PACIFIC PREMIER BANCORP INC
Form 10-Q
November 08, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

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 Number 0-22193

(Exact name of registrant as specified in its charter)

DELAWARE	33-0743196
(State or other jurisdiction of incorporation or organization)	(I.R.S Employer Identification No.)

1600 SUNFLOWER AVENUE, 2ND FLOOR, COSTA MESA, CALIFORNIA 92626
(Address of principal executive offices and zip code)

(714) 431-4000
(Registrant's telephone number, including area code)

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 the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act).

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 Exchange Act Rule 12b-2). Yes [ ] No [X]

The number of shares outstanding of the registrant's common stock as of November 7, 2012 was 10,349,434.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
FORM 10-Q
INDEX
FOR THE QUARTER ENDED SEPTEMBER 30, 2012

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except share data)

ASSETS	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)	September 30, 2011 (Unaudited)
Cash and due from banks	$ 58,216	$ 60,207	$ 37,780
Federal funds sold	27	28	28
Cash and cash equivalents	58,243	60,235	37,808
Investment securities available for sale	114,250	115,645	107,761
FHLB stock/Federal Reserve Bank stock, at cost	12,191	12,475	12,982
Loans held for sale, net	4,728	-	-
Loans held for investment	859,373	738,589	734,474
Allowance for loan losses	(7,658)	(8,522)	(8,522)
Loans held for investment, net	851,715	730,067	725,952

Accrued interest receivable	3,933	3,885	3,732
Other real estate owned	5,521	1,231	2,846
Premises and equipment	10,067	9,819	9,977
Deferred income taxes	5,515	8,998	9,047
Bank owned life insurance	13,362	12,977	12,827
Intangible assets	2,703	2,069	2,126
Other assets	7,108	3,727	3,444
TOTAL ASSETS	$ 1,089,336	$ 961,128	$ 928,502
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES:			
Deposit accounts:			
Noninterest bearing	$ 211,410	$ 112,313	$ 109,194
Interest bearing:			
Transaction accounts	266,478	287,876	285,829
Retail certificates of deposit	417,982	428,688	398,101
Wholesale certificates of deposit	-	-	4,254
Total deposits	895,870	828,877	797,378
Other borrowings	75,500	28,500	28,500
Subordinated debentures	10,310	10,310	10,310
Accrued expenses and other liabilities	7,770	6,664	7,694
TOTAL LIABILITIES	989,450	874,351	843,882
STOCKHOLDERS' EQUITY:			
Preferred stock, $.01 par value; 1,000,000 shares authorized; no shares outstanding	-	-	-
Common stock, $.01 par value; 25,000,000 shares authorized; 10,343,434 shares at September 30, 2012, 10,337,626 shares at December 31, 2011, and 10,084,626 shares at September 30, 2011 issued and outstanding	103	103	101
Additional paid-in capital	76,414	76,310	76,517
Retained earnings	22,011	10,046	7,491
Accumulated other comprehensive income,	1,358	318	511

net of tax of $950 at September 30, 2012, $221 at December 31, 2011, and $357 at September 30, 2011			
TOTAL STOCKHOLDERS' EQUITY	99,886	86,777	84,620
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,089,336	$ 961,128	$ 928,502

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except per share data)
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
INTEREST INCOME				
Loans	$ 12,847	$ 11,695	$ 36,182	$ 33,978
Investment securities and other interest-earning assets	779	850	2,606	3,110
Total interest income	13,626	12,545	38,788	37,088
INTEREST EXPENSE				
Interest-bearing deposits:				
Interest on transaction accounts	280	364	832	1,178
Interest on certificates of deposit	1,164	1,636	3,815	5,251
Total interest-bearing deposits	1,444	2,000	4,647	6,429
Other borrowings	247	237	717	760
Subordinated debentures	81	77	247	230
	1,772	2,314	5,611	7,419

Total interest expense				
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	11,854	10,231	33,177	29,669
PROVISION FOR LOAN LOSSES	145	1,322	145	2,728
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	11,709	8,909	33,032	26,941
NONINTEREST INCOME				
Loan servicing fees	224	324	615	701
Deposit fees	486	558	1,459	1,641
Net gain (loss) from sales of loans	(41)	16	(31)	(2,445)
Net gain from sales of investment securities	857	845	1,031	1,325
Other-than-temporary impairment loss on investment securities, net	(36)	(170)	(118)	(538)
Gain on FDIC transaction	-	-	5,340	4,189
Other income	420	537	1,082	1,383
Total noninterest income	1,910	2,110	9,378	6,256
NONINTEREST EXPENSE				
Compensation and benefits	4,367	3,363	11,834	10,033
Premises and occupancy	1,063	903	2,922	2,581
Data processing and communications	582	387	1,766	1,035
Other real estate owned operations, net	244	557	981	987
FDIC insurance premiums	165	86	466	653
Legal and audit	473	385	1,511	1,278
Marketing expense	225	379	704	936
Office and postage expense	232	244	612	605
Other expense	680	770	2,081	2,180
Total noninterest expense	8,031	7,074	22,877	20,288
	5,588	3,945	19,533	12,909

NET INCOME BEFORE INCOME TAXES				
INCOME TAX	2,126	1,485	7,568	4,892
NET INCOME	$ 3,462	$ 2,460	$ 11,965	$ 8,017
EARNINGS PER SHARE				
Basic	$ 0.34	$ 0.25	$ 1.16	$ 0.80
Diluted	$ 0.32	$ 0.23	$ 1.12	$ 0.75
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	10,330,814	10,084,626	10,332,223	10,072,984
Diluted	10,832,934	10,570,267	10,709,822	10,667,722

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net Income	$ 3,462	$ 2,460	$ 11,965	$ 8,017
Other comprehensive income (loss), net of tax:				
Unrealized holding gains on securities arising during the period, net of tax	703	781	1,647	2,207
	(504)	(446)	(607)	(782)

Reclassification adjustment for net gain on sale of securities included in net income, net of tax				
Net unrealized gain on securities, net of tax	199	335	1,040	1,425
Comprehensive Income	$ 3,661	$ 2,795	$ 13,005	$ 9,442

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND OTHER COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011
(dollars in thousands)
(unaudited)

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2011	10,337,626	$ 103	$ 76,310	$ 10,046	$ 318	$ 86,777
Total comprehensive income				11,965	1,040	13,005
Share-based compensation expense			96			96
Common stock repurchased and retired	(13,022)	-	(102)			(102)
Stock options exercised	18,830	-	110			110
Balance at September 30, 2012	10,343,434	$ 103	$ 76,414	$ 22,011	$ 1,358	$ 99,886

Balance at December 31, 2010	10,033,836	$ 100	$ 79,942	$ (526)	$ (914)	$ 78,602
Total comprehensive income				8,017	1,425	9,442
Share-based compensation expense			204			204
Common stock repurchased and retired	(10,610)	(1)	(69)			(70)
Warrants purchased and retired			(3,660)			(3,660)
Warrants exercised	41,400	1	31			32
Stock options exercised	20,000	1	69			70
Balance at September 30, 2011	10,084,626	$ 101	$ 76,517	$ 7,491	$ 511	$ 84,620

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 11,965	$ 8,017
Adjustments to net income:		
Depreciation and amortization expense	985	905
Provision for loan losses	145	2,728
Share-based compensation	96	204

expense		
Loss on sale and disposal of premises and equipment	-	63
Loss on sale of other real estate owned	341	340
Write down of other real estate owned	390	110
Amortization of premium/discounts on securities held for sale, net	627	545
Amortization of loan mark-to-market discount	(1,570)	(1,174)
Gain on sale of loans held for sale	(80)	-
Gain on sale of investment securities available for sale	(1,031)	(1,325)
Other-than-temporary impairment loss on investment securities, net	118	538
Loss on sale of loans held for investment	111	2,445
Purchase and origination of loans held for sale	(11,005)	-
Recoveries on loans	198	96
Proceeds from the sales of and principal payments from loans held for sale	6,225	-
Gain on FDIC transaction	(5,340)	(4,189)
Deferred income tax provision	2,755	178
Change in accrued expenses and other liabilities, net	1,106	(2,850)
Income from bank owned life insurance, net	(385)	(373)
Change in accrued interest receivable and other assets, net	(5,577)	5,006
Net cash provided by operating activities	74	11,264
CASH FLOWS FROM INVESTING		

ACTIVITIES		
Proceeds from sale and principal payments on loans held for investment	142,907	92,490
Net change in undisbursed loan funds	71,304	17,790
Purchase and origination of loans held for investment	(267,805)	(136,909)
Proceeds from sale of other real estate owned	9,663	12,898
Principal payments on securities available for sale	13,033	12,047
Purchase of securities available for sale	(96,438)	(43,140)
Proceeds from sale or maturity of securities available for sale	86,919	92,667
Purchases of premises and equipment	(1,233)	(2,656)
Redemption of Federal Reserve Bank stock	63	155
Redemption of Federal Home Loan Bank of San Francisco stock	1,611	1,519
Cash acquired in FDIC transaction	39,491	26,389
Net cash provided by (used in) investing activities	(485)	73,250
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in deposit accounts	(48,589)	(66,540)
Repayment of FHLB advances and other borrowings	-	(40,000)
Proceeds from FHLB advances	47,000	-
Proceeds from exercise of stock options	110	32
	-	(3,660)

Warrants purchased and retired		
Repurchase of common stock	(102)	-
Net cash used in financing activities	(1,581)	(110,168)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,992)	(25,654)
CASH AND CASH EQUIVALENTS, beginning of period	60,235	63,462
CASH AND CASH EQUIVALENTS, end of period	$ 58,243	$ 37,808

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2012	2011
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Interest paid	$ 5,549	$ 7,396
Income taxes paid	6,075	2,595
Assets acquired (liabilities assumed) in FDIC transaction (See Note 3):		
Investment securities	101	14,076
Federal Reserve Bank and FHLB Stock	1,390	-
FDIC receivable	167	2,838
Loans	63,773	149,739
Core deposit intangible	840	2,270
	11,533	11,953

Other real estate owned		
Fixed assets	-	42
Other assets	3,656	1,599
Deposits	(115,582)	(204,678)
Other liabilities	(29)	(39)
NONCASH INVESTING ACTIVITIES DURING THE PERIOD		
Transfers from loans to other real estate owned	$ 3,151	$ 4,207
Investment securities available for sale purchased and not settled	$ -	$ 358

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(UNAUDITED)

Note 1 - Basis of Presentation

The consolidated financial statements include the accounts of Pacific Premier Bancorp, Inc. (the "Corporation") and its wholly owned subsidiaries, including Pacific Premier Bank (the "Bank") (collectively, the "Company," "we," "our" or "us"). significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company's financial position as of September 30, 2012, December 31, 2011, and September 30, 2011, the results of its operations and comprehensive income for the three and nine months ended September 30, 2012 and 2011 and the changes in stockholders' equity and cash flows for the nine months ended September 30, 2012 and 2011. Operating results or comprehensive income for the three and nine months ended September 30, 2012 are not necessarily indicative of the results or comprehensive income that may be expected for any other interim period or the full year ending December 31, 2012.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

The Company accounts for its investments in its wholly owned special purpose entity, PPBI Trust I, under the equity method whereby the subsidiary's net earnings are recognized in the Company's statement of operations.

Note 2 – Recently Issued Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-03 modifies the criteria for determining when repurchase agreements would be accounted for as a secured borrowing rather than as a sale. Currently, an entity that maintains effective control over transferred financial assets must account for the transfer as a secured borrowing rather than as a sale. The provisions of ASU No. 2011-03 removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee. The FASB believes that contractual rights and obligations determine effective control and that there does not need to be a requirement to assess the ability to exercise those rights. ASU No. 2011-03 does not change the other existing criteria used in the assessment of effective control. The provisions of ASU No. 2011-03 are effective prospectively for transactions, or modifications of existing transactions, that occur on or after January 1, 2012. The Company accounts for all of its repurchase agreements as collateralized financing arrangements. The Company adopted the provisions of ASU No. 2011-03 effective January 1, 2012. The provisions of ASU No. 2011-03 had no impact on the Company's consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." The provisions of ASU No. 2011-04 result in a consistent definition of fair value and common requirements for the measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards ("IFRS"). The changes to U.S. GAAP as a result of ASU No. 2011-04 are as follows: (1) the concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets (that is, it does not apply to financial assets or any liabilities); (2) U.S. GAAP currently prohibits application of a blockage factor in valuing financial instruments with quoted prices in active markets, which prohibition extends to all fair value measurements; (3) an exception is provided to the basic fair value measurement principles for an entity that holds a group of financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk that are managed on the basis of the entity's net exposure to either of those risks, which exception allows the entity, if certain criteria are met, to measure the fair value of the net asset or liability position in a manner consistent with how market participants would price the net risk position; (4) aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities; and (5) disclosure requirements have been enhanced for Level 3 fair value measurements to disclose quantitative information about unobservable inputs and assumptions used, to describe the valuation processes used by the entity, and to qualitatively describe the sensitivity of fair value measurements to changes in unobservable inputs and the interrelationships between those inputs. In addition, entities must report the level in the fair value hierarchy of items that are not measured at fair value in the statement of condition but whose fair value must be disclosed. The Company adopted the provisions of ASU No. 2011-04 effective January 1, 2012. The fair value measurement provisions of ASU No. 2011-04 had no impact on the Company's consolidated financial statements. See Note 9 to the Consolidated Financial Statements for the enhanced disclosures required by ASU No. 2011-04.

In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income." The provisions of ASU No. 2011-05 allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both options, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. Under either method, entities are required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. ASU No. 2011-05 also eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity but does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU No. 2011-05 was effective for the Company's interim reporting period beginning on or after January 1, 2012, with retrospective application required. In December 2011, the FASB issued ASU No. 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." The provisions of ASU No. 2011-12 defer indefinitely the requirement for entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. ASU No. 2011-12, which shares the same effective date as ASU No. 2011-05, does not defer the requirement for entities to present components of comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company adopted the provisions of ASU No. 2011-05 and ASU No. 2011-12 which resulted in a new statement of comprehensive income beginning with the interim period ended March 31, 2012. The adoption of ASU No. 2011-05 and ASU No. 2011-12 had no impact on the Company's statements of income and condition.

In September 2011, the FASB issued ASU No. 2011-08, "Intangibles - Goodwill and Other Intangible Assets: Testing Goodwill for Impairment". The provisions of ASU No. 2011-08 allows an entity the option to first assess the qualitative factors to determine whether the existence of events or circumstances leads to a determination that is it more likely than not that the fair value of a reporting unit is less than its carrying amount. Under ASU 2011-08, if, after that assessment is made, an entity determines that it is more likely than not that the carrying value of goodwill is not impaired, then the two-step impairment test is not required. However, if the entity concludes otherwise, the two-step impairment test would be required. The provisions of ASU 2011-08 are effective for interim and annual periods beginning after December 15, 2011, although early adoption was allowed. Adoption of ASU 2011-08 had no material impact on the Company's financial condition, results of operations or liquidity.

Future Application of Accounting Pronouncements

In December 2011, the FASB issued ASU No. 2011-11, "Disclosures About Offsetting Assets and Liabilities." This project began as an attempt to converge the offsetting requirements under U.S. GAAP and IFRS. However, as the FASB and the International Accounting Standards Board were not able to reach a converged solution with regards to offsetting requirements, they developed convergent disclosure requirements to assist in reconciling differences in the offsetting requirements under U.S. GAAP and IFRS. The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. ASU No. 2011-11 also requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. ASU No. 2011-11 is effective for interim and annual reporting periods beginning on or after January 1, 2013. As the provisions of ASU No. 2011-11 only impact the disclosure requirements related to the offsetting of assets and liabilities, the adoption will have no impact on the Company's consolidated financial statements.

Note 3 – Federal Deposit Insurance Corporation ("FDIC") Acquisitions

Palm Desert National Bank Acquisition

Effective April 27, 2012, the Bank acquired certain assets and assumed certain liabilities of Palm Desert National Bank ("Palm Desert National") from the FDIC as receiver for Palm Desert National (the "Palm Desert National Acquisition"), pursuant to the terms of a purchase and assumption agreement entered into by the Bank and the FDIC on April 27, 2012. The Palm Desert National Acquisition included one branch of Palm Desert National that became a branch of the Bank upon consummation of the Palm Desert National Acquisition. The Bank did not enter into any loss sharing agreements with the FDIC in connection the Palm Desert National Acquisition. As a result of the Palm Desert National Acquisition, the Bank acquired and recorded at the acquisition date certain assets with a fair value of approximately $120.9 million, including:

- $63.8 million of loans;
- $39.5 million of cash and cash equivalents;
- $11.5 million of other real estate owned (“OREO”);
- $1.5 million in investment securities, including Federal Home Loan Bank (“FHLB”) stock and Federal Reserve Bank stock;
- $840,000 of a core deposit intangible; and
- $3.8 million of other types of assets.

Also as a result of the Palm Desert National Acquisition, the Bank assumed and recorded at acquisition date certain liabilities with a fair value of approximately $118.0 million, including:

- $50.1 million in deposit transaction accounts;
- $30.8 million in retail certificates of deposit;
- $34.1 million in whole sale certificates of deposits, which were purposefully run off during the second quarter of 2012;
- $2.4 million in deferred tax liability; and
- $578,000 of other liabilities.

The fair values of the assets acquired and liabilities assumed were determined based on the requirements of FASB Accounting Standards Codification (“ASC”) Topic 820: Fair Value Measurements and Disclosures.

Canyon National Bank Acquisition

Effective February 11, 2011, the Bank acquired certain assets and assumed certain liabilities of Canyon National Bank (“Canyon National”) from the FDIC as receiver for Canyon National (the “Canyon National Acquisition”), pursuant to the terms of a purchase and assumption agreement entered into by the Bank and the FDIC on February 11, 2011. The Canyon National Acquisition included the three branches of Canyon National, all of which became branches of the Bank upon consummation of the Canyon National Acquisition. The Bank did not enter into any loss sharing agreements with the FDIC in connection with the Canyon National Acquisition. As a result of the Canyon National Acquisition, the Bank acquired and received certain assets with a fair value of approximately $208.9 million, including $149.7 million of loans, $16.1 million of a FDIC receivable, $13.2 million of cash and cash equivalents, $12.8 million of investment securities, $12.0 million of OREO, $2.3 million of a core deposit intangibles, $1.5 million of other assets and $1.3 million of FHLB and Federal Reserve Bank stock. Liabilities with a fair value of approximately $206.6 million were also assumed, including $204.7 million of deposits, $1.9 million in deferred tax liability and $39,000 of other liabilities. The fair values of the assets acquired and liabilities assumed were determined based on the requirements of FASB ASC Topic 820: Fair Value Measurements and Disclosures.

Note 4 – Loans Held for Investment

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

	September 30, 2012	December 31, 2011 (in thousands)	September 30, 2011
Real estate loans:			
Multi-family	$ 173,484	$ 193,830	$ 211,514
Commercial non-owner occupied	262,046	164,341	164,797
One-to-four family (1)	62,771	60,027	62,638
Construction	308	-	-
Land	11,005	6,438	8,496
Business loans:			
Commercial owner occupied (2)	148,139	152,299	164,268
Commercial and industrial	88,105	86,684	74,434
Warehouse facilities	112,053	67,518	42,644
SBA	4,736	4,727	4,870
Other loans	2,191	3,390	2,215
Total gross loans (3)	864,838	739,254	735,876
Less loans held for sale, net	4,728	-	-
Total gross loans held for investment	860,110	739,254	735,876
Less:			
Deferred loan origination costs/(fees) and premiums/(discounts), net	(737)	(665)	(1,402)
Allowance for loan losses	(7,658)	(8,522)	(8,522)
Loans held for investment, net	$ 851,715	$ 730,067	$ 725,952

(1) Includes second trust deeds.

(2) Majority secured by real estate.

(3) Total gross loans for September 30, 2012 is net of the mark-to-market discounts on Canyon National loans of $3.1 million and on Palm Desert National loans of $6.3 million.

From time to time, we may purchase or sell loans in order to manage concentrations, maximize interest income, change risk profiles, improve returns and generate liquidity.

The Company makes residential and commercial loans held for investment to customers located primarily in Southern California. Consequently, the underlying collateral for our loans and a borrower's ability to repay may be impacted unfavorably by adverse changes in the economy and real estate market in the region.

Under applicable laws and regulations, the Bank may not make secured loans to one borrower in excess of 25% of unimpaired capital plus surplus and likewise in excess of 15% for unsecured loans. These loans-to-one borrower limitations result in a dollar limitation of $27.0 million for secured loans and $16.2 million for unsecured loans at September 30, 2012. At September 30, 2012, the Bank's largest aggregate outstanding balance of loans to one borrower was $21.4 million of secured credit.

Purchase Credit Impaired

The following table provides a summary of the Company's investment in purchase credit impaired loans, acquired from Canyon National and Palm Desert National, as of the period indicated:

	September 30, 2012		
	Canyon National	Palm Desert National	Total
		(in thousands)	
Real estate loans:			
Commercial non-owner occupied	$ 1,051	$ 4,985	$ 6,036
One-to-four family	-	33	33
Land	2,293	280	2,573
Business loans:			
Commercial owner occupied	972	277	1,249
Commercial and industrial	79	202	281
Total purchase credit impaired	$ 4,395	$ 5,777	$ 10,172

On the acquisition date, the amount by which the undiscounted expected cash flows of the purchased credit impaired loans exceed the estimated fair value of the loan is the "accretable yield." The accretable yield is measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the purchased credit impaired loan. At September 30, 2012, the Company had $10.2 million of purchased credit impaired loans, of which $3.9 million were placed on nonaccrual status.

The following table summarizes the accretable yield on the purchased credit impaired for the nine months ended September 30, 2012:

Nine Months Ended September 30, 2012		
Canyon National	Palm Desert National	Total
	(in thousands)	

Balance at the beginning of period	$ 3,248	$ -	$ 3,248
Accretable yield at acquisition	-	3,908	3,908
Accretion	(415)	(143)	(558)
Disposals and other	(129)	(208)	(337)
Change in accretable yield	(813)	(3,262)	(4,075)
Balance at the end of period	$ 1,891	$ 295	$ 2,186

Impaired Loans

The following tables provide a summary of the Company's investment in impaired loans as of the period indicated:

	Impaired Loans						
	Contractual Unpaid Principal Balance	Recorded Investment	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
	(in thousands)						
September 30, 2012							
Real estate loans:							
Multi-family	$ 1,437	$ 1,394	$ -	$ 1,394	$ -	$ 1,408	$ 67
Commercial non-owner occupied	507	460	-	445	-	1,257	15
One-to-four family	657	643	299	350	153	657	31
Business loans:							
Commercial owner occupied	-	-	-	-	-	592	-
Commercial and industrial	59	60	59				