PROVIDENT FINANCIAL HOLDINGS INC
Form 10-K
September 15, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark one)

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

For the fiscal year ended June 30, 2014 OR

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

Commission File Number: 000-28304
PROVIDENT FINANCIAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	33-0704889
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
3756 Central Avenue, Riverside, California	92506
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (951) 686-6060
Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $.01 per share	The NASDAQ Stock Market LLC
(Title of Each Class)	(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 whether 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 other information statements incorporated by reference in Part III of this Form 10-K or any amendments 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 definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2).
YES   NO X .

The Registrant's common stock is listed on the NASDAQ Global Select Market under the symbol "PROV." The aggregate market value of the common stock held by non affiliates of the Registrant, based on the closing sales price of the Registrant's common stock as quoted on the NASDAQ Global Select Market on December 31, 2013, was $137.8 million. As of September 5, 2014, there were 9,191,464 shares of the Registrant's common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Shareholders are incorporated by reference into Part II.
2. Portions of the definitive Proxy Statement for the fiscal 2014 Annual Meeting of Shareholders (“Proxy Statement”) are incorporated by reference into Part III.

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As used in this report, the terms “we,” “our,” “us,” and “Provident” refer to Provident Financial Holdings, Inc. and its consolidated subsidiaries, unless the context indicates otherwise. When we refer to the “Bank” or “Provident Savings Bank” in this report, we are referring to Provident Savings Bank, F.S.B., a wholly owned subsidiary of Provident Financial Holdings, Inc.

PART I

Item 1. Business

General

Provident Financial Holdings, Inc. (the “Corporation”), a Delaware corporation, was organized in January 1996 for the purpose of becoming the holding company of Provident Savings Bank, F.S.B. (the “Bank”) upon the Bank’s conversion from a federal mutual to a federal stock savings bank (“Conversion”). The Conversion was completed on June 27, 1996. At June 30, 2014, the Corporation had consolidated total assets of $1.11 billion, total deposits of $897.9 million and stockholders’ equity of $145.9 million. The Corporation has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this Annual Report on Form 10-K (“Form 10-K”), including the audited consolidated financial statements and related data, relates primarily to the Bank and its subsidiaries.

The Bank, founded in 1956, is a federally chartered stock savings bank headquartered in Riverside, California. Prior to July 21, 2011, the Bank was regulated by the Office of Thrift Supervision (“OTS”). As a result of the enactment on July 21, 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), the Bank is now regulated by the Office of Comptroller of the Currency (“OCC”), its primary federal regulator, and the Federal Deposit Insurance Corporation (“FDIC”), the insurer of its deposits. The Bank’s deposits are federally insured up to applicable limits by the FDIC. The Bank has been a member of the Federal Home Loan Bank (“FHLB”) – San Francisco since 1956.

The Dodd-Frank Act also changed the regulator of all savings and loan holding companies, including the Corporation, from the OTS to the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”). For additional information regarding the Dodd-Frank Act, see “Regulation” included in this Form 10-K.

The Bank is a financial services company committed to serving consumers and small to mid-sized businesses in the Inland Empire region of Southern California. The Bank conducts its business operations as Provident Bank, Provident Bank Mortgage (“PBM”), a division of the Bank, and through its subsidiary, Provident Financial Corp. The business activities of the Bank consist of community banking, mortgage banking, investment services and trustee services for real estate transactions. Financial information regarding the Corporation’s two operating segments, Provident Bank and Provident Bank Mortgage, is contained in Note 17 to the Corporation’s audited consolidated financial statements included in Item 8 of this Form 10-K.

The Bank’s community banking operations primarily consist of accepting deposits from customers within the communities surrounding its full service offices and investing those funds in single-family, multi-family, commercial real estate, construction, commercial business, consumer and other mortgage loans. The Bank's mortgage banking activities primarily consist of the origination, purchase and sale of single-family mortgage loans (including second mortgages and equity lines of credit). Through its subsidiary, Provident Financial Corp, the Bank conducts trustee services for the Bank’s real estate transactions and in the past has held real estate for investment. For additional information, see “Subsidiary Activities” in this Form 10-K. The activities of Provident Financial Corp are included in the Bank's operating segment results. The Bank’s revenues are derived principally from interest earned on its loan and investment portfolios, and fees generated through its community banking and mortgage banking activities.

On June 22, 2006, the Bank established the Provident Savings Bank Charitable Foundation (“Foundation”) in order to further its commitment to the local community. The specific purpose of the Foundation is to promote and provide for the betterment of youth, education, housing and the arts in the Bank’s primary market areas of Riverside and San Bernardino counties. The Foundation was funded with a $500,000 charitable contribution made by the Bank in the fourth quarter of fiscal 2006. The Bank has contributed $40,000 annually to the Foundation in fiscal 2014, 2013 and 2012.

Subsequent Events:

On July 22, 2014, the Corporation announced that the Corporation's Board of Directors declared a cash dividend of $0.11 per share, reflecting a 10 percent increase from the $0.10 per share cash dividend paid on June 11, 2014. Shareholders of the Corporation's common stock at the close of business on August 12, 2014 were entitled to receive the cash dividend, which was paid on September 3, 2014.

On August 29, 2014, the Bank's Board of Directors declared a $25.0 million cash dividend from the Bank to the Corporation, which was paid on September 5, 2014.

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Market Area

The Bank is headquartered in Riverside, California and operates 14 full-service banking offices in Riverside County and one full-service banking office in San Bernardino County. Management considers Riverside and Western San Bernardino counties to be the Bank's primary market for deposits. Through the operations of PBM, the Bank has expanded its mortgage lending market to include most of Southern California and some of Northern California. PBM operates two wholesale loan production offices located in Pleasanton and Rancho Cucamonga, California and 14 retail loan production offices located in City of Industry, Elk Grove, Escondido, Glendora, Livermore, Rancho Cucamonga, Redding, Riverside (3), Roseville, San Rafael, Santa Barbara and Westlake Village, California.

The large geographic area encompassing Riverside and San Bernardino counties is referred to as the "Inland Empire." According to 2010 Census Bureau population statistics, Riverside and San Bernardino Counties have the fourth and fifth largest populations in California, respectively. The Bank's market area consists primarily of suburban and urban communities. Western Riverside and San Bernardino counties are relatively densely populated and are within the greater Los Angeles metropolitan area. The unemployment rate in the Inland Empire in June 2014 was 8.4%, compared to 7.4% in California and 6.1% nationwide, according to the United States of America ("U.S.") Department of Labor, Bureau of Labor Statistics, an improvement compared to the unemployment data reported in June 2013, which was 10.2% in the Inland Empire, 8.5% in California and 7.6% nationwide. However, the current unemployment rate remains elevated when compared to historical data.

The number of California homes entering the formal foreclosure process last quarter dropped to the lowest level since late 2005, the result of a stronger economy and higher home values, a real estate information service reported. A total of 17,524 Notices of Default ("NoD") were recorded at county recorders offices during April through June 2014, down 8.8 percent from 19,215 in the prior quarter, and down 31.9 percent from 25,747 in the second quarter of 2013. Last quarter's NoD tally was the lowest since fourth quarter 2005, when 15,337 NoDs were recorded. NoD filings peaked in the first quarter of 2009 at 135,431 (Source: DataQuick; DQNews.com – July 17, 2014 News Release).

Monthly home sales in California have varied from a low of 35,202 in 2008 to a high of 76,669 in 2004. An estimated 39,254 new and resale houses and condominiums were sold statewide in June 2014, up 4.0 percent from 37,734 in May 2014 and down 4.3 percent from 41,027 sales in June 2013. June 2014 home sales were 19.8 percent below the June average of 48,929 sales for each year since 1988. California home sales have not been above average for any particular month in more than eight years. The median home price in California in June 2014 was $393,000, up 1.8 percent from $386,000 in May 2014 and up 11.6 percent from $352,000 in June 2013. The June 2014 median home price was the highest for any month since December 2007, when it was $402,000, and June 2014 was the 28th consecutive month in which the state's median sale price rose year-over-year. Of the existing homes sold in June 2014, 5.8 percent were properties that had been foreclosed on during the past year. That was down from a revised 5.9 percent in May 2014 and down from 9.8 percent in June 2013. Foreclosure resales peaked at 58.8 percent in February 2009. Short sale transactions, where the sale price fell short of what was owed on the property, made up an estimated 5.2 percent of the homes that resold in June 2014, down from an estimated 6.3 percent in May 2014 and 13.9 percent in June 2013. The typical monthly mortgage payment for California buyers in June 2014 was $1,530, up from $1,508 in May 2014 and up from $1,356 in June 2013. Adjusted for inflation, the June 2014 payment was 35.1 percent below the typical payment in the spring of 1989, the peak of the prior real estate cycle, 47.4 percent below the current cycle's peak in June 2006 and 62.9 percent above the January 2012 bottom of the current cycle (Source: DataQuick; DQNews.com – July 16, 2014 News Release).

Competition

The Bank faces significant competition in its market area in originating real estate loans and attracting deposits. The population growth in the Inland Empire has attracted numerous financial institutions to the Bank's market area. The Bank's primary competitors are large national and regional commercial banks as well as other community-oriented banks and savings institutions. The Bank also faces competition from credit unions and a large number of mortgage companies that operate within its market area. Many of these institutions are significantly larger than the Bank and therefore have greater financial and marketing resources than the Bank. The Bank's mortgage banking operations also face competition from mortgage bankers, brokers and other financial institutions. This competition may limit the Bank's growth and profitability in the future.

Personnel

As of June 30, 2014, the Bank had 521 full-time equivalent employees, which consisted of 460 full-time, 50 prime-time, seven part-time and four temporary employees. The employees are not represented by a collective bargaining unit and management believes that its relationship with employees is good.

Segment Reporting

Financial information regarding the Corporation's operating segments is contained in Note 17 to the Corporation's audited consolidated financial statements included in Item 8 of this Form 10-K.

Internet Website

The Corporation maintains a website at www.myprovident.com. The information contained on that website is not included as a part of, or incorporated by reference into, this Form 10-K. Other than an investor's own internet access charges, the Corporation makes available free of charge through that website the Corporation's annual report, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after these materials have been electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). In addition, the SEC maintains a website that contains reports, proxy and information statements, and other information regarding companies that file electronically with the SEC. This information is available at www.sec.gov.

Lending Activities

General. The lending activity of the Bank is predominately comprised of the origination of first mortgage loans secured by single-family residential properties to be held for sale and, to a lesser extent, to be held for investment. The Bank also originates multi-family and commercial real estate loans and, to a lesser extent, commercial business, construction, consumer and other mortgage loans to be held for investment. The Bank's net loans held for investment were $772.1 million at June 30, 2014, representing 69.8% of consolidated total assets. This compares to $748.4 million, or 61.8% of consolidated total assets, at June 30, 2013.

At June 30, 2014, the maximum amount that the Bank could have loaned to any one borrower and the borrower's related entities under applicable regulations was $22.3 million, or 15% of the Bank's unimpaired capital and surplus. At June 30, 2014, the Bank had no loans or group of loans to related borrowers with outstanding balances in excess of this amount. The Bank's five largest lending relationships at June 30, 2014 consisted of: one commercial real estate loan totaling $6.0 million to one group of borrowers; one multi-family loan totaling $5.5 million to one group of borrowers; two commercial real estate loans totaling $5.0 million to one group of borrowers; one commercial real estate loan totaling $4.8 million to one group of borrowers; and one commercial real estate loan totaling $4.7 million to one group of borrowers. The real estate collateral for these loans are located in Southern California, except for one which is located in Northern California. At June 30, 2014, all of these loans were performing in accordance with their repayment terms.

Loans Held For Investment Analysis. The following table sets forth the composition of the Bank's loans held for investment at the dates indicated:

(Dollars In Thousands)	At June 30, 2014 Amount	Percent	2013 Amount	Percent	2012 Amount	Percent	2011 Amount	Percent	2010 Amount	Percent
Mortgage loans:										
Single-family	$377,997	48.43 %	$404,341	53.09 %	$439,024	53.79 %	$494,192	54.34 %	$583,126	55.73 %
Multi-family	301,211	38.60	262,316	34.45	278,057	34.07	304,808	33.52	343,551	32.83
Commercial real estate	96,803	12.40	92,488	12.14	95,302	11.67	103,637	11.39	110,310	10.54
Construction	2,869	0.37	292	0.04	—	—	—	—	400	0.04
Other	—	—	—	—	755	0.09	1,530	0.17	1,532	0.15
Total mortgage loans	778,880	99.80	759,437	99.72	813,138	99.62	904,167	99.42	1,038,919	99.29
Commercial business loans	1,237	0.16	1,687	0.22	2,580	0.32	4,526	0.50	6,620	0.63
Consumer loans	306	0.04	437	0.06	506	0.06	750	0.08	857	0.08
Total loans held for investment, gross	780,423	100.00 %	761,561	100.00 %	816,224	100.00 %	909,443	100.00 %	1,046,396	100.00 %
Undisbursed loan funds	(1,090)		(292)		—		—		—	
Deferred loan costs, net	2,552		2,063		2,095		2,649		3,365	
Allowance for loan losses	(9,744)		(14,935)		(21,483)		(30,482)		(43,501)	
Total loans held for investment, net	$772,141		$748,397		$796,836		$881,610		$1,006,260	

Maturity of Loans Held for Investment. The following table sets forth information at June 30, 2014 regarding the dollar amount of principal payments becoming contractually due during the periods indicated for loans held for investment. Demand loans, loans having no stated schedule of principal payments, loans having no stated maturity, and overdrafts are reported as becoming due within one year. The table does not include any estimate of prepayments, which can significantly shorten the average life of loans held for investment and may cause the Bank's actual principal payment experience to differ materially from that shown below:

(In Thousands)	Within	After	After	After	Beyond	Total

	One Year	One Year Through 3 Years	3 Years Through 5 Years	5 Years Through 10 Years	10 Years	
Mortgage loans:						
Single-family	$6	$120	$758	$8,921	$368,192	$377,997
Multi-family	2,620	29,715	8,562	16,498	243,816	301,211
Commercial real estate	4,364	20,720	12,935	42,333	16,451	96,803
Construction	1,500	—	—	—	1,369	2,869
Commercial business loans	661	126	24	426	—	1,237
Consumer loans	306	—	—	—	—	306
Total loans held for investment, gross	$9,457	$50,681	$22,279	$68,178	$629,828	$780,423

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The following table sets forth the dollar amount of all loans held for investment due after June 30, 2015 which have fixed and floating or adjustable interest rates:

(In Thousands)	Fixed-Rate	% (1)	Floating or Adjustable Rate	% (1)
Mortgage loans:				
Single-family	$15,495	4 %	$362,496	96 %
Multi-family	5,682	2 %	292,909	98 %
Commercial real estate	9,852	11 %	82,587	89 %
Construction	—	— %	1,369	100 %
Commercial business loans	426	74 %	150	26 %
Total loans held for investment, gross	$31,455	4 %	$739,511	96 %

(1) As a percentage of each category.

Scheduled contractual principal payments of loans do not reflect the actual life of such assets. The average life of loans is generally substantially less than their contractual terms because of prepayments. In addition, due-on-sale clauses generally give the Bank the right to declare loans immediately due and payable in the event, among other things, the borrower sells the real property that secures the loan. The average life of mortgage loans tends to increase, however, when current market interest rates are substantially higher than the interest rates on existing loans held for investment and, conversely, decrease when the interest rates on existing loans held for investment are substantially higher than current market interest rates, as borrowers are generally less inclined to refinance their loans when market rates increase and more inclined to refinance their loans when market rates decrease.

Single-Family Mortgage Loans. The Bank's predominant lending activity is the origination by PBM of loans secured by first mortgages on owner-occupied, single-family (one to four units) residences in the communities where the Bank has established full service branches and loan production offices. At June 30, 2014, total single-family loans held for investment decreased to $378.0 million, or 48.4% of the total loans held for investment, from $404.3 million, or 53.1% of the total loans held for investment, at June 30, 2013. The decrease in the single-family loans in fiscal 2014 was primarily attributable to loan principal payments and real estate owned acquired in the settlement of loans, partly offset by new loans originated for investment.

The Bank's residential mortgage loans are generally underwritten and documented in accordance with guidelines established by institutional loan buyers, Freddie Mac, Fannie Mae and the Federal Housing Administration ("FHA") (collectively, "the secondary market"). All conforming agency loans are generally underwritten and documented in accordance with the guidelines established by these secondary market purchasers, as well as the Department of Housing and Urban Development ("HUD"), FHA and the Veterans' Administration ("VA"). Loans are normally classified as either conforming (meeting agency criteria) or non-conforming (meeting an institutional investor's criteria). Non-conforming loans are typically those that exceed agency loan limits but closely mirror agency underwriting criteria. The non-conforming loans are underwritten to expanded guidelines allowing a borrower with good credit a broader range of product choices. Given the recent market environment, PBM has expanded the production of FHA, VA, Freddie Mac and Fannie Mae loans.

In fiscal 2009, the Bank implemented tighter underwriting standards commensurate with the decline in real estate market conditions. These standards remain in place today. The Bank requires verified documentation of income and assets from borrowers and our underwriting conforms to agency mandated credit score requirements. Generally, mortgage insurance is required on all loans exceeding 80% loan-to-value based on the lower of purchase price or appraised value. Loan-to-value ("LTV") is the ratio calculated by dividing the original loan balance by the lower of the original appraised value or purchase price of the real estate collateral. The maximum allowable loan-to-value is 97% on a purchase transaction for conventional financing with mortgage insurance and 96.5% loan-to-value for FHA financing with mortgage insurance. Second home purchases and rate and term refinance transactions are capped at 90% loan-to-value with mortgage insurance. Non-owner occupied purchase and rate and term refinance transactions are capped at 80% loan-to-value while non-owner occupied refinance cash-out transactions are capped at 75% loan-to-value. We manage our underwriting standards, loan-to-value ratios and credit standards to the currently required agency and investor policies and guidelines. These standards may change at any time, given changes in real estate market conditions, secondary mortgage market requirements and changes to investor policies and guidelines.

The Bank offers closed-end, fixed-rate home equity loans that are secured by the borrower's primary residence. These loans do not exceed 80% of the appraised value of the residence and have terms of up to 15 years requiring monthly payments of principal and interest. At June 30, 2014, home equity loans amounted to $6.0 million or 1.6% of single-family loans held for investment, as compared to $1.1 million or 0.3% of single-family loans held for investment at June 30, 2013. Previously, the Bank offered secured lines of credit, which were generally secured by a second mortgage on the borrower's primary residence up to 100% of the appraised value of the residence. Secured lines of credit have an interest rate that is typically one to two percentage points above the prime lending rate. As of June 30, 2014 and 2013, the outstanding balance of secured lines of credit was $1.0 million and $1.2 million, respectively.

The Bank offers adjustable rate mortgage ("ARM") loans at rates and terms competitive with market conditions. Substantially all of the ARM loans originated by the Bank meet the underwriting standards of the secondary market. The Bank offers several ARM products, which adjust monthly, semi-annually, or annually after an initial fixed period ranging from one month to five years subject to a limitation on the annual increase of one to two percentage points and an overall limitation of three to six percentage points. The following indexes, plus a margin of 2.00% to 3.25%, are used to calculate the periodic interest rate changes; the London Interbank Offered Rate ("LIBOR"), the FHLB Eleventh District cost of funds ("COFI"), the 12-month average U.S. Treasury ("12 MAT") or the weekly average yield on one year U.S. Treasury securities adjusted to a constant maturity of one year ("CMT"). Loans based on the LIBOR index constitute a majority of the Bank's loans held for investment. The majority of the ARM loans held for investment have three or five-year fixed periods prior to the first adjustment ("3/1 or 5/1 hybrids"), and do not require principal amortization for up to 120 months. Loans of this type have embedded interest rate risk if interest rates should rise during the initial fixed rate period.

As of June 30, 2014, the Bank had $169.6 million of interest-only single-family loans. The reset of interest rates on ARM loans, primarily interest-only single-family loans, to fully-amortizing status has not created a payment shock for most borrowers primarily because the majority of loans are repricing at 2.75% over six-month LIBOR, which has resulted in a lower interest rate than the borrower's pre-adjustment interest rate. Management expects that the economic recovery will be slow to develop, which may translate to an extended period of lower interest rates and a reduced risk of mortgage payment shock for the foreseeable future, though the continuation of weak economic conditions may increase the risk of delinquencies and defaults. The higher delinquency levels experienced by the Bank in fiscal 2008 through 2011 was primarily due to high unemployment, the recent U.S. recession, weak economic conditions and the decline in real estate values, particularly in California. It should be noted, however, that the delinquency level experienced since fiscal 2012 has improved, primarily due to an improvement in real estate markets and general economic conditions, as compared to the levels experienced in fiscal 2008 through 2011.

In fiscal 2006, during the Bank's 50th Anniversary, the Bank offered 50-year single-family ARM loans. At June 30, 2014, the Bank had 31 loans with 50-year terms outstanding for $11.0 million, compared to 32 loans for $11.8 million at June 30, 2013.

As of June 30, 2014, the Bank had $23.3 million in negative amortization mortgage loans (a loan in which accrued interest exceeding the required monthly loan payment may be added to the loan principal), which consisted of $18.7 million of multi-family loans, $3.7 million of single-family loans and $856,000 of commercial real estate loans. This compares to $33.3 million at June 30, 2013, which consisted of $24.4 million of multi-family loans, $5.1 million of single-family loans and $3.8 million of commercial real estate loans. Negative amortization involves a greater risk to the Bank because the credit risk exposure increases when the loan incurs negative amortization and the value of the property serving as collateral for the loan does not increase proportionally. Negative amortization is only permitted up to a specific level, typically up to 115% of the original loan amount, and the payment on such loans is subject to increased payments when the level is reached, adjusting periodically as provided in the loan documents and potentially resulting in a higher payment by the borrower. The adjustment of these loans to higher payment requirements can be a substantial factor in higher delinquency levels because the borrower may not be able to make the higher payments. Also, real estate values may decline and credit standards may tighten in concert with the higher payment requirement, making it difficult for borrowers to sell their properties or refinance their mortgages to pay off their mortgage obligation.

Borrower demand for ARM loans versus fixed-rate mortgage loans is a function of the level of interest rates, the expectations of changes in the level of interest rates and the difference between the initial interest rates and fees charged for each type of loan. The relative amount of fixed-rate mortgage loans and ARM loans that can be originated at any time is largely determined by the demand for each product in a given interest rate and competitive environment. Given the recent market environment, the production of ARM loans has been substantially reduced because borrowers favor fixed rate mortgages.

The retention of ARM loans, rather than fixed-rate loans, helps to reduce the Bank's exposure to changes in interest rates. There is, however, unquantifiable credit risk resulting from the potential of increased interest charges to be paid by the borrower as a result of increases in interest rates or the expiration of interest-only periods. It is possible that, during periods of rising interest rates, the risk of default on ARM loans may increase as a result of the increase in the required payment from the borrower. Furthermore, the risk of default may increase because ARM loans originated by the Bank occasionally provide, as a marketing incentive, for initial rates of interest below those rates that would apply if the adjustment index plus the applicable margin were initially used for pricing. Because of these characteristics, ARM loans are subject to increased risks of default or delinquency. Additionally, while ARM loans allow the Bank to decrease the sensitivity of its assets as a result of changes in interest rates, the extent of this interest sensitivity is limited by the periodic and lifetime interest rate adjustment limits.

In addition to fully amortizing ARM loans, the Bank has interest-only ARM loans, which typically have a fixed interest rate for the first three to five years, followed by a periodic adjustable interest rate, coupled with an interest only payment of three to ten years, followed by a fully amortizing loan payment for the remaining term. As of June 30, 2014 and 2013, interest-only, first trust deed, ARM loans were $169.6 million and $187.3 million, or 21.8% and 24.6%, respectively, of the loans held for investment. Furthermore, because loan indexes may not respond perfectly to changes in market interest rates, upward adjustments on loans may occur more slowly than increases in the Bank's cost of interest-bearing liabilities, especially during periods of rapidly increasing interest rates. Because of these characteristics, the Bank has no assurance that yields on ARM loans will be sufficient to offset increases in the Bank's cost of funds.

Mortgage reform rules mandated by the Dodd-Frank Act became effective in January 2014, requiring lenders to make a reasonable, good faith determination of a borrower's ability to repay any consumer closed-end credit transaction secured by a dwelling and to limit prepayment penalties. Increased risks of legal challenge, private right of action and regulatory enforcement are presented by these rules. The Bank originates an immaterial number of loans that do not meet the definition of a "qualified mortgage" ("QM"). To mitigate the risks involved with non-QM loans, the Bank has implemented systems, processes, procedural and product changes, and maintains its underwriting standards, to ensure that the "ability-to-repay" requirements of the new rules are adequately addressed.

The following table describes certain credit risk characteristics of the Bank's single-family, first trust deed, mortgage loans held for investment as of June 30, 2014:

(Dollars In Thousands)	Outstanding Balance [(1)]	Weighted-Average FICO [(2)]	Weighted-Average LTV	Weighted-Average Seasoning [(3)]
Interest only	$169,550	734	72%	7.81 years
Stated income [(4)]	$176,488	731	68%	8.53 years
FICO less than or equal to 660	$13,175	643	65%	8.36 years
Over 30-year amortization	$15,589	733	65%	8.72 years

(1) The outstanding balance presented on this table may overlap more than one category. Of the outstanding balance, $5.4 million of "interest only," $8.4 million of "stated income," $1.4 million of "FICO less than or equal to 660," and $237,000 of "over 30-year amortization" balances were non-performing.

(2) The FICO score represents the creditworthiness of a borrower based on the borrower's credit history, as reported by an independent third party. A higher FICO score indicates a greater degree of creditworthiness. Bank regulators have issued guidance stating that a FICO score of 660 and below is indicative of a "subprime" borrower.

(3) Seasoning describes the number of years since the funding date of the loan.

(4) Stated income is defined as a loan to a borrower whose stated income on his/her loan application was not subject to verification during the loan origination process.

The following table summarizes the amortization schedule of the Bank's interest only single-family, first trust deed, mortgage loans held for investment, including the percentage of those which are identified as non-performing or 30 – 89 days delinquent as of June 30, 2014:

(Dollars In Thousands)	Balance	Non-Performing [(1)]	30 - 89 Days Delinquent [(1)]
Fully amortize in the next 12 months	$2,094	8%	—%
Fully amortize between 1 year and 5 years	167,456	3%	—%
Total	$169,550	3%	—%

(1) As a percentage of each category.

The following table summarizes the interest rate reset (repricing) schedule of the Bank's stated income single-family, first trust deed, mortgage loans held for investment, including the percentage of those which are identified as non-performing or 30 – 89 days delinquent as of June 30, 2014:

(Dollars In Thousands)	Balance [1]	Non-Performing [1]	30 - 89 Days Delinquent [1]
Interest rate reset in the next 12 months	$173,082	4%	—%
Interest rate reset between 1 year and 5 years	3,406	24%	—%
Total	$176,488	4%	—%

[1] As a percentage of each category. Also, the loan balances and percentages on this table may overlap with the table describing interest only single-family, first trust deed, mortgage loans held for investment.

A decline in real estate values subsequent to the time of origination of our real estate secured loans could result in higher loan delinquency levels, foreclosures, provisions for loan losses and net charge-offs. Real estate values and real estate markets are beyond the Bank's control and are generally affected by changes in national, regional or local economic conditions and other factors. These factors include fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature, such as earthquakes and other natural disasters particular to California where substantially all of our real estate collateral is located. If real estate values decline from the levels at the time of loan origination, the value of our real estate collateral securing the loans could be significantly reduced. The Bank's ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and it would be more likely to suffer losses on defaulted loans. Additionally, the Bank does not periodically update the LTV ratios on its loans held for investment by obtaining new appraisals or broker price opinions unless a specific loan has demonstrated deterioration or the Bank receives a loan modification request from a borrower. Therefore, it is reasonable to assume that the LTV ratios disclosed in the following table may (particularly for loans originated prior to 2010) be understated in comparison to the current LTV ratios as a result of the year of origination, the subsequent general decline in real estate values that may have occurred and the specific location of the individual properties. The Bank cannot quantify the current LTV ratios on its loans held for investment or quantify the impact of the decline in real estate values to the original LTV ratios on its loans held for investment by loan type, geography, or other subsets.

The following table provides a detailed breakdown of the Bank's single-family, first trust deed, mortgage loans held for investment by the calendar year of origination and geographic location as of June 30, 2014:

	Calendar Year of Origination									
(Dollars In Thousands)	2006 & Prior	2007	2008	2009	2010	2011	2012	2013	YTD June 30, 2014	Total
Loan balance	$267,337	$49,765	$25,371	$911	$127	$1,315	$5,977	$7,932	$12,141	$370,876
Weighted average LTV [1]	67%	72%	75%	53%	71%	69%	55%	59%	63%	67%
Weighted average age (in years)	9.09	7.01	6.26	4.90	3.62	2.89	1.88	1.03	0.19	8.00
Weighted average FICO [2]	731	732	741	750	700	716	749	745	750	733
Number of loans	837	108	48	3	1	5	27	36	27	1,092

Geographic breakdown (%):										
Inland Empire	30%	30%	27%	100%	100%	50%	19%	25%	22%	29%
Southern California (other than Inland Empire)	60%	38%	39%	—%	—%	50%	37%	34%	30%	54%
Other California	9%	30%	34%	—%	—%	—%	44%	41%	48%	16%
Other states	1%	2%	—%	—%	—%	—%	—%	—%	—%	1%
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

(1) Current loan balance in comparison to the original appraised value. Due to the decline in single-family real estate values, the weighted average LTV presented above may be significantly understated to current market values.
(2) At time of loan origination.

Multi-Family and Commercial Real Estate Mortgage Loans. At June 30, 2014, multi-family mortgage loans were $301.2 million and commercial real estate loans were $96.8 million, or 38.6% and 12.4%, respectively, of loans held for investment. This compares to multi-family mortgage loans of $262.3 million and commercial real estate loans of $92.5 million, or 34.4% and 12.1%, respectively, of loans held for investment at June 30, 2013. Consistent with its strategy to diversify the composition of loans held for investment, the Bank has made the origination and purchase of multi-family and commercial real estate loans a priority. During fiscal 2014 the Bank originated $140.0 million of multi-family and commercial real estate loans, all of which were underwritten in accordance with the Bank's origination guidelines. This compares to loan originations of $69.8 million and purchases of $12.8 million during fiscal 2013. At June 30, 2014, the Bank had 409 multi-family and 105 commercial real estate loans in the loans held for investment.

Multi-family mortgage loans originated by the Bank are predominately adjustable rate loans, including 3/1, 5/1 and 7/1 hybrids, with a term to maturity of 10 to 30 years and a 25 to 30 year amortization schedule. Commercial real estate loans originated by the Bank are also predominately adjustable rate loans, including 3/1 and 5/1 hybrids, with a term to maturity of 10 years and a 25 year amortization schedule. Rates on multi-family and commercial real estate ARM loans generally adjust monthly, quarterly, semi-annually or annually at a specific margin over the respective interest rate index, subject to annual interest rate caps and life-of-loan interest rate caps. At June 30, 2014, $251.2 million, or 83.4%, of the Bank's multi-family loans were secured by five to 36 unit projects. The Bank's commercial real estate loan portfolio generally consists of loans secured by small office buildings, light industrial centers, warehouses and small retail centers. Properties securing multi-family and commercial real estate loans are primarily located in Los Angeles, Orange, Riverside, San Bernardino and San Diego counties. The Bank originates multi-family and commercial real estate loans in amounts typically ranging from $350,000 to $4.0 million. At June 30, 2014, the Bank had 55 commercial real estate and multi-family loans with principal balances greater than $1.5 million totaling $137.2 million, of which one loan with a balance of $1.5 million, net of charge-offs, was in non-performing status. The Bank obtains appraisals on all properties that secure multi-family and commercial real estate loans. Underwriting of multi-family and commercial real estate loans includes, among other considerations, a thorough analysis of the cash flows generated by the property to support the debt service and the financial resources, experience and the income level of the borrowers and guarantors.

Multi-family and commercial real estate loans afford the Bank an opportunity to price the loans with higher interest rates than those generally available from single-family mortgage loans. However, loans secured by such properties are generally greater in amount, more difficult to evaluate and monitor and are more susceptible to default as a result of general economic conditions and, therefore, involve a greater degree of risk than single-family residential mortgage loans. Because payments on loans secured by multi-family and commercial real estate properties are often dependent on the successful operation and management of the properties, repayment of such loans may be impacted by adverse conditions in the real estate market or the economy. At June 30, 2014, the Bank had $3.1 million, net of charge-offs and collectively evaluated allowances, of non-performing multi-family loans and $2.4 million of non-performing commercial real estate loans. At June 30, 2014, the Bank had no multi-family or commercial real estate loans which were past due 30 to 89 days. Non-performing loans and delinquent loans may increase as a result of the general decline in Southern California real estate markets and poor general economic conditions.

The following table summarizes the interest rate reset or maturity schedule of the Bank's multi-family loans held for investment, including the percentage of those which are identified as non-performing, 30 – 89 days delinquent or not fully amortizing as of June 30, 2014:

(Dollars In Thousands)	Balance	Non-Performing [1]	30 - 89 Days Delinquent[1]	Percentage Not Fully Amortizing [1]
Interest rate reset or mature in the next 12 months	$95,160	3%	—%	41%
Interest rate reset or mature between 1 year and 5 years	197,661	—%	—%	8%
Interest rate reset or mature after 5 years	8,390	—%	—%	50%

Total	$301,211	1%	—%	19%

(1) As a percentage of each category.

The following table summarizes the interest rate reset or maturity schedule of the Bank's commercial real estate loans held for investment, including the percentage of those which are identified as non-performing, 30 – 89 days delinquent or not fully amortizing as of June 30, 2014:

(Dollars In Thousands)	Balance	Non-Performing [1]	30 - 89 Days Delinquent[1]	Percentage Not Fully Amortizing [1]
Interest rate reset or mature in the next 12 months	$35,853	4%	—%	85%
Interest rate reset or mature between 1 year and 5 years	60,950	1%	—%	75%
Total	$96,803	2%	—%	78%

(1) As a percentage of each category.

The following table provides a detailed breakdown of the Bank's multi-family mortgage loans held for investment by the calendar year of origination and geographic location as of June 30, 2014:

	Calendar Year of Origination									
(Dollars In Thousands)	2006 & Prior	2007	2008	2009	2010	2011	2012	2013	YTD June 30, 2014	Total
Loan balance	$79,115	$19,020	$5,825	$—	$—	$20,267	$31,740	$93,709	$51,535	$301,211
Weighted average LTV [1]	47%	55%	44%	—%	—%	58%	56%	59%	57%	55%
Weighted average debt coverage ratio [2]	1.41x	1.24x	1.46x	—x	—x	1.50x	1.72x	1.68x	1.67x	1.57x
Weighted average age (in years)	9.21	6.94	6.21	—	—	2.78	1.87	0.90	0.23	3.68
Weighted average FICO [2]	703	698	754	—	—	744	731	759	768	743
Number of loans	129	31	7	—	—	21	41	123	57	409
Geographic breakdown (%):										
Inland Empire	18%	7%	24%	—%	—%	29%	13%	31%	12%	21%
Southern California (other than Inland Empire)	53%	90%	76%	—%	—%	57%	52%	45%	44%	52%
Other California	25%	3%	—%	—%	—%	14%	35%	24%	44%	26%
Other states	4%	—%	—%	—%	—%	—%	—%	—%	—%	1%
	100%	100%	100%	—%	—%	100%	100%	100%	100%	100%

(1) Current loan balance in comparison to the original appraised value. Due to the decline in multi-family real estate values (particularly for loans originated prior to 2010), the weighted average LTV presented above may be significantly understated to current market values.

(2) At time of loan origination.

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The following table provides a detailed breakdown of the Bank's commercial real estate mortgage loans held for investment by the calendar year of origination and geographic location as of June 30, 2014:

(Dollars In Thousands)	Calendar Year of Origination 2006 & Prior	2007	2008	2009	2010	2011	2012	2013	YTD June 30, 2014	Total [3][4]
Loan balance	$25,940	$11,213	$1,144	$7,207	$371	$778	$17,925	$21,363	$10,862	$96,803
Weighted average LTV [1]	46%	53%	45%	60%	58%	62%	53%	47%	47%	50%
Weighted average debt coverage ratio [2]	2.06x	1.40x	1.32x	1.29x	1.26x	1.47x	1.84x	1.80x	1.86x	1.79x
Weighted average age (in years)	9.18	7.06	6.34	5.01	4.10	2.52	1.74	0.91	0.32	4.32
Weighted average FICO [2]	698	732	766	722	704	770	751	756	768	738
Number of loans	32	9	3	2	2	1	16	26	14	105
Geographic breakdown (%):										
Inland Empire	43%	48%	17%	100%	52%	—%	72%	35%	8%	47%
Southern California (other than Inland Empire)	57%	36%	83%	—%	48%	100%	28%	38%	76%	44%
Other California	—%	16%	—%	—%	—%	—%	—%	27%	16%	9%
Other states	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

(1) Current loan balance in comparison to the original appraised value. Due to the decline in commercial real estate values (particularly for loans originated prior to 2010), the weighted average LTV presented above may be significantly understated to current market values.

(2) At time of loan origination.

(3) Comprised of the following: $23.2 million in retail; $17.6 million in mixed use; $16.7 million in office; $12.5 million in mobile home park; $5.7 million in light industrial/manufacturing; $5.6 million in warehouse; $5.1 million in medical/dental office; $3.4 million in mini-storage; $3.4 million in restaurant/fast food; $1.7 million in hotel and motel; $1.5 million in automotive - non gasoline; and $387 in other.

(4) Consists of $79.7 million or 82.3% in investment properties and $17.1 million or 17.7% in owner occupied properties.

Construction Mortgage Loans. The Bank originates from time to time two types of construction loans: short-term construction loans and construction/permanent loans. During fiscal 2014 and 2013, the Bank originated a total of $2.9 million and $292,000 of construction loans, respectively. As of June 30, 2014 and 2013, the Bank has $2.9 million and $292,000 of construction loans, respectively, of which $1.1 million and $292,000, respectively, were undisbursed.

The composition of the Bank's construction loan portfolio is as follows:

(Dollars In Thousands)	At June 30, 2014 Amount	Percent		2013 Amount	Percent	
Short-term construction	$1,500	52.28	%	$292	100.00	%
Construction/permanent	1,369	47.72	%	—	—	%
	$2,869	100.00	%	$292	100.00	%

Short-term construction loans include three types of loans: custom construction, tract construction, and speculative construction. Additionally, from time to time, the Bank makes short-term (18 to 36 month) lot loans to facilitate land acquisition prior to the start of construction. For additional information on lot loans, see “Other mortgage loans” below. The Bank provides construction financing for single-family, multi-family and commercial real estate properties. Custom construction loans are made to individuals who, at the time of application, have a contract executed with a builder to construct their residence. Custom construction loans are generally originated for a term of 12 months, with fixed interest rates at the prime lending rate plus a margin and with loan-to-value ratios of up to 75% of the appraised value of the completed property. The Bank does not allow interest reserves as part of the loan amount. The owner secures long-term permanent financing at the completion of construction.

The Bank makes tract construction loans to subdivision builders. These subdivisions are usually financed and built in phases. A thorough analysis of market trends and demand within the area are reviewed for feasibility. Generally, significant presales are required prior to commencement of construction. Tract construction may include the building and financing of model homes under a separate loan. The terms for tract construction loans are generally 12 months with interest rates fixed at 2.0% above the prime lending rate. The Bank does not allow interest reserves as part of the loan amount. At June 30, 2014, there were no tract construction loans.

Speculative construction loans are made to home builders and are termed "speculative" because the home builder does not have, at the time of loan origination, a signed sale contract with a home buyer who has a commitment for permanent financing with either the Bank or another lender for the finished home. The home buyer may be identified during or after the construction period. The builder may be required to debt service the speculative construction loan for a significant period of time after the completion of construction until the homebuyer is identified. At June 30, 2014, there was one multi-family speculative construction loan of $1.5 million with no undisbursed funds.

Construction/permanent loans automatically roll from the construction to the permanent phase. The construction phase of a construction/permanent loan generally lasts nine to 12 months and the interest rate charged is generally fixed at a margin above prime rate and with a loan-to-value ratio of up to 75% of the appraised value of the completed property. At June 30, 2014, there was one single-family custom construction loan of $1.4 million, of which $1.1 million was undisbursed.

Construction loans under $1.0 million are approved by Bank personnel specifically designated to approve construction loans. The Bank's Loan Committee, comprised of the Chief Executive Officer, Chief Lending Officer, Chief Financial Officer, Senior Vice President - PBM and Vice President - Loan Administration, approves all construction loans over $1.0 million. Prior to approval of any construction loan, an independent fee appraiser inspects the site and the Bank reviews the existing or proposed improvements, identifies the market for the proposed project, and analyzes the pro-forma data and assumptions on the project. In the case of a tract or speculative construction loan, the Bank reviews the experience and expertise of the builder. The Bank obtains credit reports, financial statements and tax returns on the borrowers and guarantors, an independent appraisal of the project, and any other expert report necessary to evaluate the proposed project. In the event of cost overruns, the Bank requires the borrower to deposit their own funds into a loan-in-process account, which the Bank disburses consistent with the completion of the subject property pursuant to a revised disbursement schedule.

The construction loan documents require that construction loan proceeds be disbursed in increments as construction progresses. Disbursements are based on periodic on-site inspections by independent fee inspectors and Bank personnel. At inception, the Bank also requires borrowers to deposit funds into the loan-in-process account covering the difference between the actual cost of construction and the loan amount. The Bank regularly monitors the construction loan portfolio, economic conditions and housing inventory. The Bank's property inspectors perform periodic inspections. The Bank believes that the internal monitoring system helps reduce many of the risks inherent in its construction loans.

Construction loans afford the Bank the opportunity to achieve higher interest rates and fees with shorter terms to maturity than its single-family mortgage loans. Construction loans, however, are generally considered to involve a higher degree of risk than single-family mortgage loans because of the inherent difficulty in estimating both a property's value at completion of the project and the cost of the project. The nature of these loans is such that they are generally more difficult to evaluate and monitor. If the estimate of construction costs proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the project. If the estimate of value upon completion proves to be inaccurate, the Bank may be confronted with a project whose value is insufficient to assure full repayment. Projects may also be jeopardized by disagreements between borrowers and builders and by the failure of builders to pay subcontractors. Loans to builders to construct homes for which no purchaser has been identified carry additional risk because the payoff for the loan depends on the builder's ability to sell the property prior to the time that the construction loan matures. The Bank has sought to address these risks by adhering to strict underwriting policies, disbursement procedures and monitoring practices. In addition, because the Bank's construction lending is in its primary market area, changes in the local or regional economy and real estate market could adversely affect the Bank's construction loans held for investment.

Other mortgage loans. There were no other mortgage loans at June 30, 2014 and 2013. The Bank makes land loans from time to time, primarily lot loans, to accommodate borrowers who intend to build on the land within a specified period of time. The majority of these land loans are for the construction of single-family residences; however, the Bank may make short-term loans on a limited basis for the construction of commercial properties. The terms generally require a fixed rate with maturity between 18 to 36 months.

Participation Loan Purchases and Sales. In an effort to expand production and diversify risk, the Bank purchases loan participations, with collateral primarily in California, which allows for greater geographic distribution of the Bank's loans and increases loan production volume. The Bank generally purchases between 50% and 100% of the total loan amount. When the Bank purchases a participation loan, the lead lender will usually retain a servicing fee, thereby decreasing the loan yield. This servicing fee approximates the expense the Bank would incur if the Bank were to service the loan. All properties serving as collateral for loan participations are inspected by an employee of the Bank or a third party inspection service prior to being approved by the Loan Committee and the Bank relies upon the same underwriting criteria required for those loans originated by the Bank. As of June 30, 2014, total loans serviced by other financial institutions were $12.0 million, down 21% from $15.1 million at June 30, 2013. As of June 30, 2014, all loans serviced by others were performing according to their contractual agreements.

The Bank also sells participating interests in loans when it has been determined that it is beneficial to diversify the Bank's risk. Participation sales enable the Bank to maintain acceptable loan concentrations and comply with the Bank's loans to one borrower policy. Generally, selling a participating interest in a loan increases the yield to the Bank on the portion of the loan that is retained. The Bank did not sell any loan participation interests in fiscal 2014 or 2013.

Commercial Business Loans. The Bank has a Business Banking Department that primarily serves businesses located within the Inland Empire. Commercial business loans allow the Bank to diversify its lending and increase the average loan yield. As of June 30, 2014, commercial business loans were $1.2 million, or 0.2% of loans held for investment, a decrease of $450,000, or 27%, during fiscal 2014 from $1.7 million, or 0.2% of loans held for investment at June 30, 2013. These loans represent secured and unsecured lines of credit and term loans secured by business assets.

Commercial business loans are generally made to customers who are well known to the Bank and are generally secured by accounts receivable, inventory, business equipment and/or other assets. The Bank's commercial business loans may be structured as term loans or as lines of credit. Lines of credit are made at variable rates of interest equal to a negotiated margin above the prime rate and term loans are at a fixed or variable rate. The Bank may also require personal guarantees from financially capable parties associated with the business based on a review of personal financial statements. Commercial business term loans are generally made to finance the purchase of assets and have maturities of five years or less. Commercial lines of credit are typically made for the purpose of providing working capital and are usually approved with a term of one year or less.

Commercial business loans involve greater risk than residential mortgage loans and involve risks that are different from those associated with residential and commercial real estate loans. Real estate loans are generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral value and liquidation of the underlying real estate collateral is viewed as the primary source of repayment in the event of borrower default. Although commercial business loans are often collateralized by equipment, inventory, accounts receivable or other business assets including real estate, the liquidation of collateral in the event of a borrower default is often an insufficient source of repayment because accounts receivable may not be collectible and inventories and equipment may be obsolete or of limited use. Accordingly, the repayment of a commercial business loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is secondary and oftentimes an insufficient source of repayment. At June 30, 2014, the Bank had $92,000 of non-performing commercial business loans, net of allowances and charge-offs, down 29% from $130,000 at June 30, 2013. During fiscal 2014, the Bank had net charge-offs of $9,000 on commercial business loans, as compared to no recoveries or charge-offs during fiscal 2013.

Consumer Loans. At June 30, 2014, the Bank’s consumer loans were $306,000, or less than 0.1% of the Bank’s loans held for investment, a decrease of $131,000, or 30%, from $437,000, or 0.1% of the Bank's loans held for investment at June 30, 2013. The Bank offers open-ended lines of credit on either a secured or unsecured basis. The Bank offers secured savings lines of credit which have an interest rate that is four percentage points above the COFI, which adjusts monthly. Secured savings lines of credit at June 30, 2014 and 2013 were $158,000 and $252,000, respectively, and are included in consumer loans.

Consumer loans potentially have a greater risk than residential mortgage loans, particularly in the case of loans that are unsecured. Consumer loan collections are dependent on the borrower’s ongoing financial stability, and thus are more likely to be adversely affected by job loss, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans. The Bank had no consumer loans accounted for on a non-performing basis at June 30, 2014 or 2013.

Mortgage Banking Activities

General. Mortgage banking involves the origination and sale of single-family mortgages (first and second trust deeds), including equity lines of credit, by PBM for the purpose of generating gains on sale of loans and fee income on the origination of loans. PBM also originates single-family loans to be held for investment. Due to the recent economic and real estate conditions and consistent with the Bank's short-term strategy, PBM has been primarily originating loans and, to a lesser extent, purchasing loans for sale to investors. Given current pricing in the mortgage markets, the Bank sells the majority of its loans on a servicing-released basis. Generally, the level of loan sale activity and, therefore, its contribution to the Bank's profitability depends on maintaining a sufficient volume of loan originations. Changes in the level of interest rates and the California economy affect the number of loans originated by PBM and, thus, the amount of loan sales, gain on sale of loans, net interest income and loan fees earned. The origination and purchase of loans, primarily fixed rate loans, during fiscal 2014, 2013 and 2012 were $1.99 billion, $3.51 billion and $2.52 billion, respectively. The total loan origination volume in fiscal 2014 was lower than fiscal 2013 and 2012, primarily as a result of an increase in mortgage interest rates, which significantly curtailed the refinance market, although the mortgage rates were still relatively low by historical standards. The relatively low mortgage rates were primarily a result of the actions taken by the U.S. Department of Treasury and Federal Reserve to stimulate growth in the economy from recessionary conditions. Of the total PBM loan originations, loans originated and purchased for investment were $26.1 million, $11.0 million and $2.5 million in fiscal 2014, 2013 and 2012, respectively.

Loan Solicitation and Processing. The Bank's mortgage banking operations consist of both wholesale and retail loan originations. The Bank's wholesale loan production utilizes a network of approximately 627 loan brokers approved by the Bank who originate and submit loans at a markup over the Bank's daily published price. Accepted loans are funded and sold by the Bank. Wholesale loans originated and purchased for sale in fiscal 2014, 2013 and 2012 were $983.2 million, $1.80 billion and $1.51 billion, respectively. PBM has two regional wholesale lending offices: one in Pleasanton and one in Rancho Cucamonga, California, housing wholesale originators, underwriters and processors.

PBM's retail loan production operations utilize loan officers, underwriters and processors. PBM's loan officers generate retail loan originations primarily through referrals from realtors, builders, employees and customers. As of June 30, 2014, PBM operated 14 stand-alone retail loan production offices in City of Industry, Elk Grove, Escondido, Glendora, Livermore, Rancho Cucamonga, Redding, Riverside (3), Roseville, San Rafael, Santa Barbara and Westlake Village, California. Generally, the cost of retail operations exceeds the cost of wholesale operations as a result of the additional employees needed for retail operations. The revenue per mortgage for retail originations is, however, generally higher since the origination fees are retained by the Bank instead of the wholesale loan broker. Retail loans originated and purchased for sale in fiscal 2014, 2013 and 2012 were $983.5 million, $1.70 billion and $1.01 billion, respectively.

The Bank requires evidence of marketable title, lien position, loan-to-value, title insurance and appraisals on all properties. The Bank also requires evidence of fire and casualty insurance on the value of improvements. As stipulated by federal regulations, the Bank requires flood insurance to protect the property securing its interest if such property is located in a designated flood area.

Loan Commitments and Rate Locks. The Bank issues commitments for residential mortgage loans conditioned upon the occurrence of certain events. Such commitments are made with specified terms and conditions. Interest rate locks are generally offered to prospective borrowers for up to a 60-day period. The borrower may lock in the rate at any time from application until the time they wish to close the loan. Occasionally, borrowers obtaining financing in new home developments are offered rate locks for up to 120 days from application. The Bank's outstanding commitments to originate loans to be held for sale at June 30, 2014 and 2013 were $132.6 million and $255.6 million, respectively. For additional information, see Note 15 of the Notes to Consolidated Financial Statements contained in Item 8 of this

Form 10-K. When the Bank issues a loan commitment to a borrower, there is a risk to the Bank that a rise in interest rates will reduce the value of the mortgage before it can be closed and sold. To control the interest rate risk caused by mortgage banking activities, the Bank uses loan sale commitments and over-the-counter put and call option contracts related to mortgage-backed securities. If the Bank is unable to reasonably predict the amount of loan commitments which may not fund (fallout), the Bank may enter into “best-efforts” loan sale commitments. For additional information, see “Derivative Activities” below.

Loan Origination and Other Fees. The Bank may receive origination points and loan fees. Origination points are a percentage of the principal amount of the mortgage loan, which is charged to a borrower for funding a loan. The amount of points charged by the Bank ranges from 0% to 2.5%. Current accounting standards require points and fees received for originating loans held for investment (net of certain loan origination costs) to be deferred and amortized into interest income over the contractual life of the loan. Origination fees and costs for loans originated for sale are deferred until the related loans are sold. Net deferred fees or costs associated with loans that are prepaid or sold are recognized as income or expense at the time of prepayment or sale. At June

30, 2014 and 2013, the Bank had $2.6 million and $2.1 million of unamortized deferred loan origination costs (net) in loans held for investment, respectively.

Loan Originations, Sales and Purchases. The Bank's mortgage originations include loans insured by the FHA and VA as well as conventional loans. Except for loans originated as held for investment, loans originated through mortgage banking activities are intended for eventual sale into the secondary market. As such, these loans must meet the origination and underwriting criteria established by secondary market investors. The Bank sells a large percentage of the mortgage loans that it originates as whole loans to investors. The Bank also sells conforming whole loans to Fannie Mae and Freddie Mac. For additional information, see "Derivative Activities" below.

The following table shows the Bank's loan originations, purchases, sales and principal repayments during the periods indicated:

	Year Ended June 30,		
(In Thousands)	2014	2013	2012
Loans originated and purchased for sale:			
Retail originations	$984,378	$1,695,239	$1,005,499
Wholesale originations	983,244	1,801,292	1,511,138
Total loans originated and purchased for sale [1]	1,967,622	3,496,531	2,516,637
Loans sold:			
Servicing released	(1,990,087)	(3,506,027)	(2,460,281)
Servicing retained	(9,189)	(16,331)	(13,121)
Total loans sold [2]	(1,999,276)	(3,522,358)	(2,473,402)
Loans originated for investment:			
Mortgage loans:			
Single-family	24,038	11,040	2,545
Multi-family	115,022	45,643	37,328
Commercial real estate	25,014	24,186	9,281
Construction	2,869	292	—
Commercial business loans	336	100	375
Consumer loans	—	—	13
Total loans originated for investment [3]	167,279	81,261	49,542
Loans purchased for investment:			
Mortgage loans:			
Single-family	707	—	—
Multi-family	—	12,849	8,218
Total loans purchased for investment [3]	707	12,849	8,218
Loan principal repayments	(147,815)	(144,428)	(130,951)
Real estate acquired in the settlement of loans	(4,810)	(10,976)	(24,113)
Increase (decrease) in other items, net [4]	10,870	(4,907)	9,256
Net decrease in loans held for investment and loans held for sale at fair value	$(5,423)	$(92,028)	$(44,813)

(1) Includes PBM loans originated and purchased for sale during fiscal 2014, 2013 and 2012 totaling $1.97 billion, $3.50 billion and $2.52 billion, respectively.

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(2) Includes PBM loans sold during fiscal 2014, 2013 and 2012 totaling $2.00 billion, $3.52 billion and $2.47 billion, respectively.
(3) Includes PBM loans originated and purchased for investment during fiscal 2014, 2013 and 2012 totaling $26.1 million, $11.0 million, and $2.5 million, respectively.
(4) Includes net changes in undisbursed loan funds, deferred loan fees or costs, allowance for loan losses and fair value of loans held for sale.

Mortgage loans sold to investors generally are sold without recourse other than standard representations and warranties. Generally, mortgage loans sold to Fannie Mae and Freddie Mac are sold on a non-recourse basis and foreclosure losses are generally the responsibility of the purchaser and not the Bank, except in the case of FHA and VA loans used to form Government National Mortgage Association pools, which are subject to limitations on the FHA's and VA's loan guarantees.

Loans previously sold by the Bank to the FHLB – San Francisco under its Mortgage Partnership Finance ("MPF") program have a recourse provision. The FHLB – San Francisco absorbs the first four basis points of loss, and a credit scoring process is used to calculate the credit enhancement or recourse amount to the Bank once the first four basis points is exhausted. All losses above this calculated recourse amount are the responsibility of the FHLB – San Francisco in addition to the first four basis points of loss. The FHLB – San Francisco pays the Bank a credit enhancement fee on a monthly basis to compensate the Bank for accepting the recourse obligation. The MPF program was discontinued by the FHLB - San Francisco on October 6, 2006. As of June 30, 2014 and 2013, the Bank serviced $38.6 million and $52.1 million, respectively, of loans under this program and has established a recourse liability of $274,000 and $746,000, respectively. In fiscal 2014, 2013 and 2012, a net recourse loss of $139,000, $194,000 and $439,000, respectively, was recognized under this program.

Occasionally, the Bank is required to repurchase loans sold to Fannie Mae, Freddie Mac or investors if it is determined that such loans do not meet the credit requirements of the investor, or if one of the parties involved in the loan misrepresented pertinent facts, committed fraud, or if such loans were 30 days past due within 120 days of the loan funding date. During fiscal 2014, 2013 and 2012, the Bank repurchased $437,000, $1.4 million and $1.6 million of single-family mortgage loans, respectively. However, additional repurchase requests were settled for an aggregate of $666,000, $5.6 million and $439,000 in fiscal 2014, 2013 and 2012, respectively, that did not result in the repurchase of the loan itself. The repurchase settlement in fiscal 2013 was due primarily to a global settlement with the Bank's largest legacy loan investor, which eliminated all past, current and future repurchase claims from this particular investor.

Derivative Activities. Mortgage banking involves the risk that a rise in interest rates will reduce the value of a mortgage before it can be sold. This type of risk occurs when the Bank commits to an interest rate lock on a borrower's application during the origination process and interest rates increase before the loan can be sold. Such interest rate risk also arises when mortgages are placed in the warehouse (i.e., held for sale) without locking in an interest rate for their eventual sale in the secondary market. The Bank seeks to control or limit the interest rate risk caused by mortgage banking activities. The two methods used by the Bank to help reduce interest rate risk from its mortgage banking activities are loan sale commitments and the purchase of over-the-counter put and call option contracts related to mortgage-backed securities. At various times, depending on loan origination volume and management's assessment of projected loans which may not fund, the Bank may reduce or increase its derivative positions. If the Bank is unable to reasonably predict the amount of loan commitments which may not fund, the Bank may enter into "best-efforts" loan sale commitments rather than "mandatory" loan sale commitments. Mandatory loan sale commitments may include whole loan and/or To-Be-Announced MBS ("TBA MBS") loan sale commitments.

Under mandatory loan sale commitments, usually with Fannie Mae, Freddie Mac or other investors, the Bank is obligated to sell certain dollar amounts of mortgage loans that meet specific underwriting and legal criteria before the expiration of the commitment period. These terms include the maturity of the individual loans, the yield to the purchaser, the servicing spread to the Bank (if servicing is retained) and the maximum principal amount of the individual loans. The mandatory loan sale commitments protect loan sale prices from interest rate fluctuations that may occur from the time the interest rate of the loan is established to the time of its sale. The amount of and delivery date of the loan sale commitments are based upon management's estimates as to the volume of loans that will close and the length of the origination commitments. The mandatory loan sale commitments do not provide complete interest-rate protection, however, because of the possibility of loans which may not fund during the origination process. Differences between the estimated volume and timing of loan originations and the actual volume and timing of loan originations can expose the Bank to significant losses. If the Bank is not able to deliver the mortgage loans during the appropriate delivery period, the Bank may be required to pay a non-delivery fee or repurchase the commitments at current market prices. Similarly, if the Bank has too many loans to deliver, the Bank must execute additional loan sale commitments at current market prices, which may be unfavorable to the Bank. Generally, the Bank seeks to maintain loan sale commitments equal to the funded loans held for sale at fair value, plus those applications that the Bank has rate locked and/or committed to close, adjusted by the projected fallout. The ultimate accuracy of such projections will directly bear upon the amount of interest rate risk incurred by the Bank.

The activities described above are managed continually as markets change; however, there can be no assurance that the Bank will be successful in its effort to eliminate the risk of interest rate fluctuations between the time origination commitments are issued and the ultimate sale of the loan. The Bank completes a daily analysis, which reports the Bank's interest rate risk position with respect to its loan origination and sale activities. The Bank's interest rate risk management activities are conducted in accordance with a written policy that has been approved by the Bank's Board of Directors which covers objectives, functions, instruments to be used, monitoring and internal controls. The Bank does not enter into option positions for trading or speculative purposes and does not enter into option contracts that could generate a financial obligation beyond the initial premium paid. The Bank does not apply hedge accounting to its derivative financial instruments; therefore, all changes in fair value are recorded in earnings.

At June 30, 2014 and 2013, the Bank had put option contracts outstanding with a notional value of $10.0 million at both dates. At June 30, 2014 and 2013, the Bank had outstanding mandatory loan sale commitments of $35.0 million and $48.9 million, respectively; outstanding TBA MBS trades of $223.0 million and $362.0 million, respectively; outstanding best-efforts loan sale commitments of $18.1 million and $29.8 million, respectively; and commitments to originate loans to be held for sale of $132.6 million and $255.6 million, respectively. For additional information, see Note 15 of the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K. Additionally, as of June 30, 2014 and 2013, the Bank's loans held for sale at fair value were $158.9 million and $188.1 million, respectively, which were also covered by the loan sale commitments described above. For fiscal 2014 and 2013, respectively, the Bank had a net gain of $2.5 million and a net loss $(8.0) million, respectively, attributable to the underlying derivative financial instruments used to mitigate the interest rate risk of its mortgage banking activities and the fair-value adjustment on loans held for sale.

Loan Servicing

The Bank receives fees from a variety of investors in return for performing the traditional services of collecting individual loan payments on loans sold by the Bank to such investors. At June 30, 2014, the Bank was servicing $82.7 million of loans for others, a decline from $92.2 million at June 30, 2013. The decrease was primarily attributable to loan prepayments. Loan servicing includes processing payments, accounting for loan funds and collecting and paying real estate taxes, hazard insurance and other loan-related items such as private mortgage insurance. After the Bank receives the gross mortgage payment from individual borrowers, it remits to the investor a predetermined net amount based on the loan sale agreement for that mortgage.

Servicing assets are amortized in proportion to and over the period of the estimated net servicing income and are carried at the lower of cost or fair value. The fair value of servicing assets is determined by calculating the present value of the estimated net future cash flows consistent with contractually specified servicing fees. The Bank periodically evaluates servicing assets for impairment, which is measured as the excess of cost over fair value. This review is performed on a disaggregated basis, based on loan type and interest rate. Generally, loan servicing becomes more valuable when interest rates rise (as prepayments typically decrease) and less valuable when interest rates decline (as prepayments typically increase). In estimating fair values at June 30, 2014 and 2013, the Bank used a weighted average Constant Prepayment Rate ("CPR") of 38.24% and 24.90%, respectively, and a weighted-average discount rate of 9.14% and 9.11%, respectively. The required impairment reserve against servicing assets at June 30, 2014 and 2013 was $259,000 and $200,000, respectively. In aggregate, servicing assets had a carrying value of $295,000 and a fair value of $357,000 at June 30, 2014, compared to a carrying value of $334,000 and a fair value of $395,000 at June 30, 2013.

Rights to future income from serviced loans that exceed contractually specified servicing fees are recorded as interest-only strips. Interest-only strips are carried at fair value, utilizing the same assumptions used to calculate the value of the underlying servicing assets, with any unrealized gain or loss, net of tax, recorded as a component of accumulated other comprehensive income (loss). Interest-only strips had a fair value of $62,000, gross unrealized gains of $61,000 and an amortized cost of $1,000 at June 30, 2014, compared to a fair value of $98,000, gross unrealized gains of $96,000 and an amortized cost of $2,000 at June 30, 2013.

Delinquencies and Classified Assets

Delinquent Loans. When a mortgage loan borrower fails to make a required payment when due, the Bank initiates collection procedures. In most cases, delinquencies are cured promptly; however, if by the 120th day for single-family loans or the 90th day for other loans of delinquency, or sooner if the borrower is chronically delinquent, and after all reasonable means of obtaining the payment have been exhausted, foreclosure proceedings, according to the terms of the security instrument and applicable law, are initiated. Interest income is reduced by the full amount of accrued and uncollected interest on such loans.

A loan is placed on non-performing status when its contractual payments are more than 90 days delinquent or if the loan is deemed impaired. In addition, interest income is not recognized on any loan where management has determined that collection is not reasonably assured. A non-performing loan may be restored to accrual status when delinquent principal and interest payments are brought current and future monthly principal and interest payments are expected to be collected.

Restructured Loans. A troubled debt restructuring ("restructured loan") is a loan which the Bank, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Bank would not otherwise consider.

The loan terms which have been modified or restructured due to a borrower's financial difficulty, include but are not limited to:
a) A reduction in the stated interest rate.
b) An extension of the maturity at an interest rate below market.
c) A reduction in the accrued interest.
d) Extensions, deferrals, renewals and rewrites.

To qualify for restructuring, a borrower must provide evidence of their creditworthiness such as, current financial statements, their most recent income tax returns, current paystubs, current W-2s, and most recent bank statements, among other documents, which are then verified by the Bank. The Bank re-underwrites the loan with the borrower's updated financial information, new credit report, current loan balance, new interest rate, remaining loan term, updated property value and modified payment schedule, among other considerations, to determine if the borrower qualifies.

The following table sets forth delinquencies in the Bank's loans held for investment as of the dates indicated, gross of collectively and individually evaluated allowances, if any:

	At June 30,											
	2014				2013				2012			
	30 – 89 Days		Non-performing		30 - 89 Days		Non-performing		30 - 89 Days		Non-performing	
(Dollars In Thousands)	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans
Mortgage loans:												
Single-family	2	$ 322	35	$11,547	2	$ 362	50	$15,573	2	$ 613	87	$34,566
Multi-family	—	—	7	3,447	—	—	7	5,077	—	—	4	1,806
Commercial real estate	—	—	6	2,352	—	—	8	4,572	—	—	6	3,820
Other	—	—	—	—	—	—	—	—	—	—	1	522
Commercial business loans	—	—	2	138	—	—	5	189	—	—	6	246
Consumer loans	—	—	—	—	2	1	—	—	5	3	—	—
Total	2	$ 322	50	$17,484	4	$ 363	70	$25,411	7	$ 616	104	$40,960

The following table sets forth information with respect to the Bank's non-performing assets and restructured loans, net of allowance for loan losses, at the dates indicated:

(Dollars In Thousands)	At June 30, 2014	2013	2012	2011	2010
Loans on non-performing status (excluding restructured loans):					
Mortgage loans:					
Single-family	$7,442	$8,129	$17,095	$16,705	$30,129
Multi-family	1,333	1,236	967	1,463	3,945
Commercial real estate	1,552	3,218	764	560	725
Construction	—	—	—	—	350
Commercial business loans	—	7	7	—	—
Consumer loans	—	—	—	—	1
Total	10,327	12,590	18,833	18,728	35,150
Accruing loans past due 90 days or more	—	—	—	—	—
Restructured loans on non-performing status:					
Mortgage loans:					
Single-family	2,957	5,094	11,995	15,133	19,522
Multi-family	1,760	2,521	490	490	2,541
Commercial real estate	800	1,354	2,483	1,660	1,003
Other	—	—	522	972	—
Commercial business loans	92	123	165	143	567
Total	5,609	9,092	15,655	18,398	23,633
Total non-performing loans	15,936	21,682	34,488	37,126	58,783
Real estate owned, net	2,467	2,296	5,489	8,329	14,667
Total non-performing assets	$18,403	$23,978	$39,977	$45,455	$73,450
Restructured loans on accrual status:					
Mortgage loans:					
Single-family	$343	$434	$6,148	$15,589	$33,212
Multi-family	—	—	3,266	3,665	—
Commercial real estate	—	—	—	1,142	1,832
Other	—	—	—	237	1,292
Commercial business loans	—	—	33	125	—
Total	$343	$434	$9,447	$20,758	$36,336
Non-performing loans as a percentage of loans held for investment, net	2.06%	2.90%	4.33%	4.21%	5.84%
Non-performing loans as a percentage of total assets	1.44%	1.79%	2.74%	2.83%	4.20%

Non-performing assets as a percentage of total assets	1.66 %	1.98 %	3.17 %	3.46 %	5.25 %

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The following table describes the non-performing loans, net of allowance for loan losses, by the calendar year of origination as of June 30, 2014:

	Calendar Year of Origination									
(Dollars In Thousands)	2006 & Prior	2007	2008	2009	2010	2011	2012	2013	YTD June 30, 2014	Total
Mortgage loans:										
Single-family	$6,108	$2,178	$1,678	$—	$—	$—	$—	$435	$—	$10,399
Multi-family	2,919	174	—	—	—	—	—	—	—	3,093
Commercial real estate	2,352	—	—	—	—	—	—	—	—	2,352
Commercial business loans	—	—	—	92	—	—	—	—	—	92
Total	$11,379	$2,352	$1,678	$92	$—	$—	$—	$435	$—	$15,936

The following table describes the non-performing loans, net of allowance for loan losses, by the geographic location as of June 30, 2014:

(Dollars In Thousands)	Inland Empire	Southern California [1]	Other California [2]	Other States	Total
Mortgage loans:					
Single-family	$4,243	$5,381	$775	$—	$10,399
Multi-family	425	—	2,255	413	3,093
Commercial real estate	1,776	576	—	—	2,352
Commercial business loans	11	81	—	—	92
Total	$6,455	$6,038	$3,030	$413	$15,936

(1) Other than the Inland Empire.
(2) Other than the Inland Empire and Southern California.

The following table summarizes classified assets, which is comprised of classified loans, net of allowance for loan losses, and real estate owned at the dates indicated:

	At June 30, 2014		At June 30, 2013	
(Dollars In Thousands)	Balance	Count	Balance	Count
Special mention loans:				
Mortgage loans:				
Single-family	$2,140	10	$3,111	11
Multi-family	7,256	4	2,485	3
Commercial real estate	—	—	1,296	3
Commercial business loans	22	1	25	1
Total special mention loans	9,418	15	6,917	18
Substandard loans:				
Mortgage loans:				
Single-family	11,096	38	13,299	51
Multi-family	8,471	13	15,222	15
Commercial real estate	6,349	9	9,116	12
Commercial business loans	92	2	130	5
Total substandard loans	26,008	62	37,767	83
Total classified loans	35,426	77	44,684	101
Real estate owned:				
Single-family	494	2	2,287	7
Commercial real estate	1,973	2	—	1
Other	—	—	9	2
Total real estate owned	2,467	4	2,296	10
Total classified assets	$37,893	81	$46,980	111

The Bank assesses loans individually and classifies the loans as substandard non-performing when the accrual of interest has been discontinued, loans have been restructured or management has serious doubts about the future collectibility of principal and interest, even though the loans are currently performing. Factors considered in determining classification include, but are not limited to, expected future cash flows, collateral value, the financial condition of the borrower and current economic conditions. The Bank measures each non-performing loan based on Accounting Standards Codification ("ASC") 310, "Receivables," establishes a collectively evaluated or individually evaluated allowance and charges off those loans or portions of loans deemed uncollectible.

During the fiscal year ended June 30, 2014, there was one loan for $221,000 that was newly modified, was re-underwritten at current market interest rates and was identified in the Bank's asset quality reports as a restructured loan. This compares to no loans that were newly modified from their original terms during fiscal 2013. As of June 30, 2014, the outstanding balance of restructured loans were $6.0 million, comprised of 17 loans. These restructured loans are classified as follows: one loan is classified as special mention and remains on accrual status ($343,000) and 16 loans are classified as substandard on non-performing status ($5.6 million). As of June 30, 2014, 62%, or $3.7 million of the restructured loans have a current payment status. The Bank upgrades restructured single-family loans to the pass category if the borrower has demonstrated satisfactory contractual payments for at least six consecutive months or 12 months for those loans that were restructured more than once and there is a reasonable assurance that the payments will continue. Once the borrower has demonstrated satisfactory contractual payments beyond 12 consecutive months, the loan is no longer categorized as a restructured loan.

The following table shows the restructured loans by type, net of allowance for loan losses, at June 30, 2014 and 2013:

(In Thousands)	June 30, 2014 Recorded Investment	Allowance For Loan Losses [1]	Net Investment
Mortgage loans:			
Single-family:			
With a related allowance	$994	$(248)	$746
Without a related allowance [2]	2,554	—	2,554
Total single-family loans	3,548	(248)	3,300
Multi-family:			
Without a related allowance [2]	1,760	—	1,760
Total multi-family loans	1,760	—	1,760
Commercial real estate:			
Without a related allowance [2]	800	—	800
Total commercial real estate loans	800	—	800
Commercial business loans:			
With a related allowance	138	(46)	92
Total commercial business loans	138	(46)	92
Total restructured loans	$6,246	$(294)	$5,952

(1) Consists of collectively and individually evaluated allowances.

(2) There was no related allowances for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

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	June 30, 2013		
(In Thousands)	Recorded Investment	Allowance For Loan Losses [1]	Net Investment
Mortgage loans:			
Single-family:			
With a related allowance	$3,774	$(795)	$2,979
Without a related allowance [2]	2,549	—	2,549
Total single-family loans	6,323	(795)	5,528
Multi-family:			
With a related allowance	3,266	(1,006)	2,260
Without a related allowance [2]	261	—	261
Total multi-family loans	3,527	(1,006)	2,521
Commercial real estate:			
Without a related allowance [2]	1,354	—	1,354
Total commercial real estate loans	1,354	—	1,354
Commercial business loans:			
With a related allowance	180	(57)	123
Total commercial business loans	180	(57)	123
Total restructured loans	$11,384	$(1,858)	$9,526

(1) Consists of collectively and individually evaluated allowances.
(2) There was no related allowances for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

As of June 30, 2014, total non-performing assets were $18.4 million, or 1.66% of total assets, which was primarily comprised of: 35 single-family loans ($10.4 million); seven multi-family loans ($3.1 million); six commercial real estate loans ($2.4 million); two commercial business loans ($92,000); and real estate owned comprised of two single-family properties ($494,000) and two commercial real estate properties ($2.0 million, one of which is fully reserved). As of June 30, 2014, 48%, or $7.6 million of non-performing loans had a current payment status, primarily restructured loans. This compares to total non-performing assets of $24.0 million, or 1.98% of total assets, of which $12.0 million, or 55%, of non-performing loans had a current payment status at June 30, 2013.

Foregone interest income, which would have been recorded for the fiscal years ended June 30, 2014 and 2013 had the non-performing loans been current in accordance with their original terms, amounted to $800,000 and $878,000, respectively, and was not included in the results of operations for the fiscal years ended June 30, 2014 and 2013.

Other Loans of Concern. As of June 30, 2014, $9.4 million of loans which were not disclosed as non-performing loans were classified as special mention because known information about possible credit problems of the borrowers causes management to have some doubt as to the ability of such borrowers to comply with present loan repayment terms. Of these loans, $7.3 million were multi-family mortgage loans, $2.1 million were single-family mortgage loans and $22,000 were commercial business loans. As of June 30, 2013, $6.9 million of loans which were not disclosed as non-performing loans were classified by the Bank as special mention for the same reasons.

In addition, as of June 30, 2014, $10.1 million of loans which were not disclosed as non-performing loans were classified as substandard because the loans have one or more defined weaknesses and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected but they are performing in accordance with the loan contractual agreements. Of these loans, $5.7 million were multi-family mortgage loans, $4.0 million were commercial real estate loans and $697,000 were single-family mortgage loans. As of June 30, 2013, $16.1 million of loans which were not disclosed as non-performing loans were classified by the Bank as substandard for the same reasons.

Foreclosed Real Estate. Real estate acquired by the Bank as a result of foreclosure or by deed-in-lieu of foreclosure is classified as real estate owned until it is sold. When a property is acquired, it is recorded at the lower of its cost, which is the unpaid principal balance, net of deferred fees/costs, escrow balances and foreclosure costs, or its market value less the estimated cost of sale. Subsequent declines in value are charged to operations. As of June 30, 2014, the real estate owned balance was $2.5 million (four properties), consisting of two single-family residences and two commercial real estate properties located in Southern California, compared to $2.3 million (10 properties) at June 30, 2013, consisting primarily of single-family residences located in Southern California. In managing the real estate owned properties for quick disposition, the Bank completes the necessary repairs and maintenance to the individual properties before listing for sale, obtains new appraisals and broker price opinions ("BPO") to determine current market listing prices, and engages local realtors who are most familiar with real estate sub-markets, among other techniques, which generally results in the quick disposition of real estate owned.

Asset Classification. The OCC has adopted various regulations regarding the problem assets of savings institutions. The regulations require that each institution review and classify its assets on a regular basis. In addition, in connection with examinations of institutions, OCC examiners have the authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified as a loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. If an asset or portion thereof is classified as loss, the institution establishes an individually evaluated allowance and may subsequently charge-off the amount of the asset classified as loss. A portion of the allowance for loan losses established to cover probable losses related to assets classified substandard or doubtful may be included in determining an institution's regulatory capital. Assets that do not currently expose the institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated as special mention and are closely monitored by the Bank.

The aggregate amounts of the Bank's classified assets, including loans classified by the Bank as special mention, were as follows at the dates indicated:

	At June 30,			
(Dollars In Thousands)	2014		2013	
Special mention loans	$9,418		$6,917	
Substandard loans	26,008		37,767	
Total classified loans	35,426		44,684	
Real estate owned, net	2,467		2,296	
Total classified assets	$37,893		$46,980	
Total classified assets as a percentage of total assets	3.43	%	3.88	%

Classified assets decreased at June 30, 2014 from the June 30, 2013 level primarily due to loan classification upgrades, particularly those restructured loans with satisfactory contractual payments for at least six consecutive months; disposition of real estate owned properties and a general improvement in the real estate market, resulting in fewer delinquent loans. The classified assets are primarily located in Southern California.

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As set forth below, loans classified as substandard and special mention as of June 30, 2014 were comprised of 77 loans totaling $35.4 million.

(Dollars In Thousands)	Number of Loans	Special Mention	Substandard	Total
Mortgage loans:				
Single-family	48	$2,140	$11,096	$13,236
Multi-family	17	7,256	8,471	15,727
Commercial real estate	9	—	6,349	6,349
Commercial business loans	3	22	92	114
Total	77	$9,418	$26,008	$35,426

Not all of the Bank's classified assets are delinquent or non-performing. In determining whether the Bank's assets expose the Bank to sufficient risk to warrant classification, the Bank may consider various factors, including the payment history of the borrower, the loan-to-value ratio, and the debt coverage ratio of the property securing the loan. After consideration of these factors, the Bank may determine that the asset in question, though not currently delinquent, presents a risk of loss that requires it to be classified or designated as special mention. In addition, the Bank's loans held for investment may include single-family, commercial and multi-family real estate loans with a balance exceeding the current market value of the collateral which are not classified because they are performing and have borrowers who have sufficient resources to support the repayment of the loan.

Allowance for Loan Losses. The allowance for loan losses is maintained to cover losses inherent in the loans held for investment. In originating loans, the Bank recognizes that losses will be experienced and that the risk of loss will vary with, among other factors, the type of loan being made, the creditworthiness of the borrower over the term of the loan, general economic conditions and, in the case of a secured loan, the quality of the collateral securing the loan. The responsibility for the review of the Bank's assets and the determination of the adequacy of the allowance lies with the Internal Asset Review Committee ("IAR Committee"). The Bank adjusts its allowance for loan losses by charging or crediting its provision for loan losses against the Bank's operations.

The Bank has established a methodology for the determination of the provision for loan losses. The methodology is set forth in a formal policy and takes into consideration the need for a collectively evaluated allowance for groups of homogeneous loans and an individually evaluated allowance that are tied to individual problem loans. The Bank's methodology for assessing the appropriateness of the allowance consists of several key elements.

The allowance is calculated by applying loss factors to the loans held for investment. The loss factors are applied according to loan program type and loan classification. The loss factors for each program type and loan classification are established based on an evaluation of the historical loss experience, prevailing market conditions, concentration in loan types and other relevant factors consistent with ASC 450, "Contingency". Homogeneous loans, such as residential mortgage, home equity and consumer installment loans are considered on a pooled loan basis. A factor is assigned to each pool based upon expected charge-offs for one year. The factors for larger, less homogeneous loans, such as construction, multi-family and commercial real estate loans, are based upon loss experience tracked over business cycles considered appropriate for the loan type.

Collectively evaluated or individually evaluated allowances are established to absorb losses on loans for which full collectibility may not be reasonably assured as prescribed in ASC 310. Estimates of identifiable losses are reviewed continually and, generally, a provision for losses is charged against operations on a quarterly basis as necessary to maintain the allowance at an appropriate level. Management presents the minutes summarizing the actions of the IAR Committee to the Bank's Board of Directors on a quarterly basis.

In compliance with the regulatory reporting requirements of the OCC, non-performing loans are charged-off to their fair market values in the period the loans, or portion thereof, are deemed uncollectible, generally after the loan becomes 150 days delinquent for real estate secured first trust deed loans and 120 days delinquent for commercial business or real estate secured second trust deed loans. For loans that were modified from their original terms, were re-underwritten and identified in the Corporation's asset quality reports as troubled debt restructurings ("restructured loans"), the charge-off occurs when the loan becomes 90 days delinquent; and where borrowers file bankruptcy, the charge-off occurs when the loan becomes 60 days delinquent. The amount of the charge-off is determined by comparing the loan balance to the estimated fair value of the underlying collateral, less disposition costs, with the loan balance in excess of the estimated fair value charged-off against the allowance for loan losses. The allowance for loan losses for non-performing loans is determined by applying Accounting Standards Codification ("ASC") 310, "Receivables." For restructured loans that are less than 90 days delinquent, the allowance for loan losses are segregated into (a) individually evaluated allowances for those loans with applicable discounted cash flow calculations still in their restructuring period, classified lower than pass, and containing an embedded loss component or (b) collectively evaluated allowances based on the aggregated pooling method. For non-performing loans less than 60 days delinquent where the borrower has filed bankruptcy, the collectively evaluated allowances are assigned based on the aggregated pooling method. For non-performing commercial real estate loans, an individually evaluated allowance is calculated based on the loan's fair value and if the fair value is higher than the loan balance, no allowance is required.

The IAR Committee meets quarterly to review and monitor conditions in the portfolio and to determine the appropriate allowance for loan losses. To the extent that any of these conditions are apparent by identifiable problem loans or portfolio segments as of the evaluation date, the IAR Committee's estimate of the effect of such conditions may be reflected as an individually evaluated allowance applicable to such loans or portfolio segments. Where any of these conditions is not apparent by specifically identifiable problem loans or portfolio segments as of the evaluation date, the IAR Committee's evaluation of the probable loss related to such condition is reflected in the general allowance. The intent of the IAR Committee is to reduce the differences between estimated and actual losses. Pooled loan factors are adjusted to reflect current estimates of charge-offs for the subsequent 12 months. Loss activity is reviewed for non-pooled loans and the loss factors adjusted, if necessary. By assessing the probable estimated losses inherent in the loans held for investment on a quarterly basis, the Bank is able to adjust specific and inherent loss estimates based upon the most recent information that has become available.

At June 30, 2014, the Bank had an allowance for loan losses of $9.7 million, or 1.25% of gross loans held for investment, compared to an allowance for loan losses at June 30, 2013 of $14.9 million, or 1.96% of gross loans held for investment. A $3.4 million recovery from the allowance for loan losses was recorded in fiscal 2014, compared to a $1.5 million recovery from the allowance for loan losses in fiscal 2013. Although management believes the best information available is used to make such (recovery) provision, future adjustments to the allowance for loan losses may be necessary and results of operations could be significantly and adversely affected if circumstances differ substantially from the assumptions used in making the determinations.

The Bank's first trust deed, single-family mortgage loans held for investment contain certain non-traditional underwriting characteristics (e.g. interest only, stated income, negative amortization, FICO less than or equal to 660, and/or over 30-year amortization schedule) as described in the section above entitled "Single-Family Mortgage Loans" in this Form 10-K. These loans may have a greater risk of default in comparison to single-family mortgage loans that have been underwritten with more stringent requirements. As a result, the Bank may experience higher future levels of non-performing single-family loans that may require additional allowances for loan losses and may adversely affect the Bank's financial condition and results of operations.

While the Bank believes that it has established its existing allowance for loan losses in accordance with GAAP, there can be no assurance that regulators, in reviewing the Bank's loan portfolio, will not recommend that the Bank significantly increase its allowance for loan losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that substantial increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect the Bank's financial condition and results of operations.

The following table sets forth an analysis of the Bank's allowance for loan losses for the periods indicated. Where individually evaluated allowances have been established, any differences between the individually evaluated allowances and the amount of loss realized has been charged or credited to current operations.

	Year Ended June 30,				
(Dollars In Thousands)	2014	2013	2012	2011	2010
Allowance at beginning of period	$14,935	$21,483	$30,482	$43,501	$45,445
(Recovery) provision for loan losses	(3,380)	(1,499)	5,777	5,465	21,843
Recoveries:					
Mortgage Loans:					
Single-family	562	754	347	1	442
Multi-family	345	6	—	—	—
Commercial real estate	—	—	—	—	192
Construction	20	—	28	—	69
Commercial business loans	—	—	—	25	14
Consumer loans	2	2	—	1	—
Total recoveries	929	762	375	27	717
Charge-offs:					
Mortgage loans:					
Single-family	(965)	(5,136)	(13,869)	(17,996)	(20,937)
Multi-family	(1,762)	(244)	(541)	(205)	(597)
Commercial real estate	—	(265)	(49)	—	(455