PROVIDENT FINANCIAL HOLDINGS INC
Form 10-Q
November 09, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

[ü]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended September 30, 2015
[ ]	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
000-28304

PROVIDENT FINANCIAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	33-0704889
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3756 Central Avenue, Riverside, California 92506
(Address of principal executive offices and zip code)

(951) 686-6060
(Registrant's telephone number, including area code)

____
(Former name, former address and former fiscal year, if changed since last report)

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 ü
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 ü 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 [ü]
Non-accelerated filer [ ]	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No ü .

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Title of class:	As of November 2, 2015
Common stock, $ 0.01 par value, per share	8,432,678 shares

PROVIDENT FINANCIAL HOLDINGS, INC.

Table of Contents

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Financial Condition
In Thousands, Except Share Information

	(Unaudited) September 30, 2015	June 30, 2015
Assets		
Cash and cash equivalents	$156,146	$81,403
Investment securities – held to maturity, at cost	800	800
Investment securities – available for sale, at fair value	13,461	14,161
Loans held for investment, net of allowance for loan losses of $9,034 and $8,724, respectively; includes $4,036 and $4,518 at fair value, respectively	805,686	814,234
Loans held for sale, at fair value	163,644	224,715
Accrued interest receivable	2,640	2,839
Real estate owned, net	3,674	2,398
Federal Home Loan Bank ("FHLB") – San Francisco stock	8,094	8,094
Premises and equipment, net	5,259	5,417
Prepaid expenses and other assets	17,833	20,494
Total assets	$1,177,237	$1,174,555
Liabilities and Stockholders' Equity		
Liabilities:		
Non interest-bearing deposits	$68,101	$67,538
Interest-bearing deposits	856,765	856,548
Total deposits	924,866	924,086
Borrowings	91,351	91,367
Accounts payable, accrued interest and other liabilities	21,766	17,965
Total liabilities	1,037,983	1,033,418
Commitments and Contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value (2,000,000 shares authorized; none issued and outstanding)	—	—
Common stock, $.01 par value (40,000,000 shares authorized; 17,779,865 and 17,766,865 shares issued; 8,429,678 and 8,634,607 shares outstanding, respectively)	178	177
Additional paid-in capital	89,278	88,893
Retained earnings	189,617	188,206
Treasury stock at cost (9,350,187 and 9,132,258 shares, respectively)	(140,119)	(136,470)
Accumulated other comprehensive income, net of tax	300	331
Total stockholders' equity	139,254	141,137

Total liabilities and stockholders’ equity	$1,177,237	$1,174,555

The accompanying notes are an integral part of these condensed consolidated financial statements.

1

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Operations
(Unaudited)
In Thousands, Except Per Share Information

	Quarter Ended September 30,	
	2015	2014
Interest income:		
Loans receivable, net	$9,490	$9,195
Investment securities	67	76
FHLB – San Francisco stock	200	144
Interest-earning deposits	100	94
Total interest income	9,857	9,509
Interest expense:		
Checking and money market deposits	117	104
Savings deposits	168	157
Time deposits	858	976
Borrowings	648	335
Total interest expense	1,791	1,572
Net interest income	8,066	7,937
Recovery from the allowance for loan losses	(38)	(818)
Net interest income, after recovery from the allowance for loan losses	8,104	8,755
Non-interest income:		
Loan servicing and other fees	111	268
Gain on sale of loans, net	8,924	7,652
Deposit account fees	610	626
Gain (loss) on sale and operations of real estate owned acquired in the settlement of loans, net	229	(19)
Card and processing fees	362	356
Other	213	227
Total non-interest income	10,449	9,110
Non-interest expense:		
Salaries and employee benefits	10,792	9,581
Premises and occupancy	1,108	1,348
Equipment	379	472
Professional expenses	500	464
Sales and marketing expenses	262	331
Deposit insurance premiums and regulatory assessments	262	273
Other	1,057	1,270
Total non-interest expense	14,360	13,739
Income before income taxes	4,193	4,126
Provision for income taxes	1,750	1,736
Net income	$2,443	$2,390

Basic earnings per share	$0.29	$0.26
Diluted earnings per share	$0.28	$0.25
Cash dividends per share	$0.12	$0.11

The accompanying notes are an integral part of these condensed consolidated financial statements.

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)
In Thousands

	For the Quarters Ended September 30,	
	2015	2014
Net income	$2,443	$2,390
Change in unrealized holding loss on securities available for sale	(53)	(16)
Reclassification of (gains) losses to net income	—	—
Other comprehensive loss, before income taxes	(53)	(16)
Income tax benefit	(22)	(7)
Other comprehensive loss	(31)	(9)
Total comprehensive income	$2,412	$2,381

The accompanying notes are an integral part of these condensed consolidated financial statements.

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
In Thousands, Except Share Information

For the Quarters Ended September 30, 2015 and 2014:

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
Balance at June 30, 2015	8,634,607	$177	$88,893	$188,206	$(136,470)	$331	$141,137
Net income				2,443			2,443
Other comprehensive loss						(31)	(31)
Purchase of treasury stock[1]	(220,429)				(3,649)		(3,649)
Exercise of stock options	13,000	1	95				96
Distribution of restricted stock	2,500						—
Amortization of restricted stock			161				161
Stock options expense			128				128
Tax effect from stock based compensation			1				1
Cash dividends[2]				(1,032)			(1,032)
Balance at September 30, 2015	8,429,678	$178	$89,278	$189,617	$(140,119)	$300	$139,254

[1] Includes the repurchase of 4,500 shares from a cashless stock option exercise.
[2] Cash dividends of $0.12 per share were paid in the quarter ended September 30, 2015.

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
Balance at June 30, 2014	9,312,269	$177	$88,259	$182,458	$(125,418)	$386	$145,862
Net income				2,390			2,390
Other comprehensive loss						(9)	(9)
Purchase of treasury stock	(162,204)				(2,398)		(2,398)
Exercise of stock options	2,000	—	14				14
Amortization of restricted stock			59				59
Awards of restricted stock			(1,641)		1,641		—
Stock options expense			84				84
Tax effect from stock based compensation			(16)				(16)
Cash dividends[1]				(1,023)			(1,023)
Balance at September 30, 2014	9,152,065	$177	$86,759	$183,825	$(126,175)	$377	$144,963

(1) Cash dividends of $0.11 per share were paid in the quarter ended September 30, 2014.

The accompanying notes are an integral part of these condensed consolidated financial statements.

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited - In Thousands)

	Three Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	$2,443	$2,390
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	307	611
Recovery from the allowance for loan losses	(38)	(818)
Unrealized gain on real estate owned	(161)	(17)
Gain on sale of loans, net	(8,924)	(7,652)
(Gain) loss on sale of real estate owned, net	(30)	9
Stock-based compensation	289	143
(Benefit) provision for deferred income taxes	(632)	176
Tax effect from stock based compensation	(1)	16
Increase (decrease) in accounts payable and other liabilities	1,617	(366)
Decrease in prepaid expenses and other assets	1,711	1,852
Loans originated for sale	(540,289)	(513,770)
Proceeds from sale of loans	613,940	498,413
Net cash provided by (used for) operating activities	70,232	(19,013)
Cash flows from investing activities:		
Decrease (increase) in loans held for investment, net	7,289	(16,774)
Principal payments from investment securities available for sale	650	780
Purchase of investment securities available for sale	—	(250)
Proceeds from sale of real estate owned	463	502
Purchase of premises and equipment	(71)	(168)
Net cash provided by (used for) investing activities	8,331	(15,910)
Cash flows from financing activities:		
Increase in deposits, net	780	4,562
Repayments of long-term borrowings	(16)	(15)
Exercise of stock options	96	14
Tax effect from stock based compensation	1	(16)
Cash dividends	(1,032)	(1,023)
Treasury stock purchases	(3,649)	(2,398)
Net cash (used for) provided by financing activities	(3,820)	1,124
Net increase (decrease) in cash and cash equivalents	74,743	(33,799)
Cash and cash equivalents at beginning of period	81,403	118,937
Cash and cash equivalents at end of period	$156,146	$85,138
Supplemental information:		
Cash paid for interest	$1,788	$1,562
Cash paid for income taxes	$—	$—
Transfer of loans held for sale to held for investment	$1,552	$678
Real estate acquired in the settlement of loans	$1,006	$927

The accompanying notes are an integral part of these condensed consolidated financial statements.

PROVIDENT FINANCIAL HOLDINGS, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2015

Note 1: Basis of Presentation

The unaudited interim condensed consolidated financial statements included herein reflect all adjustments which are, in the opinion of management, necessary to present a fair statement of the results of operations for the interim periods presented. All such adjustments are of a normal, recurring nature. The condensed consolidated statement of financial condition at June 30, 2015 is derived from the audited consolidated financial statements of Provident Financial Holdings, Inc. and its wholly-owned subsidiary, Provident Savings Bank, F.S.B. (the “Bank”) (collectively, the “Corporation”). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”) with respect to interim financial reporting. It is recommended that these unaudited interim condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation’s Annual Report on Form 10-K for the year ended June 30, 2015. The results of operations for the quarter ended September 30, 2015 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2016.

Note 2: Accounting Standard Updates (“ASU”)

ASU 2014-04:
In January 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") 2014-04, "Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The amendments in this ASU are intended to reduce diversity in practice by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate property recognized. Holding foreclosed real estate property presents different operational and economic risk to creditors compared with holding an impaired loan. Therefore, consistency in the timing of loan derecognition and presentation of foreclosed real estate properties is of qualitative significance to users of the creditor’s financial statements. Additionally, the disclosure of the amount of foreclosed residential real estate properties and of the recorded investment in consumer mortgage loans secured by residential real estate properties that are in the process of foreclosure is expected to provide decision-useful information to many users of the creditor’s financial statements. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Corporation's adoption of this ASU did not have a material impact on its consolidated financial statements.

ASU 2014-14:
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." Current GAAP provides classification and measurement guidance for situations in which a creditor obtains a debtor’s assets in satisfaction of a receivable, including receipt of assets through foreclosure, but does not provide specific guidance on how to classify and measure foreclosed loans that are government guaranteed. Current GAAP also does not provide guidance on how to determine the unit of account; that is, whether a single asset should be recognized or whether two separate assets should be recognized (real estate and a guarantee receivable). In practice, most creditors derecognize the loan and recognize a single asset. Some creditors recognize a nonfinancial asset (other real estate owned), while

others recognize a financial asset (typically, a guarantee receivable). Regardless of the classification of the asset (or assets), measurement of the asset (or total measurement of the assets) in practice generally represents the amount recoverable under the guarantee. The amendments in this ASU should reduce variations in practice by providing guidance on how to classify and measure certain government-guaranteed mortgage loans upon foreclosure. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Corporation's adoption of this ASU did not have a material impact on its consolidated financial statements.

ASU 2015-05:
In April 2015, the FASB issued ASU 2015-05, "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40)." The amendments in this ASU provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP

for a customer’s accounting for service contracts. In addition, the guidance in this ASU supersedes paragraph 350-40-25-16. Consequently, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. For public entities, the FASB decided that the amendments will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015 and early adoption is permitted. The Corporation's adoption of this ASU is not expected have a material impact on its consolidated financial statements.

ASU 2015-10:
In June 2015, the FASB issued ASU 2015-10, "Technical Corrections and Improvements." The amendments in this ASU cover a wide range of topics in the Codification. The reason for each amendment is provided before each amendment for clarity and ease of understanding. The amendments generally related to: (1) amendments related to differences between original guidance and the codification, (2) guidance clarification and reference corrections, (3) simplification and (4) minor improvements. These amendments improve the guidance and are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Transition guidance varies based on the amendments in this ASU. The amendments in this ASU that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon the issuance of this ASU. The Corporation's adoption of this ASU is not expected have a material impact on its consolidated financial statements.

ASU 2015-12:
In July 2015, the FASB issued ASU 2015-12, "Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient (consensuses of the FASB Emerging Issues Task Force)." The amendments of this ASU (i) require fully benefit-responsive investment contracts to be measured, presented and disclosed only at contract value, not fair value; (ii) simplify the investment disclosure requirements; and (iii) provide a measurement date practical expedient for employee benefit plans. This ASU is effective for fiscal years beginning after December 15, 2015, earlier adoption is permitted. The Corporation's adoption of this ASU is not expected have a material impact on its consolidated financial statements.

Note 3: Earnings Per Share

Basic earnings per share (“EPS”) excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the earnings of the entity.

As of September 30, 2015 and 2014, there were outstanding options to purchase 1.0 million shares and 1.1 million shares of the Corporation’s common stock, respectively, of which 236,500 shares and 271,500 shares, respectively, were excluded from the diluted EPS computation as their effect was anti-dilutive. As of September 30, 2015 and 2014, there were outstanding restricted stock awards of 197,500 shares and 266,500 shares, respectively, all of which have dilutive effects.

The following table provides the basic and diluted EPS computations for the quarters ended September 30, 2015 and 2014, respectively.

(In Thousands, Except Earnings Per Share)	For the Quarters Ended September 30, 2015	2014
Numerator:		
Net income – numerator for basic earnings per share and diluted earnings per share - available to common stockholders	$2,443	$2,390
Denominator:		
Denominator for basic earnings per share:		
Weighted-average shares	8,566	9,253
Effect of dilutive shares:		
Stock options	111	173
Restricted stock	67	42
Denominator for diluted earnings per share:		
Adjusted weighted-average shares and assumed conversions	8,744	9,468
Basic earnings per share	$0.29	$0.26
Diluted earnings per share	$0.28	$0.25

8

Note 4: Operating Segment Reports

The Corporation operates in two business segments: community banking through the Bank and mortgage banking through Provident Bank Mortgage (“PBM”), a division of the Bank.

The following tables set forth condensed consolidated statements of operations and total assets for the Corporation’s operating segments for the quarters ended September 30, 2015 and 2014, respectively.

	For the Quarter Ended September 30, 2015		
(In Thousands)	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	$6,903	$1,163	$8,066
Provision (recovery) for loan losses	12	(50)	(38)
Net interest income, after provision (recovery) for loan losses	6,891	1,213	8,104
Non-interest income:			
Loan servicing and other fees [(1)]	144	(33)	111
Gain on sale of loans, net [(2)]	1	8,923	8,924
Deposit account fees	610	—	610
Gain on sale and operations of real estate owned acquired in the settlement of loans, net	224	5	229
Card and processing fees	362	—	362
Other	213	—	213
Total non-interest income	1,554	8,895	10,449
Non-interest expense:			
Salaries and employee benefits	4,553	6,239	10,792
Premises and occupancy	696	412	1,108
Operating and administrative expenses	989	1,471	2,460
Total non-interest expense	6,238	8,122	14,360
Income before income taxes	2,207	1,986	4,193
Provision for income taxes	915	835	1,750
Net income	$1,292	$1,151	$2,443
Total assets, end of period	$1,013,345	$163,892	$1,177,237

(1) Includes an inter-company charge of $65 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2) Includes an inter-company charge of $108 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

(In Thousands)	For the Quarter Ended September 30, 2014 Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	$6,895	$1,042	$7,937
(Recovery) provision for loan losses	(890)	72	(818)
Net interest income after (recovery) provision for loan losses	7,785	970	8,755
Non-interest income:			
Loan servicing and other fees [(1)]	8	260	268
Gain on sale of loans, net [(2)]	71	7,581	7,652
Deposit account fees	626	—	626
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(19)	—	(19)
Card and processing fees	356	—	356
Other	227	—	227
Total non-interest income	1,269	7,841	9,110
Non-interest expense:			
Salaries and employee benefits	4,267	5,314	9,581
Premises and occupancy	872	476	1,348
Operating and administrative expenses	1,156	1,654	2,810
Total non-interest expense	6,295	7,444	13,739
Income before income taxes	2,759	1,367	4,126
Provision for income taxes	1,167	569	1,736
Net income	$1,592	$798	$2,390
Total assets, end of period	$925,881	$180,973	$1,106,854

(1) Includes an inter-company charge of $158 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2) Includes an inter-company charge of $14 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

Note 5: Investment Securities

The amortized cost and estimated fair value of investment securities as of September 30, 2015 and June 30, 2015 were as follows:

September 30, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Carrying Value
(In Thousands)					
Held to maturity:					
Certificates of deposit	$800	$—	$—	$800	$800
Total investment securities - held to maturity	$800	$—	$—	$800	$800
Available for sale:					
U.S. government agency MBS [1]	$7,305	$268	$—	$7,573	$7,573
U.S. government sponsored enterprise MBS	4,765	281	—	5,046	5,046
Private issue CMO [2]	683	8	—	691	691
Common stock - community development financial institution	250	—	(99)	151	151
Total investment securities - available for sale	$13,003	$557	$(99)	$13,461	$13,461
Total investment securities	$13,803	$557	$(99)	$14,261	$14,261

[1] Mortgage-Backed Securities ("MBS").
[2] Collateralized Mortgage Obligations ("CMO").

June 30, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Carrying Value
(In Thousands)					
Held to maturity:					
Certificates of deposit	$800	$—	$—	$800	$800
Total investment securities - held to maturity	$800	$—	$—	$800	$800
Available for sale:					
U.S. government agency MBS	$7,613	$293	$—	$7,906	$7,906
U.S. government sponsored enterprise MBS	5,083	304	—	5,387	5,387
Private issue CMO	708	9	—	717	717
Common stock - community development financial institution	250	—	(99)	151	151
Total investment securities - available for sale	$13,654	$606	$(99)	$14,161	$14,161
Total investment securities	$14,454	$606	$(99)	$14,961	$14,961

In the first quarters of fiscal 2016 and 2015, the Corporation received MBS principal payments of $650,000 and $780,000, respectively, and did not purchase or sell investment securities, except the purchase in the first quarter of fiscal 2015 of $250,000 in the common stock of a community development financial institution to help fulfill the Bank's Community Reinvestment Act obligation.

The Corporation held investments with unrealized loss position at September 30, 2015 and June 2015 of $99,000 at both dates.

As of September 30, 2015	Unrealized Holding Losses		Unrealized Holding Losses		Unrealized Holding Losses	
(In Thousands)	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Common stock[(1)]	$151	$99	$—	$—	$151	$99
Total	$151	$99	$—	$—	$151	$99

As of June 30, 2015	Unrealized Holding Losses		Unrealized Holding Losses		Unrealized Holding Losses	
(In Thousands)	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Common stock[(1)]	$151	$99	$—	$—	$151	$99
Total	$151	$99	$—	$—	$151	$99

(1) Common stock of a community development financial institution.

The Corporation evaluates individual investment securities quarterly for other-than-temporary declines in market value. As of September 30, 2015, the unrealized holding loss was less than 12 months on the common stock, primarily the result of the dilutive nature of the institution's recent merger with another community development financial institution. Based on the nature of the investment, management concluded that such unrealized loss was not other than temporary as of September 30, 2015. The Corporation intends and has the ability to hold the common stock and will not likely be required to sell before realizing a full recovery. The Corporation does not believe that there are any other-than-temporary impairments at September 30, 2015 and 2014; therefore, no impairment losses have been recorded for the quarters ended September 30, 2015 and 2014.

Contractual maturities of investment securities as of September 30, 2015 and June 30, 2015 were as follows:

	September 30, 2015		June 30, 2015	
(In Thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Held to maturity:				
Due in one year or less	$800	$800	$800	$800
Due after one through five years	—	—	—	—
Due after five through ten years	—	—	—	—
Due after ten years	—	—	—	—
Total investment securities - held to maturity	$800	$800	$800	$800
Available for sale:				
Due in one year or less	$—	$—	$—	$—
Due after one through five years	—	—	—	—
Due after five through ten years	—	—	—	—
Due after ten years	12,753	13,310	13,404	14,010

No stated maturity (common stock)	250	151	250	151
Total investment securities - available for sale	$13,003	$13,461	$13,654	$14,161
Total investment securities	$13,803	$14,261	$14,454	$14,961

Note 6: Loans Held for Investment

Loans held for investment consisted of the following:

(In Thousands)	September 30, 2015	June 30, 2015
Mortgage loans:		
Single-family	$356,963	$365,961
Multi-family	355,442	347,020
Commercial real estate	94,580	100,897
Construction	6,185	8,191
Other	72	—
Commercial business loans	399	666
Consumer loans	243	244
Total loans held for investment, gross	813,884	822,979
Undisbursed loan funds	(2,691)	(3,360)
Advance payments of escrows	193	199
Deferred loan costs, net	3,334	3,140
Allowance for loan losses	(9,034)	(8,724)
Total loans held for investment, net	$805,686	$814,234

As of September 30, 2015, the Corporation had $13.6 million in mortgage loans that are subject to negative amortization, consisting of $10.2 million in multi-family loans, $3.2 million in single-family loans and $213,000 in commercial real estate loans. This compares to $14.1 million of negative amortization mortgage loans at June 30, 2015, consisting of $10.7 million in multi-family loans, $3.2 million in single-family loans and $227,000 in commercial real estate loans. During the first quarters of fiscal 2016 and 2015, no loan interest income was added to the negative amortization loan balance. Negative amortization involves a greater risk to the Corporation because the loan principal balance may increase by a range of 110% to 115% of the original loan amount during the period of negative amortization and because the loan payment may increase beyond the means of the borrower when loan principal amortization is required. Also, the Corporation has originated interest-only ARM loans, which typically have a fixed interest rate for the first two to five years coupled with an interest only payment, followed by a periodic adjustable rate and a fully amortizing loan payment. As of September 30, 2015 and June 30, 2015, the interest-only ARM loans were $131.4 million and $152.6 million, or 16.1% and 18.6% of loans held for investment, respectively. As of September 30, 2015, the Corporation had $4.0 million of single-family loans, 12 loans, held for investment which were originated for sale but were subsequently transferred to held for investment and are carried at fair value. This compares to $4.5 million of single-family loans, 13 loans, held for investment at June 30, 2015 which were originated for sale but were subsequently transferred to held for investment and are carried at fair value.

The following table sets forth information at September 30, 2015 regarding the dollar amount of loans held for investment that are contractually repricing during the periods indicated, segregated between adjustable rate loans and fixed rate loans. Fixed-rate loans comprised 3% of loans held for investment at September 30, 2015, as compared to 4% at June 30, 2015. Adjustable rate loans having no stated repricing dates that reprice when the index they are tied to reprices (e.g. prime rate index) and checking account overdrafts are reported as repricing within one year. The table does not include any estimate of prepayments which may cause the Corporation's actual repricing experience to differ materially from that shown.

(In Thousands)	Adjustable Rate Within One Year	After One Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years	Fixed Rate	Total
Mortgage loans:						
Single-family	$287,251	$5,167	$48,876	$1,984	$13,685	$356,963
Multi-family	66,947	98,626	178,461	8,332	3,076	355,442
Commercial real estate	13,634	29,099	46,411	—	5,436	94,580
Construction	720	—	375	—	5,090	6,185
Other	—	—	—	—	72	72
Commercial business loans	138	—	—	—	261	399
Consumer loans	236	—	—	—	7	243
Total loans held for investment, gross	$368,926	$132,892	$274,123	$10,316	$27,627	$813,884

The Corporation has developed an internal loan grading system to evaluate and quantify the Bank's loans held for investment portfolio with respect to quality and risk. Management continually evaluates the credit quality of the Corporation's loan portfolio and conducts a quarterly review of the adequacy of the allowance for loan losses using quantitative and qualitative methods. The Corporation has adopted an internal risk rating policy in which each loan is rated for credit quality with a rating of pass, special mention, substandard, doubtful or loss. The two primary components that are used during the loan review process to determine the proper allowance levels are individually evaluated allowances and collectively evaluated allowances. Quantitative loan loss factors are developed by determining the historical loss experience, expected future cash flows, discount rates and collateral fair values, among others. Qualitative loan loss factors are developed by assessing general economic indicators such as gross domestic product, retail sales, unemployment rates, employment growth, California home sales and median California home prices. The Corporation assigns individual factors for the quantitative and qualitative methods for each loan category and each internal risk rating.

The Corporation categorizes all of the loans held for investment into risk categories based on relevant information about the ability of the borrower to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. A description of the general characteristics of the risk grades is as follows:

Pass - These loans range from minimal credit risk to average however still acceptable credit risk. The likelihood of loss is considered remote.
Special mention - A Special Mention asset has potential weaknesses that may be temporary or, if left uncorrected, may result in a loss. While concerns exist, the bank is currently protected and loss is considered unlikely and not imminent.
Substandard - A substandard loan is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses, that may jeopardize the liquidation of the debt. A substandard loan is characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
Doubtful - A doubtful loan has all of the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of the currently existing facts, conditions and values, highly questionable and improbable.
Loss - A loss loan is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted.

14

The following tables summarize gross loans held for investment by loan types and risk category at the dates indicated:

September 30, 2015								
(In Thousands)	Single-family	Multi-family	Commercial Real Estate	Construction	Other Mortgage	Commercial Business	Consumer	Total
Pass	$337,156	$ 350,923	$92,628	$6,185	$72	$292	$243	$787,499
Special Mention	7,187	408	—	—	—	—	—	7,595
Substandard	12,620	4,111	1,952	—	—	107	—	18,790
Total loans held for investment, gross	$356,963	$ 355,442	$94,580	$6,185	$72	$399	$243	$813,884

June 30, 2015							
(In Thousands)	Single-family	Multi-family	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
Pass	$347,301	$ 339,093	$98,254	$8,191	$557	$244	$793,640
Special Mention	7,766	413	—	—	—	—	8,179
Substandard	10,894	7,514	2,643	—	109	—	21,160
Total loans held for investment, gross	$365,961	$ 347,020	$100,897	$8,191	$666	$244	$822,979

The allowance for loan losses is maintained at a level sufficient to provide for estimated losses based on evaluating known and inherent risks in the loans held for investment and upon management's continuing analysis of the factors underlying the quality of the loans held for investment. These factors include changes in the size and composition of the loans held for investment, actual loan loss experience, current economic conditions, detailed analysis of individual loans for which full collectability may not be assured, and determination of the realizable value of the collateral securing the loans. The provision (recovery) for (from) the allowance for loan losses is charged (credited) against operations on a quarterly basis, as necessary, to maintain the allowance at appropriate levels. Although management believes it uses the best information available to make such determinations, there can be no assurance that regulators, in reviewing the Corporation's loans held for investment, will not request a significant increase in its allowance for loan losses. Future adjustments to the allowance for loan losses may be necessary and results of operations could be significantly and adversely affected as a result of economic, operating, regulatory, and other conditions beyond the Corporation's control.

Non-performing loans are charged-off to their fair market values in the period the loans, or portion thereof, are deemed uncollectible, generally after the loan becomes 150 days delinquent for real estate secured first trust deed loans and 120 days delinquent for commercial business or real estate secured second trust deed loans. For loans that were modified from their original terms, were re-underwritten and identified in the Corporation's asset quality reports as troubled debt restructurings ("restructured loans"), the charge-off occurs when the loan becomes 90 days delinquent; and where borrowers file bankruptcy, the charge-off occurs when the loan becomes 60 days delinquent. The amount of the charge-off is determined by comparing the loan balance to the estimated fair value of the underlying collateral, less disposition costs, with the loan balance in excess of the estimated fair value charged-off against the allowance for loan losses. The allowance for loan losses for non-performing loans is determined by applying Accounting Standards Codification ("ASC") 310, "Receivables." For restructured loans that are less than 90 days delinquent, the allowance for loan losses are segregated into (a) individually evaluated allowances for those loans with applicable discounted cash flow calculations still in their restructuring period, classified lower than pass, and containing an embedded loss component or (b) collectively evaluated allowances based on the aggregated pooling method. For non-performing loans less than 60 days delinquent where the borrower has filed bankruptcy, the collectively evaluated allowances are assigned based on the aggregated pooling method. For non-performing commercial real estate loans, an individually evaluated allowance is calculated based on the loan's fair value or collateral's fair value less estimated selling costs and if the fair value is higher than the loan balance, no allowance is required.

The following table summarizes the Corporation's allowance for loan losses at September 30, 2015 and June 30, 2015:

(In Thousands)	September 30, 2015	June 30, 2015
Collectively evaluated for impairment:		
Mortgage loans:		
Single-family	$6,261	$5,202
Multi-family	1,943	2,616
Commercial real estate	697	734
Construction	40	42
Other	2	—
Commercial business loans	13	23
Consumer loans	9	9
Total collectively evaluated allowance	8,965	8,626
Individually evaluated for impairment:		
Mortgage loans:		
Single-family	49	78
Commercial business loans	20	20
Total individually evaluated allowance	69	98
Total loan loss allowance	$9,034	$8,724

The following table is provided to disclose additional details on the Corporation's allowance for loan losses:

(Dollars in Thousands)	For the Quarters Ended September 30, 2015	2014
Allowance at beginning of period	$8,724	$9,744
Recovery from the allowance for loan losses	(38)	(818)
Recoveries:		
Mortgage loans:		
Single-family	69	109
Multi-family	56	71
Commercial real estate	216	—
Commercial business loans	85	—
Consumer loans	—	1
Total recoveries	426	181
Charge-offs:		
Mortgage loans:		
Single-family	(78)	(219)
Total charge-offs	(78)	(219)
Net recoveries (charge-offs)	348	(38)
Balance at end of period	$9,034	$8,888
Allowance for loan losses as a percentage of gross loans held for investment	1.11%	1.11%
Net (recoveries) charge-offs as a percentage of average loans receivable, net, during the period (annualized)	(0.14)%	0.02%
Allowance for loan losses as a percentage of gross non-performing loans at the end of the period	57.33%	66.62%

The following tables denote the past due status of the Corporation's loans held for investment, gross, at the dates indicated.

(In Thousands)	September 30, 2015 Current	30-89 Days Past Due	Non-Accrual [1]	Total Loans Held for Investment, Gross
Mortgage loans:				
Single-family	$343,126	$1,217	$12,620	$356,963
Multi-family	353,467	—	1,975	355,442
Commercial real estate	93,564	—	1,016	94,580
Construction	6,185	—	—	6,185
Other	72	—	—	72
Commercial business loans	292	—	107	399
Consumer loans	241	2	—	243
Total loans held for investment, gross	$796,947	$1,219	$15,718	$813,884

[1] All loans 90 days or greater past due are placed on non-accrual status.

(In Thousands)	June 30, 2015 Current	30-89 Days Past Due	Non-Accrual [1]	Total Loans Held for Investment, Gross
Mortgage loans:				
Single-family	$354,082	$1,335	$10,544	$365,961
Multi-family	344,774	—	2,246	347,020
Commercial real estate	99,198	—	1,699	100,897
Construction	8,191	—	—	8,191
Commercial business loans	557	—	109	666
Consumer loans	244	—	—	244
Total loans held for investment, gross	$807,046	$1,335	$14,598	$822,979

[1] All loans 90 days or greater past due are placed on non-accrual status.

The following tables summarize the Corporation's allowance for loan losses and recorded investment in gross loans, by portfolio type, at the dates and for the periods indicated.

	Quarter Ended September 30, 2015							
(In Thousands)	Single-family	Multi-family	Commercial Real Estate	Construction	Other Mortgage	Commercial Business	Consumer	Total
Allowance for loan losses:								
Allowance at beginning of period	$5,280	$2,616	$734	$42	$—	$43	$9	$8,724
Provision (recovery) for loan losses	1,039	(729)	(253)	(2)	2	(95)	—	(38)
Recoveries	69	56	216	—	—	85	—	426
Charge-offs	(78)	—	—	—	—	—	—	(78)
Allowance for loan losses, end of period	$6,310	$1,943	$697	$40	$2	$33	$9	$9,034
Allowance for loan losses:								
Individually evaluated for impairment	$49	$—	$—	$—	$—	$20	$—	$69
Collectively evaluated for impairment	6,261	1,943	697	40	2	13	9	8,965
Allowance for loan losses, end of period	$6,310	$1,943	$697	$40	$2	$33	$9	$9,034
Loans held for investment:								
Individually evaluated for impairment	$8,204	$1,975	$1,016	$—	$—	$107	$—	$11,302
Collectively evaluated for impairment	348,759	353,467	93,564	6,185	72	292	243	802,582
Total loans held for investment, gross	$356,963	$355,442	$94,580	$6,185	$72	$399	$243	$813,884
Allowance for loan losses as a percentage of gross loans held for investment	1.77%	0.55%	0.74%	0.65%	2.78%	8.27%	3.70%	1.11%

	Quarter Ended September 30, 2014						
(In Thousands)	Single-family	Multi-family	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
Allowance for loan losses:							
Allowance at beginning of period	$5,476	$3,142	$989	$35	$92	$10	$9,744
(Recovery) provision for loan losses	(714)	(91)	25	(30)	(7)	(1)	(818)
Recoveries	109	71	—	—	—	1	181
Charge-offs	(219)	—	—	—	—	—	(219)
Allowance for loan losses, end of period	$4,652	$3,122	$1,014	$5	$85	$10	$8,888
Allowance for loan losses:							
Individually evaluated for impairment	$—	$—	$—	$—	$41	$—	$41
Collectively evaluated for impairment	4,652	3,122	1,014	5	44	10	8,847
Allowance for loan losses, end of period	$4,652	$3,122	$1,014	$5	$85	$10	$8,888
Loans held for investment:							
Individually evaluated for impairment	$6,515	$2,194	$2,317	$—	$118	$—	$11,144
Collectively evaluated for impairment	370,718	312,680	98,410	4,378	991	271	787,448
Total loans held for investment, gross	$377,233	$314,874	$100,727	$4,378	$1,109	$271	$798,592
Allowance for loan losses as a percentage of gross loans held for investment	1.23%	0.99%	1.01%	0.11%	7.66%	3.69%	1.11%

The following tables identify the Corporation’s total recorded investment in non-performing loans by type at the dates and for the periods indicated. Generally, a loan is placed on non-accrual status when it becomes 90 days past due as to principal or interest or if the loan is deemed impaired, after considering economic and business conditions and collection efforts, where the borrower’s financial condition is such that collection of the contractual principal or interest on the loan is doubtful. In addition, interest income is not recognized on any loan where management has determined that collection is not reasonably assured. A non-performing loan may be restored to accrual status when delinquent principal and interest payments are brought current and future monthly principal and interest payments are expected to be collected on a timely basis. Loans with a related allowance reserve have been individually evaluated for impairment using either a discounted cash flow analysis or, for collateral dependent loans, current appraisals less costs to sell to establish realizable value. This analysis may identify a specific impairment amount needed or may conclude that no reserve is needed. Loans without a related allowance reserve have not been individually evaluated for impairment, but have been included in pools of homogeneous loans for evaluation of related allowance reserves.

20

(In Thousands)	At September 30, 2015 Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance(1)	Net Recorded Investment
Mortgage loans:					
Single-family:					
With a related allowance	$ 5,078	$ —	$ 5,078	$ (973)	$ 4,105
Without a related allowance(2)	9,387	(1,806)	7,581	—	7,581
Total single-family	14,465	(1,806)	12,659	(973)	11,686
Multi-family:					
Without a related allowance(2)	3,179	(1,204)	1,975	—	1,975
Total multi-family	3,179	(1,204)	1,975	—	1,975
Commercial real estate:					
Without a related allowance(2)	1,016	—	1,016	—	1,016
Total commercial real estate	1,016	—	1,016	—	1,016
Commercial business loans:					
With a related allowance	107	—	107	(20)	87
Total commercial business loans	107	—	107	(20)	87
Total non-performing loans	$ 18,767	$ (3,010)	$ 15,757	$ (993)	$ 14,764

(1) Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan, and fair value credit adjustments.
(2) There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

	At June 30, 2015				
(In Thousands)	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance[1]	Net Recorded Investment
Mortgage loans:					
Single-family:					
With a related allowance	$ 3,881	$ —	$ 3,881	$ (630)	$ 3,251
Without a related allowance[2]	8,462	(1,801)	6,661	—	6,661
Total single-family	12,343	(1,801)	10,542	(630)	9,912
Multi-family:					
Without a related allowance[2]	3,506	(1,260)	2,246	—	2,246
Total multi-family	3,506	(1,260)	2,246	—	2,246
Commercial real estate:					
Without a related allowance[2]	1,699	—	1,699	—	1,699
Total commercial real estate	1,699	—	1,699	—	1,699
Commercial business loans:					
With a related allowance	109	—	109	(20)	89
Total commercial business loans	109	—	109	(20)	89
Total non-performing loans	$ 17,657	$ (3,061)	$ 14,596	$ (650)	$ 13,946

(1) Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.
(2) There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

At September 30, 2015 and June 30, 2015, there were no commitments to lend additional funds to those borrowers whose loans were classified as non-performing.

For the quarters ended September 30, 2015 and 2014, the Corporation's average investment in non-performing loans was $15.3 million and $15.9 million, respectively. The Corporation records payments on non-performing loans utilizing the cash basis or cost recovery method of accounting during the periods when the loans are on non-performing status. For the quarters ended September 30, 2015 and 2014, interest income of $101,000 and $97,000, respectively, was recognized, based on cash receipts from loan payments on non-performing loans; and $65,000 and $93,000, respectively, was collected and applied to the net loan balances under the cost recovery method. Foregone interest income, which would have been recorded had the non-performing loans been current in accordance with their original terms, amounted to $66,000 and $57,000 for the quarters ended September 30, 2015 and 2014, respectively, and was not included in the results of operations.

The following table presents the average recorded investment in non-performing loans and the related interest income recognized for the quarters ended September 30, 2015 and 2014:

	Quarter Ended September 30,			
	2015		2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Without related allowances:				
Mortgage loans:				
Single-family	$ 8,032	$ 3	$ 7,917	$ 34
Multi-family	2,065	66	2,288	4
Commercial real estate	1,322	18	2,327	26
	11,419	87	12,532	64
With related allowances:				
Mortgage loans:				
Single-family	3,801	12	2,560	17
Multi-family	—	—	725	13
Commercial business loans	107	2	132	3
	3,908	14	3,417	33
Total	$ 15,327	$ 101	$ 15,949	$ 97

For the quarters ended September 30, 2015 and 2014, there were no loans that were newly modified from their original terms, re-underwritten or identified in the Corporation's asset quality reports as restructured loans. During the quarters ended September 30, 2015 and 2014, no restructured loans were in default within a 12-month period subsequent to their original restructuring. Additionally, during the quarter ended September 30, 2015 and 2014, there were no loans whose modification were extended beyond the initial maturity of the modification.

As of September 30, 2015, the net outstanding balance of the 15 restructured loans was $5.5 million: two were classified as special mention and remain on accrual status ($980,000); and 13 were classified as substandard ($4.5 million, all on non-accrual status). As of June 30, 2015, the net outstanding balance of the 18 restructured loans was $6.6 million: two were classified as special mention on accrual status ($989,000); and 16 were classified as substandard ($5.6 million, all on non-accrual status). Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Assets that do not currently expose the Corporation to sufficient risk to warrant adverse classification but possess weaknesses are designated as special mention and are closely monitored by the Corporation. As of September 30, 2015 and June 30, 2015, $4.1 million or 74%, and $4.9 million or 74%, respectively, of the restructured loans were current with respect to their modified payment terms.

The Corporation upgrades restructured single-family loans to the pass category if the borrower has demonstrated satisfactory contractual payments for at least six consecutive months; 12 months for those loans that were restructured more than once; and if the borrower has demonstrated satisfactory contractual payments beyond 12 consecutive months, the loan is no longer categorized as a restructured loan. In addition to the payment history described above, multi-family, commercial real estate, construction and commercial business loans (which are sometimes referred to in this report as "preferred loans") must also demonstrate a combination of the following characteristics to be upgraded: satisfactory cash flow, satisfactory guarantor support, and additional collateral support, among others.

To qualify for restructuring, a borrower must provide evidence of their creditworthiness such as, current financial statements, their most recent income tax returns, current paystubs, current W-2s, and most recent bank statements, among other documents, which are then verified by the Corporation. The Corporation re-underwrites the loan with the borrower's updated financial information, new credit report, current loan balance, new interest rate, remaining loan term, updated property value and modified payment schedule, among other considerations, to determine if the borrower qualifies.

The following table summarizes at the dates indicated the restructured loan balances, net of allowance for loan losses, by loan type and non-accrual versus accrual status:

(In Thousands)	September 30, 2015	June 30, 2015
Restructured loans on non-accrual status:		
Mortgage loans:		
Single-family	$2,879	$2,902
Multi-family	1,576	1,593
Commercial real estate	—	1,019
Commercial business loans	87	89
Total	4,542	5,603
Restructured loans on accrual status:		
Mortgage loans:		
Single-family	980	989
Total	980	989
Total restructured loans	$5,522	$6,592

The following tables identify the Corporation's total recorded investment in restructured loans by type at the dates and for the periods indicated.

	At September 30, 2015				
(In Thousands)	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance[1]	Net Recorded Investment
Mortgage loans:					
Single-family:					
With a related allowance	$572	$—	$572	$(114)	$458
Without a related allowance[2]	4,340	(939)	3,401	—	3,401
Total single-family	4,912	(939)	3,973	(114)	3,859
Multi-family:					
Without a related allowance[2]	2,729	(1,153)	1,576	—	1,576
Total multi-family	2,729	(1,153)	1,576	—	1,576
Commercial business loans:					
With a related allowance	107	—	107	(20)	87
Total commercial business loans	107	—	107	(20)	87
Total restructured loans	$7,748	$(2,092)	$5,656	$(134)	$5,522

(1) Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.
(2) There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

(In Thousands)	At June 30, 2015 Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance[1]	Net Recorded Investment
Mortgage loans:					
Single-family					
With a related allowance	$576	$—	$576	$(115)	$461
Without a related allowance[2]	4,397	(967)	3,430	—	3,430
Total single-family	4,973	(967)	4,006	(115)	3,891
Multi-family:					
Without a related allowance[2]	2,795	(1,202)	1,593	—	1,593
Total multi-family	2,795	(1,202)	1,593	—	1,593
Commercial real estate:					
Without a related allowance[2]	1,019	—	1,019	—	1,019
Total commercial real estate	1,019	—	1,019	—	1,019
Commercial business loans:					
With a related allowance	109	—	109	(20)	89
Total commercial business loans	109	—	109	(20)	89
Total restructured loans	$8,896	$(2,169)	$6,727	$(135)	$6,592

[1] Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.
[2] There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

During the quarter ended September 30, 2015, two properties were acquired in the settlement of loans, while two previously foreclosed upon properties were sold. This compares to the quarter ended September 30, 2014 when three properties were acquired in the settlement of loans, while two previously foreclosed upon properties were sold and one real estate owned property was written off. As of September 30, 2015, the net fair value of real estate owned was $3.7 million, comprised of two properties located in Southern California and one property located in Arizona. This compares the real estate owned net fair value of $2.4 million at June 30, 2015, comprised of two properties located in Southern California and one property located in Nevada. A new appraisal was obtained on each of the properties at the time of foreclosure and fair value was calculated by using the lower of the appraised value or the listing price of the property, net of selling costs. Any initial loss was recorded as a charge to the allowance for loan losses before being transferred to real estate owned. Subsequent to transfer to real estate owned, if there is further deterioration in real estate values, specific real estate owned loss reserves are established and charged to the statement of operations. In addition, the Corporation records costs to carry real estate owned as real estate operating expenses as incurred.

Note 7: Derivative and Other Financial Instruments with Off-Balance Sheet Risks

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of originating loans or providing funds under existing lines of credit, loan sale commitments to third parties and option contracts. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the accompanying Condensed Consolidated Statements of Financial Condition. The Corporation's exposure to credit loss, in the event of non-performance by the counterparty to these financial instruments, is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in entering into financial instruments with off-balance sheet risk as it does for on-balance sheet instruments. As of September 30, 2015 and June 30, 2015, the Corporation had commitments to extend credit (on loans to be held for investment and loans to be held for sale) of $143.5 million and $144.3 million, respectively.

The following table provides information at the dates indicated regarding undisbursed funds to borrowers on existing lines of credit with the Corporation as well as commitments to originate loans to be held for investment at the dates indicated below.

Commitments	September 30, 2015	June 30, 2015
(In Thousands)		
Undisbursed loan funds - Construction loans	$2,691	$3,359
Undisbursed lines of credit – Mortgage loans	95	414
Undisbursed lines of credit – Commercial business loans	817	822
Undisbursed lines of credit – Consumer loans	697	708
Commitments to extend credit on loans to be held for investment	4,607	4,745
Total	$8,907	$10,048

In accordance with ASC 815, “Derivatives and Hedging,” and interpretations of the Derivatives Implementation Group of the FASB, the fair value of the commitments to extend credit on loans to be held for sale, loan sale commitments, to be announced (“TBA”) MBS trades, put option contracts and call option contracts are recorded at fair value on the Condensed Consolidated Statements of Financial Condition. At September 30, 2015, $2.5 million was included in other assets and $1.6 million was included in other liabilities; at June 30, 2015, $2.6 million was included in other assets and $208,000 was included in other liabilities. The Corporation does not apply hedge accounting to its derivative financial instruments; therefore, all changes in fair value are recorded in earnings.

The following table provides information regarding the allowance for loan losses for the undisbursed funds and commitments to extend credit on loans to be held for investment for the quarters ended September 30, 2015 and 2014.

	For the Quarters Ended September 30,	
(In Thousands)	2015	2014
Balance, beginning of the period	$76	$61
(Recovery) provision	(11)	47
Balance, end of the period	$65	$108

The net impact of derivative financial instruments on the gain on sale of loans contained in the Condensed Consolidated Statements of Operations during the quarters ended September 30, 2015 and 2014 was as follows:

	For the Quarters Ended September 30,	
Derivative Financial Instruments	2015	2014
(In Thousands)		
Commitments to extend credit on loans to be held for sale	$1,005	$(781)
Mandatory loan sale commitments and TBA MBS trades	(2,433)	937
Option contracts	(88)	(105)
Total net (loss) gain	$(1,516)	$51

The outstanding derivative financial instruments and other loan sale agreements at the dates indicated were as follows:

Derivative Financial Instruments	September 30, 2015 Amount	September 30, 2015 Fair Value	June 30, 2015 Amount	June 30, 2015 Fair Value
(In Thousands)				
Commitments to extend credit on loans to be held for sale [1]	$138,849	$2,504	$139,565	$1,499
Best efforts loan sale commitments	(42,947)	—	(36,908)	—
Mandatory loan sale commitments and TBA MBS trades	(243,409)	(1,692)	(320,197)	741
Option contracts	(2,000)	57	4,000	192
Total	$(149,507)	$869	$(213,540)	$2,432

(1) Net of 30.1% at September 30, 2015 and 26.9% at June 30, 2015 of commitments which management has estimated may not fund.

Note 8: Income Taxes

ASC 740, "Income Taxes," requires the affirmative evaluation that it is more likely than not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from positions taken in income tax returns. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. Management has determined that there are no unrecognized tax benefits to be reported in the Corporation's financial statements.

ASC 740 requires that when determining the need for a valuation allowance against a deferred tax asset, management must assess both positive and negative evidence with regard to the realizability of the tax losses represented by that asset. To the extent available sources of taxable income are insufficient to absorb tax losses, a valuation allowance is necessary. Sources of taxable income for this analysis include prior years' tax returns, the expected reversals of taxable temporary differences between book and tax income, prudent and feasible tax-planning strategies, and future taxable income. The deferred tax asset related to the allowance will be realized when actual charge-offs are made against the allowance. Based on the availability of loss carry-backs and projected taxable income during the periods for which loss carry-forwards are available, management believes it is more likely than not the Corporation will realize the deferred tax asset. The Corporation continues to monitor the deferred tax asset on a quarterly basis for a valuation allowance. The future realization of these tax benefits primarily hinges on adequate future earnings to utilize the tax benefit. Prospective earnings or losses, tax law changes or capital changes could prompt the Corporation to reevaluate the assumptions which may be used to establish a valuation allowance. The Corporation maintains net deferred income tax assets for deductible temporary tax differences, such as loss reserves, deferred compensation, non-accrued interest and unrealized gains. The Corporation did not have any liabilities for uncertain tax positions or any known unrecognized tax benefit at September 30, 2015 or June 30, 2015.

The Corporation files income tax returns for the United States and state of California jurisdictions. The Internal Revenue Service has audited the Bank's income tax returns through 1996 and the California Franchise Tax Board has audited the Bank through 1990. Also, the Internal Revenue Service completed a review of the Corporation's income tax returns for fiscal 2006 and 2007; and the California Franchise Tax Board completed a review of the Corporation's income tax returns for fiscal 2009 and 2010. Tax years subsequent to fiscal 2010 remain subject to federal examination; and the California state income tax returns for years subsequent to fiscal 2010 are subject to future examination by state taxing authorities.

It is the Corporation's policy to record any penalties or interest charges arising from federal or state taxes as a component of income tax expense. During the quarter ended September 30, 2015, there were no tax penalties or interest charges. For the quarter ended September 30, 2014, the Corporation paid $4,000 in interest charges to the State of California tax authority for the fiscal 2010 tax obligation.

Note 9: Fair Value of Financial Instruments

The Corporation adopted ASC 820, "Fair Value Measurements and Disclosures," and elected the fair value option pursuant to ASC 825, "Financial Instruments" on loans originated for sale by PBM. ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 825 permits entities to elect to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the "Fair Value Option") at specified election dates. At each subsequent reporting date, an entity is required to report unrealized gains and losses on items in earnings for which the fair value option has been elected. The objective of the Fair Value Option is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

The following table describes the difference at the dates indicated between the aggregate fair value and the aggregate unpaid principal balance of loans held for investment at fair value and loans held for sale at fair value:

(In Thousands)	Aggregate Fair Value	Aggregate Unpaid Principal Balance	Net Unrealized (Loss) Gain
As of September 30, 2015:			
Loans held for investment, at fair value	$4,036	$4,167	$(131)
Loans held for sale, measured at fair value	$163,644	$156,901	$6,743
As of June 30, 2015:			
Loans held for investment, at fair value	$4,518	$4,495	$23
Loans held for sale, measured at fair value	$224,715	$219,143	$5,572

ASC 820-10-65-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly," provides additional guidance for estimating fair value in accordance with ASC 820, "Fair Value Measurements," when the volume and level of activity for the asset or liability have significantly decreased.

ASC 820 establishes a three-level valuation hierarchy that prioritizes inputs to valuation techniques used in fair value calculations. The three levels of inputs are defined as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.

Level 2 - Observable inputs other than Level 1 such as: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated to observable market data for substantially the full term of the asset or liability.

Level 3 - Unobservable inputs for the asset or liability that use significant assumptions, including assumptions of risks. These unobservable assumptions reflect the Corporation's estimate of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of pricing models, discounted cash flow models and similar techniques.

ASC 820 requires the Corporation to maximize the use of observable inputs and minimize the use of unobservable inputs. If a financial instrument uses inputs that fall in different levels of the hierarchy, the instrument will be categorized based upon the lowest level of input that is significant to the fair value calculation.

The Corporation’s financial assets and liabilities measured at fair value on a recurring basis consist of investment securities, loans held for investment at fair value, loans held for sale at fair value, interest-only strips and derivative financial instruments; while non-performing loans, mortgage servicing assets ("MSA") and real estate owned are measured at fair value on a nonrecurring basis.

Investment securities are primarily comprised of U.S. government agency MBS, U.S. government sponsored enterprise MBS, a privately issued CMO and common stock of a community development financial institution. The Corporation utilizes quoted prices in active and less than active markets for similar securities for its fair value measurement of MBS and debt securities (Level

2), broker price indications for similar securities in non-active markets for its fair value measurement of the CMO (Level 3) and a relative value analysis for the common stock in non-active markets (Level 3).

Derivative financial instruments are comprised of commitments to extend credit on loans to be held for sale, mandatory loan sale commitments, TBA MBS trades and option contracts. The fair value of TBA MBS trades is determined using quoted secondary-market prices (Level 2). The fair values of other derivative financial instruments are determined by quoted prices for a similar commitment or commitments, adjusted for the specific attributes of each commitment (Level 3).

Loans held for investment at fair value are primarily single-family loans which have been transferred from loans held for sale. The fair value is determined by the quoted secondary-market prices which account for interest rate characteristics, adjusted for management estimates of the specific credit risk attributes of each loan (Level 3).

Loans held for sale at fair value are primarily single-family loans. The fair value is determined, when possible, using quoted secondary-market prices such as mandatory loan sale commitments. If no such quoted price exists, the fair value of a loan is determined by quoted prices for a similar loan or loans, adjusted for the specific attributes of each loan (Level 2).

Non-performing loans are loans which are inadequately protected by the current net worth and paying capacity of the borrowers or of the collateral pledged. The non-performing loans are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. The fair value of a non-performing loan is determined based on an observable market price or current appraised value of the underlying collateral. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the borrower. For non-performing loans which are restructured loans, the fair value is derived from discounted cash flow analysis (Level 3), except those which are in the process of foreclosure or 90 days delinquent for which the fair value is derived from the appraised value of its collateral (Level 2). For other non-performing loans which are not restructured loans, other than non-performing commercial real estate loans, the fair value is derived from relative value analysis: historical experience and management estimates by loan type for which collectively evaluated allowances are assigned (Level 3), or the appraised value of its collateral for loans which are in the process of foreclosure or where borrowers file bankruptcy, for which the charge-off will occur when the loan becomes 60 days delinquent (Level 2). For non-performing commercial real estate loans, the fair value is derived from the appraised value of its collateral (Level 2). Non-performing loans are reviewed and evaluated on at least a quarterly basis for additional allowance and adjusted accordingly, based on the same factors identified above. This loss is not recorded directly as an adjustment to current earnings or other comprehensive income (loss), but rather as a component in determining the overall adequacy of the allowance for loan losses. These adjustments to the estimated fair value of non-performing loans may result in increases or decreases to the provision for loan losses recorded in current earnings.

The Corporation uses the amortization method for its MSA, which amortizes the MSA in proportion to and over the period of estimated net servicing income and assesses the MSA for impairment based on fair value at each reporting date. The fair value of MSA is calculated using the present value method; which includes a third party's prepayment projections of similar instruments, weighted-average coupon rates and the estimated average life (Level 3).

The rights to future income from serviced loans that exceed contractually specified servicing fees are recorded as interest-only strips. The fair value of interest-only strips is calculated using the same assumptions that are used to value the related MSA (Level 3).

The fair value of real estate owned is derived from the lower of the appraised value or the listing price, net of estimated selling costs (Level 2).

The Corporation's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Corporation's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following fair value hierarchy tables present information at the dates indicated about the Corporation's assets measured at fair value on a recurring basis:

	Fair Value Measurement at September 30, 2015 Using:			
(In Thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities:				
U.S. government agency MBS	$—	$7,573	$—	$7,573
U.S. government sponsored enterprise MBS	—	5,046	—	5,046
Private issue CMO	—	—	691	691
Common stock - community development financial institution	—	—	151	151
Investment securities	—	12,619	842	13,461
Loans held for investment, at fair value	—	—	4,036	4,036
Loans held for sale, at fair value	—	163,644	—	163,644
Interest-only strips	—	—	60	60
Derivative assets:				
Commitments to extend credit on loans to be held for sale	—	—	2,510	2,510
Option contracts	—	—	57	57
Derivative assets	—	—	2,567	2,567
Total assets	$—	$176,263	$7,505	$183,768
Liabilities:				
Derivative liabilities:				
Commitments to extend credit on loans to be held for sale	$—	$—	$6	$6
Mandatory loan sale commitments	—	—	150	150
TBA MBS trades	—	1,542	—	1,542
Derivative liabilities	—	1,542	156	1,698
Total liabilities	$—	$1,542	$156	$1,698

	Fair Value Measurement at June 30, 2015 Using:			
(In Thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities:				
U.S. government agency MBS	$—	$7,906	$—	$7,906
U.S. government sponsored enterprise MBS	—	5,387	—	5,387
Private issue CMO	—	—	717	717
Common stock - community development financial institution	—	—	151	151
Investment securities	—	13,293	868	14,161
Loans held for investment, at fair value	—	4,518	—	4,518
Loans held for sale, at fair value	—	224,715	—	224,715
Interest-only strips	—	—	63	63
Derivative assets:				
Commitments to extend credit on loans to be held for sale	—	—	1,636	1,636
TBA MBS trades	—	812	—	812
Option contracts	—	—	192	192
Derivative assets	—	812	1,828	2,640
Total assets	$—	$243,338	$2,759	$246,097
Liabilities:				
Derivative liabilities:				
Commitments to extend credit on loans to be held for sale	$—	$—	$137	$137