PACIFIC PREMIER BANCORP INC
Form 10-Q
May 16, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from _______ to _______

Commission File Number 0-22193

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

The number of shares outstanding of the registrant's common stock as of May 13, 2011 was 10,084,626.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
FORM 10-Q
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FOR THE QUARTER ENDED March 31, 2011

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS	March 31, 2011 (Unaudited)	December 31, 2010 (Audited)	March 31, 2010 (Unaudited)
Cash and due from banks	$ 46,302	$ 63,433	$ 49,541
Federal funds sold	10,578	29	29
Cash and cash equivalents	56,880	63,462	49,570
Investment securities available for sale	140,927	155,094	120,270
FHLB stock/Federal Reserve Bank stock, at cost	14,161	13,334	14,330
Loans held for investment	699,953	564,417	547,051
Allowance for loan losses	(8,879)	(8,879)	(9,169)
Loans held for investment, net	691,074	555,538	537,882
Accrued interest receivable	4,014	3,755	3,592
Other real estate owned	10,509	34	6,169
Premises and equipment	8,166	8,223	8,697
Deferred income taxes	8,977	11,103	11,546
Bank owned life insurance	12,583	12,454	12,060
Intangible assets	2,243	-	-
Other assets	6,948	3,819	3,528
TOTAL ASSETS	$ 956,482	$ 826,816	$ 767,644
LIABILITIES AND STOCKHOLDERS'			

EQUITY			
LIABILITIES:			
Deposit accounts:			
Noninterest bearing	$ 118,241	$ 47,229	$ 38,084
Interest bearing:			
Transaction accounts	287,694	203,029	174,644
Retail certificates of deposit	413,126	407,108	397,121
Wholesale/brokered certificates of deposit	13,725	1,874	3,052
Total deposits	832,786	659,240	612,901
FHLB advances and other borrowings	28,500	68,500	66,500
Subordinated debentures	10,310	10,310	10,310
Accrued expenses and other liabilities	5,217	10,164	3,812
TOTAL LIABILITIES	876,813	748,214	693,523
STOCKHOLDERS' EQUITY:			
Preferred Stock, $.01 par value; 1,000,000 shares authorized; no shares outstanding	-	-	-
Common stock, $.01 par value; 15,000,000 shares authorized; 10,084,626 shares at March 31, 2011, 10,033,836 shares at December 31, 2010 and March 31, 2010 issued and outstanding	101	100	100
Additional paid-in capital	76,326	79,942	79,928
Retained earnings (accumulated deficit)	4,246	(526)	(4,308)
Accumulated other comprehensive loss, net of tax benefit of $702 at March 31, 2011, $639 at December 31, 2010, and $1,118 at March 31, 2010	(1,004)	(914)	(1,599)
TOTAL STOCKHOLDERS' EQUITY	79,669	78,602	74,121
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 956,482	$ 826,816	$ 767,644

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

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

	Three Months Ended	
	March 31, 2011	March 31, 2010
INTEREST INCOME		
Loans	$ 10,533	$ 9,155
Investment securities and other interest-earning assets	1,201	1,029
Total interest income	11,734	10,184
INTEREST EXPENSE		
Interest-bearing deposits:		
Interest on transaction accounts	445	413
Interest on certificates of deposit	1,823	2,168
Total interest-bearing deposits	2,268	2,581
FHLB advances and other borrowings	288	868
Subordinated debentures	76	75
Total interest expense	2,632	3,524
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	9,102	6,660
PROVISION FOR LOAN LOSSES	106	1,056
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,996	5,604
NONINTEREST INCOME		
Loan servicing fees	217	70
Deposit fees	448	188
Net gain (loss) from sales of loans	86	(1,015)
Net gain from sales of investment securities	164	87
Other-than-temporary impairment loss on investment securities, net	(214)	(326)
Gain on FDIC transaction	4,189	-
Other income	349	270
Total noninterest income (loss)	5,239	(726)
NONINTEREST EXPENSE		
Compensation and benefits	3,181	2,013
Premises and occupancy	800	626
Data processing and communications	301	184
Other real estate owned operations, net	263	295

FDIC insurance premiums	264	348
Legal and audit	392	125
Marketing expense	229	149
Office and postage expense	167	123
Other expense	762	459
Total noninterest expense	6,359	4,322
NET INCOME BEFORE INCOME TAXES	7,876	556
INCOME TAX	3,104	100
NET INCOME	$ 4,772	$ 456
EARNINGS PER SHARE		
Basic	$ 0.47	$ 0.05
Diluted	$ 0.44	$ 0.04
WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic	10,049,311	10,033,836
Diluted	10,857,123	11,021,014

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(dollars in thousands)
(unaudited)

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2010	10,033,836	$ 100	$ 79,942	$ (526)	$ (914)		$ 78,602
Comprehensive Income:							
Net income				4,772		$ 4,772	4,772
Unrealized holding gains on securities arising during the period, net of tax						132	
Reclassification adjustment for net loss on sale of securities included in net income, net of tax						(222)	
Net unrealized gain on securities, net of tax					(90)	(90)	(90)

Total comprehensive income						$ 4,682	
Share-based compensation expense			13				13
Common stock repurchased and retired	(10,610)	(1)	(69)				(70)
Warrants purchased and retired			(3,660)				(3,660)
Warrants exercised	41,400	1	31				32
Stock options exercised	20,000	1	69				70
Balance at March 31, 2011	10,084,626	$ 101	$ 76,326	$ 4,246	$ (1,004)		$ 79,669
Balance at December 31, 2009	10,033,836	$ 100	$ 79,907	$ (4,764)	$ (1,741)		$ 73,502
Comprehensive Income:							
Net income				456		$ 456	456
Unrealized holding gains on securities arising during the period, net of tax						94	
Reclassification adjustment for net loss on sale of securities included in net income, net of tax						48	
Net unrealized gain on securities, net of tax					142	142	142
Total comprehensive income						$ 598	
Share-based compensation expense			21				21
Balance at March 31, 2010	10,033,836	$ 100	$ 79,928	$ (4,308)	$ (1,599)		$ 74,121

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

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

Three Months Ended
March 31,

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,772	$ 456
Adjustments to net income:		
Depreciation and amortization expense	265	247
Provision for loan losses	106	1,056
Share-based compensation expense	13	21
Loss on sale and disposal of premises and equipment	6	12
Loss on sale of other real estate owned	16	27
Write down of other real estate owned	-	226
Amortization of premium/discounts on securities held for sale, net	235	129
Gain on sale of investment securities available for sale	(164)	(87)
Other-than-temporary impairment loss on investment securities, net	214	326
Loss (gain) on sale of loans held for investment	(86)	1,015
Gain on FDIC transaction	(4,189)	-
Deferred income tax provision (benefit)	248	(81)
Change in accrued expenses and other liabilities, net	(4,905)	(1,227)
Income from bank owned life insurance, net	(129)	(134)
Change in accrued interest receivable and other assets, net	4,628	416
Net cash provided by operating activities	1,030	2,402
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and principal payments on loans held for investment	20,307	28,670
Net change in undisbursed loan funds	15,263	(2,471)
Purchase and origination of loans held for investment	(21,451)	(2,922)
Proceeds from sale of other real estate owned	1,892	489
Principal payments on securities available for sale	5,749	3,216
Purchase of securities available for sale	-	(32,795)

Proceeds from sale or maturity of securities available for sale		20,556		24,351
Purchases of premises and equipment		(174)		(243)
Purchase of Federal Reserve Bank stock		495		-
Cash acquired in FDIC transaction		26,389		-
Net cash provided by investing activities		69,026		18,295
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase (decrease) in deposit accounts		(30,767)		(5,833)
Repayment of FHLB advances and other borrowings		(40,000)		(25,000)
Proceeds from exercise of stock options		32		-
Warrants purchased and retired		(3,660)		-
Net cash used in financing activities		(74,395)		(30,833)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(4,339)		(10,136)
CASH AND CASH EQUIVALENTS, beginning of period		63,462		59,706
CASH AND CASH EQUIVALENTS, end of period	$	59,123	$	49,570

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

	Three Months Ended March 31,			
		2011		2010
SUPPLEMENTAL CASH FLOW DISCLOSURES				
Interest paid	$	2,624	$	3,403
Income taxes paid		115		150
Assets acquired (liabilities assumed) in acquisition:				
Investment securities		14,076		-
FDIC receivable		2,838		-
Loans		149,739		-
Core deposit intangible		2,270		-
Other real estate owned		11,953		-
Fixed assets		42		-
Other assets		1,599		-

Deposits		(204,678)		-
Other liabilities		(39)		-
NONCASH INVESTING ACTIVITIES DURING THE PERIOD				
Transfers from loans to other real estate owned	$	-	$	3,530

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011
(UNAUDITED)

Note 1 - Basis of Presentation

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

In the opinion of management, the consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company's financial position as of March 31, 2011, December 31, 2010, and March 31, 2010 and the results of its operations, changes in stockholders' equity, comprehensive income and cash flows for the three months ended March 31, 2011 and 2010. Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for any other interim period or the full year ending December 31, 2011.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

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

Note 2 – Recently Issued Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements." ASU 2010-06 revised two disclosure requirements concerning fair value measurements and clarifies two others. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It will also require the presentation of purchases, sales, issuances, and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. The Company's disclosures about fair value measurements are presented in Note 8 – Fair Value Disclosures. These new disclosure requirements were effective for the period ended March 31, 2011, except for the requirement concerning gross presentation of Level 3 activity, which is effective for fiscal years beginning after December 15, 2010. There was no significant effect to the Company's financial statement disclosure upon adoption of this ASU.

In January 2011, the FASB deferred the effective date of Disclosures about Troubled Debt Restructurings ("TDRs"). This delay was intended to allow the FASB time to complete deliberations on what constitutes a TDR. The effective date of the new disclosures regarding TDRs for public entities and the guidelines for determining what constitutes a troubled debt restructuring will be effective upon issuance. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

Future Application of Accounting Pronouncements

The following accounting pronouncement has been issued by the FASB but is not yet effective: ASU 2011-02, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring. ASU 2011-02 provides guidance clarifying under what circumstances a creditor should classify a restructured receivable as a TDR. A receivable is a TDR if both of the following exist: 1) a creditor has granted a concession to the debtor, and 2) the debtor is experiencing financial difficulties. ASU 2011-02 clarifies that a creditor should consider all aspects of a restructuring when evaluating whether it has granted a concession, which include determining whether a debtor can obtain funds from another source at market rates and assessing the value of additional collateral and guarantees obtained at the time of restructuring. ASU 2011-02 also provides factors a creditor should consider when determining if a debtor is experiencing financial difficulties, such as probability of payment default and bankruptcy declarations. ASU 2011-02 will become effective for us in third quarter 2011 with retrospective application to January 1, 2011. Early adoption is permitted. We are evaluating the impact these accounting changes may have on our consolidated financial statements.

Note 3 – Loans Held for Investment

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

	March 31, 2011	December 31, 2010	March 31, 2010
		(dollars in thousands)	
Real estate loans:			
Multi-family	$ 235,443	$ 243,584	$ 264,996
Commercial non-owner occupied	156,616	130,525	139,953
One-to-four family	48,291	20,318	8,364
Construction	5,631	-	-
Land	10,002	-	-
Business loans:			
Commercial owner occupied	156,379	113,025	96,336
Commercial and industrial	86,206	54,687	33,166
SBA	3,268	4,088	3,002
Other loans	1,264	1,417	1,770
Total gross loans	703,100	567,644	547,587
Less loans held for sale	-	-	-
Total gross loans held for investment	703,100	567,644	547,587
Less (plus):			

Deferred loan origination costs (fees) and premiums (discounts)	(3,147)	(3,227)	(536)
Allowance for loan losses	(8,879)	(8,879)	(9,169)
Loans held for investment, net	$ 691,074	$ 555,538	$ 537,882

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

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

Under applicable laws and regulations, the Bank may not make secured loans to one borrower in excess of 25% of unimpaired capital plus surplus and likewise in excess of 15% for unsecured loans. These loans-to-one borrower limitations result in a dollar limitation of $23.0 million for secured loans and $13.6 million for unsecured loans at March 31, 2011. At March 31, 2011, the Bank's largest aggregate outstanding balance of loans to one borrower was $11.3 million of secured credit.

Concentration of Credit Risk

The Company's loan portfolio was collateralized by various forms of real estate and business assets located principally in Southern California. The Company's loan portfolio contains concentrations of credit in multi-family real estate, commercial non-owner occupied real estate and commercial owner occupied business loans. The Company maintains Board approved policies that address these concentrations and continues to diversify its loan portfolio through loan originations, purchases and sales to meet approved concentration levels. While management believes that the collateral presently securing these loans is adequate, there can be no assurances that further significant deterioration in the California real estate market and economy would not expose the Company to significantly greater credit risk.

Impaired Loans

The following table provides a summary of the Company's investment in impaired loans as of and for the quarter ended March 31, 2011, and as of and for the year ended December 31, 2010:

	Impaired Loans						
	Recorded Investment	Unpaid Principal Balance	With Specific Allowance	Without Specific Allowance (in thousands)	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
March 31, 2011							
Real estate loans:							
Multi-family	$3,300	$3,300	$-	$3,300	$-	$2,036	$ 17
Commercial investor	2,476	2,476	463	2,012	47	2,371	34
One-to-four family	3,743	3,742	-	3,742	-	2,898	44
Construction	537	537	-	537	-	433	1
Land	2,982	2,982	-	2,982	-	2,280	27

Business loans:							
Commercial owner occupied	6,563	6,430	-	6,430	-	5,979	67
Commercial and industrial	5,020	4,905	-	4,905	-	4,290	51
SBA	1,672	1,000	-	1,000	-	1,030	19
Other loans	2	1	-	2	-	1	-
Totals	$26,295	$25,373	$463	$24,910	$47	$21,318	$260

Impaired Loans

	Recorded Investment	Unpaid Principal Balance	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
	(dollars in thousands)						
December 31, 2010							
Real estate loans:							
Multi-family	$1,156	$1,156	$-	$1,156	$-	$2,114	$94
Commercial investor	2,068	2,068	465	1,603	47	1,949	127
One-to-four family	223	224	-	223	-	249	15
Business loans:							
Commercial owner occupied	2,225	2,342	-	2,225	-	1,332	-
Commercial and industrial	54	169	-	54	-	270	14
SBA	1,092	1,751	-	1,092	-	970	14
Totals	$6,818	$7,710	$465	$6,353	$47	$6,882	$264

The following table summarizes impaired loan balances for prior periods as presented below:

	March 31, 2010 (in thousands)
Impaired loans without a valuation allowance	$ 7,317
Impaired loans with a valuation allowance	$ 613
Valuation allowance related to	$ 127

impaired loans	
Average recorded investment in impaired loans	$ 8,847

The Company considers a loan to be impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement or it is determined that the likelihood of the Company receiving all scheduled payments, including interest, when due is remote. The Company has no commitments to lend additional funds to debtors whose loans have been impaired.

The Company reviews loans for impairment when the loan is classified as substandard or worse, delinquent 90 days, or determined by management to be collateral dependent, or when the borrower files bankruptcy or is granted a TDR. Measurement of impairment is based on the loan's expected future cash flows discounted at the loan's effective interest rate, measured by reference to an observable market value, if one exists, or the fair value of the collateral if the loan is deemed collateral dependent. All loans are generally charged-off at such time the loan is classified as a loss. Valuation allowances are determined on a loan-by-loan basis or by aggregating loans with similar risk characteristics.

The following table provides additional detail on the components of impaired loans for the periods indicated below.

	March 31, 2011	December 31, 2010	March 31, 2010
		(in thousands)	
Nonaccruing loans	$ 19,900	$ 3,270	$ 4,299
Accruing loans	5,473	3,548	3,630
Total impaired loans	$ 25,373	$ 6,818	$ 7,929

When loans are placed on nonaccrual status all accrued interest is reversed from earnings. Payments received on nonaccrual loans are generally applied as a reduction to the loan principal balance. If the likelihood of further loss is remote, the Company will recognize interest on a cash basis only. Loans may be returned to accruing status if the Company believes that all remaining principal and interest is fully collectible and there has been at least six months of sustained repayment performance since the loan was placed on nonaccrual.

The Company does not accrue interest on loans 90 days or more past due or when, in the opinion of management, there is reasonable doubt as to the collection of interest. The Company had impaired loans on nonaccrual status at March 31, 2011, of $19.9 million, December 31, 2010 of $3.3 million, and March 31, 2010 of $4.3 million. The Company had no loans 90 days or more past due and still accruing or troubled debt restructures at March 31, 2011, December 31, 2010 or March 31, 2010.

Credit Quality and Credit Risk Management

The Company's credit quality is maintained and credit risk managed in two distinct areas. The first is the loan origination process, wherein the Bank underwrites credit quality and chooses which risks it is willing to accept. The second is in the ongoing oversight of the loan portfolio, where existing credit risk is measured and monitored, and where performance issues are dealt with in a timely and comprehensive fashion.

The Company maintains a comprehensive credit policy which sets forth minimum and maximum tolerances for key elements of loan risk. The policy identifies and sets forth specific guidelines for analyzing each of the loan products the Company offers from both an individual and portfolio wide basis. The credit policy is reviewed annually by the Board of Directors. Seasoned underwriters ensure all key risk factors are analyzed with nearly all underwriting including a comprehensive global cash flow analysis. The credit approval process mandates multiple-signature approval by either the management or Board credit committee for every loan which requires any subjective credit analysis.

Credit risk is managed within the loan portfolio by the Company's Portfolio Management department based on a comprehensive credit and investment review policy. This policy requires a program of financial data collection and analysis, comprehensive loan reviews, property and/or business inspections and monitoring of portfolio concentrations and trends. The Portfolio Management department also monitors asset-based lines of credit, loan covenants and other conditions associated with the Company's business loans as a means to help identify potential credit risk. Individual loans, excluding the homogeneous loan portfolio, are reviewed at least biennially, or more frequently, if deemed necessary, and includes the assignment of a risk grade.

Risk grades are based on a six-grade Pass scale, along with Special Mention, Substandard, Doubtful and Loss classifications as such classifications are defined by the regulatory agencies. The assignment of risk grades allows the Company to, among other things, identify the risk associated with each credit in the portfolio, and to provide a basis for estimating credit losses inherent in the portfolio. Risk grades are reviewed regularly by the Company's Credit and Investment Review committee, and are reviewed annually by an independent third-party, as well as by regulatory agencies during scheduled examinations.

The following provides brief definitions for risk grades assigned to loans in the portfolio:

- Pass – Pass credits are well protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Such credits exhibit few weaknesses, if any, but may include credits with exposure to certain factors that may adversely impact the credit if they materialize. The Company has established six subcategories within the pass grade to stratify risk associated with pass loans. The Company maintains a subset of pass credits designated as "watch" loans which, for any of a variety of reasons, requires close monitoring

- Special Mention – Loans graded special mention exhibit potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the loan or the institution's credit position. Special mention credits are not considered as part of the classified extensions of credit category and do not expose the Company to sufficient risk to warrant classification.

- Substandard – Substandard credits are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Extensions of credit classified as substandard have a well-defined weakness or weaknesses that jeopardizes the orderly payment of the debt. Substandard credits are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard credits, does not have to exist in individual extensions of credit classified substandard.

- Doubtful – Doubtful credits have all the weaknesses inherent in substandard credits, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to the advantage of and strengthen the credit, its classification as an estimated loss is deferred until its more exact status may be determined.

The Portfolio Management department also manages loan performance risks, collections, workouts, bankruptcies and foreclosures. Loan performance risks are mitigated by our portfolio managers acting promptly and assertively to address problem credit when they are identified. Collection efforts are commenced immediately upon non-payment, and the portfolio managers seek to determine right away the appropriate steps to minimize the Company's risk of loss. When foreclosure will maximize the Company's recovery for a non-performing loan, the portfolio managers will take appropriate action to initiate the foreclosure process.

When a loan is graded as special mention or worse, the Company obtains an updated valuation of the underlying collateral. If the credit in question is also identified as impaired, a valuation allowance, if necessary, is established against such loan or a loss is recognized by a charge to the allowance for loan losses if management believes that the full amount of the Company's recorded investment in the loan is no longer collectable. The Company typically continues to obtain updated valuations of underlying collateral for special mention and classified loans on an annual basis in order to have the most current indication of fair value. Once a loan is identified as impaired, an analysis of the underlying collateral is performed at least quarterly, and corresponding changes in any related valuation allowance are made or balances deemed to be fully uncollectable are charged-off.

The following tables stratifies the loan portfolio by the Company's internal risk grading system as well as certain other information concerning the credit quality of the loan portfolio as of the periods indicated:

	Credit Risk Grades			
	Pass	Special Mention	Substandard	Total Gross Loans
March 31, 2011		(in thousands)		
Real estate loans:				
Multi-family	$ 215,521	$ 13,115	$ 6,807	$ 235,443
Commercial non-owner occupied	149,790	610	6,216	156,616
One-to-four family	39,131	1,917	7,243	48,291
Construction	4,816	-	815	5,631
Land	4,809	494	4,699	10,002
Business loans:				
Commercial owner occupied	138,203	6,823	11,353	156,379
Commercial and industrial	74,774	1,923	9,509	86,206
SBA	2,233	-	1,035	3,268
Other loans	1,145	14	105	1,264
Totals	$ 630,422	$ 24,896	$ 47,782	$ 703,100

	Credit Risk Grades			
	Pass	Special Mention	Substandard	Total Gross Loans
December 31, 2010	(dollars in thousands)			
Real estate loans:				
Multi-family	$ 226,270	$ 13,161	$ 4,153	$ 243,584

Commercial investor	124,513	577	5,435	130,525
One-to-four family	19,823	-	495	20,318
Business loans:				
Commercial owner occupied	104,475	4,074	4,476	113,025
Commercial and industrial	53,188	360	1,139	54,687
SBA	2,956	-	1,132	4,088
Other loans	1,417	-	-	1,417
Totals	$ 532,642	$ 18,172	$ 16,830	$ 567,644

	Credit Risk Grades			
	Pass	Special Mention	Substandard	Total Gross Loans
March 31, 2010	(in thousands)			
Real estate loans:				
Multi-family	$ 231,752	$ 26,459	$ 6,785	$ 264,996
Commercial non-owner occupied	128,482	2,979	8,492	139,953
One-to-four family	7,798	-	566	8,364
Construction	-	-	-	-
Land	-	-	-	-
Business loans:				-
Commercial owner occupied	88,030	4,764	3,542	96,336
Commercial and industrial	33,166	-	-	33,166
SBA	1,624	347	1,031	3,002
Other loans	1,770	-	-	1,770
Totals	$ 492,622	$ 34,549	$ 20,416	$ 547,587

	Days Past Due				
	30-59	60-89	90+	Total Past Due	Non-Accruing
March 31, 2011	(in thousands)				
Real estate loans:					
Multi-family	$ 1,907	$ 1,147	$ 303	$ 3,357	$ 2,030
Commercial investor	1,289	615	301	2,205	753
One-to-four family	592	143	1,460	2,195	2,848
Construction	-	278	1,023	1,301	161
Land	-	-	571	571	3,175

Business loans:				-	
Commercial owner occupied	6,474	-	4,469	10,943	7,359
Commercial and industrial	1,379	637	3,264	5,280	3,415
SBA	133	-			