BANK OF HAWAII CORP Form 10-Q April 19, 2010 Table of Contents

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 March 31, 2010
or
Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to

BANK OF HAWAII CORPORATION

Commission File Number: 1-6887

(Exact name of registrant as specified in its charter)

Delaware (State of incorporation)

99-0148992

(I.R.S. Employer Identification No.)

130 Merchant Street, Honolulu, Hawaii (Address of principal executive offices)

96813 (Zip Code)

1-888-643-3888

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

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 o No o

Indicate by check mark whether t	he registrant is a large ac	celerated filer, an a	ccele	rated filer, a non-accelerated	filer, or a smaller reporting
company. See the definitions of	large accelerated filer,	accelerated filer	and	smaller reporting company	in Rule 12b-2 of the Exchange Act
Large accelerated filer x				Accelerated filer	0

Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

As of April 13, 2010, there were 48,041,730 shares of common stock outstanding.

Non-accelerated filer o (Do not check if a smaller reporting company)

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Bank of Hawaii Corporation

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Bank of Hawaii Corporation and Subsidiaries

Consolidated Statements of Income (Unaudited)

		Th	ree Mont March	hs Ended
(dollars in thousands, except per share amounts)		2010		2009
Interest Income				
Interest and Fees on Loans and Leases	\$	77,271	\$	86,592
Income on Investment Securities				
Trading				594
Available-for-Sale		43,841		32,301
Held-to-Maturity		1,863		2,567
Deposits		13		10
Funds Sold		309		577
Other		277		276
Total Interest Income		123,574		122,917
Interest Expense				
Deposits		8,307		17,025
Securities Sold Under Agreements to Repurchase		6,429		6,652
Funds Purchased		7		5
Long-Term Debt		1,178		2,173
Total Interest Expense		15,921		25,855
Net Interest Income		107,653		97,062
Provision for Credit Losses		20,711		24,887
Net Interest Income After Provision for Credit Losses		86,942		72,175
Noninterest Income				
Trust and Asset Management		11,708		11,632
Mortgage Banking		3,464		8,678
Service Charges on Deposit Accounts		13,814		13,386
Fees, Exchange, and Other Service Charges		14,504		14,976
Investment Securities Gains, Net		20,021		56
Insurance		2,715		5,641
Other		5,556		15,996
Total Noninterest Income		71,782		70,365
Noninterest Expense		44.564		47.000
Salaries and Benefits		44,564		47,028
Net Occupancy		10,144		10,328 4,316
Net Equipment Professional Fees		4,558 1,992		2,549
FDIC Insurance		3,100		1,814
Other		17,348		21,898
Total Noninterest Expense		81,706		87,933
Income Before Provision for Income Taxes		77,018		54,607
Provision for Income Taxes		24,282		18,567
Net Income	\$	52,736	\$	36.040
Basic Earnings Per Share	\$ \$	1.10	\$	0.76
Diluted Earnings Per Share	\$	1.10	\$	0.76
Dividends Declared Per Share	\$ \$	0.45	\$	0.73
Basic Weighted Average Shares	D	47,914,412	φ	47,566,005
Diluted Weighted Average Shares		48,289,427		47,802,249
Diffice weighted Average Shares		40,209,421		47,002,249

 $The \ accompanying \ notes \ are \ an \ integral \ part \ of \ the \ Consolidated \ Financial \ Statements \ (Unaudited).$

Bank of Hawaii Corporation and Subsidiaries

Consolidated Statements of Condition (Unaudited)

(dollars in thousands)		March 31, 2010		December 31, 2009		March 31, 2009
Assets						
Interest-Bearing Deposits	\$	4,910	\$	8,755	\$	5,031
Funds Sold		269,410		291,546		895,595
Investment Securities						
Available-for-Sale		5,447,239		5,330,834		3,106,608
Held-to-Maturity (Fair Value of \$173,646; \$186,668; and \$233,633)		167,099		181,018		228,177
Loans Held for Sale		11,143		16,544		24,121
Loans and Leases		5,610,081		5,759,785		6,338,726
Allowance for Loan and Lease Losses		(146,358)		(143,658)		(134,416)
Net Loans and Leases		5,463,723		5,616,127		6,204,310
Total Earning Assets		11,363,524		11,444,824		10,463,842
Cash and Noninterest-Bearing Deposits		355,398		254,766		299,393
Premises and Equipment		110,310		110,976		114,536
Customers Acceptances		677		1,386		822
Accrued Interest Receivable		42,180		45,334		36,928
Foreclosed Real Estate		3,192		3,132		346
Mortgage Servicing Rights		26,082		25,970		23,528
Goodwill		31,517		31,517		34,959
Other Assets		502,790		496.922		473,774
Total Assets	\$	12,435,670	\$	12,414,827	\$	11,448,128
Total Tabbets	Ψ	12, 133,070	Ψ	12,111,027	Ψ	11,110,120
Liabilities						
Deposits						
Noninterest-Bearing Demand	\$	2,194,280	\$	2,252,083	\$	1,970,041
Interest-Bearing Demand		1,669,586		1,609,413		1,926,576
Savings		4,515,597		4,405,969		3,905,709
Time		1,114,621		1,142,211		1,410,465
Total Deposits		9,494,084		9,409,676		9,212,791
Funds Purchased		8,888		8,888		9,665
Short-Term Borrowings		7,317		6,900		10,000
Securities Sold Under Agreements to Repurchase		1,529,047		1,618,717		844,283
Long-Term Debt		90,309		90,317		59,003
Banker s Acceptances		677		1,386		822
Retirement Benefits Payable		36,895		37,435		54,450
Accrued Interest Payable		7,766		7,026		10,010
Taxes Payable and Deferred Taxes		224,112		229,140		258,505
Other Liabilities		97,203		109,369		154,664
Total Liabilities		11,496,298		11,518,854		10,614,193
Shareholders Equity				, ,		, i
Common Stock (\$.01 par value; authorized 500,000,000 shares;						
issued / outstanding: March 31, 2010 - 57,027,543 / 48,040,830;						
December 31, 2009 - 57,028,239 / 48,018,943;						
and March 31, 2009 - 57,019,595 / 47,803,544)		570		569		569
Capital Surplus		494,653		494,318		491,352
Accumulated Other Comprehensive Income (Loss)		18,063		6,925		(1,319)
Retained Earnings		874,305		843,521		802,195
Treasury Stock, at Cost (Shares: March 31, 2010 - 8,986,713;		071,505		013,321		002,173
December 31, 2009 - 9,009,296; and March 31, 2009 - 9,216,051)		(448,219)		(449,360)		(458,862)
Total Shareholders Equity		939,372		895,973		833,935
Total Liabilities and Shareholders Equity	\$	12,435,670	\$		\$	11,448,128
Total Planings and Shareholders Equity	φ	12,733,070	Ψ	12,717,027	Ψ	11,770,120

The accompanying notes are an integral part of the Consolidated Financial Statements (Unaudited).

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Bank of Hawaii Corporation and Subsidiaries

				Accum. Other Compre-				
		~	~	hensive			_	Compre-
(dollars in thousands)	Total	Common Stock	Capital Surplus	Income (Loss)	Retained Earnings		Treasury Stock	hensive Income
Balance as of December 31, 2009	\$ 895,973	\$ 569	\$ 494,318	\$ 6,925	\$ 843,521	\$	(449,360)	meome
Comprehensive Income:			, , , .	- ,-	/-	Ċ	(, , , , , , ,	
Net Income	52,736				52,736			\$ 52,736
Other Comprehensive Income, Net of Tax:					ĺ			
Change in Unrealized Gains and Losses								
on Investment Securities Available-for-Sale	10,757			10,757				10,757
Amortization of Net Losses Related to Defined								
Benefit Plans	381			381				381
Total Comprehensive Income								\$ 63,874
Share-Based Compensation	714		714					
Common Stock Issued under Purchase and Equity								
Compensation Plans and Related Tax Benefits								
(52,481 shares)	1,785	1	(379)		(320)		2,483	
Common Stock Repurchased (30,594 shares)	(1,342)						(1,342)	
Cash Dividends Paid	(21,632)				(21,632)			
Balance as of March 31, 2010	\$ 939,372	\$ 570	\$ 494,653	\$ 18,063	\$ 874,305	\$	(448,219)	
Balance as of December 31, 2008	\$ 790,704	\$ 568	\$ 492,515	\$ (28,888)	\$ 787,924	\$	(461,415)	
Comprehensive Income:								
Net Income	36,040				36,040			\$ 36,040
Other Comprehensive Income, Net of Tax:								
Change in Unrealized Gains and Losses								
on Investment Securities Available-for-Sale	27,243			27,243				27,243
Amortization of Net Losses Related to Defined								
Benefit Plans	326			326				326
Total Comprehensive Income								\$ 63,609
Share-Based Compensation	235		235					
Common Stock Issued under Purchase and Equity								
Compensation Plans and Related Tax Benefits								
(71,244 shares)	1,627	1	(1,398)		(258)		3,282	
Common Stock Repurchased (21,071 shares)	(729)						(729)	
Cash Dividends Paid	(21,511)				(21,511)			
Balance as of March 31, 2009	\$ 833,935	\$ 569	\$ 491,352	\$ (1,319)	\$ 802,195	\$	(458,862)	

The accompanying notes are an integral part of the Consolidated Financial Statements (Unaudited).

Bank of Hawaii Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

Montaging thin thousands 2000 2			T	hree Montl March	
Note	(dollars in thousands)		2010		,
Aginemats to Reconcile Net Income to Net Cash Provided by Operating Activities	Operating Activities				
Provision for Credit Losses 20,71 4,887 Depreciation and Amoritzation 3,332 3,399 Amoritzation of Deferred Loan and Lease Fees (623) (625) Amoritzation and Accretion of Premiums/Discounts on Investment Securities, Net 10,799 1,211 Share-Based Compensation (587) (421) Benefit Plan Contributions (587) (421) Net Ceff Plan Contributions (587) (421) Net Clange in Trading Securities (20,02) (568) Proceeds from Stace of Loans Held for Sale 117,261 398,376 Originations of Loans Held for Sale (111,860) (400,877) Tax Benefits from Share-Based Compensation (10) (17,720) Net Change in Other Assets and Other Liabilities (22,495) 41,172 Net Cash Provided by Operating Activities 351,199 243,239 Proceeds from Sales 22,495 (81,086) Proceeds from Prayaments and Maturities 351,199 243,239 Proceeds from Prayaments and Maturities 313,865 11,347 Net Change in Loans and Leases 13,386	Net Income	\$	52,736	\$	36,040
Depreciation and Amontization of Deferred Loun and Lease Fees (623) (625) Amontization of Deferred Loun and Lease Fees (623) (625) Amontization of Deferred Loun and Lease Fees (623) (625) Amontization of Deferred Loun and Lease Fees (10,99) 1.211 Stare-Based Compensation (687) (421) Deferred Controllations (687) (421) Deferred Income Taxes (50,001) (687) Net Clains on Investment Securities (20,021) (56) Net Clain gen Trading Securities (11,261) (39,38) Originations of Loans Held for Sale (11,80) (40,057) Net Cash Provided by Operating Activities (24,95) 41,129 Net Cash Provided by Operating Activities (24,95) 41,129 Investing Activities (35,19) 243,329 Proceeds from Sales (24,95) 41,129 Investing Activities (35,19) 243,329 Proceeds from Pepayments and Maturities (35,19) 243,329 Proceeds from Epayments and Maturities (35,10) 13,47	Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:				,
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Non-Cash Investing Activity:		Ψ	· · · · · · · · · · · · · · · · · · ·	Ψ	
			37,010		1,570
			60		

The accompanying notes are an integral part of the Consolidated Financial Statements (Unaudited).

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Bank of Hawaii Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

Note	1.	Summary	of	Significant	Accounting	, P	Policies

Basis of Presentation

Bank of Hawaii Corporation (the Parent) is a bank holding company headquartered in Honolulu, Hawaii. Bank of Hawaii Corporation and its subsidiaries (the Company) provide a broad range of financial products and services to customers Hawaii, Guam, and other Pacific Islands. The Parent s principal subsidiary is Bank of Hawaii (the Bank). All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and accompanying notes required by GAAP for complete financial statements. In the opinion of management, the consolidated financial statements reflect normal recurring adjustments necessary for a fair presentation of the results for the interim periods.

Certain prior period information has been reclassified to conform to the current period presentation.

These statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results may differ from those estimates and such differences could be material to the financial statements.

Fair Value Measurements and Disclosures

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2010-06, *Improving Disclosures About Fair Value Measurements*, which added disclosure requirements about transfers in and out of Levels 1 and 2, clarified existing fair value disclosure requirements about the appropriate level of disaggregation, and clarified that a description of valuation techniques and inputs used to measure fair value was required for recurring and nonrecurring Level 2 and 3 fair value measurements. The Company adopted these provisions of the ASU in preparing the Consolidated Financial Statements for the period ended March 31, 2010. The adoption of these provisions of this ASU, which was subsequently codified into Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, only affected the disclosure requirements for fair value measurements and as a result had no impact on the Company s statements of income and condition. See Note 10 to the Consolidated Financial Statements for the disclosures required by this ASU.

This ASU also requires that Level 3 activity about purchases, sales, issuances, and settlements be presented on a gross basis rather than as a net number as currently permitted. This provision of the ASU is effective for the Company s reporting period ending March 31, 2011. As this provision amends only the disclosure requirements for fair value measurements, the adoption will have no impact on the Company s statements of income and condition.

Note 2. Investment Securities

The amortized cost, gross unrealized gains and losses, and estimated fair value of the Company s investment securities as of March 31, 2010, December 31, 2009, and March 31, 2009 were as follows:

		Amortized		Gross Unrealized		Gross Unrealized		Fair
(dollars in thousands)		Cost		Gains		Losses		Value
March 31, 2010								
Available-for-Sale:	¢.	746,761	\$	7.050	\$	(059)	\$	752.853
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$,	Э	.,	Э	(958)	Э	,
Debt Securities Issued by States and Political Subdivisions		51,940 751		1,402		(16)		53,326 784
Debt Securities Issued by U.S. Government-Sponsored Enterprises		/31		33				764
Mortgage-Backed Securities Issued by Government Agencies		4,265,067		44,846		(6,274)		4,303,639
C C		321.681		14.956		(0,274)		336.637
U.S. Government-Sponsored Enterprises		- /		,		(6.274)		,
Total Mortgage-Backed Securities Total	\$	4,586,748 5,386,200	\$	59,802 68,287	\$	(6,274) (7,248)	¢.	4,640,276
Held-to-Maturity:	Ф	3,380,200	Ф	00,207	Ф	(7,246)	Ф	5,447,239
Mortgage-Backed Securities Issued by								
	\$	55.834	\$	2,379	\$		\$	58.213
Government Agencies	Ф	,	Ф	,	Ф		Ф	, -
U.S. Government-Sponsored Enterprises Total	\$	111,265 167,099	\$	4,168 6,547	\$		\$	115,433 173,646
Total	Ф	107,099	Ф	0,347	Ф		Ф	173,040
December 21, 2000								
December 31, 2009								
Available-for-Sale:	¢.	711 222	\$	11 240	\$	(1.670)	¢.	720 702
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$	711,223	\$	11,248	\$	(1,679)	Э	720,792
Debt Securities Issued by States and Political Subdivisions		52,742		1,391		(17)		54,116
Debt Securities Issued by U.S. Government-Sponsored Enterprises		751		41				792
Mortgage-Backed Securities Issued by		4.015.016		26,000		(20,020)		4.000.607
Government Agencies		4,015,816		26,900		(20,029)		4,022,687
U.S. Government-Sponsored Enterprises		509,225		23,276		(54)		532,447
Total Mortgage-Backed Securities	Φ.	4,525,041	ф	50,176	ф	(20,083)	ф	4,555,134
Total	\$	5,289,757	\$	62,856	\$	(21,779)	\$	5,330,834
Held-to-Maturity:								
Mortgage-Backed Securities Issued by	ф	50.540	ф	1.070	ф		ф	(1.401
Government Agencies	\$	59,542	\$	1,879	\$		\$	61,421
U.S. Government-Sponsored Enterprises	d.	121,476	ф	3,771	ф		ф	125,247
Total	\$	181,018	\$	5,650	\$		\$	186,668
M								
March 31, 2009								
Available-for-Sale:	ď	5(((0)	¢	1 000	ф	(501)	¢.	569,002
Debt Securities Issued by the U.S. Treasury and Government Agencies	\$	566,606	\$	1,898	\$	(501)	Э	568,003
Debt Securities Issued by States and Political Subdivisions		50,482		1,196 312		(68)		51,610
Debt Securities Issued by U.S. Government-Sponsored Enterprises		145,530		312				145,842
Mortgage-Backed Securities Issued by		500.070		12 440		(1)		(02.510
Government Agencies		590,072		13,448		(1)		603,519
U.S. Government-Sponsored Enterprises		1,413,795		46,662		(4)		1,460,453
Private-Label Mortgage-Backed Securities		279,093		54		(27,068)		252,079
Total Mortgage-Backed Securities		2,282,960		60,164		(27,073)		2,316,051
Other Debt Securities	d.	25,088	ф	15	ф	(1)	ф	25,102
Total	\$	3,070,666	\$	63,585	\$	(27,643)	Э	3,106,608
Held-to-Maturity:								
Mortgage-Backed Securities Issued by	¢.	(0.721	¢.	0.076	¢.		¢	70.007
Government Agencies	\$	69,731	\$	2,276	\$	(22)	\$	72,007
U.S. Government-Sponsored Enterprises	¢.	158,446	¢.	3,213	¢.	(33)	¢	161,626
Total	\$	228,177	\$	5,489	\$	(33)	Ф	233,633

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The table below presents an analysis of the contractual maturities of the Company s investment securities as of March 31, 2010. Mortgage-backed securities are disclosed separately in the table below as these investment securities may prepay prior to their scheduled contractual maturity dates.

	Amortized	Gross Unrealized	Gross Unrealized	
(dollars in thousands)	Cost	Gains	Losses	Fair Value
Available-for-Sale:				
Due in One Year or Less	\$ 22,304	\$ 87	\$ \$	22,391
Due After One Year Through Five Years	328,177	930	(283)	328,824
Due After Five Years Through Ten Years	93,930	992	(14)	94,908
Due After Ten Years	355,041	6,476	(677)	360,840
	799,452	8,485	(974)	806,963
Mortgage-Backed Securities Issued by				
Government Agencies	4,265,067	44,846	(6,274)	4,303,639
U.S. Government-Sponsored Enterprises	321,681	14,956		336,637
Total Mortgage-Backed Securities	4,586,748	59,802	(6,274)	4,640,276
Total	\$ 5,386,200	\$ 68,287	\$ (7,248) \$	5,447,239
Held-to-Maturity:				
Mortgage-Backed Securities Issued by				
Government Agencies	\$ 55,834	\$ 2,379	\$ \$	58,213
U.S. Government-Sponsored Enterprises	111,265	4,168		115,433
Total	\$ 167,099	\$ 6,547	\$ \$	173,646

Investment securities pledged where the secured parties have the right to sell or repledge the investment securities had carrying values of \$2.7 billion as of March 31, 2010 and December 31, 2009, and \$2.3 billion as of March 31, 2009. These investment securities were pledged to secure deposits of governmental entities and securities sold under agreements to repurchase.

Gross gains on the sales of investment securities were \$20.0 million and \$0.1 million for the three months ended March 31, 2010 and 2009, respectively. Gross losses on the sales of investment securities were not material for the three months ended March 31, 2010 and 2009. Realized gains and losses on investment securities were recorded in noninterest income using the specific identification method.

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The Company s temporarily impaired investment securities as of March 31, 2010, December 31, 2009, and March 31, 2009 were as follows:

	Less Than 12 Months Gross			12 Month	s or I	Longer Gross	To	Gross	
			Unrealized			Unrealized			Unrealized
(dollars in thousands)	Fair Value		Losses	Fair Value		Losses	Fair Value		Losses
March 31, 2010									
Debt Securities Issued by									
the U.S. Treasury and Government									
Agencies	\$ 205,860	\$	(937) \$	1,627	\$	(21) \$	207,487	\$	(958)
Debt Securities Issued by									
States and Political Subdivisions	875		(4)	322		(12)	1,197		(16)
Mortgage-Backed Securities Issued by									
Government Agencies	1,079,640		(6,274)				1,079,640		(6,274)
Total Temporarily Impaired									
Investment Securities	\$ 1,286,375	\$	(7,215) \$	1,949	\$	(33) \$	1,288,324	\$	(7,248)
December 31, 2009									
Debt Securities Issued by									
the U.S. Treasury and Government									
Agencies	\$ 347,324	\$	(1,656) \$	1,703	\$	(23) \$	349,027	\$	(1,679)
Debt Securities Issued by									
States and Political Subdivisions	878		(5)	322		(12)	1,200		(17)
Mortgage-Backed Securities Issued by									
Government Agencies	2,171,588		(20,029)				2,171,588		(20,029)
U.S. Government-Sponsored Enterprises	8,982		(54)				8,982		(54)
Total Mortgage-Backed Securities	2,180,570		(20,083)				2,180,570		(20,083)
Total Temporarily Impaired									
Investment Securities	\$ 2,528,772	\$	(21,744) \$	2,025	\$	(35) \$	2,530,797	\$	(21,779)
March 31, 2009									
Debt Securities Issued by									
the U.S. Treasury and Government									
Agencies	\$ 226,503	\$	(454) \$	1,847	\$	(47) \$	228,350	\$	(501)
Debt Securities Issued by									
States and Political Subdivisions	3,603		(48)	314		(20)	3,917		(68)
Mortgage-Backed Securities Issued by									
Government Agencies	7,948		(1)				7,948		(1)
U.S. Government-Sponsored Enterprises	22,306		(37)				22,306		(37)
Private-Label Mortgage-Backed Securities	5,360		(1,873)	235,859		(25,195)	241,219		(27,068)
Total Mortgage-Backed Securities	35,614		(1,911)	235,859		(25,195)	271,473		(27,106)
Other Debt Securities	•		, , , ,	34		(1)	34		(1)
Total Temporarily Impaired						` ′			()
Investment Securities	\$ 265,720	\$	(2,413) \$	238,054	\$	(25,263) \$	503,774	\$	(27,676)

The Company does not believe that the investment securities that were in an unrealized loss position as of March 31, 2010, which were comprised of 69 securities, represent an other-than-temporary impairment. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not more likely than not that the Company will be required to sell the investment securities before recovery of their amortized cost bases, which may be at maturity.

As of March 31, 2010, the gross unrealized losses reported for mortgage-backed securities relate to investment securities issued by the Government National Mortgage Association.

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Note 3. Mortgage Servicing Rights

The Company s portfolio of residential mortgage loans serviced for third parties was \$3.1 billion as of March 31, 2010 and December 31, 2009, and \$2.9 billion as of March 31, 2009. All of the Company s residential mortgage loans sold to third parties is sold on a non-recourse basis. The Company s mortgage servicing activities include collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of the borrowers; monitoring delinquencies and executing foreclosure proceedings; and accounting for and remitting principal and interest payments to investors. Servicing income, including late and ancillary fees, was \$1.8 million and \$1.6 million for the three months ended March 31, 2010 and 2009, respectively. Servicing income is recorded as a component of mortgage banking income in the Company s Consolidated Statements of Income. The Company s residential mortgage loan servicing portfolio is comprised primarily of fixed rate loans concentrated in Hawaii.

For the three months ended March 31, 2010 and 2009, the change in the fair value of the Company s mortgage servicing rights accounted for under the fair value measurement method was as follows:

	Thi	hs Ended 31,	
(dollars in thousands)	2010		2009
Balance at Beginning of Period	\$ 15,332	\$	19,553
Changes in Fair Value:			
Due to Change in Valuation Assumptions 1	(93)		(91)
Due to Paydowns and Other 2	(432)		(1,558)
Total Changes in Fair Value of Mortgage Servicing Rights	(525)		(1,649)
Balance at End of Period	\$ 14,807	\$	17,904

- 1 Principally represents changes in discount rates and loan repayment rate assumptions, mostly due to changes in interest rates.
- 2 Principally represents changes due to loan payoffs.

The Company established a new class of mortgage servicing rights, to be accounted for under the amortization method, beginning with servicing rights recognized on or after July 1, 2008. For the three months ended March 31, 2010 and 2009, the change in the carrying value of the Company s mortgage servicing rights accounted for under the amortization method, net of a valuation allowance, was as follows:

	Three Months Ended		
		Marc	h 31,
(dollars in thousands)	2010		2009
Balance at Beginning of Period	\$ 10,638	\$	1,796
Servicing Rights that Resulted From Asset Transfers	945		3,923
Amortization	(308)		(95)
Balance at End of Period	\$ 11,275	\$	5,624
Valuation Allowance:			
Balance at Beginning of Period	\$	\$	292
Recoveries			(292)

Balance at End of Period	\$	\$
Mortgage Servicing Rights Accounted for Under		
the Amortization Method, Net of a Valuation Allowance	\$ 11,275	\$ 5,624
Fair Value of Mortgage Servicing Rights Accounted for Under the Amortization Method		
Beginning of Period	\$ 14,853	\$ 1,504
End of Period	\$ 16,453	\$ 6,158

The key assumptions used in estimating the fair value of the Company s mortgage servicing rights as of March 31, 2010 and 2009 were as follows:

	Mar	March 31,	
	2010	2009	
Weighted-Average Constant Prepayment Rate 1	13.99%	16.85%	
Weighted-Average Life (in years)	5.75	4.55	
Weighted-Average Note Rate	5.23%	5.54%	
Weighted-Average Discount Rate 2	7.24%	6.44%	