated servicing rights capitalized upon sale of loans	18,529	19,616
Amortization	(29,339)	(22,788)
Impairment	(15,144)	-
Other	(1,122)	(1,379)
Balance, end of period	$ 462,420	$ 568,645
Valuation Allowance:		
Balance, beginning of period	$ 39,455	
Impairment	15,144	
Balance, end of period	$ 54,599	

For loans securitized and sold for the three months ended March 31, 2012 with servicing retained, management used the following assumptions to determine the fair value of MSR at the date of securitization:

	March 31, 2012		
Average discount rates	8.60%	-	9.14%
Expected prepayment speeds	10.13%	-	14.62%
Weighted average life in years	5.46	-	6.70

At March 31, 2012 and December 31, 2011, the Company estimated the fair value of its capitalized MSR to be approximately $462,427 and $494,547, respectively. The unpaid principal balance below includes $5,367,000 and $5,248,000 at March 31, 2012 and December 31, 2011, respectively, for loans with no related MSR basis.

The characteristics used in estimating the fair value of the loan servicing portfolio at March 31, 2012 and December 31, 2011 are as follows:

	March 31, 2012	December 31, 2011
Unpaid principal balance	$ 51,896,000	$ 53,066,000
Gross weighted-average coupon	4.95%	4.98%
Weighted-average servicing fee	0.31%	0.31%
Estimated prepayment speed	16.07%	12.74%

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A sensitivity analysis of the Company s fair value of mortgage servicing rights to hypothetical adverse changes of 10% and 20% to the weighted average of certain key assumptions as of March 31, 2012 and December 31, 2011 is presented below.

	March 31, 2012	December 31, 2011
Prepayment Rate		
10% adverse rate change	$ 25,917	$ 26,955
20% adverse rate change	49,957	51,872
Discount Rate		
10% adverse rate change	17,499	18,306
20% adverse rate change	33,750	35,336

In the previous table, the effect of a variation in a specific assumption on the fair value is calculated without changing any other assumptions. This analysis typically cannot be extrapolated because the relationship of a change in one key assumption to the change in the fair value of the Company s mortgage servicing rights usually is not linear. The effect of changing one key assumption will likely result in the change of another key assumption which could impact the sensitivities.

Components of loan servicing fee income for the three months ended March 31, 2012 and 2011 are presented below:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Contractually specified service fees, net	$ 35,385	$ 38,050
Other ancillary fees	9,619	10,327
Other	552	499
	$ 45,556	$ 48,876

8. Shareholders Equity

Initial Public Offering On May 8, 2012, the Company completed the issuance and sale of 22,103,000 shares of its common stock, par value of $0.01 per share (the Common Stock), in its initial public offering of Common Stock (the Offering), including 2,883,000 shares sold pursuant to the exercise in full by the underwriters of their option to purchase additional shares from the Company, at a price to the public of $10.00 per share. The shares were offered pursuant to the Company s Registration Statement on Form S-1. The Company received net proceeds of approximately $198,700 from the Offering, after deducting underwriting discounts and commissions and estimated offering expenses.

Preferred Stock On January 25, 2012, the Company s Board of Directors approved a special cash dividend of $4,482 to the holders of the Series A 6% Cumulative Convertible Preferred Stock (Series A Preferred Stock), which was paid on March 1, 2012. As a result of the special cash dividend, all shares of Series A Preferred Stock were converted into 2,801,160 shares of Common Stock.

Immediately prior to the completion of the Offering, the 136,544 shares of outstanding Series B 4% Cumulative Convertible Preferred Stock automatically converted into 15,964,644 shares of Common Stock.

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Common Stock At March 31, 2012, there were 150,000,000 shares of Common Stock authorized, and 77,994,699 shares issued and outstanding. Following the Offering, there were 500,000,000 shares authorized and 116,317,343 shares issued and outstanding.

9. Income Taxes

For the three months ended March 31, 2012, the Company s effective income tax rate of 36.4% differs from the statutory federal income tax rate primarily due to state income taxes. For the three months ending March 31, 2011, the Company s effective income tax rate of 42.1% differs from the statutory federal income tax rate primarily due to state income taxes and a $691 increase to income tax expense for the revaluation of the net unrealized built-in losses associated with the Tygris acquisition.

10. Earnings Per Share

The Company calculates earnings per share in accordance with ASC 260, *Earnings per Share.* Because the Company s Series A and Series B Cumulative Convertible Preferred Stock meet the definition of participating securities, this guidance requires the use of the Two-Class Method to calculate basic and diluted earnings per share. The Two-Class Method allocates earnings between common and participating shares. In calculating basic earnings per common share, only the portion of earnings allocated to common shares is used in the numerator. The following table sets forth the computation of basic and diluted earnings per common share for the three months ended March 31, 2012 and 2011:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net income	$ 11,846	$ 9,416
Less distributed and undistributed net income allocated to participating preferred stock	(5,879)	(2,407)
Net income allocated to common shareholders	$ 5,967	$ 7,009
(Units in Thousands)		
Average common shares outstanding	76,129	74,735
Common share equivalents:		
Stock options	1,917	2,497
Nonvested stock	278	389
Average common shares outstanding, assuming dilution	78,324	77,621

Net income per common share, basic	$	0.08	$	0.09
Net income per common share, assuming dilution	$	0.08	$	0.09

On January 25, 2012, the Company s Board of Directors approved a special cash dividend of $4,482 to the holders of the Series A Preferred Stock, which was paid on March 1, 2012, in order to induce conversion to shares of Common Stock. The Company has included the special cash dividend as distributed net income attributable to participating preferred stock. In addition, the Company included the Series A Preferred Stock as a participating security through the date of conversion and upon conversion, the Company included the shares in common shares outstanding.

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Certain securities were antidilutive and were therefore excluded from the calculation of diluted earnings per share. Common shares attributed to these antidilutive securities had these securities been exercised or converted as of March 31, 2012 and 2011 are as follows:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Stock Options	5,882,160	2,906,190

11. Derivative Financial Instruments

The fair values of derivatives are reported in other assets, deposits, or accounts payable and accrued liabilities. The fair values are derived using the valuation techniques described in Note 12. The total notional or contractual amounts and fair values as of March 31, 2012 and December 31, 2011 are as follows:

	Notional Amount	Fair Value: Asset Derivatives	Fair Value: Liability Derivatives
March 31, 2012			
Qualifying hedge contracts accounted for under ASC 815, *Derivatives and Hedging*			
Cash flow hedges (risk management hedges):			
Forward interest rate swaps	$ 1,103,000	$ -	$ 123,717
Derivatives not designated as hedging instruments under ASC 815, *Derivatives and Hedging*			
Freestanding derivatives (economic hedges):			
Interest rate lock commitments	1,258,192	4,902	1,117
Forward sales commitments	1,518,476	8,027	2,108
Optional forward sales commitments	269	-	1
Interest rate swaps	18,000	-	932
Foreign exchange contracts	1,070,566	8,479	8,749
Equity, foreign currency, commodity and metals indexed options	218,890	23,717	-
Options embedded in customer deposits	216,677	-	23,532
Indemnification asset	422,469	8,814	-
Total freestanding derivatives		53,939	36,439
Total derivatives		$ 53,939	$ 160,156

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	Notional Amount	Fair Value: Asset Derivatives	Fair Value: Liability Derivatives
December 31, 2011			
Qualifying hedge contracts accounted for under ASC 815, *Derivatives and Hedging*			
Cash flow hedges (risk management hedges):			
Forward interest rate swaps	$ 1,153,000	$ -	$ 133,897
Derivatives not designated as hedging instruments under ASC 815, *Derivatives and Hedging*			
Freestanding derivatives (economic hedges):			
Interest rate lock commitments	828,866	8,059	126
Forward sales commitments	1,278,899	1,140	13,340
Interest rate swaps	18,000	-	831
Foreign exchange contracts	1,114,838	9,494	16,293
Equity, foreign currency, commodity and metals indexed options	220,465	20,460	-
Options embedded in customer deposits	218,514	-	20,192
Indemnification assets	482,094	8,540	-
Total freestanding derivatives		47,693	50,782
Total derivatives		$ 47,693	$ 184,679

Cash Flow Hedges

Activity for derivatives in cash flow hedge relationships for the three months ended March 31, 2012 and 2011 are as follows:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Gains (losses), net of tax, recognized in AOCI (effective portion)	$ 6,482	$ (3,951)
Reclassifications to interest expense (effective portion)	(1,710)	(2,029)
Pretax losses recognized in interest expense (ineffective portion)	(65)	-

All changes in the value of the derivatives were included in the assessment of hedge effectiveness.

As of March 31, 2012, AOCI included $13,561 of deferred pre-tax net losses expected to be reclassified into earnings during the next 12 months for derivative instruments designated as cash flow hedges of forecasted transactions. The Company is hedging its exposure to the variability of future cash flows for all forecasted transactions of fixed-rate debt for a maximum of eight years.

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Freestanding Derivatives

The following table shows the net losses recognized for the three months ended March 31, 2012 and 2011 in the consolidated statements of income related to derivatives not designated as hedging instruments under ASC 815, *Derivatives and Hedging*. These gains and losses are recognized in other noninterest income, except for the indemnification assets which are recognized in general and administrative expense.

	Three Months Ended March 31,	
	2012	**2011**
Freestanding derivatives (economic hedges)		
Gains (losses) on interest rate contracts	$ (11,830)	$ 2,899
Gains (losses) on indemnification assets	273	(8,680)
Other	446	-
	$ (11,111)	$ (5,781)

Interest rate contracts are predominantly used as economic hedges of interest rate lock commitments and loans held for sale. Other derivatives are predominantly used as economic hedges of foreign exchange, commodity, metals and equity risk.

Credit Risk Contingent Features

Certain of the Company s derivative instruments contain provisions that require the Company to post collateral when derivatives are in a net liability position. The provisions generally are dependent upon the Company s credit rating based on certain major credit rating agencies or dollar amounts in a liability position at any given time which exceed specified thresholds, as indicated in the relevant contracts. In these circumstances, the counterparties could demand additional collateral or require termination or replacement of derivative instruments in a net liability position. The aggregate fair value of all derivative instruments with such credit-risk-related contingent features in a net liability position on March 31, 2012 and December 31, 2011 was $124,771 and $153,337, respectively, for which the Company posted $127,548 and $170,656, respectively, in collateral in the normal course of business.

Counterparty Credit Risk

The Company is exposed to counterparty credit risk if counterparties to the derivative contracts do not perform as expected. If the counterparty fails to perform, counterparty credit risk equals the amount reported as derivative assets in the balance sheet. The amounts reported as derivative assets are derivative contracts in a gain position, and to the extent subject to master netting arrangements, net of derivatives in a loss position with the same counterparty, and cash collateral received. The Company minimizes this risk through credit approvals, limits, monitoring procedures, and executing master netting arrangements and obtaining collateral, where appropriate. The Company does not offset derivative instruments against the rights to reclaim cash collateral or the obligations to return cash collateral in the balance sheet. As of March 31, 2012 and December 31, 2011, the Company held $8,670 and $3,560, respectively, in collateral from its counterparties. Counterparty credit risk related to derivatives is considered in determining fair value.

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12. Fair Value Measurements

Asset and liability fair value measurements have been categorized based upon the fair value hierarchy described below:

Level 1 Valuation is based upon quoted market prices for identical instruments in active markets

Level 2 Valuation is based upon quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market

Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates or assumptions that market participants would use in pricing the assets to liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques

Recurring Fair Value Measurements

As of March 31, 2012 and December 31, 2011, assets and liabilities measured at fair value on a recurring basis, including certain loans held for sale for which the Company has elected the fair value option, are as follows:

	Level 1	Level 2	Level 3	Total
March 31, 2012				
Financial assets:				
Available for sale securities:				
Residential CMO securities - agency	$ -	$ 87	$ -	$ 87
Residential CMO securities - nonagency	-	1,929,794	-	1,929,794
Residential MBS - agency	-	308	-	308
Asset-backed securities	-	7,345	-	7,345
Equity securities	214	-	-	214
	214	1,937,534	-	1,937,748
Loans held for sale	-	672,651	-	672,651
Financial liabilities:				
FDIC clawback liability	-	-	43,694	43,694
Derivative financial instruments:				
Cash flow hedges (Note 11)	-	(123,717)	-	(123,717)
Freestanding derivatives (Note 11)	(270)	8,956	8,814	17,500

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	Level 1	Level 2	Level 3	Total
December 31, 2011				
Financial assets:				
Available for sale securities:				
Residential CMO securities - agency	$ -	$ 104	$ -	$ 104
Residential CMO securities - nonagency	-	1,895,818	-	1,895,818
Residential MBS - agency	-	338	-	338
Asset-backed securities	-	7,477	-	7,477
Equity securities	185	-	-	185
	185	1,903,737	-	1,903,922
Loans held for sale	-	761,818	15,462	777,280
Financial liabilities:				
FDIC clawback liability	-	-	43,317	43,317
Derivative financial instruments:				
Cash flow hedges (Note 11)	-	(133,897)	-	(133,897)
Freestanding derivatives (Note 11)	(6,799)	(4,830)	8,540	(3,089)

Changes in assets and liabilities measured at Level 3 fair value on a recurring basis for the three months ended March 31, 2012 and 2011 are as follows:

	Loans Held for Sale (1)	Clawback Liability (2)	Freestanding Derivatives (3)
Balance, January 1, 2012	$ 15,462	$ (43,317)	$ 8,539
Settlements	(623)	-	-
Transfers out of Level 3	(14,946)	-	-
Total gains (losses) for the period:			
Included in earnings	107	(377)	275
Balance, March 31, 2012	$ -	$ (43,694)	$ 8,814

Change in unrealized net gains (losses) included in net income related to assets still held as of March 31, 2012	$	107	$	(377)	$	275
Balance, January 1, 2011	$	15,136	$	(39,311)	$	8,950
Purchases		-		-		1,375
Issues		-		-		(1,376)
Settlements		(77)		-		3
Total gains (losses) for the period:						
Included in earnings		(10)		(317)		(8,731)
Balance, March 31, 2011	$	15,049	$	(39,628)	$	221
Change in unrealized net gains (losses) included in net income related to assets still held as of March 31, 2011	$	(10)	$	(317)	$	(8,481)

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(1) Net realized and unrealized gains (losses) on loans held for sale are included in gain on sale of loans.
(2) Changes in fair value of the FDIC clawback liability are recorded in general and administrative expense.
(3) With the exception of changes in the indemnification assets and net realized and unrealized gains (losses) on freestanding derivatives are included in other noninterest income. Changes in the fair value of the indemnification assets are recorded in general and administrative expense.

The Company monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the Company reports the transfer at the end of the reporting period.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a recurring basis at March 31, 2012:

Level 3 Assets	Fair Value	Valuation Technique	Unobservable Inputs	Significant Unobservable Input Value
FDIC clawback liability	$ 43,694	Discounted cash flow	Servicing cost	$6,126 - $13,834 (1)
Indemnification asset	$ 8,814	Discounted cash flow	Reinstatement rate	5.87% - 67.30% (2)
			Loss duration	8-48 months (2)
			Loss severity	2.01% - 10.99% (2)

(1) The range represents the sum of the highest and lowest servicing cost values for all tranches that we use in our valuation process. The servicing cost represents 1% of projected unpaid principal balance (UPB) of the underlying loans.
(2) The range represents the sum of the highest and lowest values for all tranches that we use in our valuation process.

The significant unobservable input used in the fair value measurement of the FDIC clawback liability is the servicing cost. Significant increases (decreases) in this input in isolation could result in a significantly lower (higher) fair value measurement. The Company estimates the fair value of the FDIC clawback liability using a discounted cash flow model. The Company enters observable and unobservable inputs into the model to arrive at fair value. Changes in the estimate are primarily driven by changes in the interpolated discount rate (an observable input) and changes in servicing cost as a result of changes in projected UPB. The assumptions are reviewed and updated on a quarterly basis by management.

The significant unobservable inputs used in the fair value measurement of the indemnification asset are the reinstatement rate, loss severity and duration. Significant increases (decreases) in any of those inputs in isolation could result in a significantly lower (higher) fair value measurement. The reinstatement rate is determined by analyzing historical default activity of similar loans, while the loss severity is estimated through the spread between the note and debenture rate of the government insured loans as well as advanced costs that are not reimbursable, which is then extrapolated over the expected duration. The Company s portfolio management is responsible for analyzing and updating the assumptions and cash flow model of the underlying loans on a quarterly basis, which includes corroboration with historical experience.

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Loans Held for Sale Accounted for under the Fair Value Option

Following is information on loans held for sale reported under the fair value option at March 31, 2012 and December 31, 2011:

	Total	Nonaccrual
March 31, 2012		
Fair value carrying amount	$ 672,651	$ -
Aggregate unpaid principal balance	653,145	-
Fair value carrying amount less aggregate unpaid principal	$ 19,506	$ -
December 31, 2011		
Fair value carrying amount	$ 777,280	$ 2,129
Aggregate unpaid principal balance	747,667	2,466
Fair value carrying amount less aggregate unpaid principal	$ 29,613	$ (337)

Differences between the fair value carrying amount and the aggregate unpaid principal balance include changes in fair value recorded at and subsequent to funding, gains and losses on the related loan commitment prior to funding and premiums or discounts on acquired loans.

The net gain from initial measurement of the above loans and subsequent changes in fair value was $64,709 and $15,815 for the three months ended March 31, 2012 and 2011, respectively, and is included in gain on sale of loans. An immaterial portion of the change in fair value was attributable to changes in instrument-specific credit risk.

Non-recurring Fair Value Measurements

Certain assets and liabilities are measured at fair value on a non-recurring basis and therefore are not included in the tables above. These measurements primarily result from assets carried at the lower of cost or fair value or from impairment of individual assets. The carrying value of assets measured at fair value on a non-recurring basis and held at March 31, 2012 and December 31, 2011 and related loss amounts are as follows:

	Level 1	Level 2	Level 3	Total	Losses
March 31, 2012					
Collateral-dependent loans	$ -	$ -	$ 12,005	$ 12,005	$ 2,555
Mortgage servicing rights	-	-	420,327	420,327	15,144
Other real estate owned	-	2,234	8,300	10,534	3,064

December 31, 2011					
Loans held for sale	$ -	$ 13,010	$ -	$ 13,010	$ 1,385
Collateral-dependent loans	-	-	62,183	62,183	11,831
Mortgage servicing rights	-	-	445,195	445,195	39,455
Other real estate owned	-	-	46,578	46,578	10,389

The Company records loans considered to be impaired at the lower of amortized cost or fair value less cost to sell. Fair value is measured as the fair value of underlying collateral for collateral-dependent loans. Other real estate owned is included in other assets in the consolidated balance sheets. The amounts above reflect the fair value of the impaired mortgage servicing rights strata as of March 31, 2012. The above losses represent write-downs to fair value subsequent to initial classification.

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The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at March 31, 2012:

Level 3 Assets	Fair Value	Valuation Technique	Unobservable Inputs	Significant Unobservable Input Value
Collateral-dependent loans	$ 12,005	Sales comparison approach	Appraisal value adjustment	5.0 - 50.0% (1)
Other real estate owned	$ 8,300			