PACIFIC PREMIER BANCORP INC
Form 10-Q
August 10, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q
(Mark One)
(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015
OR
( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______
Commission File Number 0-22193

(Exact name of registrant as specified in its charter)

DELAWARE	33-0743196
(State or other jurisdiction of incorporation or organization)	(I.R.S Employer Identification No.)

17901 VON KARMAN AVENUE, SUITE 1200, IRVINE, CALIFORNIA 92614
(Address of principal executive offices and zip code)

(949) 864-8000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]
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 [X] No [_]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act).

Large accelerated filer	[ ]	Accelerated filer	[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 Exchange Act Rule 12b-2). Yes [ ] No [X]
The number of shares outstanding of the registrant's common stock as of August 10, 2015 was 21,510,558.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
FORM 10-Q
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FOR THE QUARTER ENDED JUNE 30, 2015

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)	June 30, 2014 (Unaudited)
Cash and due from banks	$82,552	$110,650	$120,016
Federal funds sold	525	275	276
Cash and cash equivalents	83,077	110,925	120,292
Investment securities available for sale	280,434	201,638	235,116
FHLB and other stock, at cost	22,843	17,067	18,494
Loans held for investment	2,118,560	1,628,622	1,466,768
Allowance for loan losses	(15,100)	(12,200)	(9,733)
Loans held for investment, net	2,103,460	1,616,422	1,457,035
Accrued interest receivable	9,072	7,131	6,645
Other real estate owned	711	1,037	752
Premises and equipment	9,394	9,165	9,344
Deferred income taxes	12,305	9,383	10,796
Bank owned life insurance	38,665	26,822	26,445
Intangible assets	7,858	5,614	6,121
Goodwill	50,832	22,950	22,950
Other assets	18,105	10,743	7,535
TOTAL ASSETS	$2,636,756	$2,038,897	$1,921,525
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES:			
Deposit accounts:			
Noninterest bearing checking	$635,695	$456,754	$410,843
Interest-bearing:			
Checking	135,228	131,635	128,911
Money market/savings	795,725	600,764	533,672
Retail certificates of deposit	402,262	365,168	367,299
Wholesale/brokered certificates of deposit	127,073	76,505	4,856
Total interest-bearing	1,460,288	1,174,072	1,034,738
Total deposits	2,095,983	1,630,826	1,445,581
FHLB advances and other borrowings	167,389	116,643	255,287
Subordinated debentures	70,310	70,310	10,310
Accrued expenses and other liabilities	21,481	21,526	18,166
TOTAL LIABILITIES	2,355,163	1,839,305	1,729,344
STOCKHOLDERS' EQUITY:			
Common stock, $.01 par value; 50,000,000 shares authorized; 21,510,558 shares at June 30, 2015, 16,903,884 shares at December 31, 2014, and 17,068,641 shares at June 30, 2014 issued and outstanding	215	169	171
Additional paid-in capital	220,759	147,474	149,942

Retained earnings	61,044	51,431	42,090
Accumulated other comprehensive income (loss), net of tax (benefit) of $(297) at June 30, 2015, $362 at December 31, 2014 and ($16) at June 30, 2014	(425)	518	(22)
TOTAL STOCKHOLDERS' EQUITY	281,593	199,592	192,181
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,636,756	$2,038,897	$1,921,525

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

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

	Three Months Ended			Six Months Ended	
	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	June 30, 2014
INTEREST INCOME					
Loans	$27,581	$24,513	$17,922	$52,094	$34,507
Investment securities and other interest-earning assets	2,158	1,557	1,309	3,715	2,746
Total interest income	29,739	26,070	19,231	55,809	37,253
INTEREST EXPENSE					
Deposits	1,589	1,606	1,203	3,195	2,272
FHLB advances and other borrowings	407	375	255	782	498
Subordinated debentures	982	971	75	1,953	150
Total interest expense	2,978	2,952	1,533	5,930	2,920
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	26,761	23,118	17,698	49,879	34,333
PROVISION FOR LOAN LOSSES	1,833	1,830	1,030	3,663	1,979
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	24,928	21,288	16,668	46,216	32,354
NONINTEREST INCOME					
Loan servicing fees	724	901	282	1,625	1,138
Deposit fees	634	582	463	1,216	917
Net gain from sales of loans	2,721	—	1,298	2,721	1,846
Net gain from sales of investment securities	139	116	98	255	160
Other income	494	427	330	921	462
Total noninterest income	4,712	2,026	2,471	6,738	4,523
NONINTEREST EXPENSE					
Compensation and benefits	9,486	9,522	6,485	19,008	13,376
Premises and occupancy	2,082	1,829	1,566	3,911	3,154
Data processing and communications	716	702	485	1,418	1,616
Other real estate owned operations, net	56	48	41	104	54
FDIC insurance premiums	363	314	266	677	503
Legal, audit and professional expense	661	521	385	1,182	978
Marketing expense	615	603	242	1,218	418
Office and postage expense	505	499	345	1,004	714
Loan expense	263	193	191	456	375
Deposit expense	982	805	747	1,787	1,508
Merger related expense	—	3,992	—	3,992	626
CDI amortization	344	314	254	658	507
Other expense	1,141	1,127	634	2,268	1,353
Total noninterest expense	17,214	20,469	11,641	37,683	25,182
NET INCOME BEFORE INCOME TAX	12,426	2,845	7,498	15,271	11,695
INCOME TAX	4,601	1,056	2,855	5,658	4,420
NET INCOME	$7,825	$1,789	$4,643	$9,613	$7,275
EARNINGS PER SHARE					
Basic	$0.36	$0.09	$0.28	$0.46	$0.43

Diluted	$0.36	$0.09	$0.27	$0.46	$0.42
WEIGHTED AVERAGE SHARES OUTSTANDING					
Basic	21,493,641	20,091,924	17,124,337	20,796,655	17,083,194
Diluted	21,828,876	20,382,832	17,476,390	21,126,542	17,422,928

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)
(unaudited)

	Three Months Ended			Six Months Ended	
	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	2014
Net income	$7,825	$1,789	$4,643	$9,613	$7,275
Other comprehensive income (loss), net of tax (benefit):					
Unrealized holding gains (losses) on securities arising during the period, net of income taxes (benefits) (1)	(1,628)	835	1,120	(793)	3,149
Reclassification adjustment for net gain on sale of securities included in net income, net of income taxes (2)	(82)	(68)	(58)	(150)	(94)
Net unrealized gain (loss) on securities, net of income taxes	(1,710)	767	1,062	(943)	3,055
Comprehensive income	$6,115	$2,556	$5,705	$8,670	$10,330

(1) Income tax (benefit) on the unrealized gains (losses) on securities was $(1.1) million for the three months ended June 30, 2015, $584,000 for the three months ended March 31, 2015, $741,000 for the three months ended June 30, 2014, $(556,000) for the six months ended June 30, 2015 and $2.1 million for the six months ended June 30, 2014.
(2) Income taxes on the reclassification adjustment for net gain on sale of securities included in net income was $57,000 for the three months ended June 30, 2015, $48,000 for the three months ended March 31, 2015, $40,000 for the three months ended June 30, 2014, $105,000 for the six months ended June 30, 2015 and $66,000 for the six months ended June 30, 2014.

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(dollars in thousands)
(unaudited)

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2014	16,903,884	$169	$147,474	$51,431	$ 518	$199,592
Net income	—	—	—	9,613	—	9,613
Other comprehensive income	—	—	—	—	(943)	(943)
Share-based compensation expense	—	—	435	—	—	435
Common stock issued	4,480,645	45	72,207	—	—	72,252
Warrants exercised	125,196	1	688	—	—	689
Repurchase of common stock	(5,833)	—	(93)	—	—	(93)
Exercise of stock options	6,666	—	48	—	—	48
Balance at June 30, 2015	21,510,558	$215	$220,759	$61,044	$ (425)	$281,593
Balance at December 31, 2013	16,656,279	$166	$143,322	$34,815	$ (3,077)	$175,226
Net income	—	—	—	7,275	—	7,275
Other comprehensive income	—	—	—	—	3,055	3,055
Share-based compensation expense	—	—	257	—	—	257
Common stock repurchased and retired	(262,897)	(2)	(2,755)	—	—	(2,757)
Common stock issued	562,469	6	9,006	—	—	9,012
Stock options exercised	112,790	1	112	—	—	113
Balance at June 30, 2014	17,068,641	$171	$149,942	$42,090	$ (22)	$192,181

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$9,613	$7,275
Adjustments to net income:		
Depreciation and amortization expense	1,244	1,088
Amortization of Loan Fees and Discounts	(60)	—
Provision for loan losses	3,663	1,979
Share-based compensation expense	435	257
Loss on sale and disposal of premises and equipment	—	23
Loss on sale of other real estate owned	51	17
Write down of other real estate owned	41	—
Amortization of premium/discounts on securities held for sale, net	1,763	1,220
Accretion of loan mark-to-market discount from acquisitions	(907)	(1,167)
Gain on sale of investment securities available for sale	(255)	(160)
Other-than-temporary impairment recovery on investment securities, net	—	(23)
Gain on sale of loans held for investment	(2,721)	(1,846)
Recoveries on loans	25	55
Principal payments from loans held for sale	—	31
Loss on loans held for sale	—	180
Deferred income tax benefit (provision)	1,706	(2,319)
Change in accrued expenses and other liabilities, net	(1,840)	(595)
Income from bank owned life insurance, net	(643)	(394)
Change in accrued interest receivable and other assets, net	(5,159)	(2,754)
Net cash provided by operating activities	6,956	2,867
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and principal payments on loans held for investment	309,960	147,372
Decrease in undisbursed loan funds	56,124	24,913
Purchase and origination of loans held for investment	(520,230)	(314,429)
Proceeds from sale of other real estate owned	234	777
Principal payments on securities available for sale	15,907	13,430
Purchase of securities available for sale	(60,132)	(66,274)
Proceeds from sale or maturity of securities available for sale	16,070	77,947
Investment in bank owned life insurance	—	(2,000)
Purchases of premises and equipment	(842)	(517)
Purchase of Federal Reserve Bank stock	(2,257)	(506)
Purchase of FHLB stock	(1,150)	(2,538)
Cash acquired (disbursed) in acquisitions, net	2,961	(7,793)
Net cash used in investing activities	(183,355)	(129,618)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposit accounts	129,139	139,295
Repayment of FHLB advances and other borrowings, net	—	(16,421)
Proceeds from FHLB advances	17,446	—

Proceeds from issuance of common stock, net of issuance costs	1,323	—
Proceeds from exercise of stock options	48	113
Warrants exercised	688	—
Repurchase of common stock	(93)	(2,757)
Net cash provided by financing activities	148,551	120,230
NET DECREASE IN CASH AND CASH EQUIVALENTS	(27,848)	(6,521)
CASH AND CASH EQUIVALENTS, beginning of period	110,925	126,813
CASH AND CASH EQUIVALENTS, end of period	$83,077	$120,292
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Interest paid	$5,979	$2,924
Income taxes paid	7,450	7,300
Assets acquired (liabilities assumed and capital created) in acquisitions (See Note 4):		
Investment securities	53,752	—
FHLB and Other Stock	2,369	—
Loans	332,893	78,833
Core deposit intangible	2,903	—
Deferred income tax	4,794	—
Bank owned life insurance	11,276	—
Goodwill	27,882	5,522
Fixed assets	2,134	74
Other assets	2,402	702
Deposits	(336,018)	—
Other borrowings	(33,300)	(67,617)
Other liabilities	(1,796)	(709)
Common stock and additional paid-in capital	(70,929)	(9,012)
NONCASH INVESTING ACTIVITIES DURING THE PERIOD		
Transfers from loans to other real estate owned	$—	$360
Loans held for sale transfer to loans held for investment	$—	$2,936

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2015
(UNAUDITED)
Note 1 - Basis of Presentation

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

In the opinion of management, the consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company’s financial position as of June 30, 2015, December 31, 2014 and June 30, 2014, the results of its operations and comprehensive income for the three months ended June 30, 2015, March 31, 2015 and June 30, 2014 and the six months ended June 30, 2015 and 2014 and the changes in stockholders’ equity and cash flows for the six months ended June 30, 2015 and 2014. Operating results or comprehensive income for the six months ended June 30, 2015 are not necessarily indicative of the results or comprehensive income that may be expected for any other interim period or the full year ending December 31, 2015.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 (the “2014 Annual Report”).

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

Note 2 – Recently Issued Accounting Pronouncements

Accounting Standards Adopted in 2015

In June 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-10, Technical Corrections and Improvements, to clarify the Accounting Standards Codification ("ASC"), correct unintended application of guidance, and make minor improvements to the ASC that are not expected to have a significant effect on current accounting practice or create significant administrative cost to most entities. The amendments were effective upon issuance (June 12, 2015) for amendments that do not have transition guidance. Amendments that are subject to transition guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2014, the FASB issued ASU No. 2014-01, Investments-Equity Method and Joint Ventures (Topic 323): "Accounting for Investments in Qualified Affordable Housing Projects." This Update permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. This new guidance also requires new disclosures for all investors in these projects. ASU No. 2014-01 is effective for interim and annual reporting periods beginning after December 15, 2014 for public business entities and after December 15, 2015 for non public business entities. Upon adoption, the guidance must be applied retrospectively to all periods presented. However, entities that used the effective yield method to account for investments in these projects before adoption may continue to do so for these pre-existing investments. The Company currently accounts for such investments using the effective yield method and plans to do so for these pre-existing investments after adopting ASU No. 2014-01 on January 1, 2015. The Company expects investments made after January 1, 2015 to meet the criteria required for the proportional amortization method and plans to make such an accounting election. The Company adopted the provisions of ASU No. 2014-01 effective January 1, 2015. The adoption had no impact on the Company's Consolidated Financial Statements.

In January 2014, the FASB issued ASU No. 2014-04, Receivables-Troubled Debt Restructuring By Creditors (Subtopic 310-40): "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The Company adopted the provisions of ASU No. 2014-04 effective January 1, 2015. The adoption had no impact on the Company's Consolidated Financial Statements.

In June 2014, the FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860):"Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." This Update aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. The guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement, which has resulted in outcomes referred to as off-balance-sheet accounting. The Update requires a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. The Update also requires expanded disclosures about the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The Update is effective for interim or annual period beginning after December 15, 2014. All of the Company's repurchase agreements are typical in nature (i.e., not repurchase-to-maturity transactions or repurchase agreements executed as a repurchase financing) and are accounted for as secured borrowings. The Company adopted the provisions of ASU No. 2014-11 effective January 1, 2015. The adoption had no impact on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued ASU No. 2014-14, Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): "Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure". This Update addresses classification of government-guaranteed mortgage loans, including those where guarantees are offered by the Federal Housing Administration ("FHA"), the U.S. Department of Housing and Urban Development ("HUD"), and the U.S. Department of Veterans Affairs ("VA"). Although current accounting guidance stipulates proper measurement and classification in situations where a creditor obtains from a debtor, assets in satisfaction of a receivable (such as through foreclosure), current guidance does not specify how to measure and classify foreclosed mortgage loans that are government-guaranteed. Under the provisions of this Update, a creditor would derecognize a mortgage loan that has been foreclosed upon, and recognize a separate receivable if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure, (2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, (3) At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. This Update is effective for interim and annual periods beginning after December 15, 2014 for public business entities and after December 15, 2015 for non public business entities. The Company adopted the provisions of ASU No. 2014-14 effective January 1, 2015. The adoption had no impact on the Company's Consolidated Financial Statements.

Accounting Standards Pending Adoption

In August 2014, the FASB issued guidance within ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This Update provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. This Update is effective for interim and annual periods ending after December 15, 2016. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

Note 3 – Significant Accounting Policies

Certain Acquired Loans: As part of business acquisitions, the Bank acquires certain loans that have shown evidence of credit deterioration since origination. These acquired loans are recorded at the allocated fair value, such that there is no carryover of the seller's allowance for loan losses. Such acquired loans are accounted for individually. The Bank estimates the amount and timing of expected cash flows for each purchased loan, and the expected cash flows in excess of the allocated fair value is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (non-accretable difference). Over the life of the loan, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded through the allowance for loan losses. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Goodwill and Core Deposit Intangible: Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate the necessity for such impairment tests to be performed. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Core deposit intangible assets arising from whole bank acquisitions are amortized on an accelerated method over their estimated useful lives, which range from 6 to 10 years.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The allowance for loan losses, the fair value of stock-based compensation awards, the fair values of financial instruments and the status of contingencies are particularly subject to change.

Note 4 – Acquisitions

The Company accounted for the following transactions under the acquisition method of accounting which requires purchased assets and liabilities assumed to be recorded at their respective fair values at the date of acquisition. The Company determined the fair value of the core deposit intangible, securities and deposits with the assistance of third party valuations. The fair value of other real estate owned ("OREO") was based on recent appraisals of the properties.

The estimated fair values in these acquisitions are subject to refinement as additional information relative to the closing date fair values become available through the measurement period, which can extend for up to one year after the closing date of the transaction. While additional significant changes to the closing date fair values are not expected, any information relative to the changes in these fair values will be evaluated to determine if such changes are due to events and circumstances that existed as of the acquisition date. During the measurement period, any such changes will be recorded as part of the closing date fair value.

Independence Bank Acquisition

On January 26, 2015, the Company completed its acquisition of Independence Bank ("IDPK") in exchange for consideration valued at $79.8 million, which consisted of $6.1 million of cash consideration for IDPK common stockholders, $1.5 million of aggregate cash consideration to the holders of IDPK stock options and warrants, $1.3 million fair market value of warrants assumed and the issuance of 4,480,645 shares of the Corporation's common stock, which was valued at $70.9 million based on the closing stock price of the Company's common stock on January 26, 2015 of $15.83 per share.

IDPK was a Newport Beach, California based state-chartered bank. The acquisition was an opportunity for the Company to strengthen its competitive position as one of the premier community banks headquartered in Southern California. Additionally, the IDPK acquisition enhanced and connected the Company's footprint in Southern California.

Goodwill in the amount of $27.9 million was recognized in the IDPK acquisition. Goodwill recognized in this transaction is not deductible for income tax purposes.

The following table represents the assets acquired and liabilities assumed of IDPK as of January 26, 2015 and the provisional fair value adjustments and amounts recorded by the Company in 2015 under the acquisition method of accounting:

	IDPK Book Value	Fair Value Adjustments	Fair Value
	(dollars in thousands)		
ASSETS ACQUIRED			
Cash and cash equivalents	$10,486	$—	$10,486
Investment securities	56,503	(382)	56,121
Loans, gross	339,502	(6,609)	332,893
Allowance for loan losses	(3,301)	3,301	—
Deferred income taxes	3,252	1,542	4,794
Bank owned life insurance	11,276	—	11,276
Core deposit intangible	904	1,999	2,903
Other assets	3,756	780	4,536
Total assets acquired	$422,378	$631	$423,009

LIABILITIES ASSUMED			
Deposits	$335,685	$333	$336,018
FHLB advances	33,300	—	33,300
Other liabilities	1,916	(120)	1,796
Total liabilities assumed	370,901	213	371,114
Excess of assets acquired over liabilities assumed	$51,477	$418	51,895
Consideration paid			79,777
Goodwill recognized			$27,882

Infinity Franchise Holdings Acquisition

On January 30, 2014, the Company completed its acquisition of Infinity Franchise Holdings, LLC ("Infinity Holdings") and its wholly owned operating subsidiary Infinity Franchise Capital, LLC ("IFC" and together with Infinity Holdings, "IFH"), a national lender to franchisees in the quick service restaurant ("QSR") industry, and other direct and indirect subsidiaries utilized in its business. The value of the total consideration paid for the IFH acquisition was $17.4 million, which consisted of $8.3 million paid in cash and the issuance of 562,469 shares of the Corporation's 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 of IFH further diversified our loan portfolio with commercial and industrial and owner-occupied commercial real estate loans, deployed excess liquidity into higher yielding assets, to positively impact our net interest margin and further leveraged our strong capital base. The QSR franchisee lending business is a niche market that we believe provides attractive growth opportunities for the Company in the future. IFH had no delinquent loans or adversely classified assets as of the acquisition date; and the acquisition was accretive to our 2014 earnings per share.

Goodwill in the amount of $5.5 million was recognized in the IFH acquisition. Goodwill represents the future economic benefits arising from net assets acquired that are not individually identified and separately recognized and is attributable to synergies expected to be derived from the combination of the two entities. Goodwill recognized in this transaction is not deductible for income tax purposes.

The following table represents the assets acquired and liabilities assumed of IFH as of January 30, 2014 and the provisional fair value adjustments and amounts recorded by the Company in 2014 under the acquisition method of accounting:

	IFH Book Value	Fair Value Adjustments	Fair Value
	(dollars in thousands)		
ASSETS ACQUIRED			
Cash and cash equivalents	$555	$—	$555
Loans, gross	78,833	—	78,833
Deferred loan costs	1,082	(1,082)	—
Allowance for loan losses	(268)	268	—
Other assets	776	—	776
Total assets acquired	$80,978	$(814)	$80,164
LIABILITIES ASSUMED			
Bank loan	$67,617	$—	$67,617
Accrued compensation	495	—	495
Other liabilities	214	—	214
Total liabilities assumed	68,326	—	68,326
Excess of assets acquired over liabilities assumed	$12,652	$(814)	11,838

Consideration paid	17,360
Goodwill recognized	$5,522

There were no purchased credit impaired loans acquired from IFH. For loans acquired from IFH and IDPK, the contractual amounts due, expected cash flows to be collected, interest component and fair value as of the respective acquisition dates were as follows:

	Acquired Loans	
	IFH	IDPK
	(dollars in thousands)	
Contractual amounts due	$98,320	$453,987
Cash flows not expected to be collected	—	3,795
Expected cash flows	98,320	450,192
Interest component of expected cash flows	19,487	117,299
Fair value of acquired loans	$78,833	$332,893

In accordance with generally accepted accounting principles, there was no carryover of the allowance for loan losses that had been previously recorded by IFH or IDPK.

The operating results of the Company for the six months ending June 30, 2015 include the operating results of IDPK and IFH since the acquisition date. The operating results of the Company for the six months ending June 30, 2014 include the operating results of IFH since the acquisition date. The following table presents the net interest and other income, net income and earnings per share as if the acquisitions of IFH and IDPK were effective as of January 1, 2014. There were no material, nonrecurring adjustments to the pro forma net interest and other income, net income and earnings per share presented below:

	Six Months Ended June 30,	
	2015	2014
Net interest and other income	$31,013	$30,354
Net income	$6,838	$6,446
Basic earnings per share	$0.30	$0.30
Diluted earnings per share	$0.30	$0.29

Note 5 – Investment Securities

The amortized cost and estimated fair value of securities were as follows:

	June 30, 2015			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				
Municipal bonds	$120,392	$784	$(745)	$120,431
Mortgage-backed securities	160,764	312	(1,073)	160,003
Total securities available for sale	$281,156	$1,096	$(1,818)	$280,434

	December 31, 2014			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				

Municipal bonds	$88,599	$1,235	$(173)	$89,661
Mortgage-backed securities	112,159	432	(614)	111,977
Total securities available for sale	$200,758	$1,667	$(787)	$201,638

	June 30, 2014			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				
Municipal bonds	$84,576	$1,211	$(354)	85,433
Mortgage-backed securities	150,578	230	(1,125)	149,683
Total securities available for sale	$235,154	$1,441	$(1,479)	$235,116

At June 30, 2015, the Company had $11.3 million in Federal Home Loan Bank ("FHLB") stock, $7.5 million in Federal Reserve Bank ("FRB") stock, and $4 million in other stock, all carried at cost. During the six months ended June 30, 2015, the Company had net sales of $10.5 million of FHLB stock through the FHLB stock purchase program.

At June 30, 2015, mortgage-backed securities ("MBS") with an estimated par value of $65.2 million and a fair value of $66.8 million were pledged as collateral for the Bank's three reverse repurchase agreements which totaled $28.5 million and HOA reverse repurchase agreements which totaled $19.7 million.

The table below shows the number, fair value and gross unrealized holding losses of the Company's investment securities by investment category and length of time that the securities have been in a continuous loss position.

	June 30, 2015								
	Less than 12 months			12 months or Longer			Total		
	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses
	(dollars in thousands)								
Municipal bonds	109	$56,215	$(636)	7	$3,728	$(109)	116	$59,943	$(745)
Mortgage-backed securities	32	87,506	(548)	3	14,222	(525)	35	101,728	(1,073)
Total	141	$143,721	$(1,184)	10	$17,950	$(634)	151	$161,671	$(1,818)

	December 31, 2014								
	Less than 12 months			12 months or Longer			Total		
	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses
	(dollars in thousands)								
Municipal bonds	35	$18,129	$(117)	16	$6,510	$(56)	51	$24,639	$(173)
Mortgage-backed securities	7	24,353	(105)	4	18,842	(509)	11	43,195	(614)
Total	42	$42,482	$(222)	20	$25,352	$(565)	62	$67,834	$(787)

	June 30, 2014								
	Less than 12 months			12 months or Longer			Total		
	Number	Fair Value	Gross Unrealized	Number	Fair Value	Gross Unrealized	Number	Fair Value	Gross Unrealized

			Holding Losses			Holding Losses			Holding Losses
	(dollars in thousands)								
Municipal bonds	27	$14,011	$(143)	44	$18,316	$(211)	71	$32,327	$(354)
Mortgage-backed securities	11	37,316	(109)	12	52,235	(1,016)	23	89,551	(1,125)
Total	38	$51,327	$(252)	56	$70,551	$(1,227)	94	$121,878	$(1,479)

The amortized cost and estimated fair value of investment securities available for sale at June 30, 2015, by contractual maturity are shown in the table below.

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(dollars in thousands)									
Investment securities available for sale:										
Municipal bonds	$462	$465	$21,627	$21,554	$45,981	$46,111	$52,322	$52,301	$120,392	$120,431
Mortgage-backed securities	—	—	—	—	24,341	24,328	136,423	135,675	160,764	160,003
Total investment securities available for sale	$462	$465	$21,627	$21,554	$70,322	$70,439	$188,745	$187,976	$281,156	$280,434

Any temporary impairment is a result of the change in market interest rates and not the underlying issuers' ability to repay. The Company has the intent and ability to hold these securities until the temporary impairment is eliminated. Accordingly, the Company has not recognized the temporary impairment in earnings.

Unrealized gains and losses on investment securities available for sale are recognized in stockholders' equity as accumulated other comprehensive income or loss. At June 30, 2015, the Company had accumulated other comprehensive loss of $722,000, or $425,000 net of benefit, compared to accumulated other comprehensive income of $880,000 or $518,000 net of tax, at December 31, 2014.

Note 6 – Loans Held for Investment

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

	June 30, 2015	December 31, 2014	June 30, 2014
	(in thousands)		
Business loans:			
Commercial and industrial	$454,463	$428,207	$319,541
Commercial owner occupied (1)	382,537	210,995	216,784
SBA	50,306	28,404	15,115
Warehouse facilities	198,113	113,798	114,032
Real estate loans:			
Commercial non-owner occupied	402,786	359,213	360,288

Multi-family	400,237	262,965	251,512
One-to-four family (2)	84,283	122,795	132,020
Construction	124,448	89,682	47,034
Land	16,339	9,088	6,271
Other loans	4,811	3,298	3,753
Total gross loans held for investment (3)	2,118,323	1,628,445	1,466,350
Deferred loan origination costs and premiums, net	237	177	418
Allowance for loan losses	(15,100)	(12,200)	(9,733)
Loans held for investment, net	$2,103,460	$1,616,422	$1,457,035

(1) Majority secured by real estate.
(2) Includes second trust deeds.
(3) Total gross loans for June 30, 2015 are net of (i) the unaccreted mark-to-market discounts on Canyon National Bank ("Canyon National") loans of $1.1 million, on Palm Desert National Bank ("Palm Desert National") loans of $1.1 million, on San Diego Trust Bank ("SDTB") loans of $144,000, and on IDPK loans of $6.3 million and (ii) the mark-to-market premium on First Associations Bank ("FAB") loans of $24,000.

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

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

Under applicable laws and regulations, the Bank may not make secured loans to one borrower in excess of 25% of the Bank's unimpaired capital plus surplus and likewise in excess of 15% for unsecured loans. These loans-to-one borrower limitations result in a dollar limitation of $88.8 million for secured loans and $53.3 million for unsecured loans at June 30, 2015. At June 30, 2015, the Bank's largest aggregate outstanding balance of loans to one borrower was $46.7 million of secured credit.

Purchased Credit Impaired

The following table provides a summary of the Company's investment in purchased credit impaired loans, acquired from Canyon National, Palm Desert National and IDPK, as of the period indicated:

	June 30, 2015 Canyon National (in thousands)	Palm Desert National	IDPK	Total
Business loans:				
Commercial and industrial	$94	$—	$540	$634
Commercial owner occupied	535	—	2,335	2,870
Real estate loans:				
Commercial non-owner occupied	943	—	1,237	2,180
One-to-four family	—	—	92	92
Total purchase credit impaired	$1,572	$—	$4,204	$5,776

On the acquisition date, the amount by which the undiscounted expected cash flows of the purchased credit impaired loans exceed the estimated fair value of the loan is the "accretable yield." The accretable yield is measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the purchased credit impaired loan. At June 30, 2015, the Company had $5.8 million of purchased credit impaired loans, of which $1.6 million were placed on nonaccrual status.

The following table summarizes the accretable yield on the purchased credit impaired loans for the six months ended June 30, 2015:

	Six Months Ended June 30, 2015			
	Canyon National	Palm Desert National	IDPK	Total
	(in thousands)			
Balance at the beginning of period	$1,351	$52	$—	$1,403
Accretable yield at acquisition	—	—	602	602
Accretion	(106)	—	(75)	(181)
Disposals and other	—	(52)	(4)	(56)
Change in accretable yield	—	—	149	149
Balance at the end of period	$1,245	$—	$672	$1,917

Impaired Loans

The following tables provide a summary of the Company's investment in impaired loans as of the period indicated:

			Impaired Loans				
	Contractual Unpaid Principal Balance	Recorded Investment	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
	(in thousands)						
June 30, 2015							
Business loans:							
Commercial and industrial	$2,494	$1,684	$223	$1,461	$223	$1,797	$—
Commercial owner occupied	437	370	—	370	—	373	15
Real estate loans:							
Commercial non-owner occupied	693	443	—	443	—	446	21
One-to-four family	215	206	—	206	—	222	10
Land	37	23	—	23	—	8	—
Totals	$3,876	$2,726	$223	$2,503	$223	$2,846	$46

			Impaired Loans				
	Contractual Unpaid Principal Balance (in thousands)	Recorded Investment	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
December 31, 2014							
Business loans:							
Commercial and industrial	$—	$—	$—	$—	$—	$11	$—
Commercial owner occupied	440	388	—	388	—	514	46
SBA	—	—	—	—	—	5	—
Real estate loans:							
Commercial non-owner occupied	1,217	848	—	848	—	908	85
One-to-four family	256	236	—	236	—	440	17
Totals	$1,913	$1,472	$—	$1,472	$—	$1,878	$148

			Impaired Loans				
	Contractual Unpaid Principal Balance (in thousands)	Recorded Investment	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
June 30, 2014							
Business loans:							
Commercial and industrial	$59	$24	$—	$24	$—	$18	$—
Commercial owner occupied	444	417	—	417	—	627	25
SBA	—	—	—	—	—	9	—
Real estate loans:							
Commercial non-owner occupied	708	514	—	514	—	938	21
One-to-four family	625	575	270	305	104	591	15
Totals	$1,836	$1,530	$270	$1,260	$104	$2,183	$61

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

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

The following table provides additional detail on the components of impaired loans at the period end indicated:

	June 30, 2015	December 31, 2014	June 30, 2014
	(in thousands)		
Nonaccruing loans	$2,471	$1,290	$1,345
Accruing loans	255	182	185
Total impaired loans	$2,726	$1,472	$1,530

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

The Company does not accrue interest on loans 90 days or more past due or when, in the opinion of management, there is reasonable doubt as to the collection of interest. The Company had impaired loans on nonaccrual status of $2.5 million at June 30, 2015, $1.3 million at December 31, 2014, and $1.3 million at June 30, 2014. The Company had no loans 90 days or more past due and still accruing at June 30, 2015, December 31, 2014 or June 30, 2014.

The Company had no new TDRs during the quarter ended June 30, 2015 and June 30, 2014 and had one immaterial TDR outstanding related to a U.S. Small Business Administration ("SBA") loan.

Concentration of Credit Risk

As of June 30, 2015, the Company's loan portfolio was collateralized by various forms of real estate and business assets located principally in California. The Company's loan portfolio contains concentrations of credit in multi-family real estate, commercial non-owner occupied real estate and commercial owner occupied business loans. The Bank maintains policies approved by the Bank's Board of Directors (the "Bank Board") that address these concentrations and continues to diversify its loan portfolio through loan originations, purchases and sales to meet approved concentration levels. While management believes that the collateral presently securing these loans is adequate, there can be no assurances that a significant deterioration in the California real estate market or economy would not expose the Company to significantly greater credit risk.

Credit Quality and Credit Risk Management

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

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

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

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

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

- Pass 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 deficiencies 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. 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.

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

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

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

	Credit Risk Grades			
	Pass	Special Mention	Substandard	Total Gross Loans
June 30, 2015	(in thousands)			
Business loans:				
Commercial and industrial	$449,461	$267	$4,735	$454,463
Commercial owner occupied	370,185	678	11,674	382,537
SBA	50,306	—	—	50,306
Warehouse facilities	198,113	—	—	198,113
Real estate loans:				
Commercial non-owner occupied	399,245	265	3,276	402,786
Multi-family	395,565	704	3,968	400,237
One-to-four family	83,671	—	612	84,283
Construction	124,448	—	—	124,448
Land	15,143	—	1,196	16,339
Other loans	4,401	—	410	4,811
Totals	$2,090,538	$1,914	$25,871	$2,118,323

	Credit Risk Grades			
	Pass	Special Mention	Substandard	Total Gross Loans
December 31, 2014	(in thousands)			
Business loans:				
Commercial and industrial	$426,379	$—	$1,828	$428,207
Commercial owner occupied	202,390	—	8,605	210,995
SBA	28,132	272	—	28,404
Warehouse facilities	113,798	—	—	113,798
Real estate loans:				
Commercial non-owner occupied	355,274	—	3,939	359,213
Multi-family	261,956	501	508	262,965
One-to-four family	122,146	—	649	122,795
Construction	89,682	—	—	89,682
Land	9,088	—	—	9,088
Other loans	3,298	—	—	3,298
Totals	$1,612,143	$773	$15,529	$1,628,445

	Credit Risk Grades			
	Pass	Special Mention	Substandard	Total Gross Loans
June 30, 2014	(in thousands)			
Business loans:				
Commercial and industrial	$317,713	$—	$1,828	$319,541
Commercial owner occupied	206,890	393	9,501	216,784

SBA	15,115	—	—	15,115
Warehouse facilities	114,032	—	—	114,032
Real estate loans:				
Commercial non-owner occupied	355,878	—	4,410	360,288
Multi-family	250,494	506	512	251,512
One-to-four family	131,330	—	690	132,020
Construction	47,034	—	—	47,034
Land	6,271	—	—	6,271
Other loans	3,753	—	—	3,753
Totals	$1,448,510	$899	$16,941	$1,466,350

The following tables set forth delinquencies in the Company's loan portfolio at the dates indicated:

		Days Past Due				Non-
	Current	30-59	60-89	90+	Total	Accruing
June 30, 2015	(in thousands)					
Business loans:						
Commercial and industrial	$452,383	$452	$—	$1,628	$454,463	$2,147
Commercial owner occupied	382,537	—	—	—	382,537	578
SBA	50,306	—	—	—	50,306	—
Warehouse facilities	198,113	—	—	—	198,113	—
Real estate loans:						
Commercial non-owner occupied	402,297	489	—	—	402,786	1,454
Multi-family	400,237	—	—	—	400,237	—
One-to-four family	84,218	2	—	63	84,283	88
Construction	124,448	—	—	—	124,448	—
Land	16,316	—	—	23	16,339	23
Other loans	4,783	—	28	—	4,811	92
Totals	$2,115,638	$943	$28	$1,714	$2,118,323	$4,382

		Days Past Due				Non-
	Current	30-59	60-89	90+	Total	Accruing
December 31, 2014	(in thousands)					
Business loans:						
Commercial and industrial	$428,183	$—	$24	$—	$428,207	$—
Commercial owner occupied	210,995	—	—	—	210,995	514
SBA	28,404	—	—	—	28,404	—
Warehouse facilities	113,798	—	—	—	113,798	—
Real estate loans:						
Commercial non-owner occupied	359,213	—	—	—	359,213	848
Multi-family	262,965	—	—	—	262,965	—
One-to-four family	122,722	19	—	54	122,795	82
Construction	89,682	—	—	—	89,682	—
Land	9,088	—	—	—	9,088	—
Other loans	3,297	1	—	—	3,298	—
Totals	$1,628,347	$20	$24	$54	$1,628,445	$1,444

		Days Past Due				Non-
	Current	30-59	60-89	90+	Total	Accruing
June 30, 2014	(in thousands)					
Business loans:						

Commercial and industrial	$319,418	$—	$99	$24	$319,541	$24
Commercial owner occupied	216,367	—	417	—	216,784	549
SBA	15,115	—	—	—	15,115	—
Warehouse facilities	114,032	—	—	—	114,032	—
Real estate loans:						
Commercial non-owner occupied	360,288	—	—	—	360,288	910
Multi-family	251,512	—	—	—	251,512	—
One-to-four family	131,258	236	478	48	132,020	458
Construction	47,034	—	—	—	47,034	—
Land	6,271	—	—	—	6,271	—
Other loans	3,753					