SP Bancorp, Inc.
Form 10-K
March 30, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal ended December 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: 001-34933

SP BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland	**27-3347359**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

5224 West Plano Parkway, Plano Texas 75093
(Address of principal executive offices) (Zip Code)
Registrant s telephone number, including area code: (972) 931-5311

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $0.01 per share	**The NASDAQ Stock Market LLC**
(Title of each class to be registered)	(Name of each exchange on which each class is to be registered)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

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 ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). YES x NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ¨ NO x

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on June 30, 2011, as reported by the Nasdaq Stock Market, was approximately $17.6 million.

As of March 26, 2012, there were issued and outstanding 1,716,800 shares of the Registrant s Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE:

(1) Proxy Statement for the 2012 Annual Meeting of Stockholders of the Registrant (Part III).

TABLE OF CONTENTS

PART I

ITEM 1. Business

This Annual Report contains forward-looking statements, which can be identified by the use of words such as estimate, project, believe, intend, anticipate, plan, seek, expect, will, may and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this Annual Report.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- competition among depository and other financial institutions;
- changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired entities, if any;
- changes in consumer spending, borrowing and savings habits;

changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board;

changes in our organization, compensation and benefit plans;

changes in our financial condition or results of operations that reduce capital; and

changes in the financial condition or future prospects of issuers of securities that we own.

Because of these and a wide variety of other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

SP Bancorp, Inc.

SP Bancorp, Inc. (sometimes referred to herein as we or us) was incorporated as a Maryland corporation on June 16, 2010 and owns all of the outstanding shares of common stock of SharePlus Federal Bank as a result of the conversion from mutual to stock form of SharePlus Federal Bank on October 29, 2010. In our initial public offering, SP Bancorp, Inc. issued a total of 1,725,000 shares of its common stock for an aggregate of $17.25 million in total gross offering proceeds.

SP Bancorp, Inc. has not engaged in any business to date other than owning the common stock of SharePlus Federal Bank.

As of December 31, 2011, we had $273.0 million of total assets, $217.6 million of loans, net, including loans held for sale, $211.9 million of deposits and $33.1 million of total stockholders equity on a consolidated basis.

Information in this Annual Report on Form 10-K prior to the completion of our initial public offering on October 29, 2010, including consolidated financial data presented as of and for the years ended December 31, 2009 and earlier, refers to SharePlus Federal Bank.

Our executive offices are located at 5224 W. Plano Parkway, Plano, Texas 75093. Our telephone number at this address is (972) 931-5311. Our website address is www.shareplus.com. Information on our website is not incorporated into this Annual Report and should not be considered part of this Annual Report.

SharePlus Federal Bank

SharePlus Federal Bank is a federally chartered savings bank headquartered in Plano, Texas. SharePlus Federal Bank was originally chartered in 1958 as a federal credit union serving the employees and family members of Frito-Lay, Inc. Over the years and through a series of mergers, the credit union also grew to serve the employees and family members of YUM! Brands, Inc., A&W Restaurants, Inc., KFC Corporation, Long John Silvers, Inc., Pizza Hut, Inc., Taco Bell Corp., and various PepsiCo divisions, as well as dozens of other companies that provided credit union benefits to their employees. Throughout this Annual Report on Form 10-K, these companies are sometimes referred to as our former sponsor companies.

We converted to a federal savings bank on October 1, 2004. The objective of the charter conversion was to implement our business strategy of broadening our banking services into residential mortgage lending as well as commercial real estate and commercial business lending. This has allowed us to better serve the needs of our customers and the local communities in which we operate, compete more effectively with other financial service providers.

We provide financial services to individuals, families and businesses through our six banking offices. Two of our branch offices are located in and around our headquarters in Plano, Texas. Additionally, two of our branches are located in Louisville, Kentucky and one is located in Irvine, California. Four of our five branch offices are located within corporate facilities of our former sponsor companies. Because of their location within corporate offices, the substantial majority of the customers of these branches are employees of these former sponsor companies.

Our business consists primarily of taking deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in mortgage loans secured by residential real estate, home equity loans and lines of credit, commercial real estate loans, consumer loans (consisting primarily of automobile loans) and commercial business loans. At December 31, 2011, $193.8 million, or 88.6%, of our total loan portfolio was comprised of residential and commercial real estate loans. We also offer brokerage services for the purchase and sale of non-deposit investment and insurance products through a third-party brokerage arrangement.

The majority of our residential and commercial real estate loans is originated through our Texas branch network and is collateralized by properties within this market area. Additionally, we are a preferred lender through various employee loan programs and executive relocation loan programs for certain of our former sponsor companies. Through these programs, we have the opportunity to provide loans on the primary residences of employees and of executives who are being relocated by these companies, which has resulted in a portion of our residential real estate loan portfolio being collateralized by properties outside of our Texas market area.

We also invest in investment securities, primarily consisting of government sponsored mortgage-backed securities and collateralized mortgage obligations guaranteed by Fannie Mae and Freddie Mac, and to a lesser extent, municipal obligations and agency bonds.

We offer a variety of deposit accounts, including noninterest-bearing and interest-bearing demand accounts, savings accounts, money market accounts and certificates of deposit.

SharePlus Federal Bank s executive offices are located at 5224 W. Plano Parkway, Plano, Texas 75093. Our telephone number at this address is (972) 931-5311. Our website address is www.shareplus.com. Information on our website is not incorporated into this Annual Report and should not be considered part of this Annual Report.

Market Area

Dallas-Fort Worth Metroplex

Our primary market area includes the cities of Plano and Dallas and Collin County and Dallas County and adjacent communities in the Dallas-Fort Worth-Arlington metropolitan statistical area (MSA). This region is also known as the Dallas-Fort Worth Metroplex or the DFW Metroplex and encompasses 12 counties in North Texas: Collin, Dallas, Delta, Denton, Ellis, Hunt, Johnson, Kaufman, Parker, Rockwall, Tarrant, and Wise Counties. The city of Plano is an affluent suburb, north of Dallas and is the ninth largest city in the state.

In 2005, Plano was designated the best place to live in the Western United States by CNN Money magazine. In 2006, Plano was selected as the 11th best place to live in the United States by CNN Money magazine. Plano has been rated as the wealthiest city in the United States by CNN Money. In 2008, Forbes.com selected Plano as one of the three Top Suburbs to Live Well of Dallas. The United States Census Bureau declared Plano the wealthiest city of 2008 by comparing the median household income for all U.S. cities whose populations were greater than 250,000.

Plano is the corporate headquarters for some of the country s largest and most recognized companies with the following companies having their headquarters (or major regional offices) in Plano: Adams Golf, Capital One Auto Finance, Dr Pepper Snapple Group (formerly Cadbury Schweppes Americas Beverages), Cinemark Theatres, HP Enterprise Services, Frito Lay, J.C. Penney, Dell Perot Systems and Rent-A-Center.

The total area of the DFW Metroplex contains 9,103 square miles. Its size makes it larger than the area of Rhode Island and Connecticut combined. The DFW Metroplex produces approximately 32% of the Texas gross state product.

The population of the DFW Metroplex was estimated at 6.5 million in 2010 and is projected to grow by 10.1% over the five-year period from 2010 to 2015. The population expansion in the DFW Metroplex exceeded the national and state population growth rates from 2000 to 2010 and is expected to continue to sustain this trend. The population in Collin County was estimated at approximately 810,069 in 2010 and has experienced significant growth in recent years. The Collin County population increased by 64.8% in the 2000 to 2010 period and is projected to increase by 18.5% in the 2010 to 2015 period. The median age in the DFW Metroplex at 33.5 years was younger than the national median of 37.0 years and comparable to the state median of 33.7 years.

The median household income in the DFW Metroplex was $63,064 in 2010 which exceeded the national and state medians of $54,442 and $51,960, respectively. The median household income in Collin County and the city of Plano was $96,146 and $105,329, respectively. The percentage of households with incomes of greater than $100,000 was 24.7% in the DFW Metroplex and 48.5% in Collin County, compared to 18.8% for the United States and 18.0% for Texas. The concentration of higher household incomes in the DFW Metroplex is attributable partially to its diverse economic base and greater employment in white collar industry sectors.

In addition to the serving the DFW Metroplex, we also serve retail customers (primarily employees of our former sponsor companies) through branches that are located in corporate facilities of our former sponsor companies in Louisville, Kentucky and Irvine, California.

Irvine, California

Irvine is located in Orange County, California which was developed in the 1960s as a planned community.

In 2010, the population of Irvine was estimated at 194,000 and is projected to grow by 7.5% over the next five-year period. From 2000 through the end of 2009, the population expansion in Irvine exceeded the national and state population growth rates. With a median age of 35.2 years, Irvine was younger than the national median of 37.0 years and comparable to the California state median of 34.4 years.

The median household income in Irvine was $96,801 in 2010 and positioned above the national and state medians of $54,442 and $60,992, respectively. The percentage of households with incomes of greater than $100,000 was 48.4% in Irvine, compared to 18.8% for the United States and 25.3% for California.

Irvine is home to several universities including the University of California, Irvine, as well as a number of corporations, particularly in the technology and semiconductor sectors.

Louisville, Kentucky

Louisville is the largest city in the state of Kentucky, and the county seat of Jefferson County, which is situated on the Ohio River in north-central Kentucky.

The population of Louisville was estimated at 250,000 in 2010 and is projected to remain relatively flat over the five-year period from 2010 to 2015. In 2010, the median age in Louisville was 37.8 years, similar to the national median of 37.0 years and the Kentucky state median of 38.2 years.

The median household income in Louisville was $37,929 in 2010 and positioned below the national and state medians of $54,442 and $43,765, respectively. The percentage of households with incomes of greater than $100,000 was 9.7%, compared to 18.8% for the United States and 11.7% for Kentucky.

Louisville is home to the University of Louisville, and many major corporations and organizations.

Competition

We face intense competition in our market area both in making loans and attracting deposits. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies and investment banking firms. Some of our competitors have greater name recognition and market presence that benefit them in attracting business, and offer certain services that we do not or cannot provide.

Our deposit sources are primarily concentrated in the communities surrounding our banking offices, located in the Dallas-Fort Worth Metroplex and surrounding communities in North Texas. As of June 30, 2011, we ranked 66th in FDIC-insured deposit market share (out of 180 bank and thrift institutions with offices in the Dallas-Fort Worth-Arlington, Texas, MSA) with a 0.11% market share. Such data does not reflect deposits held by credit unions.

Lending Activities

Our principal lending activity is the origination of mortgage loans secured by residential real estate, commercial real estate and home equity loans, including lines of credit and home improvement loans, consumer loans (consisting primarily of automobile loans) and commercial business loans. The following table provides a historical breakdown of our loan portfolio at the end of each of our last five fiscal years.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio, including loans held for sale, by type of loan at the dates indicated.

	At December 31,									
	2011		2010		2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Mortgage loans:										
One- to four-family residential	$ 155,497	71.08%	$ 143,929	73.38%	$ 125,418	72.96%	$ 116,813	70.87%	$ 95,852	69.71%
Home equity (1)	9,612	4.40%	10,112	5.15%	8,996	5.23	9,051	5.49	7,889	5.74
Commercial real estate	38,348	17.53%	29,303	14.94%	22,615	13.16	17,498	10.62	5,551	4.04
Consumer loans:										
Automobile and other vehicles	5,321	2.43%	7,195	3.67%	9,892	5.75	15,525	9.42	22,618	16.45
Signature (2)	1,711	0.78%	1,806	0.92%	2,072	1.21	2,533	1.54	2,559	1.86
Other (3)	1,286	0.59%	1,334	0.68%	1,536	0.89	2,176	1.32	2,181	1.59
Commercial business loans	6,986	3.19%	2,473	1.26%	1,369	0.80	1,225	0.74	848	0.61
Total loans	$ 218,761	100.00%	$ 196,152	100.00%	$ 171,898	100.00%	$ 164,821	100.00%	$ 137,498	100.00%
Other items:										
Premiums on mortgage pools (4)	71		106		51		76		95	
Deferred loan origination costs, net	494		532		458		515		550	
Allowance for loan losses	(1,754)		(2,136)		(940)		(480)		(380)	
Total loans, net	$ 217,572		$ 194,654		$ 171,467		$ 164,932		$ 137,763	

(1) Includes home equity loans, home equity lines of credit and home improvement loans.

(2) Signature loans are unsecured.

(3) Includes loans on recreational vehicles, boats, certificate of deposit and other securities and other secured loans.

(4) Represents the premium over par value paid for purchased loans. The premium is amortized on a monthly basis as an adjustment to yield.

Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2011. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

	One- to four-family residential		Home equity		Commercial real estate		Automobile and other vehicles	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
				(Dollars in thousands)				
Due During the Years Ending December 31,								
2012	$ 21,091	4.60%	$ 14	7.48%	$ 6,640	6.76%	$ 323	7.23%
2013	415	6.30%	90	6.42%	6,409	6.58%	840	6.50%
2014	7	7.31%	98	7.08%	5,511	6.40%	910	6.02%
2015 to 2016	1,580	5.19%	395	6.05%	12,933	6.05%	2,903	5.26%
2017 to 2021	2,810	6.61%	2,047	6.43%	6,684	5.97%	338	4.57%
2022 to 2026	8,272	5.56%	2,365	7.51%			7	5.99%
2027 and beyond	121,322	4.85%	4,603	4.46%	171	6.50%		
Total	$ 155,497	4.90%	$ 9,612	5.74%	$ 38,348	6.12%	$ 5,321	5.66%

	Signature		Other		Commercial business loans		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
				(Dollars in thousands)				
Due During the Years Ending December 31,								
2012	$ 1,154	10.51%	$ 207	4.26%	$ 2,105	5.75%	$ 31,534	5.38%
2013	183	11.69%	260	4.71%	232	5.89%	8,429	6.59%
2014	143	12.02%	149	6.48%	793	6.02%	7,611	6.43%
2015 to 2016	184	12.17%	264	5.63%	2,095	6.40%	20,354	5.61%
2017 to 2021	11	10.67%	229	6.77%	957	6.70%	13,076	6.22%
2022 to 2026	36	9.04%	9	10.00%	804	7.15%	11,493	6.09%
2027 and beyond			168	5.75%			126,264	4.84%
Total	$ 1,711	10.91%	$ 1,286	5.57%	$ 6,986	6.28%	$ 218,761	5.26%

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at December 31, 2011 that are contractually due after December 31, 2012.

	Due After December 31, 2012		
	Fixed	Adjustable (In thousands)	Total
Mortgage loans:			
One- to four-family residential	$ 50,727	$ 83,679	$ 134,406
Home equity	4,602	4,996	9,598
Commercial real estate	20,709	10,999	31,708
Consumer loans:			
Automobile and other vehicles	4,998		4,998
Signature	557		557
Other	1,079		1,079
Commercial loans	3,852	1,029	4,881
Total loans	$ 86,524	$ 100,703	$ 187,227

One- to Four-Family Residential Mortgage Loans. At December 31, 2011, $155.5 million, or 71.08% of our total loan portfolio, consisted of one- to four-family residential mortgage loans. We offer residential mortgage loans that conform to Fannie Mae and Freddie Mac underwriting standards (conforming loans) and non-conforming loans. We generally underwrite our one- to four-family residential mortgage loans based on the applicant s employment and credit history and the appraised value of the subject property. Our loans have fixed-rates and adjustable-rates, with maturities of up to 30 years. As of December 31, 2011, we had 26 one- to four-family residential mortgage loans with balances greater than $1.0 million. At December 31, 2011, fixed-rate one- to four-family residential mortgage loans totaled $63.5 million and adjustable-rate one- to four-family residential mortgage loans totaled $92.0 million.

We currently offer fixed-rate conventional mortgage loans with terms of up to 30 years that are fully amortizing with monthly loan payments, and adjustable-rate mortgage loans that generally provide an initial fixed interest rate for three, five, seven or ten years and that amortize over a period up to 30 years. We do not offer discounted or teaser rates on our adjustable-rate mortgage loans.

Our one- to four-family residential mortgage loans are generally conforming loans, underwritten according to Fannie Mae, Freddie Mac, Federal Housing Administration (FHA) and Department of Veterans Affairs (VA) guidelines. We generally originate both fixed- and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Federal Housing Finance Agency, which is currently $417,000 for single-family homes. However, it is not uncommon for single-family houses in parts of our Collin County and Dallas County market area to have market prices well in excess of this amount. At December 31, 2011, we had 59 one- to four-family residential mortgage loans that had principal balances in excess of $750,000. At that date, our average one- to four-family residential mortgage loan had a principal balance of $345,000. We also originate loans above the lending limit for conforming loans, which we refer to as jumbo loans. We typically originate adjustable-rate jumbo loans with an initial fixed-rate period of three, five, seven or ten years and which then adjust annually. Additionally, on occasion we will originate fixed-rate jumbo loans with terms of up to 30 years. At December 31, 2011, our largest one- to four-family residential mortgage loan had an outstanding balance of $1.9 million, was secured by a single family residence in Dallas, Texas, and was performing in accordance with its terms.

We will originate first-lien mortgage loans with loan-to-value ratios in excess of 80%, provided that, with limited exceptions, the borrower obtains private mortgage insurance. We generally will not originate loans with a loan-to-value ratio in excess of 90% without private mortgage insurance or government guarantees. On occasion we will originate a first-lien mortgage loan with a loan-to-value of 80% with a second-lien loan for an additional 10% loan-to-value with no private mortgage insurance. As of December 31, 2011, $2.7 million, or 1.8%, of our residential loan portfolio had loan-to-value ratios in excess of 90% without private mortgage insurance or government guarantees. These loans are reviewed quarterly by management and reported to the Board.

We actively monitor our interest rate risk position to determine the desirable level of investment in fixed-rate mortgages. Generally, we retain in our portfolio fixed-rate one- to four-family residential mortgage loans with terms of less than 15 years. We currently sell into the secondary mortgage market most of our long-term, fixed-rate one- to four-family residential mortgage loans with terms of 15 years or more. Such loans are sold on a servicing-released basis without recourse but with early-payment default provisions (generally, if one of the first three or four payments becomes 90 days or more past-due, depending on the investor). No loans were required to be repurchased during 2010 or 2011. We will retain in our portfolio a small percentage of these long-term, fixed-rate loans if we determine that doing so is warranted due to the customer relationship.

We currently offer several types of adjustable-rate mortgage loans secured by residential properties with interest rates that are fixed for an initial period ranging from three to ten years. We offer adjustable-rate mortgage loans that are fully amortizing. After the initial fixed period, the interest rate on adjustable-rate mortgage loans is generally reset every year based upon a contractual spread or margin above the average yield on the London Interbank Offered Rate (LIBOR), adjusted to a constant maturity of one year, as published weekly by the Federal Reserve Board, subject to periodic and lifetime limitations on interest rate changes. Generally the initial change in interest rates on our adjustable-rate mortgage loans cannot exceed two percentage points, subsequent interest rate changes cannot exceed two percentage points and total interest rate changes cannot exceed six percentage points over the life of the loan.

Adjustable-rate mortgage loans generally present different credit risks than fixed-rate mortgage loans, primarily because the underlying debt service payments of the borrowers increase as interest rates increase, thereby increasing the potential for default and higher rates of delinquency. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Since changes in the interest rates on adjustable-rate mortgages may be limited by an initial fixed-rate period or by the contractual limits on periodic interest rate adjustments, adjustable-rate loans may not adjust as quickly to increases in interest rates as our interest-bearing liabilities.

We do not offer or purchase loans that provide for negative amortization of principal, such as Option ARM loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan.

We require title insurance on all of our one- to four-family residential mortgage loans that exceed $100,000, and we also require that borrowers maintain fire and extended coverage casualty insurance (and, if appropriate, flood insurance) in an amount at least equal to the lesser of the loan balance or the replacement cost of the improvements. We do not conduct environmental testing on residential mortgage loans unless specific concerns for hazards are identified by the appraiser used in connection with the origination of the loan.

Home Equity Loans and Lines of Credit. In addition to traditional one- to four-family residential mortgage loans, we offer home equity loans and home equity lines of credit that are secured by the borrower s primary residence. Our home equity loans are primarily originated with fixed rates of interest with terms of up to 15 years. Home equity loans and lines of credit are generally underwritten using the same criteria that we use to underwrite one- to four-family residential mortgage loans. Home equity loans may be underwritten with a loan-to-value ratio of 80% when combined with the principal balance of the existing mortgage loan.

Home equity lines of credit are generally originated as revolving lines with adjustable-rates of interest. At December 31, 2011, the outstanding balance of revolving home equity lines of credit totaled $5.0 million, or 2.3% of our total loan portfolio, and the outstanding balance of term home equity loans totaled $4.6 million, or 2.1% of our total loan portfolio.

Home equity loans secured by second mortgages have greater risk than residential mortgage loans secured by first mortgages. We face the risk that the collateral will be insufficient to compensate us for loan losses and costs of foreclosure. When customers default on their loans, we attempt to foreclose on the property and resell the property as soon as possible to minimize foreclosure and carrying costs. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan and we may be unsuccessful in recovering the remaining balance from those customers. Particularly with respect to our home equity loans, decreases in real estate values could adversely affect the value of property used as collateral for our loans.

Commercial Real Estate Loans. We originate commercial real estate loans secured primarily by office buildings, retail centers, owner-occupied offices, condominiums, developed lots and land. Loans secured by commercial real estate totaled $38.3 million, or 17.53% of our total loan portfolio, at December 31, 2011, and consisted of 47 loans outstanding with an average loan balance of approximately $816,000. Virtually all of the commercial real estate loans that we originate are secured by properties located in Texas. We do not actively pursue commercial lending opportunities in our Louisville, Kentucky and Irvine, California market areas, but will consider commercial business loan requests from existing customers in these areas.

Our commercial real estate loans are generally written for terms of up to five years with a 20 year amortization schedule. The rates are generally tied to the prime interest rate as reported in *The Wall Street Journal* and generally have a specified floor. In addition, we offer fixed rate products that typically do not exceed five years. Many of our commercial real estate loans are not fully amortizing and therefore require a balloon payment at maturity. We also originate fully amortizing commercial real estate loans. A portion of our commercial real estate loans are loans where we have provided permanent financing for borrowers following the completion of the real estate construction for which we previously provided construction financing.

In underwriting commercial real estate loans, we generally lend up to 80% of the property s appraised value and up to 65% of the property s appraised value if the property is unimproved land. We base our decisions to lend on the economic viability of the property and the creditworthiness of the borrower. In evaluating a proposed commercial real estate loan, we emphasize the ratio of the property s projected net cash flow to the loan s debt service requirement (generally requiring a minimum ratio of 125%), computed after deduction for a vacancy factor and property expenses we deem appropriate. Personal guarantees are typically obtained from commercial borrowers. We require title insurance insuring the priority of our lien, fire and extended coverage casualty insurance, and, if appropriate, flood insurance, in order to protect our security interest in the underlying property.

Commercial real estate loans generally carry higher interest rates and have shorter terms than one- to four-family residential mortgage loans. Commercial real estate loans, however, entail significant additional credit risks compared to one- to four-family residential mortgage loans, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment of loans secured by income-producing properties typically depends on the successful operation of the related real estate project and thus may be subject to a greater extent to adverse conditions in the real estate market and in the general economy.

At December 31, 2011, our two largest commercial real estate loans had outstanding commitments of $3.0 million each. The first loan had an outstanding balance and commitment of $3.0 million, and was secured by an office building. This loan paid off subsequent to year end. The second loan had a total commitment of $3.0 million with an outstanding balance of $1.7 million at December 31, 2011. This loan is a construction loan participation purchased from a local financial institution, is secured by a skilled nursing facility, and was performing in accordance with its terms at December 31, 2011.

Consumer Loans. We offer a variety of secured consumer loans, including new and used automobile loans, recreational vehicle loans, and loans secured by certificates of deposits and other collateral, including marketable securities. We also offer unsecured consumer loans. We offer our consumer loans primarily to customers in our market area surrounding our Plano headquarters as well as our market areas surrounding our Louisville, Kentucky and Irvine, California branch offices. Most of our consumer loans are secured by automobiles. At December 31, 2011, our consumer loan portfolio totaled $8.3 million, or 3.80% of our total loan portfolio, of which $5.3 million were automobile loans. All of our automobile loans are direct; we do not make indirect automobile loans through dealers.

Other secured consumer loans totaled $1.3 million, or 0.59 %, of our total loan portfolio at December 31, 2011, and included recreational vehicle, motorcycle and boat loans. At December 31, 2011, our unsecured consumer loans totaled $1.7 million, or 0.78%, of our total loan portfolio. These loans have either a fixed rate of interest for a maximum term of 60 months, or are revolving lines of credit with an adjustable-rate of interest tied to the prime interest rate as reported in *The Wall Street Journal*. At December 31, 2011, unfunded commitments on our unsecured lines of credit totaled $1.5 million.

Consumer loans generally have shorter terms to maturity, which reduces our exposure to changes in interest rates. In addition, management believes that offering consumer loan products helps to expand and create stronger ties to our existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities.

Consumer and other loans generally have greater risk compared to longer-term loans secured by improved, owner-occupied real estate, particularly consumer loans that are secured by rapidly depreciable assets, such as automobiles. In these cases, any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance. As a result, consumer loan collections are dependent on the borrower s continuing financial stability and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

Commercial Business Loans. We typically make various types of secured commercial business loans to customers in our Texas market areas for the purpose of acquiring equipment and other general business purposes. The terms of these loans generally range from one year to a maximum of five years. The loans are either negotiated on a fixed-rate basis or carry adjustable interest rates indexed to the prime interest rate as reported in *The Wall Street Journal* and generally with specified floors. At December 31, 2011, we had 24 commercial business loans outstanding with an aggregate balance of $7.0 million, or 3.19% of our total loans. At December 31, 2011, the average commercial business loan balance was approximately $291,000.

Loan Originations, Purchases, Sales, Participations and Servicing. Lending activities are conducted primarily by our loan personnel operating at our main and branch office locations. All loans that we originate in each of our market areas are underwritten pursuant to our standard policies and procedures. In addition, our one- to four-family residential mortgage loans generally incorporate Fannie Mae, Freddie Mac, FHA and/or VA underwriting guidelines. We originate both adjustable-rate and fixed-rate loans. Our ability to originate fixed- or adjustable-rate loans is dependent upon the relative customer demand for such loans, which is affected by current market interest rates as well as anticipated future market interest rates. Our loan origination and sales activity may be adversely affected by a rising interest rate environment that typically results in decreased loan demand. Most of our commercial real estate and commercial loans are generated by our internal business development efforts and referrals from professional contacts. Most of our originations of one- to four-family residential mortgage loans, consumer loans and home equity loans are generated by existing customers, referrals from real estate brokers, residential home builders, walk-in business and from our internet website, and with respect to our Texas market area, a small network of mortgage brokers.

Additionally, we participate with several of the former credit union s sponsor companies as a preferred lender in employee loan programs and loan programs for executives who are being relocated throughout the United States through their employment with these companies. Through these programs, we have the opportunity to provide loans on the primary residences of employees and of executives who are being relocated by these companies, which has resulted in a portion of our residential real estate loan portfolio being collateralized by properties outside of our Texas market area. Although our participation in these programs can result in our originating loans in locations that are not one of our market areas, we underwrite these loans with the same standards as our in-market loans.

We decide whether to retain the loans that we originate or sell loans in the secondary market after evaluating current and projected market interest rates, our interest rate risk objectives, our liquidity needs and other factors. We sold $50.9 million of one- to four-family residential mortgage loans (primarily fixed-rate loans, with terms of 15 years or longer and occasionally a conforming adjustable-rate loan) during the year ended December 31, 2011. We had $4.9 million in loans held for sale at December 31, 2011. Generally we sell our residential mortgage loans on a servicing-released basis.

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our board of directors. The loan approval process is intended to assess the borrower s ability to repay the loan and the value of the collateral that will secure the loan. To assess the borrower s ability to repay, we review the borrower s employment and credit history and information on the historical and projected income and expenses of the borrower. We will also evaluate a guarantor when a guarantee is provided as part of the loan.

SharePlus Federal Bank s policies and loan approval limits are established by our board of directors. Our Senior Vice President of Commercial Lending may approve secured commercial loans up to $100,000 and unsecured commercial loans up to $25,000. Similarly, our Senior Vice President of Retail Lending has authority to approve secured consumer loans up to $125,000, unsecured consumer loans up to $20,000 and Mortgage loans to be sold on the secondary market up to $417,000 (or Super-Conforming limits as applicable) on an unaggregated basis. The Mortgage Loan Underwriter has the authority to approve loans to be sold on the secondary-market on an unaggregated basis up to $417,000 and second lien real estate secured loans for the purpose of purchase, home equity, and home improvements to be held in the loan portfolio up to $100,000. Consumer lending managers have authority to approve secured consumer loans up to $100,000 and unsecured consumer loans up to $10,000.

Aggregate lending relationships in amounts up to $750,000 for residential mortgage loans and in amounts up to $250,000 for commercial loans may be approved by the President and Chief Executive Officer. All commercial loans that result in aggregate indebtedness of up to $500,000 must be approved or ratified by a majority of the Officers Loan Committee, consisting of our President and Chief Executive Officer, Chief Financial Officer, Senior Vice President of Retail Lending, Senior Vice President of Commercial Lending and Senior Vice President Mortgage Warehouse Lending. Commercial and residential relationships in excess of $1 million and up to $3 million are approved by the Credit Policy Committee consisting of four outside directors and our President and Chief Executive Officer. All commercial and residential relationships in excess of $3 million must be approved by the entire board of directors. All approved mortgage loans in excess of $417,000 and all commercial loans are reported to the board of directors upon approval at the next regularly scheduled board meeting.

We generally require appraisals of all real property securing loans from a rotating list of independent, licensed, third-party appraisers. All appraisers are approved by the board of directors annually.

Non-performing and Problem Assets

With respect to our residential mortgage loans and consumer loans, collection calls typically begin between the 10^{th} and 15^{th} day of delinquency. By the time a loan is 30 days past due, there will have been two to three delinquency notices sent as well as a minimum of two personal phone contact attempts from the assigned employee and/or an automated calling system. During each personal phone contact, the borrower is required to provide updated information and is counseled on the terms of the loan and the importance of making payments on or before the due date. Once a loan becomes 60 days delinquent, repossessions typically commence, while foreclosures typically begin after the 90^{th} day of delinquency. A summary report of all loans 30 days or more past due is provided monthly to our board of directors.

With respect to our commercial real estate and commercial business lending, collection efforts are carried out directly by our commercial loan officers. Commercial loan officers review past due accounts weekly and contact delinquent borrowers immediately. Past due notices are typically sent to commercial real estate customers and commercial business customers when 15 days past due.

Loans are usually placed on non-accrual status when the payment of principal and/or interest is 90 days past due. Loans are placed on non-accrual status when it is determined collection of principal or interest is in doubt or if the collateral is in jeopardy. When loans are placed on non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received. The loans are typically returned to accrual status if unpaid principal and interest are repaid so that the loan is current.

Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated.

	At December 31,				
	2011	2010	2009	2008	2007
	(Dollars in thousands)				
Non-accrual loans:					
Mortgage loans:					
One- to four-family residential	$ 207	$ 1,704[(2)]	$ 421	$ 578	$ 2,839
Home equity		101			
Commercial real estate		2,498[(3)]	1,270[(1)]		
Consumer loans:					
Automobile and other vehicles		20	7	27	52
Signature			13	5	21
Other					
Commercial business loans		125			
Total non-accrual loans	$ 207	$ 4,448	$ 1,711	$ 610	$ 2,912
Loans delinquent 90 days or greater and still accruing:					
Mortgage loans:					
One- to four-family residential					
Home equity					
Commercial real estate					
Consumer loans:					
Automobile and other vehicles					
Signature					
Other					
Commercial business loans					
Total loans delinquent 90 days or greater and still accruing	$	$	$	$	$
Troubled debt restructurings, not included in non-accrual loans	6,819	997	1,717	860	189
Total non-performing loans	$ 7,026	$ 5,445	$ 3,428	$ 1,470	$ 3,101
Other real estate owned and repossessed assets:					
Mortgage loans:					
One- to four-family residential					521
Home equity					
Commercial real estate	1,824				
Consumer loans:					
Automobile and other vehicles				8	
Signature					
Other					10
Commercial business loans					
Total other real estate owned and repossessed assets	$ 1,824	$	$	$ 8	$ 531
Total non-performing assets	$ 8,850	$ 5,445	$ 3,428	$ 1,478	$ 3,632
Ratios:					
Non-performing loans to total loans	3.21%	2.78%	1.99%	0.89%	2.26%
Non-performing assets to total assets	3.24%	2.28%	1.65%	0.77%	2.17%

(1)

Represents a loan in which SharePlus Federal Bank participates but is not the lead lender. At December 31, 2009, this loan was current but was deemed non-performing because the lead lender had categorized the loan as substandard, non-accrual.

(2) Includes two loans with outstanding balances totaling $399,000 that were foreclosed during the first quarter of 2011.

(3) Includes one loan totaling $2.0 million that was foreclosed during the first quarter of 2011.

For the year ended December 31, 2011, gross interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was $34,000. Interest income recognized on such loans for the year ended December 31, 2011 was $14,000.

At December 31, 2011, our non-accrual loans totaled $207,000. The non-accrual loans consisted of three one-to-four family residential loans.

At December 31, 2011, we had a total of 13 loans that were not currently classified as non-accrual, 90 days past due or troubled debt restructurings, but where known information about possible credit problems of borrowers caused management to have serious concerns as to the ability of the borrowers to comply with present loan repayment terms and that could result in disclosure as non-accrual, 90 days past due or troubled debt restructurings.

One of these loans is an automobile loan with an outstanding principal balance of $5,000 and was made to an individual who declared personal bankruptcy. Eleven of these loans, with an aggregate balance of $489,000 are collateralized by one- to four-family residential mortgages of borrowers who have, on occasion, been late with scheduled payments. One of these loans is a commercial real estate loan totaling $1.9 million impacted by slow leasing activity and rental rates below original projections at the time of origination. This loan is current and continues to maintain significant interest reserves at the Bank.

Troubled Debt Restructurings. Troubled debt restructurings are defined under ASC 310-40 to include loans for which either a portion of interest or principal has been forgiven, or for loans modified at interest rates or on terms materially less favorable than current market rates. We periodically modify loans to extend the term or make other concessions to help a borrower stay current on their loan and to avoid foreclosure. We generally do not forgive principal or interest on loans or modify the interest rates on loans to rates that are below market rates. At December 31, 2011, we had $6.8 million of troubled debt restructurings related to 3 commercial real estate loans totaling $5.2 million, 12 consumer loans totaling $64,000 and 5 residential loans totaling $1.5 million. Of this $6.8 million in troubled debt restructurings, 3 loans totaling $ 817,000 were past due between 30-89 days.

Delinquent Loans. The following table sets forth certain information with respect to our loan portfolio delinquencies at the dates indicated.

	Loans Delinquent For					
	30-89 Days		90 Days and Over		Total	
	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)					
At December 31, 2011						
Mortgage loans:						
One- to four-family residential	15	$ 2,618	2	$ 207	17	$ 2,825
Home equity	2	27			2	27
Commercial real estate						
Consumer loans:						
Automobile and other vehicles	2	17			2	17
Signature						
Other						
Commercial business loans						
Total loans	19	$ 2,662	2	$ 207	21	$ 2,869
At December 31, 2010						
Mortgage loans:						
One- to four-family residential	16	$ 1,984	11	$ 1,704	27	$ 3,688
Home equity	3	51	3	101	6	152
Commercial real estate	2	1,844	2	2,498	4	4,342
Consumer loans:						
Automobile and other vehicles	8	46	3	20	11	66
Signature	5	6			5	6
Other						
Commercial business loans			1	125	1	125
Total loans	34	$ 3,931	20	$ 4,448	54	$ 8,379
At December 31, 2009						
Mortgage loans:						
One- to four-family residential	12	$ 1,616	10	$ 421	22	$ 2,037
Home equity	1	34			1	34
Commercial real estate	—	—				—
Consumer loans:						
Automobile and other vehicles	10	66	1	7	11	73
Signature	3	10	1	13	4	23
Other						
Commercial business loans						
Total loans	26	$ 1,726	12			