BANC OF CALIFORNIA, INC.
Form 10-Q
November 07, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 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 001-35522

BANC OF CALIFORNIA, INC.
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)
04-3639825
(IRS Employer Identification No.)
18500 Von Karman Ave, Suite 1100, Irvine, California
(Address of principal executive offices)
92612
(Zip Code)
(949) 236-5211
(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 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 (Section 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 ý 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 the definitions of "large accelerated filer," "accelerated filer" "and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	ý

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)
Yes ¨ No ý
Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.
As of October 31, 2014, the registrant had outstanding 28,032,743 shares of voting common stock and 602,783 shares of Class B non-voting common stock.

Table of Contents

BANC OF CALIFORNIA, INC.
FORM 10-Q QUARTERLY REPORT
September 30, 2014
Table of Contents

Table of Contents

Forward-looking Statements

When used in this report and in public shareholder communications, in other documents of Banc of California, Inc. (the “Company,” “we,” “us” and “our”) filed with or furnished to the Securities and Exchange Commission (the “SEC”), or in oral statements made with the approval of an authorized executive officer, the words or phrases “believe,” “will,” “should,” “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “plans,” “guidance” or similar ex are intended to identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date made. These statements may relate to our future financial performance, strategic plans or objectives, revenue, expense or earnings projections, or other financial items. By their nature, these statements are subject to numerous uncertainties that could cause actual results to differ materially from those anticipated in the statements.

Factors that could cause actual results to differ materially from the results anticipated or projected include, but are not limited to, the following:

i. the ability of the Company to successfully integrate the branches its wholly owned bank subsidiary, Banc of California, N.A. (the “Bank”), has agreed to acquire from Banco Popular North America (“BPNA”);

ii. risks that the Company’s merger and acquisition activities, including but not limited to the pending acquisition of the BPNA branches and the recently completed acquisitions of The Private Bank of California (PBOC), The Palisades Group, LLC and CS Financial, Inc., as well as the recent merger of the Company’s subsidiary banks, may disrupt current plans and operations and lead to difficulties in customer and employee retention, risks that the amount of the costs, fees, expenses and charges related to these transactions could be significantly higher than anticipated and risks that the expected revenues, cost savings, synergies and other benefits of these transactions might not be realized to the extent anticipated, within the anticipated timetables, or at all;

iii. risks that funds obtained from capital raising activities will not be utilized efficiently or effectively;

iv. a worsening of current economic conditions, as well as turmoil in the financial markets;

v. the credit risks of lending activities, which may be affected by deterioration in real estate markets and the financial condition of borrowers, may lead to increased loan and lease delinquencies, losses and nonperforming assets in our loan and lease portfolio, and may result in our allowance for loan and lease losses not being adequate to cover actual losses and require us to materially increase our loan and lease loss reserves;

vi. the quality and composition of our securities portfolio;

vii. changes in general economic conditions, either nationally or in our market areas;

viii. continuation of the historically low short-term interest rate environment, changes in the levels of general interest rates, and the relative differences between short- and long-term interest rates, deposit interest rates, our net interest margin and funding sources;

ix. fluctuations in the demand for loans and leases, the number of unsold homes and other properties and fluctuations in commercial and residential real estate values in our market area;

x. results of examinations of us by regulatory authorities and the possibility that any such regulatory authority may, among other things, require us to increase our allowance for loan and lease losses, write-down asset values, increase our capital levels, or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings;

xi. legislative or regulatory changes that adversely affect our business, including changes in regulatory capital or other rules;

xii. our ability to control operating costs and expenses;

xiii. staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges;

xiv. errors in our estimates in determining fair value of certain of our assets, which may result in significant declines in valuation;

xv. the network and computer systems on which we depend could fail or experience a security breach;

Table of Contents

xvi. our ability to attract and retain key members of our senior management team;
xvii. costs and effects of litigation, including settlements and judgments;
xviii. increased competitive pressures among financial services companies;
xix. changes in consumer spending, borrowing and saving habits;
xx. adverse changes in the securities markets;
xxi. earthquake, fire or other natural disasters affecting the condition of real estate collateral;
xxii. the availability of resources to address changes in laws, rules or regulations or to respond to regulatory actions;
xxiii. inability of key third-party providers to perform their obligations to us;
xxiv. changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board or their application to our business, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods;
xxv. war or terrorist activities; and
xxvi. other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and the other risks described in this report and from time to time in other documents that we file with or furnish to the SEC, including, without limitation, the risks described under “Item 1A. Risk Factors” presented elsewhere in this report.

The Company undertakes no obligation to update any such statement to reflect circumstances or events that occur after the date on which the forward-looking statement is made, except as required by law.

Table of Contents

PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS
BANC OF CALIFORNIA, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Amounts in thousands, except share and per share data)
(Unaudited)

	September 30, 2014	December 31, 2013
ASSETS		
Cash and due from banks	$5,646	$4,937
Interest-bearing deposits	179,339	105,181
Total cash and cash equivalents	184,985	110,118
Time deposits in financial institutions	1,900	1,846
Securities available for sale, at fair value	310,385	170,022
Loans held for sale, carried at fair value	252,390	192,613
Loans held for sale, carried at lower of cost or fair value	874,949	524,120
Loans and leases receivable, net of allowance of $25,283 at September 30, 2014 and $18,805 at December 31, 2013	2,686,785	2,427,306
Federal Home Loan Bank and other bank stock, at cost	35,432	22,600
Servicing rights, net ($11,376 measured at fair value at September 30, 2014 and $13,535 at December 31, 2013)	11,745	13,883
Accrued interest receivable	11,587	10,866
Other real estate owned, net	605	—
Premises, equipment, and capital leases, net	67,323	66,260
Bank-owned life insurance	19,038	18,881
Goodwill	31,591	30,143
Affordable housing fund investment	5,090	5,628
Deferred income tax	8,663	—
Income tax receivable	—	2,995
Other intangible assets, net	10,829	12,152
Other assets	24,699	18,590
Total Assets	$4,537,996	$3,628,023
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Noninterest-bearing deposits	$457,743	$429,158
Interest-bearing deposits	3,173,967	2,489,486
Total deposits	3,631,710	2,918,644
Advances from Federal Home Loan Bank	305,000	250,000
Notes payable, net	95,549	82,320
Reserve for loss on repurchased loans	7,045	5,427
Income taxes payable	2,158	—
Accrued expenses and other liabilities	49,653	46,763
Total liabilities	4,091,115	3,303,154
Commitments and contingent liabilities		
Preferred stock, $0.01 par value per share, 50,000,000 shares authorized:		
Series A, non-cumulative perpetual preferred stock, $1,000 per share liquidation preference, 32,000 shares authorized, 32,000 shares issued and outstanding at September 30, 2014 and December 31, 2013	31,934	31,934

Series B, non-cumulative perpetual preferred stock, $1,000 per share liquidation preference, 10,000 shares authorized, 10,000 shares issued and outstanding at September 30, 2014 and December 31, 2013	10,000	10,000
Series C, 8.00% non-cumulative perpetual preferred stock, $1,000 per share liquidation preference, 40,250 shares authorized, 40,250 shares issued and outstanding at September 30, 2014 and December 31, 2013	37,943	37,943
Common stock, $0.01 par value per share, 446,863,844 shares authorized; 29,662,724 shares issued and 28,023,701 shares outstanding at September 30, 2014; 20,959,286 shares issued and 19,561,469 shares outstanding at December 31, 2013	297	210
Class B non-voting non-convertible Common stock, $.01 par value per share, 3,136,156 shares authorized; 602,783 shares issued and outstanding at September 30, 2014 and 584,674 shares issued and outstanding at December 31, 2013	6	6
Additional paid-in capital	371,738	256,306
Retained earnings	24,862	16,981
Treasury stock, at cost (1,639,023 shares at September 30, 2014 and 1,397,817 shares at December 31, 2013)	(29,798)	(27,911)
Accumulated other comprehensive income (loss), net	(101)	(600)
Total shareholders’ equity	446,881	324,869
Total liabilities and shareholders’ equity	$4,537,996	$3,628,023

See accompanying notes to unaudited consolidated financial statements

5

Table of Contents

BANC OF CALIFORNIA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data) (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest and dividend income				
Loans, including fees	$44,555	$32,061	$128,162	$76,751
Securities	1,460	1,292	3,377	2,159
Dividends and other interest-earning assets	634	493	1,520	845
Total interest and dividend income	46,649	33,846	133,059	79,755
Interest expense				
Deposits	6,165	5,084	17,971	10,386
Federal Home Loan Bank advances	118	56	317	177
Notes payable and other interest-bearing liabilities	2,180	1,763	5,825	5,265
Total interest expense	8,463	6,903	24,113	15,828
Net interest income	38,186	26,943	108,946	63,927
Provision for loan and lease losses	2,780	2,109	6,817	6,195
Net interest income after provision for loan and lease losses	35,406	24,834	102,129	57,732
Noninterest income				
Customer service fees	230	621	839	1,676
Loan servicing income	924	293	2,951	939
Income from bank owned life insurance	64	42	167	130
Net gain on sale of securities available for sale	—	10	522	319
Net gain on sale of loans	10,260	484	15,901	4,520
Net gain on mortgage banking activities	26,943	16,231	70,400	52,862
Other income	5,677	545	13,968	1,780
Total noninterest income	44,098	18,226	104,748	62,226
Noninterest expense				
Salaries and employee benefits	41,094	30,179	114,905	74,570
Occupancy and equipment	7,969	5,247	23,931	12,070
Professional fees	4,758	4,560	12,151	9,804
Data processing	1,286	1,552	3,347	3,827
Advertising	1,584	1,664	3,369	3,076
Regulatory assessments	1,013	986	3,000	1,578
Loan servicing and foreclosure expense	292	276	642	628
Operating loss on equity investment	203	120	538	410
Valuation allowance for other real estate owned	—	18	—	97
Net gain on sales of other real estate owned	—	(73)	—	(224)
Provision for loan repurchases	1,154	375	2,055	1,363
Amortization of intangible assets	890	973	2,773	1,707
Impairment on intangible assets	—	976	—	976
All other expense	7,314	5,451	19,079	11,574
Total noninterest expense	67,557	52,304	185,790	121,456
Income (loss) before income taxes	11,947	(9,244)	21,087	(1,498)
Income tax expense (benefit)	721	(710)	983	1,744
Net income (loss)	11,226	(8,534)	20,104	(3,242)
Preferred stock dividends	910	946	2,730	1,234

Net income (loss) available to common shareholders	$10,316	$(9,480)	$17,374	$(4,476)
Basic earnings (loss) per common share	$0.31	$(0.53)	0.64	$(0.32)
Diluted earnings (loss) per common share	$0.30	$(0.53)	0.63	$(0.32)
Basic earnings (loss) per class B common share	$0.31	$(0.53)	0.64	$(0.32)
Diluted earnings (loss) per class B common share	$0.31	$(0.53)	0.64	$(0.32)

See accompanying notes to unaudited consolidated financial statements

Table of Contents

BANC OF CALIFORNIA, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Amounts in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss)	$11,226	$(8,534)	$20,104	$(3,242)
Other comprehensive income, net of tax:				
Unrealized gain (loss) on available-for-sale securities:				
Unrealized gain (loss) arising during the period	(980)	(644)	1,142	(944)
Reclassification adjustment for gain included in net income	—	(10)	(522)	(319)
Total change in unrealized loss (gain) on available-for-sale securities	(980)	(654)	620	(1,263)
Unrealized gain (loss) on cash flow hedge:				
Unrealized gain (loss) arising during the period	388	—	(121)	—
Total change in unrealized gain (loss) on cash flow hedge	388	—	(121)	—
Total other comprehensive income (loss)	(592)	(654)	499	(1,263)
Comprehensive income (loss)	$10,634	$(9,188)	$20,603	$(4,505)

See accompanying notes to unaudited consolidated financial statements

Table of Contents

BANC OF CALIFORNIA, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Amounts in thousands) (Unaudited)

	Preferred Stock			Common Stock		Additional Paid-	Retained	Treasury	Accumulated Other Comprehensive	
	Series A	Series B	Series C	Class A	Class B	In Capital	Earnings	Stock	Income (Loss)	Total
Balance at December 31, 2012	$31,934	$—	$—	$120	$11	$154,563	$26,550	$(25,818)	$ 1,397	$188,757
Comprehensive income (loss):										
Net loss	—	—	—	—	—	—	(3,242)	—	—	(3,242)
Other comprehensive income, net	—	—	—	—	—	—	—	—	(1,263)	(1,263)
Issuance of common stock	—	—	—	68	(6)	76,173	—	—	—	76,235
Issuance of preferred stock	—	—	37,943	—	—	—	—	—	—	37,943
Preferred stock assumed through business acquisition	—	10,000		—	—	—	—	—	—	10,000
Stock options converted through business acquisition	—	—	—	—	—	9	—	—	—	9
Forfeiture and retirement of common stock	—	—	—	—	—	34	—	(34)	—	—
Purchase of 104,740 shares of treasury stocks	—	—	—	—	—	—	—	(1,402)	—	(1,402)
Issuance of stock awards from treasury stock	—	—	—	—	—	(1,799)	—	1,799	—	—
Shares purchased under the Dividend Reinvestment Plan	—	—	—	—	—	519	(519)	—	—	—
Stock option compensation expense	—	—	—	—	—	336	—	—	—	336
Restricted stock compensation expense	—	—	—	—	—	969	—	—	—	969
Dividends declared ($0.36 per common share)	—	—	—	—	—	—	(4,528)	—	—	(4,528)

Preferred stock dividends	—	—	—	—	—	—	(1,234)	—	—	(1,234)
Balance at September 30, 2013	$31,934	$10,000	$37,943	$188	$5	$230,804	$17,027	$(25,455)	$ 134	$302,580
Balance at December 31, 2013	$31,934	$10,000	$37,943	$210	$6	$256,306	$16,981	$(27,911)	$ (600)	$324,869
Comprehensive income:										
Net income	—	—	—	—	—	—	20,104	—	—	20,104
Other comprehensive income, net	—	—	—	—	—	—	—	—	499	499
Issuance of common stock	—	—	—	87	—	54,814	—	—	—	54,901
Issuance of tangible equity units	—	—	—	—	—	51,182	—	—	—	51,182
Purchase of 23,502 shares of treasury stock	—	—	—	—	—	—	—	(280)	—	(280)
Reclassification adjustment for awards issued from treasury stock	—	—	—	—	—	1,926	—	(1,926)	—	—
Exercise of stock options	—	—	—	—	—	993	—	—	—	993
Stock option compensation expense	—	—	—	—	—	357	—	—	—	357
Restricted stock compensation expense	—	—	—	—	—	4,196	—	—	—	4,196
Stock appreciation right expense	—	—	—	—	—	1,364	—	—	—	1,364
Issuance of stock awards from treasury stock	—	—	—	—	—	(319)	—	319	—	—
Tax effect of dividends paid on unvested equity awards	—	—	—	—	—	401	—	—	—	401
Shares purchased under the Dividend Reinvestment Plan	—	—	—	—	—	518	(78)	—	—	440
Dividends declared ($0.36 per common share)	—	—	—	—	—	—	(9,415)	—	—	(9,415)
Preferred stock dividends	—	—	—	—	—	—	(2,730)	—	—	(2,730)
	$31,934	$10,000	$37,943	$297	$6	$371,738	$24,862	$(29,798)	$ (101)	$446,881

Balance at
September 30,
2014
See accompanying notes to unaudited consolidated financial statements

Table of Contents

BANC OF CALIFORNIA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income (loss)	$20,104	$(3,242)
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Provision for loan and lease losses	6,817	6,195
Provision for loan repurchases	2,055	1,363
Net revenue on mortgage banking activities	(70,400)	(52,862)
Net gain on sale of loans	(15,901)	(4,520)
Net amortization (accretion) of securities	544	953
Depreciation on premises and equipment	4,850	2,785
Amortization of intangibles	2,773	1,707
Amortization of debt issuance cost	484	289
Stock option compensation expense	357	336
Stock award compensation expense	4,196	969
Change in fair value of converted stock options related to business acquisition	—	9
Stock appreciation right expense	1,364	1,130
Bank owned life insurance income	(167)	(130)
Operating loss on equity investment	538	410
Impairment on intangible assets	—	976
Net gain on sale of securities available for sale	(522)	(319)
Gain on sale of mortgage servicing rights	(2,268)	—
Gain on sale of other real estate owned	—	(224)
Loss (Gain) on sale or disposal of property and equipment	787	(1)
Increase in valuation allowances on other real estate owned	—	97
Tax effect of dividends paid on unvested equity awards	401	—
Repurchase of mortgage loans	(4,188)	—
Originations of loans held for sale from mortgage banking	(2,028,108)	(1,388,622)
Originations of other loans held for sale	(1,040,301)	—
Proceeds from sales of and principal collected on loans held for sale from mortgage banking	2,035,343	1,276,104
Proceeds from sales of and principal collected on other loans held for sale	571,447	—
Change in deferred loan (costs) fees	(1,229)	(414)
Amortization of premiums and discounts on purchased loans	(28,000)	(13,714)
Change in accrued interest receivable	(721)	(5,423)
Change in other assets	(3,874)	14,209
Change in accrued interest payable and other liabilities	2,574	13,496
Net cash used in operating activities	(541,045)	(148,443)
Cash flows from investing activities:		
Proceeds from sales of securities available-for-sale	52,245	127,286
Proceeds from maturities and calls of securities available-for-sale	1,231	12,157
Proceeds from principal repayments of securities available-for-sale	28,792	82,924
Purchases of securities available-for-sale	(222,033)	(51,526)

Net cash (used) acquired in acquisitions	(1,000)	5,786
Loan originations and principal collections, net	(232,859)	(415,272)
Purchase of loans	(25,218)	(852,913)
Redemption of Federal Home Loan Bank stocks	—	25
Purchase of Federal Home Loan Bank and other bank stocks	(12,832)	(5,972)
Proceeds from sale of loans held for investment	142,482	219,211
Net change in time deposits in financial institutions	(54)	2,089
Proceeds from sale of other real estate owned	48	3,600
Proceeds from sale of mortgage servicing rights	17,177	—
Proceeds from sale of premises and equipment	30	—
Additions to premises and equipment	(7,081)	(49,609)
Payments of capital lease obligations	(682)	(218)
Net cash used in investing activities	(259,754)	(922,432)
Cash flows from financing activities:		
Net increase in deposits	712,865	1,391,343
Net increase (decrease) in Federal Home Loan Bank advances	55,000	(91,833)
Net proceeds from issuance of common stock	53,901	47,953
Net proceeds from issuance of preferred stock	—	37,943
Net proceeds from issuance of tangible equity units	64,959	—
Payment of Amortizing Debt	(1,032)	—
Purchase of treasury stock	(280)	(1,402)
Proceeds from exercise of stock options	993	—
Dividends paid on preferred stock	(2,742)	(1,234)
Dividends paid on common stock	(7,998)	(4,528)
Net cash provided by financing activities	875,666	1,378,242
Net change in cash and cash equivalents	74,867	307,367
Cash and cash equivalents at beginning of period	110,118	108,643
Cash and cash equivalents at end of period	$184,985	$416,010
Supplemental cash flow information		
Interest paid on deposits and borrowed funds	$23,953	$15,722
Income taxes paid	4,311	—
Income taxes refunds received	264	—
Supplemental disclosure of noncash activities		
Transfer from loans to other real estate owned, net	653	—
Transfer of loans receivable to loans held for sale, net of transfer of $989 and $0 from allowance for loan and lease losses for the nine months ended September 30, 2014 and 2013, respectively	65,584	105,126
Transfer of loans held for sale to loans receivable	117,116	—
Transfer of deposits to deposits held for sale	—	462,768
Equipment acquired under capital leases	989	1,239

See accompanying notes to unaudited consolidated financial statements

Table of Contents

BANC OF CALIFORNIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
September 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying unaudited consolidated financial statements include the accounts of Banc of California, Inc. (the Company, we, us and our) and its wholly owned subsidiaries, Banc of California, National Association (the Bank), the Palisades Group, LLC (the Palisades Group), and PTB Property Holdings, LLC, as of September 30, 2014 and December 31, 2013 and for the three and nine months ended September 30, 2014 and 2013. Significant intercompany accounts and transactions have been eliminated in consolidation. Unless the context requires otherwise, all references to the Company include its wholly owned subsidiaries.

Nature of Operations: The principal business of the Company is the ownership of the Bank. The Bank operates under a national bank charter issued by the Office of the Comptroller of the Currency (the OCC), its primary regulator. The Bank is a member of the Federal Home Loan Bank (FHLB) system, and maintains insurance on deposit accounts with the Federal Deposit Insurance Corporation (FDIC). PTB Property Holdings, LLC manages and disposes of other real estate owned properties and the Palisades Group provides financial advisory and asset management services.

The Bank is engaged in the business of retail banking, with operations conducted through 17 banking offices, serving San Diego, Los Angeles, and Orange counties, California and 59 loan production offices in California, Arizona, Oregon, Montana, Virginia, North Carolina, Colorado, Indiana, and Maryland as of September 30, 2014. As of September 30, 2014, single family residential (SFR) mortgage loans and Green loans (SFR mortgage lines of credit) accounted for approximately 39.3 percent and 4.7 percent, respectively, of the Company’s loan and lease portfolio, with a high percentage of such loans concentrated in Southern California. The customer’s ability to repay their loans or leases is generally dependent on the real estate market and general economic conditions in the area.

The accounting and reporting polices of the Company are based upon U.S. generally accepted accounting principles (GAAP) and conform to predominant practices within the banking industry. The Company has not made any significant changes in its critical accounting policies or in its estimates and assumptions from those disclosed in its 2013 Annual Report on Form 10-K, other than the enhancement made on allowance for loan and lease losses, the adoption of new accounting pronouncements and other authoritative guidance that became effective for the Company on or after January 1, 2014. Refer to Accounting Pronouncements below for discussion of accounting pronouncements adopted in 2014.

Basis of Presentation: The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain disclosures required by GAAP are not included herein. These interim statements should be read in conjunction with the consolidated financial statements and notes included in the Annual Report on Form 10-K for the year ended December 31, 2013 filed by the Company with the Securities and Exchange Commission. The December 31, 2013 balance sheet presented herein has been derived from the audited financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission, but does not include all of the disclosures required by GAAP.

In the opinion of management of the Company, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position and consolidated results of operations for the periods presented. Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and disclosures provided, and actual results could differ materially. The allowance for loan and lease losses, reserve for loss on repurchased loans, servicing rights, other real estate owned, realization of deferred tax assets, goodwill, other intangible assets, derivatives, fair value of assets and liabilities acquired in business combinations, and the fair value of financial instruments are particularly subject to change and such change could have a material effect on the consolidated financial statements.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance is established when necessary to reduce deferred tax assets when it is more-likely-than-not that a portion or all of the net deferred tax assets will not be realized. As of September 30, 2014, the Company had a net deferred tax asset of $8.7 million, net of a $8.3 million valuation allowance and as of December 31, 2013, the Company had a net deferred tax asset of $0, net of a $17.3 million valuation allowance (See further discussion in Note 11, Income Taxes).

Earnings Per Share: Earnings per share is computed under the two-class method. Basic earnings per common share (EPS) is computed by dividing net income allocated to common shareholders by the weighted average number of shares outstanding, including the minimum number of shares issuable under purchase contracts relating to the tangible equity units (see the discussion of the tangible equity units in Note 15, Shareholders' Equity). Diluted EPS is computed by dividing net income allocated to common shareholders by the weighted average number of shares outstanding, adjusted for the dilutive effect of the restricted stock units, the potentially issuable shares in excess of the minimum under purchase contracts relating to the tangible equity units, outstanding stock options, and warrants to purchase common stock. Net income allocated to common shareholders is computed by subtracting income allocated to participating securities, participating securities dividends and preferred stock dividend from net income. Participating securities are instruments granted in share-based payment transactions that contain rights to receive nonforfeitable dividends or dividend equivalents, which includes the Stock Appreciation Rights to the extent they confer dividend equivalent rights, as described under “Stock Appreciation Rights” in Note 14, Stock Compensation Plans.

Allowance for Loan and Lease Losses: During the three months ended September 30, 2014, the Company enhanced the current methodologies, processes and controls over the allowance for loan and lease losses (ALLL), due to the Company's rapid organic and acquisitive growth and rapidly changing profile. These enhancements will update and upgrade how each component of the ALLL are quantified, their relationship to each other, and their overall relevance to the Company's new profile and strategic direction.

To ensure overall level of ALLL adequacy, the Company performed comparative analysis of its ALLL to total loans ratio to average and median of the industry benchmark groups and its ALLL reserve levels were determined to be appropriate and adequate for the Company's current portfolio. The following is a synopsis of the enhancements for each component of ALLL:

- Expand the look-back period to 28 rolling quarters to capture the full economic cycle. To accommodate the expansion, the Company supplemented its 15 quarters of internal history with 13 quarters of industry average loss history.
- Utilize net historical losses versus gross historical losses.
- Expand the peer group used to determine industry average loss history to include three industry groups; 1) all U.S. financial and bank holding companies, 2) all California financial and bank holding companies, 3) the peer group average from the Uniform Bank Performance Report. The methodology allows for the weighting of all three industry groups as appropriate.
- Apply the segment specific loss emergence period to each segment's loss rate versus 12 months for all portfolio segments as was done previously.
- Reset the range for the nine interagency recommended qualitative factors and add a new qualitative factor for data-model imprecision risk. The expected range of the qualitative reserve will now be calculated at each factor level based on a baseline risk weighting adjusted for current risks, trends and business conditions.
- Disaggregated certain qualitative factors to be determined on the portfolio segment level.

Due to these enhancements, the Company realized additional $591 thousand ALLL than what it would have been using the old methodology.

Correction of Prior Period Errors: During the nine months ended September 30, 2014, the Company made cumulative prior period (years ended December 31, 2013 and 2012) adjustments related to the provision for loan repurchases, the allowance for loan and lease losses, restricted stock compensation expense, and other expenses, which increased the

provision for loan repurchases by $571 thousand, provision for loan and lease losses by $1.2 million, and other expense by $353 thousand, and decreased stock compensation expense by $234 thousand. The Company reviewed the impact of these corrections in accordance with Securities Exchange Commission Staff Accounting Bulletin No. 99 “Materiality”, and determined that the corrections were not material to prior or current periods.
Accounting Pronouncements: During the nine months ended September 30, 2014, the following pronouncements applicable to the Company were issued or became effective:
In January 2014, the FASB issued guidance within ASU 2014-1, “Accounting for Investments in Qualified Affordable Housing Projects.” The amendments in ASU 2014-1to Topic 323, “Equity Investments and Joint Ventures,” provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable

Table of Contents

housing projects that qualify for the low-income housing tax credit. The amendments permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received, and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments are effective for fiscal years, and interim periods within those years, beginning after December 31, 2014 and should be applied retrospectively to all periods presented. Early adoption is permitted. All of the Company's affordable housing fund investments are within the scope of this guidance. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In January 2014, the FASB issued ASU No. 2014-4, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." ASU 2014-4 clarifies that an in substance repossession or foreclosure has occurred, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure. Interim and annual disclosure is required of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. ASU 2014-4 is effective using either the modified retrospective transition method or a prospective transition method for fiscal years and interim periods within those years, beginning after December 15, 2014, and early adoption is permitted. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-9, "Revenue From Contracts With Customers", that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. The ASU becomes effective for Company at the beginning of its 2017 fiscal year; early adoption is not permitted. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing: Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures". The ASU changes the accounting for repurchase-to-maturity transactions to secured borrowing accounting. In addition, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The ASU also requires disclosures for certain transactions comprising (1) a transfer of a financial asset accounted for as a sale and (2) an agreement with the same transferee entered into in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. There are also additional disclosure requirements for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period". The ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award.

The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-14, “Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40), Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure.” Under ASU 2014-14, a mortgage loan should be derecognized and a separate receivable based on the principal and interest expected to be recovered from the governmental guarantor should be recognized upon foreclosure when all of the following conditions exist: a government guarantee exists that is not separable from the loan prior to the foreclosure; as of the date of the foreclosure the creditor has the intent to convey the real estate to the governmental agency that issued the guarantee, to make a claim on the guarantee and the creditor has the ability to recover amounts due from the governmental entity as a result of the claim; and, as of the time of the

Table of Contents

foreclosure, the claim amount that is based on the fair value of the real estate is fixed. ASU 2014-14 is effective using either the modified retrospective transition method or a prospective transition method for fiscal years and interim periods within those years, beginning after December 15, 2014. The Company is in the process of evaluating the impact that adoption of this guidance may have on its consolidated financial statements.

NOTE 2 – BUSINESS COMBINATIONS AND BRANCH SALES

The Company completed the following acquisitions between January 1, 2013 and September 30, 2014 and used the acquisition method of accounting. Accordingly, the operating results of the acquired entities have been included in the consolidated financial statements from their respective dates of acquisition.

The following table presents a summary of acquired assets and assumed liabilities along with a summary of the acquisition consideration as of the dates of acquisition:

	Acquisition and Date Acquired			
	Renovation Ready	CS Financial	The Palisades Group	Private Bank of California
	January 31, 2014	October 31, 2013	September 10, 2013	July 1, 2013
	(In thousands)			
Assets acquired:				
Cash and due from banks	$—	$482	$900	$33,752
Interest-bearing deposits	—	—	5	—
Securities available for sale	—	—	—	219,298
Loans held for sale	—	4,982	—	—
Loans and leases receivable	—	—	—	385,256
Premises, equipment, and capital leases	—	704	—	1,501
Income tax receivable	—	—	—	682
Goodwill	2,240	7,178	—	15,126
Other intangible assets	760	690	—	10,400
Other assets	—	608	364	6,578
Total assets acquired	$3,000	$14,644	$1,269	$672,593
Liabilities assumed:				
Deposits	$—	$—	$—	$561,890
Advances from Federal Home Loan Bank	—	—	—	41,833
Other liabilities	1,000	6,722	1,219	2,481
Total liabilities assumed	1,000	6,722	1,219	606,204
SBLF preferred stock assumed	—	—	—	10,000
Total consideration paid	$2,000	$7,922	$50	$56,389
Summary of consideration				
Cash paid	$1,000	$1,500	$50	$28,077
Common stock issued	1,000	1,964	—	28,282
Replacement awards	—	—	—	30
Noninterest-bearing note	—	3,150	—	—
Performance based equity	—	1,308	—	—
Earn-out liabilities	1,000	—	—	—

RenovationReady® Acquisition

Effective January 31, 2014, the Company acquired certain assets, including service contracts and intellectual property, of RenovationReady, a provider of specialized loan services to financial institutions and mortgage bankers that originate agency eligible residential renovation and construction loan products.

The RenovationReady acquisition was accounted for under GAAP guidance for business combinations. The purchased identifiable intangible assets and assumed liabilities were recorded at their estimated fair values as of January 31, 2014. The

Table of Contents

Company recorded $2.2 million of goodwill and $760 thousand of other intangible assets. The other intangible assets are related to a customer relationship intangible.

CS Financial Acquisition

Effective October 31, 2013, the Company acquired CS Financial, Inc. (CS Financial), a California corporation and Southern California-based mortgage banking firm controlled by former Company director and current Company executive Jeffery T. Seabold. CS Financial became a wholly owned subsidiary of the Bank. For additional information regarding this transaction, see note 18-Related-Party Transactions.

The CS Financial acquisition was accounted for under GAAP guidance for business combinations. The purchased assets, including identifiable intangible assets, and assumed liabilities were recorded at their estimated fair values as of October 31, 2013. The Company recorded $7.2 million of goodwill and $690 thousand of other intangible assets. The other intangible assets are related to a trade name intangible.

The Palisades Group, LLC Acquisition

Effective September 10, 2013, the Company acquired The Palisades Group, a Delaware limited liability company and a registered investment adviser under the Investment Advisers Act of 1940, pursuant to the terms of the Amended and Restated Units Purchase Agreement dated as of November 30, 2012, amended and restated as of August 12, 2013, for $50 thousand. The Palisades Group provides financial advisory and asset management services to third parties, including the Bank, with respect to the purchase, sale and management of portfolios of residential mortgage loans.

The Palisades Group acquisition was accounted for under GAAP guidance for business combinations. The assets and liabilities were recorded at their estimated fair values as of the September 10, 2013 acquisition date. No goodwill was recognized.

The Private Bank of California Acquisition

Effective July 1, 2013, the Company completed its acquisition of The Private Bank of California, (PBOC) pursuant to the terms of the Agreement and Plan of Merger, dated as of August 21, 2012, as amended (the PBOC Merger Agreement), by and between the Company, Beach Business Bank (Beach) (then a separate subsidiary bank of the Company) and PBOC. PBOC merged with and into Beach, with Beach continuing as the surviving entity in the merger and a wholly owned subsidiary of the Company, and changing its name to "The Private Bank of California." On October 11, 2013, The Private Bank of California was merged with the Company's other wholly owned banking subsidiary, Banc of California, National Association (formerly Pacific Trust Bank), to form the Bank.

Pursuant to the terms of the PBOC Merger Agreement, the Company paid aggregate merger consideration of (1) 2,082,654 shares of Company common stock (valued at $28.3 million based on the $13.58 per share closing price of Company common stock on July 1, 2013), and (2) $25.4 million in cash. Additionally, the Company paid $2.7 million for the cancellation of certain outstanding options to acquire PBOC common stock in accordance with the PBOC Merger Agreement and converted the remaining outstanding PBOC stock options to Company stock options with an assumed fair value of approximately $30 thousand. On the basis of the number of shares of PBOC common stock issued and outstanding immediately prior to the completion of the merger, each outstanding share of PBOC common stock was converted into the right to receive $6.52 in cash and 0.5379 shares of Company common stock.

In addition, upon completion of the acquisition, each share of preferred stock issued by PBOC as part of the Small Business Lending Fund (SBLF) program of the United States Department of Treasury (10,000 shares in the aggregate with a liquidation preference amount of $1,000 per share) was converted automatically into one substantially identical share of preferred stock of the Company. The terms of the preferred stock issued by the Company in exchange for the PBOC preferred stock are substantially identical to the preferred stock previously issued by the Company as part of its own participation in the SBLF program (32,000 shares in aggregate with a liquidation preference amount of $1,000 per share).

PBOC provided a range of financial services, including credit and deposit products as well as cash management services, from its headquarters located in the Century City area of Los Angeles, California as well as full-service branches in Hollywood and Irvine, and a loan production office in downtown Los Angeles. PBOC's target clients included high-net worth and high income individuals, business professionals and their professional service firms, business owners, entertainment service businesses and non-profit organizations.

In accordance with GAAP guidance for business combinations, the Company has expensed approximately $2.6 million of direct acquisition costs, all of which were recognized in 2013, and recorded $15.1 million of goodwill and $10.4 million of other intangible assets. The other intangible assets are primarily related to core deposits and are being amortized on an accelerated basis over 2-7 years. Loans acquired from PBOC that were considered credit impaired were written down at the acquisition date in accordance with purchase accounting to fair value. In addition, the allowance for loan losses for all PBOC loans was not carried over to the Company's allowance for loan and lease losses. A full valuation allowance for the deferred tax asset was recorded based on management's evaluation of the expectation of recovery of deferred tax assets for the Company. For tax purposes, purchase accounting adjustments, including goodwill are all nontaxable and/or non-deductible.

Pro Forma Information

The following table presents unaudited pro forma information as if the acquisitions of PBOC, Palisades and CS Financial had occurred on January 1, 2013 after giving effect to certain adjustments. The unaudited pro forma information for the three and nine months ended September 30, 2013 includes adjustments for interest income on loans and securities acquired, amortization of intangibles arising from the transaction, interest expense on deposits and borrowings acquired, and the related income tax effects. The information for the three and nine months ended September 30, 2014 reflects the Company's actual reported results for those periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Net interest income	$38,186	$26,977	$108,946	$74,369
Provision for loan and lease losses	$2,780	$2,125	6,817	7,054
Noninterest income	$44,098	$23,446	104,748	82,237
Noninterest expense	$67,557	$58,416	185,790	148,692
Income (loss) before income taxes	11,947	(10,118)	21,087	860
Income tax expense (benefit)	721	(1,077)	983	2,735
Net income (loss)	$11,226	$(9,041)	$20,104	$(1,875)
Basic earnings (loss) per total common share	$0.31	$(0.55)	$0.64	$(0.20)
Diluted earnings (loss) per total common share	$0.30	$(0.55)	$0.63	$(0.20)

The above unaudited pro forma financial information for 2013 includes the pre-acquisition periods for PBOC, Palisades, and CS Financial. The above unaudited pro forma financial information includes pre-acquisition provisions for loan and lease losses recognized by PBOC and CS Financial of $16 thousand and $859 thousand for the three and nine months ended September 30, 2013, respectively. No pro forma information for RenovationReady is presented for the three and nine months ended September 30, 2014, as it is immaterial. The above pro forma financial information does not include cost saves or integration costs and may not be reflective of what the actual results would have been for the applicable period had the transaction occurred at the beginning of the period.

Branch Sales

On October 4, 2013, the Bank sold eight branches and related assets and deposit liabilities to a Washington state chartered bank (AWB). The transaction was completed with a transfer of $464.3 million deposits to AWB in exchange for a deposit premium of 2.3 percent. Certain other assets related to the branches include the real estate for three of the branch locations and certain overdraft and other credit facilities related to the deposit accounts. The Company recognized a gain of $12.6 million from this transaction, of which $12.1 million was recognized in 2013.

Pending Acquisition of Banco Popular's California Branch Network

On April 22, 2014, the Bank entered into a Purchase and Assumption Agreement (the Purchase Agreement) with Banco Popular North America (BPNA), pursuant to which the Bank agreed to acquire select assets and assume certain liabilities comprising BPNA's network of 20 California branches (the BPNA Branches, and transaction the Branch Acquisition). Subject to the terms of the Purchase Agreement, the Bank will acquire approximately $1.1 billion in loans and will assume approximately $1.1 billion of deposit liabilities related to the Branches (based on September 30, 2014 balances). The Bank will also acquire certain other assets relating to the Branches, including, among others, owned and leased real property. In addition to certain deposits, the Bank will assume other liabilities pertaining to the operation of the Branches. The Branch Acquisition is subject to customary conditions to closing and the obligation of the Bank to complete the transaction is subject to its receipt of financing necessary to complete the transaction on the terms set forth in the Purchase Agreement. In conjunction with the anticipated closing of the Branch Acquisition, the Company will also sell and issue shares of voting common stock to OCM BOCA Investor, LLC ("Oaktree"), an entity owned by investment funds managed by Oaktree Capital Management, L.P., and (ii)

Table of Contents

Patriot Financial Partners, L.P., Patriot Financial Partners Parallel, L.P., Patriot Financial Partners II, L.P. and Patriot Financial Partners Parallel II, L.P, resulting in gross proceeds to the Company of approximately $50 million. The Branch Acquisition is anticipated to close on or about November 7, 2014.

NOTE 3 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair Value Hierarchy: ASC 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The topic describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Securities Available for Sale: The fair values of securities available for sale are generally determined by quoted market prices, if available (Level 1), or by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). The fair values of the Company's Level 3 securities are determined by the Company or an independent third-party provider using a discounted cash flow methodology. The methodology uses discount rates that are based upon observed market yields for similar securities. Prepayment speeds are estimated based upon the prepayment history of each bond and a detailed analysis of the underlying collateral. Gross weighted average coupon, geographic concentrations, loan to value, FICO and seasoning are among the different loan attributes that are factored into our prepayment curve. Default rates and severity are estimated based upon geography of the collateral, delinquency, modifications, loan to value ratios, FICO scores, and past performance.

Impaired Loans and Leases: The fair value of impaired loans and leases with specific allocations of the allowance for loan and lease losses or impairment based on collateral values is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. The fair value of non-collateral dependent impaired loans and leases with specific allocations of the allowance for loan and lease losses or impairments is based on the present value of estimated cash flows, a Level 3 measurement.

Loans Held for Sale: The fair value of loans held for sale is based on commitments outstanding from investors as well as what secondary markets are currently offering for portfolios with similar characteristics. Therefore, loans held for sale subjected to recurring fair value adjustments are classified as Level 2. The Company had $252.4 million and $192.6 million of loans held for sale at such fair values at September 30, 2014 and December 31, 2013, respectively. The Company also had $874.9 million and $524.1 million of non-conforming jumbo mortgage loans held for sale at the lower of cost or fair value at September 30, 2014 and December 31, 2013, respectively. The Company obtains quotes, bid or pricing indications on all or part of these loans directly from the buyers. Premiums and discounts received or to be received on the quotes, bids or pricing indications are indicative of the fact that the cost is lower or higher than fair value.

Derivative Assets and Liabilities: The Company's derivative assets and liabilities are carried at fair value as required by GAAP and are accounted for as freestanding derivatives. The Company has entered into pay-fixed, receive-variable interest rate swap contracts with institutional counterparties to hedge against variability in cash flow attributable to interest rate risk caused by changes in the LIBOR benchmark interest rate on the Company's ongoing LIBOR-based variable rate deposits. The Company is accounting for the swaps as cash flow hedges under ASC 815.

The other derivative assets are interest rate lock commitments (IRLCs) with prospective residential mortgage borrowers whereby the interest rate on the loan is locked by the borrower prior to funding. These IRLCs are determined to be derivative instruments in accordance with GAAP. Additional derivative assets and liabilities, typically mortgage-backed to-be-announced (TBA) securities, are used to hedge fair value changes, driven by changes in interest rates, on the Company’s mortgage assets. The Company hedges the period from the interest rate lock

Table of Contents

(assuming a fall-out factor) to the date of the loan sale. The estimated fair value is based on current market prices for similar instruments. Given the meaningful level of secondary market activity for derivative contracts, active pricing is available for similar assets and accordingly, the Company classifies its derivative assets and liabilities as Level 2.
Mortgage Servicing Rights: The Company retains servicing on some of its mortgage loans sold and elected the fair value option for valuation of these mortgage servicing rights (MSRs). The value is based on a third party provider that calculates the present value of the expected net servicing income from the portfolio based on key factors that include interest rates, prepayment assumptions, discount rate and estimated cash flows. Because of the significance of unobservable inputs, these servicing rights are classified as Level 3.
Other Real Estate Owned Assets: Other real estate owned assets (OREO) are recorded at the fair value less estimated costs to sell at the time of foreclosure. The fair value of other real estate owned assets is generally based on recent real estate appraisals adjusted for estimated selling costs. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments may be significant and result in a Level 3 classification of the inputs for determining fair value. Only OREO with a valuation allowance are considered to be carried at fair value. The Company recorded $0 and $18 thousand valuation allowance expense for OREO, respectively, for the three months ended September 30, 2014 and 2013 and recorded $0 and $97 thousand, respectively, for the nine months ended September 30, 2014 and 2013 in valuation allowance expense for OREO.

Table of Contents

Assets and Liabilities Measured on a Recurring and Non-Recurring Basis

Available for sale securities, certain conforming mortgage loans held for sale, derivative assets and liabilities, and servicing rights—mortgage are measured at fair value on a recurring basis, whereas impaired loans and leases, non-conforming jumbo mortgage loans held for sale and other real estate owned are measured at fair value on a non-recurring basis.

The following table presents the Company’s financial assets and liabilities measured at fair value on a recurring basis as of the dates indicated:

		Fair Value Measurement Level		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
September 30, 2014:				
Assets				
Available-for-sale securities:				
SBA loan pools securities	$1,693	$—	$1,693	$—
U.S. government-sponsored entities and agency securities	1,980	—	1,980	—
Private label residential mortgage-backed securities	3,698	—	3,698	—
Agency mortgage-backed securities	303,014	—	303,014	—
Loans held for sale	252,390	—	252,390	—
Derivative assets (1)	6,955	—	6,955	—
Mortgage servicing rights (2)	11,376	—	—	11,376
Liabilities				
Derivative liabilities (3)	596	—	596	—
December 31, 2013:				
Assets				
Available-for-sale securities:				
SBA loan pools securities	$1,736	$—	$1,736	$—
U.S. government-sponsored entities and agency securities	1,920	—	1,920	—
Private label residential mortgage-backed securities	14,752	—	14,752	—
Agency mortgage-backed securities	151,614	—	151,614	—
Loans held for sale	192,613	—	192,613	—
Derivative assets (1)	5,493	—	5,493	—
Mortgage servicing rights (2)	13,535	—	—	13,535
Liabilities				
Derivative liabilities (3)	—	—	—	—

(1) Included in other assets on the consolidated statements of financial condition

(2) Included in servicing rights, net and servicing rights held for sale on the consolidated statements of financial condition

(3) Included in accrued expenses and other liabilities on the consolidated statements of financial condition

Table of Contents

The following table presents the Company’s financial assets and liabilities measured at fair value on a non-recurring basis as of the dates indicated:

	Carrying Value	Fair Value Measurement Level: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
September 30, 2014:				
Assets				
Impaired loans:				
Single family residential mortgage	$23,119	$—	$—	$23,119
Commercial and industrial	7,333	—	—	7,333
Commercial real estate	3,572	—	—	3,572
Multi-family	1,622	—	—	1,622
Other consumer	1,382	—	—	1,382
SBA	6	—	—	6
Other real estate owned:				
Single family residential	605	—	—	605
December 31, 2013:				
Assets				
Impaired loans:				
Single family residential mortgage	$12,814	$—	$8,769	$4,045
Commercial real estate	3,868	—	105	3,763
Multi-family	1,972	—	—	1,972
Other consumer	249	—	216	33
Commercial and industrial	33	—	—	33
SBA	10	—	—	10

The Company did not have any other real estate owned at December 31, 2013.

The following table presents the gains and (losses) recognized on assets measured at fair value on a non-recurring basis for the periods indicated:

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(In thousands)			
Impaired loans:				
Single family residential mortgage	$(18)	$(884)	$(350)	$(1,195)
Real estate mortgage	88	(117)	88	(238)
SBA	—	(1)	—	(29)
Other consumer	—	—	(2)	(19)
Commercial and industrial	—	(2)	—	(2)
Other real estate owned:				
Single family residential	—	(7)	—	(40)
Multi-family	—	83	—	84
Land	—	(21)	—	83

19

Table of Contents

The following table presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods indicated:

	Three Months Ended			Nine Months Ended		
	Private Label Residential Mortgage Backed Securities	Mortgage Servicing Rights	Total	Private Label Residential Mortgage Backed Securities	Mortgage Servicing Rights	Total
	(In thousands)					
September 30, 2014:						
Balance at beginning of period	$—	$9,816	$9,816	$—	$13,535	$13,535
Transfers out of Level 3 [(1)]	—	—	—	—	(9,185)	(9,185)
Total gains or losses (realized/unrealized):						
Included in earnings—realized	—	—	—	—	—	—
Included in earnings—fair value adjustment	—	110	110	—	(140)	(140)
Included in other comprehensive income	—	—	—	—	—	—
Amortization of premium (discount)	—	—	—	—	—	—
Additions	—	7,735	7,735	—	18,057	18,057
Sales and settlements	—	(6,285)	(6,285)	—	(10,891)	(10,891)
Balance at end of period	$—	$11,376	$11,376	$—	$11,376	$11,376
September 30, 2013:						
Balance at beginning of period	$1,706	$4,620	$6,326	$2,214	$1,739	$3,953
Transfers out of Level 3 [(1)]	—	—	—	—	—	—
Total gains or losses (realized/unrealized):						
Included in earnings—realized	—	—	—	—	—	—
Included in earnings—fair value adjustment	—	(79)	(79)	—	251	251
Included in other comprehensive income	(3)	—	(3)	—	—	—
Amortization of premium (discount)	—	—	—	—	—	—
Additions	—	2,836	2,836	—	5,598	5,598
Sales and settlements	(1,703)	(157)	(1,860)	(2,214)	(368)	(2,582)
Balance at end of period	$—	$7,220	$7,220	$—	$7,220	$7,220

(1) The Company’s policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that cause the transfer.

Table of Contents

The following table presents quantitative information about Level 3 fair value measurements on a recurring basis as of the dates indicated:

	Fair Value (In thousands)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
September 30, 2014:				
Mortgage servicing rights	$11,376	Discounted cash flow	Discount rate	10.00% to 21.22% (10.70%)
			Prepayment rate	4.71% to 34.76% (12.41%)
December 31, 2013:				
Mortgage servicing rights	$13,535	Discounted cash flow	Discount rate	10.00% to 17.94% (10.26%)
			Prepayment rate	4.19% to 34.54% (9.85%)
September 30, 2013				
Mortgage servicing rights	$7,220	Discounted cash flow	Discount rate	10.00% to 17.46% (10.33%)
			Prepayment rate	3.29% to 38.70% (10.89%)

The significant unobservable inputs used in the fair value measurement of the Company’s servicing rights include the discount rate and prepayment rate. There may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results.

Table of Contents

The following table presents the carrying amounts and estimated fair values of financial assets and liabilities as of the dates indicated:

	Carrying Amount (In thousands)	Fair Value Measurement Level Level 1	Level 2	Level 3	Total
September 30, 2014:					
Financial assets					
Cash and cash equivalents	$184,985	$184,985	$—	$—	$184,985
Time deposits in financial institutions	1,900	1,900	—	—	1,900
Securities available-for-sale	310,385	—	310,385	—	310,385
FHLB and other bank stock	35,432	—	35,432	—	35,432
Loans held for sale	1,127,339	—	1,133,318	—	1,133,318
Loans and leases receivable, net of allowance	2,686,785	—	—	2,738,419	2,738,419
Accrued interest receivable	11,587	11,587	—	—	11,587
Derivative assets	6,955	—	6,955	—	6,955
Financial liabilities					
Deposits	3,631,710	—	—	3,568,567	3,568,567
Advances from Federal Home Loan Bank	305,000	—	305,030	—	305,030
Notes payable	95,549	86,587	14,516	—	101,103
Derivative liabilities	596	—	596	—	596
Accrued interest payable	1,806	1,806	—	—	1,806
December 31, 2013:					
Financial assets					
Cash and cash equivalents	$110,118	$110,118	$—	$—	$110,118
Time deposits in financial institutions	1,846	1,846	—	—	1,846
Securities available-for-sale	170,022	—	170,022	—	170,022
FHLB and other bank stock	22,600	—	22,600	—	22,600
Loans held for sale	716,733	—	719,496	—	719,496
Loans and leases receivable, net of allowance	2,427,306	—	—	2,460,953	2,460,953
Accrued interest receivable	10,866	10,866	—	—	10,866
Derivative assets	5,493	—	5,493	—	5,493
Financial liabilities					
Deposits	2,918,644	—	2,877,650	—	2,877,650
Advances from Federal Home Loan Bank	250,000	—	250,090	—	250,090
Notes payable	82,320	85,564	—	—	85,564
Derivative liabilities	—	—	—	—	—
Accrued interest payable	1,646	1,646	—	—	1,646

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, time deposits in financial institutions, and accrued interest receivable and payable. The methods for determining the fair values for securities available for sale, and derivatives assets and liabilities are described above. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent re-pricing or re-pricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. The fair value of FHLB advances and long-term debt is based on current rates for similar financings, and therefore not indicative of an exit price. Investments in FHLB stock are recorded at cost. Ownership of FHLB stock is restricted to member banks, and purchases and sales of these securities are at par value with the issuer. Notes payable consists of Senior Notes and Amortizing Notes (see note 10-Long Term

Debt for additional information). The fair value of the Amortizing Notes is based on discounted cash flows using estimated current market rates. The fair value of off-balance-sheet items is not considered material (or is based on the current fees or costs that would be charged to enter into or terminate such arrangements) and is not presented.

Table of Contents

NOTE 4 – SECURITIES AVAILABLE FOR SALE

The following table presents the amortized cost and fair value of the available-for-sale investment securities portfolio and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) as of the dates indicated:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
September 30, 2014:				
Available for sale				
SBA loan pool securities	$1,697	$—	$(4)	$1,693
U.S. government-sponsored entities and agency securities	1,937	43	—	1,980
Private label residential mortgage-backed securities	3,698	15	(15)	3,698
Agency mortgage-backed securities	303,920	420	(1,326)	303,014
Total securities available for sale	$311,252	$478	$(1,345)	$310,385
December 31, 2013:				
Available for sale				
SBA loan pool securities	$1,794	$—	$(58)	$1,736
U.S. government-sponsored entities and agency securities	1,928	—	(8)	1,920
Private label residential mortgage-backed securities	14,653	135	(36)	14,752
Agency mortgage-backed securities	153,134	299	(1,819)	151,614
Total securities available for sale	$171,509	$434	$(1,921)	$170,022

The following table presents amortized cost and fair value of the available-for-sale investment securities portfolio by expected maturity. In the case of residential mortgage-backed securities and SBA loan pool securities, expected maturities may differ from contractual maturities because borrowers generally have the right to call or prepay obligations with or without call or prepayment penalties. For that reason, mortgage-backed securities and SBA loan pool securities are not included in the maturity categories.

	September 30, 2014	
	Amortized Cost	Fair Value
	(In thousands)	
Maturity:		
Available for sale		
Within one year	$—	$—
One to five years	1,937	1,980
Five to ten years	—	—
Greater than ten years	—	—
SBA loan pool, private label residential mortgage backed and agency mortgage-backed securities	309,315	308,405
Total	$311,252	$310,385

At September 30, 2014 and December 31, 2013, there were no holdings of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10 percent of shareholders' equity.

Table of Contents

The following table presents proceeds from sales and calls of securities and the associated gross gains and losses realized through earnings upon the sale of available for sale securities for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Gross realized gains on sales of securities available for sale	$—	$117	$560	$426
Gross realized losses on sales of securities available for sale	—	(107)	(38)	(107)
Net realized gains (losses) on sales of securities available for sale	$—	$10	$522	$319
Proceeds from sales of securities available for sale	$—	$118,747	$52,245	$127,286
Tax expense on sales of securities available for sale	$—	$—	$—	$—

Securities available for sale with carrying values of $8.3 million and $63.0 million as of September 30, 2014 and December 31, 2013, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

The following table summarizes the investment securities with unrealized losses by security type and length of time in a continuous unrealized loss position as of the dates indicated:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
September 30, 2014:						
Available for sale						
SBA loan pool securities	$1,693	$(4)	$—	$—	$1,693	$(4)
U.S. government-sponsored entities and agency securities	—	—	—	—	—	—
Private label residential mortgage-backed securities	198	(10)	1,700	(5)	1,898	(15)
Agency mortgage-backed securities	150,685	(851)	20,843	(475)	171,528	(1,326)
Total securities available for sale	$152,576	$(865)	$22,543	$(480)	$175,119	$(1,345)
December 31, 2013:						
Available for sale						
SBA loan pool securities	$1,736	$(58)	$—	$—	$1,736	$(58)
U.S. government-sponsored entities and agency securities	1,920	(8)	—	—	1,920	(8)
Private label residential mortgage-backed securities	2,064	(11)	3,913	(25)	5,977	(36)
Agency mortgage-backed securities	114,104	(1,790)	1,821	(29)	115,925	(1,819)
Total securities available for sale	$119,824	$(1,867)	$5,734	$(54)	$125,558	$(1,921)

The Company did not record other-than-temporary impairment (OTTI) for securities available for sale for the three and nine months ended September 30, 2014 and 2013.

At September 30, 2014, the Company’s securities available for sale portfolio consisted of 90 securities, 62 of which were in an unrealized loss position. The unrealized losses are related to an overall increase in interest rates and a decrease in prepayment speeds of the agency mortgage-backed securities.

The Company monitors to ensure it has adequate credit support and as of September 30, 2014, the Company did not have the intent to sell these securities and it is not likely that it will be required to sell the securities before their anticipated recoveries. Of the Company’s $310.4 million securities portfolio, $310.2 million were rated AAA, AA or A, and $198 thousand were rated

Table of Contents

BBB based on the most recent credit rating from the rating agencies as of September 30, 2014. The Company considers the lowest credit rating for identification of potential OTTI.

NOTE 5 – LOANS AND LEASES AND ALLOWANCE FOR LOAN AND LEASE LOSSES
The following table presents the balances in the Company's loans and leases portfolio as of the dates indicated:

	Non-Traditional Mortgages (NTM)	Traditional Loans	Total NTM and Traditional Loans	Purchased Credit Impaired	Total Loans and Leases Receivable
	($ in thousands)				
September 30, 2014:					
Commercial:					
Commercial and industrial	$—	$365,136	$365,136	$1,280	$366,416
Commercial real estate	—	510,251	510,251	11,616	521,867
Multi-family	—	367,364	367,364	—	367,364
SBA	—	22,523	22,523	3,206	25,729
Construction	—	25,997	25,997	—	25,997
Lease financing	—	72,027	72,027	—	72,027
Consumer:					
Single family residential mortgage	203,967	624,291	828,258	236,440	1,064,698
Green Loans (HELOC) - first liens	126,323	—	126,323	—	126,323
Green Loans (HELOC) - second liens	4,952	—	4,952	—	4,952
Other consumer	113	136,223	136,336	359	136,695
Total gross loans	$335,355	$2,123,812	$2,459,167	$252,901	$2,712,068
Percentage to total gross loans	12.4 %	78.3 %	90.7 %	9.3 %	100.0 %
Allowance for loan and lease losses					(25,283)
Loans and leases receivable, net					$2,686,785
December 31, 2013:					
Commercial:					
Commercial and industrial	$—	$283,743	$283,743	$4,028	$287,771
Commercial real estate	—	514,869	514,869	15,014	529,883
Multi-family	—	141,580	141,580	—	141,580
SBA	—	23,740	23,740	3,688	27,428
Construction	—	24,933	24,933	—	24,933
Lease financing	—	31,949	31,949	—	31,949
Consumer:					
Single family residential mortgage	156,490	667,526	824,016	314,820	1,138,836
Green Loans (HELOC) - first liens	147,705	—	147,705	—	147,705
Green Loans (HELOC) - second liens	5,289	—	5,289	—	5,289
Other consumer	113	108,888	109,001	1,736	110,737
Total gross loans	$309,597	$1,797,228	$2,106,825	$339,286	$2,446,111

Percentage to total gross loans	12.7 %	73.4 %	86.1 %	13.9 %	100.0 %
Allowance for loan and lease losses					(18,805)
Loans and leases receivable, net					$2,427,306

25

Table of Contents

Non Traditional Mortgage Loans

The Company's non-traditional mortgage (NTM) portfolio is comprised of three interest only products: Green Account Loans (Green Loans), fixed or adjustable hybrid interest only rate mortgage (Interest Only) loans and a small number of additional loans with the potential for negative amortization. As of September 30, 2014 and December 31, 2013, the non-traditional mortgage loans totaled $335.4 million, or 12.4 percent of the total gross loan portfolio, and $309.6 million, or 12.7 percent of the total gross loan portfolio, respectively. The total NTM portfolio increased by $25.8 million, or 8.3 percent, during the nine months ended September 30, 2014.

The following table presents the composition of the NTM portfolio as of the dates indicated:

	September 30, 2014				December 31, 2013			
	Count	Amount	Percent		Count	Amount	Percent	
	($ in thousands)							
Green Loans (HELOC) - first liens	152	$126,323	37.7	%	173	$147,705	47.6	%
Interest-only - first liens	200	190,734	56.8	%	244	139,867	45.2	%
Negative amortization	32	13,233	3.9	%	37	16,623	5.4	%
Total NTM - first liens	384	330,290	98.4	%	454	304,195	98.2	%
Green Loans (HELOC) - second liens	19	4,952	1.5	%	23	5,289	1.7	%
Interest-only - second liens	1	113	0.1	%	1	113	0.1	%
Total NTM - second liens	20	5,065	1.6	%	24	5,402	1.8	%
Total NTM loans	404	335,355	100.0	%	478	309,597	100.0	%
Total gross loan portfolio		$2,712,068				$2,446,111		
% of NTM to total gross loan portfolio		12.4 %				12.7 %		

Green Loans

Green Loans are single family residential first and second mortgage lines of credit with a linked checking account that allows all types of deposits and withdrawals to be performed. The loans are generally interest only with a 15 year balloon payment due at maturity. At September 30, 2014, Green Loans totaled $131.3 million, a decrease of $21.7 million, or 14.2 percent, from $153.0 million at December 31, 2013, primarily due to reductions in principal balance and payoffs. As of September 30, 2014 and December 31, 2013, $12.6 million and $5.7 million, respectively, of the Company's Green Loans were non-performing. As a result of their unique payment feature, Green Loans possess higher credit risk due to the potential of negative amortization; however, management believes the risk is mitigated through the Company's loan terms and underwriting standards, including its policies on loan-to-value ratios and the Company's contractual ability to curtail loans when the value of the underlying collateral declines. The Company discontinued origination of the Green Loan products in 2011.

Interest Only Loans

Interest only loans are primarily single family residential first mortgage loans with payment features that allow interest only payments in initial periods before converting to a fully amortizing loan. As of September 30, 2014, our interest only loans increased by $50.9 million, or 36.3 percent, to $190.8 million from $140.0 million at December 31, 2013, primarily due to originations of $45.6 million and transfers from loans held for sale of $77.1 million, partially offset by transfers to loans held for sale of $25.3 million and net amortization of $46.5 million. As of September 30, 2014 and December 31, 2013, $1.1 million and $752 thousand of the interest only loans were non-performing, respectively.

Loans with the Potential for Negative Amortization

Negative amortization loans decreased by $3.4 million, or 20.4 percent, to $13.2 million at September 30, 2014 from $16.6 million at December 31, 2013. The Company discontinued origination of negative amortization loans in 2007. As of September 30, 2014 and December 31, 2013, $0 and $1.2 million of the loans that had the potential for negative amortization were non-performing, respectively. These loans pose a potentially higher credit risk because of the lack of principal amortization and potential for negative amortization; however, management believes the risk is mitigated through the loan terms and underwriting standards, including the Company’s policies on loan-to-value ratios.

Table of Contents

Risk Management of Non-Traditional Mortgages

The Company has determined that the most significant performance indicators for non-traditional mortgages are loan-to-value (LTV) and FICO scores. Accordingly, the Company manages credit risk in the NTM portfolio through semi-annual review of the loan portfolio that includes refreshing FICO scores on the Green Loans and home equity lines of credit, as needed in conjunction with portfolio management, and ordering third party automated valuation models. The loan review is designed to provide a method of identifying borrowers who may be experiencing financial difficulty before they actually fail to make a loan payment. Upon receipt of the updated FICO scores, an exception report is run to identify loans with a decrease in FICO of 10 percent or more and/or a resulting FICO of 620 or less. The loans are then further analyzed to determine if the risk rating should be downgraded which will increase the reserves the Company will establish for potential losses. A report of the semi-annual loan review is published and regularly monitored.

As these loans are revolving lines of credit, the Company, based on the loan agreement and loan covenants of the particular loan, as well as applicable rules and regulations, could suspend the borrowing privileges or reduce the credit limit at any time the Company reasonably believes that the borrower will be unable to fulfill their repayment obligations under the agreement or certain other conditions are met. In many cases, the decrease in FICO is the first indication that the borrower may have difficulty in making their future payment obligations.

As a result, the Company proactively manages the portfolio by performing detailed analysis on its portfolio with emphasis on the NTM portfolio. The Company's Internal Asset Review Committee (IARC) conducts meetings on at least a quarterly basis to review the loans classified as special mention, substandard, or doubtful and determines whether a suspension or reduction in credit limit is warranted. If the line has been suspended and the borrower would like to have their credit privileges reinstated, they would need to provide updated financials showing their ability to meet their payment obligations.

On the interest only loans, the Company projects future payment changes to determine if there will be a material increase in the required payment and then monitors the loans for possible delinquency. The individual loans are monitored for possible downgrading of risk rating, and trends within the portfolio are identified that could affect other interest only loans scheduled for payment changes in the near future.

Non-Traditional Mortgage Performance Indicators

The following table presents the Company's non-traditional single family residential mortgage Green Loans first lien portfolio at September 30, 2014 by FICO scores that were obtained during the second quarter of 2014, comparing to the FICO scores for those same loans that were obtained during the fourth quarter of 2013:

	By FICO Scores Obtained During the Quarter Ended June 30, 2014			By FICO Scores Obtained During the Quarter Ended December 31, 2013			Change		
	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent
	($ in thousands)								
September 30, 2014:									
FICO Score									
800+	21	$13,095	10.4 %	13	$7,307	5.8 %	8	$5,788	4.6 %
700-799	74	56,628	44.8 %	89	68,877	54.6 %	(15)	(12,249)	(9.8)%
600-699	33	29,172	23.1 %	32	28,097	22.2 %	1	1,075	0.9 %
<600	9	10,536	8.3 %	8	7,003	5.5 %	1	3,533	2.8 %
No FICO	15	16,892	13.4 %	10	15,039	11.9 %	5	1,853	1.5 %
Totals	152	$126,323	100.0 %	152	$126,323	100.0 %	—	$—	— %

The Company updates FICO scores on a semi-annual basis, typically in the second and fourth quarters or as needed in conjunction with proactive portfolio management.

27

Table of Contents

Loan to Value

The table below represents the Company's single family residential NTM first lien portfolio by loan-to-value (LTV) as of the dates indicated:

	Green			Interest Only			Negative Amortization			Total		
	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent	Count	Amount	Percent
	($ in thousands)											
September 30, 2014:												
LTV's (1)												
< 61	79	$73,361	58.1 %	62	$88,103	46.2 %	15	$7,362	55.6 %	156	$168,826	51.1 %
61-80	46	35,799	28.3 %	45	70,502	37.0 %	10	4,113	31.1 %	101	110,414	33.4 %
81-100	22	12,710	10.1 %	32	11,860	6.2 %	6	1,361	10.3 %	60	25,931	7.9 %
> 100	5	4,453	3.5 %	61	20,269	10.6 %	1	397	3.0 %	67	25,119	7.6 %
Total	152	$126,323	100.0 %	200	$190,734	100.0 %	32	$13,233	100.0 %	384	$330,290	100.0 %
December 31, 2013:												
LTV's (1)												
< 61	90	$78,807	53.3 %	80	$65,181	46.6 %	13	$4,930	29.7 %	183	$148,918	49.0 %
61-80	38	33,604	22.8 %	51	28,999	20.7 %	13	7,643	45.9 %	102	70,246	23.1 %
81-100	26	14,917	10.1 %	43	21,474	15.4 %	8	3,277	19.7 %	77	39,668	13.0 %
> 100	19	20,377	13.8 %	70	24,213	17.3 %	3	773	4.7 %	92	45,363	14.9 %
Total	173	$147,705	100.0 %	244	$139,867	100.0 %	37	$16,623				