FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2011-11-07** | Period of Report: **2011-09-30**
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FILER

WEBSTER PREFERRED CAPITAL CORP

CIK:**1047865**| IRS No.: **061478208** | State of Incorp.:**CT** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-23513** | Film No.: **111183981**
SIC: **6798** Real estate investment trusts

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WATERBURY CT 06702

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

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2011

OR

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number: 0-23513

WEBSTER PREFERRED CAPITAL CORPORATION
(Exact name of registrant as specified in its charter)

Connecticut	**06-1478208**
(State or other jurisdiction of incorporation or organization)	**(I. R. S. Employer Identification Number)**
145 Bank Street (Webster Plaza), Waterbury, Connecticut	**06702**
(Address of principal executive offices)	**(Zip Code)**

Registrant' s telephone number, including area code: (203) 578-2202

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (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 ☒ 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 ☐	Accelerated filer ☐
Non-accelerated filer ☒ (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 ☒

The number of outstanding shares of the registrant' s common stock, $.01 par value per share, as of October 28, 2011 was 100 shares.

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WEBSTER PREFERRED CAPITAL CORPORATION

IN DEX

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PART I. – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

WEBSTER PREFERRED CAPITAL CORPORATION

CONDENSED BALANCE SHEETS

(In thousands, except share and per share data)	September 30, 2011 (unaudited)	December 31, 2010
Assets:		
Cash	$ 7,468	$ 6,734
Residential mortgage loans	110,639	125,864
Allowance for loan losses	(1,397)	(1,714)
Residential mortgage loans, net	109,242	124,150
Other real estate owned	163	241
Accrued interest receivable and other assets	395	433
Total assets	$ 117,268	$ 131,558
Liabilities:		
Accrued dividends	$ 180	$ 927
Accrued expenses and other liabilities	48	44
Total liabilities	228	971
Shareholder' s Equity:		
Series B 8.625% cumulative redeemable preferred stock, liquidation preference $10 per share; par value $1.00 per share: 1,000,000 shares authorized, issued and outstanding	1,000	1,000
Common stock, par value $.01 per share:		
Authorized – 1,000 shares		
Issued and outstanding - 100 shares	1	1
Paid-in capital	117,800	132,800
Accumulated deficit	(1,761)	(3,214)
Total shareholder' s equity	117,040	130,587
Total liabilities and shareholder' s equity	$ 117,268	$ 131,558

See accompanying notes to condensed financial statements.

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WEBSTER PREFERRED CAPITAL CORPORATION

CONDENSED STATEMENTS OF INCOME (unaudited)

(In thousands, except per share data)	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Interest income:				
Interest and fees on loans, net	$1,169	$1,540	$3,735	$5,037
Total interest income	1,169	1,540	3,735	5,037
Provision for loan losses	–	–	–	–
Net interest income after provision for loan losses	1,169	1,540	3,735	5,037
Non-interest expense:				
Advisory fee expense paid to Parent	55	55	165	165
Other expenses	42	43	156	115
Total non-interest expense	97	98	321	280
Net income	1,072	1,442	3,414	4,757
Preferred stock dividends	216	216	647	647
Net income available to common shareholder	$856	$1,226	$2,767	$4,110
Basic net income per common share	$8,560	$12,260	$27,670	$41,100

See accompanying notes to condensed financial statements.

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WEBSTER PREFERRED CAPITAL CORPORATION

CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)

(In thousands, except per share data)	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Beginning Balance	$130,587	$157,586
Net income	3,414	4,757
Return of capital dividend	(15,000)	(21,000)
Preferred stock dividends	(647)	(647)
Common stock dividends ($13,140 per share and $42,660 per share, respectively)	(1,314)	(4,266)
Ending Balance	$117,040	$136,430

See accompanying notes to condensed financial statements.

WEBSTER PREFERRED CAPITAL CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS (unaudited)

(In thousands)	Nine months ended September 30, 2011	2010
Operating Activities:		
Net income	$3,414	$4,757
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization and accretion	112	110
Foreclosed and repossessed asset write-downs	43	25
Net decrease in accrued interest receivable and other assets, net	38	57
Net increase in accrued expenses and other liabilities, net	4	624
Net cash provided by operating activities	3,611	5,573
Investing Activities:		
Net decrease in residential mortgage loans	14,831	18,413
Net cash provided by investing activities	14,831	18,413
Financing Activities:		
Dividends paid on preferred stock	(647)	(647)
Dividends paid on common stock	(2,061)	(4,266)
Return of capital dividend	(15,000)	(21,000)
Net cash used for financing activities	(17,708)	(25,913)
Net increase (decrease) in cash	734	(1,927)
Cash at beginning of period	6,734	6,374
Cash at end of period	$7,468	$4,447
Noncash investing activities:		
Transfer of loans, net to other real estate owned	$–	$447

See accompanying notes to condensed financial statements.

WEBSTER PREFERRED CAPITAL CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Webster Preferred Capital Corporation (the "Company") is a Connecticut corporation incorporated in March 1997 and a subsidiary of Webster Bank, National Association, ("Webster Bank"), which is a wholly owned subsidiary of Webster Financial Corporation ("Webster"). The Company acquires, holds and manages real estate related mortgage assets.

The Company has elected to be treated as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). The Company will generally not be subject to Federal or Connecticut state income taxes for as long as it maintains its qualification as a REIT, requiring, among other organizational and operational issues, that it distribute to its shareholders at least 90%, on an annual basis, of its "REIT taxable income" (not including capital gains and certain items of noncash income). All of the shares of the Company' s common stock, par value $0.01 per share, are owned by Webster Bank, which is a federally chartered and federally insured commercial bank. Webster Bank has indicated to the Company that, for as long as any of the Company' s preferred shares are outstanding, Webster Bank intends to maintain direct ownership of 100% of the outstanding common stock of the Company.

Basis of Presentation

The Condensed Financial Statements in this Quarterly Report on Form 10-Q have not been audited by an independent registered public accounting firm, but in the opinion of management, reflect all adjustments necessary for a fair presentation of the Company' s financial position and results of operations. All such adjustments were of a normal and recurring nature. The Condensed Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission ("SEC"). Accordingly, the Condensed Financial Statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Company' s Financial Statements, and notes thereto, for the year ended December 31, 2010, included in the Company' s Annual Report on Form 10-K filed with the SEC on March 1, 2011. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The allowance for loan losses is particularly subject to change.

Cash and Cash Equivalents

For purposes of the Condensed Statements of Cash Flows, the Company defines cash as amounts held in deposit accounts with Webster Bank.

Net Income Per Common Share

Basic net income per common share is calculated by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding. Diluted net income per common share does not apply since the Company has issued no options or other instruments representing potential common shares.

Reclassifications

Certain items in prior financial statements have been reclassified to conform to current presentation. These reclassifications had no impact on the Company’ s financial position, results of operations or net change in cash or cash equivalents. There have been no changes to the Company’ s significant accounting policies that were disclosed in the 2010 Form 10-K.

Accounting Standards Updates

ASU No. 2011-02, "Receivables (Topic 310) - A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." In April 2011, the FASB issued ASU No. 2011-02 to clarify when a loan modification or restructuring is considered a troubled debt restructuring ("TDR"). The changes apply to a lender that modifies a receivable covered by Subtopic 310-40, "Receivables−Troubled Debt Restructurings by Creditors." In evaluating whether a restructuring constitutes a TDR, a creditor must separately conclude that both of the following exist: (i) the restructuring constitutes a concession and (ii) the debtor is experiencing financial difficulties. A creditor may determine that a debtor is experiencing financial difficulties, even though the debtor is not currently in default, if the creditor determines it is probable that the debtor would default on its payments for any of its debts in the foreseeable future without the loan modification. Lenders who determine that they are making a concession on the terms of the loan to a borrower who is having financial problems should follow the guidance found in ASU No. 2011-02. The guidance on identifying and disclosing TDRs applies retrospectively to restructuring occurring on or after the beginning of the year. The guidance on measuring the impairment of a receivable restructured in a troubled debt restructuring is effective on a prospective basis. The provisions of ASU 2011-02 became effective for the Company on July 1, 2011 and did not have a significant impact on the Company's financial statements. See Note 2 – Residential Mortgage Loans, Net.

ASU No. 2011-04, "Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." In May 2011, the FASB issued ASU No. 2011-04 which will supersede most of the accounting guidance currently found in Topic 820 of FASB's ASC. The amendments will improve comparability of fair value measurements presented and disclosed in financial statements prepared with GAAP and International Financial Reporting Standards ("IFRS"). The amendments also clarify the application of existing fair value measurement requirements. These amendments include (1) the application of the highest and best use and valuation premise concepts, (2) measuring the fair value of an instrument classified in a reporting entity's shareholders' equity and (3) disclosing quantitative information about the unobservable inputs used within the Level 3 hierarchy. The guidance is effective for the Company's interim and annual periods beginning after December 15, 2011 and will be applied prospectively. The Company is currently evaluating the impact of the adoption of this accounting standards update on the Company's Condensed Financial Statements.

Note 2: Residential Mortgage Loans, Net

A summary of residential mortgage loans, net, by type and original maturity follows:

(In thousands)	At September 30, 2011	At December 31, 2010
Fixed-rate loans:		
15 year	$ 2,726	$ 4,117
20 year	2,341	2,419
25 year	1,557	1,921
30 year	56,590	66,523
Total fixed-rate loans	63,214	74,980
Adjustable-rate loans:		
15 year	164	184
20 year	102	109
25 year	294	338
30 year	46,417	49,693
Total adjustable-rate loans	46,977	50,324
Loans receivable	110,191	125,304
Premiums and deferred costs on loans, net	448	560
Total residential mortgage loans	110,639	125,864
Accrued interest	387	433
Recorded investment	$ 111,026	$ 126,297
Recorded investment: individually evaluated for impairment	$ 7,318	$ 5,716
Recorded investment: collectively evaluated for impairment	$ 103,708	$ 120,581

All of the residential mortgage loans held by the Company at September 30, 2011 and December 31, 2010 were acquired from Webster Bank. There have been no loans acquired from Webster Bank or transferred to Webster Bank for the periods presented.

At September 30, 2011 and December 31, 2010, 57.4% and 59.8%, respectively, of the Company' s residential mortgage loans were fixed rate loans and 42.6% and 40.2%, respectively, were adjustable-rate loans.

Allowance for loan losses. The following table provides detail of activity in the Company' s allowance for loan losses:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2011	2010	2011	2010
Allowance for loan losses:				
Balance at beginning of the period	$1,661	$1,947	$1,714	$2,183
Provision for loan losses	–	–	–	–
Charge-offs	(264)	(191)	(317)	(427)
Balance at end of the period	$1,397	$1,756	$1,397	$1,756
Balance at end of period: individually evaluated for impairment	$900	$619	$900	$619
Balance at end of period: collectively evaluated for impairment	$497	$1,137	$497	$1,137

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Risk Management. The Company, through its servicing agreement with Webster Bank, uses policies and procedures established jointly by line and risk management personnel to monitor and manage loan risk. This activity, coupled with relatively small loan amounts, predominately collateralized structures spread across many individual borrowers, minimizes risk. Additionally, trend and outlook reports are reviewed by management on a regular basis. Underwriting factors for residential mortgage loans include the borrower' s FICO score, the loan to property value and the borrower' s debt to income level, and are also influenced by statutory requirements.

A summary of the residential mortgage loans portfolio aging follows:

At September 30, 2011

(In thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Loans Receivable
Residential:						
Residential fixed-rate loans	$ 567	$ –	$ 1,769	$ 2,336	$61,720	$64,056
Residential adjustable-rate loans	1,310	–	2,268	3,578	43,392	46,970
Total recorded investment	$ 1,877	$ –	$ 4,037	$ 5,914	$105,112	$111,026

At December 31, 2010

(In thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Loans Receivable
Residential:						
Residential fixed-rate loans	$ 410	$ 126	$ 2,902	$ 3,438	$72,540	$75,978
Residential adjustable-rate loans	394	–	2,699	3,093	47,226	50,319
Total recorded investment	$ 804	$ 126	$ 5,601	$ 6,531	$119,766	$126,297

Loans on Nonaccrual Status. It is the Company' s policy that all loans 90 days or more past due are placed in non-accrual status. Non-accrual loans totaled $4.0 million at September 30, 2011 and $5.6 million at December 31, 2010 and represented 3.6% and 4.5% of total loans receivable as of September 30, 2011 and December 31, 2010, respectively. When residential loans are placed on non-accrual status, the accrual of interest is discontinued and unpaid accrued interest is reversed and charged against interest income. Interest on non-accrual loans that would have been recorded as additional interest income for the three and nine months ended September 30, 2011 and 2010 had the loans been current in accordance with their original terms totaled approximately $34 thousand and $185 thousand, and $51 thousand and $123 thousand, respectively.

Impaired Loans. The Company, through its servicing agreement with Webster Bank, has an impairment analysis performed for all modified loans that are deemed to be a TDR and specific reserves are established as appropriate. A loan is deemed impaired when the contractual amounts of principal and interest are not expected to be collected in accordance with contractual provisions. For those TDRs where recovery is cash flow dependent, the original contractual interest rates for the loans are used as the discount rates for fixed rate loans. The current rate is used as the discount rate when the interest rate floats with a specified index. A change in terms or payments would be included in the impairment calculation. A specific valuation allowance is established equal to the calculated amount of impairment. Impairment is evaluated on a pooled basis for smaller-balance loans of a similar nature.

The recorded investment balance of impaired loans totaled $7.3 million, with established specific reserves of $0.9 million, at September 30, 2011. At December 31, 2010, the recorded investment balance of impaired loans totaled $5.7 million with established specific reserves of $0.6 million.

The following table summarizes impaired loans as of September 30, 2011 and December 31, 2010:

	At September 30, 2011					
(In thousands)	Unpaid Principal Balance	Total Recorded Investment	Recorded Investment No Allowance	Recorded Investment With Allowance	Related Valuation Allowance	Average Recorded Investment
Fixed-rate residential loans	$6,030	$ 5,742	$ –	$ 5,742	$ 806	$ 5,063
Adjustable-rate residential loans	1,566	1,576	–	1,576	94	1,455
Total	$7,596	$ 7,318	$ –	$ 7,318	$ 900	$ 6,518

	At December 31, 2010					
(In thousands)	Unpaid Principal Balance	Total Recorded Investment	Recorded Investment No Allowance	Recorded Investment With Allowance	Related Valuation Allowance	Average Recorded Investment
Fixed-rate residential loans (*)	$4,647	$ 4,383	$ –	$ 4,383	$ 531	$ 2,986
Adjustable-rate residential loans	1,329	1,333	–	1,333	33	667
Total	$5,976	$ 5,716	$ –	$ 5,716	$ 564	$ 3,653

(*) As permitted in accordance with applicable accounting guidance, non-TDR residential mortgage loans that are collectively evaluated for impairment on a pooled basis have been removed from the data with respect to impaired loans without a specific valuation allowance as originally presented in the Company' s Annual Report on Form 10-K for the year ended December 31, 2010. Management believes that these changes are immaterial to the Company' s financial statements and align reporting of such data more closely with peers.

The following table summarizes interest income recognized on impaired loans for the three and nine months ended September 30, 2011 and 2010:

	Three months ended September 30,					
	2011			2010		
(In thousands)	Loans with No Allowance	Loans with Specific Allowance	Total	Loans with No Allowance	Loans with Specific Allowance	Total
Fixed-rate residential loans	$ –	$ 61	$61	$ –	$ 6	$6
Adjustable-rate residential loans	–	14	14	–	–	–
Total	$ –	$ 75	$75	$ –	$ 6	$6

Nine months ended September 30,

	2011			2010		
(In thousands)	Loans with No Allowance	Loans with Specific Allowance	Total	Loans with No Allowance	Loans with Specific Allowance	Total
Fixed-rate residential loans	$ –	$ 171	$171	$ –	$ 63	$63
Adjustable-rate residential loans	–	42	42	–	–	–
Total	$ –	$ 213	$213	$ –	$ 63	$63

Of the total interest income recognized for the three and nine months ended September 30, 2011 and 2010, $12 thousand and $29 thousand and $11 thousand and $33 thousand, respectively, was recognized on a cash basis method of accounting.

Troubled Debt Restructurings. A modified loan is considered a TDR when two conditions are met: 1) the borrower is experiencing documented financial difficulty and 2) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit characteristics. The most common types of modifications are a combination of below market rate reductions and maturity extensions. Modified terms are dependent upon the financial position and needs of the individual borrower. The Company does not employ modification programs for temporary or trial periods. The modified loan does not revert back to its original terms, even if the modified loan agreement is violated. If the modification agreement is violated, the loan is handled by Webster Bank' s Restructuring and Recovery group for resolution, which may result in foreclosure.

The Company' s policy is to place all TDRs on non-accrual status for a minimum period of six months. Loans qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement for a minimum of six months. Initially, all TDRs are reported as impaired. Generally, TDRs are classified as impaired loans and TDRs for the remaining life of the loan. Impaired and TDR classifications may be removed if the borrower demonstrates compliance with the modified terms and the restructuring agreement specifies an interest rate equal to that which would be provided to a borrower with similar credit at the time of restructuring.

The recorded investment balance of TDRs approximated $7.3 million at September 30, 2011 and $5.7 million at December 31, 2010. There were $5.7 million and $2.8 million TDRs on accrual status and $1.6 million and $2.9 million TDRs on nonaccrual status at September 30, 2011 and December 31, 2010, respectively. At September 30, 2011 and December 31, 2010, the allowance for loan losses included specific reserves of $0.9 million and $0.6 million, respectively, related to TDRs. For the three and nine months ended September 30, 2011 and 2010, the Company charged off $4 thousand and $18 thousand and $12 thousand and $113 thousand, respectively, for the portion of TDRs deemed to be uncollectible. At September 30, 2011 and December 31, 2010, there were no commitments to lend any additional funds to borrowers whose loans were in TDR status.

The following table provides information on loans modified as a TDR during the three and nine months ended September 30, 2011 and 2010:

	For the Three Months Ended September 30,							
	2011				2010			
(Dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Coupon Rate	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Coupon Rate
Fixed-rate residential loans	4	$ 731	$ 731	3.9 %	3	$ 606	$ 606	4.1 %
Adjustable-rate residential loans	–	–	–	–	1	707	707	5.9
TOTAL TDRs	4	$ 731	$ 731	3.9 %	4	$ 1,313	$ 1,313	5.0 %

	For the Nine Months Ended September 30,							
	2011				2010			
(Dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Coupon Rate	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Coupon Rate
Fixed-rate residential loans	10	$ 1,675	$ 1,675	3.8 %	11	$ 2,303	$ 2,303	4.8 %
Adjustable-rate residential loans	1	262	262	2.9	1	707	707	5.9
TOTAL TDRs	11	$ 1,937	$ 1,937	3.7 %	12	$ 3,010	$ 3,010	5.1 %

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The following table provides information on how loans were modified as TDRs during the three and nine months ended September 30, 2011 and 2010:

	For the Three Months Ended September 30,									
	2011					2010				
(In thousands)	Extended Maturity	Adjusted Interest Rates	Combination of Rate and Maturity	Other	Total	Extended Maturity	Adjusted Interest Rates	Combination of Rate and Maturity	Other	Total
Fixed-rate residential loans	$ 114	$ –	$ 617	$ –	$731	$ –	$ –	$ 606	$–	$606
Adjustable-rate residential loans	–	–	–	–	–	707	–	–	–	707
TOTAL TDRs	$ 114	$ –	$ 617	$ –	$731	$ 707	$ –	$ 606	$–	$1,313

	For the Nine Months Ended September 30,									
	2011					2010				
(In thousands)	Extended Maturity	Adjusted Interest Rates	Combination of Rate and Maturity	Other	Total	Extended Maturity	Adjusted Interest Rates	Combination of Rate and Maturity	Other	Total
Fixed-rate residential loans	$ 317	$ –	$ 1,358	$ –	$1,675	$ 271	$ 595	$ 1,018	$419	$2,303
Adjustable-rate residential loans	262	–	–	–	262	707	–	–	–	707
TOTAL TDRs	$ 579	$ –	$ 1,358	$ –	$1,937	$ 978	$ 595	$ 1,018	$419	$3,010

There were no loans modified as TDRs within the previous 12 months and for which there were payment defaults during the periods presented within this report.

Note 3: Redeemable Preferred Stock

In December 1997, the Company issued 1,000,000 shares of Series B 8.625% cumulative redeemable preferred stock at $10 per share. The preferred stock is redeemable after January 15, 2003 at the option of the Company. The redemption price is $10 per share. As of September 30, 2011, there have been no redemptions. The preferred shares are listed on NASDAQ under the symbol “WBSTP” and are not exchangeable into common stock or any other securities and carry no participation rights. Dividends paid on the preferred stock totaled $216 thousand and $647 thousand during the three and nine months ended September 30, 2011 and 2010, respectively, and are reflected as preferred stock dividends in the accompanying Condensed Statements of Income.

Note 4: Servicing

The mortgage loans owned by the Company are serviced by Webster Bank pursuant to the terms of an Amended and Restated Service Agreement (the “Service Agreement”). Webster Bank, in its role as servicer, receives fees at an annual rate of 9.58 basis points for loan servicing and collection, and 5 basis points for all other services to be provided, as needed, in each case based on the daily outstanding balances of all the Company’ s loans for which Webster Bank is responsible for servicing. The services provided to the Company by Webster Bank are at the level of a sub-servicing agreement. Servicing fees paid for the three and nine months ended September 30, 2011 and 2010 were approximately $27 thousand and $84 thousand and $33 thousand and $95 thousand, respectively. Servicing fees are netted against interest income in the accompanying Condensed Statements of Income, as they are considered a reduction in yield to the Company.

Webster Bank is entitled to retain any late payment charges, prepayment fees, penalties and assumption fees collected in connection with residential mortgage loans serviced by it. Webster Bank also receives the benefit, if any, derived from interest earned on collected principal and interest payments between the date of collection and the date of remittance to the Company and from interest earned on tax and insurance escrow funds with respect to mortgage loans it services. At the end of each calendar month, Webster Bank is required to invoice the Company for all fees and charges due.

Note 5: Income Taxes

The Company has elected to be treated as a real estate investment trust ("REIT") under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and believes that its organization and operations meet the requirements for qualification as a REIT. The Company will generally not be subject to Federal or Connecticut income taxes provided it maintains its qualification as a REIT, requiring among other organizational and operational issues, that it distribute to its shareholders at least 90% of its REIT taxable income (not including capital gains and certain items of noncash income), for a given taxable year. Therefore, no provision for Federal or Connecticut income taxes has been included in the accompanying financial statements.

The Company recognizes interest and penalties related to unrecognized tax benefits, where applicable, in income tax expense. No interest or penalties were recognized in its Condensed Statements of Income for the three and nine months ended September 30, 2011 and 2010, or accrued within its Condensed Balance Sheets at September 30, 2011 and December 31, 2010. If the Company fails to qualify as a REIT in any taxable year, it will be subject to Federal and Connecticut income tax at regular corporate rates. The Company' s Federal and Connecticut income tax returns remain open to examination for tax years subsequent to 2007.

Note 6: Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined using market quotes. However, in many instances there are no quoted market prices available. In such instances, fair values are determined using various valuation techniques. Various assumptions and observable inputs must be relied upon in applying these techniques. Accordingly, the fair value estimates may not be realized in an immediate transfer of the respective asset or liability.

The Company uses fair value to record adjustments to certain assets and to prepare required disclosures. The Company has no financial or non-financial assets measured at fair value on a recurring basis. Certain assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets measured at fair value on a non-recurring basis include certain impaired loans reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on customized discounting criteria. Non-financial assets measured at fair value on a non-recurring basis include other real estate owned (upon initial recognition or subsequent impairment). Fair value measurements may be based upon appraisals or third-party price opinions and, accordingly, those measurements are classified as Level 2. Other fair value measurements may be based on internally developed pricing methods, and, accordingly, those measurements are classified as Level 3.

Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. A description of the valuation methodologies used by the Company are presented below.

Cash. The carrying value of cash approximates fair value.

Loans Receivable. The Company employs an independent third party to provide fair value estimates for its residential mortgage portfolio loans. Such estimates are calculated using discounted cash flow analysis, using market interest rates for comparable loans. The associated cash flows are adjusted for credit and other potential losses. Fair value for impaired loans are estimated using the net present value of the expected cash flows or the fair value of the underlying collateral if repayment is collateral dependent.

A summary of estimated fair values of significant financial instruments consisted of the following:

	At September 30, 2011		At December 31, 2010	
(In thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash	$7,468	$7,468	$6,734	$6,734

Residential mortgage loans, net	109,242	115,762	124,150	126,840

Other Real Estate Owned. Other real estate owned consists of real estate or assets acquired through repossession that are carried at the lower of cost or fair value less the estimated costs to sell. Independent appraisals are obtained to substantiate fair value and may be subject to adjustment based upon historical experience or specific geographic trends impacting the property. At the time a loan is referred to foreclosure, the excess of loan balance over fair value less cost to sell is charged off against the allowance for loan loss. Subsequent write-downs in value, maintenance expenses, and losses upon sale are charged to non-interest expense. Fair value measurements may be based upon appraisals or third-party price opinions and, accordingly, those measurements are classified as Level 2. Other fair value measurements may be based on internally developed pricing methods, and those measurements are classified as Level 3. Other real estate owned is separately stated in the accompanying Condensed Balance Sheets.

The Company held other real estate owned totaling $163 thousand and $241 thousand at September 30, 2011 and December 31, 2010, respectively. The decrease of $78 thousand was due to a $43 thousand write-down of properties and $35 thousand charged off for a fair value appraisal relating to a property transferred to other real estate owned in late December 2010. There were no loans transferred to other real estate owned during the three and nine months ended September 30, 2011. For the three months ended September 30, 2010 there were no loans transferred to other real estate owned, while for the nine months ended September 30, 2010, loans with a carrying value of $447 thousand were transferred to other real estate owned.

WEBSTER PREFERRED CAPITAL CORPORATION

Item 2. <u>MANAGEMEN T' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>

<u>General</u>

The Company is a subsidiary of Webster Bank and has elected to be treated as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). The Company will generally not be subject to Federal and Connecticut state income taxes for as long as it maintains its qualification as a REIT, requiring, among other organizational and operational issues, that it distribute to shareholders at least 90%, on an annual basis, of its REIT taxable income (not including capital gains and certain items of noncash income). The following discussion of the Company' s financial condition and results of operations should be read in conjunction with the Company' s condensed financial statements and other financial data included elsewhere herein and in conjunction with the Company' s Financial Statements, and notes thereto, for the year ended December 31, 2010, included in the Company' s Annual Report on Form 10-K filed with the SEC on March 1, 2011.

<u>Forward Looking Statements and Factors that Could Affect Future Results</u>

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as "believes", "anticipates", "expects", "intends", "targeted", "continue", "remain", "will", "should", "may", "plans", "estimates" and similar references to future periods, however such words are not the exclusive means of identifying such statements. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, and other financial items; (ii) statements of plans, objectives and expectations of the Company or its management or Board of Directors; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Forward-looking statements are based on the Company' s current expectations and assumptions regarding its business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. The Company' s actual results may differ materially from those contemplated by the forward-looking statements, which are neither statements of historical fact nor guarantees or assurances of future performance. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to: (1) local, regional, national and international economic conditions and the impact they may have on us and our customers and our assessment of that impact; (2) volatility and disruption in national and international financial markets; (3) government intervention in the U.S. financial system; (4) changes in the level of non-performing assets and charge-offs; (5) changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements; (6) inflation, interest rate, securities market and monetary fluctuations; (7) changes in consumer spending, borrowings and savings habits; (8) changes in the competitive environment among banks, financial holding companies and other financial service providers; (9) the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which the Company must comply, including those under the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act and the Basel III update to the Basel Accords; (10) the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters; (11) the costs and effects of legal and regulatory developments including the resolution of legal proceedings or regulatory or other governmental inquiries and the results of regulatory examinations or reviews; and (12) the Company' s success at managing the risks involved in the foregoing items. Any forward-looking statement made by the Company in this Quarterly Report on Form 10-Q speaks only as of the date on which it is made. Factors or events that could cause the Company' s actual results to differ may emerge from time to time, and it is not possible for the Company to predict all of them. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

<u>Summary</u>

The Company' s net income for the three and nine months ended September 30, 2011 was $1.1 million and $3.4 million, respectively, compared to $1.4 million and $4.8 million for the comparable periods in 2010. The decrease in net income, of $0.3 million and $1.4

million for the three and nine months ended September 30, 2011, respectively, from the comparable periods is primarily due to lower interest income due to a reduced average balance of residential real estate loans.

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Results of Operations

The Company reported net income available to the common shareholder of $0.9 million and $2.8 million for the three and nine months ended September 30, 2011, respectively, a decrease of $0.4 million and $1.3 million compared to the respective periods in 2010. The decreases are primarily a result of declining loan balances due to principal pay-downs on outstanding residential real estate loans and from lower yields on variable rate loans.

For the three and nine months ended September 30, 2011 average loans outstanding decreased $25.6 million and $27.9 million, respectively, compared to the three and nine months ended September 30, 2010, respectively. The average yield for residential mortgage loans for the three months ended September 30, 2011 was 4.18% compared to 4.48% for the three months ended September 30, 2010, a decline of 30 basis points. The average yield for residential mortgage loans for the nine months ended September 30, 2011 was 4.28% compared to 4.66% for the nine months ended September 30, 2010, a decline of 38 basis points.

Interest Income

Total interest income, net of servicing fees, was $1.2 million and $3.7 million for the three and nine months ended September 30, 2011, respectively, compared to $1.5 million and $5.0 million for the three and nine months ended September 30, 2010, respectively. The decrease of $0.3 million and $1.3 million, respectively, is a result of declining loan balances due to principal pay-downs and from lower yields on variable rate loans. Approximately 74% and 71% of the decrease is due to lower average loan balances, while approximately 26% and 29% is due to decreases in interest rates on variable rate loans for the three and nine months ended September 30, 2011, respectively.

The following table presents the average balances and yields on the Company' s interest-earning assets for the periods indicated:

	Three Months Ended September 30, 2011			Three Months Ended September 30, 2010		
(Dollars in thousands)	Average Balance	Interest Income	Average Yield	Average Balance	Interest Income	Average Yield
Residential mortgage loans	$111,932	$1,169	4.18 %	$137,565	$1,540	4.48 %

	Nine Months Ended September 30, 2011			Nine Months Ended September 30, 2010		
(Dollars in thousands)	Average Balance	Interest Income	Average Yield	Average Balance	Interest Income	Average Yield
Residential mortgage loans	$116,254	$3,735	4.28 %	$144,129	$5,037	4.66 %

Interest income is affected by changes in both volume and interest rates. Volume changes are caused by increases or decreases during the year in the level of average interest-earning assets. Rate changes result from increases or decreases in the yields earned on assets. If significant, the change in interest income due to both volume and rate has been prorated between the volume and the rate variances based on the dollar amount of each variance.

The following table presents a summary of the changes in interest income resulting from changes in the volume of average asset balances and changes in the average yields for the three and nine months ended September 30, 2011 when compared with the comparable periods for the preceding year:

	Three Months Ended September 30, 2011 v. 2010 Decrease due to			Nine Months Ended September 30, 2011 v. 2010 Decrease due to		
(In thousands)	**Rate**	**Volume**	**Total**	**Rate**	**Volume**	**Total**
Interest on interest-earning assets:						
Residential mortgage loans, net	$ 98	$ 273	$ 371	$ 383	$ 919	$ 1,302

Net change in interest income	$ 98	$ 273	$ 371	$ 383	$ 919	$ 1,302

Non-Interest Expense

The Company incurs advisory fee expense payable to Webster Bank pursuant to an advisory agreement for services relating to day-to-day operations. Advisory fees for the three and nine months ended September 30, 2011 and 2010 were $55 thousand and $165 thousand, respectively. Other expenses consist primarily of audit fees, exchange listing fees, write-downs on other real estate owned and other shareholder costs. Other expenses totaled $42 thousand and $156 thousand for the three and nine months ended September 30, 2011, respectively, compared to $43 thousand and $115 thousand for the three and nine months ended September 30, 2010, respectively. The increase for the nine months ended September 30, 2011 over the respective 2010 period is due to a $43 thousand write-down of other real estate owned.

Financial Condition

The Company had total assets of $117.3 million and $131.6 million at September 30, 2011 and December 31, 2010, respectively. The decrease in total assets of $14.3 million is primarily due to a $15.0 million decrease in the balance of outstanding residential mortgage loans to $109.2 million at September 30, 2011, as compared to $124.2 million at December 31, 2010, offset by $0.7 million net increase in cash. The decrease in residential mortgage loans outstanding is primarily due to principal pay-downs.

Shareholder' s equity decreased $13.6 million to $117.0 million at September 30, 2011 from $130.6 million at December 31, 2010, primarily due to the $15.0 million return of capital distribution to Webster Bank. Net income for the nine months ended September 30, 2011 of $3.4 million was partially offset by $2.0 million in common and preferred dividend declarations.

Asset Quality

All loans held by the Company were originated by Webster Bank in the ordinary course of its mortgage lending activities. As such, the Company' s asset quality is dependent upon Webster Bank' s ability to maintain adequate underwriting standards. At September 30, 2011 and December 31, 2010, the loan portfolio was comprised of residential real estate loans. No loans were acquired by the Company from Webster Bank in the nine months ended September 30, 2011 or for the year ended December 31, 2010.

Non-performing assets, including impaired and restructured loans, loan delinquency and credit losses are considered to be key measures of asset quality. Asset quality is one of the key factors in the determination of the level of the allowance for loan losses. See "Allowance for Loan Losses" contained elsewhere within this section for further information.

Non-performing Assets

The following table summarizes the Company' s non-performing assets for the periods indicated:

(Dollars in thousands)	At September 30, 2011	At December 31, 2010
Loans accounted for on a non-accrual basis, net:		
Residential fixed-rate loans	$ 1,769	$ 2,902
Residential adjustable-rate loans	2,268	2,699
Total non-performing loans	4,037	5,601
Other real estate owned	163	241
Total non-performing assets	$ 4,200	$ 5,842
Allowance for loan losses	$ 1,397	$ 1,714
Allowance for loan losses as a percent of non-performing loans	34.60 %	30.60 %
Allowance for loan losses as a percent of total loans	1.26	1.36

It is the Company' s policy that all loans 90 days or more past due are placed in non-accrual status. When residential loans are placed on non-accrual status, the accrual of interest is discontinued and unpaid accrued interest is reversed and charged against interest income. The recorded investment of non-accrual loans totaled $4.0 million at September 30, 2011 and $5.6 million at December 31, 2010, respectively, and represented 3.6% and 4.5% of total loans receivable as of September 30, 2011 and December 31, 2010, respectively. Interest on non-accrual loans that would have been recorded as additional interest income for the three and nine months ended September 30, 2011 and 2010 had the loans been current in accordance with their original terms totaled approximately $34 thousand and $185 thousand and $51 thousand and $123 thousand, respectively.

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Delinquent Loans

The following table sets forth information on the Company' s delinquent loans, past due 30-89 days and still accruing for the periods indicated:

(Dollars in thousands)	At September 30, 2011 Principal Balance	At September 30, 2011 % of Loans	At December 31, 2010 Principal Balance	At December 31, 2010 % of Loans
Past due 30-89 days:				
Residential fixed-rate loans	$ 567	0.51 %	$ 536	0.43 %
Residential adjustable-rate loans	1,310	1.18	394	0.31
Total past due 30-89 days and still accruing	$ 1,877	1.69 %	$ 930	0.74 %

Impaired Loans

The Company, through its servicing agreement with Webster Bank, has an impairment analysis performed for all modified loans that are deemed to be troubled debt restructurings ("TDRs") and specific reserves are established as appropriate. For those TDRs where recovery is cash flow dependent, as opposed to collateral dependent, the original contractual interest rates for the loans are used as the discount rates for fixed rate loans. The current rate is used as the discount rate when the interest rate floats with a specified index. A change in terms or payments would be included in the impairment calculation. A specific valuation allowance is established equal to the calculated amount of impairment. Impairment is evaluated on a pooled basis for smaller-balance loans of a similar nature. The recorded investment balance of impaired loans totaled $7.3 million, with established specific reserves of $0.9 million, at September 30, 2011. At December 31, 2010, the recorded investment balance of impaired loans totaled $5.7 million with an impairment allowance of $0.6 million. The increase in impaired loans is the result of an increase in TDRs. Generally, TDRs remain in the impaired population for the remaining life of the loan.

To the extent that the recovery of a loan balance is collateral dependent, the Company obtains an independent appraisal. The appraised value is reduced for selling costs and additional discounts for historical experience with foreclosed real estate and repossessed asset sales, if necessary, to determine the estimated fair value of the collateral. The fair value is then compared to the loan balance. Any shortfall in fair value is charged against the allowance for loan losses in the month the related appraisal is received. Since the fair value of the collateral considers selling costs and adjustments for historical experience with foreclosed real estate and repossessed asset sales, charge offs may be incurred that reduce a loan balance below appraised value. Accordingly, amounts are charged off to bring the loan balance to fair value. No partial or excess charge offs occur. The loan remains on non-performing status subsequent to recording a partial charge off. Non-performing loans, which have not been modified, may qualify to return to performing status if unpaid interest is less than 90 days past due and there is no potential for future loss of the outstanding principal. Generally, if the loan has been modified, payment must be received under the new terms for a period of no less than six months before returning to performing status.

Updated appraisals are obtained for a collateral dependent loan upon a borrower credit event (i.e. renewal or modification) or as part of the foreclosure proceedings. New appraisals may not be ordered if the most recent appraisal was obtained in the past twelve months or the loan amount is under $250 thousand or other Financial Institutions Reform Recovery and Enforcement Act ("FIRREA") acceptable real estate evaluations are permitted. The twelve month timeframe reflects the Company' s desire to obtain an appraisal as close to the foreclosure date as possible to ensure compliance with the court' s guidelines, which generally require appraisals not more than 30-90 days old. Appraisals, which are performed by independent, licensed appraisers, are requested by the Appraisal Department of Webster Bank. A licensed in-house appraisal officer or qualified reviewer reviews the appraisals when there is significant decline in property value, for all foreclosed properties, for loans greater than 180 days past due and for loans over a threshold of $400 thousand. Webster' s appraisal officer reviews the appraisal for compliance with FIRREA and the Uniform Standards of Professional Appraisal Practice.

In the ordinary course of monitoring all loans, information may come to the Company' s attention that indicates the collateral value has declined further from the value established in the most recent appraisal. Such information may include prices on recent comparable property sales or internet based property valuation estimates. In cases where this other information is deemed reliable, and the impact of a further reduction in collateral value would result in a further loss to the Company, an increase to the allowance for loan losses is recorded to reflect the additional estimated collateral shortfall in the period it was identified. A charge-off is recorded when the shortfall is subsequently verified by an appraisal.

Troubled Debt Restructurings

A modified loan is considered a TDR when two conditions are met: 1) the borrower is experiencing documented financial difficulty and 2) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit characteristics. The most common types of modifications are a combination of below market rate reductions and maturity extensions. Modified terms are dependent upon the financial position and needs of the individual borrower. The Company does not employ modification programs for temporary or trial periods. If the modification agreement is violated, the loan is handled by the Webster' s Restructuring and Recovery group for resolution, which may result in foreclosure.

The Company' s policy is to place all TDRs on non-accrual status for a minimum period of six months. Loans qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement for a minimum of six months. Initially, all TDRs are reported as impaired. Generally, TDRs are classified as impaired loans and TDRs for the remaining life of the loan. At September 30, 2011 and December 31, 2010, the majority of the Company' s TDRs were on accrual status. At September 30, 2011, approximately 60% of the accruing TDRs have been performing in accordance with the restructured terms for more than one year.

The recorded investment balance of TDRs approximated $7.3 million at September 30, 2011 and $5.7 million at December 31, 2010. There were $5.7 million and $2.8 million TDRs on accrual status and $1.6 million and $2.9 million TDRs on nonaccrual status at September 30, 2011 and December 31, 2010, respectively. At September 30, 2011 and December 31, 2010, the allowance for loan losses included specific reserves of $0.9 million and $0.6 million, respectively, related to TDRs. For the three and nine months ended September 30, 2011 and 2010, the Company charged off $4 thousand and $18 thousand and $12 thousand and $113 thousand, respectively, for the portion of TDRs deemed to be uncollectible. At September 30, 2011 and December 31, 2010, there were no commitments to lend any additional funds to borrowers whose loans were in TDR status.

The following table summarizes the recorded investment of TDR loans for the periods indicated:

(In thousands)	**At September 30, 2011**	**At December 31, 2010**
Fixed-rate residential loans	$ 5,742	$ 4,383
Adjustible-rate residential loans	1,576	1,333
Total TDR loans	$ 7,318	$ 5,716

See Note 2 – Residential Mortgage Loans, Net in the Notes to Condensed Financial Statements for a discussion of the amount of modified loans, modified loan characteristics and management' s evaluation of the success of its modification efforts.

Allowance for Loan Losses

An allowance for loan losses (“ALL), in the judgment of management, is necessary to provide for estimated loan losses inherent in the loan portfolio. The ALL includes allowance allocations calculated in accordance with FASB ASC Topic 310, “Receivables” and allowance allocations calculated in accordance with FASB ASC Topic 450, “Contingencies.” The level of the allowance reflects management’ s continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management’ s judgment, should be charged off. The provision for loan losses reflects loan quality trends, including the levels of and trends related to non-accrual loans, past due loans, potential problem loans, criticized loans and net charge-offs or recoveries, among other factors. Modified loans are analyzed for re-default probability, which is factored into the impaired reserve calculation for ALL. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company’ s control, including the performance of the Company’ s loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

Management considers the adequacy of the allowance for loan losses a critical accounting policy. The adequacy of the allowance for loan losses is subject to judgment in its determination. Actual loan losses could differ materially from management’ s estimate if actual loss factors and conditions differ significantly from the assumptions utilized. These factors and conditions include the general economic conditions within the Company’ s market as well as trends within real estate values, interest rate and the financial condition of individual borrowers. Webster Bank’ s Credit Risk Management committee, in its role as advisor to the Company, meets on a quarterly basis to review and conclude on the adequacy of the allowance. The results are presented to and reviewed by management of the Company. While management believes the allowance for loan losses is adequate as of September 30, 2011, actual results may prove different and these differences could be significant.

At September 30, 2011, the allowance for loan losses was $1.4 million, or 1.26% of the total residential mortgage loan portfolio and 34.60% of total non-performing loans. This compares with an allowance of $1.7 million, or 1.36% of the total residential mortgage loan portfolio, and 30.60% of total non-performing loans at December 31, 2010. Net charge-offs for the three and nine months ended September 30, 2011 were $264 thousand and $317 thousand, respectively, an increase of $73 thousand for the three months ended September 30, 2011 and a decrease $110 thousand for the nine months ended September 30, 2011 when compared to charge-offs of $191 thousand and $427 thousand for the three and nine months ended September 30, 2010, respectively.

Allowance for loan losses activity, for the periods indicated, follows:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	**2011**	**2010**	**2011**	**2010**
Allowance for loan losses:				
Balance at beginning of the period	$1,661	$1,947	$1,714	$2,183
Provision for loan losses	–	–	–	–
Charge-offs	(264)	(191)	(317)	(427)
Balance at end of the period	$1,397	$1,756	$1,397	$1,756
Balance at end of period: individually evaluated for impairment	$900	$619	$900	$619
Balance at end of period: collectively evaluated for impairment	$497	$1,137	$497	$1,137

Recorded investment in loans, for the periods indicated, follows:

(In thousands)	At September 30, 2011	At December 31, 2010
Loans:		
Recorded investment	$ 111,026	$ 126,297
Recorded investment: individually evaluated for impairment	$ 7,318	$ 5,716
Recorded investment: collectively evaluated for impairment	$ 103,708	$ 120,581

Liquidity and Capital Resources

The primary sources of liquidity for the Company are principal and interest payments from residential mortgage loans. The primary uses of liquidity are typically purchases of residential mortgage loans and the payment of dividends on the Company' s common stock and preferred stock.

While scheduled loan amortization is a predictable source of funds, loan prepayments can vary greatly and are influenced by factors such as general interest rates, economic conditions and competition. One of the inherent risks of investing in loans is the ability of such instruments to incur prepayments of principal prior to maturity at prepayment rates different than those estimated at the time of purchase. This generally occurs because of changes in market interest rates.

Dividends on the Series B Preferred Stock are payable at the rate of 8.625% per annum (an amount equal to $0.8625 per annum per share), in all cases if, when and as declared by the Board of Directors of the Company. Dividends on the preferred shares are cumulative and, if declared, payable on January 15, April 15, July 15 and October 15 in each year. The Company periodically makes dividend payments on its common stock in accordance with Company by-laws. Common stock dividends are paid to comply with REIT qualification rules. REIT qualification rules require that at least 90% of net taxable income for the year be distributed to shareholders. The Company has experienced continued prepayments resulting in increased cash levels, and as such, return of capital dividends have been regularly declared in order to return a portion of available cash to its common shareholder.

In the event that principal and interest payments on its mortgage assets are insufficient to meet its operating needs, the Company has the ability to raise additional funds. The Company' s residential mortgage loans are underwritten to meet secondary market requirements and could be sold or securitized as mortgage-backed securities and used as borrowing collateral.

WEBSTER PREFERRED CAPITAL CORPORATION

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As the majority of the Company's assets are sensitive to changes in interest rates, the most significant form of market risk is interest rate risk. The primary goal of managing this risk is to maximize net income (short-term risk) and net economic value (long-term risk) over time in changing interest rate environments. An effective asset/liability management process must balance the risks and rewards from both short and long-term interest rate risks in determining management strategy and action.

The Company's interest rate sensitive assets are subject to prepayment risk. Prepayment risk is inherently difficult to estimate and is dependent upon a number of economic, financial and behavioral variables. Webster Bank, in its role as advisor to the Company, uses a sophisticated mortgage prepayment modeling system to estimate prepayments and the corresponding impact on market value and net interest income. The model uses information that includes the instrument type, coupon spread, loan age and other factors in its projections. Webster Bank prepares estimates of the level of prepayments and the effect of such prepayments on the level of future earnings due to reinvestment of funds at rates different than those that currently exist.

Both Webster Bank and the Company are unable to predict future fluctuations in interest rates. The market values of the Company's financial assets are sensitive to fluctuations in market interest rates. The market values of fixed-rate loans and mortgage-backed securities tend to decline in value as interest rates rise. If interest rates decrease, the market value of fixed rate loans and mortgage-backed securities generally will tend to increase, with the level of prepayments also typically increasing. The interest income earned on the Company's adjustable-rate, interest-sensitive instruments, which represent primarily adjustable-rate mortgage loans, may change due to changes in quoted interest-rate indices. The adjustable-rate mortgage loans generally re-price based on a stated margin over U.S. Treasury Securities indices of varying maturities, the terms of which are established at the time that the loan is closed. At September 30, 2011, 42.6% of the Company's residential mortgage loans were adjustable-rate loans, compared to 40.2% at December 31, 2010.

The following table summarizes the estimated fair values of the Company's interest-sensitive assets at September 30, 2011 and December 31, 2010, and the projected change to fair values if interest rates instantaneously increase or decrease by 100 basis points. The Company had no interest-sensitive liabilities at September 30, 2011 and December 31, 2010. Loans are presented in the following table gross of the allowance for loan losses and exclude premiums and deferred costs as these components are not interest-sensitive assets:

			Estimated Market Value Impact	
(In thousands)	Book Value	Fair Value	-100 BP	+100 BP
At September 30, 2011				
Interest sensitive assets:				
Fixed-rate residential loans	$63,214	$66,841	N/A	$ (778)
Adjustable-rate residential loans	46,977	48,921	N/A	(185)
	$110,191	$115,762	N/A	$ (963)
At December 31, 2010				
Interest sensitive assets:				
Fixed-rate residential loans	$74,980	$76,171	N/A	$ (2,418)
Adjustable-rate residential loans	50,324	50,669	N/A	(467)
	$125,304	$126,840	N/A	$ (2,885)

Interest-sensitive assets, when shocked by an immediate plus 100 basis point rate change, sustain an unfavorable $1.0 million, or 0.8%, change in market value at September 30, 2011, compared to an unfavorable $2.9 million, or 2.3%, change in market value at December 31, 2010. As the federal funds rate remains between 0% and 0.25% at September 30, 2011, the -100 basis point scenario has been excluded. Based on the Company's asset/liability mix at September 30, 2011, management estimates that a gradual 200 basis point increase in interest rates would increase net income over the next twelve months by 4.0%.

These assumptions are inherently uncertain and, as a result, the simulation analyses cannot precisely estimate the impact that higher or lower rate environments will have on net income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes, changes in cash flow patterns and market conditions, as well as changes in management' s strategies. Based upon review of the work performed by Webster Bank, management believes that the Company' s interest-rate risk position at September 30, 2011 represents a reasonable level of risk.

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Impact of Inflation and Changing Prices

The financial statements and related data presented herein have been prepared in accordance with accounting principles generally accepted in the United States, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, virtually all of the assets and liabilities of a real estate investment trust are monetary in nature. As a result, interest rates have a more significant impact on a real estate investment trust' s performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the price of goods and services. In the current interest rate environment, the maturity structure of the Company' s assets is critical to the maintenance of acceptable performance levels.

Item 4. CONTROLS AND PROCEDURES

As of September 30, 2011, the Company carried out an evaluation, under the supervision and with the participation of the Company' s management, including its Principal Executive Officer and its Principal Financial Officer, of the effectiveness of the Company' s disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934). Based on this evaluation, the Company' s Principal Executive Officer and Principal Financial Officer concluded that the Company' s disclosure controls and procedures were effective as of September 30, 2011 for recording, processing, summarizing and reporting the information the Company is required to disclose in the reports it files under the Securities Exchange Act of 1934, within the time periods specified in the SEC' s rules and forms. There was no change in the Company' s internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company' s internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

There are no material pending legal proceedings, other than ordinary routine litigation incident to its business, to which the Company is a party or of which any of its property is the subject.

Item 1A. RISK FACTORS

During the third quarter of 2011, there were no material changes to the risk factors previously disclosed in the Company' s Annual Report on Form 10-K for the year ended December 31, 2010.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not Applicable.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

Item 4. [REMOVED AND RESERVED]

Item 5. OTHER INFORMATION

None.

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Item 6. EX HIBITS

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Webster Preferred Capital Corporation (the "Company") (incorporated herein by reference from Exhibit 3.1 to the Company' s Annual Report on Form 10-K for the fiscal year ended December 31, 1997).
3.2	Certificate of Amendment of Rights and Preferences of the Series B 8.625% Cumulative Redeemable Preferred Stock of the Company (incorporated herein by reference from Exhibit 3.3 to the Company' s Annual Report on Form 10-K for the fiscal year ended December 31, 1997).
3.3	Amended and Restated By-Laws of the Company (incorporated herein by reference from Exhibit 3.1 to the Company' s Current Report on Form 8-K filed with the SEC on November 9, 2007).
4.1	Specimen of certificate representing the Series B 8.625% Cumulative Redeemable Preferred Stock of the Company (incorporated herein by reference from Exhibit 4.2 to the Company' s Annual Report on Form 10-K for the fiscal year ended December 31, 1997).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Written Statement pursuant to section 906 of the Sarbanes-Oxley Act of 2002, signed by the Company' s Principal Executive Officer.
32.2	Written Statement pursuant to section 906 of the Sarbanes-Oxley Act of 2002, signed by the Company' s Principal Financial Officer.
101+ ++	The following materials from the Webster Preferred Capital Corporation, Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 formatted in eXtensible Business Reporting Language (XBRL): (i) the Condensed Statements of Operations, (ii) the Condensed Balance Sheets, (iii) the Condensed Statements of Cash Flows and (iv) related notes, tagged as blocks of text.

\+ This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

++ As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

SI GNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WEBSTER PREFERRED CAPITAL CORPORATION
Registrant

Date: November 7, 2011

BY: /s/ Gregory S. Madar

Gregory S. Madar
Chief Financial Officer
(Principal Financial Officer)

EXHIBI T INDEX

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++ As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

Exhibit 31.1

CERTIFICATION

I, Gerald P. Plush, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Webster Preferred Capital Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   - (a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
   - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   - (c) evaluated the effectiveness of the registrant' s disclosure controls and procedures; and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
   - (d) disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and
5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):
   - (a) all significant deficiencies and material weaknesses in the design or operations of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and
   - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: November 7, 2011

/s/ Gerald P. Plush

Gerald P. Plush
President
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Gregory S. Madar, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Webster Preferred Capital Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant' s disclosure controls and procedures; and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and
5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operations of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: November 7, 2011

/s/ Gregory S. Madar

Gregory S. Madar
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Webster Preferred Capital Corporation (the "Company") hereby certifies, that to his knowledge on the date hereof:

(a) the Form 10-Q Report of the Company for the quarter ended September 30, 2011 filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 7, 2011

/s/ Gerald P. Plush

Gerald P. Plush
President
(Principal Executive Officer)

Pursuant to Securities and Exchange Commission Release 33-8238, dated June 5, 2003, this certification is being furnished and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended or incorporated by reference in any registration statement of the Company filed under the Securities Act of 1933, as amended, except to the extent that the Company specifically incorporates it by reference.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Webster Preferred Capital Corporation (the "Company") hereby certifies, that to his knowledge on the date hereof:

(a) the Form 10-Q Report of the Company for the quarter ended September 30, 2011 filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 7, 2011

/s/ Gregory S. Madar

Gregory S. Madar
Chief Financial Officer
(Principal Financial Officer)

Pursuant to Securities and Exchange Commission Release 33-8238, dated June 5, 2003, this certification is being furnished and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended or incorporated by reference in any registration statement of the Company filed under the Securities Act of 1933, as amended, except to the extent that the Company specifically incorporates it by reference.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Condensed Balance Sheets (Parenthetical) (USD $)	Sep. 30, 2011	Dec. 31, 2010
Condensed Balance Sheets [Abstract]		
Series B 8.625% cumulative redeemable preferred stock, par value per share	$ 1	$ 1
Series B 8.625% cumulative redeemable preferred stock, shares authorized	1,000,000	1,000,000
Series B 8.625% cumulative redeemable preferred stock, shares issued	1,000,000	1,000,000
Series B 8.625% cumulative redeemable preferred stock, shares outstanding	1,000,000	1,000,000
Series B 8.625% cumulative redeemable preferred stock, liquidation preference per share	$ 10	$ 10
Series B cumulative redeemable preferred stock, dividend rate	8.625%	8.625%
Common stock, par value	$ 0.01	$ 0.01
Common stock, shares authorized	1,000	1,000
Common stock, shares issued	100	100
Common stock, shares outstanding	100	100

Condensed Statements Of Income (USD $) In Thousands, except Per Share data	3 Months Ended		9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010	Sep. 30, 2011	Sep. 30, 2010
Interest income:				
Interest and fees on loans, net	$ 1,169	$ 1,540	$ 3,735	$ 5,037
Total interest income	1,169	1,540	3,735	5,037
Provision for loan losses				
Net interest income after provision for loan losses	1,169	1,540	3,735	5,037
Non-interest expense:				
Advisory fee expense paid to Parent	55	55	165	165
Other expenses	42	43	156	115
Total non-interest expense	97	98	321	280
Net income	1,072	1,442	3,414	4,757
Preferred stock dividends	216	216	647	647
Net income available to common shareholder	$ 856	$ 1,226	$ 2,767	$ 4,110
Basic net income per common share	$ 8,560	$ 12,260	$ 27,670	$ 41,100

Document And Entity Information	9 Months Ended Sep. 30, 2011	Oct. 28, 2011
Document And Entity Information [Abstract]		
Document Type	10-Q	
Amendment Flag	false	
Document Period End Date	Sep. 30, 2011	
Document Fiscal Year Focus	2011	
Document Fiscal Period Focus	Q3	
Entity Registrant Name	WEBSTER PREFERRED CAPITAL CORP	
Entity Central Index Key	0001047865	
Entity Filer Category	Non-accelerated Filer	
Current Fiscal Year End Date	--12-31	
Entity Common Stock, Shares Outstanding		100

Income Taxes	9 Months Ended Sep. 30, 2011
Income Taxes [Abstract]	
Income Taxes	**Note 5: Income Taxes** The Company has elected to be treated as a real estate investment trust ("REIT") under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and believes that its organization and operations meet the requirements for qualification as a REIT. The Company will generally not be subject to Federal or Connecticut income taxes provided it maintains its qualification as a REIT, requiring among other organizational and operational issues, that it distribute to its shareholders at least 90% of its REIT taxable income (not including capital gains and certain items of noncash income), for a given taxable year. Therefore, no provision for Federal or Connecticut income taxes has been included in the accompanying financial statements. The Company recognizes interest and penalties related to unrecognized tax benefits, where applicable, in income tax expense. No interest or penalties were recognized in its Condensed Statements of Income for the three and nine months ended September 30, 2011 and 2010, or accrued within its Condensed Balance Sheets at September 30, 2011 and December 31, 2010. If the Company fails to qualify as a REIT in any taxable year, it will be subject to Federal and Connecticut income tax at regular corporate rates. The Company's Federal and Connecticut income tax returns remain open to examination for tax years subsequent to 2007.

Summary Of Significant Accounting Policies	9 Months Ended Sep. 30, 2011
Summary Of Significant Accounting Policies [Abstract]	
Summary Of Significant Accounting Policies	**Note 1: Summary of Significant Accounting Policies** **Nature of Operations** Webster Preferred Capital Corporation (the "Company") is a Connecticut corporation incorporated in March 1997 and a subsidiary of Webster Bank, National Association, ("Webster Bank"), which is a wholly owned subsidiary of Webster Financial Corporation ("Webster"). The Company acquires, holds and manages real estate related mortgage assets. The Company has elected to be treated as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). The Company will generally not be subject to Federal or Connecticut state income taxes for as long as it maintains its qualification as a REIT, requiring, among other organizational and operational issues, that it distribute to its shareholders at least 90%, on an annual basis, of its "REIT taxable income" (not including capital gains and certain items of noncash income). All of the shares of the Company's common stock, par value $0.01 per share, are owned by Webster Bank, which is a federally chartered and federally insured commercial bank. Webster Bank has indicated to the Company that, for as long as any of the Company's preferred shares are outstanding, Webster Bank intends to maintain direct ownership of 100% of the outstanding common stock of the Company. **Basis of Presentation** The Condensed Financial Statements in this Quarterly Report on Form 10-Q have not been audited by an independent registered public accounting firm, but in the opinion of management, reflect all adjustments necessary for a fair presentation of the Company's financial position and results of operations. All such adjustments were of a normal and recurring nature. The Condensed Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission ("SEC"). Accordingly, the Condensed Financial Statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Company's Financial Statements, and notes thereto, for the year ended December 31, 2010, included in the Company's Annual Report on Form 10-K filed with the SEC on March 1, 2011. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period. **Use of Estimates** The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The allowance for loan losses is particularly subject to change. **Cash and Cash Equivalents**

For purposes of the Condensed Statements of Cash Flows, the Company defines cash as amounts held in deposit accounts with Webster Bank.

Net Income Per Common Share

Basic net income per common share is calculated by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding. Diluted net income per common share does not apply since the Company has issued no options or other instruments representing potential common shares.

Reclassifications

Certain items in prior financial statements have been reclassified to conform to current presentation. These reclassifications had no impact on the Company's financial position, results of operations or net change in cash or cash equivalents. There have been no changes to the Company's significant accounting policies that were disclosed in the 2010 Form 10-K.

Accounting Standards Updates

ASU No. 2011-02, "Receivables (Topic 310) - A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." In April 2011, the FASB issued ASU No. 2011-02 to clarify when a loan modification or restructuring is considered a troubled debt restructuring ("TDR"). The changes apply to a lender that modifies a receivable covered by Subtopic 310-40, "Receivables—Troubled Debt Restructurings by Creditors." In evaluating whether a restructuring constitutes a TDR, a creditor must separately conclude that both of the following exist: (i) the restructuring constitutes a concession and (ii) the debtor is experiencing financial difficulties. A creditor may determine that a debtor is experiencing financial difficulties, even though the debtor is not currently in default, if the creditor determines it is probable that the debtor would default on its payments for any of its debts in the foreseeable future without the loan modification. Lenders who determine that they are making a concession on the terms of the loan to a borrower who is having financial problems should follow the guidance found in ASU No. 2011-02. The guidance on identifying and disclosing TDRs applies retrospectively to restructuring occurring on or after the beginning of the year. The guidance on measuring the impairment of a receivable restructured in a troubled debt restructuring is effective on a prospective basis. The provisions of ASU 2011-02 became effective for the Company on July 1, 2011 and did not have a significant impact on the Company's financial statements. See Note 2 – Residential Mortgage Loans, Net.

ASU No. 2011-04, "Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." In May 2011, the FASB issued ASU No. 2011-04 which will supersede most of the accounting guidance currently found in Topic 820 of FASB's ASC. The amendments will improve comparability of fair value measurements presented and disclosed in financial statements prepared with GAAP and International Financial Reporting Standards ("IFRS"). The amendments also clarify the application of existing fair value measurement requirements. These amendments include (1) the application of the highest and best use and valuation premise concepts, (2) measuring the fair value of an instrument classified in a reporting entity's shareholders' equity and (3) disclosing quantitative information about the unobservable inputs used within the Level 3 hierarchy. The guidance is effective for the Company's interim and annual periods beginning after December 15, 2011 and will be applied prospectively. The Company is currently evaluating the impact of the adoption of this accounting standards update on the Company's Condensed Financial Statements.

Fair Value Measurements	9 Months Ended Sep. 30, 2011

Fair Value Measurements [Abstract]

Fair Value Measurements

Note 6: Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined using market quotes. However, in many instances there are no quoted market prices available. In such instances, fair values are determined using various valuation techniques. Various assumptions and observable inputs must be relied upon in applying these techniques. Accordingly, the fair value estimates may not be realized in an immediate transfer of the respective asset or liability.

The Company uses fair value to record adjustments to certain assets and to prepare required disclosures. The Company has no financial or non-financial assets measured at fair value on a recurring basis. Certain assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets measured at fair value on a non-recurring basis include certain impaired loans reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on customized discounting criteria. Non-financial assets measured at fair value on a non-recurring basis include other real estate owned (upon initial recognition or subsequent impairment). Fair value measurements may be based upon appraisals or third-party price opinions and, accordingly, those measurements are classified as Level 2. Other fair value measurements may be based on internally developed pricing methods, and, accordingly, those measurements are classified as Level 3.

Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. A description of the valuation methodologies used by the Company are presented below.

Cash. The carrying value of cash approximates fair value.

Loans Receivable. The Company employs an independent third party to provide fair value estimates for its residential mortgage portfolio loans. Such estimates are calculated using discounted cash flow analysis, using market interest rates for comparable loans. The associated cash flows are adjusted for credit and other potential losses. Fair value for impaired loans are estimated using the net present value of the expected cash flows or the fair value of the underlying collateral if repayment is collateral dependent.

A summary of estimated fair values of significant financial instruments consisted of the following:

	At September 30, 2011		At December 31, 2010	
(In thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				

Cash	$7,468	$7,468	$6,734	$6,734
Residential mortgage loans, net	109,242	115,762	124,150	126,840

Other Real Estate Owned. Other real estate owned consists of real estate or assets acquired through repossession that are carried at the lower of cost or fair value less the estimated costs to sell. Independent appraisals are obtained to substantiate fair value and may be subject to adjustment based upon historical experience or specific geographic trends impacting the property. At the time a loan is referred to foreclosure, the excess of loan balance over fair value less cost to sell is charged off against the allowance for loan loss. Subsequent write-downs in value, maintenance expenses, and losses upon sale are charged to non-interest expense. Fair value measurements may be based upon appraisals or third-party price opinions and, accordingly, those measurements are classified as Level 2. Other fair value measurements may be based on internally developed pricing methods, and those measurements are classified as Level 3. Other real estate owned is separately stated in the accompanying Condensed Balance Sheets.

The Company held other real estate owned totaling $163 thousand and $241 thousand at September 30, 2011 and December 31, 2010, respectively. The decrease of $78 thousand was due to a $43 thousand write-down of properties and $35 thousand charged off for a fair value appraisal relating to a property transferred to other real estate owned in late December 2010. There were no loans transferred to other real estate owned during the three and nine months ended September 30, 2011. For the three months ended September 30, 2010 there were no loans transferred to other real estate owned, while for the nine months ended September 30, 2010, loans with a carrying value of $447 thousand were transferred to other real estate owned.

Condensed Statements Of Shareholders' Equity (Parenthetical) (USD $)	9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010
Condensed Statements Of Shareholders' Equity [Abstract]		
Common stock dividends per share	$ 13,140	$ 42,660

Residential Mortgage Loans, Net	9 Months Ended Sep. 30, 2011
Residential Mortgage Loans, Net [Abstract]	
Residential Mortgage Loans, Net	**Note 2: Residential Mortgage Loans, Net** A summary of residential mortgage loans, net, by type and original maturity follows:

(In thousands)	At September 30, 2011	At December 31, 2010
Fixed-rate loans:		
15 year	$ 2,726	$ 4,117
20 year	2,341	2,419
25 year	1,557	1,921
30 year	56,590	66,523
Total fixed-rate loans	63,214	74,980
Adjustable-rate loans:		
15 year	164	184
20 year	102	109
25 year	294	338
30 year	46,417	49,693
Total adjustable-rate loans	46,977	50,324
Loans receivable	110,191	125,304
Premiums and deferred costs on loans, net	448	560
Total residential mortgage loans	110,639	125,864
Accrued interest	387	433
Recorded investment	$ 111,026	$ 126,297
Recorded investment: individually evaluated for impairment	$ 7,318	$ 5,716
Recorded investment: collectively evaluated for impairment	$ 103,708	$ 120,581

All of the residential mortgage loans held by the Company at September 30, 2011 and December 31, 2010 were acquired from Webster Bank. There have been no loans acquired from Webster Bank or transferred to Webster Bank for the periods presented.

At September 30, 2011 and December 31, 2010, 57.4% and 59.8%, respectively, of the Company's residential mortgage loans were fixed rate loans and 42.6% and 40.2%, respectively, were adjustable-rate loans.

Allowance for loan losses. The following table provides detail of activity in the Company's allowance for loan losses:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2011	2010	2011	2010
Allowance for loan losses:				
Balance at beginning of the period	$1,661	$1,947	$1,714	$2,183
Provision for loan losses	—	—	—	—
Charge-offs	(264)	(191)	(317)	(427)
Balance at end of the period	$1,397	$1,756	$1,397	$1,756
Balance at end of period: individually evaluated for impairment	$900	$619	$900	$619
Balance at end of period: collectively evaluated for impairment	$497	$1,137	$497	$1,137

Risk Management. The Company, through its servicing agreement with Webster Bank, uses policies and procedures established jointly by line and risk management personnel to monitor and manage loan risk. This activity, coupled with relatively small loan amounts, predominately collateralized structures spread across many individual borrowers, minimizes risk. Additionally, trend and outlook reports are reviewed by management on a regular basis. Underwriting factors for residential mortgage loans include the borrower's FICO score, the loan to property value and the borrower's debt to income level, and are also influenced by statutory requirements.

A summary of the residential mortgage loans portfolio aging follows:

At September 30, 2011

(In thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Loans Receivable
Residential:						
Residential fixed-rate loans	$ 567	$ —	$ 1,769	$ 2,336	$61,720	$64,056
Residential adjustable-rate loans	1,310	—	2,268	3,578	43,392	46,970
Total recorded investment	$ 1,877	$ —	$ 4,037	$ 5,914	$105,112	$111,026

At December 31, 2010

(In thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Loans Receivable
Residential:						
Residential fixed-rate loans	$ 410	$ 126	$ 2,902	$ 3,438	$72,540	$75,978
Residential adjustable-rate loans	394	—	2,699	3,093	47,226	50,319
Total recorded investment	$ 804	$ 126	$ 5,601	$ 6,531	$119,766	$126,297

Loans on Nonaccrual Status. It is the Company's policy that all loans 90 days or more past due are placed in non-accrual status. Non-accrual loans totaled $4.0 million at September 30, 2011 and $5.6 million at December 31, 2010 and represented 3.6% and 4.5% of total loans receivable as of September 30, 2011 and December 31, 2010, respectively. When residential loans are placed on non-accrual status, the accrual of interest is discontinued and unpaid accrued interest is reversed and charged against interest income. Interest on non-accrual loans that would have been recorded as additional interest income for the three and nine months ended September 30, 2011 and 2010 had the loans been current in accordance with their original terms totaled approximately $34 thousand and $185 thousand, and $51 thousand and $123 thousand, respectively.

Impaired Loans. The Company, through its servicing agreement with Webster Bank, has an impairment analysis performed for all modified loans that are deemed to be a TDR and specific reserves are established as appropriate. A loan is deemed impaired when the contractual amounts of principal and interest are not expected to be collected in accordance with contractual provisions. For those TDRs where recovery is cash flow dependent, the original contractual interest rates for the loans are used as the discount rates for fixed rate loans. The current rate is used as the discount rate when the interest rate floats with a specified index. A change in terms or payments would be included in the impairment calculation. A specific valuation allowance is established equal to the calculated amount of impairment. Impairment is evaluated on a pooled basis for smaller-balance loans of a similar nature.

The recorded investment balance of impaired loans totaled $7.3 million, with established specific reserves of $0.9 million, at September 30, 2011. At December 31, 2010, the recorded investment balance of impaired loans totaled $5.7 million with established specific reserves of $0.6 million.

The following table summarizes impaired loans as of September 30, 2011 and December 31, 2010:

	At September 30, 2011					
(In thousands)	Unpaid Principal Balance	Total Recorded Investment	Recorded Investment No Allowance	Recorded Investment With Allowance	Related Valuation Allowance	Average Recorded Investment
Fixed-rate residential loans	$6,030	$ 5,742	$ —	$ 5,742	$ 806	$ 5,063

Adjustable-rate residential loans	1,566	1,576	—	1,576	94	1,455
Total	$7,596	$ 7,318	$ —	$ 7,318	$ 900	$ 6,518

	At December 31, 2010					
(In thousands)	Unpaid Principal Balance	Total Recorded Investment	Recorded Investment No Allowance	Recorded Investment With Allowance	Related Valuation Allowance	Average Recorded Investment
Fixed-rate residential loans (*)	$4,647	$ 4,383	$ —	$ 4,383	$ 531	$ 2,986
Adjustable-rate residential loans	1,329	1,333	—	1,333	33	667
Total	$5,976	$ 5,716	$ —	$ 5,716	$ 564	$ 3,653

(*) As permitted in accordance with applicable accounting guidance, non-TDR residential mortgage loans that are collectively evaluated for impairment on a pooled basis have been removed from the data with respect to impaired loans without a specific valuation allowance as originally presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. Management believes that these changes are immaterial to the Company's financial statements and align reporting of such data more closely with peers.

The following table summarizes interest income recognized on impaired loans for the three and nine months ended September 30, 2011 and 2010:

	Three months ended September 30,					
	2011			2010		
(In thousands)	Loans with No Allowance	Loans with Specific Allowance	Total	Loans with No Allowance	Loans with Specific Allowance	Total
Fixed-rate residential loans	$ —	$ 61	$61	$ —	$ 6	$6
Adjustable-rate residential loans	—	14	14	—	—	—
Total	$ —	$ 75	$75	$ —	$ 6	$6

	Nine months ended September 30,					
	2011			2010		
(In thousands)	Loans with No Allowance	Loans with Specific Allowance	Total	Loans with No Allowance	Loans with Specific Allowance	Total
Fixed-rate residential loans	$ —	$ 171	$171	$ —	$ 63	$63
Adjustable-rate residential loans	—	42	42	—	—	—
Total	$ —	$ 213	$213	$ —	$ 63	$63

Of the total interest income recognized for the three and nine months ended September 30, 2011 and 2010, $12 thousand and $29 thousand and $11 thousand and $33 thousand, respectively, was recognized on a cash basis method of accounting.

Troubled Debt Restructurings. A modified loan is considered a TDR when two conditions are met: 1) the borrower is experiencing documented financial difficulty and 2) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit characteristics. The most common types of modifications are a combination of below market rate reductions and maturity extensions. Modified terms are dependent upon the financial position and needs of the individual borrower. The Company does not employ modification programs for temporary or trial periods. The modified loan does not revert back to its original terms, even if the modified loan agreement is violated. If the modification agreement is violated, the loan is handled by Webster Bank's Restructuring and Recovery group for resolution, which may result in foreclosure.

The Company's policy is to place all TDRs on non-accrual status for a minimum period of six months. Loans qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement for a minimum of six months. Initially, all TDRs are reported as impaired. Generally, TDRs are classified as impaired loans and TDRs for the remaining life of the loan. Impaired and TDR classifications may be removed if the borrower demonstrates compliance with the modified terms and the restructuring agreement specifies an interest rate equal to that which would be provided to a borrower with similar credit at the time of restructuring.

The recorded investment balance of TDRs approximated $7.3 million at September 30, 2011 and $5.7 million at December 31, 2010. There were $5.7 million and $2.8 million TDRs on accrual status and $1.6 million and $2.9 million TDRs on nonaccrual status at September 30, 2011 and December 31, 2010, respectively. At September 30, 2011 and December 31, 2010, the allowance for loan losses included specific reserves of $0.9 million and $0.6 million, respectively, related to TDRs. For the three and nine months ended September 30, 2011 and 2010, the Company charged off $4 thousand and $18 thousand and $12 thousand and $113 thousand, respectively, for the portion of TDRs deemed to be uncollectible. At September 30, 2011 and December 31, 2010, there were no commitments to lend any additional funds to borrowers whose loans were in TDR status.

The following table provides information on loans modified as a TDR during the three and nine months ended September 30, 2011 and 2010:

	For the Three Months Ended September 30,							
	2011				2010			
(Dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Coupon Rate	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Coupon Rate
Fixed-rate residential loans	4	$ 731	$ 731	3.9 %	3	$ 606	$ 606	4.1 %
Adjustable-rate residential loans	—	—	—	—	1	707	707	5.9
TOTAL TDRs	4	$ 731	$ 731	3.9 %	4	$ 1,313	$ 1,313	5.0 %

	For the Nine Months Ended September 30,							
	2011				2010			
(Dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Coupon Rate	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Coupon Rate
Fixed-rate residential loans	10	$ 1,675	$ 1,675	3.8 %	11	$ 2,303	$ 2,303	4.8 %
Adjustable-rate residential loans	1	262	262	2.9	1	707	707	5.9
TOTAL TDRs	11	$ 1,937	$ 1,937	3.7 %	12	$ 3,010	$ 3,010	5.1 %

The following table provides information on how loans were modified as TDRs during the three and nine months ended September 30, 2011 and 2010:

	For the Three Months Ended September 30,									
	2011					2010				
(In thousands)	Extended Maturity	Adjusted Interest Rates	Combination of Rate and Maturity	Other	Total	Extended Maturity	Adjusted Interest Rates	Combination of Rate and Maturity	Other	Total
Fixed-rate residential loans	$ 114	$ —	$ 617	$—	$731	$ —	$ —	$ 606	$—	$606
Adjustable-rate residential loans	—	—	—	—	—	707	—	—	—	707
TOTAL TDRs	$ 114	$ —	$ 617	$—	$731	$ 707	$ —	$ 606	$—	$1,313

	For the Nine Months Ended September 30,									
	2011					2010				
(In thousands)	Extended Maturity	Adjusted Interest Rates	Combination of Rate and Maturity	Other	Total	Extended Maturity	Adjusted Interest Rates	Combination of Rate and Maturity	Other	Total
Fixed-rate residential loans	$ 317	$ —	$ 1,358	$—	$1,675	$ 271	$ 595	$ 1,018	$419	$2,303
Adjustable-rate residential loans	262	—	—	—	262	707	—	—	—	707
TOTAL TDRs	$ 579	$ —	$ 1,358	$—	$1,937	$ 978	$ 595	$ 1,018	$419	$3,010

There were no loans modified as TDRs within the previous 12 months and for which there were payment defaults during the periods presented within this report.

Redeemable Preferred Stock	9 Months Ended Sep. 30, 2011
Redeemable Preferred Stock [Abstract]	
Redeemable Preferred Stock	**Note 3: Redeemable Preferred Stock** In December 1997, the Company issued 1,000,000 shares of Series B 8.625% cumulative redeemable preferred stock at $10 per share. The preferred stock is redeemable after January 15, 2003 at the option of the Company. The redemption price is $10 per share. As of September 30, 2011, there have been no redemptions. The preferred shares are listed on NASDAQ under the symbol "WBSTP" and are not exchangeable into common stock or any other securities and carry no participation rights. Dividends paid on the preferred stock totaled $216 thousand and $647 thousand during the three and nine months ended September 30, 2011 and 2010, respectively, and are reflected as preferred stock dividends in the accompanying Condensed Statements of Income.

Servicing	9 Months Ended Sep. 30, 2011
Servicing [Abstract]	
Servicing	**Note 4: Servicing** The mortgage loans owned by the Company are serviced by Webster Bank pursuant to the terms of an Amended and Restated Service Agreement (the "Service Agreement"). Webster Bank, in its role as servicer, receives fees at an annual rate of 9.58 basis points for loan servicing and collection, and 5 basis points for all other services to be provided, as needed, in each case based on the daily outstanding balances of all the Company's loans for which Webster Bank is responsible for servicing. The services provided to the Company by Webster Bank are at the level of a sub-servicing agreement. Servicing fees paid for the three and nine months ended September 30, 2011 and 2010 were approximately $27 thousand and $84 thousand and $33 thousand and $95 thousand, respectively. Servicing fees are netted against interest income in the accompanying Condensed Statements of Income, as they are considered a reduction in yield to the Company. Webster Bank is entitled to retain any late payment charges, prepayment fees, penalties and assumption fees collected in connection with residential mortgage loans serviced by it. Webster Bank also receives the benefit, if any, derived from interest earned on collected principal and interest payments between the date of collection and the date of remittance to the Company and from interest earned on tax and insurance escrow funds with respect to mortgage loans it services. At the end of each calendar month, Webster Bank is required to invoice the Company for all fees and charges due.

Condensed Statements Of Shareholders' Equity (USD $) In Thousands	9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010
Condensed Statements Of Shareholders' Equity [Abstract]		
Beginning Balance	$ 130,587	$ 157,586
Net income	3,414	4,757
Return of capital dividend	(15,000)	(21,000)
Preferred stock dividends	(647)	(647)
Common stock dividends ($13,140 per share and $42,660 per share, respectively)	(1,314)	(4,266)
Ending Balance	$ 117,040	$ 136,430

Condensed Statements Of Cash Flows (USD $) In Thousands	9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010
Operating Activities:		
Net income	$ 3,414	$ 4,757
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization and accretion	112	110
Foreclosed and repossessed asset write-downs	43	25
Net decrease in accrued interest receivable and other assets, net	38	57
Net increase in accrued expenses and other liabilities, net	4	624
Net cash provided by operating activities	3,611	5,573
Investing Activities:		
Net decrease in residential mortgage loans	14,831	18,413
Net cash provided by investing activities	14,831	18,413
Financing Activities:		
Dividends paid on preferred stock	(647)	(647)
Dividends paid on common stock	(2,061)	(4,266)
Return of capital dividend	(15,000)	(21,000)
Net cash used for financing activities	(17,708)	(25,913)
Net increase (decrease) in cash	734	(1,927)
Cash at beginning of period	6,734	6,374
Cash at end of period	7,468	4,447
Noncash investing activities:		
Transfer of loans, net to other real estate owned		$ 447

Condensed Balance Sheets (USD $) In Thousands	Sep. 30, 2011	Dec. 31, 2010
Assets:		
Cash	$ 7,468	$ 6,734
Residential mortgage loans	110,639	125,864
Allowance for loan losses	(1,397)	(1,714)
Residential mortgage loans, net	109,242	124,150
Other real estate owned	163	241
Accrued interest receivable and other assets	395	433
Total assets	117,268	131,558
Liabilities:		
Accrued dividends	180	927
Accrued expenses and other liabilities	48	44
Total liabilities	228	971
Shareholder's Equity:		
Series B 8.625% cumulative redeemable preferred stock, liquidation preference $10 per share; par value $1.00 per share: 1,000,000 shares authorized, issued and outstanding	1,000	1,000
Common stock, par value $.01 per share: Authorized - 1,000 shares Issued and outstanding - 100 shares	1	1
Paid-in capital	117,800	132,800
Accumulated deficit	(1,761)	(3,214)
Total shareholder's equity	117,040	130,587
Total liabilities and shareholder's equity	$ 117,268	$ 131,558