PACIFIC PREMIER BANCORP INC
Form 10-K
March 29, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2009

or

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

For the transition period from to .

Commission File No.: 0-22193

Pacific Premier Bancorp, Inc.
(Exact name of registrant as specified in its charter)

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

1600 Sunflower Ave. 2nd Floor, Costa Mesa, California 92626
(Address of Principal Executive Offices and Zip Code)
Registrant’s telephone number, including area code: (714) 431-4000

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

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

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, i.e., persons other than directors and executive officers of the registrant, was approximately $24,362,455 and was based upon the last sales price as quoted on The NASDAQ Stock Market as of June 30, 2009, the last business day of the most recently completed second fiscal quarter.

As of March 29, 2010, the Registrant had 10,033,836 shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement filed under Regulation 14A promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, which definitive proxy statement is to be filed within 120 days after the registrant's fiscal year ended December 31, 2009, are incorporated by reference in Part III hereof.

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PART I

ITEM 1. BUSINESS

Forward-Looking Statements

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

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

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

- The strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- The effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve");
- Inflation, interest rate, market and monetary fluctuations;
- The timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;
- The willingness of users to substitute competitors' products and services for our products and services;
- The impact of changes in financial services policies, laws and regulations, including laws, regulations and policies concerning taxes, banking, securities and insurance, and the application thereof by regulatory bodies;
- Technological changes;
- The effect of acquisitions we may make, if any, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions;
- Changes in the level of our nonperforming assets and charge-offs;
- Oversupply of inventory and continued deterioration in values of California real estate, both residential and commercial;

- The effect of changes in accounting policies and practices, as may be adopted from time-to-time by bank regulatory agencies, the Securities and Exchange Commission (the “SEC”), the Public Company Accounting Oversight Board, the Financial Accounting Standards Board or other accounting standards setters;
- Possible other-than-temporary impairments (“OTTI”) of securities held by us;
- The impact of current governmental efforts to restructure the U.S. financial regulatory system;
- Changes in consumer spending, borrowing and savings habits;
- The effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
- Ability to attract deposits and other sources of liquidity;
- Changes in the financial performance and/or condition of our borrowers;
- Changes in the competitive environment among financial and bank holding companies and other financial service providers;
- Geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, which could impact business and economic conditions in the United States and abroad;
- Unanticipated regulatory or judicial proceedings; and
- Our ability to manage the risks involved in the foregoing.

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

Overview

We are a California-based bank holding company incorporated in 1997 in the State of Delaware and registered as a banking holding company under the Bank Holding Company Act of 1956, as amended ("BHCA”), for Pacific Premier

Bank, a California state-chartered commercial bank. The Bank is subject to examination and regulation by the California Department of Financial Institutions (the "DFI"), the Federal Reserve, and by the Federal Deposit Insurance Corporation (the "FDIC").

We conduct business throughout Southern California from our six locations in the counties of Orange and San Bernardino. We operate depository branches in the cities of Huntington Beach, Los Alamitos, Newport Beach, San Bernardino, Seal Beach, and Costa Mesa, California. Our corporate headquarters are located in Costa Mesa, California.

We provide banking services within our targeted markets in Southern California to businesses, including the owners and employees of those businesses, professionals entrepreneurs and non-profit organizations, as well as, consumers in the communities we serve. Through our branches and our Internet website at www.ppbi.com, we offer a broad array of deposit products and services for both business and consumer customers, including checking, money market and savings accounts, cash management services, electronic banking, and on-line bill payment. We offer a wide array of loan products, such as commercial business loans, lines of credit, commercial real estate loans, and U.S. Small Business Administration ("SBA") loans. At December 31, 2009, we had consolidated total assets of $807.3 million, net loans of $566.6 million, total deposits of $618.7 million, and consolidated total stockholders' equity of $73.5 million. At December 31, 2009, the Bank was considered a "well-capitalized" financial institution for regulatory capital purposes.

Operating Strategy

The Bank was founded in 1983 as a state chartered savings and loan, became a federally chartered stock savings bank in 1991 and, in March 2007, converted to a California-chartered commercial bank. In the fourth quarter of 2000, our management implemented a new business plan to refocus Pacific Premier's business model, emphasizing community banking. To achieve the Bank's goals, we implemented a three-phase strategic plan which involved:

• Phase 1: lowering the risk profile of the Bank and re-capitalizing Pacific Premier;
• Phase 2: growing the balance sheet through the origination of adjustable rate multi-family residential loans; and
• Phase 3: transforming the institution to a commercial banking business model.

The first two phases of our strategic plan were completed in 2002 and 2004, respectively. Our transition to a commercial banking platform began in 2005 as we recruited experienced business bankers from other regional and national commercial banks. These business bankers helped us to introduce new credit and deposit products as well as on-line banking and cash management services. This in turn allowed us to begin to capture small business customers in our market. Our transition to a commercial banking platform is being achieved by retaining and growing the number of business banking relationships within the Southern California market.

Our primary goal is to develop the Bank into one of Southern California's top performing commercial banks as an alternative to the large regional and national banks for businesses, professionals, entrepreneurs and non-profit organizations for the long term benefit of our stockholders, customers and employees. The following are our operating strategies which we have adopted in order to achieve this goal:

• Expansion through Acquisitions. The consolidation and current turmoil in the banking industry has created an opportunity in our markets and we expect to expand the Bank's franchise through acquisitions. Many banks have been negatively impacted by the economic environment, which we expect will lead to the continued consolidation and elimination of certain of our competitors. We intend to take advantage of this opportunity over the next couple of years by pursuing acquisitions of all or part of failing banks located in Southern California through FDIC-assisted transactions.

• Expansion through Relationship Banking. The industry wide consolidation and turmoil is also creating opportunities to acquire new business banking customers. Profitable businesses are not having their needs met either from a service level or credit availability basis and we intend to convert these businesses to customers of the Bank. We believe customer relationships are built through a series of consistently executed experiences in both routine transactions and higher value interactions. Our business bankers are focused on developing long term relationships with business owners, professionals, entrepreneurs, and non-profit organizations through consistent and frequent contact. Additionally, our bankers are actively involved in community organizations and events, thus building and capitalizing on the Bank's reputation within our local communities.

• Reduction in Wholesale Funding and Brokered Deposits. As we transitioned towards a commercial banking platform, we began reducing our reliance on wholesale borrowings, such as advances from the Federal Home Loan Bank ("FHLB") and brokered deposits.

• Diversifying our Loan Portfolio. We believe it is important to diversify our loan portfolio in order to better manage credit risks. As part of our transition to a commercial banking platform, we have increased the amount of owner-occupied commercial real estate ("CRE") loans, commercial and industrial ("C&I") loans and Small Business Administration ("SBA") loans within the portfolio.

• Maintain Excellent Asset Quality. Our conservative credit and risk management culture has resulted in relatively low levels of nonperforming loans and an overall high credit quality within the loan portfolio as compared to our peer banks. Our portfolio management strategies involve the early identification of loan weakness, aggressive collection techniques, loss mitigation through loan sales and/or working with third parties to refinance the credit. We will continue to monitor economic trends and conditions that could positively or negatively impact our business. We seek to take advantage of these trends by entering or exiting certain lines of business or offering or eliminating various loan product types, as evidenced by our decision to curtail our multi-family and commercial real estate lending. We will continue to adjust our risk management practices to the on-going changes in our local economy that impact our business.

• Premier Customer Service Provider. We believe it is imperative that the Bank provide a consistent level of quality service which generates customer retention and referrals. All of our employees, through training and compensation, understand that each interaction with our customers is an opportunity to exceed their expectations. We measure and test our employee's service levels through third party evaluations and by listening to customer interactions recorded over the phone. We use these tools to train and improve our employees on a consistent basis.

• Expansion through Electronic Banking. Many businesses feel displaced by large out-of-market institutions and are attracted to banks that have local decision making capability, more responsive customer service, and greater familiarity with their needs. We intend to continue expanding our franchise through electronic banking, such as remote or merchant capture, on-line banking and cash management services available through our web site.

Our executive offices are located at 1600 Sunflower Avenue, 2nd Floor, Costa Mesa, California 92626 and our telephone number is (714) 431-4000. Our Internet website address is www.ppbi.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and all amendments thereto, from 1998 to present that have been filed with the SEC, are available free of charge on our Internet website. Also on our website are our Code of Ethics, Insider Trading and Beneficial Ownership forms, and Corporate Governance Guidelines. The information contained in our website, or in any websites linked by our website, is not a part of this Annual Report on Form 10-K.

Lending Activities

General. In 2009, we maintained our commitment to a high level of credit quality in our lending activities. We expanded our efforts to diversify our loan portfolio and focused our efforts on meeting the financial needs of qualified individuals and local businesses. The Company offers a full complement of flexible and structured loan products tailored to meet the needs of our customers.

Loans were made primarily to borrowers within our market area and secured by real property and business assets located principally in Southern California. We emphasize relationship lending and focus on generating retail production with customers who also maintain full depository relationships with us. These efforts assist us in establishing and expanding depository relationships consistent with the Company's strategic direction. The Company has generally ceased making loans secured by investor owner commercial real estate, although such loans continue to make up a substantial portion of our loan portfolio. We maintain a house lending limit below our $18.1 million legal lending limit for secured loans and $10.9 million for unsecured loans as of December 31, 2009. During 2009, we originated or purchased 4.5 million in multi-family loans, $4.2 million of C&I loans, $1.2 million of SBA loans, $1.2 million of other loan and $365,000 in owner-occupied commercial real estate loans. At December 31, 2009, we had $576.3 million in total gross loans outstanding.

Owner-Occupied Commercial Real Estate Lending. We originate and purchase loans secured by owner-occupied commercial real estate, such as retail buildings, small office and light industrial buildings, and mixed-use commercial properties located predominantly in Southern California. We will also, from time to time, make a loan secured by a special purpose property, such as a gas station. Pursuant to our underwriting policies, owner-occupied commercial real estate loans may be made in amounts of up to 75% of the lesser of the appraised value or the purchase price of the collateral property. Loans are generally made for terms up to 15 years with amortization periods up to 30 years. Owner-occupied commercial real estate loans originated or purchased in 2009 had an average balance of $365,000 and an average loan-to-value ratio of 31.1% at origination. At December 31, 2009, we had $103.0 million of owner-occupied commercial real estate secured loans, constituting 17.9% of our loan portfolio.

Commercial and Industrial Lending. We originate C&I loans secured by business assets including inventory, receivables, machinery and equipment to businesses located in our primary market area. In many instances, real estate holdings of the borrower, its principals or loan guarantors are also taken as collateral. Loan types include revolving lines of credit, term loans, seasonal loans and loans secured by liquid collateral such as cash deposits or marketable securities. We also issue letters of credit on behalf of our customers, backed by loans or deposits with the Company. At December 31, 2009, we had total commitments of $42.0 million in commercial business lines of credit, of which, $31.1 million were disbursed, constituting 5.4% of our loan portfolio.

SBA Lending. The Company was approved to originate loans under the SBA's Preferred Lenders Program ("PLP") in the third quarter of 2006. The PLP lending status affords the Company a higher level of delegated credit autonomy, translating to a significantly shorter turnaround time from application to funding, which is critical to our marketing efforts. We originate loans under the SBA's 7(a), 504, and Express loan programs, in conformity with SBA underwriting and documentation standards. The guaranteed portion of the 7(a) loans is typically sold on the secondary market. At December 31, 2009, we had $3.3 million of SBA loans, constituting 0.6% of our loan portfolio.

One-to-Four Family Lending. The Company is not an active participant in single family lending on a transactional basis and does not engage in Alt-A or subprime lending. In keeping with the Company's strategy of offering a full complement of loan products to customers, home loans are available to banking customers only. The Company's portfolio of one-to-four family loans at December 31, 2009 totaled $8.5 million, constituting 1.5% of our loan portfolio, of which $6.7 million consists of loans secured by first liens on real estate and $1.8 million consists of loans secured by second or junior liens on real estate.

Multi-family Real Estate Lending. Although we were not an active multi-family lender in 2009, on occasion, we originate and purchase loans secured by multi-family residential properties (five units and greater) located predominantly in Southern California. Pursuant to our underwriting policies, multi-family residential loans may be made in an amount up to 75% of the lesser of the appraised value or the purchase price of the collateral property. In addition, we generally require a stabilized minimum debt service coverage ratio of 1.15:1, based on the qualifying loan interest rate. Loans are made for terms of up to 30 years with amortization periods up to 30 years. As part of our desired strategy to diversify the loan portfolio, we have substantially reduced the origination of multi-family real estate loans beginning in late 2007. Historically, we have managed our concentration in multi-family real estate loans by selling excess loan production. However, in recent periods, the level of loan sales has decreased significantly due to dislocations in the credit markets. Multi-family loan sales remain a strategic option for us as the Bank continues its transition to a traditional commercial bank. At December 31, 2009, we had $278.7 million of multi-family real estate secured loans, constituting 48.4% of our loan portfolio.

Commercial Investor Real Estate Lending. Although we were not an active commercial real estate lender in 2009, on occasion, we originate and purchase loans secured by commercial real estate, such as retail centers, small office and light industrial buildings, and mixed-use commercial properties located predominantly in Southern California. Pursuant to our underwriting policies, commercial real estate loans may be made in amounts up to 75% of the lesser of the appraised value or the purchase price of the collateral property. We consider the net operating income of the property and typically require a stabilized debt service coverage ratio of at least 1.20:1, based on the qualifying interest rate. Loans are generally made for terms up to 15 years with amortization periods up to 30 years. At December 31, 2009, we had $149.6 million of commercial real estate secured loans, constituting 26.0% of our loan portfolio.

Other Loans. We originate other consumer loan products, generally for banking customers only, which consist primarily of saving account and auto loans. Before we make a consumer loan, we assess the applicant’s ability to repay the loan and, if applicable, the value of the collateral securing the loan. At December 31, 2009, we had $2.0 million in other loans that represented 0.33% of our gross loans.

Interest Rates on Our Loans. We employ a risk-based pricing strategy on all loans that we fund. The interest rates, fees and loan structure of our loans generally vary based on a number of factors, including the degree of credit risk, size, maturity of the loan, a borrower’s business or property management expertise, and prevailing market rates for similar types of loans. Adjustable rate C&I and SBA loans are typically priced based on a margin over the Prime rate. Commercial real estate loans are typically 3, 5, 7, or 10-year fixed rate hybrid adjustable-rate loans and are based on one of several interest rate indices. Many of the C&I loans and substantially all of the investor owned real estate loans originated by the Company in 2009 had minimum interest rates, or floor rates, below which the rate charged may not be reduced regardless of further reductions in the underlying interest rate index. Substantially all commercial real estate loans also include prepayment penalties.

Lending Risks on Our Loans. Lending risks vary by the type of loan extended. In our C&I and SBA lending activities, collectability of the loans may be adversely affected by risks generally related to small businesses, such as:

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

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

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

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

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

Business loans are generally originated as recourse or with full guarantees from key borrowers or borrower principals. Loans secured by real estate are likewise originated on a full recourse basis. On loans made to entities, such as partnerships, limited liability companies, corporations or trusts, we typically obtain personal guarantees from the appropriate managing members, major stockholders, trustees or other appropriate principals. In 2009, substantially all of our loans to entities were originated with full recourse and/or personal guarantees from the principals of the borrowers.

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

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

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

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

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

Subject to the above standards, our board of directors delegates authority and responsibility to management for loan approvals of up to $1.5 million for all loans secured by real estate and up to $250,000 for loans not secured by real estate. Loan approvals at the management level require the approval of at least two members of our Management Loan Committee, consisting of our President and Chief Executive Officer, Chief Credit Officer, and Chief Banking Officer. All loans in excess of $1.5 million, including total aggregate borrowings by one borrower in excess of $1.5 million, and any loan in excess of $250,000 not secured by real estate, require a majority approval of our board's Credit Committee, which is comprised of three directors, including our President and Chief Executive Officer.

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

Our portfolio management operations are designed to ensure that management and the board of directors has timely and comprehensive information regarding the performance of our loan portfolio. This information provides an essential leading indicator of potential performance issues prior to loan payment delinquency. For each of the Company's non-homogeneous loans, our Portfolio Managers collect financial information from borrowers and guarantors in order to conduct a detailed loan review in accordance with our policies, generally annually or more often as appropriate. The Portfolio Managers also visit properties and businesses on a periodic basis to perform inspections of our collateral and associated revenue-generating activities of borrowers. In conjunction with the loan review process, all loans in the portfolio are assigned a risk grade that, among other purposes, factors into the Company's allowance for loan and lease loss calculations.

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

Loan Portfolio Composition. At December 31, 2009, our net loans receivable held for investment totaled $566.6 million and we had no loans receivable held for sale. The types of loans that the Company may originate are subject to federal and state law.

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

	At December 31,									
	2009		2008		2007		2006		2005	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(dollars in thousands)									
Real estate loans:										
Multi-family	$278,744	48.4 %	$287,592	45.7 %	$341,263	54.5 %	$357,275	58.8 %	$459,714	76.0 %
Commercial investor	149,577	26.0 %	163,428	26.0 %	142,134	22.7 %	170,175	28.0 %	111,566	18.4 %
One-to-four family (1)	8,491	1.5 %	9,925	1.6 %	13,080	2.1 %	12,825	2.1 %	16,500	2.7 %
Construction	-	0.0 %	2,733	0.4 %	2,048	0.3 %	-	0.0 %	-	0.0 %
Land	-	0.0 %	2,550	0.4 %	5,389	0.9 %	3,277	0.5 %	2,524	0.4 %
Business loans:										
Commercial owner occupied (2)	103,019	17.9 %	112,406	17.9 %	57,614	9.2 %	35,929	5.9 %	11,335	1.9 %
Commercial and industrial	31,109	5.4 %	43,235	6.9 %	50,992	8.1 %	22,762	3.8 %	3,248	0.6 %
SBA	3,337	0.5 %	4,942	0.8 %	13,995	2.2 %	5,312	0.9 %	-	0.0 %
Other loans	1,991	0.3 %	1,956	0.3 %	177	0.0 %	63	0.0 %	89	0.0 %
Total gross loans	576,268	100.0%	628,767	100.0%	626,692	100.0%	607,618	100.0%	604,976	100.0%
Less (plus):										
Deferred loan origination (fees) costs and (discounts) premiums	(779)		252		769		1,024		1,467	
Allowance for loan losses	(8,905)		(5,881)		(4,598)		(3,543)		(3,050)	

Loans held for investment, net	$566,584	$623,138	$622,863	$605,099	$603,393

(1) Includes second trust deeds.
(2) Secured by real estate

Loan Portfolio Characteristics. In general, the Company does not require regular updates of collateral valuations for non-homogeneous loans that are not classified as potential problem or problem loans. However, updated valuations are obtained for collateral securing non-homogeneous loans that are identified as potential problem or problem loans at least every twenty-four months. Updated collateral valuations may be required more frequently at the discretion of the Company’s management or for loans identified as impaired in accordance with the Company’s allowance for loan loss policy. Market values may be substantiated by obtaining an appraisal or an appropriate evaluation by the Company’s Chief Appraiser. At December 31, 2009, 29.8% of multi-family, 35.0% of commercial investor and 62.3% of commercial owned loans had current updated collateral valuations within the last twenty-four months.

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

	At December 31, 2009			
	Average Loan Size	Seasoning (months)	Loan-to-Value Ratio	Debt Coverage Ratio
	(dollars in thousands)			
Real estate loans:				
Multi-family	$ 1,053	52	67 %	1.20
Commercial investor	1,216	45	59 %	1.42
One-to-four family	64	135	71 %	N/A
Business loans:				
Commercial owner occupied	972	47	57 %	N/A
Commercial and industrial	399	26	N/A	N/A
SBA	111	30	N/A	N/A
Other loans	80	248	N/A	N/A

Loan Maturity. For our commercial real estate and business loans, repayment typically depends on the successful operation of the businesses or the properties securing the loans. Several months before a loan matures, our portfolio managers contact our borrowers to obtain personal and/or business financial and operations data and property information for review. When deemed appropriate, business and property visits are made to assess the borrower's revenue-generating activities and to perform inspections of our collateral. This information is reviewed and evaluated for indications of potential payoff issues prior to maturity. If potential issues are discovered, our portfolio managers work on a strategy with the borrower well in advance of the loan maturing in order to maximize the benefit to the Company. At December 31, 2009, we had $29.9 million or 5.2% of the loans held for investment that were due to mature in one year or less, primarily in our loan categories of total C&I loans of $20.4 million and commercial real estate loans of $7.8 million.

The following table does not reflect prepayment assumptions, but rather shows the contractual maturity of the Company's gross loans for the period indicated.

	At December 31, 2009							
	Multi-family	Commercial Investor	Commercial Owner Occupied	Commercial and Industrial	SBA	One-to-Four Family	Other Loans	Total
	(in thousands)							
Amounts due:								
One year or less	$ -	$ 7,764	$ -	$ 20,372	$ -	$ -	$ 1,808	$ 29,944
More than one year to three years	2,202	4,330	177	703	152	41	48	7,653
More than three years to five years	178	5,115	-	4,449	1,923	627	12	12,304
More than five years to 10 years	7,688	113,156	45,236	5,585	1,262	554	120	173,601
More than 10 years to 20 years	2,051	10,828	16,242	-	-	2,877	-	31,998
More than 20 years	266,625	8,384	41,364	-	-	4,392	3	320,768
Total gross loans	278,744	149,577	103,019	31,109	3,337	8,491	1,991	576,268
Less (plus):								
Deferred loan origination (fees) costs	(718)	(56)	(165)	95	31	36	(2)	(779)
Allowance for loan losses (allocated)	(3,350)	(1,585)	(897)	(2,384)	(323)	(269)	(2)	(8,810)
Allowance for loan losses (unallocated)	-	-	-	-	-	-	-	(95)
Total loans, net	274,676	147,936	101,957	28,820	3,045	8,258	1,987	566,584
Loans held for sale, net	-	-	-	-	-	-	-	-
Loans held for investment, net	$ 274,676	$ 147,936	$ 101,957	$ 28,820	$ 3,045	$ 8,258	$ 1,987	$ 566,584

The following table sets forth at December 31, 2009, the dollar amount of gross loans receivable contractually due after December 31, 2010, and whether such loans have fixed interest rates or adjustable interest rates.

	At December 31, 2009 Loans Due After December 31, 2010		
	Fixed	Adjustable	Total
		(in thousands)	
Real estate loans:			
Multi-family	$ 1,516	$ 277,228	$ 278,744
Commercial investor	18,049	123,764	141,813
One-to-four family	4,063	4,428	8,491
Business loans:			
Commercial owner occupied	37,303	65,716	103,019
Commercial and industrial	1,462	9,275	10,737
SBA	-	3,337	3,337
Other loans	150	32	182
Total gross loans	$ 62,543	$ 483,780	$ 546,323

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

	For the Year Ended December 31,		
	2009	2008	2007
		(in thousands)	
Beginning balance of gross loans	$ 628,767	$ 626,692	$ 607,618
Loans originated:			
Real estate loans:			
Multi-family	494	34,166	311,236
Commercial investor	-	33,058	23,040
One-to-four family	200	250	341
Business loans:			
	365	5,375	17,208

Commercial owner occupied						
Commercial and industrial		4,249		17,512		37,705
SBA		1,150		907		14,209
Other loans		958		1,215		2,992
Total loans originated		7,416		92,483		406,731
Loans purchased:						
Multi-family		4,051		4,577		-
Commercial investor		-		9,305		-
Commercial owner occupied		-		53,710		-
Construction loans		-		-		2,750
Total loans purchased		4,051		67,592		2,750
Total loan production		11,467		160,075		409,481
Total		640,234		786,767		1,017,099
Less:						
Principal repayments		52,107		150,498		149,550
Sales of loans		2,515		6,235		239,396
Charge-offs		4,811		1,174		701
Transfer to other real estate owned		4,533		93		760
Total gross loans		576,268		628,767		626,692
Ending balance loans held for sale, gross		-		668		749
Ending balance loans held for investment, gross	$	576,268	$	628,099	$	625,943

Delinquent Loans. When a borrower fails to make required payments on a loan and does not cure the delinquency within 30 days, we normally record a notice of default and, after providing the required notices to the borrower, commence foreclosure proceedings. If the loan is not reinstated within the time permitted by law, we may sell the property at a foreclosure sale. At these foreclosure sales, we generally acquire title to the property. At December 31, 2009, loans delinquent 60 or more days as a percentage of total gross loans was 0.95%, up from 0.68% at year-end 2008.

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

	60-89 Days		90 Days or More	
	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans
	(dollars in thousands)			

At December 31, 2009								
Real estate loans:								
Multi-family	-	$	-		3	$	2,073	
Commercial investor	-		-		1		1,851	
One-to-four family	-		-		4		97	
Business loans:								
Commercial owner occupied	-		-		2		996	
SBA	1		52		3		463	
Total	1	$	52		13	$	5,480	
Delinquent loans to total gross loans			0.01	%			0.95	%
At December 31, 2008								
Real estate loans:								
Multi-family	-	$	-		1	$	350	
Commercial investor	1		317		1		638	
One-to-four family	2		32		8		637	
Land	-		-		1		2,550	
Business loans:								
SBA	-		-		2		127	
Total	3	$	349		13	$	4,302	
Delinquent loans to total gross loans			0.06	%			0.68	%

Nonperforming Assets. Nonperforming assets consist of loans on which we have ceased accruing interest (nonaccrual loans), loans restructured at an interest rate below market and other real estate owned (“OREO”). Nonaccrual loans consisted of all loans 90 days or more past due and on loans where, in the opinion of management, there is reasonable doubt as to the collection of interest. A “restructured loan” is one where the terms of the loan were renegotiated to provide a reduction or deferral of interest or principal because of deterioration in the financial position of the borrower. We did not include in interest income any interest on restructured loans during the periods presented. At December 31, 2009, we had $13.4 million of nonperforming assets, which consisted of $10.0 million of net nonperforming loans and $3.4 million of OREO. At December 31, 2008, we had $5.2 million of nonperforming assets, essentially all of which consisted of $5.2 million of nonperforming loans.

OREO consisted of three properties at December 31, 2009, compared to two properties at December 31, 2008. Properties acquired through or in lieu of foreclosure are recorded at fair value less cost to sell. The Company generally obtains an appraisal and/or a market evaluation on all OREO prior to obtaining possession. After foreclosure, valuations are periodically performed by management as needed due to changing market conditions or factors specifically attributable to the properties’ condition. If the carrying value of the property exceeds its fair value less estimated cost to sell, a charge to operations is recorded.

We recognized loan interest income on nonperforming loans of $95,000 in 2009, $212,000 in 2008 and $347,000 in 2007. If these loans had paid in accordance with their original loan terms, we would have recorded additional loan interest income of $781,000 in 2009, $491,000 in 2008 and $315,000 in 2007.

The following table sets forth information concerning nonperforming loans and OREO at the periods indicated:

	At December 31,				
	2009	2008	2007	2006	2005
	(dollars in thousands)				
Nonperforming assets					
Real estate loans:					
Multi-family	$5,223	$350	$-	$-	$-
Commercial investor	1,851	3,188	3,125	-	-
One-to-four family	107	637	284	634	1,687
Business loans:					
Commercial owner occupied	996	-	-	-	-
Commercial and industrial	955	-	-	-	-
SBA (1)	880	1,025	784	-	-
Other loans	-	-	-	-	-
Total nonaccrual loans	10,012	5,200	4,193	634	1,687
Specific allowance	-	-	-	(60)	(185)
Total nonperforming loans, net	10,012	5,200	4,193	574	1,502
Other real estate owned	3,380	37	711	138	211
Total nonperforming assets, net	$13,392	$5,237	$4,904	$712	$1,713
Allowance for loan losses	$8,905	$5,881	$4,598	$3,543	$3,050
Allowance for loan losses as a percent of total nonperforming loans, gross	88.94%	113.10%	109.48%	558.83%	