PACIFIC PREMIER BANCORP INC
Form 10-K
April 15, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

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 No.: 0-22193

Pacific Premier Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Delaware	33-0743196
(State of Incorporation)	(I.R.S. Employer Identification No)

1600 Sunflower Ave. 2nd Floor, Costa Mesa, California 92626

(714) 431-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [__] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes [__] No [X]

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, i.e., persons other than directors and executive officers of the registrant, was approximately $53,118,140 and was based upon the last sales price as quoted on The NASDAQ Stock Market as of June 29, 2007, the last business day of the most recently completed 2nd fiscal quarter.

As of March 31, 2008, the Registrant had 4,903,784 shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2008 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

Overview

All references to “we”, “us”, “our”, or the “Company” mean Pacific Premier Bancorp, Inc. and our consolidated subsidiaries, including Pacific Premier Bank, our primary operating subsidiary. All references to ‘‘Bank’’ refer to Pacific Premier Bank.

The statements contained herein that are not historical facts are forward looking statements based on management's current expectations and beliefs concerning future developments and their potential effects on the Company. There can be no assurance that future developments affecting the Company will be the same as those anticipated by management. Actual results may differ from those projected in the forward-looking statements. These forward-looking statements involve risks and uncertainties. These include, but are not limited to, the following risks: (1) changes in the performance of the financial markets, (2) changes in the demand for and market acceptance of the Company's products and services, (3) changes in general economic conditions including interest rates, presence of competitors with greater financial resources, and the impact of competitive projects and pricing, (4) the effect of the Company's policies, (5) the continued availability of adequate funding sources, and (6) various legal, regulatory and litigation risks.

We are a California-based bank holding company incorporated in the state of Delaware and registered as a banking holding company under the Bank Holding Company Act of 1956, as amended ("BHCA”), for Pacific Premier Bank, a

California state chartered commercial bank. The Bank is subject to examination and regulation by the California Department of Financial Institutions ("DFI"), the Board of Governors of the Federal Reserve System (the "Federal Reserve"), and by the Federal Deposit Insurance Corporation ("FDIC").

We conduct business throughout Southern California from our six locations in the counties of Orange and San Bernardino. We operate six depository branches in the cities of Huntington Beach, Los Alamitos, Newport Beach, San Bernardino and Seal Beach, and Costa Mesa. Our corporate headquarters are located in Costa Mesa, California.

We provide banking services within our targeted markets in Southern California to businesses, including the owners and employees of those businesses, professionals, real estate investors and non-profit organizations, as well as, consumers in the communities we serve. Through our branches and our web site at www.PPBI.net on the Internet, we offer a broad array of deposit products and services for both businesses, and consumer customers including checking, money market and savings accounts, cash management services, electronic banking, and on-line bill payment. We offer a wide array of loan products, such as commercial business loans, lines of credit, commercial real estate loans, U.S. Small Business Administration ("SBA") loans, residential home loans, and home equity loans. At December 31, 2007, we had consolidated total assets of $763.4 million, net loans of $622.9 million, total deposits of $386.7 million, consolidated total stockholders' equity of $60.8 million, and the Bank was considered a "well-capitalized" financial institution for regulatory capital purposes.

History

The Bank was founded in 1983 as a state chartered savings and loan, became a federally chartered stock savings bank in 1991 and on March 30, 2007, we converted to a state chartered bank licensed by the DFI. From 1983 to 1994, the Bank engaged in traditional community banking activities, consisting primarily of deposit taking and originating one-to-four family home loans. In 1994, the Bank shifted its operating strategy and implemented a nationwide sub-prime focused mortgage banking platform. The Bank expanded its operations to originate and to sell sub-prime residential home loans through asset securitizations and whole loan sales. Lending activities were funded primarily through non-core deposits, such as wholesale and brokered certificates of deposit ("CDs"), as well as, high rate consumer CDs. In 1998, the Company and Bank began to experience losses. By the third quarter of 2000, the Bank was deemed under-capitalized, was operating under regulatory enforcement agreements and incurring losses primarily due to loan defaults.

The current management team was retained and implemented a new business plan in the fourth quarter of 2000 in order to refocus the Company's business model toward a community bank. We implemented a three phase strategic plan which involved (1) lowering the risk profile of the Bank and re-capitalizing the Company, (2) growing the balance sheet at an accelerated rate through the origination of adjustable rate multi-family loans, thus, returning the Company to profitability, and (3) transforming the institution to a commercial banking business model. The first two phases of our plan were completed in 2002 and 2004, respectively. Phase three of our plan involves the transition to a commercial banking platform and, thus, we are focusing on changing the deposit base to a higher percentage of low cost core deposits and a diversification of the Bank's loan portfolio. We began implementing this phase of our strategic plan in late 2004 and early 2005 through a shift in our corporate focus towards relationship banking.

Operating Strategy

Our goal is to develop the Bank into one of Southern California's top performing commercial banks as an alternative to the large regional and national banks for businesses, professionals, entrepreneurs and non-profit organizations for the long term benefit of our shareholders, customers and employees. The following are our operating strategies to achieve our goals:

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Recruitment of Business Bankers. We began our transition to a commercial banking platform in 2005 by recruiting experienced business bankers who possess an established following of customer relationships. These relationships typically include businesses that have both deposit and loan needs, as well as, the personal depository needs of the business owners themselves. Our incentive plans compensate our business bankers for the generation and retention of customer relationships as measured by the level of low cost deposits maintained at the Bank. We will continue to recruit experienced bankers to staff our branches and serve our targeted markets.

- Relationship Banking. We recognize that customer relationships are built through a series of consistently executed experiences in both routine transactions and higher value interactions. Our business bankers are focused on developing long term relationships with business owners, professionals, entrepreneurs, real estate investors, and non-profit organizations through consistent and frequent contact. Our bankers are actively involved in community organizations and events, thus building and capitalizing on the Bank's reputation within our local communities.

- Growing Core Deposits/Reducing our Wholesale Funding. The second phase of our strategic plan relied on wholesale borrowings, such as advances from Federal Home Loan Bank ("FHLB") System and brokered deposits to fund a large portion of our accelerated loan growth during that phase. As we transition towards a commercial banking platform, we intend to reduce our reliance on these funding sources over time. We will manage our growth and our concentration in commercial real estate, in part, by selling excess loan production, generally multi-family loans. We also expect to increase the growth of low cost core deposit accounts via our recent branch expansion, in order to better serve our market area and to attract additional business customers.

- Expansion through electronic banking, organic growth and acquisitions. We believe that the consolidation and current turmoil in the banking industry has created an opportunity at the community banking level in the areas that we serve. Many bank customers feel displaced by large out-of-market acquirers and are attracted to institutions that have local decision making capability, more responsive customer service, and greater familiarity with the needs in their markets. We opened two new branches in the cities of Los Alamitos and Costa Mesa, California in 2006 and our sixth branch in the city of Newport Beach. California during 2007. Additionally, we relocated our Huntington Beach branch to a new facility which will enable us to better serve our existing business clients and to attract additional business in the surrounding area. We intend to continue expanding our franchise in the high growth areas of Orange and Los Angeles Counties, primarily through electronic banking, such as, remote or merchant capture, on-line banking and cash management service available through our web site. As opportunities arise, we will consider expansion into markets contiguous to our own through potential acquisitions and/or de novo branching.

- Diversifying our Loan Portfolio. We believe it is important to diversify our loan portfolio and to increase the amount of commercial real estate, commercial and industrial ("C&I") loans and SBA loans within our portfolio. As a result, we believe it is essential to be able to offer our customers a wide array of products and services. We provide flexible and structured loan products to meet our customer's needs, which, in turn, provide us the opportunity to become their full service banker. We continually reassess our various product and service offerings to ensure they allow us to achieve our objectives.

- Maintain Excellent Asset Quality. Our credit and risk management culture has resulted in low levels of nonperforming loans and an overall high credit quality within our loan portfolio. We monitor existing economic trends and conditions that could positively or negatively impact our business. We seek to exploit these trends by entering or exiting certain lines of business or through offering or eliminating various products. We will continue to adjust our risk management practices to changes in the conditions that impact our business.

- Premier Customer Service Provider. We believe it is imperative that the Bank provide a consistent level of quality service which generates customer retention and referrals. All of our employees, through training, understand that each interaction with our customers is an opportunity to exceed their expectations. Our employees' incentive compensation is, in part, predicated on achieving a consistently high level of customer satisfaction.

Our executive offices are located at 1600 Sunflower Avenue, 2nd Floor, Costa Mesa, California 92626 and our telephone number is (714) 431-4000. Our Internet website address is www.ppbi.net. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and all amendments thereto, from 1998 to present, are available free of charge on our Internet website. Also on our website are our Code of Ethics, Insider Trading and Beneficial Ownership forms, and Corporate Governance Guidelines. The information contained in our website, or in any websites linked by our website, is not a part of this Annual Report on Form 10-K.

Lending Activities

General. In 2007 we maintained our commitment to a high level of credit quality in our lending activities, even as we generated record loan originations for the year. We expanded our efforts to diversify our loan portfolio and to increase our C&I and SBA lending activities in addition to continuing our strong multi-family and commercial real estate lending programs. The Bank offers a full complement of flexible and structured loan products tailored to meet the needs of our customers.

Loans were made primarily to borrowers within our market area and secured by real property and business assets located principally in Southern California. We emphasized relationship lending, and focused on generating retail production by dealing directly with customers. We have and will continue to offer loans up to our legal lending limits, which were $17.6 million for secured loans and $10.6 million for unsecured loans as of December 31, 2007. These efforts assisted us in establishing depository relationships with new and existing customers consistent with the Bank's strategic direction. During 2007, we originated $311.2 million in multi-family, $23.0 million in commercial real estate and land loans, and $69.1 million of business loans consisting of $17.2 million of owner-occupied commercial real estate loans, $37.7 million of conventional C&I loans, $14.2 million of SBA loans and $6.0 million of other loans. At December 31, 2007, we had $626.6 million in total gross loans outstanding.

C&I Lending. We originate loans secured by business assets including inventory, receivables, machinery and equipment to businesses located in our primary market area. In many instances, real estate holdings of the borrower, its principals or loan guarantors are also taken as collateral. Loan types include revolving lines of credit, term loans, seasonal loans and loans secured by liquid collateral such as cash deposits or marketable securities. We also issue letters of credit on behalf of our customers, backed by loans or deposits with the Bank. In addition to lending against business assets, our business loan programs include loans for owner-occupied commercial real estate such as retail, office and industrial properties. Owner-occupied real estate is underwritten based on the value of the building and the cash flow of the occupying business. As of December 31, 2007, we had total commitments of $48.1 million in commercial business lines of credit, of which, $30.4 million were disbursed, constituting 8.1% of our loan portfolio.

SBA Lending. The Bank was approved to originate loans under the SBA's Preferred Lenders Program ("PLP") in the third quarter of 2006. The PLP lending status affords the Bank a higher level of delegated credit autonomy, translating to a significantly shorter turnaround time from application to funding, which is critical to our marketing efforts. We originate loans under the SBA's 7(a), 504 and Express loan programs, in conformance with SBA underwriting and documentation standards. The guaranteed portion of the 7(a) loans is typically sold on the secondary market. As of December 31, 2007, we had $13.9 million of SBA loans, constituting 2.2% of our loan portfolio.

Multi-family Real Estate Lending. We originate and purchase loans secured by multi-family residential properties (five units and greater) located predominantly in Southern California. The majority of loans we fund on multi-family properties are sold in the secondary market. However, due to recent changes in the market place, starting in the third quarter of 2007, for such loans, originations of multi-family loans has materially decreased which will affect future loan sales and thus the amount of gain on loan sales we have been able to achieve in previous years. Pursuant to our underwriting policies, multi-family residential loans may be made in an amount up to 75% of the lesser of the appraised value or the purchase price of the collateral property. In addition, we generally require a stabilized minimum debt service coverage ratio of 1.15:1, based on the qualifying loan interest rate. Loans are made for terms up to 30 years with amortization periods up to 30 years. As of December 31, 2007, we had $341.3 million of multi-family real estate secured loans, constituting 54.5% of our loan portfolio. Multi-family loans originated in 2007 had an average outstanding balance of $1,208,000, loan-to-value of 64.3%, and debt coverage ratio of 1.15:1 at origination. We expect to originate a substantially smaller amount of multifamily loans going forward due to changes in the market place for such loans.

Commercial Real Estate Lending – Investor and Owner-Occupied. We originate and purchase loans secured by commercial real estate, such as retail centers, small office and light industrial buildings, and mixed-use commercial properties located predominantly in Southern California. We will also, from time to time, make a loan secured by a special purpose property, such as a gas station or motel. Pursuant to our underwriting policies, commercial real estate loans may be made in amounts up to 75% of the lesser of the appraised value or the purchase price of the collateral property. We consider the net operating income of the property and typically require a stabilized debt service coverage ratio of at least 1.20:1, based on the qualifying interest rate. Loans are generally made for terms up to fifteen years with amortization periods up to 30 years. As of December 31, 2007, we had $205.1 million of commercial real estate secured loans, constituting 32.7% of our loan portfolio. Commercial real estate loans originated in 2007 had an average balance of $1,138,000, loan-to-value of 64.84% and debt coverage ratio, on investor owned, of 1.24:1 at origination.

One-to-Four Family Lending. The Bank is not an active participant in single family lending on a transactional basis and does not engage in Alt-A or subprime lending. Home loans are available to banking customers only, in keeping with the Bank’s strategy of offering a full complement of loan products to customers. In 2007, the Bank originated three loans secured by first liens on single family residences for $3.2 million. The Bank’s portfolio of one-to-four family home loans at December 31, 2007 totaled $13.1 million, constituting 2.1% of our loan portfolio, of which $10.9 million consists of loans secured by first liens on real estate and $2.2 million consists of loans secured by second or junior liens on real estate.

Sourcing of our Loans. In keeping with our business strategy, our Business Bankers successfully expanded our retail lending activities in 2007. Direct loan originations accounted for 25.9% of our loans, which represented an increase of 134.9% over 2006. These loans were sourced through referrals from our depository branches and by soliciting business owners directly. Our bankers continue to focus on developing and maintaining relationships with individual investors, accountants, consultants, commercial real estate investment sales and leasing agents, and other banks to further increase the percentage of direct referrals in future periods.

C&I and SBA loans are sourced by our Business Bankers, Regional Managers and the Bank’s web site. Our bankers call on business owners, accountants, attorneys, consultants, non-profit organizations, and various other referral sources to generate new business banking relationships. Upon securing the business banking relationships, they work with the business owner to offer personal banking products and services to the business owner, their families, and the businesses’ employees as well. Additionally, our Regional Managers work closely with our business bankers to capture the full banking needs of our multi-family and commercial real estate loan customers. A small percentage of our business lending activity results from broker referrals of business owners seeking to purchase or refinance their business real estate.

We primarily obtain new multi-family and commercial real estate loans, from established relationships with mortgage brokers operating throughout Southern California. In 2007, we maintained relationships with over 50 brokerage companies of which five could be termed significant. In 2007, the top five brokerage companies accounted for 62.0% of the multi-family and commercial real estate loans originated by the Bank. Within these five brokerage companies, we funded loans with a total of 26 different agents. Our Business Bankers have relationships with these individuals and seek to maintain the relationship regardless of where these agents are employed. Additionally, our bankers seek to establish relationships with other agents within these brokerage companies that have not done business with us in the past.

Interest Rates on Our Loans. We employ a risk-based pricing strategy on all loans we fund. The interest rates, fees and loan structure of our loans generally vary based on a number of factors, including the degree of credit risk, size, maturity of the loan, borrower's business or property management expertise, and prevailing market rates for similar types of loans. Adjustable rate C&I and SBA loans are typically priced based on a margin over the Prime rate. Investor owned real estate loans are typically 3, 5, 7, or 10 year fixed rate hybrid adjustable-rate loans and are based on one of several interest rate indices. Many of the C&I loans and substantially all of the investor owned real estate loans originated by the Bank in 2007 had minimum interest rates ("floor rates") below which the rate charged may not be reduced regardless of further reductions in the underlying interest rate index. Substantially all investor real estate loans also include prepayment penalties.

Lending Risks on our Loans. Lending risks vary by the type of loan extended. In our C&I and SBA lending activities, collectability of the loans may be adversely affected by risks generally related to small businesses, such as:

- Changes or continued weakness in general or local economic conditions;
- Changes or continued weakness in specific industry segments, including weakness affecting the business' customer base;
- Changes in a business' personnel;
- Increases in supplier costs that cannot be passed along to customers;
- Increases in operating expenses (including energy costs);
- Changes in governmental rules, regulations and fiscal policies;
- Increases in interest rates, tax rates; and
- Other factors beyond the control of the borrower or the lender.

In our investor real estate loans, payment performance and the liquidation values of collateral properties may be adversely affected by risks generally incidental to interests in real property, such as:

- Changes or continued weakness in general or local economic conditions;
- Changes or continued weakness in specific industry segments;
- Declines in real estate values;
- Declines in rental rates;
- Declines in occupancy rates;
- Increases in other operating expenses (including energy costs);
- The availability of property financing;
- Changes in governmental rules, regulations and fiscal policies, including rent control ordinances, environmental legislation and taxation;
- Increases in interest rates, real estate and personal property tax rates; and
- Other factors beyond the control of the borrower or the lender.

We attempt to mitigate these risks through sound and prudent underwriting practices, as well as a proactive loan review process and our risk management practices. See "Lending Activities - Underwriting and Approval Authority for Our Loans." We will not extend credit to any one borrower that is in excess of regulatory limits.

Underwriting and Approval Authority for Our Loans. Our board of directors establishes our lending policies. Each loan must meet minimum underwriting criteria established in our lending policies and must fit within our overall strategies for yield, interest rate risk, and portfolio concentrations. The underwriting and quality control functions are managed through our corporate office. Each loan application is evaluated from a number of underwriting perspectives. For business and SBA loans, underwriting considerations include historic business cash flows, debt service coverage, loan-to-value ratios of underlying collateral, if any, debt to equity ratios, credit history, business experience, history of business, forecasts of operations, economic conditions, business viability, net worth, and liquidity. For real estate secured loans, underwriting considerations include property appraised value, loan-to-value, level of debt service coverage utilizing both the actual net operating income and forecasted net operating income, use and condition of the property, as well as, the borrower's liquidity, income, credit history, net worth, and operating experience.

Business loans are generally originated as recourse or with full guarantees from key borrowers or borrower principals. Loans secured by real estate are originated on both a non-recourse and full recourse basis. On loans made to entities, such as partnerships, limited liability companies, corporations or trusts, we typically obtain personal guarantees from the appropriate managing members, major shareholders, trustees or other appropriate principals. In 2007, substantially all of our loans to entities were originated with full recourse and/or personal guarantees from principals of the borrowers.

Upon receipt of a completed loan application from a prospective borrower, a credit report and other required reports are ordered and, if necessary, additional information is requested. Prior to processing and underwriting any loan, we issue a letter of interest based on a preliminary analysis by our bankers, which letter details the terms and conditions on which we will consider the loan request. Upon receipt of the signed letter of interest and a deposit, we process and underwrite each loan application and prepare all loan documentation after the loan has been approved.

Our credit memorandum, which are prepared by our underwriters, include a description of the transaction and prospective borrower and guarantors, the collateral securing the loan, if any, the proposed uses of loan proceeds and source(s) of repayment, as well as an analysis of the borrower's business and personal financial statements and creditworthiness. The financial statements and creditworthiness of any guarantors are also analyzed. For loans secured by real property, the credit memorandum will include an analysis of the property. Loans secured by real estate require an independent appraisal conducted by a licensed appraiser. All appraisal reports are appropriately reviewed by our appraisal department. Our board of directors reviews and approves annually the independent list of acceptable appraisers. When appropriate, environmental reports are obtained and reviewed as well.

Following loan approval and prior to funding, our underwriting and processing departments ensure that all loan approval terms have been satisfied, that they conform with lending policies (or are properly documented as exceptions with required approvals), and that all required documentation is present and in proper form.

Commercial business loans are subject to Bank guidelines regarding appropriate covenants and periodic monitoring requirements which include but are not limited to:

- Capital and lease expenditures;
- Capital levels;
- Salaries and other withdrawals;
- Working capital levels;
- Debt to net worth ratios;
- Sale of assets;
- Change of management;
- Change of ownership;
- Cash flow requirements;
- Profitability requirements;
- Debt service ratio;
- Collateral coverage ratio;
- Current and quick ratios.

Subject to the above standards, our board of directors delegates authority and responsibility for loan approvals to management up to $1.5 million for all loans secured by real estate and up to $250,000 for loans not secured by real estate. Loan approvals at the management level require the approval of at least two members of our Management Loan Committee, consisting of our President and Chief Executive Officer, Chief Credit Officer, and Chief Banking Officer. All loans in excess of $1.5 million, including total aggregate borrowings in excess of $1.5 million, and any loan in excess of $250,000 not secured by real estate require a majority approval of our board's Credit Committee, which is comprised of three directors, including our President and Chief Executive Officer.

Loan Servicing. Loan servicing is centralized at our corporate headquarters. Our loan servicing operations are intended to provide prompt customer service and accurate and timely information for account follow-up, financial reporting and loss mitigation. Following the funding of an approved loan, the data is entered into our data processing system, which provides monthly billing statements, tracks payment performance, and effects agreed upon interest rate adjustments. The loan servicing activities include (i) the collection and remittance of mortgage loan payments, (ii) accounting for principal and interest and other collections and expenses, (iii) holding and disbursing escrow or impounding funds for real estate taxes and insurance premiums, (iv) inspecting properties when appropriate, (v) contacting delinquent borrowers, and (vi) acting as fiduciary in foreclosing and disposing of collateral properties.

When payments are not received by their contractual due date, collection efforts are initiated by our loss mitigation personnel. Accounts delinquent more than 15 days are reviewed by our loss mitigation manager and are assigned to our collector to begin the process of collections. Our collector begins by contacting the borrower telephonically and progresses to sending a notice of intention to foreclose within 30 days of delinquency, and we will initiate foreclosure on one-to-four family loans 30 days thereafter and on multi-family and commercial real estate 10 days thereafter if the delinquent payments are not received in full. Our loss mitigation manager conducts an evaluation of all loans 90 days or more past due by obtaining an estimate of value on the underlying collateral. The evaluation may result in our charging off either part of, or the entire loan, but still continuing with collection efforts.

Loan Portfolio Composition. At December 31, 2007, our net loans receivable held for investment totaled $622.1 million and net loans receivable held for sale totaled $750,000. The types of loans that the Bank may originate are subject to federal law, state law, and regulations.

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:

	At December 31,									
	2007		2006		2005		2004		2003	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(dollars in thousands)									
Real estate loans:										
Multi-family	$ 341,263	54.45%	$ 357,275	58.80%	$ 459,714	75.99%	$ 394,582	83.67%	$ 188,939	75.85%
Commercial	147,523	23.54%	173,452	28.55%	123,364	20.39%	53,937	11.44%	20,075	8.06%
One-to-four family (1)	13,080	2.09%	12,825	2.11%	16,561	2.74%	22,347	4.74%	36,632	14.71%
Business loans:										
Commercial owner occupied (2)	57,614	9.19%	35,929	5.91%	2,062	0.34%	565	0.12%	592	0.24%
Commercial and industrial	50,993	8.14%	22,762	3.75%	3,248	0.54%	103	0.02%	-	0.00%
SBA	13,995	2.23%	5,312	0.87%	-	0.00%	-	0.00%	-	0.00%
Other loans	2,224	0.35%	63	0.01%	27	0.00%	75	0.01%	2,863	1.14%
Total gross loans	626,692	100.00%	607,618	100.00%	604,976	100.00%	471,609	100.00%	249,101	100.00%
Less (plus):										
	(769)		(1,024)		(1,467)		(1,371)		(483)	

Deferred loan origination (costs), fees, (premiums), and discounts					
Allowance for loan losses	4,598	3,543	3,050	2,626	1,984
Loans receivable, net	$ 622,863	$ 605,099	$ 603,393	$ 470,354	$ 247,600

(1) Includes second trust deeds.
(2) Secured by real estate.

Loan Maturity. The following table shows the contractual maturity of the Bank's gross loans for the period indicated. The table does not reflect prepayment assumptions.

	At December 31, 2007							
	Multi-Family	Commercial Investor	Commercial Owner Occupied	Commercial Business	SBA	One-to-Four Family	Other Loans	Total Loan Receivable
				(in thousands)				
Amounts due:								
One year or less	$ 2,770	$ 3,485	$ 591	$ 45,212	$ 1,048	$ -	$ 142	$ 53,248
More than one year to three years	-	2,952	65	1,198	-	-	-	4,215
More than three years to five years	618	5,262	-	1,268	230	81	2,062	9,521
More than five years to 10 years	11,141	121,434	46,285	2,438	12,602	1,653	20	195,573
More than 10 years to 20 years	2,651	7,618	6,364	877	115	2,055	-	19,680
More than 20 years	324,083	6,772	4,309	-	-	9,291	-	344,455
Total amount due	341,263	147,523	57,614	50,993	13,995	13,080	2,224	626,692
Less (plus):								
Deferred loan origination fees (costs)	(881)	43	(55)	49	38	(41)	-	(847)
Lower of cost or market	-	-	-	-	-	78	-	78
Allowance for loan losses	1,438	1,129	248	640	207	165	21	3,848

Allowance for loan losses (unallocated)	-	-	-	-	-	-	-	750
Total loans, net	340,706	146,351	57,421	50,304	13,750	12,878	2,203	622,863
Loans held for sale, net	-	-	-	-	749	-	-	749
Loans held for investment, net	$ 340,706	$ 146,351	$ 57,421	$ 50,304	$ 13,001	$ 12,878	$ 2,203	$ 622,114

The following table sets forth at December 31, 2007, the dollar amount of gross loans receivable contractually due after December 31, 2008, and whether such loans have fixed interest rates or adjustable interest rates.

	Loans Due After December 31, 2008 At December 31, 2007		
	Fixed	Adjustable (in thousands)	Total
Residential			
One-to-four family	$ 5,509	$ 7,571	$ 13,080
Multi-family	1,555	336,938	338,493
Commercial real estate	15,551	128,487	144,038
Commercial owner occupied	8,367	48,656	57,023
Commercial and industrial	1,310	4,470	5,780
SBA	6,084	6,862	12,946
Other loans	34	2,048	2,082
Total gross loans receivable	$ 38,410	$ 535,032	$ 573,442

The following table sets forth the Bank's loan originations, purchases, sales, and principal repayments for the periods indicated:

	For the Year Ended December 31,		
	2007	2006 (in thousands)	2005
Beginning balance of gross loans	$ 607,618	$ 604,976	$ 471,609
Loans originated:			
Multi-family	311,236	182,378	184,757
Commercial real estate	23,040	90,840	74,548
Commercial owner occupied	17,208	28,396	12,335
Commecial and industrial	37,705	34,420	3,741
SBA	14,209	9,230	-

Other loans	3,333	1,537	1,945
Total loans originated	406,731	346,801	277,326
Loans purchased	2,750	-	-
Sub total—production	409,481	346,801	277,326
Total	1,017,099	951,777	748,935
Less:			
Principal repayments	149,550	138,116	83,754
Sales of loans	239,396	205,268	59,752
Charge-offs	701	266	216
Transfer to other real estate owned	760	509	237
Total gross loans	626,692	607,618	604,976
Ending balance loans held for sale, gross	750	795	456
Ending balance loans held for investment, gross	$ 625,942	$ 606,823	$ 604,520

Delinquencies and Classified Assets. Federal regulations require that the Bank utilize an internal asset classification system to identify and report problem and potential problem assets. The Bank’s Senior Portfolio Manager has responsibility for identifying and reporting problem assets to the Bank’s Credit and Investment Review Committee (“CIRC”), which operates pursuant to the board-approved CIRC policy. The policy incorporates the regulatory requirements of monitoring and classifying all assets of the Bank. The Bank currently designates or classifies problem and potential problem assets as “Special Mention”, “Substandard" or "Loss" assets. An asset is considered "Substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the Bank will sustain "some loss" if the deficiencies are not corrected. All other real estate owned (“OREO”) acquired from foreclosure is classified as “Substandard”. Assets classified as "Loss" are those considered “uncollectible" and of such little value that their continuance as assets. Assets which do not currently expose the Bank to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated "Special Mention."

The Bank’s determination as to the classification of its assets and the amount of its valuation allowances are subject to review by bank regulatory agencies, which can order the establishment of additional general or a change in a classification. The federal banking agencies adopted an interagency policy statement on the allowance for loan and lease losses. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of adequate allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation allowances. Generally, the policy statement recommends that institutions have effective systems and controls to identify, monitor and address asset quality problems; that management has analyzed all significant factors that affect the collectability of the portfolio in a reasonable manner; and that management has established acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. While the Bank believes that it has established an adequate allowance for estimated loan losses, there can be no assurance that its regulators, in reviewing the Bank's loan portfolio, will not request the Bank to materially increase its allowance for estimated loan losses, thereby negatively affecting the Bank's financial condition and earnings at that time. Although management believes that an adequate allowance for estimated loan losses has been established, actual losses are dependent upon future events and, as such, further additions to the level of allowances for estimated loan losses may become necessary.

The Bank's CIRC reviews the Senior Portfolio Manager’s recommendations for classifying the Bank's assets quarterly and reports the results of its review to the board of directors. The following table sets forth information concerning substandard assets, OREO and total classified assets at December 31, 2007 for the Company:

	At December 31, 2007					
	Total Substandard Assets		OREO		Total Substandard Assets and OREO	
	Gross Balance	# of Loans	Gross Balance	# of Properties	Gross Balance	# of Assets
	(dollars in thousands)					
Residential:						
One-to-four family	$ 406	11	$ -	2	$ 406	13
Multi-family	-	-	711	1	711	1
Commercial Real Estate	5,929	5	-	-	5,929	5
Commercial Owner Occupied	320	1	-	-	320	1
Commercial Business	-	-	-	-	-	-
SBA	741	3	-	-	741	3
Other loans	-	-	-	-	-	-
Specific Allowance	-	-	-	-	-	-
Total Substandard Assets	$ 7,396	20	$ 711	3	$ 8,107	23

At December 31, 2007, the Company had $27.6 million of Special Mention assets and $8.1 million of Substandard assets.

The following table sets forth delinquencies in the Company's loan portfolio as of the dates indicated:

	60-89 Days		90 Days or More	
	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans
	(dollars in thousands)			
At December 31, 2007				
Multi-family	-	$ -	-	$ -
Commercial real estate	1	641	1	3,125
Commercial owner occupied	-	-	-	-
Commercial and industrial	3	458	-	-
SBA	5	804	-	-
One-to-four family and other loans	15	719	7	284
Total	24	$ 2,622	8	$ 3,409
Delinquent loans to total gross loans		0.42%		0.54%

At December 31, 2006						
Multi-family	-	$	-	-	$	-
Commercial real estate	-		-	-		-
Commercial owner occupied	-		-	-		-
Commercial and industrial	-		-	-		-
SBA	-		-	-		-
One-to-four family and other loans	4		182	13		634
Total	4	$	182	13	$	634
Delinquent loans to total gross loans			0.03%			0.10%
At December 31, 2005						
Multi-family	-	$	-	-	$	-
Commercial real estate	-		-	-		-
Commercial owner occupied	-		-	-		-
Commercial and industrial	-		-	-		-
SBA	-		-	-		-
One-to-four family and other loans	2		157	33		1,687
Total	2	$	157	33	$	1,687
Delinquent loans to total gross loans			0.03%			0.28%
At December 31, 2004						
Multi-family	-	$	-	-	$	-
Commercial real estate	-		-	-		-
Construction	-		-	-		-
One-to-four family and other loans	11		525	38		2,371
Total	11	$	525	38	$	2,371
Delinquent loans to total gross loans			0.11%			0.50%
At December 31, 2003						
Multi-family	-	$	-	-	$	-
Commercial real estate	-		-	-		-
Construction	-		-	-		-
One-to-four family and other loans	2		46	45		2,730
Total	2	$	46	45	$	2,730
Delinquent loans to total gross loans			0.02%			1.09%

Nonperforming Assets. At December 31, 2007 and 2006, respectively, we had $4.9 million and $712,000 of net nonperforming assets, respectively, which included $4.2 million and $574,000 of net nonperforming loans, respectively. Our current policy is not to accrue interest on loans 90 days or more past due. The increase in nonperforming assets in 2007 is primarily due to a $3.1 million commercial real estate loan and four SBA loans totaling $784,000, of which $550,000 represents the guaranteed portion. The collateral securing the $3.1 million commercial real estate loan is currently in litigation with a former associate of the borrower, alleging fraudulent reconveyance of their previously recorded lien. Management believes that it will not suffer a loss on this loan, as the title company has accepted the tender of defense, subject to its normal reservation of rights, and the collateral value securing the loan is considered adequate.

OREO was $711,000 (consisting of three properties) at December 31, 2007, compared to $138,000 (consisting of eight properties) at December 31, 2006. Properties acquired through or in lieu of foreclosure are initially recorded at the lower of fair value less cost to sell, or the balance of the loan at the date of foreclosure through a charge to the allowance for loan losses. The Bank generally obtains an appraisal and/or a market evaluation on all OREO at the time of possession. After foreclosure, valuations are periodically performed by management as needed due to changing market conditions or factors specifically attributable to the properties' condition. If the carrying value of the property exceeds its fair value less estimated cost to sell, a charge to operations is recorded. The decline in OREO over the periods represented reflects the improvements in asset quality and sales of OREO properties.

The following tables set forth information concerning nonperforming loans and OREO at the periods indicated:

	At December 31,				
	2007	2006	2005	2004	2003
	(dollars in thousands)				
Nonperforming assets (1)					
Real Estate:					
One-to-four family	$ 284	$ 634	$ 1,687	$ 2,371	$ 2,729
Multi-family	-	-	-	-	-
Commercial real estate	3,125	-	-	-	-
Business loans:					
Commercial owner occupied	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
SBA	784	-	-	-	-
Other loans	-	-	-	-	1
Total nonaccrual loans	4,193	634	1,687	2,371	2,730
Foreclosures in process	-	-	-	-	43
Specific allowance	-	(60)	(185)	(244)	(299)
Total nonperforming loans, net	4,193	574	1,502	2,127	2,474
Foreclosed other real estate owned (2)	711	138	211	351	979
Total nonperforming assets, net (3)	$ 4,904	$ 712	$ 1,713	$ 2,478	$ 3,453
Restructured loans (4)	$ -	$ -	$ -	$ -	$ -
Allowance for loan losses as a percent of gross loans receivable (5)	0.73%	0.58%	0.50%	0.56%	0.79%
Allowance for loan losses as a percent of total nonperforming loans, gross	109.66%	558.83%	180.79%	110.75%	72.67%
Nonperforming loans, net of specific allowances, as a percent of gross loans	0.67%	0.09%	0.25%	0.45%	0.99%

receivable					
Nonperforming assets, net of specific allowances, as a percent of total assets	0.64%	0.10%	0.24%	0.46%	1.12%

(1) During the years ended December 31, 2007, 2006, 2005, 2004, and 2003, approximately $347,000, $41,000, $75,000, $131,000, and $299,000, respectively, of interest income related to these loans was included in net income. Additional interest income of approximately $315,000, $106,000, $310,000, $317,000, and $406,000 million, respectively, would have been recorded for the years ended December 31, 2007, 2006, 2005, 2004, and 2003 if these loans had been paid in accordance with their original terms and had been outstanding throughout the applicable period then ended or, if not outstanding throughout the applicable period then ended, since origination.

(2) Foreclosed OREO balances are shown net of related loss allowances.

(3) Nonperforming assets consist of nonperforming loans and OREO. Nonperforming loans consisted of all loans 90 days or more past due and foreclosures in process less than 90 days and still accruing interest.

(4) A "restructured loan" is one wherein the terms of the loan were renegotiated to provide a reduction or deferral of interest or principal because of deterioration in the financial position of the borrower. We did not include in interest income any interest on restructured loans during the periods presented.

(5) Gross loans include loans receivable held for investment and held for sale.

(6) The SBA totals includes the guaranteed amount which was $550,000 as of December 31, 2007.

Allowance for Loan Losses. We maintain an allowance for loan losses to absorb losses inherent in the loans held for investment portfolio. Loans held for sale are carried at the lower of cost or estimated market value. Net unrealized losses, if any, are recognized in a lower of cost or market valuation allowance by charges to operations. The allowance is based on ongoing, quarterly assessments of probable estimated losses inherent in our loan portfolio. The allowance is increased by a provision for loan losses which is charged to expense and reduced by charge-offs, net of recoveries.

As of December 31, 2007, the allowance for loan losses totaled $4.6 million, compared to $3.5 million at December 31, 2006 and $3.1 million at December 31, 2005. The December 31, 2007 allowance for loan losses, as a percent of nonperforming loans and gross loans, was 109.7% and 0.73%, respectively, compared with 558.8% and 0.58% at December 31, 2006, and 180.8% and 0.50% at December 31, 2005. The specific allowance amount included in the allowance for loan losses totaled zero, $166,000 and $291,000, as of December 31, 2007, 2006 and 2005, respectively.

The Bank's methodology for assessing the appropriateness of the allowance consists of several key elements, including the formula allowance. The formula allowance is calculated by applying loss factors to all loans held for investment.

The loss factors for each segment of the loan portfolio, except for loan secured by single family residences originated prior to 2002, are derived by using the average of the last 10 years and 15 years historical charge-off rates by loan types for commercial banks and savings institutions headquartered in the state of California as collected by the FDIC as the base rate. Then the following internal and external risk factors are added to the average:

Internal Factors

- Changes in lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices;
- Changes in the nature and volume of the loan portfolio and in the terms of loans, as well as new types of lending;
- Changes in the experience, ability, and depth of lending management and other relevant staff that may have an impact on the Bank's loan portfolio;
- Changes in volume and severity of past due and classified loans, and in volumes of non-accruals, troubled debt restructurings, and other loan modifications;

- Changes in the quality of the Bank's loan review system and the degree of oversight by the Board; and
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations.

External Factors

- Changes in national, state and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments (includes trends in real estate values and the interest rate environment);
- Changes in the value of the underlying collateral for collateral-dependent loans; and
- The effect of external factors, such as competition, legal, regulatory requirements on the level of estimated credit losses in the Bank's current loan portfolio.

The factor amount for each of the nine above described risked factors are determined by the Senior Portfolio Manager and Chief Credit Officer and approved by the CIRC on a quarterly basis.

For the homogeneous single-family residential loan portfolio, the ALLL loss factors for pre-2002 originations of first and second deeds of trust loans are based upon the Bank's historical loss experience from charge-offs and real estate owned, and the migration history analysis. The Bank has tracked its historical losses for the last 40 quarters. For loans secured with single family residences made after 2001, the factor is calculated using the average of the FDIC charge-off for 10 and 15 years plus the nine credit loss factors mentioned above.

The following table sets forth activity in the Bank's allowance for loan losses for the periods indicated:

	As of and For the Year Ended December 31,				
	2007	2006	2005	2004	2003
	(dollars in thousands)				
Balances:					
Average net loans outstanding during the period	$ 617,528	$ 607,439	$ 546,426	$ 351,968	$ 184,460
Total loans outstanding at end of the period	626,580	607,618	604,976	471,609	250,117
Allowance for Loan Losses:					
Balance at beginning of period	3,543	3,050	2,626	1,984	2,835
Provision for loan losses	1,651	531	349	705	655
Charge-offs:					
Real Estate:					
One-to-four family	101	266	211	252	1,612
Multi-family	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Business loans:					
Commercial owner occupied	-	-	-	-	-

Commercial and industrial	-	-	-	-	-
SBA	600	-	-	-	-
Other loans	-	-	5	148	388
Total charge-offs	701	266	216	400	2,000
Recoveries :					
Real Estate:					
One-to-four family	103	225	191	122	197
Multi-family	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	-	-	74	-	-
Business loans:					
Commercial owner occupied	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
SBA	-	-	-	-	-
Other loans	2	3	26	215	297
Total recoveries	105	228	291	337	494
Net loan charge-offs	596	38	(75)	63	1,506
Balance at end of period	$ 4,598	$ 3,543	$ 3,050	$ 2,626	$ 1,984
Ratios:					
Net charge-offs to average net loans	0.10%	0.01%	(0.01)%	0.02%	0.82%
Allowance for loan losses to gross loans at end of period	0.73%	0.58%	0.50%	0.56%	0.79%
Allowance for loan losses to total nonperforming loans	109.66%	558.83%	180.79%	110.77%	72.67%

The following table sets forth the Bank's allowance for loan losses and the percent of gross loans to total gross loans in each of the categories listed at the dates indicated:

	As of December 31,					
	2007		2006		2005	
Balance at End of Period Applicable to	Amount	% of Loans in Category to Total Loans	Amount	% of Loans in Category to Total Loans	Amount	% of Loans in Category to Total Loans
			(dollars in thousands)			
Real Estate:						

Residential:						
One-to-four family	$ 165	2.09%	$ 331	2.11%	$ 554	2.74%
Multi-family	1,438	54.45%	1,405	58.80%	1,746	75.99%
Commercial real estate	1,129	23.54%	881	28.55%	627	20.39%
Construction	20	0.00%	-	0.00%	-	0.00%
Commercial owner occupied	248	9.19%	179	5.91%	10	0.34%
Commercial and industrial	640	8.14%	478	3.75%	110	0.54%
SBA	207	2.23%	68	0.87%	-	0.00%
Other Loans	1	0.35%	4	0.01%	3	0.00%
Unallocated	750	--	197	--	-	--
Total	$ 4,598	100.00%	$ 3,543	100.00%	$ 3,050	100.00%

	As of December 31,			
	2004		2003	
Balance at End of Period Applicable to	Amount	% of Loans in Category to Total Loans	Amount	% of Loans in Category to Total Loans
	(dollars in thousands)			
Real Estate:				
Residential:				
One-to-four family	$ 661	4.74%	$ 843	14.71%
Multi-family	1,643	83.67%	812	75.85%
Commercial real estate	271	11.44%	105	8.06%
Construction	-	0.00%	41	0.00%
Commercial owner occupied	1	0.12%	-	0.24%
Commercial and industrial	3	0.02%	-	0.00%
SBA	-	0.00%	-	0.00%
Other Loans	11	0.01%	15	1.14%
Unallocated	36	--	168	--
Total	$ 2,626	100.00%	$ 1,984	100.00%

The following table sets forth the allowance for loan losses amounts calculated by the categories listed for the periods set forth in the table:

As of December 31,		
2007	2006	2005

Balance at End of Period Applicable to	Amount	% of Allowance to Total	Amount	% of Allowance to Total	Amount	% of Allowance to Total
			(dollars in thousands)			
Formula allowance	$ 3,848	83.7%	$ 3,180	89.7%	$ 2,759	90.5%
Specific allowance	-	0.0%	166	4.7%	291	9.5%
Unallocated allowance	750	16.3%	197	5.6%	-	0.0%
Total	$ 4,598	100.0%	$ 3,543	100.0%	$ 3,050	100.0%

	As of December 31,			
	2004		2003	
Balance at End of Period Applicable to	Amount	% of Allowance to Total	Amount	% of Allowance to Total
		(dollars in thousands)		
Formula allowance	$ 2,245	85.5%	$ 1,386	69.8%
Specific allowance	345	13.1%	430	21.7%
Unallocated allowance	36	1.4%	168	8.5%
Total	$ 2,626	100.0%	$ 1,984	100.0%

Investment Activities

Our investment policy as established by our board of directors attempts to provide and maintain liquidity, generate a favorable return on investments without incurring undue interest rate and credit risk, and complement our lending activities. Specifically, our policies limit investments to U.S. government securities, federal agency-backed securities, non-government guaranteed securities, municipal bonds, corporate bonds and mutual funds comprised of the above.

Our investment securities portfolio amounted to $73.0 million at December 31, 2007, as compared to $77.1 million at December 31, 2006. As of December 31, 2007, the portfolio consisted of $29.7 million of mortgage-backed securities, $26.5 million of mutual funds, $15.2 million of FHLB stock and $1.6 million of Federal Reserve Bank stock.

The Federal Reserve Bank stock was purchased in March 2007 as part of the requirements for the Bank to become a member of the Federal Reserve System.

At December 31, 2007, our securities portfolio includes $27.9 million of mortgage-backed securities which are guaranteed by Freddie Mac and a $1.8million private-issue mortgage-backed security that are accounted for as available for sale. The mutual fund investments are comprised of two separate funds under the Shay Asset Management Funds, the Adjustable Rate Mortgage (''ARM'') Fund with $16.8 million invested and the Intermediate Fund with $9.7 million invested. The ARM Fund invests in U.S. government agency adjustable-rate mortgage-backed securities, fixed and floating-rate collateralized mortgage obligations and investment grade corporate debt instruments. The Intermediate Fund invests in mortgage-backed securities, U.S. government notes and U.S.

government agency debentures. We may increase or decrease our investment in mortgage-backed securities and mutual funds in the future depending on our liquidity needs and market opportunities.

The following table sets forth certain information regarding the amortized costs and carrying values of the Company's securities at the dates indicated:

	2007		2006	
	Amortized Cost	Carrying Value	Amortized Cost	Carrying Value
	(in thousands)			
Available for sale:				
Mortgage-backed securities	$ 29,719	$ 29,753	$ 35,271	$ 35,081
Mutual funds	27,719	26,485	27,719	26,735
Total securities available for sale	57,438	56,238	62,990	61,816
FHLB Stock	15,204	15,204	15,328	15,328
Federal Reserve Bank Stock	1,600	1,600	-	-
Total securities	$ 74,242	$ 73,042	$ 78,318	$ 77,144

The table below sets forth certain information regarding the carrying value, weighted average yields and contractual maturities of the Company's securities as of December 31, 2007.

	At December 31, 2007									
	One Year or Less		More than One to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
	(dollars in thousands)									
Available for sale:										
Mortgage-backed securities	$ -	-	$ -	-	$ -	-	$ 29,753	5.22%	$ 29,753	5.22%
Mutual Funds	26,485	5.16%	-	-	-	-	-	-	26,485	5.16%
Total available for sale	$ 26,485	5.16%	$ -	-	$ -	-	$ 29,753	5.22%	$ 56,238	5.19%
FHLB Stock	$ 15,204	5.90%	$ -	-	$ -	-	$ -	-	$ 15,204	5.90%
Federal Reserve Bank Stock	$ 1,600	6.00%	$ -	-	$ -	-	$ -	-	1,600	6.00%
Total securities	$ 43,289	5.45%	$ -	-	$ -	-	$ 29,753	5.22%	$ 73,042	5.36%

Sources of Funds

General. Deposits, lines of credit, loan repayments and prepayments, and cash flows generated from operations and borrowings are the primary sources of the Bank’s funds for use in lending, investing and for other general purposes.

Deposits. Deposits represent our primary source of funds for our lending and investing activities. The Bank offers a variety of deposit accounts with a range of interest rates and terms. The deposit accounts are offered through our six branch network in Southern California. The Bank's deposits consist of passbook savings, checking accounts, money market accounts and certificates of deposit. Total deposits at December 31, 2007 were $386.7 million, as compared to $339.4 million at December 31, 2006. For the year ended December 31, 2007, certificates of deposit constituted 74.3% of total average deposits. The terms of the fixed-rate certificates of deposit offered by the Bank vary from 3 months to 5 years. Specific terms of an individual account vary according to the type of account, the minimum balance required, the time period funds must remain on deposit and the interest rate, among other factors. The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. At December 31, 2007, the Bank had $288.7 million of certificate of deposit accounts maturing in one year or less.

The Bank relies primarily on customer service, business development efforts, cross-selling of deposit products to loan customers, and long-standing relationships with customers to attract and retain local deposits. However, market interest rates and rates offered by competing financial institutions significantly affect the Bank's ability to attract and retain deposits. Additionally, the Bank will utilize both wholesale and brokered deposits to supplement its generation of deposits from businesses and consumers. During 2007, the Bank increased the amount of broker deposits by $9.4 million to $33.7 million at December 31, 2007.

The following table presents the deposit activity of the Bank for the years ended December 31:

	2007	2006	2005
		(in thousands)	
Net (withdrawals) deposits	$ 32,755	$ (613)	$ 30,914
Interest credited on deposit accounts	14,531	12,126	8,135
Total increase in deposit accounts	$ 47,286	$ 11,513	$ 39,049

At December 31, 2007, the Bank had $160.2 million in certificate accounts in amounts of $100,000 or more maturing as follows:

Maturity Period	Amount	Weighted Average Rate
	(dollars in thousands)	
Three months or less	$ 63,269	5.13%
Over three months through 6 months	54,904	5.04%
Over 6 months through 12 months	27,904	4.79%
Over 12 months	3,146	4.44%
Total	$ 149,224	5.02%

The following table sets forth the distribution of the Bank's average deposit accounts for the periods indicated and the weighted average interest rates on each category of deposits presented:

For the Year Ended December 31,								
	2007			2006			2005	
Average Balance	% of Total Average Deposits	Weighted Average Rate	Average Balance	% of Total Average	Weighted Average	Average	% of Total Average	Weighted Average