PACIFIC PREMIER BANCORP INC
Form 10-K
March 17, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 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.: 0-22193

(Exact name of registrant as specified in its charter)

Delaware	33-0743196
(State of Incorporation)	(I.R.S. Employer Identification No)

17901 Von Karman Avenue, Suite 1200, Irvine, California 92614
(Address of Principal Executive Offices and Zip Code)
Registrant’s telephone number, including area code: (949) 864-8000

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

Title of class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	NASDAQ Global Select Market

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the 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	[X]
Non-accelerated filer	[ ]	(Do not check if a smaller reporting company)	Smaller reporting company	[ ]

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, i.e., persons other than directors and executive officers of the registrant, was approximately $196,667,287 and was based upon the last sales price as quoted on the NASDAQ Stock Market as of June 28, 2013, the last business day of the most recently completed second fiscal quarter.

As of March 14, 2014, the Registrant had 17,224,144 shares outstanding.

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PART I

ITEM 1. BUSINESS

Forward-Looking Statements

All references to “we,” “us,” “our,” “Pacific Premier” or the “Company” mean Pacific Premier Bancorp, Inc. and our consolidated subsidiaries, including Pacific Premier Bank, our primary operating subsidiary. All references to ‘‘Bank’’ refer to Pacific Premier Bank. All references to the “Corporation” refer to Pacific Premier Bancorp, Inc.

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements represent plans, estimates, objectives, goals, guidelines, expectations, intentions, projections and statements of our beliefs concerning future events, business plans, objectives, expected operating results and the assumptions upon which those statements are based. Forward-looking statements include without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and are typically identified with words such as “may,” “could,” “should,” “will,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” or words or phases of similar meaning. We ca the forward-looking statements are based largely on our expectations and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors which are, in many instances, beyond our control. Actual results, performance or achievements could differ materially from those contemplated, expressed, or implied by the forward-looking statements.

The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward-looking statements:

- The strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- The effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the “Federal Reserve”);
- Inflation/deflation, interest rate, market and monetary fluctuations;
- The timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;
- The impact of changes in financial services policies, laws and regulations, including those concerning taxes, banking, securities and insurance, and the application thereof by regulatory bodies;
- Technological changes;
- The effect of acquisitions we may make, if any, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions, and/or the failure to effectively integrate an acquisition target into our operations;
- Changes in the level of our nonperforming assets and charge-offs;
- The effect of changes in accounting policies and practices, as may be adopted from time-to-time by bank regulatory agencies, the U.S. Securities and Exchange Commission (“SEC”), the Public Company Accounting Oversight Board, the Financial Accounting Standards Board or other accounting standards setters;
- Possible other-than-temporary impairments (“OTTI”) of securities held by us;
- The impact of current governmental efforts to restructure the U.S. financial regulatory system, including enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”);
- Changes in consumer spending, borrowing and savings habits;
- The effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
- Ability to attract deposits and other sources of liquidity;
- Changes in the financial performance and/or condition of our borrowers;
- Changes in the competitive environment among financial and bank holding companies and other financial service providers;
- Geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, which could impact business and economic conditions in the United States and abroad;

- Unanticipated regulatory or judicial proceedings; and
- Our ability to manage the risks involved in the foregoing.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Annual Report on Form 10-K. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We will not update the forward-looking statements to reflect actual results or changes in the factors affecting the forward-looking statements.

Overview

We are a California-based bank holding company incorporated in 1997 in the State of Delaware and a registered banking holding company under the Bank Holding Company Act of 1956, as amended ("BHCA"). Our wholly owned subsidiary, Pacific Premier Bank, is a California state-chartered commercial bank. The Bank was founded in 1983 as a state-chartered thrift and subsequently converted to a federally chartered thrift in 1991. The Bank converted to a California-chartered commercial bank and became a Federal Reserve member in March of 2007. The Bank is a member of the Federal Home Loan Bank of San Francisco ("FHLB"), which is a member bank of the FHLB System. The Bank's deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to the maximum amount currently allowable under federal law. The Bank is currently subject to examination and regulation by the FRB, the California Department of Business Oversight ("DBO") and the FDIC.

We are a growth company keenly focused on building shareholder value through consistent earnings and creating franchise value. Our growth is derived both organically and through acquisitions of financial institutions and lines of business that complement our business banking strategy. The Bank's primary target market is small and middle market businesses.

We primarily conduct business throughout California from our 13 full-service depository branches in the counties of Los Angeles, Orange, Riverside, San Bernardino and San Diego. These depository branches are located in the cities of Encinitas, Huntington Beach, Irvine, Los Alamitos, Newport Beach, Palm Desert, Palm Springs, San Bernardino, San Diego and Seal Beach, California. Our corporate headquarters are located in Irvine, California.

We provide banking services within our targeted markets in California to businesses, including the owners and employees of those businesses, professionals, real estate investors and non-profit organizations. Additionally, we provide certain banking services nationwide. Through our Home Owners' Association ("HOA") Banking and Lending unit, we provide customized cash management, electronic banking services and credit facilities to HOAs and HOA management companies nationwide. Through our U.S. Small Business Administration ("SBA") Lending unit, we provide entrepreneurs and small business owners access to loans needed for working capital and continued growth. In addition, we expanded our commercial banking platform as a result of our recent acquisition of Infinity Franchise Holdings, LLC ("Infinity Holdings") and its primary operating subsidiary, Infinity Franchise Capital ("IFC" and together with Infinity Holdings, "Infinity"), in January 2014. Infinity was a specialty, nationwide lender to franchisees in the quick service restaurant ("QSR") industry. Following the acquisition of Infinity Holdings, we began offering loans and other services to franchisees in the QSR industry through our newly formed Franchise Lending unit.

Through our branches and our Internet website at www.ppbi.com, we offer a broad array of deposit products and services, including checking, money market and savings accounts, cash management services, electronic banking services, and on-line bill payment. We also offer a wide array of loan products, such as commercial business loans, lines of credit, SBA loans, warehouse credit facilities, commercial real estate loans, residential home loans, construction loans and consumer loans. At December 31, 2013, we had consolidated total assets of $1.7 billion, net loans of $1.2 billion, total deposits of $1.3 billion, and consolidated total stockholders' equity of $175.2 million. At December 31, 2013, the Bank was considered a "well-capitalized" financial institution for regulatory capital purposes.

Our common stock is traded on the NASDAQ Global Select Market under the ticker symbol “PPBI.” There are 25.0 million authorized shares of the Corporation’s common stock, with 16.6 million shares outstanding as of December 31, 2013, which increased to 17.2 million upon the closing of the acquisition of Infinity Holdings in January of 2014. The Corporation has an additional 1.0 million authorized shares of preferred stock, none of which have been issued to date.

Our executive offices are located at 17901 Von Karman Avenue, Suite 1200, Irvine, California 92614 and our telephone number is (494) 864-8000. Our Internet website address is www.ppbi.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and all amendments thereto, from 1998 to present that have been filed with the SEC are available free of charge on our Internet website. Also on our website are our Code of Ethics, Insider Trading and Beneficial Ownership forms, and Corporate Governance Guidelines. The information contained in our website or in any websites linked by our website, is not a part of this Annual Report on Form 10-K.

Our Strategic Plan

Our strategic plan is focused on generating organic growth through our high performing sales culture, which is designed to deliver new business banking relationships and a corresponding increase in core deposits. Additionally we seek to grow through mergers and acquisitions of California based banks and the acquisition of lines of business that complement our business banking strategy.

Our two key operating strategies are summarized as follows:

- Expansion through Organic Growth. Over the past several years we have developed a high performing sales culture that places a premium on business bankers that have the ability to consistently generate new business. Business unit managers that possess in-depth product knowledge and expertise in their respective lines of business systematically manage the business development efforts through the use of sales and relationship management technology tools.

- Expansion through Acquisitions. Our acquisition strategy is twofold; first we seek to acquire whole banks within the State of California to expand geographically and/or to consolidate in our existing markets, second we seek to acquire lines of business that will complement our existing business banking strategy. We have completed four acquisitions over the past three years: Canyon National Bank (“CNB”) (FDIC assisted, geographic expansion, closed 2/2011), Palm Desert National Bank (“PDNB”) (FDIC assisted, in market consolidation, closed 4/2012), First Associations Bank (“FAB”) (open bank, nationwide HOA line of business, closed 3/2013), and San Diego Trust Bank (“SDTB”) (open bank, geographic expansion, closed 6/2013). In January 2014, we also completed the acquisition of Infinity, which was a nationwide lender to franchisees in the QSR industry. We will continue to pursue acquisitions of open banks, FDIC-assisted transactions and other non-depository businesses that meet our criteria.

Recent Developments

Pacific Premier Bancorp, Inc. and Infinity

On November 18, 2013, the Company announced that it had entered into a definitive agreement to acquire privately held Infinity Holdings and its wholly owned operating subsidiary, IFC a national lender to franchisees in the QSR industry, and other direct and indirect subsidiaries utilized in its business. The acquisition was completed on January 30, 2014, whereby we acquired $80.8 million in assets, $709,000 in liabilities and paid off their credit facility of $67.6 million. Infinity had no delinquent loans or adversely classified assets as of the acquisition date. The acquisition of IFC is expected to further diversify our loan portfolio with C&I and owner-occupied CRE loans, to deploy excess liquidity into higher yielding assets, to positively impact our net interest margin and to further leverage our strong capital base. The QSR franchisee lending business is a niche market that provides attractive growth opportunities for us in the future. The value of the total consideration paid for the Infinity acquisition was $16.9 million, which consisted of $9.0 million paid in cash and the issuance of 562,469 shares of the Corporation's common stock, which was valued at $16.02 per share as measured by the 10-day average closing price immediately prior to closing of the transaction. The acquisition is expected to be accretive to our 2014 earnings per share.

Lending Activities

General. In 2013, we maintained our commitment to a high level of credit quality in our lending activities. We further diversified our loan portfolio with our acquisition of FAB and our associated entry into lending to HOAs nationwide. Identifying an opportunity in an underserved market, we also began selectively extending construction financing for 1-4 family dwellings. Our core lending business continues to focus on meeting the financial needs of local businesses and their owners. To that end, the Company offers a full complement of flexible and structured loan products tailored to meet the diverse needs of our customers.

During 2013, we made or purchased loans to borrowers secured by real property and business assets located principally in California, our primary market area. We made select loans, primarily SBA guaranteed loans and loans to HOAs, throughout the United States. We emphasize relationship lending and focus on generating loans with customers who also maintain full depository relationships with us. These efforts assist us in establishing and expanding depository relationships consistent with the Company's strategic direction. We maintain an internal lending limit below our $46.8 million legal lending limit for secured loans and $28.1 million for unsecured loans as of December 31, 2013. Historically, we have managed loan concentrations by selling certain loans, primarily excess commercial non-owner occupied CRE and multi-family residential loan production. Although in recent periods the level of loan sales has moderated, loan sales remain a strategic option for us.

During 2013, we originated or purchased $131.4 million of C&I loans, $94.4 million of owner occupied CRE loans, $21.5 million of SBA loans, $89.8 million of warehouse facilities, $152.5 million of non-owner occupied CRE loans, $85.7 million of single family real estate loans, $115.1 million of multi-family real estate loans, $5.0 million of land loans and $39.1 million of construction and other loans. At December 31, 2013, we had $1.2 billion in total gross loans outstanding.

Commercial and Industrial Lending. We originate C&I loans secured by business assets including inventory, receivables, machinery and equipment to businesses located in our primary market area. In many instances, real estate holdings of the borrower, its principals or loan guarantors are also taken as collateral. Loan types include revolving lines of credit, term loans, seasonal loans and loans secured by liquid collateral such as cash deposits or marketable securities. We also issue letters of credit on behalf of our customers, backed by loans or deposits with the Company. At December 31, 2013, C&I loans totaled $187.0 million, constituting 15.0% of our gross loans, and we had commitments to extend additional credit on C&I loans of $93.6 million.

Commercial Owner-Occupied Business Lending. We originate and purchase loans secured by owner-occupied CRE, such as retail buildings, small office and light industrial buildings, and mixed-use commercial properties located predominantly in California. We also make loans secured by special purpose properties, such as gas stations and churches. Pursuant to our underwriting policies, owner-occupied CRE loans may be made in amounts of up to 80% of the lesser of the appraised value or the purchase price of the collateral property. Loans are generally made for terms up to 25 years with amortization periods up to 25 years. At December 31, 2013, we had $221.1 million of owner-occupied CRE secured loans, constituting 17.8% of our gross loans.

SBA Lending. We are approved to originate loans under the SBA's Preferred Lenders Program ("PLP"). The PLP lending status affords us a higher level of delegated credit autonomy, translating to a significantly shorter turnaround time from application to funding, which is critical to our marketing efforts. We originate loans nationwide under the SBA's 7(a), Express, Patriot Express, International Trade and 504 loan programs, in conformity with SBA underwriting and documentation standards. The guaranteed portion of the 7(a) loans is typically sold on the secondary market. At December 31, 2013, we had $10.7 million of SBA loans, constituting 0.9% of our gross loans.

Warehouse Repurchase Facilities. We provide warehouse repurchase facilities for qualified mortgage bankers operating principally in California. These facilities provide short-term funding for one-to-four family mortgage loans via a mechanism whereby the mortgage banker sells us closed loans on an interim basis, to be repurchased in conjunction with the sale of each loan on the secondary market. We carefully underwrite and monitor the financial strength and performance of all counterparties to the transactions, including the mortgage bankers, secondary market participants and closing agents. We generally purchase only conforming/conventional (Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC")) and government guaranteed (Federal Housing Administration ("FHA"), Veterans Administration ("VA") and U.S. Department of Agriculture ("USDA")) credits, and only after thorough due diligence including sophisticated fraud checks. At December 31, 2013, warehouse loans totaled $87.5 million constituting 7.0% of our gross loans, and had commitments to extend additional warehouse credit of $207.5 million.

Commercial Non-Owner Occupied Real Estate Lending. We originate and purchase loans that are secured by CRE, such as retail centers, small office and light industrial buildings, and mixed-use commercial properties that are not occupied by the borrower and are located predominantly in California. We also make loans secured by special purpose properties, such as hotels and self-storage facilities. Pursuant to our underwriting practices, non-owner CRE loans may be made in amounts up to 75% of the lesser of the appraised value or the purchase price of the collateral property. We consider the net operating income of the property and typically require a stabilized debt service coverage ratio of at least 1.20:1, based on the qualifying interest rate. Loans are generally made for terms from 10 years up to 25 years with amortization periods up to 25 years. At December 31, 2013, we had $333.5 million of non-owner occupied CRE secured loans, constituting 26.9% of our gross loans.

Multi-family Residential Lending. We originate and purchase loans secured by multi-family residential properties (five units and greater) located predominantly in California. Pursuant to our underwriting practices, multi-family residential loans may be made in an amount up to 75% of the lesser of the appraised value or the purchase price of the collateral property. In addition, we generally require a stabilized minimum debt service coverage ratio of at least 1.15:1, based on the qualifying loan interest rate. Loans are made for terms of up to 30 years with amortization periods up to 30 years. At December 31, 2013, we had $233.7 million of multi-family real estate secured loans, constituting 18.8% of our gross loans.

Construction Lending. We originate loans for the construction of 1-4 family residences and CRE properties in our market area. We concentrate our efforts on single homes and very small infill projects in established neighborhoods where there is not abundant land available for development. Pursuant to our underwriting practices, construction loans may be made in an amount up to the lesser of 80% of the completed value of or 85% of the cost to build the collateral property. Loans are made solely for the term of construction, generally less than 24 months. We require that the owner's equity is injected prior to loan funds. At December 31, 2013, construction loans totaled $13.0 million constituting 1.0% of our gross loans, and had commitments to extend additional construction credit of $24.1 million.

One-to-Four Family Real Estate Lending. Although we do not originate first lien single family mortgages, we occasionally purchase such loans to diversify our portfolio. Our portfolio of one-to-four family loans at December 31, 2013 totaled $145.2 million, constituting 11.7% of our gross loans, of which $136.9 million consists of loans secured by first liens on real estate and $8.3 million consists of loans secured by second or junior liens on real estate.

Other Loans. We originate a limited number of consumer loans, generally for banking customers only, which consist primarily of home equity lines of credit, savings account loans and auto loans. Before we make a consumer loan, we assess the applicant's ability to repay the loan and, if applicable, the value of the collateral securing the loan. At December 31, 2013, we had $3.8 million in other loans that represented 0.3% of our gross loans.

Interest Rates on Our Loans. We employ a risk-based pricing strategy on all loans that we fund. The interest rates, fees and loan structure of our loans generally vary based on a number of factors, including the degree of credit risk, size, maturity of the loan, a borrower's business or property management expertise, and prevailing market rates for similar types of loans, as well as the deposit balances the borrower maintains with us. Adjustable rate C&I, SBA and construction loans are typically priced based on a margin over the Prime rate, while warehouse repurchase facilities are priced over the London Inter-Bank Offered Rate ("LIBOR"). CRE and HOA loans are typically 3, 5 or 7 year fixed rate hybrid adjustable-rate loans and are based on one of several interest rate indices. HOA loans are typically 5, 7, or 10 year fixed rate loans that are fully amortizing. Many of the C&I loans and substantially all of the non-owner occupied CRE loans originated by the Company in 2013 had minimum interest rates, or floor rates, below which the rate charged may not be reduced regardless of further reductions in the underlying interest rate index. Substantially all of our non-owner occupied CRE loans also include prepayment penalties.

Lending Risks on Our Loans. Lending risks vary by the type of loan extended. In our C&I and SBA lending activities, collectability of the loans may be adversely affected by risks generally related to small and middle market businesses, such as:

- Changes or continued weakness in:
  - general or local economic conditions;
  - specific industry segments, including weakness affecting the business' customer base;
- Changes in consumer behavior;
- Changes in a business' personnel;
- Increases in supplier costs that cannot be passed along to customers;
- Increases in operating expenses (including energy costs);
- Changes in governmental rules, regulations and fiscal policies;
- Increases in interest rates, tax rates; and
- Other factors beyond the control of the borrower or the lender.

In our investor real estate and construction loans, payment performance and the liquidation values of collateral properties may be adversely affected by risks generally incidental to interests in real property, such as:

- Changes or continued weakness in:
  - general or local economic conditions;
  - specific industry segments;
- Declines in real estate values;
- Declines in rental rates;
- Declines in occupancy rates;
- Increases in other operating expenses (including energy costs);
- The availability of property financing;
- Changes in governmental rules, regulations and fiscal policies, including rent control ordinances, environmental legislation and taxation;
- Increases in interest rates, real estate and personal property tax rates; and
- Other factors beyond the control of the borrower or the lender.

In our HOA and consumer loans, collectability of the loans may be adversely affected by risks generally related to consumers, such as:

- Changes or continued weakness in general or local economic conditions, notably employment and wage income;
- Changes in consumer behavior;
- Declines in real estate values;
- Declines in rental rates;
- Increases in association operating expenses (including energy costs);

- The availability of property financing;
- Changes in governmental rules, regulations and fiscal policies, including rent control ordinances, environmental legislation and taxation;
- Increases in interest rates, real estate and personal property tax rates; and
- Other factors beyond the control of the borrower or the lender.

In our warehouse repurchase facilities, performance is generally driven by the routine operation of the secondary market for one-to-four family mortgage loans. Primary risks include:

- The financial and operational health of the GSE agencies (FNMA and FHLMC);
- The ongoing commitment of U.S. Government agencies (FHA, VA and USDA) to the one-to-four family mortgage market;
- Major interest rate shocks; and
- Widespread loan fraud on the part of one of our counterparties.

We attempt to mitigate these risks through sound and prudent underwriting practices, as well as a proactive loan review process and our risk management practices. See " ---Underwriting and Approval Authority for Our Loans" immediately below. We will not extend credit to any one borrower that is in excess of regulatory limits.

Underwriting and Approval Authority for Our Loans. Our board of directors establishes our lending policies. Each loan must meet minimum underwriting criteria established in our lending policies and must be consistent with our overall strategies for yield, interest rate risk, and portfolio concentrations. The underwriting and quality control functions are managed through our corporate office. Each loan application is evaluated from a number of underwriting perspectives. Considerations include historic business cash flows, debt service coverage, loan-to-value ratios of underlying collateral, if any, debt to equity ratios, credit history, business experience, history of business, forecasts of operations, economic conditions, business viability, net worth, and liquidity. Additionally, loans secured by real estate, underwriting considerations include property appraised value, loan-to-value ratios, level of debt service coverage utilizing both the actual net operating income and forecasted net operating income and use and condition of the property, as well as the borrower's liquidity, income, credit history, net worth, and operating experience. We generally do not offer loans on a limited- or no-documentation basis unless fully secured by cash collateral.

Business loans are generally originated as recourse or with full guarantees from key borrowers or borrower principals. Loans secured by real estate are likewise generally originated on a full recourse basis. On loans made to entities, such as partnerships, limited liability companies, corporations or trusts, we typically obtain personal guarantees from the appropriate managing members, major stockholders, trustees or other appropriate principals. In 2013, substantially all of our loans to entities were originated with full recourse and/or personal guarantees from the principals of the borrowers.

Prior to processing and underwriting any loan request, we issue a proposal or letter of interest based on a preliminary analysis by our bankers, which letter details the terms and conditions on which we will consider the loan request. Upon receipt of the signed letter of interest, a completed loan application and a deposit, a credit report and other required reports are ordered and, if necessary, additional information is requested. Upon receipt of all requested information, we process and underwrite each loan application and prepare all the loan documentation after the loan has been approved.

Our credit memorandums, which are prepared by our underwriters, include a description of the transaction and prospective borrower and guarantors, the collateral securing the loan, if any, the proposed uses of loan proceeds and source(s) of repayment, as well as an analysis of the borrower's business and personal financial statements and creditworthiness. The financial statements and creditworthiness of any guarantors are also analyzed. For loans secured by real property, the credit memorandum will include an analysis of the property. Loans for which real estate is the primary collateral require an independent appraisal conducted by a licensed appraiser. All appraisal reports are ordered and appropriately reviewed by our appraisal department. Our board of directors reviews and approves annually the independent list of acceptable appraisers. When appropriate, environmental reports are obtained and reviewed as well.

Following loan approval and prior to funding, our underwriting and processing departments ensure that all loan approval conditions have been satisfied, that loan terms conform with lending policies (or are properly documented as exceptions with required approvals), and that all the required documentation is present and in proper form.

Business loans are subject to our guidelines regarding appropriate covenants and periodic monitoring requirements which may include, but are not limited to:

- Capital and lease expenditures;
- Capital levels;
- Salaries and other withdrawals;
- Working capital levels;
- Debt to net worth ratios;
- Sale of assets;
- Change of management;
- Change of ownership;
- Cash flow requirements;
- Profitability requirements;
- Debt service ratio;
- Collateral coverage ratio; and
- Current and quick ratios.

Subject to the above standards, our board of directors delegates authority and responsibility to management for loan approvals. Our Credit Committee includes the Chief Credit Officer, Chief Banking Officer, Chief Executive Officer, Senior Vice President (“SVP”) Senior Credit Manager, SVP Portfolio Management, and each of our Vice President Credit Managers. Depending upon the nature and size of each loan request, loans require between two and four approval signatures from members of our Credit Committee.

Our Loan Portfolio

Management and Servicing. Portfolio management and loan servicing activities are centralized at our corporate headquarters. Our loan servicing operations are designed to provide prompt customer service and accurate and timely information for account follow-up, financial reporting and loss mitigation. Following the funding of an approved loan, the data is entered into our core data processing system, which provides monthly billing statements, tracks payment performance, and effects agreed upon interest rate adjustments. Loan servicing activities include (i) collecting and remitting loan payments, (ii) accounting for principal and interest and other collections and expenses, and (iii) holding and disbursing escrow or impounding funds for real estate taxes and insurance premiums.

Our portfolio management operations are designed to ensure that management and the board of directors has timely and comprehensive information regarding the performance of our loan portfolio. This information provides an essential leading indicator of potential performance issues prior to loan payment delinquency. For substantially of the Company’s non-homogeneous loan portfolio, our Portfolio Managers collect financial information from borrowers and guarantors in order to conduct a detailed loan review in accordance with our policies, generally annually or more often as appropriate, but in no case less than biennially. The Portfolio Managers also visit properties and businesses on a periodic basis to perform inspections of our collateral and associated revenue-generating activities of borrowers. In conjunction with the loan review process, all loans in the portfolio are assigned a risk grade that, among other purposes, factors into the Company’s allowance for loan and lease loss calculations.

When payments are not received by their contractual due date, collection efforts are initiated by our loss mitigation personnel. Accounts past-due by more than 10 days are assigned to our collector for comprehensive payment collection efforts. Our Portfolio Managers conduct an evaluation of all loans 90 days or more past due or otherwise identified as impaired by obtaining an estimate of value on the underlying collateral and an analysis of such collateral. The evaluation may result in our partial or complete charge off of the loan, but collection efforts still continue. Portfolio Managers also conduct discussions with borrowers in order to identify whether alternatives to foreclosure exist. When foreclosure will maximize the Company's recovery for a non-performing loan, the Portfolio Managers will carry out the foreclosure process, including any associated judicial legal actions.

Loan Portfolio Composition. At December 31, 2013, our net loans receivable held for investment totaled $1.2 billion and our loans receivable held for sale totaled $3.1 million.

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:

	At December 31,											
	2013				2012				2011			
	Amount	% of Total		Weighted Average Interest Rate	Amount	% of Total		Weighted Average Interest Rate	Amount	% of Total		Weighted Average Interest Rate
	(dollars in thousands)											
Business loans:												
Commercial and industrial	$187,035	15.0	%	5.0%	$115,354	11.7	%	5.3%	$86,684	11.7	%	5.8%
Commercial owner occupied (1)	221,089	17.8	%	5.3%	150,934	15.3	%	6.1%	152,299	20.6	%	6.6%
SBA	10,659	0.9	%	5.9%	6,882	0.7	%	6.0%	4,727	0.7	%	6.0%
Warehouse facilities	87,517	7.0	%	4.1%	195,761	19.9	%	4.8%	67,518	9.1	%	5.4%
Real estate loans:												
Commercial non-owner occupied	333,544	26.9	%	5.3%	253,409	25.6	%	5.7%	164,341	22.2	%	6.6%
Multi-family	233,689	18.8	%	4.8%	156,424	15.9	%	5.8%	193,830	26.2	%	6.0%
One-to-four family (2)	145,235	11.7	%	4.4%	97,463	9.9	%	4.7%	60,027	8.1	%	5.1%
Construction	13,040	1.0	%	5.2%	-	0.0	%	0.0%	-	0.0	%	0.0%
Land	7,605	0.6	%	4.7%	8,774	0.9	%	4.9%	6,438	0.9	%	5.8%
Other loans	3,839	0.3	%	5.8%	1,193	0.1	%	6.2%	3,390	0.5	%	7.6%
Total gross loans	1,243,252	100.0	%	5.0%	986,194	100.0	%	5.4%	739,254	100.0	%	6.1%
Less loans held for sale	3,147				3,681				-			
Total gross loans held	1,240,105				982,513				739,254			

for investment			
Plus (less) for:			
Deferred loan origination costs (fees) and premiums (discounts)	18	(306)	(665)
Allowance for loan losses	(8,200)	(7,994)	(8,522)
Loans held for investment, net	$1,231,923	$974,213	$730,067

	2010			2009		
	Amount	% of Total	Weighted Average Interest Rate	Amount	% of Total	Weighted Average Interest Rate
	(dollars in thousands)					
Business loans:						
Commercial and industrial	$42,077	7.5 %	6.3%	$31,109	5.4 %	7.0%
Commercial owner occupied (1)	113,025	20.0 %	6.6%	103,019	17.9 %	7.1%
SBA	4,088	0.7 %	5.9%	3,337	0.5 %	5.7%
Warehouse facilities	12,610	2.2 %	6.1%	-	0.0 %	0.0%
Real estate loans:						
Commercial non-owner occupied	130,525	22.9 %	6.7%	149,577	26.0 %	6.8%
Multi-family	243,584	42.9 %	6.2%	278,744	48.4 %	6.2%
One-to-four family (2)	20,318	3.6 %	5.4%	8,491	1.5 %	8.3%
Other loans	1,417	0.2 %	4.5%	1,991	0.3 %	1.3%
Total gross loans	567,644	100.0%	6.4%	576,268	100.0%	6.6%
Less loans held for sale	-			-		
	567,644			576,268		

Total gross loans held for investment		
Plus (less) for:		
Deferred loan origination costs (fees) and premiums (discounts)	(3,227)	(779)
Allowance for loan losses	(8,879)	(8,905)
Loans held for investment, net	$555,538	$566,584

(1) Secured by real estate.
(2) Includes second trust deeds.

Loan Portfolio Characteristics. In general, the Company does not require regular updates of collateral valuations for non-homogeneous loans that are not classified as potential problem or problem loans. However, updated valuations are obtained for collateral securing non-homogeneous loans that are identified as potential problem loans at least every twenty-four months. Updated collateral valuations may be required more frequently at the discretion of the Company's management or for loans identified as impaired in accordance with the Company's allowance for loan loss ("ALLL") policy. Market values may be substantiated by obtaining an appraisal or an appropriate evaluation. At December 31, 2013, 39% of multi-family, 51% of non-owner occupied CRE loans and 36% of owner occupied CRE loans had current updated collateral valuations within the last twenty-four months.

The following table sets forth by loan category our average loan size, months of seasoning, loan-to-value ratio (the proportion of the principal amount of the loan to the most current market value of the collateral property) and debt coverage ratio (the proportion of the property's annual net operating income to its annual debt service, which includes principal and interest payments) at the date indicated.

	At December 31, 2013			
	Average			
	Loan Size	Maturity (years)	Loan-to-Value Ratio	Debt Coverage Ratio
	(dollars in thousands)			
Business loans:				

Commercial and industrial	$ 338	5	N/A	N/A
Commercial owner occupied	864	16	63 %	N/A
SBA	184	21	N/A	N/A
Warehouse facilities	4,606	37	N/A	N/A
Real estate loans:				
Commercial non-owner occupied	1,313	16	60 %	1.57
Multi-family	1,273	26	74 %	1.31
One-to-four family	360	26	61 %	N/A
Construction	767	1	N/A	N/A
Land	543	5	69 %	N/A
Other loans	9	11	N/A	N/A

Loan Maturity. For our commercial real estate and business loans, repayment typically depends on the successful operation of the businesses or the properties securing the loans. Several months before a loan matures, our portfolio managers contact our borrowers to obtain personal and/or business financial and operations data and property information for review. When deemed appropriate, business and property visits are made to assess the borrower's revenue-generating activities and to perform inspections of our collateral. This information is reviewed and evaluated for indications of potential issues prior to maturity. If potential issues are discovered, our portfolio managers work on a strategy with the borrower well in advance of the loan maturing in order to maximize the benefit to the Company. At December 31, 2013, we had $154.4 million or 12.5% of total gross loans held for investment that were due to mature in one year or less, primarily in our C&I loan category of $84.1 million and non-owner occupied CRE category of $36.6 million.

The following table shows the contractual maturity of the Company's loans without consideration to prepayment assumptions at the date indicated:

	At December 31, 2013 (in thousands)										
	Commercial and Industrial	Commercial Owner Occupied	SBA	Warehouse	Commercial Non-owner Occupied	Multi-Family	One-to-Four Family	Construction	Land	Other Loans	Total
Amounts due											
One year or less	$84,094	$12,282	$13	$-	$36,620	$1,187	$1,730	$13,040	$4,155	$1,273	$154,394
More than one year to three years	13,249	24,079	40	-	35,906	2,549	5,445	-	1,813	493	83,574
More than three years to five years	18,693	12,940	135	-	12,896	3,483	1,597	-	157	48	49,949
	48,123	45,961	2,210	-	49,463	1,942	1,422	-	296	288	149,705

More than five years to 10 years											
More than 10 years to 20 years	16,276	28,763	-	-	20,669	20,098	12,811	-	495	1,254	100,366
More than 20 years	6,600	97,064	8,261	87,517	177,990	204,430	122,230	-	689	483	705,264
Total gross loans	187,035	221,089	10,659	87,517	333,544	233,689	145,235	13,040	7,605	3,839	1,243,252
Plus (less) for											
Deferred loan origination costs	3	3	-	1	5	4	2	-	-	-	18
Allowance for loan losses	(1,968)	(1,818)	(151)	(392)	(1,658)	(817)	(1,099)	(136)	(127)	(34)	(8,200)
Total loans, net	185,070	219,274	10,508	87,126	331,891	232,876	144,138	12,904	7,478	3,805	1,235,070
Loans held for sale, net	-	-	-	-	-	-	3,147	-	-	-	3,147
Loans held for investment, net	$185,070	$219,274	$10,508	$87,126	$331,891	$232,876	$140,991	$12,904	$7,478	$3,805	$1,231,923

The following table sets forth at December 31, 2013 the dollar amount of gross loans receivable contractually due after December 31, 2014 and whether such loans have fixed interest rates or adjustable interest rates.

	At December 31, 2013 Loans Due After December 31, 2014		
	Fixed	Adjustable	Total
		(in thousands)	
Business loans:			
Commercial and industrial	$45,061	$57,880	$102,941
Commercial owner occupied	50,056	158,751	208,807
SBA	1,707	8,939	10,646
Warehouse facilities	-	87,517	87,517
Real estate loans:			
	32,506	264,418	296,924

Commercial non-owner occupied			
Multi-family	1,471	231,031	232,502
One-to-four family	85,297	58,208	143,505
Construction	-	-	-
Land	140	3,310	3,450
Other loans	2,229	337	2,566
Total gross loans	$218,467	$870,391	$1,088,858

The following table sets forth the Company's loan originations, purchases, sales, and principal repayments for the periods indicated:

	For the Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Beginning balance of gross loans	$986,194	$739,254	$567,644	$576,268	$628,767
Loans originated:					
Business loans:					
Commercial and industrial	96,484	42,152	33,209	28,030	4,249
Commercial owner occupied (1)	47,719	27,549	1,838	600	365
SBA	21,526	8,639	4,309	2,322	1,150
Warehouse facilities	89,810	193,668	62,750	35,500	-
Real estate loans:					
Commercial non-owner occupied	135,767	55,347	18,140	-	-
Multi-family	71,537	24,822	4,318	-	494
One-to-four family (2)	2,825	20,197	6,085	-	200
Construction	36,264	-	-	-	-
Land	2,215	-	-	-	-
Other loans	694	1,772	65	5,183	958
Total loans originated	504,841	374,146	130,714	71,635	7,416
Loans purchased:					
Commercial and industrial	34,950	5,033	28,536	745	-

Commercial owner occupied	46,641	11,786	67,359	26,380	-
Commercial non-owner occupied	16,763	62,601	39,963	2,579	-
Multi-family	43,558	3,690	3,075	-	4,051
One-to-four family	82,842	38,588	28,987	-	-
Construction	1,399	198	5,592	-	-
Land	2,770	5,395	9,414	-	-
Other loans	718	2,256	21,995	9,884	-
Total loans purchased	229,641	129,547	204,921	39,588	4,051
Total loan production	734,482	503,693	335,635	111,223	11,467
Total	1,720,676	1,242,947	903,279	687,491	640,234
Plus (less) for:					
Principal repayments	(180,864)	(184,580)	(100,671)	(61,983)	(56,808)
Change in mark-to-market discounts from acquisitions	3,867	8,513	3,233	-	-
Change in undisbursed loan funds	(260,683)	(47,803)	(15,377)	(21,984)	4,701
Sales of loans	(36,717)	(28,217)	(42,201)	(29,977)	(2,515)
Charge-offs	(2,031)	(1,515)	(4,014)	(2,339)	(4,811)
Transfer to other real estate owned	(996)	(3,151)	(4,995)	(3,564)	(4,533)
Total gross loans	1,243,252	986,194	739,254	567,644	576,268
Less ending balance loans held for sale, gross	3,147	3,681	-	-	-
Ending balance loans held for investment, gross	$1,240,105	$982,513	$739,254	$567,644	$576,268

(1) Gross loans includes loans held for investment and loans held for sale.
(2) Includes second trust deeds.

Delinquent Loans. When a borrower fails to make required payments on a loan and does not cure the delinquency within 30 days, we normally initiate formal collection activities including, for loans secured by real estate, recording a notice of default and, after providing the required notices to the borrower, commencing foreclosure proceedings. If the loan is not reinstated within the time permitted by law, we may sell the property at a foreclosure sale. At these foreclosure sales, we generally acquire title to the property. At December 31, 2013, loans delinquent 60 or more days as a percentage of total gross loans was 0.09%, up from 0.08% at year-end 2012.

The following table sets forth delinquencies in the Company's loan portfolio at the dates indicated:

	30 - 59 Days		60 - 89 Days		90 Days or More (1)		Total	
	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans
	(dollars in thousands)							
At December 31, 2013								
Business loans:								
Commercial owner occupied	2	$ 768	-	$ -	1	$ 446	3	1,214
SBA	-	-	-	-	1	14	1	14
Real estate loans:								
Commercial non-owner occupied	-	-	-	-	2	560	2	560
One-to-four family	3	71	-	-	4	123	7	194
Other loans	3	130	-	-	-	-	3	130
Total	8	$ 969	-	$ -	8	$ 1,143	16	$ 2,112
Delinquent loans to total gross loans		0.08 %		0.00 %		0.09 %		0.17 %
At December 31, 2012								
Business loans:								
Commercial and industrial	-	$ -	1	$ 58	1	$ 218	2	276
Commercial owner occupied	-	-	1	245	-	-	1	245
SBA	-	-	-	-	4	185	4	185
Real estate loans:								
One-to-four family	2	101	-	-	2	79	4	180
Other loans	1	5	-	-	-	-	1	5

Total	3	$ 106	2	$ 303	7	$ 482	12	$ 891
Delinquent loans to total gross loans		0.01 %		0.03 %		0.05 %		0.09 %
At December 31, 2011								
Business loans:								
Commercial and industrial	1	$ 12	-	$ -	4	$ 1,057	5	1,069
Commercial owner occupied	-	-	-	-	3	919	3	919
SBA	1	49	1	113	8	665	10	827
Real estate loans:								
Commercial non-owner occupied	1	434	-	-	3	1,244	4	1,678
One-to-four family	4	201	-	-	2	323	6	524
Land	-	-	1	617	1	52	2	669
Other loans	2	3	1	1	-	-	3	4
Total	9	$ 699	3	$ 731	21	$ 4,260	33	$ 5,690
Delinquent loans to total gross loans		0.09 %		0.10 %		0.58 %		0.77 %
At December 31, 2010								
Business loans:								
Commercial owner occupied	1	$ 184	-	$ -	3	$ 2,225	4	$ 2,409
SBA	-	-	-	-	7	846	7	846
Real estate loans:								
Commercial non-owner occupied	2	617	-	-	-	-	2	617
One-to-four family	3	402	1	17	1	20	5	439
Total	6	$ 1,203	1	$ 17	11	$ 3,091	18	$ 4,311
Delinquent loans to total gross loans		0.21 %		0.00 %		0.54 %		0.76 %
At December 31, 2009								

Business loans:								
Commercial owner occupied	-	$ -	-	$ -	2	$ 996	2	$ 996
SBA	1	69	1	52	3	463	5	584
Real estate loans:								
Multi-family	1	3,150	-	-	3	2,073	4	5,223
Commercial non-owner occupied	1	694	-	-	1	1,851	2	2,545
One-to-four family	3	44	-	-	4	97	7	141
Other	1	18	-	-	-	-	1	18
Total	7	$ 3,975	1	$ 52	13	$ 5,480	21	$ 9,507
Delinquent loans to total gross loans		0.69 %		0.01 %		0.95 %		1.65 %

(1) All 90 day or greater delinquencies are on nonaccrual status and are reported as part of nonperforming loans.

Allowance for Loan Losses. We maintain an ALLL to absorb losses inherent in the loans held for investment portfolio at the consolidated statements of financial condition date. Management evaluates the adequacy of the allowance quarterly to maintain the allowance at levels sufficient to provide for these inherent losses. The ALLL is reported as a reduction of loans held for investment. The allowance is increased by a provision for loan losses which is charged to expense and reduced by charge-offs, net of recoveries. Loans held for sale are carried at the lower of amortized cost or fair value. Net unrealized losses, if any, are recorded in current earnings.

The federal banking agencies adopted an interagency policy statement on the ALLL. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of adequate allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation allowances. Generally, the policy statement recommends that institutions establish and maintain effective systems and controls to identify, monitor and address asset quality problems; that management analyzes all significant factors that affect the collectability of the portfolio in a reasonable manner; and that management establishes acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. Federal regulations require that the Bank utilize an internal asset classification system to identify and report problem and potential problem assets. The Bank's Chief Credit Officer has responsibility for identifying and reporting problem assets to the Bank's Credit and Investment Review Committee ("CIRC"), which operates pursuant to the board-approved CIRC policy. The policy incorporates the regulatory requirements of monitoring and classifying all of our assets.

We separate our assets, largely loans, by type, and we use various asset classifications to segregate the assets into various risk categories. We use the various asset classifications as a means of measuring risk for determining the valuation allowance for groups and individual assets at a point in time. Currently, we designate our assets into a category of "Pass," "Special Mention," "Substandard," "Doubtful" or "Loss." A brief description of these classifications follows:

- Pass classifications represent assets with a level of credit quality which contain no well-defined deficiency or weakness.

- Special Mention assets do not currently expose the Bank to a sufficient risk to warrant classification in one of the adverse categories, but possess correctable deficiency or potential weaknesses deserving management's close attention.
- Substandard assets are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. These assets are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Other real estate owned ("OREO") acquired from foreclosure is also classified as substandard.
- 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.
- Loss assets are those that are considered uncollectible and of such little value that their continuance as assets is not warranted. Amounts classified as loss are promptly charged off.

Our determination as to the classification of assets and the amount of valuation allowances necessary are subject to review by bank regulatory agencies, which can order a change in a classification or an increase to the allowance. While we believe that an adequate allowance for estimated loan losses has been established, there can be no assurance that our regulators, in reviewing assets including the loan portfolio, will not request us to materially increase our allowance for estimated loan losses, thereby negatively affecting our financial condition and earnings at that time. In addition, actual losses are dependent upon future events and, as such, further increases to the level of allowances for estimated loan losses may become necessary.

The Company's CIRC reviews the Portfolio Management Department's recommendations for classifying our assets monthly and reports the results of our review to the board of directors. At December 31, 2013, we had $21.2 million of assets classified as substandard, compared to $35.2 million at December 31, 2012. The decrease primarily consists of $10.7 million of loans, $1.1 million of OREO and $2.2 million of investment securities sold during 2013.

The following tables set forth information concerning substandard assets at the dates indicated:

	At December 31, 2013							
	Loans		OREO		Securities		Total Substandard Assets	
	Gross Balance	# of Loans	Balance	# of Properties	Fair Value	# of Securities	Balance	# of Assets
	(dollars in thousands)							
Business loans:								
Commercial and industrial	$ 2,776	11	$ -	-	$ --	--	$ 2,776	11
Commercial owner occupied	12,000	21	245	1	--	--	12,245	22
SBA	-	1	-	-	--	--	-	1
Real estate loans:								
Commercial non-owner occupied	3,654	6	-	-	--	--	3,654	6
Multi-family	517	1	-	-	--	--	517	1
	1,083	13	-	-	--	--	1,083	13

One-to-four family								
Land	-	-	941	2	--	--	941	2
Other loans	5	1	-	-	--	--	5	1
Securities	--	--	--	--	-	-	-	-
Total substandard assets	$ 20,035	54	$ 1,186	3	$ -	-	$ 21,221	57

	At December 31, 2012							
	Loans		OREO		Securities		Total Substandard Assets	
	Gross Balance	# of Loans	Balance	# of Properties	Fair Value	# of Securities	Balance	# of Assets
	(dollars in thousands)							
Business loans:								
Commercial and industrial	$ 3,367	16	$ -	-	$ --	--	$ 3,367	16
Commercial owner occupied	11,930	26	-	-	--	--	11,930	26
SBA	63	6	-	-	--	--	63	6
Real estate loans:								
Commercial non-owner occupied	12,137	14	-	-	--	--	12,137	14
Multi-family	1,838	3	-	-	--	--	1,838	3
One-to-four family	1,402	13	-	-	--	--	1,402	13
Land	12	1	2,258	4	--	--	2,270	5
Other loans	16	1	-	-	--	--	16	1
Securities	--	--	--	--	2,210	47	2,210	47
Total substandard assets	$ 30,765	80	$ 2,258	4	$ 2,210	47	$ 35,233	131

In determining the ALLL, we evaluate loan credit losses on an individual basis in accordance with FASB ASC 310, Accounting by Creditors for Impairment of a Loan, and on a collective basis based on FASB ASC 450, Accounting for Contingencies. For loans evaluated on an individual basis, we analyze the borrower's creditworthiness, cash flows and financial status, and the condition and estimated value of the collateral. Loans evaluated individually that are deemed to be impaired are separated from our collective credit loss analysis.

Unless an individual borrower relationship warrants a separate analysis, the majority of our loans are evaluated for credit losses on a collective basis through a quantitative analysis to arrive at base loss factors that are adjusted through a qualitative analysis for internal and external identified risks. The adjusted factor is applied against the loan risk category to determine the appropriate allowance. Our base loss factors are calculated using our trailing twelve-month, twenty-four month, thirty-six month and annualized trailing six-month actual charge-off data for all loan types except

(1) loans fully secured by cash deposits, the guaranteed portion of SBA loans and FHA/VA guaranteed 1st trust deed loans, for which there is no loss exposure, (2) certain loan segments for which we have no recent loss experience and for which we rely on charge-off data for all FDIC insured commercial banks and savings institutions based in California, and (3) negative deposit accounts. Then adjustments for the following internal and external risk factors are added to the base factors:

Internal Factors

- Changes in lending policies and procedures, including underwriting standards and collection, charge-offs, and recovery practices;
- Changes in the nature and volume of the loan portfolio and the terms of loans, as well as new types of lending;
- Changes in the experience, ability, and depth of lending management and other relevant staff that may have an impact on our loan portfolio;
- Changes in the volume and severity of past due and classified loans, and in the volume of non-accruals, troubled debt restructurings, and other loan modifications;
- Changes in the quality of our loan review system and the degree of oversight by our board of directors; and
- The existence and effect of any concentrations of credit and changes in the level of such concentrations.

External Factors

- Changes in national, state and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments (includes trends in real estate values and the interest rate environment);
- Changes in the value of the underlying collateral for collateral-dependent loans; and
- The effect of external factors, such as competition, legal developments and regulatory requirements on the level of estimated credit losses in our current loan portfolio.

The factor adjustments for each of the nine above-described risk factors are determined by the Chief Credit Officer and approved by the CIRC on a quarterly basis.

The ALLL factors are reviewed for reasonableness against the 10-year average, 15-year average, and trailing twelve month total charge-off data for all FDIC insured commercial banks and savings institutions based in California. Given the above evaluations, the amount of the ALLL is based upon the total loans evaluated individually and collectively.

As of December 31, 2013, the ALLL totaled $8.2 million, up $206,000 from December 31, 2012 and down $322,000 from December 31, 2011. At December 31, 2013, the ALLL as a percent of nonperforming loans was 364.3%, compared with 362.4% at December 31, 2012 and 139.9% at December 31, 2011. At December 31, 2013, the ALLL as a percent of gross loans was 0.66%, down from 0.81% at December 31, 2012 and 1.15% at December 31, 2011. The decrease in the current year ratio was primarily related to the continued strong performance of our originated loan portfolio, reflected in our low levels of delinquency, non-performing loans and charge-offs, offset by continuing growth in the portfolio. The ALLL is additionally supported by fair market value credit discounts associated with our acquisitions of CNB and PDNB from the FDIC as receiver (in February 2011 and April 2012 respectively.) At December 31, 2013, management deems the ALLL to be sufficient to provide for inherent losses within the loan portfolio.

The following table sets forth the activity in the Company's ALLL for the periods indicated:

For the Year Ended December 31,				
2013	2012	2011	2010	2009
(dollars in thousands)				

Allowance for Loan Losses					
Balance at beginning of period	$ 7,994	$ 8,522	$ 8,879	$ 8,905	$ 5,881
Provision for loan losses	1,860	751	3,255	2,092	7,735
Charge-offs:					
Business loans:					
Commercial and industrial	509	512	1,285	708	1,409
Commercial owner occupied	232	265	307	264	59
SBA	143	132	90	398	906
Real estate:					
Commercial non-owner occupied	756	88	43	512	317
Multi-family	101	-	489	334	1,527
One-to-four family	272	371	1,408	123	125
Land	-	145	164	-	-
Other loans	18	2	228	-	468
Total charge-offs	2,031	1,515	4,014	2,339	4,811
Recoveries:					
Business loans:					
Commercial and industrial	138	2	9	13	4
SBA	50	163	211	154	31
Real estate:					
Commercial non-owner occupied	-	21	-	-	-
One-to-four family	47	8	142	40	26
Land	-	-	23	-	-
Other loans	142	42	17	14	39
Total recoveries	377	236	402	221	100
Net loan charge-offs	1,654	1,279	3,612	2,118	4,711
Balance at end of period	$ 8,200	$ 7,994	$ 8,522	$ 8,879	$ 8,905

Ratios					
Net charge-offs to average net loans	0.16 %	0.16 %	0.53 %	0.39 %	0.79 %
Allowance for loan losses to gross loans at end of period	0.66 %	0.81 %	1.15 %	1.56 %	1.55 %

The following table sets forth the Company's ALLL and the percent of gross loans to total gross loans in each of the categories listed and the allowance as a percentage of the loan category balance at the dates indicated:

	At December 31,								
	2013			2012			2011		
Balance at End of Period Applicable to	Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance	Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance	Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance
	(dollars in thousands)								
Business loans:									
Commercial and industrial	$ 1,968	15.0 %	1.05 %	$ 1,310	11.7 %	1.14 %	$ 1,361	11.7 %	1.57 %
Commercial owner occupied	1,818	17.8 %	0.82 %	1,512	15.3 %	1.00 %	1,119	20.6 %	0.73 %
SBA	151	0.9 %	1.42 %	79	0.7 %	1.15 %	80	0.7 %	1.69 %
Warehouse facilities	392	7.0 %	0.45 %	1,544	19.9 %	0.79 %	1,347	9.1 %	2.00 %
Real estate loans:									
Commercial non-owner occupied	1,658	26.9 %	0.50 %	1,459	25.6 %	0.58 %	1,287	22.2 %	0.78 %
Multi-family	817	18.8 %	0.35 %	1,145	15.9 %	0.73 %	2,281	26.2 %	1.18 %
One-to-four family	1,099	11.7 %	0.76 %	862	9.9 %	0.88 %	931	8.1 %	1.55 %
Construction	136	1.0 %	1.04 %	-	0.0 %	0.00 %	-	0.0 %	0.00 %
Land	127	0.6 %	1.67 %	31	0.9 %	0.35 %	39	0.9 %	0.61 %
Other loans	34	0.3 %	0.89 %	52	0.1 %	4.36 %	77	0.5 %	2.27 %
Total	$ 8,200	100.0 %	0.66 %	$ 7,994	100.0 %	0.81 %	$ 8,522	100.0 %	1.15 %

Balance at End of Period Applicable to	2010 Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance	2009 Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance
	(dollars in thousands)					
Business loans:						
Commercial and industrial	$2,018	7.5 %	4.80 %	$2,410	5.4 %	7.75 %
Commercial owner occupied	1,687	20.0 %	1.49 %	907	17.9 %	0.88 %
SBA	145	0.7 %	3.55 %	326	0.5 %	9.77 %
Warehouse facilities	338	2.2 %	2.68 %	-	0.0 %	0.00 %
Real estate loans:						
Commercial non-owner occupied	1,580	22.9 %	1.21 %	1,602	26.0 %	1.07 %
Multi-family	2,729	42.9 %	1.12 %	3,386	48.4 %	1.21 %
One-to-four family	332	3.6 %	1.63 %	272	1.5 %	3.20 %
Other loans	50	0.2 %	3.53 %	2	0.3 %	0.10 %
Total	$8,879	100.0 %	1.56 %	$8,905	100.0 %	1.55 %

The following table sets forth the ALLL amounts calculated by the categories listed at the dates indicated:

	At December 31,									
	2013		2012		2011		2010		2009	
Balance at End of Period Applicable to	Amount	% of Allowance to Total	Amount	% of Allowance to Total	Amount	% of Allowance to Total	Amount	% of Allowance to Total	Amount	% of Allowance to Total
	(dollars in thousands)									
Allocated allowance	$8,095	98.7 %	$7,994	100.0 %	$8,522	100.0 %	$8,832	99.5 %	$8,905	100.0 %
Specific allowance	105	1.3 %	-	0.0 %	-	0.0 %	47	0.5 %	-	0.0 %
Total	$8,200	100.0 %	$7,994	100.0 %	$8,522	100.0 %	$8,879	100.0 %	$8,905	100.0 %

Investment Activities

Our investment policy, as established by our board of directors, attempts to provide and maintain liquidity, generate a favorable return on investments without incurring undue interest rate and credit risk and complement our lending activities. Specifically, our investment policy limits our investments to U.S. government securities, federal agency-backed securities, non-government guaranteed mortgage-backed securities ("MBS"), municipal bonds, and corporate bonds.

Our investment securities portfolio amounted to $271.5 million at December 31, 2013, as compared to $95.3 million at December 31, 2012, representing a 184.9% increase. The increase in securities since year-end 2012 was primarily due to the FAB acquisition in March 2013, which added $222.4 million of investment securities at the acquisition date, the SDTB acquisition in June 2013, which added $124.8 million at the acquisition date, and purchases of $101.3 million of investment securities, partially offset by the sale of $232.5 million of securities and principal pay downs of $33.7 million. The purchase of investment securities primarily related to investing excess liquidity from our bank acquisitions, while the sales were made to help fund loan production and improve our interest-earning asset mix by redeploying investment securities dollars into loans. As of December 31, 2013, the investment securities portfolio consisted of $161.9 million in government sponsor enterprises ("GSE") MBS, $94.1 million in municipal bonds, $81,000 in U.S. Treasuries, $7.5 million of FHLB stock, and $8.0 million of stock from the Federal Reserve Bank of San Francisco (the "Federal Reserve Bank"), The Independent BankersBank ("TIB") Stock, and an investment in a fund that provides Community Reinvestment Act ("CRA") credit to the Bank. At December 31, 2013, we had an estimated par value of $34.0 million of the GSE securities that were pledged as collateral for the Company's $28.5 million of inverse putable reverse repurchase agreements ("Repurchase Agreements").

All of our $94.1 million municipal bond securities in our portfolio have an underlying rating of investment grade with the majority insured by the largest bond insurance companies to bring each of these securities to a Moody's A+ rating or better. The Company has only purchased general obligation bonds that are risk-weighted at 20% for regulatory capital purposes. The Company has reduced its exposure to any single adverse event by holding securities from geographically diversified municipalities. We are continually monitoring the quality of our municipal bond portfolio in light of the current financial conditions. To our knowledge, none of the municipalities in which we hold bonds are exhibiting financial problems that would require us to record an OTTI charge.

Below is a table of our securities by security type further separated by rating agency grade at the date indicated:

			At December 31, 2013			
Security Type	Ratings	Number	Face Value	Amortized Cost	Unrealized Gain/(Loss)	Fair Value
			(dollars in thousands)			
U.S. Treasury	AAA	1	$ 73	$ 73	$ 8	$ 81
Municipal bonds	AAA - A+	197	90,485	95,388	(1,261)	94,127
Government Sponsored Enterprise	AAA	51	159,572	165,857	(3,976)	161,881
Total investment securities available for sale		249	$ 250,130	$ 261,318	$ (5,229)	$ 256,089

The following table sets forth the amortized costs and fair values of the Company's investment securities available for sale and stock at the dates indicated:

	At December 31, 2013		2012		2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)					
Investment securities available for sale						
U.S. Treasury	$73	$81	$147	$159	$147	$162
Municipal bonds	95,388	94,127	25,401	26,586	23,354	24,139
Mortgage-backed securities (1)	165,857	161,881	56,641	57,321	91,605	91,344
Total investment securities available for sale	261,318	256,089	82,189	84,066	115,106	115,645
Stock						
FHLB	7,483	7,483	9,228	9,228	10,456	10,456
Other (2)	7,967	7,967	2,019	2,019	2,019	2,019
Total stock	15,450	15,450	11,247	11,247	12,475	12,475
Total securities	$276,768	$271,539	$93,436	$95,313	$127,581	$128,120
(1) GSE securities % of total investments for sale	63.5 %	63.2 %	68.9 %	68.2 %	79.6 %	79.0 %

(2) Includes Federal Reserve Bank, TIB, and CRA stock.

The following table sets forth the fair values and weighted average yields on our investment securities available for sale portfolio and stock by contractual maturity at the date indicated.

	At December 31, 2013 One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
	(dollars in thousands)									
Investment securities available for sale										
U.S. Treasury	$ -	0.00 %	$ 81							