First Foundation Inc.
Form 10-12G/A
December 10, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

To

FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES

Pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934

FIRST FOUNDATION INC.

State or other jurisdiction of incorporation or organization: California

I.R.S. Employer Identification Number: 20-8639702

18101 Von Karman Avenue, Suite 700

Irvine, CA 92612

Phone: (949) 202-4160

(Address and telephone number of principal executive offices)

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

None

(Title of each class)

N/A

(Name of each exchange on which to be registered)

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

Common Stock, par value $0.001 per share

(Title of class)

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

TABLE OF CONTENTS

NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this document contains forward-looking statements (as such term is defined in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. However, actual results and financial performance in the future will be affected by known and currently unknown risks, uncertainties and other factors that may cause actual results or financial performance in the future to differ materially from the results or financial performance that may be expressed, predicted or implied by such forward-looking statements. Such risks, uncertainties and other factors include, among others, those set forth below in ITEM 1A. RISK FACTORS. In some cases, you can identify forward-looking statements by words like “may,” “will,” “should,” “could,” “believes,” “intends,” “exp “anticipates,” “plans,” “estimates,” “predicts,” “potential,” “project” and “continue” and similar expressions. Readers of this document are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the respective dates on which such statements were made and which are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements.

First Foundation Inc. expressly disclaims any intent or any obligation to release publicly any revisions or updates to any such forward-looking statements to reflect events or circumstances after the date of this document or the occurrence of unanticipated events or developments or to conform such forward-looking statements to actual results or to changes in its opinions or expectations, except as may be required by applicable law.

This Form 10 registration statement does not constitute an offer or solicitation to sell our shares or any other securities. Any such offer or solicitation will be made in accordance with the terms of all applicable securities laws.

“First Foundation Inc.,” “First Foundation Advisors,” “First Foundation Bank,” and “First Foundation Insurance Services,” anc their respective logos are trademarks and/or service marks of First Foundation Inc. and its subsidiaries. All other trademarks, service marks and trade names referred to in this Form 10 registration statement are the property of their respective owners.

IMPLICATIONS OF BEING AN EMERGING GROWTH COMPANY

As a company with less than $1.0 billion in revenue during our last fiscal year, we qualify as an "emerging growth company" as defined in the Jumpstart our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of specified reduced reporting requirements and is relieved of certain other significant requirements that are otherwise generally applicable to public companies. As an emerging growth company:

- we are permitted to present only two years of audited financial statements and only two years of related Management's Discussion and Analysis of Financial Condition and Results of Operations;
- we are exempt from the requirement to obtain an attestation and report from our auditors on the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002;
- we are permitted to provide less extensive disclosure about our executive compensation arrangements;
- we are not required to give our stockholders non-binding advisory votes on executive compensation or golden parachute arrangements; and
- we have elected to use an extended transition period for complying with new or revised accounting standards.

We may take advantage of these provisions for up to five years subsequent to the effective date of this Form 10 registration statement or such earlier time that we are no longer an emerging growth company. We will cease to be an emerging growth company upon the earliest of (i) the last day of the first fiscal year in which our annual gross revenues exceed $1.0 billion, (ii) December 31 of the fiscal year that we become a "large accelerated filer" as defined in Rule 12b-2 under the Securities Exchange Act of 1934, or the Exchange Act, which would occur if the market value of our common stock held by non-affiliates exceeds $700 million as of the last business day of our most recently completed second fiscal quarter and we have been publicly reporting for at least 12 months, or (iii) the date on which we have issued more than $1.0 billion in non-convertible debt during the preceding three-year period.

We may choose to take advantage of some but not all of these reduced burdens. We have taken advantage of reduced reporting requirements in this Form 10 registration statement. Accordingly, the information contained herein may be different from the information reported by our competitors that are public companies, or by other public companies in which you have made an investment.

ITEM 1. BUSINESS

Overview

We are a financial services company that provides comprehensive financial services, including investment management, wealth planning, consulting, banking and trust services, though an integrated platform. First Foundation Inc., (“we,” “our,” “us,” the “Company” or “FFI”), is a California corporation which is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (Holding Company Act”). We conduct our business through our wholly owned subsidiaries, First Foundation Advisors (“FFA”) and First Foundation Bank (“FFB” or the “Bank”). FFA, which is a registered investment adviser under the Investment Advisers Act of 1940, as amended (the “Investment Advisors Act”), conducts our investment advisory and wealth management business. FFA provides investment advisory services, financial consulting and and related services predominantly to high-net-worth individuals and their families, family businesses, and other organizations. As of June 30, 2013, FFA had assets under management (“AUM”) of $2.36 billion. FFB, which is a California state chartered bank, conducts our banking and trust operation. The deposits held by FFB are insured to the maximum extent permitted by law by the Federal Deposit Insurance Corporation (“FDIC”). As of June 30, 2013, FFB had total assets of $891 million. The operations of FFA and FFB are conducted through a total of seven wealth management offices (at which we provide investment management, wealth planning, consulting, banking and trust services), six of which are in Southern California and one of which is in Las Vegas, Nevada and through our corporate and administrative offices located in Irvine, California.

As a bank holding company, we are subject to regulation and examination by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board” or the “FRB”) and the Federal Reserve Bank of San Francisco (the “FRBSF”) under delegated authority from the FRB. As an FDIC-insured, California state chartered bank, FFB is subject to regulation and examination by the FDIC and the California Department of Business Oversight (“DBO”). FFB also is a member of the Federal Home Loan Bank of San Francisco (“FHLB”), which provides it with a source of funds in the form of short-term and long-term borrowings. FFA, as a registered investment adviser under the Investment Advisors Act, is subject to regulation by the Securities and Exchange Commission (the “SEC” or the “Commission”).

We were organized in October 2006 under the name “Keller Financial Group” to become the holding company for FFA, which commenced its operations in 1990. In June, 2007, the then shareholders of FFA (which was incorporated under the name Keller Investment Management Inc. in 2007), exchanged all of their FFA shares for a total of 2,000,000 shares of our common stock, as a result of which, FFA became a wholly-owned subsidiary of the Company. Prior to June 2007, the Company had no material assets and had conducted no business operations.

In 2007, we organized FFB and filed an application with the U.S. Office of Thrift Supervision (the “OTS”), to become an FDIC-insured federal savings bank. In September 2007, we sold 3,200,000 shares of our common stock, at a price of $10.00 per share, solely to accredited investors in a private offering, raising gross proceeds of $32.0 million. On September 17, 2007, FFB received its banking charter from the OTS and we contributed $25.0 million to FFB in exchange for 100% of its shares. FFB commenced its banking operations in October 2007. Effective June 28, 2012, FFB was converted from a federal savings bank to a California state chartered, FDIC insured bank, subject to regulation by the FDIC and the DBO.

In February 2009, we amended our articles of incorporation to change our name to First Foundation Inc.. In September 2009, the company that was previously known as Keller Investment Management Inc. changed its names to First Foundation Advisors.

Our headquarters offices are located at 18101 Von Karman Avenue, Suite 700, Irvine, California 92612, where our phone number is (949) 202-4160.

1

Overview of our Investment Advisory and Wealth Management Business.

FFA is a fee-only investment adviser which provides investment advisory services primarily to high net worth individuals, their families and their family businesses. In addition, FFA provides fee-only wealth management services predominantly to high-net-worth individuals and their families, family businesses, and non-profit organizations. FFA strives to provide its clients with a high level of personalized service by its staff of experienced relationship managers and consultants. As of June 30, 2013, FFA had approximately 1,300 clients, located primarily in Southern California, and had AUM of $2.36 billion. For segment reporting purposes, FFA's operations are referred to as Wealth Management.

Overview of Our Banking Business.

FFB is engaged in private and commercial banking, offering a broad range of personal and business banking and trust services to its clients. Its private banking services include a variety of deposit products, including personal checking, savings and money market deposits and certificates of deposit, and single family real estate loans, consumer loans and online and other personal banking services. FFB's business banking products and services include multifamily and commercial real estate loans, commercial term loans and lines of credit, transaction and other deposit accounts, online banking and enhanced business services. FFB's client base is comprised primarily of mid-to-high net worth individuals and their families, small to moderate sized businesses and professional firms.

We have grown and extended FFB's banking franchise from a single banking office, which opened in October 2007, in the City of Irvine, in Orange County California, to a total of seven offices located in the cities of: El Centro, La Jolla, Newport Beach, Palm Desert, Pasadena, and West Los Angeles, California and Las Vegas, Nevada.

At September 30, 2013, FFB had $958 million of total assets, $845 million of loans and $767 million of deposits. By comparison, at December 31, 2011 and 2010, FFB had total assets of $549 million and $404 million, respectively, loans of $523 million and $337 million, respectively, and total deposits of $410 million and $290 million, respectively. FFB generated net interest income of $27.7 million in the year ended December 31, 2012, as compared to $20.1 million and $11.9 million in the years ended December 31, 2011 and 2010, respectively. In the nine months ended September 30, 2013, net interest income totaled $26.3 million, as compared to $19.4 million for the same nine months of 2012.

FFB was organized and commenced operations in October 2007, as a federal savings bank subject to regulation and examination by the OTS, pursuant to the Home Owners' Loan Act of 1933, as amended ("HOLA") and, as a result, we registered as a unitary savings and loan holding company, also regulated by the OTS. In May 2012, the Bank filed applications with the FDIC and DBO to become a California state chartered bank and the Company filed an application with the Federal Reserve Board to become a bank holding company registered under the Holding Company Act. In June 2012, following the approval of those applications, the Bank became a California state-chartered bank subject to regulation and examination by the DBO pursuant to the California Financial Code and by the FDIC under the Federal Deposit Insurance Act, ("FDIA") , and ceased to be a federal savings bank subject to regulation under HOLA. At that same time, the Company became a one-bank holding company subject to regulation by the Federal Reserve Board under the Holding Company Act, and ceased to be a savings and loan holding company. For information regarding the banking laws and regulations to which the Company and the Bank are subject, see "Supervision and Regulation" in this item 1 in this Form 10.

Recent Developments

Term Loan. In April 2013, we borrowed a total of $7.5 million under a term loan from an unaffiliated bank lender. The principal amount of the loan bears interest at a rate of Libor plus 4.0% per annum. The term of the loan is five years. The loan agreement requires us to make monthly payments of principal and interest the amounts of which are based on a 10 year amortization schedule, with a final payment of the unpaid principal balance, in the amount of approximately $3.8 million, plus accrued but unpaid interest, at the maturity date of the loan, which will be in May 2018. We have the right, in our discretion, to prepay all or a portion of the loan at any time, without any penalties or premium. We have pledged all of the common stock of the Bank to the lender as security for the performance of our payment and other obligations under the loan agreement. The loan agreement obligates us to meet certain financial covenants with which we were in compliance at September 30, 2013. For additional information regarding the term loan, see “FINANCIAL INFORMATION - Management’s Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - *Term Loan*” included in Item 2 in this Form 10.

Private Offering of Common Stock. In December 2013, we consummated the sale of a total of 318,987 shares of our common stock, at a price of $18.00 per share in cash, in a private offering pursuant to Rule 506 of Regulation D under the Securities Act of 1933, as amended ("Regulation D"). Shares were offered and sold in this private offering to "accredited investors" as defined in Rule 501 of Regulation D.

Acquisition of Desert Commercial Bank. On August 15, 2012, we completed the acquisition of Desert Commercial Bank, a California state-chartered bank headquartered in Palm Desert, California ("DCB"), in exchange for our issuance to the former DCB shareholders of a total of 815,447 shares of our common stock, valued at $15.00 per share for their shares of DCB common stock. The acquisition was accomplished by means of a merger of DCB with and into FFB, in which FFB was the surviving bank and the separate existence of DCB ceased (the "DCB Acquisition"). As a result of the DCB Acquisition, FFB acquired from DCB approximately $35.0 million of cash, $90 million of loans, $9 million of investment securities, and $6 million of deferred taxes and other assets, and assumed approximately $127 million of deposits. We also converted DCB's two banking offices, located in Palm Desert and El Centro, California, respectively, to wealth management offices and we consolidated one of our then existing offices, located in La Quinta, California, into the Palm Desert office. Pursuant to the merger agreement with DCB, the number of shares that we issued in the DCB Acquisition gave effect to a downward adjustment of $4.5 million in the consideration that we would have otherwise paid, in shares of our common stock, to the former shareholders of DCB to offset possible losses we might incur on certain assets that we acquired from DCB in the merger. The merger agreement provides that if, as of the second anniversary of the consummation of the DCB Acquisition, actual losses on those assets total less than $4.5 million, we will issue to the former DCB shareholders a number of additional shares of our common stock determined by dividing the price per share of $15.00 into 90% of the amount, if any, by which $4.5 million exceeds the losses incurred on those assets. It is our expectation, based on the information available to us as of September 30, 2013, that we will not pay any additional consideration to the former DCB shareholders.

Our Business

Through FFB and FFA, we offer our clients a full range of financial services from a single platform. Our broad range of products and services are more typical of those offered by larger financial institutions, while our high level of personalized service and responsiveness is more typical of the service offered by boutique financial service firms and community banks. We believe that this combination of a comprehensive financial platform and personalized service differentiates us from many of our competitors and has contributed to the growth of our client base and our wealth management, investment advisory, banking and trust business. Our client base includes high net worth individuals, their families, foundations and businesses, small to moderate sized businesses and professional firms.

Bank Products and Services

Through FFB, we offer a wide range of deposit products, lending products, business and personal banking services, including online banking and trust services.

The interest earned on loans in excess of a bank's funding costs (net interest income) is usually the principal source of revenue for a bank. The amount of interest charged on a loan is based on market factors, credit risk evaluations and the term of the loan. When making a loan, a bank takes on credit risk as well as interest rate risk. Our loan products are designed to meet the needs of our clients in a manner that allows us to effectively manage the credit and interest rate risks inherent in the loans we make. Deposits are a bank's principal source of funds for making loans and investments and acquiring other interest-earning assets. Additionally, the interest expense that a bank must incur to attract and maintain deposits has a significant impact on its operating results. A bank's interest expense, in turn, will be determined primarily by prevailing interest rates and the types of deposits that it offers to and is able to attract from its clients.

Generally, banks seek to attract "core deposits" which consist of non-interest bearing and low cost interest-bearing demand, deposits, and savings and money market deposits. By comparison, time deposits (also sometimes referred to as "certificates of deposit"), including those in denominations of $250,000 or more, usually bear much higher rates of interest and are more interest-rate sensitive and volatile than core deposits. A bank that is not able to attract significant amounts of core deposits must rely on more expensive time deposits or alternative sources of cash, such as FHLB borrowings, to fund interest-earning assets, which means that its costs of funds are likely to be higher and, as a result, its net interest margin is likely to be lower than a bank with higher proportion of core deposits.

Our trust services are an integral part of our platform as they allow us to provide services to trusts held by or set up for the benefit of our clients. Recurring trust fees provide an additional source of noninterest income for our operations.

Bank Deposit Products

We offer a wide range of deposit products, including personal and business checking, savings accounts, interest-bearing negotiable order of withdrawal accounts, money market accounts and time certificates of deposit. The following table sets forth information regarding the type of deposits which our clients maintained with us and the average interest rates on those deposits as of September 30, 2013 and December 31, 2012, respectively:

	September 30, 2013			December 31, 2012		
(dollars in thousands)	Amount	Weighted Average Rate		Amount	Weighted Average Rate	
Demand deposits:						
Noninterest-bearing	$ 204,754	-		$ 131,827	-	
Interest-bearing	193,831	0.525	%	103,085	0.558	%
Money market and savings	108,137	0.466	%	91,278	0.488	%
Certificates of deposits	254,637	0.670	%	323,551	0.732	%
Total	$ 761,359	0.424	%	$ 649,741	0.522	%

Bank Loan Products

We offer our clients a number of different loan products, consisting primarily of multi-family and single family residential real estate loans, commercial real estate loans, commercial term loans and lines of credit, and consumer loans. The Bank handles all loan processing, underwriting and servicing at its corporate office. The following table sets forth information regarding the types of loans that we make, by amounts and as a percentage of our total loans outstanding as of September 30, 2013 and December 31, 2012:

(dollars in thousands)	September 30, 2013 Balance	% of Total	December 31, 2012 Balance	% of Total
Outstanding principal balance:				
Loans secured by real estate:				
Residential properties:				
Multifamily	$ 393,622	46.6 %	$ 367,412	49.4 %
Single family	199,217	23.6 %	155,864	21.0 %
Total loans secured by residential properties	592,839	70.2 %	523,276	70.4 %
Commercial properties	152,428	18.0 %	132,217	17.8 %
Land	4,272	0.5 %	7,575	1.0 %
Total real estate loans	749,539	88.7 %	663,068	89.2 %
Commercial and industrial loans	79,561	9.4 %	67,920	9.1 %
Consumer loans	16,389	1.9 %	12,585	1.7 %
Total loans	$ 845,489	100.0 %	$ 743,573	100.0 %

4

Residential Mortgage Loans – Multi-family: We make multi-family residential mortgage loans for terms up to 30 years primarily for properties located in Southern California. These loans generally are adjustable rate loans with interest rates tied to a variety of independent indexes; although in some cases these loans have fixed interest rates for periods ranging from 3 to 7 years and adjust thereafter based on an applicable index. These loans generally have interest rate floors, payment caps, and prepayment penalties. The loans are underwritten based on a variety of underwriting criteria, including an evaluation of the character and creditworthiness of the borrower and guarantors, loan-to-value and debt service coverage ratios, borrower liquidity and credit history. In addition, we perform stress testing for changes in interest rates, cap rates and other factors and review general economic trends such as lease rates, values and absorption rates. We typically require personal guarantees from the owners of the entities to which we make such loans.

Residential Mortgage Loans – Single-family: We offer single family residential mortgage loans primarily as an accommodation to our existing clients. In most cases, these take the form of non-conforming loans and FFB does not sell or securitize any of its single family residential mortgage loan originations. The Bank does not originate loans defined as high cost by state or federal banking regulators. The majority of the Bank’s single family residential loan originations are collateralized by first mortgages on real properties located in Southern California. These loans are generally adjustable rate loans with fixed terms ranging from 3 to 7 years terms. These loans generally have interest rate floors and payment caps. The loans are underwritten based on a variety of underwriting criteria, including an evaluation of the character and creditworthiness of the borrower and guarantors, loan-to-value and debt to income ratios, borrower liquidity, income verification and credit history. In addition, we perform stress testing for changes in interest rates and other factors and review general economic trends such as market values.

Commercial Real Estate Loans: Our commercial real estate loans are secured by first trust deeds on nonresidential real property. These loans generally are adjustable rate loans with interest rates tied to a variety of independent indexes; although in some cases these loans have fixed interest rates for periods ranging from 3 to 7 years and adjust thereafter based on an applicable index. These loans generally have interest rate floors, payment caps, and prepayment penalties. The loans are underwritten based on a variety of underwriting criteria, including an evaluation of the character and creditworthiness of the borrower and guarantors, loan-to-value and debt service coverage ratios, borrower liquidity and credit history. In addition, we perform stress testing for changes in interest rates, cap rates and other factors and review general economic trends such as lease rates, values and absorption rates. We typically require personal guarantees from the owners of the entities to which we make such loans.

Commercial Loans: We offer commercial term loans and commercial lines of credit to our clients. Commercial loans generally are made to businesses that have demonstrated a history of profitable operations. To qualify for such loans, prospective borrowers generally must have operating cash flow sufficient to meet their obligations as they become due, and good payment histories. Commercial term loans are either fixed rate loans or adjustable rate loans with interest rates tied to a variety of independent indexes and are made for terms ranging from one to five years. Commercial lines of credit are adjustable rate loans with interest rates usually tied to the Wall Street Journal prime rate, are made for terms ranging from one to two years, and contain various covenants, including a requirement that the borrower reduce its credit line borrowings to zero for specified time periods during the term of the line of credit. The loans are underwritten based on a variety of underwriting criteria, including an evaluation of the character and creditworthiness of the borrower and guarantors, debt service coverage ratios, historical and projected client income, borrower liquidity and credit history. In addition, we perform stress testing for changes in interest rates and other factors and review general economic trends in the client's industry. We typically require personal guarantees from the owners of the entities to which we make such loans.

Consumer Loans: We offer a variety of consumer loans and credit products, including personal installment loans and lines of credit, and home equity lines of credit designed to meet the needs of our clients. Consumer loans are either fixed rate loans or adjustable rate loans with interest rates tied to a variety of independent indexes and are made for terms ranging from one to ten years. The loans are underwritten based on a variety of underwriting criteria, including an evaluation of the character creditworthiness and credit history of the borrower and guarantors, debt to income ratios, borrower liquidity, income verification, and the value of any collateral securing the loan. Consumer loan collections are dependent on the borrower's ongoing cash flows and financial stability and, as a result, generally pose higher credit risks than the other loans that we make.

Wealth Management Products and Services

FFA provides investment advisory services on a fee-only basis and consulting services for individuals, retirement plans, charitable institutions and private foundations. FFA also provides ultra-high net worth clients with personalized services designed to enable them to reach their personal and financial goals and by coordinating FFA's investment advisory and wealth management services with risk management and estate and tax planning services available from outside service providers, for which FFA does not receive commissions or referral fees. FFA's clients benefit from certain cost efficiencies available to institutional managers, such as block trading, access to institutionally priced no-load mutual funds, ability to seek competitive bid/ask pricing for bonds, low transaction costs and investment management fees charged as a percentage of the assets managed, with tiered pricing for larger accounts.

FFA strives to create diversified investment portfolios for its clients that are individually designed, monitored and adjusted based on the discipline of fundamental investment analysis. FFA focuses on creating investment portfolios that are commensurate with a client's objectives, risk preference and time horizon, using traditional investments such as individual stocks and bonds and mutual funds. FFA also provides comprehensive and ongoing advice and coordination regarding estate planning, retirement planning, charitable and business ownership issues, including issues faced by executives of publicly-traded companies and by owners of privately-held companies.

FFA does not provide custodial services for its clients. Instead, it client investment accounts are maintained under custodial arrangements with large, well established brokerage firms, either directly or through FFB. However, FFA advises its clients that they are not obligated to use those services and that they are free to select securities brokerage firms and custodial service providers of their own choosing.

FFA also provides wealth management services, consisting of financial, investment and economic advisory and related services, to high-net-worth individuals and their families, family businesses, and other organizations (including public and closely-held corporations, family foundations and private charitable organizations). Those services include education, instruction and consultation on financial planning and management matters, and Internet-based data processing administrative support services involving the processing and transmission of financial and economic data primarily for charitable organizations.

Competition

The banking and investment and wealth management businesses in California, generally, and in FFI's market area, in particular, are highly competitive. A relatively small number of major national and regional banks, operating over a wide geographic area, including Wells Fargo, JP Morgan Chase, US Bank, Comerica, Union Bank, City National and Bank of America, dominate the Southern California banking market. Those banks, or their affiliates, also offer private banking and investment and wealth management services in our market area. We also compete with large, well known private banking and wealth management firms, including City National, First Republic, Northern Trust and Boston Private. Those banks and investment and wealth management firms generally have much greater financial and capital resources than we do and as a result of their ability to conduct extensive advertising campaigns and their relatively long histories of operations in Southern California, are generally better known than we are. In addition, by virtue of their greater total capitalization, the large banks have substantially higher lending limits than we do, which enables them to make much larger loans and to offer loan products that we are not able to offer to our clients.

We compete with these much larger banks and investment and wealth management firms primarily on the basis of the personal and “one-on-one” service that we provide to our clients, which many of these competitors are unwilling or unable to provide, other than to their wealthiest clients, due to costs involved or their “one size fits all” approaches to providing financial services to their clients. We believe that our principal competitive advantage is our ability to offer our banking, trust, and investment and wealth management services through one integrated platform, enabling us to provide our clients with the efficiencies and benefits of dealing with a cohesive group of individuals working together to assist our clients to meet their personal investment and financial goals. We believe that only the largest financial institutions in our area provide similar integrated platforms of products and services, which they sometimes reserve for their wealthiest and institutional clients. In addition, while we also compete with many local and regional banks and numerous local and regional investment advisory and wealth management firms, we believe that only a very few of these banks offer investment or wealth management services and that a very few of these investment and wealth management firms offer banking services and, therefore, are not able to provide such an integrated platform of services to their clients. This enables us to compete effectively for clients who are dissatisfied with the level of service provided at larger financial institutions, yet are not able to receive an integrated platform of services from other regional or local financial service providers.

While we provide our clients with the convenience of technological access services, such as remote deposit capture and internet banking, we compete primarily by providing a high level of personal service associated with our private banking focus. As a result, we do not try to compete exclusively on pricing. However, because we are located in a highly competitive market place and because we are seeking to grow our business, we attempt to maintain our pricing in line with our primary competitors.

Impact of Economic Conditions, Government Policies and Legislation on our Business

Impact of Economic Conditions and Government Monetary Policies.

Our profitability, like that of most financial institutions, is affected to a significant extent by our net interest income, which is the difference between the interest income we generate on interest-earning assets, such as loans and investment securities, and the interest we pay on deposits and other interest-bearing liabilities, such as borrowings. Our interest income and interest expense, and hence our net interest income, depends to a great extent on prevailing market rates of interest, which are highly sensitive to many factors that are beyond our control, including inflation, recession and unemployment. Moreover, it is often difficult to predict, with any assurance, how changes in economic conditions of this nature will affect our future financial performance.

Our net interest income and operating results also are affected by monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the FRB. The FRB implements national monetary policies to curb inflation, or to stimulate borrowing and spending in response to economic downturns, through its open-market operations by adjusting the required level of reserves that banks and other depository institutions must maintain, and by varying the target federal funds and discount rates on borrowings by banks and other depository institutions. These actions affect the growth of bank loans, investments and deposits and the interest earned on interest-earning assets and paid on interest-bearing liabilities. The nature and impact of any future changes in monetary and fiscal policies on us cannot be predicted with any assurance.

Legislation and Governmental Actions.

From time to time, federal and state legislation is enacted which can affect our operations and our operating results by materially increasing the costs of doing business, limiting or expanding the activities in which banks and other financial institutions may engage, or altering the competitive balance between banks and other financial services providers.

The recent economic recession and credit crisis that, among other measures, required the federal government to provide substantial financial support to the largest of the banks and other financial service organizations in the United States, led the U.S. Congress to adopt a number of new laws, and the U.S. Treasury Department and the federal banking regulators, including the FRB and the FDIC, to take broad actions, to address systemic risks and volatility in the U.S. banking system. Set forth below are summaries of such recently adopted laws and regulatory actions, which are not intended to be complete and which are qualified in their entirety by reference to those laws and regulations.

New Basel III Capital Rules. U.S. banks and bank holding companies are required to maintain certain amounts of capital and meet certain risk-based capital ratios primarily for the purposes of managing credit risk and providing a buffer against losses inherent in the banking business. The current risk-based capital rules are based on the 1988 capital accord of the International Basel Committee on Banking Supervision (the "Basel Committee"), which is comprised of central banks and bank supervisors and regulators from the major industrialized countries. The Basel Committee develops broad policy guidelines for use by each country's banking regulators in determining the banking supervisory policies and rules they apply. In December 2010, the BCBS issued a new set of more stringent international guidelines for determining regulatory capital, known as "Basel III" largely in response to the credit crisis which began in 2008 and which led to government "bail-outs" of troubled banks and other financial institutions.

In July 2013, the FRB adopted final rules (the "New Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations based on the Basel III guidelines, and the FDIC adopted substantially identical rules on an interim basis. The rules not only implement the Basel Committee's December 2010 framework for strengthening international capital standards, but also certain provisions of the Dodd-Frank Act. The New Capital Rules substantially revise and heighten the risk-based capital requirements applicable to U.S. banking organizations, including the Company and the Bank, from the current U.S. risk-based capital rules and replace the existing approach used in risk-weighting of a banking organization's assets with a more risk-sensitive approach. The New Capital Rules will become effective for the Company and the Bank on January 1, 2015 (subject in the case of certain of those Rules to phase-in periods).

Among other things, the New Capital Rules (i) introduce a new capital measure called "Common Equity Tier 1" ("CET-1"), and (ii) specify that Tier 1 capital consists of common equity and "Additional Tier 1 capital" instruments meeting specified requirements, thus potentially requiring banking organizations to achieve and maintain higher levels of CET-1 in order to meet minimum capital ratios.

In addition, when fully phased-in on January 1, 2019, the New Capital Rules will require the Company and the Bank, as well as most other U.S. based bank holding companies and banks, to maintain a 2.5% "capital conservation buffer," comprised entirely of CET-1 capital, on top of heighted minimum capital to risk-weighted asset ratios mandated by Basel III, thereby further increasing the capital ratios that banks and bank holding companies will be required to meet. For additional information regarding these new capital requirements, see "Supervision and Regulation - First Foundation Bank – *New Basel III Capital Rules*" in this item 1 in this Form 10.

The Dodd-Frank Act: On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law. The Dodd-Frank Act significantly changes federal banking regulation. Among other things, the Dodd-Frank Act created a new Financial Stability Oversight Council to identify systemic risks in the banking and financial system and gives federal regulators new authority to take control of and liquidate banking institutions and other financial firms facing the prospect of imminent failure that would create systemic risks to the U.S. financial system. The Dodd-Frank Act also created the Consumer Financial Protection Bureau ("CFPB"), which is a new independent federal regulator with broad powers and authority to administer and regulate federal consumer protection laws.

The Dodd-Frank Act is expected to have a significant impact on banks and bank holding companies and we expect that many of its provisions will impact our business operations as they take effect. However, many aspects of the Dodd-Frank Act are subject to further rulemaking and will take effect over several years, making it difficult to anticipate the overall impact of that Act on the Company and the Bank. Set forth below is a summary description of some of the key provisions of the Dodd-Frank Act that may affect us. The description does not purport to be complete and is qualified in its entirety by reference to the Dodd-Frank Act itself.

Imposition of New Capital Standards on Bank Holding Companies. The Dodd-Frank Act required the FRB to apply consolidated capital requirements to bank holding companies that are no less stringent than those currently applied to depository institutions, such as the Bank. The FRB implemented this requirement by its adoption of the new Basel III capital rules in June 2013. See "Supervision and Regulation - First Foundation Bank – New Basel III Capital Rules" below.

Increase in Deposit Insurance and Changes Affecting the FDIC Insurance Fund. The Dodd-Frank Act permanently increased the maximum deposit insurance amount for banks, savings institutions and credit unions to $250,000 per depositor. Additionally, the Dodd-Frank Act eliminates the federal statutory prohibition against the payment of interest on business checking accounts, which is likely to increase the competition for and interest that banks pay on such accounts. The Dodd-Frank Act also broadens the base for FDIC insurance assessments, which will now be based on the average consolidated total assets, less tangible equity capital, of an insured financial institution and which may result in increases in FDIC insurance assessments for many FDIC insured banks. The Dodd-Frank Act requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds.

Executive Compensation Provisions. The Dodd-Frank Act directs federal banking regulators to promulgate rules prohibiting the payment of excessive compensation to executives of depository institutions and their holding companies with assets in excess of $1.0 billion.

Limitations on Conversion of Bank Charters. The Dodd-Frank Act prohibits a bank or other depository institution from converting from a state to federal charter or vice versa while it is subject to a cease and desist order or other formal enforcement action or a memorandum of understanding with respect to a significant supervisory matter, unless the appropriate federal banking agency gives notice of the conversion to the federal or state regulatory agency that issued the enforcement action and that agency does not object within 30 days.

Interstate Banking. The Dodd-Frank Act authorizes national and state banks to establish branches in other states to the same extent as a bank chartered by that state would be permitted to branch. Previously, banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in that state. Accordingly, banks will be able to enter new markets more freely.

Restrictions on Derivative Transactions. The Dodd-Frank Act prohibits state-chartered banks from engaging in derivatives transactions unless the legal lending limits of the state in which the bank is chartered take into consideration credit exposure to derivatives transactions. For this purpose, derivative transactions include any contract, agreement, swap, warrant, note or option that is based in whole or in part on the value of, any interest in, or any quantitative measure or the occurrence of any event relating to, one or more commodities, securities, currencies, interest or other rates, indices or other assets.

Extension of Limitations on Banking Transactions by Banks with their Affiliates. The Dodd-Frank Act applies Section 23A and Section 22(h) of the Federal Reserve Act (governing transactions with insiders of banks and other depository institutions) to derivative transactions, repurchase agreements and securities lending and borrowing transactions that create credit exposure to an affiliate or an insider of a bank. Any such transactions with any affiliates must be fully secured. In addition, the exemption from Section 23A for transactions with financial subsidiaries has been eliminated. The Dodd-Frank Act also expands the definition of affiliate for purposes of quantitative and qualitative limitations of Section 23A of the Federal Reserve Act to include mutual funds advised by a depository institution or any of its affiliates.

Debit Card Fees. The Dodd-Frank Act provides that the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction must be reasonable and proportional to the cost incurred by the card issuer and requires the FRB to establish standards for reasonable and proportional fees which may take into account the costs of preventing fraud. As a result, the FRB adopted a rule, effective October 1, 2011, which limits interchange fees on debit card transactions to a maximum of 21 cents per transaction plus 5 basis points of the transaction amount. A debit card issuer may recover an additional one cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements prescribed by the FRB. Although, as a technical matter, this new limitation applies only to institutions with assets of more than $10 billion, it is expected that many smaller institutions will reduce their interchange fees in order to remain competitive with the larger institutions that are required to comply with this new limitation.

Consumer Protection Provisions of the Dodd-Frank Act. The Dodd-Frank Act creates a new, independent federal agency, called the Consumer Financial Protection Bureau ("CFPB"), which has been granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB has examination and primary enforcement authority with respect to the compliance by depository institutions with $10 billion or more in assets with federal consumer protection laws and regulations. Smaller institutions are subject to rules promulgated by the CFPB, but continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act also (i) authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages, including a determination of the borrower's ability to repay, and (ii) will allow borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal financial consumer protection laws and regulations.

In January 2013, the CFPB approved certain mortgage lending reform regulations impacting the Truth in Lending Act (the "TILA") and the Real Estate Settlement Procedures Act ("RESPA"). Among other things, those reforms:

- expand the population of loans that are subject to higher cost loan regulations and additional disclosures;
- prohibit the payment of compensation to mortgage brokers based on certain fees or premiums, such as yield spread premiums, payable by or charged to home borrowers;
- increase the regulation of mortgage servicing activities, including with respect to error resolution, forced-placement insurance and loss mitigation and collection activities;
- require financial institutions to make a reasonable and good faith determination that the borrower has the ability to repay the residential mortgage loan before it is approved for funding and provides that the failure of a financial institution to make such a determination will entitle the borrower to assert that failure as a defense to any foreclosure action on the mortgage loan; and
- impose appraisal requirements for high cost loans and loans secured by first mortgage liens on residential real estate.

Although most of these regulations are scheduled to become effective as of January 1, 2014, some became effective beginning in 2013.

The CFPB also has proposed other regulatory changes that have not yet become final, including regulations that would require mortgage loan disclosures under TILA and RESPA to be simplified and integrated, and regulations that would govern electronic transfers of foreign currency.

Supervision and Regulation

Both federal and state laws extensively regulate bank holding companies and banks. Such regulation is intended primarily for the protection of depositors and the FDIC's deposit insurance fund and is not for the benefit of shareholders. Set forth below are summary descriptions of the material laws and regulations that affect or bear on our operations. Those summaries are not intended, and do not purport, to be complete and are qualified in their entirety by reference to the laws and regulations that are summarized below.

First Foundation Inc.

General. First Foundation Inc. is a registered bank holding company subject to regulation under the Bank Holding Company Act of 1956, as amended (the "Holding Company Act"). Pursuant to that Act, we are subject to supervision and periodic examination by, and are required to file periodic reports with the FRB.

As a bank holding company, we are allowed to engage, directly or indirectly, only in banking and other activities that the FRB has determined, or in the future may deem, to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Business activities designated by the FRB to be closely related to banking include securities brokerage and insurance brokerage services and products and data processing services, among others.

As a bank holding company, we also are required to obtain the prior approval of the FRB for the acquisition of more than 5% of the outstanding shares of any class of voting securities, or of substantially all of the assets, by merger or purchase, of (i) any bank or other bank holding company and (ii) any other entities engaged in banking-related businesses or that provide banking-related services.

Under FRB regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the FRB's policy that a bank holding company, in serving as a source of strength to its subsidiary banks, should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. For that reason, among others, the FRB requires all bank holding companies to maintain capital at or above certain prescribed levels. A bank holding company's failure to meet these requirements will generally be considered by the FRB to be an unsafe and unsound banking practice or a violation of the FRB's regulations or both, which could lead to the imposition of restrictions on the offending bank holding company, including restrictions on its further growth.

Additionally, among its powers, the FRB may require any bank holding company to terminate an activity or terminate control of, or liquidate or divest itself of, any subsidiary or affiliated company that the FRB determines constitutes a significant risk to the financial safety, soundness or stability of the bank holding company or any of its banking subsidiaries. The FRB also has the authority to regulate provisions of a bank holding company's debt, including authority to impose interest ceilings and reserve requirements on such debt. Subject to certain exceptions, bank holding companies also are required to file written notice and obtain approval from the FRB prior to purchasing or redeeming their common stock or other equity securities. A bank holding company and its non-banking subsidiaries also are prohibited from implementing so-called tying arrangements whereby clients may be required to use or purchase services or products from the bank holding company or any of its non-bank subsidiaries in order to obtain a loan or other services from any of the holding company's subsidiary banks.

Because FFB is a California state chartered bank, the Company also is a bank holding company within the meaning of Section 3700 of the California Financial Code. As such, we are subject to examination by, and may be required to file reports with, the DBO.

Financial Services Modernization Act. The Financial Services Modernization Act, which also is known as the Gramm-Leach-Bliley Act, was enacted into law in 1999. The principal objectives of that Act were to establish a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities and investment banking firms, and other financial service providers. Accordingly, the Act revised and expanded the Bank Holding Company Act to permit a bank holding company system meeting certain specified qualifications to engage in a broader range of financial activities to foster greater competition among financial services companies both domestically and internationally. To accomplish those objectives, among other things, the Act repealed the two affiliation provisions of the Glass-Steagall Act that had been adopted in the early 1930s during the Great Depression: Section 20, which restricted the affiliation of Federal Reserve Member Banks with firms "engaged principally" in specified securities activities; and Section 32, which restricted officer, director, or employee interlocks between a member bank and any company or person "primarily engaged" in specified securities activities.

The Financial Services Modernization Act also contains provisions that expressly preempt and make unenforceable any state law restricting the establishment of financial affiliations, primarily related to insurance. That Act also:

- broadened the activities that may be conducted by national banks, bank subsidiaries of bank holding companies, and their financial subsidiaries;
- provided an enhanced framework for protecting the privacy of consumer information;
- adopted a number of provisions related to the capitalization, membership, corporate governance, and other measures designed to modernize the Federal Home Loan Bank system;
- modified the laws governing the implementation of the Community Reinvestment Act ("CRA"), which is described in greater detail below; and
- addressed a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of banking institutions.

Before a bank holding company may engage in any of the financial activities authorized by the Financial Services Modernization Act, it must file an application with its Federal Reserve Bank that confirms that it meets certain qualitative eligibility requirements established by the FRB. A bank holding company that meets those qualifications and files such an application will be designated as a "financial holding company," in which event it will become entitled to affiliate with securities firms and insurance com