

SOUTHSIDE BANCSHARES INC
Form 10-Q
May 08, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

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 0-12247

SOUTHSIDE BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

TEXAS
(State or other jurisdiction of
incorporation or organization)

75-1848732
(I.R.S. Employer
Identification No.)

1201 S. Beckham, Tyler, Texas
(Address of principal executive offices)

75701
(Zip Code)

903-531-7111
(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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

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any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer <input type="radio"/>	Accelerated filer <input checked="" type="radio"/>
Non-accelerated filer <input type="radio"/>	Smaller reporting company <input type="radio"/>

(Do not check if a 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

The number of shares of the issuer's common stock, par value \$1.25, outstanding as of April 24, 2009 was 14,845,817 shares.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in thousands, except share amounts)

ASSETS	March 31, 2009	December 31, 2008
Cash and due from banks	\$ 44,391	\$ 64,067
Interest earning deposits	33,554	557
Federal funds sold	8,000	2,150
Total cash and cash equivalents	85,945	66,774
Investment securities:		
Available for sale, at estimated fair value	154,756	278,378
Held to maturity, at cost	478	478
Mortgage-backed and related securities:		
Available for sale, at estimated fair value	1,136,827	1,026,513
Held to maturity, at cost	223,876	157,287
Federal Home Loan Bank stock, at cost	39,459	39,411
Other investments, at cost	2,063	2,065
Loans held for sale	3,882	511
Loans:		
Loans	1,012,460	1,022,549
Less: allowance for loan loss	(17,432)	(16,112)
Net Loans	995,028	1,006,437
Premises and equipment, net	43,925	42,722
Goodwill	22,034	22,034
Other intangible assets, net	1,377	1,479
Interest receivable	13,686	16,352
Deferred tax asset	1,829	2,852
Other assets	38,707	36,945
TOTAL ASSETS	\$ 2,763,872	\$ 2,700,238
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	\$ 377,356	\$ 390,823
Interest bearing	1,302,588	1,165,308
Total Deposits	1,679,944	1,556,131
Short-term obligations:		
Federal funds purchased and repurchase agreements	10,853	10,629
FHLB advances	85,037	229,385
Other obligations	3,033	1,857
Total Short-term obligations	98,923	241,871
Long-term obligations:		
FHLB advances	657,864	655,489
Long-term debt	60,311	60,311
Total Long-term obligations	718,175	715,800
Other liabilities	90,367	25,347

TOTAL LIABILITIES	2,587,409	2,539,149
Off-Balance-Sheet Arrangements, Commitments and Contingencies (Note 12)		
Shareholders' equity:		
Common stock - \$1.25 par, 20,000,000 shares authorized, 16,592,417 shares issued in 2009 (including 707,808 shares declared on April 9, 2009 as a stock dividend) and 15,756,096 shares issued in 2008	20,740	19,695
Paid-in capital	144,564	131,112
Retained earnings	32,836	34,021
Treasury stock (1,762,261 and 1,731,570 shares at cost)	(23,545)	(23,115)
Accumulated other comprehensive income (loss)	1,635	(1,096)
TOTAL SOUTHSIDE BANCSHARES, INC. SHAREHOLDERS' EQUITY	176,230	160,617
Noncontrolling interest	233	472
TOTAL SHAREHOLDERS' EQUITY	176,463	161,089
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,763,872	\$ 2,700,238

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

SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(in thousands, except per share data)

	Three Months Ended March 31,	
	2009	2008
Interest income		
Loans	\$ 18,313	\$ 18,296
Investment securities – taxable	319	680
Investment securities – tax-exempt	1,494	818
Mortgage-backed and related securities	16,404	11,973
Federal Home Loan Bank stock and other investments	104	262
Other interest earning assets	26	67
Total interest income	36,660	32,096
Interest expense		
Deposits	6,372	10,755
Short-term obligations	1,165	3,300
Long-term obligations	6,886	2,671
Total interest expense	14,423	16,726
Net interest income	22,237	15,370
Provision for loan losses	3,590	2,239
Net interest income after provision for loan losses	18,647	13,131
Noninterest income		
Deposit services	4,035	4,417
Gain on sale of securities available for sale	13,796	2,092
Total other-than-temporary impairment losses	(5,627)	-
Portion of loss recognized in other comprehensive income (before taxes)	4,727	-
Net impairment losses recognized in earnings	(900)	-
Gain on sale of loans	335	465
Trust income	563	593
Bank owned life insurance income	301	310
Other	784	825
Total noninterest income	18,914	8,702
Noninterest expense		
Salaries and employee benefits	10,484	8,713
Occupancy expense	1,418	1,388
Equipment expense	375	312
Advertising, travel & entertainment	509	464
ATM and debit card expense	299	288
Director fees	146	144
Supplies	212	177
Professional fees	630	434
Postage	188	184
Telephone and communications	281	258
FDIC Insurance	536	236

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Other	1,439	1,705
Total noninterest expense	16,517	14,303
Income before income tax expense	21,044	7,530
Provision for income tax expense	6,146	1,936
Net Income	14,898	5,594
Less: Net income attributable to the noncontrolling interest	(753)	(48)
Net income attributable to Southside Bancshares, Inc.	\$ 14,145	\$ 5,546
Earnings per common share – basic	\$ 0.96	\$ 0.38
Earnings per common share – diluted	\$ 0.95	\$ 0.37
Dividends paid per common share	\$ 0.13	\$ 0.12

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

SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(UNAUDITED)
(in thousands, except share amounts)

	Compre-hensive Income	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Accumu-lated Other Compre- hensive Income (Loss)	Non- controlling Interest	Total Equity
Balance at December 31, 2007		\$ 18,581	\$ 115,250	\$ 26,187	\$ (22,983)	\$ (4,707)	\$ 498	\$ 132,826
Net Income	\$ 5,594			5,546			48	5,594
Other comprehensive income, net of tax								
Unrealized gains on securities, net of reclassification adjustment (see Note 3)	5,723					5,723		5,723
Adjustment to net periodic benefit cost (see Note 3)	193					193		193
Comprehensive income	\$ 11,510							
Common stock issued (18,634 shares)		23	241					264
Stock compensation expense			7					7
Tax benefit of incentive stock options			14					14
Cumulative effect of adoption of a new accounting principle on January 1, 2008				(351)				(351)
Dividends paid on common stock				(1,577)				(1,577)
Capital distribution							(286)	(286)
Stock dividend		824	13,422	(14,246)				-
Balance at March 31, 2008		\$ 19,428	\$ 128,934	\$ 15,559	\$ (22,983)	\$ 1,209	\$ 260	\$ 142,407
Balance at December 31, 2008		\$ 19,695	\$ 131,112	\$ 34,021	\$ (23,115)	\$ (1,096)	\$ 472	\$ 161,089
Net Income	\$ 14,898			14,145			753	14,898
Other comprehensive income, net of tax	2,522					2,522		2,522

Unrealized gains on securities, net of reclassification adjustment (see Note 3)								
Adjustment to net periodic benefit cost (see Note 3)	209				209			209
Comprehensive income \$	17,629							
Common stock issued (128,513 shares)		160	668					828
Tax benefit of incentive stock options			164					164
Dividends paid on common stock				(1,825)				(1,825)
Purchase of 30,691 shares of common stock					(430)			(430)
Capital distribution						(992)		(992)
Stock dividend declared		885	12,620	(13,505)				-
Balance at March 31, 2009		\$ 20,740	\$ 144,564	\$ 32,836	\$ (23,545)	\$ 1,635	\$ 233	\$ 176,463

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

SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

Three Months Ended
March 31,
2009 2008

OPERATING ACTIVITIES:

Net income	\$ 14,898	\$ 5,594
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	601	604
Amortization of premium	2,193	1,914
Accretion of discount and loan fees	(995)	(1,114)
Provision for loan losses	3,590	2,239
Stock compensation expense	-	7
Decrease (increase) in interest receivable	2,666	(585)
Decrease in other assets	670	396
Net change in deferred taxes	(455)	(61)
Decrease in interest payable	(498)	(367)
Increase in other liabilities	8,708	1,245
Increase in loans held for sale	(3,371)	(55)
Gain on sale of securities available for sale	(13,796)	(2,092)
Net other-than-temporary impairment losses	900	-
Loss on sale of assets	-	2
Loss on sale of other real estate owned	1	6
Net cash provided by operating activities	15,112	7,733

INVESTING ACTIVITIES:

Proceeds from sales of investment securities available for sale	124,567	9,341
Proceeds from sales of mortgage-backed securities available for sale	53,170	95,755
Proceeds from maturities of investment securities available for sale	40,800	31,114
Proceeds from maturities of mortgage-backed securities available for sale	48,759	28,394
Proceeds from maturities of mortgage-backed securities held to maturity	9,653	7,877
Purchases of investment securities available for sale	(30,720)	(100,812)
Purchases of mortgage-backed securities available for sale	(184,673)	(116,652)
Purchases of mortgage-backed securities held to maturity	(41,461)	(1,664)
Purchases of FHLB stock and other investments	(46)	(6,325)
Net decrease (increase) in loans	4,715	(21,614)
Purchases of premises and equipment	(1,804)	(652)
Proceeds from sales of premises and equipment	-	358
Proceeds on bank owned life insurance	511	-
Proceeds from sales of other real estate owned	217	75
Proceeds from sales of repossessed assets	594	860
Net cash provided by (used in) investing activities	24,282	(73,945)

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

SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(UNAUDITED)
(in thousands)

	Three Months Ended March 31,	
	2009	2008
FINANCING ACTIVITIES:		
Net decrease in demand and savings accounts	(19,520)	(2,084)
Net increase (decrease) in certificates of deposit	143,301	(86,679)
Net increase in federal funds purchased and repurchase agreements	224	1,997
Proceeds from FHLB Advances	1,195,000	4,012,699
Repayment of FHLB Advances	(1,336,973)	(3,871,772)
Net capital distributions from non-controlling interest in consolidated entities	(992)	(286)
Tax benefit of incentive stock options	164	14
Purchase of common stock	(430)	-
Proceeds from the issuance of common stock	828	264
Dividends paid	(1,825)	(1,577)
Net cash (used in) provided by financing activities	(20,223)	52,576
Net increase (decrease) in cash and cash equivalents	19,171	(13,636)
Cash and cash equivalents at beginning of period	66,774	76,004
Cash and cash equivalents at end of period	\$ 85,945	\$ 62,368
SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:		
Interest paid	\$ 14,921	\$ 17,093
Income taxes paid	500	500
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of other repossessed assets and real estate through foreclosure	\$ 4,238	\$ 1,240
5% stock dividend	13,505	14,246
Adjustment to pension liability	(321)	(121)
Unsettled trades to purchase securities	(58,307)	(6,899)
Unsettled trades to sell securities	-	19,287

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

SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation

In this report, the words “the Company,” “we,” “us,” and “our” refer to the combined entities of Southside Bancshares, Inc. and its subsidiaries. The words “Southside” and “Southside Bancshares” refer to Southside Bancshares, Inc. The words “Southside Bank” and “the Bank” refer to Southside Bank (which, subsequent to the internal merger of Fort Worth National Bank (“FWNB”) with and into Southside Bank, includes FWNB). The word “FWBS” refers to Fort Worth Bancshares, Inc. The word “SFG” refers to Southside Financial Group, LLC., of which Southside owns a 50% interest and consolidates for financial reporting.

The consolidated balance sheet as of March 31, 2009, and the related consolidated statements of income, shareholders' equity and cash flows and notes to the financial statements for the three month period ended March 31, 2009 and 2008 are unaudited; in the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted only of normal recurring items. All significant intercompany accounts and transactions are eliminated in consolidation. The preparation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires the use of management's estimates. These estimates are subjective in nature and involve matters of judgment. Actual amounts could differ from these estimates.

Interim results are not necessarily indicative of results for a full year. These financial statements should be read in conjunction with the financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2008. For a description of our significant accounting and reporting policies, refer to Note 1 of the Notes to Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2008.

On April 9, 2009, we declared a 5% stock dividend payable to shareholders of record as of April 28, 2009, and payable on May 14, 2009. All share data has been adjusted to give retroactive recognition to stock splits and stock dividends.

2. Earnings Per Share

Earnings per share attributable to Southside Bancshares, Inc. on a basic and diluted basis has been adjusted to give retroactive recognition to stock splits and stock dividends and is calculated as follows (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2009	2008
Basic and Diluted Earnings:		
Net Income - Southside Bancshares, Inc.	\$ 14,145	\$ 5,546
Basic weighted-average shares outstanding	14,750	14,496
Add: Stock options	210	372
Diluted weighted-average shares outstanding	14,960	14,868
Basic Earnings Per Share:		
Net Income - Southside Bancshares, Inc.	\$ 0.96	\$ 0.38

Diluted Earnings Per Share:

Net Income - Southside Bancshares, Inc.	\$	0.95	\$	0.37
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For the three month period ended March 31, 2009 and 2008, there were no antidilutive options.

6

3. Comprehensive Income

The components of other comprehensive income are as follows (in thousands):

	Three Months Ended March 31, 2009		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains on securities:			
Unrealized holding gains arising during period	\$ 16,776	\$ (5,872)	\$ 10,904
Less: reclassification adjustment for gains included in net income	13,796	(4,829)	8,967
Less: other-than-temporary impairment charges on AFS securities included in net income	(900)	315	(585)
Net unrealized gains on securities	3,880	(1,358)	2,522
Change in pension plans	321	(112)	209
Other comprehensive income	\$ 4,201	\$ (1,470)	\$ 2,731

	Three Months Ended March 31, 2008		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains on securities:			
Unrealized holding gains arising during period	\$ 10,963	\$ (3,880)	\$ 7,083
Less: reclassification adjustment for gains included in net income	2,092	(732)	1,360
Net unrealized gains on securities	8,871	(3,148)	5,723
Change in pension plans	121	72	193
Other comprehensive income	\$ 8,992	\$ (3,076)	\$ 5,916

4. Securities

The amortized cost and estimated market value of investment and mortgage-backed securities as of March 31, 2009 and December 31, 2008, are reflected in the tables below (in thousands):

	Amortized Cost	March 31, 2009		Estimated Market Value
		Gross Unrealized Gains	Gross Unrealized Losses	
AVAILABLE FOR SALE:				
Investment Securities:				
U.S. Treasury	\$ 4,972	\$ 14	\$ -	\$ 4,986
Government Sponsored Enterprise Debentures	30,402	129	1	30,530
State and Political Subdivisions	119,599	1,302	2,485	118,416
Other Stocks and Bonds	5,811	-	4,987	824
Mortgage-backed Securities:				
U.S. Government Agencies	163,414	4,782	1	168,195
Government Sponsored Enterprises	941,657	27,196	221	968,632
Total	\$ 1,265,855	\$ 33,423	\$ 7,695	\$ 1,291,583

	Amortized Cost	March 31, 2009		Estimated Market Value
		Gross Unrealized Gains	Gross Unrealized Losses	
HELD TO MATURITY:				
Investment Securities:				
Other Stocks and Bonds	\$ 478	\$ -	\$ 17	\$ 461
Mortgage-backed Securities:				
U.S. Government Agencies	21,358	481	-	21,839
Government Sponsored Enterprises	202,518	3,651	59	206,110
Total	\$ 224,354	\$ 4,132	\$ 76	\$ 228,410

	Amortized Cost	December 31, 2008		Estimated Market Value
		Gross Unrealized Gains	Gross Unrealized Losses	
AVAILABLE FOR SALE:				
Investment Securities:				
U.S. Treasury	\$ 5,008	\$ 23	\$ -	\$ 5,031
Government Sponsored Enterprise Debentures	60,325	227	1	60,551
State and Political Subdivisions	203,052	10,154	1,612	211,594
Other Stocks and Bonds	6,711	-	5,509	1,202
Mortgage-backed Securities:				
U.S. Government Agencies	166,123	2,405	229	168,299
Government Sponsored Enterprises	841,737	17,984	1,507	858,214
Total	\$ 1,282,956	\$ 30,793	\$ 8,858	\$ 1,304,891

	Amortized	December 31, 2008		Estimated Market
		Gross Unrealized	Gross Unrealized	

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HELD TO MATURITY:	Cost	Gains	Losses	Value
Investment Securities:				
Other Stocks and Bonds	\$ 478	\$ 9	\$ -	\$ 487
Mortgage-backed Securities:				
U.S. Government Agencies	22,778	300	-	23,078
Government Sponsored Enterprises	134,509	1,890	26	136,373
Total	\$ 157,765	\$ 2,199	\$ 26	\$ 159,938

8

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The following table represents the unrealized loss on securities for the three months ended March 31, 2009 and year ended December 31, 2008 (in thousands):

	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of March 31, 2009:						
Available for Sale						
Government Sponsored						
Enterprise Debentures	\$ 4,993	\$ 1	\$ –	\$ –	\$ 4,993	\$ 1
State and Political Subdivisions	54,904	2,012	6,944	473	61,848	2,485
Other Stocks and Bonds	–	–	824	4,987	824	4,987
Mortgage-Backed Securities	34,157	164	12,976	58	47,133	222
Total	\$ 94,054	\$ 2,177	\$ 20,744	\$ 5,518	\$ 114,798	\$ 7,695
Held to Maturity						
Other Stocks and Bonds	\$ 461	\$ 17	\$ –	\$ –	\$ 461	\$ 17
Mortgage-Backed Securities	11,276	59	–	–	11,276	59
Total	\$ 11,737	\$ 76	\$ –	\$ –	\$ 11,737	\$ 76
As of December 31, 2008:						
Available for Sale						
Government Sponsored						
Enterprise Debentures	\$ 29,999	\$ 1	\$ –	\$ –	\$ 29,999	\$ 1
State and Political Subdivisions	45,686	1,496	1,193	116	46,879	1,612
Other Stocks and Bonds	253	89	949	5,420	1,202	5,509
Mortgage-Backed Securities	116,616	1,517	17,174	219	133,790	1,736
Total	\$ 192,554	\$ 3,103	\$ 19,316	\$ 5,755	\$ 211,870	\$ 8,858
Held to Maturity						
Mortgage-Backed Securities	\$ 1,212	\$ 1	\$ 4,540	\$ 25	\$ 5,752	\$ 26
Total	\$ 1,212	\$ 1	\$ 4,540	\$ 25	\$ 5,752	\$ 26

The turmoil in the capital markets had a significant impact on our estimate of fair value for certain of our securities. We believe the market values are reflective of a combination of illiquidity and credit impairment. At March 31, 2009 we have, in Available for Sale (“AFS”) Other Stocks and Bonds, \$5.1 million cost basis in pooled trust preferred securities (“TRUPs”). Those securities are structured products with cash flows dependent upon securities issued by U.S. financial institutions, including banks and insurance companies. Our estimate of fair value at March 31, 2009 for the TRUPs is approximately \$373,000 and reflects the market illiquidity. With the exception of the TRUPs, to the best of management’s knowledge and based on our consideration of the qualitative factors associated with each security, there were no securities in our investment and mortgage-backed securities portfolio at March 31, 2009 with an other-than-temporary impairment.

Given the facts and circumstances associated with the TRUPs we performed detailed cash flow modeling for each TRUP using an industry accepted model. Prior to loading the required assumptions into the model we reviewed the financial condition of each of the underlying issuing banks within the TRUP collateral pool that had not deferred or

defaulted as of March 31, 2009. Management's best estimate of a deferral assumption was assigned to each issuing bank based on the category in which it fell. Our analysis of the underlying cash flows contemplated various default, deferral and recovery scenarios to arrive at our best estimate of cash flows. Based on that detailed analysis we have concluded that the other-than-temporary impairment which captures the credit component in compliance with the new Financial Accounting Standards Board ("FASB") Staff Position ("FSP"), SFAS 115-2 and SFAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," was estimated at \$900,000 at March 31, 2009 and the non credit charge to other comprehensive income was estimated at \$4.7 million. Therefore, the carrying amount of the TRUPs was written down with \$900,000 recognized in earnings as of March 31, 2009. The cash flow model assumptions represent management's best estimate and consider a variety of qualitative factors, which include, among others, the credit rating downgrades, severity and duration of the mark-to-market loss, and structural nuances of each TRUP. Management believes the detailed review of the collateral and cash flow modeling support the conclusion that the TRUPs had an other-than-temporary impairment at March 31, 2009. We will continue to update our assumptions and the resulting analysis each reporting period to reflect changing market conditions. Additionally, we do not currently intend to sell the TRUPs and it is not more likely than not that we will be required to sell the TRUPs before the anticipated recovery of their amortized cost basis.

The table below provides more detail on the TRUPs (dollars in thousands).

TRUP	Par	Credit Loss	Amortized Cost	Fair Value	Tranche	Credit Rating
1	\$ 2,000	\$ 200	\$ 1,800	\$ 87	C1	Ca
2	2,000	50	1,950	169	B1	Ca
3	2,000	650	1,350	117	B1	Ca

Amounts related to credit losses recognized in earnings as of March 31, 2009 are as follows (in thousands):

Beginning Balance	\$	—
Addition for the amount related to credit loss for which an other-than-temporary impairment was not previously recognized		900
Ending balance of amount related to credit losses on debt securities held by the entity at the end of the period for which a portion of an other-than-temporary impairment was recognized in comprehensive income	\$	900

There were no securities transferred from AFS to HTM during the three months ended March 31, 2009 and 2008. There were no sales from the HTM portfolio during the three months ended March 31, 2009 or 2008. There were \$224.4 million of securities classified as HTM for the three months ended March 31, 2009. There were \$157.8 million of securities classified as HTM for the year ended December 31, 2008.

Of the \$13.8 million in net securities gains from the AFS portfolio for the three months ending March 31, 2009, there were \$13.9 million in realized gains and \$0.1 million in realized losses. Of the \$2.1 million in net securities gains from the AFS portfolio for the three months ending March 31, 2008, there were \$2.1 million in realized gains and \$3,000 in realized losses.

The amortized cost and fair value of securities at March 31, 2009, are presented below by contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities are presented in total by category due to the fact that mortgage-backed securities typically are issued with stated principal amounts, and the securities are backed by pools of mortgages that have loans with varying maturities. The characteristics of the underlying pool of mortgages, such as fixed-rate or adjustable-rate, as well as prepayment risk, are passed on to the certificate holder. The term of a mortgage-backed pass-through security thus approximates the term of the underlying mortgages and can vary significantly due to prepayments.

	March 31, 2009	
	Amortized Cost (in thousands)	Fair Value (in thousands)
Available for sale securities:		
Investment Securities		
Due in one year or less	\$ 38,990	\$ 39,190
Due after one year through five years	12,304	12,601
Due after five years through ten years	21,915	22,175
Due after ten years	87,575	80,790
	160,784	154,756
Mortgage-backed securities	1,105,071	1,136,827
Total	\$ 1,265,855	\$ 1,291,583

	Amortized	
	Cost (in thousands)	Fair Value (in thousands)
Held to maturity securities:		
Investment Securities		
Due in one year or less	\$ —	\$ —
Due after one year through five years	—	—
Due after five years through ten years	478	461
Due after ten years	—	—
	478	461
Mortgage-backed securities	223,876	227,949
Total	\$ 224,354	\$ 228,410

Investment and mortgage-backed securities with book values of \$932.1 million at March 31, 2009 and \$952.6 million at December 31, 2008 were pledged to collateralize Federal Home Loan Bank (“FHLB”) advances, repurchase agreements, public funds and trust deposits or for other purposes as required by law.

5. Loans and Allowance for Probable Loan Losses

The following table sets forth loan totals by category for the periods presented (in thousands):

	At March 31, 2009	At December 31, 2008
Real Estate Loans:		
Construction	\$ 109,842	\$ 120,153
1-4 Family Residential	238,403	238,693
Other	182,838	184,629
Commercial Loans	164,331	165,558
Municipal Loans	136,533	134,986
Loans to Individuals	180,513	178,530
Total Loans		