FIRST PACTRUST BANCORP INC
Form 10-K
March 30, 2012
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS

PURSUANT TO SECTIONS 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

¨ **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 000-49806

FIRST PACTRUST BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland	**04-3639825**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
18500 Von Karman Ave, Suite 1100, Irvine, California	**92612**

(Address of Principal Executive Offices) **(Zip Code)**

Registrant s telephone number, including area code: (949) 236-5211

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, par value $0.01 per share

(Title of class)

Nasdaq Global Market

(Name of each exchange on which registered)

Securities Registered Pursuant to Section 12(g) of the Act:

None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES x. NO ¨.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock on the Nasdaq Global Market as of June 30, 2011, was $142.4 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.) As of March 15, 2012, there were issued and outstanding 11,660,444 shares of the Registrant s Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

PART III of Form 10-K Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held during May 2012.

Table of Contents

FIRST PACTRUST BANCORP, INC. AND SUBSIDIARIES

FORM 10-K

December 31, 2011

INDEX

Table of Contents

PART I

Item 1. Business

General

First PacTrust Bancorp, Inc. (the Company, we, us, our) is a unitary savings and loan holding company. The Company was incorporated under Maryland law in March 2002 to hold all of the stock of Pacific Trust Bank (the Bank) upon completion in August 2002 of the Bank s conversion from the mutual to the stock form of ownership and the concurrent initial public offering of the Company s common stock. As a savings and loan holding company, First PacTrust Bancorp, Inc., must limit its activities to banking, securities, insurance and financial services-related activities. First PacTrust Bancorp, Inc. is not an operating company and it s assets primarily consist of the outstanding stock of the Bank, cash and fixed income investments. From time to time, the Company has purchase impaired loans, investments and other real estate owned OREO from the Bank to assure the Bank s safety and soundness. First PacTrust Bancorp, Inc. has no significant liabilities other than Board of Director and employee compensation as well as expenses related to strategic initiatives. The management of the Company and the Bank is substantially the same. However, the Company and the Bank each have their own Board of Directors with three of the members serving on both Boards. The Company utilizes the support staff and offices of the Bank and pays the Bank for these services. If the Company expands or changes its business in the future, the Company may hire additional employees of its own. Unless the context otherwise requires, all references to the Company include the Bank and the Company on a consolidated basis.

The Bank is a community-oriented financial institution offering a variety of financial services to meet the banking and financial needs of the communities we serve. The Bank is headquartered in Orange County, California, and as of December 31, 2011 operated eighteen banking offices primarily serving San Diego, Orange, Los Angeles and Riverside Counties in California.

The principal business of the Bank consists of attracting retail deposits from the general public and investing these funds primarily in loans secured by first mortgages on owner-occupied, one-to four- family residences, a variety of consumer loans, multi-family and commercial real estate and commercial business loans. The Company also invests in securities and other assets.

The Bank offers a variety of deposit accounts for both individuals and businesses with varying rates and terms, which generally include savings accounts, money market deposits, certificate accounts and checking accounts. The Bank solicits deposits in its market area and, to a lesser extent, from institutional depositors nationwide, and in the past has accepted brokered deposits.

As a thrift holding company, the Company is subject to regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve Board). As a federal savings bank, the Bank is subject to regulation primarily by the Office of the Comptroller of the Currency (the OCC). See How We Are Regulated.

The principal executive offices of First PacTrust Bancorp, Inc. are located at 18500 Von Karman Avenue, Suite 1100, California, and its telephone number is (949) 236-5211. The Company s voting common stock is traded on the Nasdaq Global Market under the symbol BANC.

The Company s reports, proxy statements and other information the Company files with the SEC, as well as news releases, are available free of charge through the Company s Internet site at http://www.firstpactrustbancorp.com. This information can be found on the First PacTrust Bancorp, Inc. News or SEC Filings pages of our Internet site. The annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed and furnished pursuant to Section 13(a) of the Exchange Act are available as soon as reasonably practicable after they have been filed or furnished to the SEC. Reference to the Company s Internet address is not intended to incorporate any of the information contained on our Internet site into this document.

Table of Contents

During much of 2009, 2010 and 2011, market and economic conditions in our industry and in California have declined resulting in increased delinquencies and foreclosures. A number of federal legislative and regulatory initiatives have been enacted to address these conditions. See Asset Quality and How we are Regulated in Item 1, Risk Factors in Item 1A and Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

Pending Acquisitions

On June 3, 2011, the Company entered into a definitive agreement to acquire for cash all of the outstanding stock of Gateway Bancorp, the privately held holding company for Gateway Business Bank, Cerritos, California. At December 31, 2011, Gateway Business Bank had total assets of $202 million, total gross loans of $144 million and total deposits of $173 million. The acquisition includes Mission Hills Mortgage Bankers, the mortgage banking operating division of Gateway Business Bank. Mission Hills has originated over $4.0 billion of mostly prime mortgage loans since 2006, a majority of which have been sold servicing-released through correspondent relationships with money center banks. Gateway Business Bank has two banking offices, one in Los Angeles County and the other in Orange County, California. In addition, Mission Hills has 22 loan production offices, located throughout California, northern Arizona and Oregon. In the transaction, Gateway Bancorp shareholders will receive aggregate consideration of up to $17.0 million, up to $14.5 million of which will be payable at closing, with the remaining $2.5 million to be held in escrow for up to three years after closing to cover the risk that the Company may be required to repurchase mortgage loans sold by Gateway Business Bank. The transaction, which has already been approved by Gateway s shareholders, is expected to close in 2012, subject to regulatory approvals and other customary closing conditions.

On August 30, 2011, the Company entered into a definitive merger agreement with Beach Business Bank Manhattan Beach, California, providing for the merger of Beach Business Bank with and into a wholly owned subsidiary of the Company. At December 31, 2011, Beach Business Bank total assets of $305 million, total gross loans of $261 million and total deposits of $251 million. Beach Business Bank is headquartered in Manhattan Beach, California, with branches in Manhattan Beach, Long Beach, and Costa Mesa, California and a loan production office in Torrance, California. In the merger, each share of Beach Business Bank common stock will be converted into the right to receive 0.33 of a share of Company common stock, with cash paid in lieu of fractional shares, and $4.61 in cash, subject to certain adjustments. If the value of a share of Company common stock at the closing of the transaction (measured as set forth in the merger agreement) is less than $13.50 or the Company determines that there is a reasonable possibility that the merger will not be treated as a reorganization for tax purposes, (1) the merger will be restructured as a merger of a Company subsidiary with and into Beach Business Bank, and (2) each outstanding share of Beach Business Bank common stock will instead be converted into the right to receive $9.12 in cash and a one-year warrant to purchase 0.33 shares of Company common stock at an exercise price of $14.00 per whole share of Company common stock. The transaction, which has already been approved by the shareholders of Beach Business Bank, is expected to close in 2012, subject to regulatory approvals and other closing conditions.

Forward-Looking Statements

This Form 10-K contains various forward-looking statements that are based on assumptions and describe our future plans and strategies and our expectations. These forward-looking statements are generally identified by words such as believe, expect, intend, anticipate, estimate, proj similar words. Our ability to predict results or the actual effect of future plans or strategies is uncertain. Factors which could cause actual results to differ materially from those estimated include, but are not limited to, (i) the occurrence of any event, change or other circumstances that could give rise to the termination of the stock purchase agreement for the Company s pending acquisition of Gateway Bancorp or the merger agreement for the Company s pending acquisition of Beach Business Bank; (ii) the inability to complete the Gateway Bancorp or Beach Business Bank transaction due to the failure to satisfy each transaction s respective conditions to completion, including the receipt of regulatory approvals; (iii) risks that the Gateway Bancorp or Beach Business Bank transaction disrupts

Table of Contents

current plans and operations, the potential difficulties in customer and employee retention as a result of the pending transactions and the amount of the costs, fees, expenses and charges related to the proposed transactions; (iv) continuation or worsening of current recessionary conditions, as well as continued turmoil in the financial markets; (v) the credit risks of lending activities, which may be affected by further deterioration in the real estate markets, may lead to increased loan delinquencies, losses and nonperforming assets in our loan portfolio, and may result in our allowance for loan losses not being adequate to cover actual losses and require us to materially increase our loan loss reserves; (vi) the quality and composition of our securities portfolio; (vii) changes in general economic conditions, either nationally or in our market areas; (viii) changes in the levels of general interest rates, and the relative differences between short- and long-term interest rates, deposit interest rates, our net interest margin and funding sources; (ix) fluctuations in the demand for loans, the number of unsold homes and other properties and fluctuations in commercial and residential real estate values in our market area; (x) results of examinations of us by regulatory authorities, including the Bank s compliance with the memorandum of understanding it entered into with its regulator, and the possibility that any such regulatory authority may, among other things, require us to increase our allowance for loan losses, write-down asset values, increase our capital levels, or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings; (xi) legislative or regulatory changes that adversely affect our business, including changes in the interpretation of regulatory capital or other rules; (xii) our ability to control operating costs and expenses; (xiii) staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges; (xiv) errors in our estimates in determining fair value of certain of our assets, which may result in significant declines in valuation; (xv) the network and computer systems on which we depend could fail or experience a security breach; (xvi) our ability to attract and retain key members of our senior management team; (xvii) costs and effects of litigation, including settlements and judgments; (xviii) increased competitive pressures among financial services companies; (xix) changes in consumer spending, borrowing and saving habits; (xx) adverse changes in the securities markets; (xxi) earthquake, fire or other natural disasters affecting the condition of real estate collateral; (xxii) the availability of resources to address changes in laws, rules or regulations or to respond to regulatory actions; (xxiii) inability of key third-party providers to perform their obligations to us; (xxiv) changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board or their application to our business or final audit adjustments, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; (xxv) war or terrorist activities; and (xxvi) other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and the other risks described elsewhere in this report.

We do not undertake, and specifically disclaim, any obligation to publicly revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Lending Activities

General. The Company s mortgage loans carry either a fixed or an adjustable rate of interest. Mortgage loans are long-term and amortize on a monthly basis with principal and/or interest due each month or with interest only payments due each month for certain loans. At December 31, 2011, the Company s net loan portfolio totaled $775.6 million, which constituted 77.64% of our total assets. The breakdown of loans in the portfolio was: 70.62% 1-4 residential (the SFR Mortgage Portfolio), 15.75% commercial real estate mortgage, 11.09% multi-family mortgage, 1.15% commercial and industrial, 1.09% other revolving credit and installment and 0.30% land.

The $556.0 million SFR mortgage portfolio was comprised of $546.8 million of first deed of trust loans and $9.2 million of loans secured by subordinated or junior liens. The Company s SFR mortgage portfolio is comprised of a combination of traditional, fully-amortizing loans and non-traditional loans. The Company s non-traditional loan portfolio includes our Green Account loans, interest only loans and mortgage loans with potential for negative amortization. At December 31, 2011, the balance of the Company s Green Account loans totaled $247.5 million. Green Account loans are a first mortgage line of credit with an associated clearing

Table of Contents

account that allows all types of deposits and withdrawals to be performed, including direct deposit, check debit card, ATM, ACH debits and credits, and internet banking and bill payment transactions. Also, at December 31, 2011, the Company had a total of $382.0 million in interest-only mortgage loans and $23.4 million in mortgage loans with potential for negative amortization.

As of December 31, 2011, the Executive Vice President of Lending may approve loans to one borrower or group of related borrowers up to $2.5 million. The Chief Credit Officer may approve loans to one borrower or group of related borrowers up to $3.5 million. The President/CEO may approve loans to one borrower or group of related borrowers up to $2.5 million. The Management Loan Committee may approve loans to one borrower or group of related borrowers up to $10.0 million, with no single loan exceeding $5.0 million. The Board Loan Committee must approve loans over these amounts or outside our general loan policy.

At December 31, 2011, the maximum amount which the Company could have loaned to any one borrower and the borrower s related entities was approximately $20.5 million. As of December 31, 2011, the largest lending relationship to a single borrower or a group of related borrowers was a combination of commercial real estate, multi-family and single family loans with an aggregate loan exposure amount of $11.7 million. The properties securing these loans are located in Anaheim and San Diego, California. All of these loans were performing in accordance with their terms as of December 31, 2011.

The following table presents information concerning the composition of the Company s loan portfolio in dollar amounts and in percentages as of the dates indicated.

	December 31,									
	2011		2010		2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)									
Commercial										
Commercial and industrial	$ 9,019	1.15%	$ 6,744	0.98%	$ 6,782	0.89%	$ 7,348	0.91%	$ 1,376	0.19%
Real Estate Mortgage	124,013	15.75	46,568	6.74	47,982	6.32	35,283	4.36	35,500	4.97
Real Estate Construction							17,835	2.20	18,866	2.64
Multi-Family	87,290	11.09	33,040	4.78	34,235	4.51	34,831	4.31	37,339	5.23
Land	2,375	0.30	14,828	2.15	16,020	2.11	21,733	2.69	21,705	3.04
Consumer										
Real estate 1-4 family first mortgage*	546,760	69.45	568,854	82.31	633,118	83.40	670,401	82.89	578,478	81.01
Real estate 1-4 family junior lien mortgage*	9,219	1.17	9,923	1.44	9,613	1.27	9,005	1.11	6,548	0.92
Other revolving credit and installment	8,604	1.09	11,031	1.60	11,370	1.50	12,314	1.53	14,315	2.00
Total loans	787,280	100.00%	690,988	100.00%	759,120	100.00%	808,750	100.00%	714,127	100.00%
Net deferred loan origination costs	1,109		1,824		2,262		2,581		2,208	
Allowance for loan losses	(12,780)		(14,637)		(13,079)		(18,286)		(6,240)	
Total loans receivable, net	$ 775,609		$ 678,175		$ 748,303		$ 793,045		$ 710,095	

* Under regulatory agency guidance, the Bank was required to classify Green Account loans as HELOCs on its quarterly Thrift Financial Report (TFR) due to the revolver feature of this product. This increases the Bank s HELOC exposure from $7.0 million to $254.5 million. Starting on March 31, 2012, the Bank will file Call Reports instead of TFRs, which should allow the Bank to better reflect the terms and characteristics of Green Account mortgage loans in classifying these loans in its regulatory reports. Of the Green mortgages, 90.21% are first trust deed mortgages. Historically, these loans have outperformed the Bank s traditional one-to four- unit first deed of trust mortgage portfolio. As of December 31, 2011, $1.4 million of the Company s Green Accounts were nonperforming.

At December 31, 2011, Green Account loans totaled $247.5 million and included, $223.3 million secured by one-to four family properties, $8.7 million secured by one-to-four-family junior liens, $11.9 million secured

Table of Contents

by commercial real estate mortgage and $3.7 million secured by multi-family properties. At December 31, 2010, Green Account loans totaled $245.5 million and included , $214.5 million secured by one-to four family properties, $13.7 million secured by commercial properties, $9.3 million secured by second trust deed lines of credit, $3.8 million secured by multi-family properties and $4.2 million secured by land. At December 31, 2009, Green Account loans totaled $237.2 million and included $208.9 million secured by one-to four family properties, $14.3 million secured by commercial properties, $8.7 million secured by second trust deed lines of credit, $2.8 million secured by multi-family properties and $2.5 million secured by land. At December 31, 2008, Green Account loans totaled $219.1 million and included $192.5 million secured by one-to four-family loans, $14.9 million secured by commercial properties, $8.3 million secured by second trust deed line of credit, $2.5 million secured by multi-family properties, and $798 thousand secured by land. At December 31, 2007, Green Account loans totaled $163.9 million and included $149.3 million secured by one-to four- family properties, $6.2 million secured by commercial properties, $5.7 million secured by second trust deed lines of credit, $2.3 million secured by multi-family properties and $429 thousand secured by land.

The following table shows the composition of the Company s loan portfolio by fixed- and adjustable-rate at the dates indicated.

	December 31,									
	2011		2010		2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)									
FIXED-RATE LOANS										
Commercial:										
Commercial & industrial	$ 6	0.00%	$ 500	0.08%	$ 511	0.07%	$ 525	0.06%	$ 500	0.07%
Real Estate Mortgage	57,799	7.34	24,463	3.54	25,048	3.30	25,592	3.16	25,425	3.56
Multi-family	4,760	0.60	22,532	3.26	21,992	2.90	22,693	2.81	23,035	3.23
Land	1,781	0.23	11,550	1.67	13,762	1.81	21,630	2.67	21,601	3.02
Consumer:										
Real Estate 1-4 family first mortgage	7,643	0.97	4,542	0.65	5,635	0.74	7,980	0.99	10,226	1.43
Real Estate 1-4 family junior lien mortgage	337	0.04	478	0.07	761	0.10	558	0.07	643	0.09
Other revolving credit and installment	41	0.00	143	0.02	249	0.03	366	0.05	868	0.12
Total fixed-rate loans	72,367	9.18	64,208	9.29	67,958	8.95	79,344	9.81	82,298	11.52
ADJUSTABLE-RATE										
Commercial:										
Commercial & industrial	9,013	1.15	6,244	0.90	6,271	0.82	6,823	0.85	876	0.12
Real Estate Mortgage	66,214	8.41	22,105	3.20	22,934	3.02	9,691	1.20	10,075	1.41
Construction							17,835	2.20	18,866	2.64
Multi-family	82,530	10.49	10,508	1.52	12,243	1.61	12,138	1.50	14,304	2.00
Land	594	0.07	3,278	0.48	2,258	0.30	103	0.02	104	0.02
Consumer:										
Real Estate 1-4 family first mortgage	539,117	68.48	564,312	81.66	627,483	82.66	662,421	81.90	568,252	79.58
Real Estate 1-4 junior lien mortgage	8,882	1.13	9,445	1.37	8,852	1.17	8,447	1.04	5,905	0.83
Other revolving credit and installment	8,563	1.09	10,888	1.58	11,121	1.47	11,948	1.48	13,447	1.88
Total adjustable-rate loans	714,913	90.82	626,780	90.71	691,162	91.05	729,406	90.19	631,829	88.48
Total loans	787,280	100.00%	690,988	100.00%	759,120	100.00%	808,750	100.00%	714,127	100.00%
Net deferred loan origination costs	1,109		1,824		2,262		2,581		2,208	
Allowance for loan losses	(12,780)		(14,637)		(13,079)		(18,286)		(6,240)	
Total loans receivable, net	$ 775,609		$ 678,175		$ 748,303		$ 793,045		$ 710,095	

5

Table of Contents

The following schedule illustrates the contractual maturity of the Company s loan portfolio at December 31, 2011. (Dollars in thousands)

Due During Years Ending December 31,	Commercial and Industrial Amount	Commercial and Industrial Weighted Average Rate	Commercial Real Estate Mortgage Amount	Commercial Real Estate Mortgage Weighted Average Rate	Multi-Family Amount	Multi-Family Weighted Average Rate	Land Amount	Land Weighted Average Rate
2012	$ 2,474	6.02%	$	%	$ 560	4.59%	$ 1,780	6.67%
2013	6,545	5.15	6,322	5.67	3,075	6.00	500	5.50
2014 and 2015			3,925	4.97	91	4.25		
2016 to 2020			45,925	5.55	34,195	5.19		
2021 to 2035			64,989	5.63	41,468	5.21	95	2.88
2036 and following			2,852	4.95	7,901	6.27		
Total	9,019	5.69%	124,013	5.56%	87,290	5.37%	2,375	5.68%

Due During Years Ending December 31,	Real Estate 1-4 Family First Mortgage Amount	Real Estate 1-4 Family First Mortgage Weighted Average Rate	Consumer Real Estate 1-4 Family Junior Lien Mortgage Amount	Consumer Real Estate 1-4 Family Junior Lien Mortgage Weighted Average Rate	Other Revolving Credit and Installment Amount	Other Revolving Credit and Installment Weighted Average Rate	TOTALS Amount	TOTALS Weighted Average Rate
2012(1)	$ 575	4.56%	$	%	$ 1,927	7.82%	$ 7,316	7.80%
2013	2,033	6.18			49	2.71	18,524	4.09
2014 and 2015	2,243	4.85			2,069	3.18	8,328	3.35
2016 to 2020	8,018	4.05	175	8.01	4,427	3.44	92,740	3.99
2021 to 2035	373,969	3.81	8,865	3.04	132	3.25	489,518	3.95
2036 and following	159,922	5.22	179	3.38			170,854	5.27
Total	$ 546,760	4.25%	$ 9,219	3.65%	$ 8,604	7.23%	$ 787,280	6.11%

(1) Includes demand loans, loans having no stated maturity and overdraft loans.

Table of Contents

The following schedule illustrates the Company s loan portfolio at December 31, 2011 as the loans reprice. Loans which have adjustable or renegotiable interest rates are shown as maturing in the period during which the loan reprices. The schedule does not reflect the effects of possible prepayments or enforcement of due-on-sale clauses. (Dollars in thousands).

	Commercial and Industrial		Commercial Real Estate Mortgage		Multi-Family		Land	
Due During Years Ending December 31,	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**
2012	$ 9,013	5.78%	$ 48,451	5.57%	$ 24,230	5.33%	$ 2,375	5.68%
2013	6	5.15	5,269	5.64	6,112	5.84		
2014 and 2015			5,427	5.18	1,026	5.92		
2016 to 2020			40,515	5.57	31,491	5.35		
2021 to 2035			24,351	5.63	24,431	5.21		
Total	9,019	5.69%	124,013	5.56%	87,290	5.37%	2,375	5.68%

	Real Estate 1-4 Family First Mortgage		Consumer Real Estate 1-4 Family Junior Lien Mortgage		Other Revolving Credit and Installment		TOTALS	
Due During Years Ending December 31,	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**
2012(1)	$ 353,330	3.96%	$ 8,882	3.05%	$ 8,595	7.23%	$ 454,876	6.33%
2013	89,733	4.64			9	2.71	101,129	4.69
2014 and 2015	63,086	4.89					69,539	3.93
2016 to 2020	39,933	4.73	174	8.01		3.44	112,113	5.05
2021 to 2035	678	3.81	163	3.04			49,623	4.92
Total	$ 546,760	4.25%	$ 9,219	3.65%	$ 8,604	7.23%	$ 787,280	6.11%

(1) Includes demand loans, loans having no stated maturity and overdraft loans.

The total amount of loans due after December 31, 2012 which have predetermined interest rates is $41.7 million, while the total amount of loans due after such date which have floating or adjustable interest rates is $597.5 million.

Table of Contents

One- to Four-Family Residential Real Estate Lending. A major focus for the Company is the origination of loans secured by first mortgages on owner-occupied, one- to four-family residences in San Diego, Orange, Los Angeles and Riverside Counties, California. At December 31, 2011, one- to four-family residential mortgage first trust deed loans totaled $546.8 million, or 69.5% of our gross loan portfolio including the portion of the Company s Green Account home equity loan portfolio that are secured by first trust deeds. At December 31, 2010, one- to four-family residential mortgage loans totaled $568.9 million, or 82.3% of our gross loan portfolio including the portion of the Company s Green Account home equity loan portfolio that are secured by first trust deeds.

The Company generally underwrites one- to four-family loans based on the applicant s income and credit history and the appraised value of the subject property. Generally, the Company lends up to 80% of the lesser of the appraised value or purchase price for one- to four-family residential loans. For loans with a loan-to-value ratio in excess of 70%, the Company generally charges a higher interest rate. The Company currently has a very limited quantity of loans with a loan-to-value ratio (at time of closing) in excess of 80% at the date of loan origination. Properties securing our one- to four-family loans are appraised by independent fee appraisers approved by management. Generally, the Company requires borrowers to obtain title insurance, hazard insurance, and flood insurance, if necessary.

National and regional indicators of real estate values show continued depressed collateral values relative to peak levels, however, the Company believes that the current loan loss reserves are adequate to cover inherent losses at the balance sheet date. Further, the Company generally adjusts underwriting criteria by discounting the appraisal value by 9.0% when underwriting mortgages in declining market areas.

The Company currently originates one- to four-family mortgage loans on either a fixed- or an adjustable-rate basis, as consumer demand and Bank risk management dictates. The Company s pricing strategy for mortgage loans includes setting interest rates that are competitive with other local financial institutions.

Adjustable-rate mortgages, or ARM loans are offered with flexible initial and periodic repricing dates, ranging from one year to seven years through the life of the loan. The Company uses a variety of indices to reprice ARM loans. During the year ended December 31, 2011, the Company originated $101.6 million of one- to four-family ARM loans with terms up to 30 years. Of these, $57.0 million were Green Account loans. See further discussion under Green Account Loans.

One- to four-family loans may be assumable, subject to the Company s approval, and may contain prepayment penalties. Most ARM loans are written using generally accepted underwriting guidelines. Mainly, due to the generally large loan size, these loans may not be readily saleable to Freddie Mac or Fannie Mae, but are saleable to other private investors. The Company s real estate loans generally contain a due on sale clause allowing us to declare the unpaid principal balance due and payable upon the sale of the security property.

The Company no longer offers ARM loans which may provide for negative amortization of the principal balance and has not offered these loans since March, 2006. At December 31, 2011, the existing negative amortizing loans in the one-to four- family portfolio totaling $21.5 million have monthly interest rate adjustments after the specified introductory rate term, and annual maximum payment adjustments of 7.5% during the first five years of the loan. The principal balance on these loans may increase up to 110% of the original loan amount as a result of the payments not being sufficient to cover the interest due during the first five years of the loan term. These loans adjust to fully amortize after five years through contractual maturity, or upon the outstanding loan balance reaching 110% of the original loan amount with up to a 30-year term. At December 31, 2011, $885.5 thousand of the Company s negatively amortizing loan portfolio was non-performing.

In addition, the Bank currently offers interest-only loans. At December 31, 2011, the Company had a total of $125.6 million of interest-only mortgage loans secured by one-to four- family homes. These loans become fully amortized after the initial fixed rate period. At December 31, 2011, $2.0 million of the Company s interest-only loan portfolio was nonperforming. The Company also offers its Green Account secured lines of credit which have interest only minimum payment requirements. See further discussion under Consumer and Other Real Estate Lending.

In order to remain competitive in our market areas, the Company, at times, originates ARM loans at initial rates below the fully indexed rate. The Company s ARM loans generally provide for specified minimum and maximum interest rates, with a lifetime cap, and a periodic adjustment on the interest rate over the rate in effect on the date of origination. As a consequence of using caps, the interest rates on these loans may not be as rate sensitive as is the Company s cost of funds.

ARM loans generally pose different credit risks than fixed-rate loans, primarily because as interest rates rise, the borrower s minimum monthly payment rises, increasing the potential for default.(See Asset Quality Non-performing Assets and Classified Assets.) At December 31, 2011, the Company s one- to four-family ARM loan portfolio comprised of $539.1 million of first deed of trust loans and $8.9 million of loans secured by subordinated or junior liens, 68.5% and 1.1% of our gross loan portfolio, respectively. At that date, the fixed-rate one-to four-family mortgage loan portfolio comprised of $7.6 million of first deed of trust loans and $337 thousand of loans secured by subordinated or junior liens, 1.0% and 0.1% of the Company s gross loan portfolio, respectively. The interest rate sensitivity composition of the Company s loan portfolio did not significantly change during 2011. At December 31, 2011, $5.3 million of the Company s ARM loan portfolio were non-performing loans.

Green Account Loans. The Company has $247.5 million of total Green Account loans which represented 31.4% of the gross loan portfolio at December 31, 2011. At December 31, 2011, the Company had SFR Green Account loans secured by first trust deeds on one-to four- family properties of $223.3 million and other Green Account loans that include second deeds of trust and loans secured against other property types of $24.2 million. Green Account home equity loans generally have a fifteen year draw period with interest-only payment requirements, a balloon payment requirement at the end of the draw period and a maximum 80% loan to value ratio. Home equity lines of credit, other than Green Account loans, may be originated in amounts, together with the amount of the existing first mortgage, up to 80% of the value of the property securing the loan.

Commercial and Multi-Family Real Estate Lending. Another major focus of the Company is the funding of multi-family and commercial real estate loans. These loans are secured primarily by multi-family dwellings, and a limited amount of small retail establishments, hotels, motels, warehouses, and small office buildings primarily located in the Company s market area, and throughout the West Coast. At December 31, 2011, multi-family and commercial real estate mortgage loans totaled $211.3 million or 26.8% of the Company s gross loan portfolio, as compared to $79.6 million, or 11.5% of the Company s gross loan portfolio, at December 31, 2010.

The Company s loans secured by multi-family and commercial real estate are originated with either a fixed or adjustable interest rate. The interest rate on adjustable-rate loans is based on a variety of indices, generally determined through negotiation with the borrower. Loan-to-value ratios on multi-family real estate loans typically do not exceed 75% of the appraised value of the property securing the loan. These loans typically require monthly payments, may contain balloon payments and have maximum maturities of 30 years. Loan-to-value ratios on commercial real estate loans typically do not exceed 70% of the appraised value of the property securing the loan and have maximum maturities of 25 years.

Loans secured by multi-family and commercial real estate are underwritten based on the income producing potential of the property and the financial strength of the borrower. The net operating income, which is the income derived from the operation of the property less all operating expenses, must be sufficient to cover the payments related to the outstanding debt. The Company generally requires an assignment of rents or leases in order to be assured that the cash flow from the project will be used to repay the debt. Appraisals on properties securing multi-family and commercial real estate loans are performed by independent state licensed fee appraisers approved by management. See Loan Originations, Purchases, Sales and Repayments. The

Table of Contents

Company generally maintains a tax or insurance escrow account for loans secured by multi-family and commercial real estate. In order to monitor the adequacy of cash flows on income-producing properties, the borrower may be required to provide periodic financial information.

Loans secured by multi-family and commercial real estate properties generally involve a greater degree of credit risk than one- to four-family residential mortgage loans. These loans typically involve large balances to single borrowers or groups of related borrowers. The largest multi-family or commercial real estate loan at December 31, 2011 was secured by six one-to four- unit properties located in San Diego County with a principal balance of $10.6 million and a remaining line of credit limit of $120 thousand. At December 31, 2011, this loan was performing in accordance with the terms of the note.

Because payments on loans secured by multi-family and commercial real estate properties are often dependent on the successful operation or management of the properties, repayment of these loans may be subject to adverse conditions in the real estate market or the economy. If the cash flow from the project is reduced, or if leases are not obtained or renewed, the borrower s ability to repay the loan may be impaired. See Asset Quality Non-performing Loans in Item 1.

Construction Lending and Land Loans. The Company has not historically originated a significant amount of construction loans. From time to time the Company has purchased participations in real estate construction loans, however, it has not done so since 2008. In addition, the Company may in the future originate or purchase loans or participations in construction. The Company had no construction loans at December 31, 2011.

The Company had $2.4 million in land loans at December 31, 2011. The Company has not historically originated a significant amount of land loans. From time to time the Company purchased participations in real estate construction loans, The Company may in the future originate or purchase loans or participations secured by land.

Consumer and Other Real Estate Lending. Consumer loans generally have shorter terms to maturity or variable interest rates, which reduce our exposure to changes in interest rates, and carry higher rates of interest than do conventional one- to four-family residential mortgage loans. In addition, management believes that offering consumer loan products helps to expand and create stronger ties to the Company s existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities. At December 31, 2011, the Company s consumer and other loan portfolio totaled $17.8 million, or 2.26% of our gross loan portfolio. The Company offers a variety of secured consumer loans, including second trust deed home equity loans and home equity lines of credit and loans secured by savings deposits. The Company also offers a limited amount of unsecured loans. The Company originates consumer and other real estate loans primarily in its market area.

The Company s home equity lines of credit totaled $7.0 million, and comprised 0.9% of the gross loan portfolio at December 31, 2011. Additionally, the Company had $247.5 million of Green Account loans which represented 31.4% of the gross loan portfolio at December 31, 2011. Other home equity lines of credit have a seven or ten year draw period and require the payment of 1.0% or 1.5% of the outstanding loan balance per month (depending on the terms) during the draw period, which amount may be re-borrowed at any time during the draw period. Home equity lines of credit with a 10 year draw period have a balloon payment due at the end of the draw period. For loans with shorter term draw periods, once the draw period has lapsed, generally the payment is fixed based on the loan balance at that time. The Company actively monitors changes in the market value of all home loans contained in its portfolio. For instance, in 2011 the Company purchased independent, third party valuations of every property in its residential loan portfolio twice during the year. The most recent valuations were as of November 30, 2011. The Company has the right to adjust, and has adjusted, existing lines of credit to address current market conditions subject to the rules and regulations affecting home equity lines of credit. At December 31, 2011, unfunded commitments on Green Accounts totaled $31.0 million and $11.7 million on other consumer lines of credit. Other consumer loan terms vary according to the type of collateral, length of contract and creditworthiness of the borrower.

Table of Contents

Consumer and other real estate loans may entail greater risk than do one- to four-family residential mortgage loans, particularly in the case of consumer loans which are secured by rapidly depreciable assets, such as automobiles and recreational vehicles. In these cases, any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance. As a result, consumer loan collections are dependent on the borrower s continuing financial stability and, thus, are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy. See Asset Quality Non-performing Loans in Item 1.

Commercial Business Lending. At December 31, 2011, commercial business loans totaled $9.0 million or 1.15% of the gross loan portfolio. The Company s commercial business lending policy includes credit file documentation and analysis of the borrower s background, capacity to repay the loan, the adequacy of the borrower s capital and collateral as well as an evaluation of other conditions affecting the borrower. Analysis of the borrower s past, present and future cash flows is also an important aspect of our credit analysis. The Company may obtain personal guarantees on our commercial business loans. Nonetheless, these loans are believed to carry higher credit risk than more traditional single-family home loans.

Unlike residential mortgage loans, commercial business loans are typically made on the basis of the borrower s ability to make repayment from the cash flow of the borrower s business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself (which, in turn, is often dependent in part upon general economic conditions). The Company s commercial business loans are usually, but not always, secured by business assets. However, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. See Asset Quality Non-performing Loans in Item 1.

Loan Originations, Purchases, Repayments, and Servicing

The Company originates real estate secured loans primarily through mortgage brokers and banking relationships. By originating most loans through brokers, the Company is better able to control overhead costs and efficiently utilize management resources. The Company is a portfolio lender of products not readily saleable to Fannie Mae and Freddie Mac, although they are saleable to private investors. The Company did not attempt to sell any of its loans during 2011.

The Company also originates consumer and real estate loans on a direct basis through our marketing efforts, and our existing and walk-in customers. The Company originates both adjustable and, to a much lesser extent, fixed-rate loans, however, the ability to originate loans is dependent upon customer demand for loans in our market areas. Demand is affected by competition and the interest rate environment. During the last few years, the Company has significantly increased origination of ARM loans. The Company has also purchased ARM loans secured by one-to four-family residences and participations in construction and commercial real estate loans in the past. During 2011, the Company purchased ARM loans secured by purchased multi-family properties totaling $58.0 million. Loans and participations purchased must conform to the Company s underwriting guidelines or guidelines acceptable to the management loan committee. In periods of economic uncertainty, the ability of financial institutions to originate or purchase large dollar volumes of real estate loans may be substantially reduced or restricted, with a resultant decrease in interest income. During 2005, the Company introduced a new lending product called the Green Account , a fully transactional flexible mortgage account. Originations of this product totaled $61.7 million and $85.2 million for the years ended December 31, 2011 and 2010, respectively.

Table of Contents

The following table shows loan origination, purchase, sale, and repayment activities for the periods indicated.

	Year Ended December 31,		
	2011	2010	2009
		(In thousands)	
Originations by type:			
Adjustable rate:			
Real estate one- to four-family	$ 44,554	$ 3,552	$ 16,293
multi-family, commercial and land	12,826	3,742	1,096
construction or development			
Consumer and other	64,851*	89,389*	92,311*
commercial business			
Total adjustable-rate	122,231	96,683	109,700
Fixed rate:			
Real estate one- to four-family			260
multi-family, commercial and land	76,299		19
Non-real estate consumer	97	387	427
commercial business	493	871	297
Total fixed-rate	76,889	1,258	1,003
Total loans originated	199,120	97,941	110,703
Purchases:			
Real estate one- to four-family		182	
multi-family, commercial and land	58,027		
construction or development			
Consumer and other			
commercial business			
Total loans purchased	58,027	182	
Repayments:			
Principal repayments	(162,700)	(158,573)	(137,913)
Increase (decrease) in other items, net	2,987	(9,424)	(17,532)
Net increase (decrease)	$ 97,434	$ (69,874)	$ (44,742)

* For 2011, of this total, $61.7 million represents originations of the Company s Green Account product, of which $57.0 million is secured by one-to four-family properties, $591 thousand is secured by land, $737 thousand is secured by multi-family properties and $3.3 million is secured by commercial properties. For 2010, of this total, $85.2 million represents originations of the Company s Green Account product, of which $75.3 million is secured by one-to four-family properties, $5.1 million is secured by land, $1.4 million is secured by multi-family properties and $3.4 million is secured by commercial properties. For 2009, of this total, $87.7 million represents originations of the Company s Green Account product, of which $81.4 million is secured by one-to four-family properties, $3.5 million is secured by land, $1.8 million is secured by multi-family properties and $978 thousand is secured by commercial properties.

Asset Quality

Real estate loans are serviced in house, as stringently (or more so) as dictated by secondary market guidelines. When a borrower fails to make a payment on a mortgage loan , a late charge notice is mailed 16 days after the due date. All delinquent accounts are reviewed by a collector, who attempts to cure the delinquency by contacting the borrower prior to the loan becoming 30 days past due. If the loan becomes 60 days delinquent, the collector will generally contact the borrower by phone, send a personal letter and/or engage a field service company to visit the property in order to identify the reason for the delinquency. Once the loan becomes 90 days delinquent, contact with the borrower is made requesting payment of the delinquent amount in full, or the establishment of an acceptable repa