BOK FINANCIAL CORP ET AL
Form 10-Q
May 03, 2013

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from _____________ to ______________

Commission File No. 0-19341

BOK FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Oklahoma (State or other jurisdiction of Incorporation or Organization)	73-1373454 (IRS Employer Identification No.)
Bank of Oklahoma Tower P.O. Box 2300 Tulsa, Oklahoma (Address of Principal Executive Offices)	74192 (Zip Code)

(918) 588-6000
(Registrant’s telephone number, including area code)

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

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

Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 68,687,718 shares of common stock ($.00006 par value) as of March 31, 2013.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

Performance Summary

BOK Financial Corporation ("the Company") reported net income of $88.0 million or $1.28 per diluted share for the first quarter of 2013, compared to $83.6 million or $1.22 per diluted share for the first quarter of 2012 and $82.6 million or $1.21 per diluted share for the fourth quarter of 2012.

Highlights of the first quarter of 2013 included:

- Net interest revenue totaled $170.4 million for the first quarter of 2013, compared to $173.6 million for the first quarter of 2012 and $173.4 million for the fourth quarter of 2012. Net interest margin was 2.92% for the first quarter of 2013. Net interest margin was 3.19% for the first quarter of 2012 and 2.95% for the fourth quarter of 2012.
- Fees and commissions revenue totaled $158.1 million for the first quarter of 2013, compared to $144.6 million for the first quarter of 2012 and $165.8 million for the fourth quarter of 2012. Mortgage banking revenue increased $6.9 million over the first quarter of 2012 due primarily to an increase in loan production volume. Mortgage banking revenue decreased $6.4 million compared to the fourth quarter of 2012 due to lower volume and narrowed pricing of loan sold.
- Operating expenses, excluding changes in the fair value of mortgage servicing rights, totaled $204.0 million for the first quarter of 2013, up $14.7 million over the first quarter of 2012 and down $22.8 million compared to the previous quarter. Personnel costs increased $10.9 million over the first quarter of 2012 primarily due to incentive compensation and headcount. Personnel costs decreased $5.5 million compared to the fourth quarter of 2012 due primarily to decreased incentive compensation. Non-personnel expenses increased $3.8 million over the first quarter of 2012 and decreased $17.3 million compared to the prior quarter.
- An $8.0 million negative provision for credit losses was recorded in the first quarter of 2013 compared to no provision for credit losses in the first quarter of 2012 and a $14.0 million negative provision for credit losses in the fourth quarter of 2012. The negative provision was largely due to declining gross loss rates and a decrease in outstanding loan balances. Gross charge-offs were $8.9 million in the first quarter of 2013, $13.7 million in the first quarter of 2012 and $8.0 million in the fourth quarter of 2012. Recoveries increased to $6.6 million in the first quarter of 2013 compared to $5.2 million in the first quarter of 2012 and $3.7 million in the fourth quarter of 2012.
- The combined allowance for credit losses totaled $207 million or 1.71% of outstanding loans at March 31, 2013 compared to $217 million or 1.77% of outstanding loans at December 31, 2012. Nonperforming assets that are not guaranteed by U.S. government agencies totaled $207 million or 1.73% of outstanding loans and repossessed assets (excluding those guaranteed by U.S. government agencies) at March 31, 2013 and $215 million or 1.76% of outstanding loans and repossessed assets (excluding those guaranteed by U.S. government agencies) at December 31, 2012.
- Average outstanding loan balances for the first quarter totaled $12.2 billion, up $236 million over the fourth quarter of 2012. Average commercial real estate loans grew $139 million and average commercial loans grew $57 million. Period end outstanding loan balances were $12.1 billion at March 31, 2013, a decrease of $218 million from December 31, 2012. Commercial real estate loans increased $56 million. Commercial loan balances decreased by $224 million, residential mortgage loans decreased by $32 million and consumer loans decreased by $18 million.
- Period end deposits totaled $19.9 billion at March 31, 2013 compared to $21.2 billion at December 31, 2012. As expected, demand deposit account balances decreased $1.1 billion during the first quarter as surge deposits received in the fourth quarter of 2012 were redeployed. Interest-bearing transaction accounts decreased $146 million and time deposits decreased $68 million.
- The tangible common equity ratio was 9.70% at March 31, 2013 and 9.25% at December 31, 2012. The tangible common equity ratio is a non-GAAP measure of capital strength used by the Company and investors based on shareholders' equity as defined by generally accepted accounting principles in the United States of America ("GAAP") minus intangible assets and equity that does not benefit common shareholders.
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The Company and its subsidiary bank continue to exceed the regulatory definition of well capitalized. The Company's Tier 1 capital ratios as defined by banking regulations were 13.35% at March 31, 2013 and 12.78% at December 31, 2012.

- The Company paid a regular quarterly cash dividend of $26 million or $0.38 per common share during the first quarter of 2013. The Company will pay a quarterly cash dividend of $0.38 per common share payable on or about May 31, 2013 to shareholders of record as of May 17, 2013.

Results of Operations

Net Interest Revenue and Net Interest Margin

Net interest revenue is the interest earned on debt securities, loans and other interest-earning assets less interest paid for interest-bearing deposits and other borrowings. The net interest margin is calculated by dividing net interest revenue by average interest-earning assets. Net interest spread is the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities. Net interest margin is typically greater than net interest spread due to interest income earned on assets funded by non-interest bearing liabilities such as demand deposits and equity.

Net interest revenue totaled $170.4 million for the first quarter of 2013 compared to $173.6 million for the first quarter of 2012 and $173.4 million for the fourth quarter of 2012. Net interest margin was 2.92% for the first quarter of 2013, 2.95% for the fourth quarter of 2012 and 3.19% for the first quarter of 2012.

Net interest revenue decreased $3.2 million compared to the first quarter of 2012. Net interest revenue increased $9.4 million primarily due to the growth in average loan and securities balances. Net interest revenue decreased $12.0 million due to lower interest rates. Cash flows from the securities portfolio were reinvested at lower current market rates and loan yields decreased due to renewal of maturing fixed-rate loans at current lower rates and narrowing credit spreads. The decrease in yield on earning assets was partially offset by lower funding costs.

Net interest margin also declined compared to the the first quarter of 2012. The tax-equivalent yield on earning assets was 3.24% for the first quarter of 2013, down 40 basis points from the first quarter of 2012. The available for sale securities portfolio yield decreased 41 basis points to 2.09%. Cash flows received from payments on residential mortgage-backed securities are currently being reinvested in short-duration securities that yield less than 1.50%. Loan yields decreased 30 basis points. Credit spreads have narrowed due to market pricing pressure and improved credit quality in our loan portfolio. Funding costs were down 17 basis points from the first quarter of 2012. The cost of interest-bearing deposits decreased 9 basis points and the cost of other borrowed funds decreased 3 basis points. The average rate of interest paid on subordinated debentures decreased 310 basis points compared to the first quarter of 2012. The interest rate on $233 million of these subordinated debentures converted from a fixed rate of interest to a floating rate. Additionally, the benefit to net interest margin from earning assets funded by non-interest bearing liabilities was 14 basis points in the first quarter of 2013 compared to 18 basis points in the first quarter of 2012.

Average earning assets for the first quarter of 2013 increased $2.1 billion or 9% over the first quarter of 2012. The average balance of available for sale securities, which consists largely of U.S. government agency issued residential mortgage-backed securities, increased $1.3 billion. We purchase these securities to supplement earnings and to manage interest rate risk. Securities were purchased to productively deploy liquidity provided by recent deposit growth and the Company's strong capital position. Growth was primarily in short-duration U.S. government agency residential mortgage-backed securities and U.S. government agency commercial mortgage-backed securities. Average loans, net of allowance for loan losses, increased $827 million over the first quarter of 2012 due primarily to growth in average commercial loans.

Average deposits increased $1.4 billion over the first quarter of 2012, including a $1.2 billion increase in average demand deposit balances and a $516 million increase in average interest-bearing transaction accounts, partially offset by a $332 million decrease in average time deposits. Average borrowed funds increased $304 million over the first quarter of 2012 due primarily to increased borrowing from the Federal Home Loan Banks.

Net interest margin decreased 3 basis points compared to the fourth quarter of 2012. The yield on average earning assets decreased 6 basis points. The loan portfolio yield decreased to 4.20% from 4.33% in the previous quarter primarily due to market pricing pressure and improved credit quality in our loan portfolio. The yield on the available for sale securities portfolio decreased 1 basis point to 2.09% primarily due to slower prepayment speeds on residential mortgage backed securities. Funding costs decreased 8 basis points to 0.46% due largely to lower deposit interest rates. Rates paid on time deposits decreased 18 basis points, primarily due to additional expense recognized in the fourth quarter on equity-indexed time deposits. The benefit to net interest margin from earning assets funded by non-interest bearing liabilities decreased 5 basis points in the first quarter.

Average earning assets increased $28 million during the first quarter of 2013. Average outstanding loans increased $236 million. Average commercial real estate loan balances increased $139 million, commercial loan balances increased $57 million and residential mortgage loan balances increased $43 million. The average balance of the available for sale securities portfolio decreased $190 million compared to the fourth quarter of 2012.
Average deposits decreased $89 million compared to the previous quarter. Interest-bearing transaction account balances increased $493 million. Demand deposit balances decreased $503 million and time deposit account balances decreased $96 million. The average balance of borrowed funds increased $338 million over the fourth quarter of 2012.

Our overall objective is to manage the Company's balance sheet to be relatively neutral to changes in interest rates as is further described in the Market Risk section of this report. Approximately two-thirds of our commercial and commercial real estate loan portfolios are either variable rate or fixed rate that will re-price within one year. These loans are funded primarily by deposit accounts that are either non-interest bearing, or that re-price more slowly than the loans. The result is a balance sheet that would be asset sensitive, which means that assets generally re-price more quickly than liabilities. Among the strategies that we use to manage toward a relatively rate-neutral position, we purchase fixed rate residential mortgage-backed securities issued primarily by U.S. government agencies and fund them with market rate sensitive liabilities. The liability-sensitive nature of this strategy provides an offset to the asset-sensitive characteristics of our loan portfolio. We also may use derivative instruments to manage our interest rate risk.

The effectiveness of these strategies is reflected in the overall change in net interest revenue due to changes in interest rates as shown in Table 1 and in the interest rate sensitivity projections as shown in the Market Risk section of this report. Increases in net interest revenue have been based on growth in average earning assets.

Net interest margin may continue to decline. Our ability to further decrease funding costs are limited and our ability to provide near-term net interest revenue support through continued securities portfolio growth may be constrained by our conservative interest rate risk policies. Although we have sufficient capital and liquidity, further securities portfolio growth may result in unacceptable risk should interest rates start to rise. This interest rate risk policy constraint does not affect our ability to continue loan portfolio growth.

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Table 1 -- Volume/Rate Analysis
(In thousands)

	Three Months Ended March 31, 2013 / 2012		
		Change Due To[1]	
	Change	Volume	Yield / Rate
Tax-equivalent interest revenue:			
Funds sold and resell agreements	$—	$2	$(2)
Trading securities	261	300	(39)
Investment securities:			
Taxable securities	(636)	(671)	35
Tax-exempt securities	(66)	1,081	(1,147)
Total investment securities	(702)	410	(1,112)
Available for sale securities:			
Taxable securities	(4,637)	5,937	(10,574)
Tax-exempt securities	14	195	(181)
Total available for sale securities	(4,623)	6,132	(10,755)
Fair value option securities	(2,322)	(1,639)	(683)
Residential mortgage loans held for sale	24	301	(277)
Loans	(1,322)	7,932	(9,254)
Total tax-equivalent interest revenue	(8,684)	13,438	(22,122)
Interest expense:			
Transaction deposits	(680)	172	(852)
Savings deposits	(22)	27	(49)
Time deposits	(1,915)	(1,405)	(510)
Funds purchased	52	(51)	103
Repurchase agreements	(119)	(60)	(59)
Other borrowings	32	5,914	(5,882)
Subordinated debentures	(3,393)	(522)	(2,871)
Total interest expense	(6,045)	4,075	(10,120)
Tax-equivalent net interest revenue	(2,639)	9,363	(12,002)
Change in tax-equivalent adjustment	525		
Net interest revenue	$(3,164)		

[1] Changes attributable to both volume and yield/rate are allocated to both volume and yield/rate on an equal basis.

Other Operating Revenue

Other operating revenue was $159.1 million for the first quarter of 2013 compared to $137.3 million for the first quarter of 2012 and $162.6 million for the fourth quarter of 2012. Fees and commissions revenue increased $13.5 million over the first quarter of 2012. Net gains on securities, derivatives and other assets increased $4.8 million over the first quarter of 2012. Other-than-temporary impairment charges recognized in earnings in the first quarter of 2013 were $3.5 million less than charges recognized in the first quarter of 2012.

Other operating revenue decreased $3.6 million compared to the fourth quarter of 2012. Fees and commissions revenue decreased $7.7 million. Net gains on securities, derivatives and other assets increased $2.7 million. Other-than-temporary impairment charges recognized in earnings were $1.4 million less than charges recognized in the fourth quarter of 2012.

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Table 2 – Other Operating Revenue
(In thousands)

	Three Months Ended Mar. 31, 2013	Three Months Ended Mar. 31, 2012	Increase(Decrease)	% Increase(Decrease)	Three Months Ended Dec. 31, 2012	Increase(Decrease)	% Increase(Decrease)
Brokerage and trading revenue	$31,751	$31,111	$ 640	2 %	$31,958	$ (207)	(1)%
Transaction card revenue	27,692	25,430	2,262	9 %	28,009	(317)	(1)%
Trust fees and commissions	22,313	18,438	3,875	21 %	22,030	283	1 %
Deposit service charges and fees	22,966	24,379	(1,413)	(6)%	24,174	(1,208)	(5)%
Mortgage banking revenue	39,976	33,078	6,898	21 %	46,410	(6,434)	(14)%
Bank-owned life insurance	3,226	2,871	355	12 %	2,673	553	21 %
Other revenue	10,187	9,264	923	10 %	10,554	(367)	(3)%
Total fees and commissions revenue	158,111	144,571	13,540	9 %	165,808	(7,697)	(5)%
Gain on other assets, net	467	(3,693)	4,160	N/A	137	330	N/A
Gain on derivatives, net	(941)	(2,473)	1,532	N/A	(637)	(304)	N/A
Gain on fair value option securities, net	(3,171)	(1,733)	(1,438)	N/A	(2,081)	(1,090)	N/A
Gain on available for sale securities	4,855	4,331	524	N/A	1,066	3,789	N/A
Total other-than-temporary impairment	—	(505)	505	N/A	(504)	504	N/A
Portion of loss recognized in (reclassified from) other comprehensive income	(247)	(3,217)	2,970	N/A	(1,163)	916	N/A
Net impairment losses recognized in earnings	(247)	(3,722)	3,475	N/A	(1,667)	1,420	N/A
Total other operating revenue	$159,074	$137,281	$ 21,793	16 %	$162,626	$ (3,552)	(2)%

Certain percentage increases (decreases) in non-fees and commissions revenue are not meaningful for comparison purposes based on the nature of the item.

Fees and commissions revenue

Diversified sources of fees and commissions revenue are a significant part of our business strategy and represented 48% of total revenue for the first quarter of 2013, excluding provision for credit losses and gains and losses on asset sales, securities and derivatives. We believe that a variety of fee revenue sources provide an offset to changes in interest rates, values in the equity markets, commodity prices and consumer spending, all of which can be volatile. As an example of this strength, many of the economic factors that are causing net interest revenue compression are also driving strong growth in our mortgage banking revenue. We expect continued growth in other operating revenue through offering new products and services and by further development of our presence in markets outside of Oklahoma. However, current and future economic conditions, regulatory constraints, increased competition and saturation in our existing markets could affect the rate of future increases.

Brokerage and trading revenue, which includes revenues from securities trading, retail brokerage, customer hedging and investment banking increased $640 thousand or 2% over the first quarter of 2012.

Securities trading revenue totaled $17.1 million for the first quarter of 2013, up $1.1 million over the first quarter of 2012. Securities trading revenue represents net realized and unrealized gains primarily related to sales of U.S. government securities, residential mortgage-backed securities guaranteed by U.S. government agencies and municipal securities to institutional customers. We believe these activities will be permitted under the Volcker Rule of the Dodd-Frank Act.

Customer hedging revenue is based primarily on realized and unrealized changes in the fair value of derivative contracts held for customer risk management programs. As more fully discussed under Customer Derivative Programs in Note 3 of the Consolidated Financial Statements, we offer commodity, interest rate, foreign exchange and equity derivatives to our customers. Customer hedging revenue totaled $2.8 million for the first quarter of 2013 compared to $4.6 million for the first quarter of 2012.

Revenue earned from retail brokerage transactions increased $619 thousand or 8% over the first quarter of 2012 to $8.2 million. Retail brokerage revenue is primarily based on fees and commissions earned on sales of fixed income securities, annuities and mutual funds to retail customers. Revenue is primarily based on the volume of customer transactions during the quarter. The number of transactions typically increases with market volatility and decreases with market stability.

Investment banking, which includes fees earned upon completion of underwriting and financial advisory services, totaled $3.7 million for the first quarter of 2013, a $690 thousand or 23% increase over the first quarter of 2012 related to the timing and volume of completed transactions. The increased volume of transactions is primarily the result of the Company's expansion of its municipal financial advisory service capacity, particularly in the Texas market.

Brokerage and trading revenue decreased $207 thousand compared to the fourth quarter of 2012. Securities trading revenue decreased $614 thousand compared to the fourth quarter of 2012. Increased revenue from energy derivative contracts was offset by a decrease in revenue related to interest rate derivative contracts. Retail brokerage fees were up $772 thousand and investment banking fees were down $364 thousand.

The proposed Volcker Rule in Title VI of the Dodd-Frank Act prohibits banking entities from engaging in proprietary trading as defined by the Dodd-Frank Act and restricts sponsorship of, or investment in, private equity funds and hedge funds, subject to limited exceptions. Based on the proposed rules, we expect the Company's trading activity to be largely unaffected. The Company's private equity investment activity may be curtailed, but is not expected to result in a material impact to the Company's financial statements. A compliance program will be required for activities permitted under the proposed rules resulting in additional operating and compliance costs by the Company.

Title VII of the Dodd-Frank Act subjects nearly all derivative transactions to Commodity Futures Trading Commission (“CFTC”) or Securities and Exchange Commission (“SEC”) regulations. This includes registration, recordkeeping, reporting, capital, margin and business conduct requirements on major swap dealers and major swap participants. These regulations, which are now largely complete, are comprehensive and establish a wide range of compliance and reporting obligations. However, in the Company's view, do not appear to materially limit the Company's ability to effect derivative trades for its customer or materially increase compliance costs.

Transaction card revenue depends largely on the volume and amount of transactions processed, the number of TransFund automated teller machine (“ATM”) locations and the number of merchants served. Transaction card revenue for the first quarter of 2013 increased $2.3 million or 9% over the first quarter of 2012. Revenues from the processing of transactions on behalf of the members of our TransFund electronic funds transfer ("EFT") network totaled $14.9 million, up $1.6 million or 12% over the first quarter of 2012, due primarily to increased transaction volumes. Merchant services fees totaled $8.7 million, up $750 thousand or 9% over the prior year. Revenue from interchange fees paid by merchants for transactions processed from debit cards issued by the Company totaled $4.1 million for the first quarter of 2013 compared to $4.2 million for the first quarter of 2012.

Transaction card revenue decreased $317 thousand compared to the fourth quarter of 2012. Decreased revenues from processing transactions on behalf of members of our TransFund EFT network and interchange fees from debit cards issued by the Company, were partially offset by increased merchant services fees.

Trust fees and commissions increased $3.9 million or 21% over the first quarter of 2012 and were up $283 thousand over the fourth quarter of 2012. The acquisition of the Milestone Group by BOK Financial in third quarter of 2012 added $1.4 billion of fiduciary assets as of March 31, 2013 and resulted in a $2.4 million increase in trust fees and commissions over the first quarter of 2012. The remaining increase was primarily due to the growth in the fair value of fiduciary assets administered by the Company. Fiduciary assets are assets for which the Company possesses investment discretion on behalf of another or any other similar capacity. The fair value of fiduciary assets administered by the Company totaled $27.6 billion at March 31, 2013, $23.8 billion at March 31, 2012 and $25.8 billion at December 31, 2012.

In addition to trust fees and commissions where we served as a fiduciary, we also earn fees as administrator to and investment adviser for the Cavanal Hill Funds, a diversified, open-ended investment company established as a business trust under the Investment Company Act of 1940. The Bank is custodian and BOSC, Inc. is distributor for the Cavanal Hill Funds. Products of the Cavanal Hill Funds are offered to customers, employee benefit plans, trusts and the general public in the ordinary course of business. We have voluntarily waived administration fees on the Cavanal Hill money market funds in order to maintain positive yields on these funds in the current low short-term interest rate environment. Waived fees totaled $1.8 million for the first quarter of 2013 compared to $2.6 million for the first quarter of 2012 and $1.7 million for the fourth quarter of 2012.

Deposit service charges and fees decreased $1.4 million or 6% compared to the first quarter of 2012. Overdraft fees totaled $11.8 million for the first quarter of 2013, a decrease of $1.7 million or 12% compared to the first quarter of 2012. Consumers are generally maintaining higher average balances and better managing their accounts to reduce overdraft fees. Commercial account service charge revenue totaled $9.0 million, down $144 thousand or 2% compared to the prior year. Service charges on deposit accounts with a standard monthly fee were $2.0 million, up $424 thousand or 26% over the first quarter of 2012. Deposit service charges and fees decreased $1.2 million compared to the prior quarter.

Mortgage banking revenue increased $6.9 million over the first quarter of 2012. Revenue from originating and marketing mortgage loans totaled $29.9 million, up $6.8 million or 30% over the first quarter of 2012. Mortgage loans funded for sale totaled $956 million in the first quarter of 2013 compared to $747 million in the first quarter of 2012. In addition to growth in loans funded, outstanding commitments to originate mortgage loans were up $164 million or 54% over March 31, 2012. Mortgage servicing revenue increased $69 thousand or 1% over the first quarter of 2012. The outstanding principal balance of mortgage loans serviced for others totaled $12.3 billion, up $894 million over March 31, 2012.

Mortgage banking revenue decreased $6.4 million compared to the fourth quarter of 2012 primarily due to lower volume and narrowed pricing of loans sold. Residential mortgage loans funded for sale decreased $117 million compared to the previous quarter. Outstanding commitments to originate mortgage loans were up $110 million or 28% over December 31, 2012. Mortgage servicing revenue decreased $355 thousand compared to the prior quarter. The outstanding balance of mortgage loans serviced for others was up $291 million over December 31, 2012.

Table 3 – Mortgage Banking Revenue
(In thousands)

	Three Months Ended Mar. 31, 2013	Three Months Ended Mar. 31, 2012	Increase (Decrease)	% Increase (Decrease)	Three Months Ended Dec. 31, 2012	Increase (Decrease)	% Increase (Decrease)
Originating and marketing revenue:							
Residential mortgages loan held for sale	$30,235	$17,092	$13,143	77 %	$35,337	$(5,102)	(14)%
Residential mortgage loan commitments	610	2,310	$(1,700)	(74)%	(9,586)	10,196	(106)%
Forward sales contracts	(935)	3,679	$(4,614)	(125)%	10,238	(11,173)	(109)%
Total originating and marketing revenue	29,910	23,081	6,829	30 %	35,989	(6,079)	(17)%
Servicing revenue	10,066	9,997	69	1 %	10,421	(355)	(3)%
Total mortgage revenue	$39,976	$33,078	$6,898	21 %	$46,410	$(6,434)	(14)%
Mortgage loans funded for sale	$956,315	$747,436	$208,879	28 %	$1,073,541	$(117,226)	(11)%
Mortgage loan refinances to total funded	62 %	67 %			62 %		

	March 31, 2013	2012	Increase	% Increase	December 31, 2012	Increase	% Increase
Outstanding principal balance of mortgage loans serviced for others	$12,272,691	$11,378,806	$893,885	8 %	$11,981,624	$291,067	2 %

Net gains on securities, derivatives and other assets

In the first quarter of 2013, we recognized a $4.9 million gain from sales of $728 million of available for sale securities. Securities were sold either because they had reached their expected maximum potential return or to mitigate exposure to prepayment risk. We recognized $4.3 million of gains on sales of $992 million of available for sale securities in the first quarter of 2012 and $1.1 million of gain on sales of $84 million in the fourth quarter of 2012.

We also maintain a portfolio of residential mortgage-backed securities issued by U.S. government agencies and interest rate derivative contracts designated as an economic hedge of the changes in the fair value of our mortgage servicing rights. The fair value of our mortgage servicing rights fluctuate due to changes in prepayment speeds and other assumptions as more fully described in Note 6 to the Consolidated Financial Statements. As benchmark mortgage rates increase, prepayment speeds slow and the value of our mortgage servicing rights increase. As benchmark mortgage rates fall, prepayment speeds increase and the value of our mortgage servicing rights decrease.

Changes in the fair value of mortgage servicing rights are highly dependent on changes in primary mortgage rates, rates offered to borrowers, and assumptions about servicing revenues, servicing costs and discount rates. Changes in the fair value of residential mortgage-backed securities and interest rate derivative contracts are highly dependent on changes in secondary mortgage rates, or rates required by investors. While primary and secondary mortgage rates generally move in the same direction, the spread between them may widen and narrow due to market conditions and government intervention. Changes in assumptions and the spread between the primary and secondary rates can cause significant quarterly earnings volatility.

Table 4 following shows the relationship between changes in the fair value of mortgage servicing rights and the fair value of fair value option residential mortgage-backed securities and interest rate derivative contracts designated as an economic hedge.

Table 4 -- Gain (Loss) on Mortgage Servicing Rights
(In thousands)

	Three Months Ended		
	March 31, 2013	December 31, 2012	March 31, 2012
Loss on mortgage hedge derivative contracts, net	$(1,654)	$(707)	$(2,445)
Loss on fair value option securities, net	(3,232)	(2,177)	(2,393)
Loss on economic hedge of mortgage servicing rights	(4,886)	(2,884)	(4,838)
Gain on change in fair value of mortgage servicing rights	2,658	4,689	7,127
Gain (loss) on changes in fair value of mortgage servicing rights, net of economic hedges	$(2,228)	$1,805	$2,289