

PACIFIC PREMIER BANCORP INC
Form 10-Q
May 16, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from _____ to _____

Commission File Number 0-22193

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation or
organization)

33-0743196
(I.R.S Employer Identification No.)

1600 SUNFLOWER AVENUE, 2ND FLOOR, COSTA MESA, CALIFORNIA 92626
(Address of principal executive offices and zip code)

(714) 431-4000
(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 []

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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 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 definition of “accelerated filer”, “large accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant's common stock as of May 13, 2011 was 10,084,626.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
FORM 10-Q
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FOR THE QUARTER ENDED March 31, 2011

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except share data)

| ASSETS | March 31, 2011 (Unaudited) | December 31, 2010 (Audited) | March 31, 2010 (Unaudited) |
|---|----------------------------------|--------------------------------------|----------------------------------|
| Cash and due from banks | \$ 46,302 | \$ 63,433 | \$ 49,541 |
| Federal funds sold | 10,578 | 29 | 29 |
| Cash and cash equivalents | 56,880 | 63,462 | 49,570 |
| Investment securities available for sale | 140,927 | 155,094 | 120,270 |
| FHLB stock/Federal Reserve Bank stock, at cost | 14,161 | 13,334 | 14,330 |
| Loans held for investment | 699,953 | 564,417 | 547,051 |
| Allowance for loan losses | (8,879) | (8,879) | (9,169) |
| Loans held for investment, net | 691,074 | 555,538 | 537,882 |
| Accrued interest receivable | 4,014 | 3,755 | 3,592 |
| Other real estate owned | 10,509 | 34 | 6,169 |
| Premises and equipment | 8,166 | 8,223 | 8,697 |
| Deferred income taxes | 8,977 | 11,103 | 11,546 |
| Bank owned life insurance | 12,583 | 12,454 | 12,060 |
| Intangible assets | 2,243 | - | - |
| Other assets | 6,948 | 3,819 | 3,528 |
| TOTAL ASSETS | \$ 956,482 | \$ 826,816 | \$ 767,644 |
| LIABILITIES AND STOCKHOLDERS' | | | |

| | | | |
|--|-------------------|-------------------|-------------------|
| EQUITY | | | |
| LIABILITIES: | | | |
| Deposit accounts: | | | |
| Noninterest bearing | \$ 118,241 | \$ 47,229 | \$ 38,084 |
| Interest bearing: | | | |
| Transaction accounts | 287,694 | 203,029 | 174,644 |
| Retail certificates of deposit | 413,126 | 407,108 | 397,121 |
| Wholesale/brokered certificates of deposit | 13,725 | 1,874 | 3,052 |
| Total deposits | 832,786 | 659,240 | 612,901 |
| FHLB advances and other borrowings | 28,500 | 68,500 | 66,500 |
| Subordinated debentures | 10,310 | 10,310 | 10,310 |
| Accrued expenses and other liabilities | 5,217 | 10,164 | 3,812 |
| TOTAL LIABILITIES | 876,813 | 748,214 | 693,523 |
| STOCKHOLDERS' EQUITY: | | | |
| Preferred Stock, \$.01 par value; 1,000,000 shares authorized; no shares outstanding | - | - | - |
| Common stock, \$.01 par value; 15,000,000 shares authorized; 10,084,626 shares at March 31, 2011, 10,033,836 shares at December 31, 2010 and March 31, 2010 issued and outstanding | 101 | 100 | 100 |
| Additional paid-in capital | 76,326 | 79,942 | 79,928 |
| Retained earnings (accumulated deficit) | 4,246 | (526) | (4,308) |
| Accumulated other comprehensive loss, net of tax benefit of \$702 at March 31, 2011, \$639 at December 31, 2010, and \$1,118 at March 31, 2010 | (1,004) | (914) | (1,599) |
| TOTAL STOCKHOLDERS' EQUITY | 79,669 | 78,602 | 74,121 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 956,482 | \$ 826,816 | \$ 767,644 |

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except per share data)
(unaudited)

| | Three Months Ended | |
|--|--------------------|----------------|
| | March 31, 2011 | March 31, 2010 |
| INTEREST INCOME | | |
| Loans | \$ 10,533 | \$ 9,155 |
| Investment securities and other interest-earning assets | 1,201 | 1,029 |
| Total interest income | 11,734 | 10,184 |
| INTEREST EXPENSE | | |
| Interest-bearing deposits: | | |
| Interest on transaction accounts | 445 | 413 |
| Interest on certificates of deposit | 1,823 | 2,168 |
| Total interest-bearing deposits | 2,268 | 2,581 |
| FHLB advances and other borrowings | 288 | 868 |
| Subordinated debentures | 76 | 75 |
| Total interest expense | 2,632 | 3,524 |
| NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES | 9,102 | 6,660 |
| PROVISION FOR LOAN LOSSES | 106 | 1,056 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 8,996 | 5,604 |
| NONINTEREST INCOME | | |
| Loan servicing fees | 217 | 70 |
| Deposit fees | 448 | 188 |
| Net gain (loss) from sales of loans | 86 | (1,015) |
| Net gain from sales of investment securities | 164 | 87 |
| Other-than-temporary impairment loss on investment securities, net | (214) | (326) |
| Gain on FDIC transaction | 4,189 | - |
| Other income | 349 | 270 |
| Total noninterest income (loss) | 5,239 | (726) |
| NONINTEREST EXPENSE | | |
| Compensation and benefits | 3,181 | 2,013 |
| Premises and occupancy | 800 | 626 |
| Data processing and communications | 301 | 184 |
| Other real estate owned operations, net | 263 | 295 |

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| | | |
|--|------------|------------|
| FDIC insurance premiums | 264 | 348 |
| Legal and audit | 392 | 125 |
| Marketing expense | 229 | 149 |
| Office and postage expense | 167 | 123 |
| Other expense | 762 | 459 |
| Total noninterest expense | 6,359 | 4,322 |
| NET INCOME BEFORE INCOME TAXES | 7,876 | 556 |
| INCOME TAX | 3,104 | 100 |
| NET INCOME | \$ 4,772 | \$ 456 |
| EARNINGS PER SHARE | | |
| Basic | \$ 0.47 | \$ 0.05 |
| Diluted | \$ 0.44 | \$ 0.04 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | |
| Basic | 10,049,311 | 10,033,836 |
| Diluted | 10,857,123 | 11,021,014 |

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND OTHER COMPREHENSIVE
INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(dollars in thousands)
(unaudited)

| | Common Stock Shares | Amount | Additional Paid-in Capital | Accumulated Retained Earnings (Deficit) | Accumulated Other Comprehensive Income (Loss) | Comprehensive Income | Total Stockholders' Equity |
|--|------------------------|--------|----------------------------------|--|---|-------------------------|----------------------------------|
| Balance at December 31, 2010 | 10,033,836 | \$ 100 | \$ 79,942 | \$ (526) | \$ (914) | | \$ 78,602 |
| Comprehensive Income: | | | | | | | |
| Net income | | | | 4,772 | | \$ 4,772 | 4,772 |
| Unrealized holding gains on securities arising during the period, net of tax | | | | | | 132 | |
| Reclassification adjustment for net loss on sale of securities included in net income, net of tax | | | | | | (222) | |
| Net unrealized gain on securities, net of tax | | | | | (90) | (90) | (90) |

| | | | | | | |
|---|------------|--------|-----------|-------------|-------------|-----------|
| Total comprehensive income | | | | | | \$ 4,682 |
| Share-based compensation expense | | | 13 | | | 13 |
| Common stock repurchased and retired | (10,610) | (1) | (69) | | | (70) |
| Warrants purchased and retired | | | (3,660) | | | (3,660) |
| Warrants exercised | 41,400 | 1 | 31 | | | 32 |
| Stock options exercised | 20,000 | 1 | 69 | | | 70 |
| Balance at March 31, 2011 | 10,084,626 | \$ 101 | \$ 76,326 | \$ 4,246 | \$ (1,004) | \$ 79,669 |
| Balance at December 31, 2009 | 10,033,836 | \$ 100 | \$ 79,907 | \$ (4,764) | \$ (1,741) | \$ 73,502 |
| Comprehensive Income: | | | | | | |
| Net income | | | | 456 | | \$ 456 |
| Unrealized holding gains on securities arising during the period, net of tax | | | | | | 94 |
| Reclassification adjustment for net loss on sale of securities included in net income, net of tax | | | | | | 48 |
| Net unrealized gain on securities, net of tax | | | | | 142 | 142 |
| Total comprehensive income | | | | | | \$ 598 |
| Share-based compensation expense | | | 21 | | | 21 |
| Balance at March 31, 2010 | 10,033,836 | \$ 100 | \$ 79,928 | \$ (4,308) | \$ (1,599) | \$ 74,121 |

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)
(unaudited)

Three Months Ended
March 31,

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| | 2011 | 2010 |
|--|-----------|-----------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 4,772 | \$ 456 |
| Adjustments to net income: | | |
| Depreciation and amortization expense | 265 | 247 |
| Provision for loan losses | 106 | 1,056 |
| Share-based compensation expense | 13 | 21 |
| Loss on sale and disposal of premises and equipment | 6 | 12 |
| Loss on sale of other real estate owned | 16 | 27 |
| Write down of other real estate owned | - | 226 |
| Amortization of premium/discounts on securities held for sale, net | 235 | 129 |
| Gain on sale of investment securities available for sale | (164) | (87) |
| Other-than-temporary impairment loss on investment securities, net | 214 | 326 |
| Loss (gain) on sale of loans held for investment | (86) | 1,015 |
| Gain on FDIC transaction | (4,189) | - |
| Deferred income tax provision (benefit) | 248 | (81) |
| Change in accrued expenses and other liabilities, net | (4,905) | (1,227) |
| Income from bank owned life insurance, net | (129) | (134) |
| Change in accrued interest receivable and other assets, net | 4,628 | 416 |
| Net cash provided by operating activities | 1,030 | 2,402 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale and principal payments on loans held for investment | 20,307 | 28,670 |
| Net change in undisbursed loan funds | 15,263 | (2,471) |
| Purchase and origination of loans held for investment | (21,451) | (2,922) |
| Proceeds from sale of other real estate owned | 1,892 | 489 |
| Principal payments on securities available for sale | 5,749 | 3,216 |
| Purchase of securities available for sale | - | (32,795) |

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| | | |
|---|-----------|-----------|
| Proceeds from sale or maturity of securities available for sale | 20,556 | 24,351 |
| Purchases of premises and equipment | (174) | (243) |
| Purchase of Federal Reserve Bank stock | 495 | - |
| Cash acquired in FDIC transaction | 26,389 | - |
| Net cash provided by investing activities | 69,026 | 18,295 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net increase (decrease) in deposit accounts | (30,767) | (5,833) |
| Repayment of FHLB advances and other borrowings | (40,000) | (25,000) |
| Proceeds from exercise of stock options | 32 | - |
| Warrants purchased and retired | (3,660) | - |
| Net cash used in financing activities | (74,395) | (30,833) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | |
| | (4,339) | (10,136) |
| CASH AND CASH EQUIVALENTS, beginning of period | | |
| | 63,462 | 59,706 |
| CASH AND CASH EQUIVALENTS, end of period | | |
| | \$ 59,123 | \$ 49,570 |

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(in thousands)
(unaudited)

Three Months Ended
March 31,

| | 2011 | 2010 |
|--|----------|----------|
| SUPPLEMENTAL CASH FLOW DISCLOSURES | | |
| Interest paid | \$ 2,624 | \$ 3,403 |
| Income taxes paid | 115 | 150 |
| Assets acquired (liabilities assumed) in acquisition: | | |
| Investment securities | 14,076 | - |
| FDIC receivable | 2,838 | - |
| Loans | 149,739 | - |
| Core deposit intangible | 2,270 | - |
| Other real estate owned | 11,953 | - |
| Fixed assets | 42 | - |
| Other assets | 1,599 | - |

| | | |
|--|-----------|----------|
| Deposits | (204,678) | - |
| Other liabilities | (39) | - |
| NONCASH INVESTING ACTIVITIES DURING THE PERIOD | | |
| Transfers from loans to other real estate owned | \$ - | \$ 3,530 |

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011
(UNAUDITED)

Note 1 - Basis of Presentation

The consolidated financial statements include the accounts of Pacific Premier Bancorp, Inc. (the "Corporation") and its wholly owned subsidiary, Pacific Premier Bank (the "Bank") (collectively, the "Company," "we," "our" or "us"). All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company's financial position as of March 31, 2011, December 31, 2010, and March 31, 2010 and the results of its operations, changes in stockholders' equity, comprehensive income and cash flows for the three months ended March 31, 2011 and 2010. Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for any other interim period or the full year ending December 31, 2011.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

The Company accounts for its investments in its wholly owned special purpose entity, PPBI Trust I, under the equity method whereby the subsidiary's net earnings are recognized in the Company's statement of income.

Note 2 – Recently Issued Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements." ASU 2010-06 revised two disclosure requirements concerning fair value measurements and clarifies two others. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It will also require the presentation of purchases, sales, issuances, and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. The Company's disclosures about fair value measurements are presented in Note 8 – Fair Value Disclosures. These new disclosure

requirements were effective for the period ended March 31, 2011, except for the requirement concerning gross presentation of Level 3 activity, which is effective for fiscal years beginning after December 15, 2010. There was no significant effect to the Company's financial statement disclosure upon adoption of this ASU.

In January 2011, the FASB deferred the effective date of Disclosures about Troubled Debt Restructurings ("TDRs"). This delay was intended to allow the FASB time to complete deliberations on what constitutes a TDR. The effective date of the new disclosures regarding TDRs for public entities and the guidelines for determining what constitutes a troubled debt restructuring will be effective upon issuance. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

Future Application of Accounting Pronouncements

The following accounting pronouncement has been issued by the FASB but is not yet effective: ASU 2011-02, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring. ASU 2011-02 provides guidance clarifying under what circumstances a creditor should classify a restructured receivable as a TDR. A receivable is a TDR if both of the following exist: 1) a creditor has granted a concession to the debtor, and 2) the debtor is experiencing financial difficulties. ASU 2011-02 clarifies that a creditor should consider all aspects of a restructuring when evaluating whether it has granted a concession, which include determining whether a debtor can obtain funds from another source at market rates and assessing the value of additional collateral and guarantees obtained at the time of restructuring. ASU 2011-02 also provides factors a creditor should consider when determining if a debtor is experiencing financial difficulties, such as probability of payment default and bankruptcy declarations. ASU 2011-02 will become effective for us in third quarter 2011 with retrospective application to January 1, 2011. Early adoption is permitted. We are evaluating the impact these accounting changes may have on our consolidated financial statements.

Note 3 – Loans Held for Investment

The following table sets forth the composition of our loan portfolio in dollar amounts and as a percentage of the portfolio at the dates indicated:

| | March 31, 2011 | December 31, 2010 | March 31, 2010 |
|--|------------------------|----------------------|-------------------|
| | (dollars in thousands) | | |
| Real estate loans: | | | |
| Multi-family | \$ 235,443 | \$ 243,584 | \$ 264,996 |
| Commercial non-owner occupied | 156,616 | 130,525 | 139,953 |
| One-to-four family | 48,291 | 20,318 | 8,364 |
| Construction | 5,631 | - | - |
| Land | 10,002 | - | - |
| Business loans: | | | |
| Commercial owner occupied | 156,379 | 113,025 | 96,336 |
| Commercial and industrial | 86,206 | 54,687 | 33,166 |
| SBA | 3,268 | 4,088 | 3,002 |
| Other loans | 1,264 | 1,417 | 1,770 |
| Total gross loans | 703,100 | 567,644 | 547,587 |
| Less loans held for sale | - | - | - |
| Total gross loans held for investment | 703,100 | 567,644 | 547,587 |
| Less (plus): | | | |

| | | | |
|---|------------|------------|------------|
| Deferred loan origination costs (fees) and premiums (discounts) | (3,147) | (3,227) | (536) |
| Allowance for loan losses | (8,879) | (8,879) | (9,169) |
| Loans held for investment, net | \$ 691,074 | \$ 555,538 | \$ 537,882 |

From time to time, we may purchase or sell loans in order to manage concentrations, maximize interest income, change risk profiles, improve returns and generate liquidity.

The Company grants residential and commercial loans held for investment to customers located primarily in Southern California. Consequently, the underlying collateral for our loans and a borrower's ability to repay may be impacted unfavorably by adverse changes in the economy and real estate market in the region.

Under applicable laws and regulations, the Bank may not make secured loans to one borrower in excess of 25% of unimpaired capital plus surplus and likewise in excess of 15% for unsecured loans. These loans-to-one borrower limitations result in a dollar limitation of \$23.0 million for secured loans and \$13.6 million for unsecured loans at March 31, 2011. At March 31, 2011, the Bank's largest aggregate outstanding balance of loans to one borrower was \$11.3 million of secured credit.

Concentration of Credit Risk

The Company's loan portfolio was collateralized by various forms of real estate and business assets located principally in Southern California. The Company's loan portfolio contains concentrations of credit in multi-family real estate, commercial non-owner occupied real estate and commercial owner occupied business loans. The Company maintains Board approved policies that address these concentrations and continues to diversify its loan portfolio through loan originations, purchases and sales to meet approved concentration levels. While management believes that the collateral presently securing these loans is adequate, there can be no assurances that further significant deterioration in the California real estate market and economy would not expose the Company to significantly greater credit risk.

Impaired Loans

The following table provides a summary of the Company's investment in impaired loans as of and for the quarter ended March 31, 2011, and as of and for the year ended December 31, 2010:

| | Impaired Loans | | | | | | |
|---------------------|---------------------|--------------------------|-------------------------|----------------------------|---------------------------------------|-----------------------------|----------------------------|
| | Recorded Investment | Unpaid Principal Balance | With Specific Allowance | Without Specific Allowance | Specific Allowance for Impaired Loans | Average Recorded Investment | Interest Income Recognized |
| March 31, 2011 | | | | | | | |
| Real estate loans: | | | | | | | |
| Multi-family | \$3,300 | \$3,300 | \$- | \$3,300 | \$- | \$2,036 | \$ 17 |
| Commercial investor | 2,476 | 2,476 | 463 | 2,012 | 47 | 2,371 | 34 |
| One-to-four family | 3,743 | 3,742 | - | 3,742 | - | 2,898 | 44 |
| Construction | 537 | 537 | - | 537 | - | 433 | 1 |
| Land | 2,982 | 2,982 | - | 2,982 | - | 2,280 | 27 |

Business loans:

| | | | | | | | |
|---------------------------|----------|----------|-------|----------|------|----------|-------|
| Commercial owner occupied | 6,563 | 6,430 | - | 6,430 | - | 5,979 | 67 |
| Commercial and industrial | 5,020 | 4,905 | - | 4,905 | - | 4,290 | 51 |
| SBA | 1,672 | 1,000 | - | 1,000 | - | 1,030 | 19 |
| Other loans | 2 | 1 | - | 2 | - | 1 | - |
| Totals | \$26,295 | \$25,373 | \$463 | \$24,910 | \$47 | \$21,318 | \$260 |

Impaired Loans

| | Recorded Investment | Unpaid Principal Balance | With Specific Allowance | Without Specific Allowance | Specific Allowance for Impaired Loans | Average Recorded Investment | Interest Income Recognized |
|---------------------------|---------------------|--------------------------|-------------------------|----------------------------|---------------------------------------|-----------------------------|----------------------------|
| (dollars in thousands) | | | | | | | |
| December 31, 2010 | | | | | | | |
| Real estate loans: | | | | | | | |
| Multi-family | \$1,156 | \$1,156 | \$- | \$1,156 | \$- | \$2,114 | \$94 |
| Commercial investor | 2,068 | 2,068 | 465 | 1,603 | 47 | 1,949 | 127 |
| One-to-four family | 223 | 224 | - | 223 | - | 249 | 15 |
| Business loans: | | | | | | | |
| Commercial owner occupied | 2,225 | 2,342 | - | 2,225 | - | 1,332 | - |
| Commercial and industrial | 54 | 169 | - | 54 | - | 270 | 14 |
| SBA | 1,092 | 1,751 | - | 1,092 | - | 970 | 14 |
| Totals | \$6,818 | \$7,710 | \$465 | \$6,353 | \$47 | \$6,882 | \$264 |

The following table summarizes impaired loan balances for prior periods as presented below:

| March 31, 2010 (in thousands) | |
|--|----------|
| Impaired loans without a valuation allowance | \$ 7,317 |
| Impaired loans with a valuation allowance | \$ 613 |
| Valuation allowance related to | \$ 127 |

impaired loans
Average
recorded
investment in
impaired loans \$ 8,847

The Company considers a loan to be impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement or it is determined that the likelihood of the Company receiving all scheduled payments, including interest, when due is remote. The Company has no commitments to lend additional funds to debtors whose loans have been impaired.

The Company reviews loans for impairment when the loan is classified as substandard or worse, delinquent 90 days, or determined by management to be collateral dependent, or when the borrower files bankruptcy or is granted a TDR. Measurement of impairment is based on the loan's expected future cash flows discounted at the loan's effective interest rate, measured by reference to an observable market value, if one exists, or the fair value of the collateral if the loan is deemed collateral dependent. All loans are generally charged-off at such time the loan is classified as a loss. Valuation allowances are determined on a loan-by-loan basis or by aggregating loans with similar risk characteristics.

The following table provides additional detail on the components of impaired loans for the periods indicated below.

| | March 31, 2011 | December 31, 2010 (in thousands) | March 31, 2010 |
|----------------------------|-------------------|--|-------------------|
| Nonaccruing loans | \$ 19,900 | \$ 3,270 | \$ 4,299 |
| Accruing loans | 5,473 | 3,548 | 3,630 |
| Total impaired loans | \$ 25,373 | \$ 6,818 | \$ 7,929 |

When loans are placed on nonaccrual status all accrued interest is reversed from earnings. Payments received on nonaccrual loans are generally applied as a reduction to the loan principal balance. If the likelihood of further loss is remote, the Company will recognize interest on a cash basis only. Loans may be returned to accruing status if the Company believes that all remaining principal and interest is fully collectible and there has been at least six months of sustained repayment performance since the loan was placed on nonaccrual.

The Company does not accrue interest on loans 90 days or more past due or when, in the opinion of management, there is reasonable doubt as to the collection of interest. The Company had impaired loans on nonaccrual status at March 31, 2011, of \$19.9 million, December 31, 2010 of \$3.3 million, and March 31, 2010 of \$4.3 million. The Company had no loans 90 days or more past due and still accruing or troubled debt restructures at March 31, 2011, December 31, 2010 or March 31, 2010.

Credit Quality and Credit Risk Management

The Company's credit quality is maintained and credit risk managed in two distinct areas. The first is the loan origination process, wherein the Bank underwrites credit quality and chooses which risks it is willing to accept. The second is in the ongoing oversight of the loan portfolio, where existing credit risk is measured and monitored, and where performance issues are dealt with in a timely and comprehensive fashion.

The Company maintains a comprehensive credit policy which sets forth minimum and maximum tolerances for key elements of loan risk. The policy identifies and sets forth specific guidelines for analyzing each of the loan products the Company offers from both an individual and portfolio wide basis. The credit policy is reviewed annually by the Board of Directors. Seasoned underwriters ensure all key risk factors are analyzed with nearly all underwriting including a comprehensive global cash flow analysis. The credit approval process mandates multiple-signature approval by either the management or Board credit committee for every loan which requires any subjective credit analysis.

Credit risk is managed within the loan portfolio by the Company's Portfolio Management department based on a comprehensive credit and investment review policy. This policy requires a program of financial data collection and analysis, comprehensive loan reviews, property and/or business inspections and monitoring of portfolio concentrations and trends. The Portfolio Management department also monitors asset-based lines of credit, loan covenants and other conditions associated with the Company's business loans as a means to help identify potential credit risk. Individual loans, excluding the homogeneous loan portfolio, are reviewed at least biennially, or more frequently, if deemed necessary, and includes the assignment of a risk grade.

Risk grades are based on a six-grade Pass scale, along with Special Mention, Substandard, Doubtful and Loss classifications as such classifications are defined by the regulatory agencies. The assignment of risk grades allows the Company to, among other things, identify the risk associated with each credit in the portfolio, and to provide a basis for estimating credit losses inherent in the portfolio. Risk grades are reviewed regularly by the Company's Credit and Investment Review committee, and are reviewed annually by an independent third-party, as well as by regulatory agencies during scheduled examinations.

The following provides brief definitions for risk grades assigned to loans in the portfolio:

- Pass – Pass credits are well protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Such credits exhibit few weaknesses, if any, but may include credits with exposure to certain factors that may adversely impact the credit if they materialize. The Company has established six subcategories within the pass grade to stratify risk associated with pass loans. The Company maintains a subset of pass credits designated as “watch” loans which, for any of a variety of reasons, requires close monitoring
- Special Mention – Loans graded special mention exhibit potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the loan or the institution's credit position. Special mention credits are not considered as part of the classified extensions of credit category and do not expose the Company to sufficient risk to warrant classification.
- Substandard – Substandard credits are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Extensions of credit classified as substandard have a well-defined weakness or weaknesses that jeopardizes the orderly payment of the debt. Substandard credits are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard credits, does not have to exist in individual extensions of credit classified substandard.
- Doubtful – Doubtful credits have all the weaknesses inherent in substandard credits, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to the advantage of and strengthen the credit, its classification as an estimated loss is deferred until its more exact status may be determined.

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The Portfolio Management department also manages loan performance risks, collections, workouts, bankruptcies and foreclosures. Loan performance risks are mitigated by our portfolio managers acting promptly and assertively to address problem credit when they are identified. Collection efforts are commenced immediately upon non-payment, and the portfolio managers seek to determine right away the appropriate steps to minimize the Company's risk of loss. When foreclosure will maximize the Company's recovery for a non-performing loan, the portfolio managers will take appropriate action to initiate the foreclosure process.

When a loan is graded as special mention or worse, the Company obtains an updated valuation of the underlying collateral. If the credit in question is also identified as impaired, a valuation allowance, if necessary, is established against such loan or a loss is recognized by a charge to the allowance for loan losses if management believes that the full amount of the Company's recorded investment in the loan is no longer collectable. The Company typically continues to obtain updated valuations of underlying collateral for special mention and classified loans on an annual basis in order to have the most current indication of fair value. Once a loan is identified as impaired, an analysis of the underlying collateral is performed at least quarterly, and corresponding changes in any related valuation allowance are made or balances deemed to be fully uncollectable are charged-off.

The following tables stratifies the loan portfolio by the Company's internal risk grading system as well as certain other information concerning the credit quality of the loan portfolio as of the periods indicated:

| | Credit Risk Grades | | | Total Gross Loans |
|-------------------------------------|--------------------|--------------------|-------------|----------------------|
| | Pass | Special Mention | Substandard | |
| March 31, 2011 | | | | |
| Real estate loans: | | | | |
| Multi-family | \$ 215,521 | \$ 13,115 | \$ 6,807 | \$ 235,443 |
| Commercial non-owner occupied | 149,790 | 610 | 6,216 | 156,616 |
| One-to-four family | 39,131 | 1,917 | 7,243 | 48,291 |
| Construction | 4,816 | - | 815 | 5,631 |
| Land | 4,809 | 494 | 4,699 | 10,002 |
| Business loans: | | | | |
| Commercial owner occupied | 138,203 | 6,823 | 11,353 | 156,379 |
| Commercial and industrial | 74,774 | 1,923 | 9,509 | 86,206 |
| SBA | 2,233 | - | 1,035 | 3,268 |
| Other loans | 1,145 | 14 | 105 | 1,264 |
| Totals | \$ 630,422 | \$ 24,896 | \$ 47,782 | \$ 703,100 |

| | Credit Risk Grades | | | Total Gross Loans |
|-----------------------|--------------------|--------------------|-------------|----------------------|
| | Pass | Special Mention | Substandard | |
| December 31, 2010 | | | | |
| Real estate loans: | | | | |
| Multi-family | \$ 226,270 | \$ 13,161 | \$ 4,153 | \$ 243,584 |

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| | | | | |
|---------------------------|------------|-----------|-----------|------------|
| Commercial investor | 124,513 | 577 | 5,435 | 130,525 |
| One-to-four family | 19,823 | - | 495 | 20,318 |
| Business loans: | | | | |
| Commercial owner occupied | 104,475 | 4,074 | 4,476 | 113,025 |
| Commercial and industrial | 53,188 | 360 | 1,139 | 54,687 |
| SBA | 2,956 | - | 1,132 | 4,088 |
| Other loans | 1,417 | - | - | 1,417 |
| Totals | \$ 532,642 | \$ 18,172 | \$ 16,830 | \$ 567,644 |

| | Credit Risk Grades | | | Total Gross Loans |
|-------------------------------|--------------------|-----------------|-------------|-------------------|
| | Pass | Special Mention | Substandard | |
| March 31, 2010 | | | | |
| Real estate loans: | | | | |
| Multi-family | \$ 231,752 | \$ 26,459 | \$ 6,785 | \$ 264,996 |
| Commercial non-owner occupied | 128,482 | 2,979 | 8,492 | 139,953 |
| One-to-four family | 7,798 | - | 566 | 8,364 |
| Construction | - | - | - | - |
| Land | - | - | - | - |
| Business loans: | | | | |
| Commercial owner occupied | 88,030 | 4,764 | 3,542 | 96,336 |
| Commercial and industrial | 33,166 | - | - | 33,166 |
| SBA | 1,624 | 347 | 1,031 | 3,002 |
| Other loans | 1,770 | - | - | 1,770 |
| Totals | \$ 492,622 | \$ 34,549 | \$ 20,416 | \$ 547,587 |

| | Days Past Due | | | Total Past Due | Non-Accruing |
|---------------------|---------------|----------|--------|----------------|--------------|
| | 30-59 | 60-89 | 90+ | | |
| March 31, 2011 | | | | | |
| Real estate loans: | | | | | |
| Multi-family | \$ 1,907 | \$ 1,147 | \$ 303 | \$ 3,357 | \$ 2,030 |
| Commercial investor | 1,289 | 615 | 301 | 2,205 | 753 |
| One-to-four family | 592 | 143 | 1,460 | 2,195 | 2,848 |
| Construction | - | 278 | 1,023 | 1,301 | 161 |
| Land | - | - | 571 | 571 | 3,175 |

Business
loans:

| | | | | | |
|---------------------------------|-------|-----|-------|--------|-------|
| | | | | - | |
| Commercial owner occupied | 6,474 | - | 4,469 | 10,943 | 7,359 |
| Commercial and industrial | 1,379 | 637 | 3,264 | 5,280 | 3,415 |
| SBA | 133 | - | | | |