

PROVIDENT FINANCIAL HOLDINGS INC
Form 10-Q
November 07, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2016

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 (I.R.S. Employer
incorporation or organization) 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 No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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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 4, 2016

Common stock, \$ 0.01 par value, per share 7,989,516 shares

PROVIDENT FINANCIAL HOLDINGS, INC.

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

	September 30, 2016 (Unaudited)	June 30, 2016
Assets		
Cash and cash equivalents	\$ 39,443	\$ 51,206
Investment securities – held to maturity, at cost	36,290	39,979
Investment securities – available for sale, at fair value	10,778	11,543
Loans held for investment, net of allowance for loan losses of \$8,725 and \$8,670, respectively; includes \$5,529 and \$5,159 at fair value, respectively	853,958	840,022
Loans held for sale, at fair value	264,379	189,458
Accrued interest receivable	3,078	2,781
Real estate owned, net	3,496	2,706
Federal Home Loan Bank (“FHLB”) – San Francisco stock	8,094	8,094
Premises and equipment, net	5,879	6,043
Prepaid expenses and other assets	17,119	19,549
Total assets	\$ 1,242,514	\$ 1,171,381
Liabilities and Stockholders’ Equity		
Liabilities:		
Non interest-bearing deposits	\$ 74,963	\$ 71,158
Interest-bearing deposits	868,539	855,226
Total deposits	943,502	926,384
Borrowings	146,281	91,299
Accounts payable, accrued interest and other liabilities	19,508	20,247
Total liabilities	1,109,291	1,037,930
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; 17,848,365 and 17,847,365 shares issued; 7,978,166 and 7,975,250 shares outstanding, respectively)	178	178
Additional paid-in capital	91,633	90,802
Retained earnings	192,227	191,666
Treasury stock at cost (9,870,199 and 9,872,115 shares, respectively)	(151,095)	(149,508)
Accumulated other comprehensive income, net of tax	280	313
Total stockholders’ equity	133,223	133,451

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Total liabilities and stockholders' equity	\$ 1,242,514	\$ 1,171,381
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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,	
	2016	2015
Interest income:		
Loans receivable, net	\$ 10,480	\$ 9,490
Investment securities	84	67
FHLB – San Francisco stock	185	200
Interest-earning deposits	55	100
Total interest income	10,804	9,857
Interest expense:		
Checking and money market deposits	98	117
Savings deposits	144	168
Time deposits	772	858
Borrowings	702	648
Total interest expense	1,716	1,791
Net interest income	9,088	8,066
Recovery from the allowance for loan losses	(150)	(38)
Net interest income, after recovery from the allowance for loan losses	9,238	8,104
Non-interest income:		
Loan servicing and other fees	267	111
Gain on sale of loans, net	7,996	8,924
Deposit account fees	550	610
(Loss) gain on sale and operations of real estate owned acquired in the settlement of loans, net	(103)	)229
Card and processing fees	364	362
Other	178	213
Total non-interest income	9,252	10,449
Non-interest expense:		
Salaries and employee benefits	11,314	10,792
Premises and occupancy	1,289	1,108
Equipment	362	379
Professional expenses	505	500
Sales and marketing expenses	296	262
Deposit insurance premiums and regulatory assessments	248	262
Other	1,618	1,057
Total non-interest expense	15,632	14,360
Income before income taxes	2,858	4,193
Provision for income taxes	1,264	1,750
Net income	\$ 1,594	\$ 2,443
Basic earnings per share	\$0.20	\$0.29

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Diluted earnings per share	\$0.20	\$0.28
Cash dividends per share	\$0.13	\$0.12

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

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

	For the Quarters Ended September 30,	
	2016	2015
Net income	\$1,594	\$2,443
Change in unrealized holding loss on securities available for sale	(57)	(53)
Reclassification of (gains) losses to net income	—	—
Other comprehensive loss, before income taxes	(57)	(53)
Income tax benefit	(24)	(22)
Other comprehensive loss	(33)	(31)
Total comprehensive income	\$1,561	\$2,412

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, 2016 and 2015:

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
	Shares	Amount					
Balance at June 30, 2016	7,975,250	\$ 178	\$ 90,802	\$ 191,666	\$(149,508)	\$ 313	\$ 133,451
Net income				1,594			1,594
Other comprehensive loss						(33)	(33)
Purchase of treasury stock ⁽¹⁾	(85,834)	)			(1,662)	)	(1,662)
Exercise of stock options	1,000	—	17				17
Distribution of restricted stock	87,750						—
Amortization of restricted stock			362				362
Awards of restricted stock			(136)	)	136		—
Forfeiture of restricted stock			61		(61))	—
Stock options expense			340				340
Tax effect from stock based compensation			187				187
Cash dividends ⁽²⁾				(1,033)	)		(1,033)
Balance at September 30, 2016	7,978,166	\$ 178	\$ 91,633	\$ 192,227	\$(151,095)	\$ 280	\$ 133,223

⁽¹⁾ Includes the repurchase of 25,598 shares of distributed restricted stock in settlement of employee withholding tax obligations.

⁽²⁾ Cash dividends of \$0.13 per share were paid in the quarter ended September 30, 2016.

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
	Shares	Amount					
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
			1				1

Tax effect from stock based compensation							
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.

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,	
	2016	2015
Cash flows from operating activities:		
Net income	\$1,594	\$2,443
Adjustments to reconcile net income to net cash (used for) provided by operating activities:		
Depreciation and amortization	697	307
Recovery from the allowance for loan losses	(150)	(38)
Provision (recovery) of losses on real estate owned	100	(161)
Gain on sale of loans, net	(7,996)	(8,924)
Gain on sale of real estate owned, net	(54)	(30)
Stock-based compensation	702	289
Provision (benefit) for deferred income taxes	1,420	(632)
Tax effect from stock based compensation	(187)	(1)
Increase in accounts payable, accrued interest and other liabilities	1,327	1,617
(Increase) decrease in prepaid expenses and other assets	(361)	1,711
Loans originated for sale	(647,342)	(540,289)
Proceeds from sale of loans	579,698	613,940
Net cash (used for) provided by operating activities	(70,552)	70,232
Cash flows from investing activities:		
(Increase) decrease in loans held for investment, net	(15,097)	7,289
Principal payments from investment securities available for sale	4,048	650
Proceeds from sale of real estate owned	307	463
Purchase of premises and equipment	(78)	(71)
Net cash (used for) provided by investing activities	(10,820)	8,331
Cash flows from financing activities:		
Increase in deposits, net	17,118	780
Proceeds from short-term borrowings, net	35,000	—
Proceeds from long-term borrowings	20,000	—
Repayments of long-term borrowings	(18)	(16)
Exercise of stock options	17	96
Tax effect from stock based compensation	187	1
Cash dividends	(1,033)	(1,032)
Treasury stock purchases	(1,662)	(3,649)
Net cash provided by (used for) financing activities	69,609	(3,820)
Net (decrease) increase in cash and cash equivalents	(11,763)	74,743
Cash and cash equivalents at beginning of period	51,206	81,403
Cash and cash equivalents at end of period	\$39,443	\$156,146
Supplemental information:		
Cash paid for interest	\$1,671	\$1,788
Cash paid for income taxes	\$100	\$—
Transfer of loans held for sale to held for investment	\$760	\$1,552

Real estate acquired in the settlement of loans	\$1,298	\$1,006
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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PROVIDENT FINANCIAL HOLDINGS, INC.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016

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, 2016 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, 2016. The results of operations for the quarter ended September 30, 2016 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2017.

Note 2: Accounting Standard Updates ("ASU")

There have been no accounting standard updates or changes in the status of their adoptions that are applicable to the Corporation as previously disclosed in Note 1 of the Corporation's Annual Report on Form 10-K for the year ended June 30, 2016.

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, 2016 and 2015, there were outstanding options to purchase 932,000 shares and 1.0 million shares of the Corporation's common stock, respectively, of which 200,000 shares and 236,500 shares, respectively, were excluded from the diluted EPS computation as their effect was anti-dilutive. As of September 30, 2016 and 2015, there were outstanding restricted stock awards of 110,250 shares and 197,500 shares, respectively, all of which have dilutive effects.

The following table provides the basic and diluted EPS computations for the quarters ended September 30, 2016 and 2015, respectively.

(In Thousands, Except Earnings Per Share)	For the Quarters Ended September 30, 2016 2015	
Numerator:		
Net income – numerator for basic earnings per share and diluted earnings per share - available to common stockholders	\$1,594	\$2,443
Denominator:		
Denominator for basic earnings per share:		
Weighted-average shares	7,948	8,566
Effect of dilutive shares:		
Stock options	158	111
Restricted stock	48	67
Denominator for diluted earnings per share:		
Adjusted weighted-average shares and assumed conversions	8,154	8,744
Basic earnings per share	\$0.20	\$0.29
Diluted earnings per share	\$0.20	\$0.28

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, 2016 and 2015, respectively.

(In Thousands)	For the Quarter Ended September 30, 2016		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	\$7,575	\$1,513	\$9,088
Provision (recovery) for loan losses	36	(186)	(150)
Net interest income, after provision (recovery) for loan losses	7,539	1,699	9,238
Non-interest income:			
Loan servicing and other fees ⁽¹⁾	69	198	267
Gain on sale of loans, net ⁽²⁾	1	7,995	7,996
Deposit account fees	550	—	550
(Loss) gain on sale and operations of real estate owned acquired in the settlement of loans, net	(105)	)2	(103)
Card and processing fees	364	—	364
Other	178	—	178
Total non-interest income	1,057	8,195	9,252
Non-interest expense:			
Salaries and employee benefits	4,894	6,420	11,314
Premises and occupancy	856	433	1,289
Operating and administrative expenses	1,147	1,882	3,029
Total non-interest expense	6,897	8,735	15,632
Income before income taxes	1,699	1,159	2,858
Provision for income taxes	777	487	1,264
Net income	\$922	\$672	\$1,594
Total assets, end of period	\$977,964	\$264,550	\$1,242,514

(1) Includes an inter-company charge of \$95 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 \$59 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

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.

Note 5: Investment Securities

The amortized cost and estimated fair value of investment securities as of September 30, 2016 and June 30, 2016 were as follows:

September 30, 2016	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Carrying Value
(In Thousands)					
Held to maturity:					
Certificates of deposit	\$ 800	\$ —	\$	—\$ 800	\$ 800
U.S. government sponsored enterprise MBS ⁽¹⁾	35,490	459	—	35,949	35,490
Total investment securities - held to maturity	\$ 36,290	\$ 459	\$	—\$ 36,749	\$ 36,290
Available for sale:					
U.S. government agency MBS	\$ 5,906	\$ 225	\$	—\$ 6,131	\$ 6,131
U.S. government sponsored enterprise MBS	3,875	212	—	4,087	4,087
Private issue CMO ⁽²⁾	556	4	—	560	560
Total investment securities - available for sale	\$ 10,337	\$ 441	\$	—\$ 10,778	\$ 10,778
Total investment securities	\$ 46,627	\$ 900	\$	—\$ 47,527	\$ 47,068

⁽¹⁾ Mortgage-Backed Securities (“MBS”).

⁽²⁾ Collateralized Mortgage Obligations (“CMO”).

June 30, 2016	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Carrying Value
(In Thousands)					
Held to maturity:					
Certificates of deposit	\$ 800	\$ —	\$ —	\$ 800	\$ 800
U.S. government sponsored enterprise MBS	39,179	459	—	39,638	39,179
Total investment securities - held to maturity	\$ 39,979	\$ 459	\$ —	\$ 40,438	\$ 39,979
Available for sale:					
U.S. government agency MBS	\$ 6,308	\$ 264	\$ —	\$ 6,572	\$ 6,572
U.S. government sponsored enterprise MBS	3,998	225	—	4,223	4,223
Private issue CMO	598	4	(1)	601	601
Common stock - community development financial institution	147	—	—	147	147
Total investment securities - available for sale	\$ 11,051	\$ 493	\$ (1)	\$ 11,543	\$ 11,543
Total investment securities	\$ 51,030	\$ 952	\$ (1)	\$ 51,981	\$ 51,522

In the first quarters of fiscal 2017 and 2016, the Corporation received MBS principal payments of \$4.0 million and \$650,000, respectively, and there were no sales of investment securities during these periods. The Corporation did not purchase any investment securities in the first quarter of fiscal 2017 and 2016. In the first quarter of fiscal 2017, the Corporation received the cash proceeds from its equity investment in a community development financial institution, consistent with the purchase agreement between the acquiring institution and the community development financial institution.

The Corporation held investments with an unrealized loss position of \$0 at September 30, 2016 and \$1,000 at June 30, 2016.

As of June 30, 2016 (In Thousands)	Unrealized Holding Losses Less Than 12 Months		Unrealized Holding Losses 12 Months or More		Unrealized Holding Losses Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities Available for sale:						
Private issue CMO	\$ 103	\$ 1	\$ —	\$ —	\$ 103	\$ 1
Total investment securities	\$ 103	\$ 1	\$ —	\$ —	\$ 103	\$ 1

The Corporation evaluates individual investment securities quarterly for other-than-temporary declines in market value. As of June 30, 2016, the unrealized holding loss was less than 12 months. The Corporation does not believe that there are any other-than-temporary impairments on the investment securities at September 30, 2016 and 2015; therefore, no impairment losses were recorded for the quarters ended September 30, 2016 and 2015.

Contractual maturities of investment securities as of September 30, 2016 and June 30, 2016 were as follows:

(In Thousands)	September 30, 2016		June 30, 2016	
	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	17,384	17,702	18,904	19,203
Due after ten years	18,106	18,247	20,275	20,435
Total investment securities - held to maturity	\$36,290	\$ 36,749	\$39,979	\$ 40,438
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	10,337	10,778	10,904	11,396
No stated maturity (common stock)	—	—	147	147
Total investment securities - available for sale	\$10,337	\$ 10,778	\$ 11,051	\$ 11,543
Total investment securities	\$46,627	\$ 47,527	\$ 51,030	\$ 51,981

Note 6: Loans Held for Investment

Loans held for investment, net of fair value adjustments, consisted of the following:

(In Thousands)	September 30, 2016	June 30, 2016
Mortgage loans:		
Single-family	\$ 312,795	\$ 324,497
Multi-family	438,423	415,627
Commercial real estate	100,136	99,528
Construction	15,811	14,653
Other	331	332
Commercial business loans	624	636
Consumer loans	199	203
Total loans held for investment, gross	868,319	855,476
Undisbursed loan funds	(10,447)	(11,258)
Advance payments of escrows	23	56
Deferred loan costs, net	4,788	4,418
Allowance for loan losses	(8,725)	(8,670)
Total loans held for investment, net	\$ 853,958	\$ 840,022

As of September 30, 2016, the Corporation had \$10.0 million in mortgage loans that are subject to negative amortization, consisting of \$6.9 million in multi-family loans, \$3.0 million in single-family loans and \$155,000 in commercial real estate loans. This compares to \$10.2 million of negative amortization mortgage loans at June 30, 2016, consisting of \$6.9 million in multi-family loans, \$3.1 million in single-family loans and \$170,000 in commercial real estate loans. During the first quarters of fiscal 2017 and 2016, 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, 2016 and June 30, 2016, the interest-only ARM loans were \$53.7 million and \$64.7 million, or 6.2% and 7.6% of loans held for investment, respectively. As of September 30, 2016, the Corporation had \$5.5 million of single-family loans, 19 loans, held for investment which were originated for sale but were subsequently transferred to loans held for investment and are carried at fair value. This compares to \$5.2 million of single-family loans, 18 loans, held for investment at June 30, 2016 which were originated for sale but were subsequently transferred to loans held for investment and are carried at fair value.

The following table sets forth information at September 30, 2016 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, 2016 and June 30, 2016. 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				Fixed Rate	Total
	Within One Year	After One Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years		
Mortgage loans:						
Single-family	\$226,639	\$14,936	\$52,519	\$5,697	\$13,004	\$312,795
Multi-family	67,240	178,065	179,594	10,567	2,957	438,423
Commercial real estate	11,039	39,975	46,163	—	2,959	100,136
Construction	9,556	—	—	—	6,255	15,811
Other	—	—	—	—	331	331
Commercial business loans	107	—	—	—	517	624
Consumer loans	197	—	—	—	2	199
Total loans held for investment, gross	\$314,778	\$232,976	\$278,276	\$16,264	\$26,025	\$868,319

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, but 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.

The following tables summarize gross loans held for investment, net of fair value adjustments, by loan types and risk category at the dates indicated:

September 30, 2016

(In Thousands)	Single-family	Multi-family	Commercial Real Estate	Construction	Other Mortgage	Commercial Business	Consumer	Total
Pass	\$298,937	\$432,567	\$100,136	\$15,811	\$331	\$530	\$199	\$848,511
Special Mention	3,879	5,013	—	—	—	—	—	8,892
Substandard	9,979	843	—	—	—	94	—	10,916
Total loans held for investment, gross	\$312,795	\$438,423	\$100,136	\$15,811	\$331	\$624	\$199	\$868,319

June 30, 2016

(In Thousands)	Single-family	Multi-family	Commercial Real Estate	Construction	Other Mortgage	Commercial Business	Consumer	Total
Pass	\$309,380	\$410,804	\$99,528	\$14,653	\$332	\$540	\$203	\$835,440
Special Mention	4,858	3,974	—	—	—	—	—	8,832
Substandard	10,259	849	—	—	—	96	—	11,204
Total loans held for investment, gross	\$324,497	\$415,627	\$99,528	\$14,653	\$332	\$636	\$203	\$855,476

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 derived based on the loan's discounted cash flow fair value (for restructured loans) or collateral 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, 2016 and June 30, 2016:

(In Thousands)	September 30, 2016	June 30, 2016
Collectively evaluated for impairment:		
Mortgage loans:		
Single-family	\$ 4,575	\$4,933
Multi-family	3,186	2,800
Commercial real estate	854	848
Construction	53	31
Other	7	7
Commercial business loans	22	23
Consumer loans	8	8
Total collectively evaluated allowance	8,705	8,650
Individually evaluated for impairment:		
Commercial business loans	20	20
Total individually evaluated allowance	20	20
Total loan loss allowance	\$ 8,725	\$8,670

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, 2016 2015		
Allowance at beginning of period	\$8,670		\$8,724
Recovery from the allowance for loan losses	(150)		(38)
Recoveries:			
Mortgage loans:			
Single-family	263		69
Multi-family	7		56
Commercial real estate	—		216
Commercial business loans	—		85
Consumer loans	1		—
Total recoveries	271		426
Charge-offs:			
Mortgage loans:			
Single-family	(66)		(78)
Total charge-offs	(66)		(78)
Net recoveries	205		348
Balance at end of period	\$8,725		\$9,034
Allowance for loan losses as a percentage of gross loans held for investment	1.01	%	1.11 %
Net recoveries as a percentage of average loans receivable, net, during the period (annualized)	(0.08)	%	(0.14)%
Allowance for loan losses as a percentage of gross non-performing loans at the end of the period	79.93	%	57.33 %

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

(In Thousands)	September 30, 2016			
	Current	30-89	Non-Accrual (1)	Total Loans Held for Investment
		Days Past Due		
Mortgage loans:				
Single-family	\$301,433	\$1,383	\$ 9,979	\$ 312,795
Multi-family	437,580	—	843	438,423
Commercial real estate	100,136	—	—	100,136
Construction	15,811	—	—	15,811
Other	331	—	—	331
Commercial business loans	530	—	94	624
Consumer loans	197	2	—	199
Total loans held for investment, gross	\$856,018	\$1,385	\$ 10,916	\$ 868,319

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

(In Thousands)	June 30, 2016			
	Current	30-89	Non-Accrual (1)	Total Loans Held for Investment
		Days Past Due		
Mortgage loans:				
Single-family	\$312,595	\$1,644	\$ 10,258	\$ 324,497
Multi-family	414,777	—	850	415,627
Commercial real estate	99,528	—	—	99,528
Construction	14,653	—	—	14,653
Other	332	—	—	332
Commercial business loans	540	—	96	636
Consumer loans	203	—	—	203
Total loans held for investment, gross	\$842,628	\$1,644	\$ 11,204	\$ 855,476

(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.

(In Thousands)	Quarter Ended September 30, 2016								
	Single-family	Multi-family	Commercial Real Estate	Construction	Other Mortgage	Commercial Business	Consumer	Total	
Allowance for loan losses:									
Allowance at beginning of period	\$4,933	\$2,800	\$848	\$31	\$7	\$43	\$8	\$8,670	
(Recovery) provision for loan losses	(555)	) 379	6	22	—	(1)	) (1)	(150)
Recoveries	263	7	—	—	—	—	1	271	
Charge-offs	(66)	) —	—	—	—	—	—	(66)
Allowance for loan losses, end of period	\$4,575	\$3,186	\$854	\$53	\$7	\$42	\$8	\$8,725	
Allowance for loan losses:									
Individually evaluated for impairment	\$—	\$—	\$—	\$—	\$—	\$20	\$—	\$20	
Collectively evaluated for impairment	4,575	3,186	854	53	7	22	8	8,705	
Allowance for loan losses, end of period	\$4,575	\$3,186	\$854	\$53	\$7	\$42	\$8	\$8,725	
Loans held for investment:									
Individually evaluated for impairment	\$6,634	\$377	\$—	\$—	\$—	\$94	\$—	\$7,105	
Collectively evaluated for impairment	306,161	438,046	100,136	15,811	331	530	199	861,214	
Total loans held for investment, gross	\$312,795	\$438,423	\$100,136	\$15,811	\$331	\$624	\$199	\$868,319	
Allowance for loan losses as a percentage of gross loans held for investment	1.46	%0.73	%0.85	%0.34	%2.11	%6.73	%4.02	%1.01	%

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(In Thousands)	Quarter Ended September 30, 2015							Total
	Single-family	Multi-family	Commercial Real Estate	Construction	Other Mortgage	Commercial Business	Consumer	
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 h