PACIFIC PREMIER BANCORP INC
Form 10-K
March 16, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission File No.: 0-22193

(Exact name of registrant as specified in its charter)

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

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

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

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

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [__] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [__] No [X]

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [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 the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer	[ ]		Accelerated filer	[X]
Non-accelerated filer	[ ]	(Do not check if a smaller reporting company)	Smaller reporting company	[ ]

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, i.e., persons other than directors and executive officers of the registrant, was approximately $231,634,823 and was based upon the last sales price as quoted on the NASDAQ Stock Market as of June 30, 2014, the last business day of the most recently completed second fiscal quarter.

As of March 11, 2015, the Registrant had 21,384,597 shares outstanding.

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PART I

ITEM 1. BUSINESS

Forward-Looking Statements

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

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

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

- The strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- The effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the “Federal Reserve”);

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

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

Overview

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

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

We primarily conduct business throughout California from our 16 full-service depository branches in the counties of Los Angeles, Orange, Riverside, San Bernardino and San Diego. These depository branches are located in the cities of Corona, Encinitas, Huntington Beach, Irvine, Los Alamitos, Newport Beach, Palm Desert, Palm Springs, Riverside, San Bernardino, San Diego, Seal Beach and Tustin, California. Our corporate headquarters are located in Irvine, California.

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

Through our branches and our Internet website at www.ppbi.com, we offer a broad array of deposit products and services, including checking, money market and savings accounts, cash management services, electronic banking services, and on-line bill payment. We also offer a wide array of loan products, such as commercial business loans, lines of credit, SBA loans, warehouse credit facilities, commercial real estate loans, residential home loans, construction loans and consumer loans. At December 31, 2014, we had consolidated total assets of $2.0 billion, net loans of $1.6 billion, total deposits of $1.6 billion, and consolidated total stockholders' equity of $199.6 million. At December 31, 2014, the Bank was considered a "well-capitalized" financial institution for regulatory capital purposes.

Our common stock is traded on the NASDAQ Global Select Market under the ticker symbol "PPBI." There are 25.0 million authorized shares of the Corporation's common stock, with 16.9 million shares outstanding as of December 31, 2014, which increased to 21.4 million upon the closing of the acquisition of Independence Bank in January of 2015, which is described below under "Recent Developments." The Corporation has an additional 1.0 million authorized shares of preferred stock, none of which have been issued to date.

Our executive offices are located at 17901 Von Karman Avenue, Suite 1200, Irvine, California 92614 and our telephone number is (949) 864-8000. Our Internet website address is www.ppbi.com. Our Annual Reports on Form

10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and all amendments thereto, from 1998 to present that have been filed with the SEC are available free of charge on our Internet website. Also on our website are our Code of Ethics, Insider Trading and Beneficial Ownership forms, and Corporate Governance Guidelines. The information contained in our website or in any websites linked by our website, is not a part of this Annual Report on Form 10-K.

Recent Developments - Acquisition of Independence Bank

On October 22, 2014, the Company announced that it had entered into a definitive agreement to acquire Independence Bank, a Newport Beach, California, based state-chartered bank with six branches located in Orange County and Riverside County. This transaction will strengthen the Company's competitive position as one of the premier banks headquartered in Southern California. The acquisition was completed on January 26, 2015, whereby we acquired $424.0 million in total assets, $334.7 million in loans and $336.1 million in total deposits. This transaction allowed us to acquire a commercial banking franchise in our backyard. The Independence Bank branch locations will connect our existing footprint between Orange County and the broader Coachella Valley and represents an important element of our strategic growth plan by providing meaningful operational scale in our core markets. The acquisition also allows us to deploy a portion of our current capital base into a compelling investment which we anticipate will produce attractive returns for shareholders. Under the terms of the merger agreement, each share of Independence Bank common stock was converted into the right to receive $13.75 per share in cash or 0.9259 shares of Company common stock, or a combination thereof, subject to the overall requirement that approximately 10% of the consideration will be in the form of cash and approximately 90% will be in the form of Company common stock. The value of the total deal consideration was $78.5 million, which includes $6.1 million of cash consideration for Independence Bank common stockholders, $1.5 million of aggregate cash consideration to the holders of Independence Bank stock options and warrants, and the issuance of 4,480,645 shares of the Corporation's common stock, which was valued at $70.9 million based on the closing stock price of the Company's common stock on January 26, 2015 of $15.83 per share.

Our Strategic Plan

Our strategic plan is focused on generating organic growth through our high performing sales culture. Additionally, we seek to grow through mergers and acquisitions of California based banks and the acquisition of lines of business that complement our business banking strategy.

Our two key operating strategies are summarized as follows:

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

- Expansion through Acquisitions. Our acquisition strategy is twofold; first we seek to acquire whole banks within the State of California to expand geographically and/or to consolidate in our existing markets, and second we seek to acquire lines of business that will complement our existing business banking strategy. We have completed six acquisitions since 2010: Canyon National Bank ("CNB") (FDIC-assisted, geographic expansion, closed February 2011), Palm Desert National Bank ("PDNB") (FDIC-assisted, in market consolidation, closed April 2012), First Associations Bank ("FAB") (open bank, nationwide HOA line of business, closed March 2013), San Diego Trust Bank ("SDTB") (open bank, geographic expansion, closed June 2013), Infinity (nationwide lender to franchisees in the QSR industry, closed January 2014) and Independence Bank (open bank, geographic expansion, closed January 2015). We will continue to pursue acquisitions of open banks, FDIC-assisted transactions and other non-depository businesses that meet our criteria, though there can be no assurances that we will identify or consummate any such acquisitions, and if we do, that any or all of those acquisitions will produce the intended results.

Lending Activities

General. In 2014, we maintained our commitment to a high level of credit quality in our lending activities. We further diversified our loan portfolio with our acquisition of Infinity and our associated entry into franchise lending nationwide. Identifying an opportunity in an underserved market, we also selectively extended construction financing for residential family dwellings and commercial retail properties. Our core lending business continues to focus on meeting the financial needs of local businesses and their owners. To that end, the Company offers a full complement of flexible and structured loan products tailored to meet the diverse needs of our customers.

During 2014, we made or purchased loans to borrowers secured by real property and business assets located principally in California, our primary market area. We made select loans, primarily QSR franchise loans, SBA guaranteed loans and loans to HOAs, throughout the United States. We emphasize relationship lending and focus on generating loans with customers who also maintain full depository relationships with us. These efforts assist us in establishing and expanding depository relationships consistent with the Company's strategic direction. We maintain an internal lending limit below our $65.0 million legal lending limit for secured loans and $39.0 million for unsecured loans as of December 31, 2014. Historically, we have managed loan concentrations by selling certain loans, primarily commercial non-owner occupied CRE and multi-family residential loan production. Although in recent periods we have focused on selling the guaranteed portion of SBA loans due to the attractive premiums in the market which gains on sale increase our noninterest income. Other types of loan sales remain a strategic option for us.

During 2014, we originated $274.4 million of commercial and industrial ("C&I") loans, $144.9 million of construction loans, $88.7 million of non-owner occupied CRE loans, $69.6 million of SBA loans, $32.6 million of multi-family real estate loans, $26.1 million of owner occupied CRE loans, $7.2 million of warehouse facilities, and $4.7 million of single family real estate loans and other loans; and we purchased $151.9 million of loans including $78.8 million acquired from Infinity. At December 31, 2014, we had $1.6 billion in total gross loans outstanding.

Commercial and Industrial Lending. We originate C&I loans secured by business assets including inventory, receivables, machinery and equipment to businesses located in our primary market area and for franchise loans to QSRs nationwide. Loan types include revolving lines of credit, term loans, seasonal loans and loans secured by liquid collateral such as cash deposits or marketable securities. We also issue letters of credit on behalf of our customers, backed by loans or deposits with the Company. At December 31, 2014, C&I loans totaled $428.2 million, constituting 26.3% of our gross loans, and we had commitments to extend additional credit on C&I loans of $140.1 million.

Commercial Owner-Occupied Business Lending. We originate and purchase loans secured by owner-occupied CRE, such as small office and light industrial buildings, and mixed-use commercial properties located predominantly in California. We also make loans secured by special purpose properties, such as gas stations and churches. Pursuant to our underwriting policies, owner-occupied CRE loans may be made in amounts of up to 80% of the lesser of the appraised value or the purchase price of the collateral property. Loans are generally made for terms up to 25 years with amortization periods up to 25 years. At December 31, 2014, we had $211.0 million of owner-occupied CRE secured loans, constituting 13.0% of our gross loans.

SBA Lending. We are approved to originate loans under the SBA's Preferred Lenders Program ("PLP"). The PLP lending status affords us a higher level of delegated credit autonomy, translating to a significantly shorter turnaround time from application to funding, which is critical to our marketing efforts. We originate loans nationwide under the SBA's 7(a), Express, Patriot Express, International Trade and 504 loan programs, in conformity with SBA underwriting and documentation standards. The guaranteed portion of the 7(a) loans is typically sold on the secondary market. At December 31, 2014, we had $28.4 million of SBA loans, constituting 1.7% of our gross loans.

Warehouse Repurchase Facilities. We provide warehouse repurchase facilities for qualified mortgage bankers operating principally in California. These facilities provide short-term funding for one-to-four family mortgage loans via a mechanism whereby the mortgage banker sells us closed loans on an interim basis, to be repurchased in conjunction with the sale of each loan on the secondary market. We carefully underwrite and monitor the financial strength and performance of all counterparties to the transactions, including the mortgage bankers, secondary market participants and closing agents. We generally purchase only conforming/conventional (Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC")) and government guaranteed (Federal Housing Administration ("FHA"), Veterans Administration ("VA") and U.S. Department of Agriculture ("USDA")) credits, and only after thorough due diligence including sophisticated fraud checks. At December 31, 2014, warehouse loans totaled $113.8 million constituting 7.0% of our gross loans, and we had commitments to extend additional warehouse credit of $105.1 million.

Commercial Non-Owner Occupied Real Estate Lending. We originate and purchase loans that are secured by CRE, such as retail centers, small office and light industrial buildings, and mixed-use commercial properties that are not occupied by the borrower and are located predominantly in California. We also make loans secured by special purpose properties, such as hotels and self-storage facilities. Pursuant to our underwriting practices, non-owner CRE loans may be made in amounts up to 75% of the lesser of the appraised value or the purchase price of the collateral property. We consider the net operating income of the property and typically require a stabilized debt service coverage ratio of at least 1.20:1, based on the qualifying loan interest rate. Loans are generally made for terms from 10 years up to 25 years with amortization periods up to 25 years. At December 31, 2014, we had $359.2 million of non-owner occupied CRE secured loans, constituting 22.1% of our gross loans.

Multi-family Residential Lending. We originate and purchase loans secured by multi-family residential properties (five units and greater) located predominantly in California. Pursuant to our underwriting practices, multi-family residential loans may be made in an amount up to 75% of the lesser of the appraised value or the purchase price of the collateral property. In addition, we generally require a stabilized minimum debt service coverage ratio of at least 1.15:1, based on the qualifying loan interest rate. Loans are made for terms of up to 30 years with amortization periods up to 30 years. At December 31, 2014, we had $263.0 million of multi-family real estate secured loans, constituting 16.1% of our gross loans.

One-to-Four Family Real Estate Lending. Although we do not originate first lien single family mortgages, we occasionally purchase such loans to diversify our portfolio. Our portfolio of one-to-four family loans at December 31, 2014 totaled $122.8 million, constituting 7.5% of our gross loans, of which $113.6 million consists of loans secured by first liens on real estate and $9.2 million, consists of loans secured by second or junior liens on real estate.

Construction Lending. We originate loans for the construction of 1-4 family and multi-family residences and CRE properties in our market area. We concentrate our efforts on single homes and very small infill projects in established neighborhoods where there is not abundant land available for development. Pursuant to our underwriting practices, construction loans may be made in an amount up to the lesser of 80% of the completed value of or 85% of the cost to build the collateral property. Loans are made solely for the term of construction, generally less than 24 months. We require that the owner's equity is injected prior to the funding of the loan. At December 31, 2014, construction loans totaled $89.7 million constituting 5.5% of our gross loans, and had commitments to extend additional construction credit of $73.0 million.

Land Loans. We occasionally originate land loans located predominantly in California for the purpose of facilitating the ultimate construction of a home or commercial building. We do not originate loans to facilitate the holding of land for speculative purposes. At December 31, 2014, land loans totaled $9.1 million constituting 0.6% of our gross loans.

Other Loans. We originate a limited number of consumer loans, generally for banking customers only, which consist primarily of home equity lines of credit, savings account loans and auto loans. Before we make a consumer loan, we assess the applicant's ability to repay the loan and, if applicable, the value of the collateral securing the loan. At December 31, 2014, we had $3.3 million in other loans that represented 0.2% of our gross loans.

Interest Rates on Our Loans. We employ a risk-based pricing strategy on all loans that we fund. The interest rates, fees and loan structures of our loans vary based on a number of factors, including the degree of credit risk, size, maturity of the loan, a borrower's business or property management expertise, and prevailing market rates for similar types of loans, as well as the deposit balances the borrower maintains with us. Adjustable rate C&I, SBA and construction loans are typically priced based on a margin over the Prime rate, while warehouse repurchase facilities are priced over the London Inter-Bank Offered Rate ("LIBOR"). CRE loans are typically 3, 5 or 7 year fixed rate hybrid adjustable-rate loans and are based on one of several interest rate indices. HOA loans are typically 5, 7, or 10 year fixed rate loans that are fully amortizing. Many of the C&I loans and substantially all of the non-owner occupied CRE loans originated by the Company in 2014 had minimum interest rates, or floor rates, below which the rate charged may not be reduced regardless of further reductions in the underlying interest rate index. Substantially all of our non-owner occupied CRE loans also include prepayment penalties.

Lending Risks on Our Loans. Lending risks vary by the type of loan extended.

In our C&I and SBA lending activities, collectability of the loans may be adversely affected by risks generally related to small and middle market businesses, such as:

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

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

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

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

- Changes or continued weakness in:
- general or local economic conditions;
- specific industry segments;
- Declines in real estate values;
- Declines in rental rates;
- Declines in occupancy rates;
- Increases in other operating expenses (including energy costs);

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

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

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

In our construction loans, collectability and the liquidation values of collateral properties may be adversely affected by risks generally related to consumers (for SFR construction loans) or incidental to interests in real property (for CRE construction loans), such as:

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

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

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

Business loans are generally originated as recourse or with full guarantees from key borrowers or borrower principals. Loans secured by real estate are likewise generally originated on a full recourse basis. On loans made to entities, such as partnerships, limited liability companies, corporations or trusts, we typically obtain personal guarantees from the appropriate managing members, major stockholders, trustees or other appropriate principals. In 2014, substantially all of our loans to entities were originated with full recourse and/or personal guarantees from the principals of the borrowers.

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

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

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

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

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

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

Our Loan Portfolio

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

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

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

Loan Portfolio Composition. At December 31, 2014, our net loans receivable held for investment totaled $1.6 billion.

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

	At December 31,								
	2014			2013			2012		
	Amount	% of Total	Weighted Average Interest Rate	Amount	% of Total	Weighted Average Interest Rate	Amount	% of Total	Weighted Average Interest Rate
	(dollars in thousands)								
Business loans:									
Commercial and	$428,207	26.3 %	5.3%	$187,035	15.0 %	5.0%	$115,354	11.7 %	5.3%

industrial									
Commercial owner occupied (1)	210,995	13.0%	5.1%	221,089	17.8%	5.3%	150,934	15.3%	6.1%
SBA	28,404	1.7%	5.6%	10,659	0.9%	5.9%	6,882	0.7%	6.0%
Warehouse facilities	113,798	7.0%	4.2%	87,517	7.0%	4.1%	195,761	19.9%	4.8%
Real estate loans:									
Commercial non-owner occupied	359,213	22.1%	5.0%	333,544	26.9%	5.3%	253,409	25.6%	5.7%
Multi-family	262,965	16.1%	4.6%	233,689	18.8%	4.8%	156,424	15.9%	5.8%
One-to-four family (2)	122,795	7.5%	4.4%	145,235	11.7%	4.4%	97,463	9.9%	4.7%
Construction	89,682	5.5%	5.2%	13,040	1.0%	5.2%	-	0.0%	0.0%
Land	9,088	0.6%	4.8%	7,605	0.6%	4.7%	8,774	0.9%	4.9%
Other loans	3,298	0.2%	6.1%	3,839	0.3%	5.8%	1,193	0.1%	6.2%
Total gross loans	1,628,445	100.0%	4.9%	1,243,252	100.0%	5.0%	986,194	100.0%	5.4%
Less loans held for sale	-			3,147			3,681		
Total gross loans held for investment	1,628,445			1,240,105			982,513		
Plus (less) for:									
Deferred loan origination costs (fees) and premiums (discounts), net	177			18			(306)		
Allowance for loan losses	(12,200)			(8,200)			(7,994)		
Loans held for investment, net	$1,616,422			$1,231,923			$974,213		

	2011			2010		
	Amount	% of Total	Weighted Average Interest Rate	Amount	% of Total	Weighted Average Interest Rate
	(dollars in thousands)					

Business loans:						
Commercial and industrial	$86,684	11.7 %	5.8 %	$42,077	7.5 %	6.3 %
Commercial owner occupied (1)	152,299	20.6 %	6.6 %	113,025	20.0 %	6.6 %
SBA	4,727	0.7 %	6.0 %	4,088	0.7 %	5.9 %
Warehouse facilities	67,518	9.1 %	5.4 %	12,610	2.2 %	6.1 %
Real estate loans:						
Commercial non-owner occupied	164,341	22.2 %	6.6 %	130,525	22.9 %	6.7 %
Multi-family	193,830	26.2 %	6.0 %	243,584	42.9 %	6.2 %
One-to-four family (2)	60,027	8.1 %	5.1 %	20,318	3.6 %	5.4 %
Land	6,438	0.9 %	5.8 %	-	0.0 %	0.0 %
Other loans	3,390	0.5 %	7.6 %	1,417	0.2 %	4.5 %
Total gross loans	739,254	100.0 %	6.1 %	567,644	100.0 %	6.4 %
Less loans held for sale	-			-		
Total gross loans held for investment	739,254			567,644		
Plus (less) for:						
Deferred loan origination costs (fees) and premiums (discounts), net	(665)			(3,227)		
Allowance for loan losses	(8,522)			(8,879)		
Loans held for investment, net	$730,067			$555,538		

(1) Secured by real estate.

(2) Includes second trust deeds.

Loan Portfolio Characteristics. In general, the Company does not require regular updates of collateral valuations for loans that are not classified as potential problem or problem loans. However, updated valuations are obtained for collateral securing non-homogeneous loans that are identified as problem loans at least every twenty-four months. Updated collateral valuations may be required more frequently at the discretion of the Company's management or for loans identified as impaired in accordance with the Company's allowance for loan loss ("ALLL") policy. Market values may be substantiated by obtaining an appraisal or an appropriate evaluation. At December 31, 2014, 75% of multi-family, 60% of non-owner occupied CRE loans and 35% of owner occupied CRE loans had current updated collateral valuations within the last 24 months.

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

	At December 31, 2014			
	Average			
	Loan Size	Maturity (years)	Loan-to-Value Ratio	Debt Coverage Ratio
	(dollars in thousands)			
Business loans:				
Commercial and industrial	$456	7	N/A	N/A
Commercial owner occupied	902	16	62 %	N/A
SBA	276	20	N/A	N/A
Warehouse facilities	6,018	N/A	N/A	N/A
Real estate loans:				
Commercial non-owner occupied	1,371	16	70 %	1.72
Multi-family	1,258	25	76 %	1.39
One-to-four family	345	25	59 %	N/A
Construction	1,135	1	N/A	N/A
Land	505	5	69 %	N/A
Other loans	9	18	N/A	N/A

Loan Maturity. For our CRE and business loans, repayment typically depends on the successful operation of the businesses or the properties securing the loans. Several months before a loan matures, our portfolio managers contact our borrowers to obtain personal and/or business financial and operations data and property information for review. When deemed appropriate, business and property visits are made to assess the borrower’s revenue-generating activities and to perform inspections of our collateral. This information is reviewed and evaluated for indications of potential issues prior to maturity. If potential issues are discovered, our portfolio managers work on a strategy with the borrower well in advance of the loan maturing in order to maximize the benefit to the Company. At December 31, 2014, we had $194.3 million, or 11.9% of total gross loans held for investment that were due to mature in one year or less, primarily in our C&I loan category of $96.0 million and Construction category of $64.2 million.

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

	At December 31, 2014										
	Commercial and Industrial	Commercial Owner Occupied	SBA	Warehouse Facilities	Commercial Non-owner Occupied	Multi-Family	One-to-Four Family	Construction	Land	Other Loans	Total
	(in thousands)										
Amounts due											
One year or less	$96,047	$5,934	$2,062	$-	$19,192	$2,731	$868	$64,180	$2,850	$472	$194,336
More than one year to three years	25,466	16,775	937	-	26,986	3,782	4,415	25,502	2,515	489	106,867
More than three years to five years	56,205	8,691	57	-	6,958	4,831	1,555	-	862	42	79,201
More than five years to 10 years	183,809	51,406	3,290	113,798	104,155	5,566	1,285	-	1,717	251	465,277
More than 10 years to 20 years	45,869	26,082	426	-	28,585	16,777	12,775	-	472	1,076	132,062
More than 20 years	20,811	102,107	21,632	-	173,337	229,278	101,897	-	672	968	650,702
Total gross loans	428,207	210,995	28,404	113,798	359,213	262,965	122,795	89,682	9,088	3,298	1,628,445
Plus (less) for											
Deferred loan origination costs	46	23	3	12	39	29	13	10	1	1	177
Allowance for loan losses	(4,200)	(1,757)	(568)	(546)	(2,007)	(1,060)	(842)	(1,088)	(108)	(24)	(12,200)
Total loans, net	424,053	209,261	27,839	113,264	357,245	261,934	121,966	88,604	8,981	3,275	1,616,422
	-	-	-	-	-	-	-	-	-	-	-

Loans held for sale, net											
Loans held for investment, net	$424,053	$209,261	$27,839	$113,264	$357,245	$261,934	$121,966	$88,604	$8,981	$3,275	$1,616,422

The following table sets forth at December 31, 2014 the dollar amount of gross loans receivable contractually due after December 31, 2015 and whether such loans have fixed interest rates or adjustable interest rates.

	At December 31, 2014 Loans Due After December 31, 2015		
	Fixed	Adjustable	Total
		(in thousands)	
Business loans:			
Commercial and industrial	$123,723	$208,437	$332,160
Commercial owner occupied	47,292	157,769	205,061
SBA	426	25,916	26,342
Warehouse facilities	-	113,798	113,798
Real estate loans:			
Commercial non-owner occupied	21,916	318,105	340,021
Multi-family	3,213	257,021	260,234
One-to-four family	73,448	48,479	121,927
Construction	-	25,502	25,502
Land	219	6,019	6,238
Other loans	2,446	380	2,826
Total gross loans	$272,683	$1,161,426	$1,434,109

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

For the Year Ended December 31,				
2014	2013	2012	2011	2010
		(in thousands)		

Beginning balance of gross loans	$1,243,252	$986,194	$739,254	$567,644	$576,268
Loans originated:					
Business loans:					
Commercial and industrial	274,446	96,484	42,152	33,209	28,030
Commercial owner occupied (1)	26,065	47,719	27,549	1,838	600
SBA	69,589	21,526	8,639	4,309	2,322
Warehouse facilities	7,150	89,810	193,668	62,750	35,500
Real estate loans:					
Commercial non-owner occupied	88,716	135,767	55,347	18,140	-
Multi-family	32,612	71,537	24,822	4,318	-
One-to-four family (2)	4,499	2,825	20,197	6,085	-
Construction	144,925	36,264	-	-	-
Land	-	2,215	-	-	-
Other loans	242	694	1,772	65	5,183
Total loans originated	648,244	504,841	374,146	130,714	71,635
Loans purchased:					
Commercial and industrial	69,543	34,950	5,033	28,536	745
Commercial owner occupied	18,651	46,641	11,786	67,359	26,380
Commercial non-owner occupied	20,791	16,763	62,601	39,963	2,579
Multi-family	42,903	43,558	3,690	3,075	-
One-to-four family	-	82,842	38,588	28,987	-
Construction	-	1,399	198	5,592	-
Land	-	2,770	5,395	9,414	-
Other loans	-	718	2,256	21,995	9,884
Total loans purchased	151,888	229,641	129,547	204,921	39,588
Total loan production	800,132	734,482	503,693	335,635	111,223
Total	2,043,384	1,720,676	1,242,947	903,279	687,491
Plus (less) for:					
Principal repayments	(259,297)	(180,864)	(184,580)	(100,671)	(61,983)
	2,020	3,867	8,513	3,233	-

Change in mark-to-market discounts from acquisitions					
Change in undisbursed loan funds, net	(64,655)	(260,683)	(47,803)	(15,377)	(21,984)
Sales of loans	(91,579)	(36,717)	(28,217)	(42,201)	(29,977)
Charge-offs	(783)	(2,031)	(1,515)	(4,014)	(2,339)
Transfer to other real estate owned	(645)	(996)	(3,151)	(4,995)	(3,564)
Total gross loans	1,628,445	1,243,252	986,194	739,254	567,644
Less ending balance loans held for sale, gross	-	3,147	3,681	-	-
Ending balance loans held for investment, gross	$1,628,445	$1,240,105	$982,513	$739,254	$567,644

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

Delinquent Loans. When a borrower fails to make required payments on a loan and does not cure the delinquency within 30 days, we normally initiate formal collection activities including, for loans secured by real estate, recording a notice of default and, after providing the required notices to the borrower, commencing foreclosure proceedings. If the loan is not reinstated within the time permitted by law, we may sell the property at a foreclosure sale. At these foreclosure sales, we generally acquire title to the property. At December 31, 2014, loans delinquent 60 or more days as a percentage of total gross loans was less than one basis point, down from 0.09% at year-end 2013.

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

	30 - 59 Days		60 - 89 Days		90 Days or More (1)		Total	
	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans
	(dollars in thousands)							
At December 31, 2014								
Business loans:								

Commercial and industrial	-	$ -	1	$ 24	-	$ -	1	24
Real estate loans:								
One-to-four family	1	19	-	-	3	54	4	73
Other loans	1	1	-	-	-	-	1	1
Total	2	$ 20	1	$ 24	3	$ 54	6	$ 98
Delinquent loans to total gross loans		0.00%		0.00%		0.00 %		0.01 %
At December 31, 2013								
Business loans:								
Commercial owner occupied	2	$ 768	-	$ -	1	$ 446	3	1,214
SBA	-	-	-	-	1	14	1	14
Real estate loans:								
Commercial non-owner occupied	-	-	-	-	2	560	2	560
One-to-four family	3	71	-	-	4	123	7	194
Other loans	3	130	-	-	-	-	3	130
Total	8	$ 969	-	$ -	8	$ 1,143	16	$ 2,112
Delinquent loans to total gross loans		0.08%		0.00%				