Simplicity Bancorp, Inc.
Form 10-K
September 11, 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
For the transition period from to
Commission File Number: 001-34979

SIMPLICITY BANCORP, INC.
(Exact name of registrant as specified in its charter)

Maryland	26-1500698
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
1359 N. Grand Avenue, Covina, CA	91724
(Address of principal executive offices)	(Zip Code)

(800) 524-2274
(Registrant’s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, $.01 par value per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None.

Indicated by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No ý
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 ý
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Sections 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 ý 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 during the

preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).   Yes ý   No ¨

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

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 ý
Non-accelerated filer ¨	Smaller Reporting Company¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).   Yes ¨   No ý

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing sales price of the Registrant's common stock as of December 31, 2013 was $113.0 million. There were 7,393,308 shares of the registrant's common stock, $.01 par value per share, outstanding as of September 5, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the fiscal 2014 Annual Meeting of Stockholders ("Proxy Statement") are incorporated by reference into Part III.

SIMPLICITY BANCORP, INC.
Annual Report on Form 10-K
For the Fiscal Year Ended June 30, 2014
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Part I.

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believe," "expect," "intend," "anticipate," "estimate," "project," "strategy," "plan," or future conditional verbs such as "will," "should," "could," or "may" and similar expressions or negative thereof. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled "Risk Factors" in Item 1A of this report. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, there can be no assurance that our expectations will be realized.

Item 1. Business.

General

Simplicity Bancorp, Inc. (the "Company") is a Maryland corporation that owns all of the outstanding common stock of Simplicity Bank (the "Bank"). In November 2012, the Company changed its name to Simplicity Bancorp, Inc. from Kaiser Federal Financial Group, Inc. and its trading symbol to SMPL. Concurrently, the Bank was renamed Simplicity Bank from Kaiser Federal Bank. In November 2010, the Company became the successor to K-Fed Bancorp as it completed the conversion from the mutual holding company structure to a fully public stock holding company form of organization and related public offering.

The Company's business activities generally are limited to passive investment activities and oversight of its investment in the Bank. Unless the context otherwise requires, all references to the Company include the Bank and the Company on a consolidated basis, and prior to November 19, 2010, the Company refers to K-Fed Bancorp and the Bank on a consolidated basis.

At June 30, 2014, the Company had consolidated assets of $879.2 million, deposits of $652.8 million and stockholders' equity of $136.9 million. The Company does not maintain offices separate from those of the Bank or utilize persons other than certain Bank officers. Our executive offices are located at 1359 North Grand Avenue, Covina, California 91724 and our telephone number is (800) 524-2274.

The Bank is a community oriented financial institution offering a variety of financial services to meet the needs of the communities it serves. The Bank is headquartered in Covina, California, with branches in Glendora, Downey, Harbor City, Los Angeles, Panorama City and Pasadena to serve Los Angeles County and a branch in Fontana to serve San Bernardino county. We have a network of 45 ATMs located in Southern California and the San Francisco Metropolitan Area, primarily located within Kaiser Permanente Medical Centers and office buildings.

We began operations as a credit union in 1953 initially serving the employees of the Kaiser Foundation Hospital in Los Angeles, California. As the Kaiser Permanente Medical Care Program evolved so did the credit union, and in 1972, it changed its name to Kaiser Permanente Federal Credit Union. The credit union grew to primarily serve Kaiser Permanente employees and physicians who worked or lived in California. However, as a credit union, the credit union was legally restricted to serve only individuals who shared a "common bond" such as a common employer.

After receiving the necessary regulatory and membership approvals, on November 1, 1999, Kaiser Permanente Federal Credit Union converted to a federal mutual savings bank known as Kaiser Federal Bank which served the general public as well as Kaiser Permanente employees. Kaiser Federal Bank reorganized into the mutual holding company structure in 2003 and became the wholly owned subsidiary of K-Fed Bancorp. On March 30, 2004, K-Fed Bancorp completed a minority stock offering where it sold approximately 39% of its shares to the public.

In November 2010, the Company completed the second–step conversion and offering and the Bank became the wholly owned subsidiary of Kaiser Federal Financial Group, Inc. The Company sold a total of 6,375,000 shares of common stock in the offering at a purchase price of $10.00 per share. The offering raised capital of $59.1 million, which was net of costs of $4.7 million. Concurrent with the completion of the offering, shares of K-Fed Bancorp common stock owned by public stockholders were exchanged for 0.7194 of a share of the Company’s common stock. All share and per share information in this annual report for years prior to the conversion has been revised to reflect the 0.7194:1 conversion ratio on shares outstanding, including shares of the former mutual holding company that were not publicly traded.

Effective November 13, 2012, the Bank was renamed Simplicity Bank. In addition, the Company changed its name to Simplicity Bancorp, Inc. This new name aligns well with the core principles the Bank was founded upon—to provide value, personal service and financial well being for its customers and communities. As Simplicity Bank, we strive to simplify the banking experience for our customers with more options, better technology, enhanced service capacity, a fresh look and a renewed vision. Under the new name, we continue to serve Kaiser Permanente employees and their family members, but are better positioned to serve the needs of all customers within our market footprint.

Simplicity Bank's principal business activity consists of attracting retail deposits from the general public and originating or purchasing primarily loans secured by first mortgages on owner-occupied one-to-four family residences and multi-family residences located in its market area and, to a lesser extent, automobile, commercial real estate and other consumer loans. We also engage in mortgage banking activities which primarily consists of the origination and sale of fixed rate conforming one-to-four family residential real estate loans in the secondary market with servicing primarily retained. While the Bank originates different types of residential loans, the Bank purchased in fiscal 2012, using its own underwriting standards, a significant number of first mortgages on owner-occupied, one-to-four family residences secured by properties located throughout California. These purchases were primarily funded with Federal Home Loan Bank ("FHLB") borrowings and deposits. Depending on market conditions and the interest rate environment, we may consider future loan purchases on a case by case basis. Prior to January 2009, we also originated commercial real estate loans. Currently, we consider the origination of commercial real estate loans on a case by case basis based on the borrower's credit qualifications and the property offered for collateral. We have not originated any new commercial real estate loans since 2009 but are now actively marketing commercial real estate loan products. Since fiscal 2013, our consumer loans, primarily automobile loans, continued to increase due to the reintroduction of our automobile buying service, vastly improved application and delivery channels, enhanced pricing of the vehicle loan products, and implementation of the consumer loan sales team. Historically, we have not originated, or purchased, commercial business, commercial construction, or residential construction loans and have no current plans to do so.

Our revenues are derived principally from interest on loans and mortgage-backed and related securities. We also generate revenue from sales of loans held for sale, service charges and other income.

We offer a variety of deposit accounts having a wide range of interest rates and terms, which generally include savings accounts, money market accounts, demand deposit accounts and certificate of deposit accounts with varied terms ranging from 90 days to five years. We solicit deposits in our primary market areas of Los Angeles, Orange, San Diego, San Bernardino and Riverside counties, in California.

Available Information

Our Internet address is www.simplicitybancorp.com. We make available free of charge, through our web site, annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the "SEC"). All SEC filings of the Company are also available at the SEC's website, www.sec.gov.

Market Area

Our success depends primarily on the general economic conditions in the counties of Los Angeles, Orange, San Diego, San Bernardino, Riverside, Santa Clara and Alameda, as nearly all of our loans are to customers in these market areas. There have been positive developments in current economic conditions since the end of the recession. Improving financial conditions, increasing credit availability, accommodative monetary policy, and healthier labor and housing markets all support the economic growth in our market area. According to the Beige Book published by the Federal Reserve Bank in July 2014, economic activity continued to expand from mid-May to June 2014. Residential real estate activity was mixed across the country, with some reports of low inventories constraining sales. Home prices continued to increase across most of the Districts, due to higher demand and low vacancy rates. Loan volumes rose across the nation and credit quality remained stable or improved slightly in most Districts with credit standards remaining generally unchanged. In the Twelfth Federal Reserve District (San Francisco), activity in real estate markets advanced, but growth in the residential sector has slowed since the start of calendar 2014. The rate of increase of home prices has slowed in many areas. Except at the very high end, the level of home sales is down from a year ago. Residential construction activity increased, especially for multifamily units and higher-priced projects. Lenders continue to face margin compression due to the low interest rate environment, ample liquidity and generally stiff competition over well-qualified borrowers. Future growth opportunities will be influenced by the stability of the regional economy and other trends within California, including unemployment rates and housing market conditions. According to the U.S. Census

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Bureau, while unemployment rates improved during the year ended June 30, 2014, unemployment rates in California remain high at 7.4% at June 30, 2014 as compared to 8.5% at June 30, 2013 and 10.7% at June 30, 2012. This compares to the national unemployment rates of 6.1% at June 30, 2014, 7.6% at June 30, 2013 and 8.2% at June 30, 2012.

Competition

We face strong competition in originating real estate and other loans and in attracting deposits. Competition in originating real estate loans comes primarily from other savings institutions, commercial banks, credit unions and mortgage bankers. Other savings institutions, commercial banks, credit unions and finance companies provide vigorous competition in consumer lending.

We attract all of our deposits through our branch and ATM network. Competition for those deposits is principally from other savings institutions, commercial banks and credit unions, as well as mutual funds and other alternative investments. We compete for these deposits by offering superior service and a variety of deposit accounts at competitive rates. We have less than a 1% market share of deposits in each of the markets in which we compete.

Lending Activities

General. We originate first lien one-to-four family real estate loans throughout our market area to be held for sale and for investment. We consider loan purchases for first lien one-to-four family real estate loans held for investment on a case by case basis based on market conditions and the interest rate environment. Beginning in 2007, we have also focused our efforts on originating multi-family residential loans. Additionally, we originate consumer loans, primarily automobile loans. Prior to January 2009, we also originated commercial real estate loans. Currently, we consider the origination of commercial real estate loans on a case by case basis based on the borrower's credit qualifications and the property offered for collateral. We have not originated any new commercial real estate loans since 2009 but are now actively marketing commercial real estate loan products.

Our loans carry either a fixed or an adjustable rate of interest. Loans originated for sale are fixed rate one-to-four family conforming mortgage loans. We do not offer adjustable rate loans where the initial rate is below the otherwise applicable index rate (i.e., teaser rates). Mortgage loans generally have a longer term amortization, with maturities up to 30 years, depending upon the type of property with principal and interest due each month. Multi-family residential loans are originated with an initial fixed rate of interest up to seven years which then converts to an interest rate that is adjusted annually based upon the applicable index with a term to maturity of up to 30 years and a maximum amortization term of 30 years. Consumer loans are generally short term and amortize monthly or have interest payable monthly. We also have loans in our portfolio that only require interest payments on a monthly basis. At June 30, 2014, our net loan portfolio, excluding loans held for sale of $3.7 million, totaled $715.8 million, which constituted 81.4% of our total assets. In fiscal 2014 and 2013, we did not purchase any one-to-four family real estate loans. For one-to-four family real estate loans purchased in prior fiscal years, we underwrote each purchased loan in accordance with our underwriting standards with the exception of the loans that included a credit guarantee. The majority of the loans we purchased were acquired with servicing retained by the seller without recourse against the seller.

At June 30, 2014, the maximum amount we could have loaned to any one borrower and the borrower's related entities under applicable regulations was $19.3 million, or 15% of our unimpaired capital. At June 30, 2014, we had no loans or group of loans to related borrowers with outstanding balances in excess of this amount. Our five largest lending relationships at June 30, 2014 were as follows:

- 12 loans to an individual and a related party for $14.5 million secured by 12 multi-family dwelling properties;
- 12 loans to an individual and related parties for $14.2 million secured by 12 multi-family dwelling properties;
- four loans to an individual and related parties for $11.7 million secured by four multi-family dwelling properties;
- three loans to an individual and related parties for $8.1 million secured by three multi-family dwelling properties; and
- four loans to an individual and related parties for $6.9 million secured by four multi-family dwelling properties.

All of the loans noted in the above relationships were performing in accordance with their terms as of June 30, 2014.

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Loan Composition. The following table presents information concerning the composition of the loan portfolio in dollar amounts and in percentages as of the dates indicated. Loans held for sale of $3.7 million at June 30, 2014 and $4.5 million at June 30, 2013 are not included in the table below. We had no loans held for sale at any of the other dates noted below.

	June 30, 2014 Amount	Percent	2013 Amount	Percent	2012 Amount	Percent	2011 Amount	Percent	2010 Amount	Percent
	(Dollars in thousands)									
Real estate										
One-to-four family	$288,960	40.14 %	$319,631	46.03 %	$371,251	48.18 %	$282,068	39.87 %	$335,631	43.55 %
Multi-family	335,040	46.54	280,771	40.44	283,553	36.79	287,808	40.69	278,397	36.12
Commercial	38,062	5.29	55,621	8.01	86,964	11.28	107,961	15.26	113,458	14.72
Total real estate loans	662,062	91.97	656,023	94.48	741,768	96.25	677,837	95.82	727,486	94.39
Consumer										
Automobile	45,686	6.35	26,711	3.85	17,349	2.26	18,008	2.55	29,492	3.83
Home equity	625	0.09	682	0.10	808	0.10	940	0.13	1,096	0.14
Other	11,481	1.59	10,917	1.57	10,722	1.39	10,604	1.50	12,672	1.64
Total other loans	57,792	8.03	38,310	5.52	28,879	3.75	29,552	4.18	43,260	5.61
Total loans	719,854	100.00%	694,333	100.00%	770,647	100.00%	707,389	100.00%	770,746	100.00%
Less:										
Net deferred loan origination costs	213		506		615		659		607	
Net premium (discount) on purchased loans	263		512		957		(35)		(59)	
Allowance for loan losses	(4,580)		(5,643)		(7,502)		(11,367)		(13,309)	
Total loans receivable, net	$715,750		$689,708		$764,717		$696,646		$757,985	

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Loan Maturity. The following schedule illustrates certain information at June 30, 2014 regarding the dollar amount of loans maturing in the portfolio based on their contractual terms-to-maturity, but does not include scheduled payments or potential prepayments. Demand loans, loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less. Loan balances do not include loans held for sale, undisbursed loan proceeds, unearned discounts, unearned income and allowance for loan losses.

	Real Estate			Consumer			
	One-to-four family	Multi-family	Commercial	Automobile	Home equity	Other	Total
	(Dollars in thousands)						
June 30, 2014							
Within 1 year [(1)]	$—	$—	$2,339	$329	$—	$3,143	$5,811
After 1 year:							
After 1 year through 3 years	280	569	17,853	5,799	—	3,950	28,451
After 3 years through 5 years	4,043	5,666	17,870	35,448	—	3,660	66,687
After 5 years through 10 years	28,080	49,247	—	4,110	—	728	82,165
After 10 years through 15 years	34,635	251,462	—	—	—	—	286,097
After 15 years	221,922	28,096	—	—	625	—	250,643
Total due after 1 year	288,960	335,040	35,723	45,357	625	8,338	714,043
Total	$288,960	$335,040	$38,062	$45,686	$625	$11,481	$719,854

(1) Includes demand loans and loans that have no stated maturity.

The following table sets forth the dollar amount of all loans at June 30, 2014 that are due after June 30, 2015, which have fixed interest rates and adjustable interest rates.

	Due after June 30, 2015		
	Fixed	Adjustable	Total
	(Dollars in thousands)		
Real Estate Loans			
One-to-four family	$215,439	$73,521	$288,960
Multi-family	—	335,040	335,040
Commercial	—	35,723	35,723
Real estate loans	215,439	444,284	659,723
Consumer			
Automobile	45,357	—	45,357
Home equity	—	625	625
Other loans	8,338	—	8,338
Other loans due	53,695	625	54,320
Total loans	$269,134	$444,909	$714,043

One-to-four Family Residential Lending. At June 30, 2014, our one-to-four family residential mortgage loans totaled $289.0 million, or 40.1%, of our gross loan portfolio, of which $286.1 million were first lien one-to-four family residential mortgage loans. We generally underwrite our one-to-four family residential loans based on the applicant's employment, credit history and the appraised value of the subject property. With the exception of the $23.8 million of loans purchased with a credit guarantee in fiscal 2012, we underwrote each purchased loan based upon our underwriting standards prior to making the purchase. Presently, we lend up to 80% of the lesser of the appraised value or purchase price of the subject property for first lien one-to-four family residential mortgage loans without private mortgage insurance (“PMI”), and up to 90% on second lien one-to-four family residential mortgage loans if the related first lien mortgage loans is held by the Bank. We also lend up to 97% of the lesser of the appraised value or purchase price of the subject property with PMI. Properties securing our one-to-four family residential loans are appraised

by independent state licensed fee appraisers approved by our Credit Committee. We require our borrowers to obtain title and hazard insurance, and flood insurance, if necessary, in an amount not less than combined first and second lien mortgage loans or 80% of the full replacement costs of the insurable improvements, whichever is higher.
We currently originate one-to-four family mortgage loans on a fixed rate and adjustable rate basis. Our pricing strategy for mortgage loans includes setting interest rates that are competitive with other local financial institutions and consistent with our internal needs. Adjustable rate loans are tied to indices based on the one year London Inter Bank Offering Rate and U.S. Treasury securities adjusted to a constant maturity of one year. A majority of our adjustable rate loans carry an initial fixed rate of interest for either three or five years which then converts to an interest rate that is adjusted annually based upon the applicable index. Our one-to-four family residential mortgage loans are structured with a range of 10-year to 30-year maturities and with amortization terms up to the maturity date. All of our one-to-four family residential loans are secured by properties located in California. All of our real estate loans contain a "due on sale" clause allowing us to declare the unpaid principal balance due and payable upon the sale of the property.

Adjustable rate one-to-four family mortgage loans generally pose different credit risks than fixed rate one-to-four family mortgage loans, primarily because as interest rates rise, the borrower's payment rises, increasing the potential for default. At June 30, 2014, our one-to-four family adjustable rate mortgage loan portfolio totaled $73.5 million, or 10.2% of our gross loan portfolio. At that date, the fixed rate one-to-four family mortgage loan portfolio totaled $215.4 million, or 29.9% of our gross loan portfolio. Included in non-accrual loans at June 30, 2014 were $1.2 million in adjustable rate one-to-four family mortgage loans and $4.2 million in fixed rate one-to-four family mortgage loans.

In addition, prior to early 2007 we purchased interest-only one-to-four family residential mortgage loans and loans underwritten based upon stated income. An interest-only loan typically provides for the payment of interest (rather than both principal and interest) for a fixed period of three, five or seven years, thereafter the loan payments adjust to include both principal and interest for the remaining term. One-to-four family interest-only mortgage loans have decreased by $3.8 million, or 24.9% to $11.6 million at June 30, 2014 from $15.4 million at June 30, 2013. A stated income loan is a loan where the borrower's income source is not subject to verification through the application process, but the reasonableness of the stated income is verified through review of other sources, such as compensation surveys. One-to-four family stated income mortgage loans have decreased by $10.9 million, or 30.4% to $24.9 million at June 30, 2014 from $35.8 million at June 30, 2013. As of June 30, 2014, $14.0 million of stated income mortgage loans were fixed rate loans and $10.9 million were adjustable rate loans. Included in non-accrual loans at June 30, 2014 were $2.8 million in one-to-four family loans that were interest-only or stated income loans that were individually evaluated for impairment with no valuation allowance allocated due to the current loan balances being higher than market value less costs to sell. During the year ended June 30, 2014, no interest-only or stated income loans were modified as troubled debt restructurings and included in non-accrual loans. We do not intend to originate or purchase interest-only one-to-four family residential mortgage loans or stated income loans in the future.
The following table describes certain risk characteristics of our one-to-four family nonconforming mortgage loans held for investment as of June 30, 2014 and 2013:

Category	Outstanding Balance	Weighted-Average Credit Score(1)	Weighted Average LTV(2)		Weighted-Average Seasoning(3)	
	(Dollars in thousands)					
June 30, 2014						
Interest-only(4)	$11,587	716	72.11	%	7.80	years
Stated income(4)(5)	24,918	734	69.55		9.19	
Credit score less than or equal to 660	14,873	644	70.98		7.03	
June 30, 2013						
Interest-only(4)	$15,431	723	72.48	%	6.67	years

Stated income[(4)(5)]	35,816	735	69.58	7.98
Credit score less than or equal to 660	17,866	641	69.47	6.64

(1) The credit score is one factor in determining the credit worthiness of a borrower based on the borrower's credit history. The credit score is as of origination.

(2) LTV (loan-to-value) is the ratio calculated by dividing the original loan balance by the original appraised value of the real estate collateral.

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

(4) At June 30, 2014 and 2013 there were $3.2 million and $4.0 million in loans that are both stated income and interest-only, respectively.

(5) Stated income is defined as a borrower provided level of income which is not subject to verification during the loan origination process through the borrower's application, but the reasonableness of the borrower's income is verified through other sources.

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Multi-Family Residential Real Estate Lending. We offer multi-family residential real estate loans through our staff at the Covina executive office. These loans are secured by real estate located in our primary market areas, within the state of California. Multi-family residential real estate loans are generally originated through our loan officers with initial principal balances of $5.0 million or less. At June 30, 2014, multi-family residential loans totaled $335.0 million, or 46.5%, of our gross loan portfolio, and consisted of 442 loans outstanding with an average loan balance of approximately $758,000 although we originate loans with balances greater than this average.

Our multi-family residential loans are originated with adjustable interest rates. We use a number of indices to set the interest rate, including a rate based on either the one year CMT, the constant maturity of one-year U.S. Treasury securities, or the 12-month MTA, a rate based on the 12-month average of U.S. Treasury securities adjusted to a constant maturity of one year. Our adjustable rate loans generally carry an initial fixed rate of interest for one, three, five or seven years which then convert to an interest rate that is adjusted annually based upon the applicable index. Presently, our underwriting guidelines allow us to lend up to 75% of the lesser of the appraised value or purchase price of multi-family residential real estate. These loans require monthly payments, amortize over a period of up to 30 years and have a maximum maturity of 30 years and carry prepayment penalties. We have not purchased multi-family residential real estate loans.

Loans secured by multi-family residential real estate are underwritten based on non-discriminatory underwriting standards and loan origination procedures established by Simplicity Bank’s Credit Committee. Loan policies are reviewed annually or more frequently if warranted, and approved by the Credit Committee and/or Simplicity Bank’s board of directors. The loan underwriting process is intended to assess the income producing potential of the property and the financial strength of the borrower. We review the borrower’s sources of income, cash flow, assets, and credit history. We evaluate the historical and projected income and expenses of the borrower and property. We also evaluate a guarantor when a guarantee is provided as part of the loan. The net operating income, which is the income derived from the operation of the property less all operating expenses, must be sufficient to cover the payments related to the outstanding debt with a minimum debt coverage ratio ("DCR") of 120%. Appraisals and secondary review appraisals on properties securing multi-family residential loans are performed by independent state licensed fee appraisers approved by our Credit Committee.

Loans secured by multi-family residential properties are generally larger and involve a greater degree of credit risk than one-to-four family residential mortgage loans. Because payments on loans secured by multi-family residential properties are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. If the cash flow from the project is reduced, or if leases are not obtained or renewed, the borrower’s ability to repay the loan may be impaired. In order to monitor the adequacy of cash flows on income-producing properties, the borrowers are required to provide periodic financial information. Included in non-accrual loans at June 30, 2014 were two multi-family residential real estate loans totaling $781,000, none of which were classified as troubled debt restructurings and are current under the original terms. See “—Asset Quality—Non-Performing Assets.”

Commercial Real Estate Lending. Prior to January 2009, we also originated commercial real estate loans. Currently, we consider the origination of commercial real estate loans on a case by case basis based on the borrower’s credit qualifications and the property offered for collateral. We have not originated any new commercial real estate loans since 2009 but are now actively marketing commercial real estate loan products. The existing portfolio is secured primarily by small retail establishments, small industrial warehouse buildings and small office buildings located in our primary market area, within the state of California, and are both owner and non-owner occupied. These loans were originated through our staff at our Covina executive office. Generally, we have not purchased commercial real estate loans. At June 30, 2014, commercial real estate loans totaled $38.1 million, or 5.3% of our gross loan portfolio, of which $8.0 million or 21.1% of this portfolio was to borrowers who occupy the property.

The table below shows the number and outstanding balance by collateral type of our commercial real estate loans at June 30, 2014.

Type of Loan	Number of Loans	Outstanding Balance (Dollars in thousands)
Owner occupied	12	$8,023
Non-owner occupied:		
Office	15	10,899
Manufacturing facilities	7	7,350
Retail	5	5,430
Medical office	3	1,638
Other	6	4,722
	36	30,039
Total	48	$38,062

We will originate only adjustable rate commercial real estate loans. The interest rate on these loans is mostly tied to the one year CMT. A majority of our adjustable rate loans carry an initial fixed rate of interest for either three, five or seven years which then converts to an interest rate that is adjusted annually based upon the index. Presently, our underwriting guidelines allow us to lend up to 70% of the lesser of the appraised value or purchase price for the commercial real estate. These loans require monthly payments, amortize up to 25 years, have maturities of up to 10 years and carry prepayment penalties.

Loans secured by commercial real estate are underwritten based on the income producing potential of the property, the financial strength of the borrower and any guarantors. The net operating income, which is the income derived from the operation of the property less all operating expenses, must be sufficient to cover the payments related to the outstanding debt with a minimum DCR of 135%. We may require an assignment of rents or leases in order to be assured that the cash flow from the project will be used to repay the debt. All loans require an appraisal and secondary review from two different independent state licensed fee appraisers on our approved appraiser list, which is approved by the Credit Committee.

Loans secured by commercial real estate properties are generally larger and involve a greater degree of credit risk than one-to-four family residential mortgage loans. Because payments on loans secured by commercial real estate properties are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. If the cash flow from the project is reduced, or if leases are not obtained or renewed, the borrower's ability to repay the loan may be impaired. In order to monitor the adequacy of cash flows on income-producing properties, the borrowers are required to provide periodic financial information. Included in non-accrual loans as of June 30, 2014 were two commercial real estate loans with an aggregate balance of $1.5 million and are currently in payment default, none of which was classified as a troubled debt restructuring. See "—Asset Quality—Non-Performing Assets."

Consumer Loans. We offer a variety of secured consumer loans, including new and used automobile and motorcycle loans, home equity lines of credit, unsecured loans, and loans secured by savings deposits. Consumer loans generally have shorter terms to maturity, which reduces our exposure to changes in interest rates, and carry higher rates of interest than do one-to-four family residential mortgage loans. At June 30, 2014, our consumer loan portfolio, exclusive of automobile loans, totaled $12.1 million, or 1.7%, of our gross loan portfolio.

The most significant component of our consumer lending is automobile loans. We originate automobile loans only on a direct basis with the borrower. Loans secured by automobiles totaled $45.7 million, or 6.4%, of our gross loan portfolio at June 30, 2014. Automobile loans may be written for up to seven years for new automobiles and a maximum of five years for used automobiles and have fixed rates of interest. Loan-to-value ratios for automobile loans are up to 120% of the manufacturer's suggested retail price for new automobiles and up to 120% of retail value on used cars, based on valuation from official used car guides including tax, license, mechanical breakdown insurance, and guaranteed automobile protection.

Each automobile loan requires the borrower to keep the financed vehicle fully insured against loss for damage by fire, theft and collision. Nevertheless, there can be no assurance that each financed vehicle will continue to be covered by

physical damage insurance provided by the borrower during the entire term which the related loan is outstanding. In addition, we have the right to force place insurance coverage in the event the required physical damage insurance on an automobile is not maintained by the borrower.
Our primary focus when originating automobile loans is on the ability of the borrower to repay the loan rather than the value of the underlying collateral. The amount financed by us is generally up to the manufacturer's suggested retail price of the

financed vehicle plus sales tax, dealer preparation fees, license fees and title fees, plus the cost of service and warranty contracts obtained in connection with the vehicle.

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

Loan Approval Procedures and Authority. All multi-family residential and commercial real estate loans require an appraisal and a secondary review appraisal as part of the underwriting process. One-to-four family residential loans require an appraisal and may be subject to a secondary review appraisal. Secured consumer loans require evaluation of collateral. Additionally, any multi-family residential and commercial real estate loan request that results in a total credit exposure to one borrower of over $500,000 and up to $1.5 million requires the approval of a senior underwriter. Total credit exposure from $1.5 million up to $2.5 million requires approval by the Vice President of Income Property, Chief Executive Officer, Chief Financial Officer or Chief Lending Officer; total credit exposure to one borrower of over $2.5 million and up to $5.0 million requires the approval by the Chief Executive Officer, Chief Financial Officer or Chief Lending Officer. Any one-to-four family residential loan that results in a total credit exposure to one borrower of over $1.0 million and up to $1.5 million requires approval by a real estate lending manager or a Credit Committee member. Any request that results in a total credit exposure to one borrower over $1.5 million for one-to-four family residential mortgage loans and $5.0 million for income properties, up to $10.0 million requires the approval by three Credit Committee members provided one of the three members is the Chief Executive Officer. Loan requests that result in a credit exposure to one borrower over $10.0 million require the board of directors' approval. All loan approvals granted by the Credit Committee are documented in the meeting minutes and reported to the board of directors.

Loan Originations, Purchases, Sales and Repayments. We originate loans through employees located at our executive office and at our seven retail branches. Walk-in customers and referrals from our current customer base, advertisements, real estate brokers and mortgage loan brokers are also important sources of loan originations.

While we originate adjustable rate and fixed rate loans, our ability to originate loans is dependent upon customer demand for loans in our market area. Demand is affected by local competition and the interest rate environment. We did not purchase any loans for the years ended June 30, 2014 and 2013. For the year ended June 30, 2012, we purchased approximately $80.9 million of primarily adjustable rate one-to-four family residential mortgage loans, including $32.6 million of loans with a credit guarantee by the seller that requires any loans 60 days or more delinquent be substituted or repurchased by the seller at the Bank's option. The servicing rights of all purchased loans were generally retained by the sellers. All loans purchased in fiscal 2012 were current at the time of purchase and were not sub-prime loans. The purchased loans with a credit guarantee are seasoned loans with borrowers who have stable employment and properties with generally less than 80% loan-to-value ratio ("LTV"). Depending on market conditions and the interest rate environment, we may consider future loan purchases on a case by case basis.

At June 30, 2014, our real estate loan portfolio totaled $662.1 million, or 92.0% of the gross loan portfolio. Purchased real estate loans serviced by others at June 30, 2014 totaled $30.1 million, or 4.2% of the gross loan portfolio. At June 30, 2013, our real estate loan portfolio totaled $656.0 million, or 94.5% of the gross loan portfolio. Purchased real estate loans serviced by others at June 30, 2013 totaled $44.9 million, or 14.1% of the gross loan portfolio.

The following table shows the loan originations, purchases, sales and repayment activities for the years indicated.

	June 30,		
	2014	2013	2012
	(Dollars in thousands)		
Originations by type:			
Adjustable rate:			
Real estate			
one-to-four family	$9,222	$8,782	$763
multi-family	118,150	73,835	51,873
Non-real estate:			
other consumer	1,230	1,257	1,541
Total adjustable rate	128,602	83,874	54,177
Fixed rate:			
Real estate			
one-to-four family	58,959	127,744	96,667
Non-real estate			
consumer vehicle	34,702	20,359	11,379
other consumer	12,307	10,070	7,902
Total fixed rate	105,968	158,173	115,948
Total loans originated	234,570	242,047	170,125
Purchases:			
Adjustable rate:			
Real estate			
one-to-four family	—	—	77,007
Fixed rate:			
Real estate			
one-to-four family	—	—	3,942
Total loans purchased	—	—	80,949
Sales and repayments:			
Sales and loan participations sold	30,467	71,256	306
Principal repayments	178,468	238,627	182,068
Total reductions	208,935	309,883	182,374
Decrease in other items, net	(402)	(2,677)	(629)
Net increase (decrease)	$25,233	$(70,513)	$68,071

We also originate conforming fixed rate one-to-four-family residential real estate loans secured by properties in California and generate revenues from fee income on the origination and sale of these loans in the secondary market. Loans originated for sale meet the origination and underwriting guidelines established by Federal Home Loan Mortgage Corporation ("Freddie Mac") and are sold without recourse on a servicing-retained basis. Of the total loan originations of $234.6 million and $242.0 million in fiscal 2014 and 2013, loans originated for sale totaled $29.6 million and $75.8 million, respectively. Loans sold totaled $30.5 million and $71.3 million in fiscal 2014 and 2013, respectively.

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Asset Quality

General. We continue our disciplined lending practices including our strict adherence to a long standing credit culture that emphasizes the consistent application of underwriting standards to all loans. In this regard, we fully underwrite all loans based on an applicant's employment history, credit history and an appraised value of the subject property. With respect to loans we purchase, we underwrite each loan using our own underwriting standards prior to making the purchase except for loans purchased with a credit guarantee. The credit guarantee for the loans purchased in fiscal 2012 requires the seller to substitute or repurchase any loans sold to the Bank that become 60 days or more delinquent at the Bank's option. The credit quality of the loans purchased in fiscal 2012 was to our satisfaction and did not result in substitution or repurchase of any loans purchased as of June 30, 2014.

The following underwriting guidelines, among other things, have been used by us as underwriting tools to further limit our potential loss exposure:

- All variable rate one-to-four family residential loans are underwritten using the fully indexed rate.
- We only lend up to 80% of the lesser of the appraised value or purchase price for one-to-four family residential loans without PMI, and up to 97% with PMI.
- We only lend up to 75% of the lesser of the appraised value or purchase price for multi-family residential loans.
- We only lend up to 70% of the lesser of the appraised value or purchase price for commercial real estate loans.

Additionally, our portfolio has remained strongly anchored in traditional mortgage products. We do not originate or purchase construction and development loans, teaser option-adjustable rate mortgage loans, negatively amortizing loans or high loan-to-value loans.

At June 30, 2014, one-to-four family residential mortgage loans totaled $289.0 million, or 40.1%, of our gross loan portfolio of which $215.4 million were fixed rate and $73.5 million were adjustable rate loans. Adjustable rate mortgages generally pose different credit risks than fixed rate mortgages, primarily because as interest rates rise, the borrower's payment rises, increasing the potential for default. Included in non-accrual loans at June 30, 2014 were $1.2 million in adjustable rate one-to-four family mortgage loans and $4.2 million in fixed rate one-to-four family mortgage loans. Overall this represents 1.87% of the one-to-four family residential mortgage loan portfolio.

All of our real estate loans are secured by properties located in California. The following tables set forth our real estate loans and non-accrual real estate loans by county:

Real Estate Loans by County as of June 30, 2014

County	One-to-four family	Multi-family residential	Commercial	Total	Percent	
	(Dollars in thousands)					
Los Angeles	$122,763	$291,414	$16,201	$430,378	65.01	%
Orange	39,598	12,999	10,177	62,774	9.48	
San Diego	20,677	9,376	—	30,053	4.54	
San Bernardino	22,276	9,350	3,258	34,884	5.27	
Riverside	15,249	2,636	5,815	23,700	3.58	
Santa Clara	15,814	484	—	16,298	2.46	
Alameda	12,566	3,868	440	16,874	2.55	
Other	40,017	4,913	2,171	47,101	7.11	
Total	$288,960	$335,040	$38,062	$662,062	100.00	%

Real Estate Loans by County as of June 30, 2013

County	One-to-four family	Multi-family residential	Commercial	Total	Percent	
	(Dollars in thousands)					
Los Angeles	$131,290	$232,353	$27,124	$390,767	59.56	%
Orange	47,146	17,646	13,489	78,281	11.93	
San Diego	23,457	11,760	2,545	37,762	5.76	
San Bernardino	20,404	10,288	3,333	34,025	5.19	
Riverside	15,060	3,125	6,151	24,336	3.71	
Santa Clara	17,471	501	—	17,972	2.74	
Alameda	13,814	25	447	14,286	2.18	
Other	50,989	5,073	2,532	58,594	8.93	
Total	$319,631	$280,771	$55,621	$656,023	100.00	%

Non-accrual Real Estate Loans by County as of June 30, 2014

County	One-to-four family	Multi-family residential	Commercial	Total	Percent of Non-accrual to Loans in Each Category	
	(Dollars in thousands)					
Los Angeles	$2,226	$—	$1,460	$3,686	0.86	%
San Diego	658	—	—	658	2.19	
San Bernardino	626	654	—	1,280	3.67	
Riverside	272	127	—	399	1.68	
Santa Clara	1,608	—	—	1,608	9.87	
Total	$5,390	$781	$1,460	$7,631	1.15	%

Non-accrual Real Estate Loans by County as of
June 30, 2013

County	One-to-four family	Multi-family residential	Commercial	Total	Percent of Non-accrual to Loans in Each Category	
	(Dollars in thousands)					
Los Angeles	$4,407	$—	$1,179	$5,586	1.43	%
Orange	785	—	—	785	1.00	
San Diego	724	511	2,545	3,780	10.01	
San Bernardino	1,929	717	—	2,646	7.78	
Riverside	305	319	—	624	2.56	
Santa Clara	1,763	—	—	1,763	9.81	
Alameda	397	—	—	397	2.78	
Other	—	—	321	321	0.54	
Total	$10,310	$1,547	$4,045	$15,902	2.42	%

Problem Assets. For one-to-four family residential, multi-family residential and commercial real estate loans serviced by us, a notice is sent to the borrower when the loan is between 6 and 11 days past due. When the loan is between 10 and 15 days past due, we mail a subsequent delinquency notice to the borrower. Typically, before the loan becomes 30 days past due, contact with the borrower is made requesting payment of the delinquent amount in full, or the establishment of an acceptable repayment plan to bring the loan current. If an acceptable repayment plan has not been agreed upon, loan personnel will generally prepare a notice of intent to foreclose. The notice of intent to foreclose allows the borrower up to 30 days to bring the account current. Once the loan becomes up to 120 days delinquent, and an acceptable loss mitigation plan has not been agreed upon, the Loss Mitigation specialist will turn over the account to the trustee with instructions to initiate foreclosure. Real estate loans serviced by a third party are subject to the servicing institution’s collection policies. However, we track each purchased loan individually to attempt to receive full payments as scheduled. Each month, third party servicers are required to provide delinquent loan status reports to our servicing officer, which are included in the month-end delinquent real estate report to management.

When a borrower fails to make a timely payment on a consumer loan, a delinquency notice is sent when the loan is seven days past due. When the loan is 14 days past due, we mail a subsequent delinquency notice to the borrower. Once a loan is 30 days past due, our staff contacts the borrower by telephone to determine the reason for delinquency and to request payment of the delinquent amount in full or to establish an acceptable repayment plan to bring the loan current. If the borrower is unable to make or keep payment arrangements, additional collection action is taken in the form of repossession of collateral for secured loans and legal action for unsecured loans.

Delinquent Loans. The following table sets forth certain information with respect to our loan portfolio delinquencies at the dates indicated:

	Loans Delinquent :					
	60-89 Days		90 Days or More		Total Delinquent Loans	
	Number of Loans	Amount	Number of Loans	Amount	Number of Loans	Amount
	(Dollars in thousands)					
June 30, 2014						
Real estate loans:						
One-to-four family	1	$409	1	$301	2	$710
Commercial	—	—	1	399	1	399
Other loans:					—	—
Automobile	1	15	1	2	2	17
Home equity	—	—	—	—	—	—
Other	3	4	2	15	5	19
Total loans	5	$428	5	$717	10	$1,145
June 30, 2013						
Real estate loans:						
One-to-four family	3	$970	5	$1,751	8	$2,721
Multi-family	1	198	—	—	1	198
Commercial	1	2,545	—	—	1	2,545
Other loans:						
Automobile	—	—	1	14	1	14
Home equity	—	—	—	—	—	—
Other	1	2	2	4	3	6
Total loans	6	$3,715	8	$1,769	14	$5,484
June 30, 2012						
Real estate loans:						
One-to-four family	4	$1,787	17	$6,815	21	$8,602
Multi-family	—	—	1	744	1	744
Other loans:						
Automobile	3	21	—	—	3	21
Home equity	—	—	—	—	—	—
Other	1	1	2	3	3	4
Total loans	8	$1,809	20	$7,562	28	$9,371
June 30, 2011						
Real estate loans:						
One-to-four family	2	$1,043	17	$6,583	19	$7,626
Multi-family	1	457	1	1,757	2	2,214
Commercial	—	—	1	637	1	637
Other loans:						
Automobile	1	6	—	—	1	6
Home equity	—	—	—	—	—	—
Other	1	3	3	5	4	