PROVIDENT FINANCIAL HOLDINGS INC
Form 10-Q
May 12, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

[ü]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended March 31, 2014
[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from ________________ to _________________

Commission File Number
000-28304

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

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

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

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

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

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

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

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

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

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

Yes No ü .

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Title of class:	As of May 2, 2014
Common stock, $ 0.01 par value, per share	9,668,877 shares

PROVIDENT FINANCIAL HOLDINGS, INC.

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

	March 31, 2014	June 30, 2013
Assets		
Cash and cash equivalents	$193,469	$193,839
Investment securities – available for sale, at fair value	17,102	19,510
Loans held for investment, net of allowance for loan losses of $10,024 and $14,935, respectively	769,926	748,397
Loans held for sale, at fair value	104,262	188,050
Accrued interest receivable	2,502	2,992
Real estate owned, net	2,406	2,296
Federal Home Loan Bank (“FHLB”) – San Francisco stock	8,680	15,273
Premises and equipment, net	6,499	6,691
Prepaid expenses and other assets	20,275	33,993
Total assets	$1,125,121	$1,211,041
Liabilities and Stockholders’ Equity		
Liabilities:		
Non interest-bearing deposits	$56,432	$57,835
Interest-bearing deposits	851,074	865,175
Total deposits	907,506	923,010
Borrowings	51,447	106,491
Accounts payable, accrued interest and other liabilities	16,211	21,566
Total liabilities	975,164	1,051,067
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; 17,711,365 and 17,661,865 shares issued; 9,665,877 and 10,386,399 shares outstanding, respectively)	177	177
Additional paid-in capital	88,290	87,742
Retained earnings	181,315	179,816
Treasury stock at cost (8,045,488 and 7,275,466 shares, respectively)	(120,293)	(108,315)
Accumulated other comprehensive income, net of tax	468	554
Total stockholders’ equity	149,957	159,974
Total liabilities and stockholders’ equity	$1,125,121	$1,211,041

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 Operations
(Unaudited)
In Thousands, Except Per Share Information

	Quarter Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Interest income:				
Loans receivable, net	$8,731	$10,290	$27,522	$33,209
Investment securities	82	105	260	329
FHLB – San Francisco stock	203	116	615	280
Interest-earning deposits	142	101	390	258
Total interest income	9,158	10,612	28,787	34,076
Interest expense:				
Checking and money market deposits	94	97	292	307
Savings deposits	153	142	452	434
Time deposits	1,058	1,326	3,492	4,299
Borrowings	403	981	1,485	3,262
Total interest expense	1,708	2,546	5,721	8,302
Net interest income	7,450	8,066	23,066	25,774
(Recovery) provision for loan losses	(849)	(517)	(2,689)	39
Net interest income, after (recovery) provision for loan losses	8,299	8,583	25,755	25,735
Non-interest income:				
Loan servicing and other fees	252	203	778	923
Gain on sale of loans, net	5,291	13,835	17,777	52,308
Deposit account fees	628	605	1,868	1,845
Gain on sale and operations of real estate owned acquired in the settlement of loans, net	45	218	15	886
Card and processing fees	336	308	997	944
Other	239	219	683	676
Total non-interest income	6,791	15,388	22,118	57,582
Non-interest expense:				
Salaries and employee benefits	8,811	11,519	28,175	37,375
Premises and occupancy	1,099	1,090	3,362	3,340
Equipment	435	482	1,389	1,345
Professional expenses	383	370	1,314	1,176
Sales and marketing expenses	418	513	1,224	1,349
Deposit insurance premiums and regulatory assessments	251	241	694	883
Other	1,156	1,514	3,796	4,356
Total non-interest expense	12,553	15,729	39,954	49,824
Income before income taxes	2,537	8,242	7,919	33,493
Provision for income taxes	1,138	3,372	3,404	12,953
Net income	$1,399	$4,870	$4,515	$20,540

Basic earnings per share	$0.14	$0.46	$0.45	$1.93
Diluted earnings per share	$0.14	$0.45	$0.44	$1.88
Cash dividends per share	$0.10	$0.07	$0.30	$0.17

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

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

	For the Quarters Ended March 31,		For the Nine Months Ended March 31,	
	2014	2013	2014	2013
Net income	$1,399	$4,870	$4,515	$20,540
Change in unrealized holding gain (loss) on securities available for sale	17	50	(148)	3
Other comprehensive income (loss), before income tax (expense) benefit	17	50	(148)	3
Income tax (expense) benefit	(7)	(21)	62	(1)
Other comprehensive income (loss)	10	29	(86)	2
Total comprehensive income	$1,409	$4,899	$4,429	$20,542

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 March 31, 2014 and 2013:

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income, Net of Tax	Total
Balance at December 31, 2013	9,851,765	$177	$88,358	$180,897	$(117,440)	$458	$152,450
Net income				1,399			1,399
Other comprehensive income						10	10
Purchase of treasury stock	(194,888)				(2,983)		(2,983)
Exercise of stock options	9,000	—	66				66
Amortization of restricted stock			50				50
Awards of restricted stock			(130)		130		—
Stock options expense			76				76
Tax effect from stock based compensation			(130)				(130)
Cash dividends				(981)			(981)
Balance at March 31, 2014	9,665,877	$177	$88,290	$181,315	$(120,293)	$468	$149,957

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income, Net of Tax	Total
Balance at December 31, 2012	10,597,005	$176	$87,278	$171,155	$(103,352)	$599	$155,856
Net income				4,870			4,870
Other comprehensive income						29	29
Purchase of treasury stock	(160,534)				(2,815)		(2,815)
Exercise of stock options	14,000	1	98				99
Amortization of restricted stock			53				53
Stock options expense			104				104
Tax effect from stock based compensation			14				14
Cash dividends				(741)			(741)
Balance at March 31, 2013	10,450,471	$177	$87,547	$175,284	$(106,167)	$628	$157,469

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

For the Nine Months Ended March 31, 2014 and 2013:

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
Balance at June 30, 2013	10,386,399	$177	$87,742	$179,816	$(108,315)	$554	$159,974
Net income				4,515			4,515
Other comprehensive loss						(86)	(86)
Purchase of treasury stock	(770,022)				(12,057)		(12,057)
Exercise of stock options	49,500	—	362				362
Amortization of restricted stock			152				152
Awards of restricted stock			(130)		130		—
Forfeitures of restricted stock			51		(51)		—
Stock options expense			235				235
Tax effect from stock based compensation			(122)				(122)
Cash dividends				(3,016)			(3,016)
Balance at March 31, 2014	9,665,877	$177	$88,290	$181,315	$(120,293)	$468	$149,957

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income, Net of Tax	Total
Balance at June 30, 2012	10,856,027	$176	$86,758	$156,560	$(99,343)	$626	$144,777
Net income				20,540			20,540
Other comprehensive income						2	2
Purchase of treasury stock	(448,356)				(6,811)		(6,811)
Exercise of stock options	42,000	1	295				296
Distribution of restricted stock	800						—
Amortization of restricted stock			158				158
Forfeitures of restricted stock			13		(13)		—
Stock options expense			238				238
Tax effect from stock based compensation			85				85
Cash dividends				(1,816)			(1,816)
Balance at March 31, 2013	10,450,471	$177	$87,547	$175,284	$(106,167)	$628	$157,469

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 Cash Flows
(Unaudited - In Thousands)

	Nine Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	$4,515	$20,540
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,217	1,261
(Recovery) provision for loan losses	(2,689)	39
Recovery of losses on real estate owned	(20)	(118)
Gain on sale of loans, net	(17,777)	(52,308)
Gain on sale of real estate owned, net	(242)	(1,067)
Stock-based compensation	387	396
Increase in current and deferred income taxes	(2,690)	(1,277)
Tax effect from stock based compensation	122	(85)
(Decrease) increase in accounts payable and other liabilities	(3,433)	1,613
Decrease in prepaid expenses and other assets	350	864
Loans originated for sale	(1,490,402)	(2,659,372)
Proceeds from sale of loans	1,606,463	2,766,054
Net cash provided by operating activities	95,801	76,540
Cash flows from investing activities:		
(Increase) decrease in loans held for investment, net	(22,731)	34,871
Principal payments from investment securities available for sale	2,285	2,329
Redemption of FHLB – San Francisco stock	6,593	5,028
Proceeds from sale of real estate owned	3,655	11,910
Purchase of premises and equipment	(592)	(894)
Net cash (used for) provided by investing activities	(10,790)	53,244
Cash flows from financing activities:		
Decrease in deposits, net	(15,504)	(26,311)
Repayments of long-term borrowings	(55,044)	(20,041)
Exercise of stock options	362	296
Tax effect from stock based compensation	(122)	85
Cash dividends	(3,016)	(1,816)
Treasury stock purchases	(12,057)	(6,811)
Net cash used for financing activities	(85,381)	(54,598)
Net (decrease) increase in cash and cash equivalents	(370)	75,186
Cash and cash equivalents at beginning of period	193,839	145,136
Cash and cash equivalents at end of period	$193,469	$220,322
Supplemental information:		
Cash paid for interest	$6,056	$8,442
Cash paid for income taxes	$6,216	$14,145
Transfer of loans held for sale to held for investment	$3,980	$3,527
Real estate acquired in the settlement of loans	$4,178	$9,250

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

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

March 31, 2014

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 statements of financial condition at June 30, 2013 are 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, 2013. The results of operations for the quarter and nine months ended March 31, 2014 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2014.

Note 2: Accounting Standard Updates (“ASU”)

ASU 2011-11:
In December 2011, the Financial Accounting Standards Board (“FASB”) issued ASU 2011-11, “Balance Sheet (Topic 210) -Disclosures about Offsetting Assets and Liabilities.” The amendments in this ASU enhances disclosures required by GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. This information enables users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements on an entity’s financial position, including the effect or potential effect of rights of set off associated with certain financial instruments and derivative instruments in the scope of this ASU. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The adoption of this ASU did not have a material impact on the Corporation's consolidated financial statements; however, there was a significant impact related to the footnotes to the financial statements upon adoption.

ASU 2013-01:
In January 2013, the FASB issued ASU 2013-01, "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." This ASU amends ASU 2011-11 to clarify that the scope applies to derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to master netting or similar arrangements. Other types of financial assets and liabilities subject to master netting or similar arrangements are not subject to the disclosure requirements in ASU 2011-11. The amendments were effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this ASU did not have a material impact on the Corporation's consolidated financial statements; however, there was a significant impact related to the footnotes to the financial statements upon adoption.

ASU 2013-02:
In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” This ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The amendments were effective prospectively for reporting periods beginning after December 15, 2012. The Corporation's adoption of this ASU did not have a material impact on its consolidated financial statements; however, there was a significant impact related to the footnotes to the financial statements upon adoption.

ASU 2013-11:
In July 2013, the FASB issued ASU 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Corporation's adoption of this ASU did not have a material impact on its consolidated financial statements.

ASU 2014-04:
In January 2014, the FASB issued ASU 2014-04, "Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The amendments in this ASU are intended to reduce diversity in practice by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate property recognized. Holding foreclosed real estate property presents different operational and economic risk to creditors compared with holding an impaired loan. Therefore, consistency in the timing of loan derecognition and presentation of foreclosed real estate properties is of qualitative significance to users of the creditor’s financial statements. Additionally, the disclosure of the amount of foreclosed residential real estate properties and of the recorded investment in consumer mortgage loans secured by residential real estate properties that are in the process of foreclosure is expected to provide decision-useful information to many users of the creditor’s financial statements. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the amendments in this ASU are effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. The Corporation has not determined the impact of this ASU on its consolidated financial statements.

Note 3: Earnings Per Share

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

As of March 31, 2014 and 2013, there were outstanding options to purchase 925,700 shares and 1.1 million shares of the Corporation’s common stock, respectively, of which 448,700 shares and 586,500 shares, respectively, were excluded from the diluted EPS computation as their effect was anti-dilutive. As of March 31, 2014 and 2013, there were outstanding restricted stock awards of 81,500 shares and 144,500 shares, respectively, all of which have dilutive effects.

The following table provides the basic and diluted EPS computations for the quarters and nine months ended March 31, 2014 and 2013, respectively.

(In Thousands, Except Earnings Per Share)	For the Quarters Ended March 31,		For the Nine Months Ended March 31,	
	2014	2013	2014	2013
Numerator:				
Net income – numerator for basic earnings per share and diluted earnings per share - available to common stockholders	$1,399	$4,870	$4,515	$20,540
Denominator:				
Denominator for basic earnings per share:				
Weighted-average shares	9,792	10,549	10,061	10,668
Effect of dilutive shares:				
Stock options	150	191	164	157
Restricted stock	31	87	29	79
Denominator for diluted earnings per share:				
Adjusted weighted-average shares and assumed conversions	9,973	10,827	10,254	10,904
Basic earnings per share	$0.14	$0.46	$0.45	$1.93
Diluted earnings per share	$0.14	$0.45	$0.44	$1.88

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 and nine months ended March 31, 2014 and 2013, respectively.

	For the Quarter Ended March 31, 2014		
(In Thousands)	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	$6,757	$693	$7,450
Recovery for loan losses	(707)	(142)	(849)
Net interest income, after recovery for loan losses	7,464	835	8,299
Non-interest income:			
Loan servicing and other fees [(1)]	40	212	252
Gain on sale of loans, net [(2)]	52	5,239	5,291
Deposit account fees	628	—	628
Gain on sale and operations of real estate owned acquired in the settlement of loans, net	45	—	45
Card and processing fees	336	—	336
Other	239	—	239
Total non-interest income	1,340	5,451	6,791
Non-interest expense:			
Salaries and employee benefits	3,903	4,908	8,811
Premises and occupancy	639	460	1,099
Operating and administrative expenses	1,012	1,631	2,643
Total non-interest expense	5,554	6,999	12,553
Income (loss) before income taxes	3,250	(713)	2,537
Provision (benefit) for income taxes	1,438	(300)	1,138
Net income (loss)	$1,812	$(413)	$1,399
Total assets, end of period	$1,022,129	$102,992	$1,125,121

(1) Includes an inter-company charge of $115 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 $22 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

(In Thousands)	For the Quarter Ended March 31, 2013		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	$6,911	$1,155	$8,066
(Recovery) provision for loan losses	(533)	16	(517)
Net interest income after (recovery) provision for loan losses	7,444	1,139	8,583
Non-interest income:			
Loan servicing and other fees [(1)]	163	40	203
(Loss) gain on sale of loans, net [(2)]	(77)	13,912	13,835
Deposit account fees	605	—	605
Gain on sale and operations of real estate owned acquired in the settlement of loans, net	11	207	218
Card and processing fees	308	—	308
Other	219	—	219
Total non-interest income	1,229	14,159	15,388
Non-interest expense:			
Salaries and employee benefits	4,178	7,341	11,519
Premises and occupancy	673	417	1,090
Operating and administrative expenses	1,149	1,971	3,120
Total non-interest expense	6,000	9,729	15,729
Income before income taxes	2,673	5,569	8,242
Provision for income taxes	1,030	2,342	3,372
Net income	$1,643	$3,227	$4,870
Total assets, end of period	$1,054,837	$166,646	$1,221,483

(1) Includes an inter-company charge of $11 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 $21 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 Nine Months Ended March 31, 2014		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	$19,995	$3,071	$23,066
Recovery for loan losses	(2,566)	(123)	(2,689)
Net interest income, after recovery for loan losses	22,561	3,194	25,755
Non-interest income:			
Loan servicing and other fees [1]	384	394	778
Gain on sale of loans, net [2]	375	17,402	17,777
Deposit account fees	1,868	—	1,868
Gain on sale and operations of real estate owned acquired in the settlement of loans, net	14	1	15
Card and processing fees	997	—	997
Other	683	—	683
Total non-interest income	4,321	17,797	22,118
Non-interest expense:			
Salaries and employee benefits	11,458	16,717	28,175
Premises and occupancy	1,952	1,410	3,362
Operating and administrative expenses	3,082	5,335	8,417
Total non-interest expense	16,492	23,462	39,954
Income (loss) before taxes	10,390	(2,471)	7,919
Provision (benefit) for income taxes	4,443	(1,039)	3,404
Net income (loss)	$5,947	$(1,432)	$4,515
Total assets, end of period	$1,022,129	$102,992	$1,125,121

(1) Includes an inter-company charge of $128 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 $68 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 Nine Months Ended March 31, 2013		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	$21,388	$4,386	$25,774
Provision (recovery) for loan losses	287	(248)	39
Net interest income, after provision (recovery) for loan losses	21,101	4,634	25,735
Non-interest income:			
Loan servicing and other fees [(1)]	813	110	923
(Loss) gain on sale of loans, net [(2)]	(85)	52,393	52,308
Deposit account fees	1,845	—	1,845
Gain on sale and operations of real estate owned acquired in the settlement of loans, net	672	214	886
Card and processing fees	944	—	944
Other	676	—	676
Total non-interest income	4,865	52,717	57,582
Non-interest expense:			
Salaries and employee benefits	13,174	24,201	37,375
Premises and occupancy	2,081	1,259	3,340
Operating and administrative expenses	3,429	5,680	9,109
Total non-interest expense	18,684	31,140	49,824
Income before taxes	7,282	26,211	33,493
Provision for income taxes	1,932	11,021	12,953
Net income	$5,350	$15,190	$20,540
Total assets, end of period	$1,054,837	$166,646	$1,221,483

(1) Includes an inter-company charge of $38 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 $87 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 March 31, 2014 and June 30, 2013 were as follows:

March 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Carrying Value
(In Thousands)					
Available for sale					
U.S. government agency MBS [1]	$9,171	$372	$—	$9,543	$9,543
U.S. government sponsored enterprise MBS	6,297	360	—	6,657	6,657
Private issue CMO [2]	899	4	(1)	902	902
Total investment securities	$16,367	$736	$(1)	$17,102	$17,102

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

June 30, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Carrying Value
(In Thousands)					
Available for sale					
U.S. government agency MBS	$10,361	$455	$—	$10,816	$10,816
U.S. government sponsored enterprise MBS	7,255	420	—	7,675	7,675
Private issue CMO	1,036	1	(18)	1,019	1,019
Total investment securities	$18,652	$876	$(18)	$19,510	$19,510

In the third quarters of fiscal 2014 and 2013, the Corporation received MBS principal payments of $666,000 and $662,000, respectively, and did not purchase or sell investment securities. For the first nine months of fiscal 2014 and 2013, the Corporation received MBS principal payments of $2.3 million and $2.3 million, respectively, and did not purchase or sell investment securities.

The Corporation evaluates individual investment securities quarterly for other-than-temporary declines in market value. As of March 31, 2014, the gross unrealized holding losses relate to one adjustable rate private issue CMO, which has been in an unrealized loss position for more than 12 months. This compares to June 30, 2013 when the gross unrealized holding losses relate to one adjustable rate private issue CMO, which had been in an unrealized loss position for more than 12 months. The unrealized holding losses were primarily the result of perceived credit and liquidity concerns related to these CMOs. Based on the nature of the investments, management concluded that such unrealized losses were not other than temporary as of March 31, 2014 and June 30, 2013. The Corporation does not believe that there are any other-than-temporary impairments at March 31, 2014 and 2013; therefore, no impairment losses have been recorded for the quarters ended March 31, 2014 and 2013. The Corporation intends and has the ability to hold these CMOs until maturity and will not likely be required to sell the CMOs before realizing a full recovery.

Contractual maturities of investment securities as of March 31, 2014 and June 30, 2013 were as follows:

(In Thousands)	March 31, 2014 Amortized Cost	March 31, 2014 Estimated Fair Value	June 30, 2013 Amortized Cost	June 30, 2013 Estimated Fair Value
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	16,367	17,102	18,652	19,510
Total investment securities	$16,367	$17,102	$18,652	$19,510

Note 6: Loans Held for Investment

Loans held for investment consisted of the following:

(In Thousands)	March 31, 2014	June 30, 2013
Mortgage loans:		
Single-family	$381,267	$404,341
Multi-family	289,314	262,316
Commercial real estate	104,569	92,488
Construction	1,792	292
Commercial business loans	1,051	1,687
Consumer loans	324	437
Total loans held for investment, gross	778,317	761,561
Undisbursed loan funds	(757)	(292)
Deferred loan costs, net	2,390	2,063
Allowance for loan losses	(10,024)	(14,935)
Total loans held for investment, net	$769,926	$748,397

As of March 31, 2014, the Corporation had $25.5 million in mortgage loans that are subject to negative amortization, consisting of $20.8 million in multi-family loans, $3.8 million in single-family loans and $887,000 in commercial real estate loans. This compares to $33.3 million of negative amortization mortgage loans at June 30, 2013, consisting of $24.4 million in multi-family loans, $5.1 million in single-family loans and $3.8 million in commercial real estate loans. During the third quarter and first nine months of fiscal 2014 and 2013, 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 March 31, 2014 and June 30, 2013, the interest-only ARM loans were $174.1 million and $188.5 million, or 22% and 25% of loans held for investment, respectively.

The following table sets forth information at March 31, 2014 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 5% of loans held for investment at March 31, 2014, unchanged from June 30, 2013. 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.

	Adjustable Rate					
(In Thousands)	Within One Year	After One Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years	Fixed Rate	Total
Mortgage loans:						
Single-family	$337,363	$15,147	$8,093	$4,994	$15,670	$381,267
Multi-family	109,814	32,589	129,902	8,106	8,903	289,314
Commercial real estate	41,986	3,358	44,461	2,830	11,934	104,569
Construction	1,792	—	—	—	—	1,792
Commercial business loans	348	—	127	—	576	1,051
Consumer loans	310	—	—	—	14	324
Total loans held for investment, gross	$491,613	$51,094	$182,583	$15,930	$37,097	$778,317

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. Provisions (recovery) for loan losses are 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 the Corporation to significantly increase 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.

In compliance with the regulatory reporting requirements of the Office of the Comptroller of the Currency ("OCC"), the Bank's primary federal regulator, non-performing loans are charged-off to their fair market values in the period the loans, or portion thereof, are deemed uncollectible, generally after the loan becomes 150 days delinquent for real estate secured first trust deed loans and 120 days delinquent for commercial business or real estate secured second trust deed loans. For loans that were modified from their original terms, were re-underwritten and identified in the Corporation's asset quality reports as troubled debt restructurings ("restructured loans"), the charge-off occurs when the loan becomes 90 days delinquent; and where borrowers file bankruptcy, the charge-off occurs when the loan becomes 60 days delinquent. The amount of the charge-off is determined by comparing the loan balance to the estimated fair value of the underlying collateral, less disposition costs, with the loan balance in excess of the estimated fair value charged-off against the allowance for loan losses. The allowance for loan losses for non-performing loans is determined by applying Accounting Standards Codification ("ASC") 310, "Receivables." For restructured loans that are less than 90 days delinquent, the allowance for loan losses are segregated into (a) individually evaluated allowances for those loans with applicable discounted cash flow calculations still in their restructuring period, classified lower

than pass, and containing an embedded loss component or (b) collectively evaluated allowances based on the aggregated pooling method. For non-performing loans less than 60 days delinquent where the borrower has filed bankruptcy, the collectively evaluated allowances are assigned based on the aggregated pooling method. For non-performing commercial real estate loans, an individually evaluated allowance is calculated based on the loan's fair value 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 March 31, 2014 and June 30, 2013:

(In Thousands)	March 31, 2014	June 30, 2013
Collectively evaluated for impairment:		
Mortgage loans:		
Single-family	$5,467	$8,949
Multi-family	3,405	4,689
Commercial real estate	1,034	1,053
Construction	20	—
Commercial business loans	47	78
Consumer loans	10	12
Total collectively evaluated allowance	9,983	14,781
Individually evaluated for impairment:		
Mortgage loans:		
Single-family	—	113
Commercial business loans	41	41
Total individually evaluated allowance	41	154
Total loan loss allowance	$10,024	$14,935

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

	For the Quarters Ended March 31,		For the Nine Months Ended March 31,	
(Dollars in Thousands)	2014	2013	2014	2013
Allowance at beginning of period	$11,041	$18,530	$14,935	$21,483
(Recovery) provision for loan losses	(849)	(517)	(2,689)	39
Recoveries:				
Mortgage loans:				
Single-family	64	374	331	537
Multi-family	56	—	75	—
Construction	—	—	20	—
Consumer loans	—	—	1	2
Total recoveries	120	374	427	539
Charge-offs:				
Mortgage loans:				
Single-family	(185)	(1,139)	(965)	(4,810)
Multi-family	(94)	—	(1,671)	—
Commercial real estate	—	(260)	—	(260)
Other	—	(159)	—	(159)
Commercial business loans	(9)	—	(9)	—
Consumer loans	—	(3)	(4)	(6)
Total charge-offs	(288)	(1,561)	(2,649)	(5,235)
Net charge-offs	(168)	(1,187)	(2,222)	(4,696)
Balance at end of period	$10,024	$16,826	$10,024	$16,826
Allowance for loan losses as a percentage of gross loans held for investment	1.29%	2.18%	1.29%	2.18%
Net charge-offs as a percentage of average loans receivable, net, during the period (annualized)	0.08%	0.49%	0.34%	0.62%
Allowance for loan losses as a percentage of gross non-performing loans at the end of the period	55.55%	73.01%	55.55%	73.01%

The following tables identify the Corporation's total recorded investment in non-performing loans by type, net of allowance for loan losses at March 31, 2014 and June 30, 2013:

	March 31, 2014		
(In Thousands)	Recorded Investment	Allowance for Loan Losses [1]	Net Investment
Mortgage loans:			
Single-family:			
With a related allowance	$3,978	$(831)	$3,147
Without a related allowance [2]	6,821	—	6,821
Total single-family loans	10,799	(831)	9,968
Multi-family:			
With a related allowance	965	(357)	608
Without a related allowance [2]	2,565	—	2,565
Total multi-family loans	3,530	(357)	3,173
Commercial real estate:			
Without a related allowance [2]	3,562	—	3,562
Total commercial real estate loans	3,562	—	3,562
Commercial business loans:			
With a related allowance	154	(50)	104
Total commercial business loans	154	(50)	104
Total non-performing loans	$18,045	$(1,238)	$16,807

(1) Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.

(2) There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the individual loan balance.

	June 30, 2013		
(In Thousands)	Recorded Investment	Allowance for Loan Losses [1]	Net Investment
Mortgage loans:			
Single-family:			
With a related allowance	$9,908	$(2,350)	$7,558
Without a related allowance [2]	5,665	—	5,665
Total single-family loans	15,573	(2,350)	13,223
Multi-family:			
With a related allowance	4,519	(1,320)	3,199
Without a related allowance [2]	558	—	558
Total multi-family loans	5,077	(1,320)	3,757
Commercial real estate:			
Without a related allowance [2]	4,572	—	4,572
Total commercial real estate loans	4,572	—	4,572
Commercial business loans:			
With a related allowance	189	(59)	130
Total commercial business loans	189	(59)	130
Total non-performing loans	$25,411	$(3,729)	$21,682

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

At March 31, 2014 and June 30, 2013, there were no commitments to lend additional funds to those borrowers whose loans were classified as non-performing.

The following table describes the aging analysis (length of time on non-performing status) of non-performing loans, net of allowance for loan losses or charge offs, as of March 31, 2014:

(In Thousands)	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	Total
Mortgage loans:					
Single-family	$—	$2,928	$438	$6,602	$9,968
Multi-family	156	—	1,827	1,190	3,173
Commercial real estate	878	—	1,354	1,330	3,562
Commercial business loans	—	—	5	99	104
Total	$1,034	$2,928	$3,624	$9,221	$16,807

For the quarters ended March 31, 2014 and 2013, the Corporation’s average investment in non-performing loans was $17.1 million and $20.8 million, respectively. The Corporation records payments on non-performing loans utilizing the cash basis or cost recovery method of accounting during the periods when the loans are on non-performing status. For the quarters ended March 31, 2014 and 2013, interest income of $146,000 and $1.4 million, respectively, was recognized, based on cash receipts from loan payments on non-performing loans; and $175,000 and $142,000,

respectively, was collected and applied to the net loan balances under the cost recovery method. Foregone interest income, which would have been recorded had the non-performing loans been

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current in accordance with their original terms, amounted to $26,000 and $142,000 for the quarters ended March 31, 2014 and 2013, respectively, and was not included in the results of operations.

For the nine months ended March 31, 2014 and 2013, the Corporation's average investment in non-performing loans was $17.5 million and $25.4 million, respectively. For the nine months ended March 31, 2014 and 2013, interest income of $584,000 and $4.4 million, respectively, was recognized, based on cash receipts from loan payments on non-performing loans; and $378,000 and $258,000, respectively, was collected and applied to the net loan balances under the cost recovery method. Foregone interest income amounted to $229,000 and $362,000 for the nine months ended March 31, 2014 and 2013, respectively, and was not included in the results of operations.

For the quarters ended March 31, 2014, there was one loan with an outstanding balance of $221,000 that was newly modified from its original terms, re-underwritten and identified in the Corporation's asset quality reports as a restructured loan. This compares to no loans that were newly modified from their original terms, re-underwritten or identified in the Corporation's asset quality reports as restructured loans during the quarter ended March 31, 2013. During the quarter ended March 31, 2014, no restructured loans were in default within a 12-month period subsequent to their original restructuring. This compares to one restructured loan with an outstanding balance of $739,000 during the quarter ended March 31, 2013 that was in default within a 12-month period subsequent to its original restructuring and required an additional provision of $260,000. Additionally, during the quarter ended March 31, 2014 and 2013, there were no loans whose modifications were extended beyond the initial maturity of the modification.

For the nine months ended March 31, 2014, there was one loan with an outstanding balance of $221,000 that was newly modified from its original terms, re-underwritten and identified in the Corporation's asset quality reports as a restructured loan. This compares to no loans that were newly modified from their original terms, re-underwritten or identified in the Corporation's asset quality reports as restructured loans during the nine months ended March 31, 2013. During the nine months ended March 31, 2014, no restructured loans were in default within a 12-month period subsequent to its original restructuring. This compares to two restructured loans with a total balance of $1.2 million during the nine months ended March 31, 2013 that were in default within a 12-month period subsequent to their original restructuring and which required an additional provision of $480,000 upon default. Additionally, during the nine months ended March 31, 2014, there were two loans to the same borrower for $810,000 whose modifications were extended beyond the initial maturity of the modification. For the nine months ended March 31, 2013, one loan for $131,000 had its modification extended beyond the initial maturity of the modification.

As of March 31, 2014, the net outstanding balance of the 21 restructured loans was $7.1 million: four were classified as special mention and remain on accrual status ($1.6 million); and 17 were classified as substandard ($5.5 million, all of which were on non-accrual status). As of June 30, 2013, the net outstanding balance of the 26 restructured loans was $9.5 million: one was classified as special mention on accrual status ($434,000); and 25 were classified as substandard ($9.1 million, all of which were on non-accrual status). Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Assets that do not currently expose the Corporation to sufficient risk to warrant adverse classification but possess weaknesses are designated as special mention and are closely monitored by the Corporation. As of March 31, 2014 and June 30, 2013, $4.3 million or 61 percent, and $6.5 million or 68 percent, respectively, of the restructured loans were current with respect to their payment status.

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

following characteristics to be upgraded: satisfactory cash flow, satisfactory guarantor support, and additional collateral support, among others.

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

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

(In Thousands)	March 31, 2014	June 30, 2013
Restructured loans on non-accrual status:		
Mortgage loans:		
Single-family	$2,304	$5,094
Multi-family	2,247	2,521
Commercial real estate	805	1,354
Commercial business loans	99	123
Total	5,455	9,092
Restructured loans on accrual status:		
Mortgage loans:		
Single-family	1,630	434
Total	1,630	434
Total restructured loans	$7,085	$9,526

The following tables show the restructured loans by type, net of allowance for loan losses, at March 31, 2014 and June 30, 2013:

	March 31, 2014		
(In Thousands)	Recorded Investment	Allowance for Loan Losses [1]	Net Investment
Mortgage loans:			
Single-family:			
With a related allowance	$657	$(164)	$493
Without a related allowance [2]	3,441	—	3,441
Total single-family loans	4,098	(164)	3,934
Multi-family:			
Without a related allowance [2]	2,247	—	2,247
Total multi-family loans	2,247	—	2,247
Commercial real estate:			
Without a related allowance [2]	805	—	805
Total commercial real estate loans	805	—	805
Commercial business loans:			
With a related allowance	147	(48)	99
Total commercial business loans	147	(48)	99
Total restructured loans	$7,297	$(212)	$7,085

(1) Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.

(2) There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the individual loan balance.

(In Thousands)	June 30, 2013 Recorded Investment	Allowance for Loan Losses [1]	Net Investment
Mortgage loans:			
Single-family:			
With a related allowance	$3,774	$(795)	$2,979
Without a related allowance [2]	2,549	—	2,549
Total single-family loans	6,323	(795)	5,528
Multi-family:			
With a related allowance	3,266	(1,006)	2,260
Without a related allowance [2]	261	—	261
Total multi-family loans	3,527	(1,006)	2,521
Commercial real estate:			
Without a related allowance [2]	1,354	—	1,354
Total commercial real estate loans	1,354	—	1,354
Commercial business loans:			
With a related allowance	180	(57)	123
Total commercial business loans	180	(57)	123
Total restructured loans	$11,384	$(1,858)	$9,526

[1] Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.

[2] There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the individual loan balance.

During the quarter ended March 31, 2014, one property was acquired in the settlement of loans, while two previously foreclosed upon properties were sold. For the quarter ended March 31, 2013, six properties were acquired in the settlement of loans, while eight previously foreclosed upon properties were sold. During the nine months ended March 31, 2014, seven properties were acquired in the settlement of loans, while 11 previously foreclosed upon properties were sold. For the nine months ended March 31, 2013, 22 properties were acquired in the settlement of loans, while 36 previously foreclosed upon properties were sold. As of March 31, 2014, real estate owned was comprised of six properties with a net fair value of $2.4 million, primarily located in Southern California. This compares to 10 real estate owned properties, primarily located in Southern California, with a net fair value of $2.3 million at June 30, 2013. A new appraisal was obtained on each of the properties at the time of foreclosure and fair value was calculated by using the lower of the appraised value or the listing price of the property, net of disposition costs. Any initial loss was recorded as a charge to the allowance for loan losses before being transferred to real estate owned. Subsequently, if there is further deterioration in real estate values, specific real estate owned loss reserves are established and charged to the statement of operations. In addition, the Corporation records costs to carry real estate owned as real estate operating expenses as incurred.

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

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of

originating loans or providing funds under existing lines of credit, loan sale commitments to third parties and option contracts. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the accompanying Condensed Consolidated Statements of Financial Condition. The Corporation's exposure to credit loss, in the event of non-performance by the counterparty to these financial instruments, is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in entering into financial instruments with off-balance sheet risk as it does for on-balance

sheet instruments. As of March 31, 2014 and June 30, 2013, the Corporation had commitments to extend credit (on loans to be held for investment and loans to be held for sale) of $113.8 million and $262.5 million, respectively.

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

Commitments (In Thousands)	March 31, 2014	June 30, 2013
Undisbursed loan funds - Construction loans	$757	$292
Undisbursed lines of credit – Mortgage loans	809	774
Undisbursed lines of credit – Commercial business loans	1,349	952
Undisbursed lines of credit – Consumer loans	772	779
Commitments to extend credit on loans to be held for investment	5,949	6,872
Total	$9,636	$9,669

In accordance with ASC 815, "Derivatives and Hedging," and interpretations of the Derivatives Implementation Group of the FASB, the fair value of the commitments to extend credit on loans to be held for sale, loan sale commitments, to be announced ("TBA") MBS trades, put option contracts and call option contracts are recorded at fair value on the Condensed Consolidated Statements of Financial Condition. At March 31, 2014, $1.5 million was included in other assets and $41,000 was included in other liabilities; at June 30, 2013, $7.4 million was included in other assets and $1.0 million was included in other liabilities. The Corporation does not apply hedge accounting to its derivative financial instruments; therefore, all changes in fair value are recorded in earnings.

The following table provides information regarding the allowance for loan losses for the undisbursed funds and commitments to extend credit on loans to be held for investment for the quarters and nine months ended March 31, 2014 and 2013.

	For the Quarters Ended March 31,		For the Nine Months Ended March 31,	
(In Thousands)	2014	2013	2014	2013
Balance, beginning of the period	$125	$63	$115	$66
(Recovery) provision	(41)	24	(31)	21
Balance, end of the period	$84	$87	$84	$87

The net impact of derivative financial instruments on the gain on sale of loans contained in the Condensed Consolidated Statements of Operations during the quarters and nine months ended March 31, 2014 and 2013 was as follows:

	For the Quarters Ended March 31,		For the Nine Months Ended March 31,	
Derivative Financial Instruments (In Thousands)	2014	2013	2014	2013
Commitments to extend credit on loans to be held for sale	$1,026	$181	$2,306	$(562)

Mandatory loan sale commitments and TBA MBS trades	(824)	(463)	(6,648)	521
Option contracts	(142)	(51)	124	(492)
Total	$60	$(333)	$(4,218)	$(533)

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The outstanding derivative financial instruments at the dates indicated were as follows:

Derivative Financial Instruments	March 31, 2014 Amount	March 31, 2014 Fair Value	June 30, 2013 Amount	June 30, 2013 Fair Value
(In Thousands)				
Commitments to extend credit on loans to be held for sale [1]	$107,866	$1,274	$255,635	$(1,032)
Best efforts loan sale commitments	(10,488)	—	(29,847)	—
Mandatory loan sale commitments and TBA MBS trades	(193,426)	157	(410,897)	6,805
Option contracts	(10,000)	37	(10,000)	589
Total	$(106,048)	$1,468	$(195,109)	$6,362

(1) Net of 27.7 percent at March 31, 2014 and 23.6 percent at June 30, 2013 of commitments which management has estimated may not fund.

Note 8: Income Taxes

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

ASC 740 requires that when determining the need for a valuation allowance against a deferred tax asset, management must assess both positive and negative evidence with regard to the realizability of the tax losses represented by that asset. To the extent available sources of taxable income are insufficient to absorb tax losses, a valuation allowance is necessary. Sources of taxable income for this analysis include prior years' tax returns, the expected reversals of taxable temporary differences between book and tax income, prudent and feasible tax-planning strategies, and future taxable income.   The deferred tax asset related to the allowance will be realized when actual charge-offs are made against the allowance. Based on the availability of loss carry-backs and projected taxable income during the periods for which loss carry-forwards are available, management believes it is more likely than not the Corporation will realize the deferred tax asset. The Corporation continues to monitor the deferred tax asset on a quarterly basis for a valuation allowance.   The future realization of these tax benefits primarily hinges on adequate future earnings to utilize the tax benefit. Prospective earnings or losses, tax law changes or capital changes could prompt the Corporation to reevaluate the assumptions which may be used to establish a valuation allowance. The Corporation maintains net deferred income tax assets for deductible temporary tax differences, such as loss reserves, deferred compensation, non-accrued interest and unrealized gains. The Corporation did not have any liabilities for uncertain tax positions or any known unrecognized tax benefit at March 31, 2014 or June 30, 2013.

The Corporation files income tax returns for the United States and state of California jurisdictions. The Internal Revenue Service has audited the Bank's income tax returns through 1996 and the California Franchise Tax Board has audited the Bank through 1990. Also, the Internal Revenue Service completed a review of the Corporation's income tax returns for fiscal 2006 and 2007; and the California Franchise Tax Board completed a review of the Corporation's income tax returns for fiscal 2007 through 2010. Based on the California Franchise Tax Board examination for the fiscal years 2009 and 2010, the Corporation recorded an additional tax expense in the quarter and nine months ended March 31, 2014 of $0 and $67,000, respectively. In addition, the Corporation recorded additional tax expense during

the quarter and nine months ended March 31, 2014 for federal deferred tax asset adjustment of $136,000 and $139,000, respectively. Tax years subsequent to fiscal 2009 remain subject to federal examination, while the California state income tax returns for years subsequent to fiscal 2010 are subject to future examination by state taxing authorities. The Corporation believes that we have adequately provided or paid income tax on all matters not yet resolved with federal and state taxing authorities.

It is the Corporation's policy to record any penalties or interest charges arising from federal or state taxes as a component of income tax expense. For the quarters and nine months ended March 31, 2014 and 2013, there were no tax penalties or interest charges.

Note 9: Fair Value of Financial Instruments

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

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

(In Thousands)	Aggregate Fair Value	Aggregate Unpaid Principal Balance	Net Unrealized Gain (Loss)
As of March 31, 2014:			
Loans held for sale, measured at fair value	$104,262	$101,034	$3,228
As of June 30, 2013:			
Loans held for sale, measured at fair value	$188,050	$188,545	$(495)

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

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

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

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

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

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

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

Investment securities are primarily comprised of U.S. government agency MBS, U.S. government sponsored enterprise MBS and private issue CMO. The Corporation utilizes unadjusted quoted prices in active markets for identical securities for its fair value measurement of debt securities, quoted prices in active and less than active markets for similar securities for its fair value measurement of MBS and debt securities (Level 2), and broker price indications for similar securities in non-active markets for its fair value measurement of CMO (Level 3).

Derivative financial instruments are comprised of commitments to extend credit on loans to be held for sale, mandatory loan sale commitments, TBA MBS trades and option contracts. The fair value of TBA MBS trades is determined using quoted secondary-market prices (Level 2). The fair values of other derivative financial instruments are determined by quoted prices for a similar commitment or commitments, adjusted for the specific attributes of each commitment, including management's estimate of loan commitments which may not fund (Level 3).

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

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

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

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

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

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

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

	Fair Value Measurement at March 31, 2014 Using:			
(In Thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities:				
U.S. government agency MBS	$—	$9,543	$—	$9,543
U.S. government sponsored enterprise MBS	—	6,657	—	6,657
Private issue CMO	—	—	902	902
Investment securities	—	16,200	902	17,102
Loans held for sale, at fair value	—	104,262	—	104,262
Interest-only strips	—	—	72	72
Derivative assets:				
Commitments to extend credit on loans to be held for sale	—	—	1,310	1,310
Mandatory loan sale commitments	—	—	45	45
TBA MBS trades	—	119	—	119
Option contracts	—	—	37	37
Derivative assets	—	119	1,392	1,511
Total assets	$—	$120,581	$2,366	$122,947
Liabilities:				
Derivative liabilities:				
Commitments to extend credit on loans to be held for sale	$—	$—	$36	$36
Mandatory loan sale commitments	—	—	5	5
TBA MBS trades	—	2	—	2
Derivative liabilities	—	2	41	43
Total liabilities	$—	$2	$41	$43

	Fair Value Measurement at June 30, 2013 Using:			
(In Thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities:				
U.S. government agency MBS	$—	$10,816	$—	$10,816
U.S. government sponsored enterprise MBS	—	7,675	—	7,675
Private issue CMO	—	—	1,019	1,019
Investment securities	—	18,491	1,019	19,510
Loans held for sale, at fair value	—	188,050	—	188,050
Interest-only strips	—	—	98	98
Derivative assets:				
Commitments to extend credit on loans to be held for sale	—	—	1,338	1,338
Mandatory loan sale commitments	—	—	405	405
TBA MBS trades	—	7,251	—	7,251
Option contracts	—	—	589	589
Derivative assets	—	7,251	2,332	9,583
Total assets	$—	$213,792	$3,449	$217,241
Liabilities:				
Derivative liabilities:				
Commitments to extend credit on loans to be held for sale	$—	$—	$2,370	$2,370
Mandatory loan sale commitments	—	—	322	322
TBA MBS trades	—	529	—	529
Derivative liabilities	—	529	2,692	3,221
Total liabilities	$—	$529	$2,692	$3,221

The following tables summarize reconciliations of the beginning and ending balances during the periods shown of recurring fair value measurements recognized in the Condensed Consolidated Statements of Financial Condition using Level 3 inputs:

	For the Quarter Ended March 31, 2014 Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3)					
(In Thousands)	Private Issue CMO	Interest-Only Strips	Loan Commit-ments to Originate [1]	Manda-tory Commit-ments [2]	Option Contracts	Total
Beginning balance at December 31, 2013	$925	$88	$248	$196	$331	$1,788
Total gains or losses (realized/unrealized):						
Included in earnings	—	—	5,922	(166)	(142)	5,614
Included in other comprehensive loss	17	(16)	—	—	—	1
Purchases	—	—	—	206	126	332
Issuances	—	—	1,274	—	—	1,274
Settlements	(40)	—	(6,170)	(196)	(278)	(6,684)
Transfers in and/or out of Level 3	—	—	—	—	—	—
Ending balance at March 31, 2014	$902	$72	$1,274	$40	$37	$2,325

[1] Consists of commitments to extend credit on loans to be held for sale.
[2] Consists of mandatory loan sale commitments.

	For the Quarter Ended March 31, 2013 Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3)					
(In Thousands)	Private Issue CMO	Interest-Only Strips	Loan Commit-ments to Originate [1]	Manda-tory Commit-ments [2]	Option Contracts	Total
Beginning balance at December 31, 2012	$1,156	$130	$3,238	$(71)	$47	$4,500
Total gains or losses (realized/unrealized):						
Included in earnings	—	—	(3,238)	71	(47)	(3,214)
Included in other comprehensive loss	—	(5)	—	—	—	(5)
Purchases	—	—	—	—	72	72
Issuances	—	—	3,419	—	—	3,419
Settlements	(59)	—	—	—	—	(59)
Transfers in and/or out of Level 3	—	—	—	—	—	—
Ending balance at March 31, 2013	$1,097	$125	$3,419	$—	$72	$4,713

[1] Consists of commitments to extend credit on loans to be held for sale.
[2] Consists of mandatory loan sale commitments.

(In Thousands)	For the Nine Months Ended March 31, 2014 Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3)					
	Private Issue CMO	Interest-Only Strips	Loan Commit-ments to originate [1]	Manda-tory Commit-ments [2]	Option Contracts	Total
Beginning balance at June 30, 2013	$1,019	$98	$(1,032)	$83	$589	$757
Total gains or losses (realized/unrealized):						
Included in earnings	—	—	17,958	(67)	123	18,014
Included in other comprehensive loss	20	(26)	—	—	—	(6)
Purchases	—	—	—	261	497	758
Issuances	—	—	4,887	—	—	4,887
Settlements	(137)	—	(20,539)	(237)	(1,172)	(22,085)
Transfers in and/or out of Level 3	—	—	—	—	—	—
Ending balance at March 31, 2014	$902	$72	$1,274	$40	$37	$2,325

(1) Consists of commitments to extend credit on loans to be held for sale.
(2) Consists of mandatory loan sale commitments.

(In Thousands)	For the Nine Months Ended March 31, 2013 Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3)					
	Private Issue CMO	Interest-Only Strips	Loan Commit-ments to originate [1]	Manda-tory Commit-ments [2]	Option Contracts	Total
Beginning balance at June 30, 2012	$1,242	$130	$3,981	$(163)	$36	$5,226
Total gains or losses (realized/unrealized):						
Included in earnings	—	—	(15,589)	1,348	(148)	(14,389)
Included in other comprehensive loss	(6)	(5)	—	—	—	(11)
Purchases	—	—	—	(1,185)	184	(1,001)
Issuances	—	—	15,027	—	—	15,027
Settlements	(139)	—	—	—	—	(139)
Transfers in and/or out of Level 3	—	—	—	—	—	—
Ending balance at March 31, 2013	$1,097	$125	$3,419	$—	$72	$4,713

(1) Consists of commitments to extend credit on loans to be held for sale.
(2) Consists of mandatory loan sale commitments.

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

	Fair Value Measurement at March 31, 2014 Using:			
(In Thousands)	Level 1	Level 2	Level 3	Total
Non-performing loans	$—	$12,948	$3,859	$16,807
MSA	—	—	268	268
Real estate owned, net	—	2,406	—	2,406
Total	$—	$15,354	$4,127	$19,481

	Fair Value Measurement at June 30, 2013 Using:			
(In Thousands)	Level 1	Level 2	Level 3	Total
Non-performing loans	$—	$11,650	$10,032	$21,682
MSA	—	—	174	174
Real estate owned, net	—	2,296	—	2,296
Total	$—	$13,946	$10,206	$24,152

The following table presents additional information about valuation techniques and inputs used for assets and liabilities, including derivative financial instruments, which are measured at fair value and categorized within Level 3 as of March 31, 2014:

(Dollars In Thousands)	Fair Value As of March 31, 2014	Valuation Techniques	Unobservable Inputs	Range [1] (Weighted Average)	Impact to Valuation from an Increase in Inputs [2]
Assets:					
Securities available-for sale: Private issue CMO	$902	Discounted cash flow	Probability of default Loss severity Prepayment speed	0.5% – 2.1% (1.9%) 11.9% - 37.4% (36.2%) 6.9% – 15.9% (9.9%)	Decrease Decrease Decrease
Non-performing loans	$82	Discounted cash flow	Default rates	0.0% - 30.0% (0.0%)	Decrease
Non-performing loans	$3,777	Relative value analysis	Loss severity	20.0% - 38.0% (17.3%)	Decrease
MSA	$268	Discounted cash flow	Prepayment speed (CPR) Discount rate	10.4% - 60.0% (39.9%) 9.0% - 10.5% (9.2%)	Decrease Decrease
Interest-only strips	$72	Discounted cash flow	Prepayment speed (CPR) Discount rate	5.2% - 56.9% (35.3%) 9.0%	Decrease Decrease
Commitments to extend credit on loans to be held for sale	$1,310	Relative value analysis	TBA-MBS broker quotes Fall-out ratio [3]	98.3% – 104.5% (101.9%) of par 27.3% - 27.7% (27.7%)	Decrease Decrease
Mandatory loan sale commitments	$45	Relative value analysis	TBA MBS broker quotes Roll-forward costs [4]	103.1% - 105.8% (103.8%) of par 0.009%	Decrease Decrease
Option contracts	$37	Relative value analysis	Broker quotes	103.6% - 104.0% (103.6%) of par	Increase
Liabilities:					
Commitments to extend credit on loans to be held for sale	$36	Relative value analysis	TBA-MBS broker quotes Fall-out ratio [3]	100.8% – 105.1% (101.9%) of par 27.3% - 27.7% (27.7%)	Decrease Decrease

Mandatory loan sale commitments	$5	Relative value analysis	Investor quotes	102.1% - 107.8% (104.2%) of par	Decrease
			TBA MBS broker quotes	103.0% - 105.1% (103.3%) of par	Decrease
			Roll-forward costs [4]	0.009%	Decrease

(1) The range is based on the historical and current estimated fair values and management estimates.

(2) Unless otherwise noted, this column represents the directional change in the fair value of the Level 3 investments that would result from an increase to the corresponding unobservable input. A decrease to the unobservable input would have the opposite effect. Significant changes in these inputs in isolation could result in significantly higher or lower fair value measurements.

(3) The percentage of commitments to extend credit on loans to be held for sale which management has estimated may not fund.

(4) An estimated cost to roll forward the mandatory loan sale commitments which management has estimated may not be delivered to the corresponding investors in a timely manner.

The significant unobservable inputs used in the fair value measurement of the Corporation’s assets and liabilities include the following: prepayment speeds, discount rates, MBS – TBA quotes, fallout ratios, investor quotes and roll-forward costs, among

others. Significant increases or decreases in any of these inputs in isolation could result in significantly lower or higher fair value measurement. The various unobservable inputs used to determine valuations may have similar or diverging impacts on valuation.

The carrying amount and fair value of the Corporation's other financial instruments as of March 31, 2014 and June 30, 2013 were as follows:

(In Thousands)	March 31, 2014 Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Loans held for investment, net	$769,926	$756,056	—	—	$756,056
FHLB – San Francisco stock	$8,680	$8,680	—	$8,680	—
Financial liabilities:					
Deposits	$907,506	$884,822	—	—	$884,822
Borrowings	$51,447	$54,063	—	—	$54,063

(In Thousands)	June 30, 2013 Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Loans held for investment, net	$748,397	$742,256	—	—	$742,256
FHLB – San Francisco stock	$15,273	$15,273	—	$15,273	—
Financial liabilities:					
Deposits	$923,010	$903,654	—	—	$903,654
Borrowings	$106,491	$110,404	—	—	$110,404

Loans held for investment: For loans that reprice frequently at market rates, the carrying amount approximates the fair value. For fixed-rate loans, the fair value is determined by either (i) discounting the estimated future cash flows of such loans over their estimated remaining contractual maturities using a current interest rate at which such loans would be made to borrowers, or (ii) quoted market prices. The allowance for loan losses is subtracted as an estimate of the underlying credit risk.

FHLB – San Francisco stock: The carrying amount reported for FHLB – San Francisco stock approximates fair value. When redeemed, the Corporation will receive an amount equal to the par value of the stock.

Deposits: The fair value of time deposits is estimated using a discounted cash flow calculation. The discount rate is based upon rates currently offered for deposits of similar remaining maturities. The fair value of transaction accounts (checking, money market and savings accounts) is based on management estimates, consistent with current market conditions.

Borrowings: The fair value of borrowings has been estimated using a discounted cash flow calculation. The discount rate on such borrowings is based upon rates currently offered for borrowings of similar remaining maturities.

The Corporation has various processes and controls in place to ensure that fair value is reasonably estimated. The Corporation generally determines fair value of their Level 3 assets and liabilities by using internally developed models which primarily utilize discounted cash flow techniques and prices obtained from independent management services or brokers. The Corporation performs due diligence procedures over third-party pricing service providers in order to

support their use in the valuation process. The fair values of investment securities, commitments to extend credit on loans held for sale, mandatory commitments and option contracts are determined from the independent management services or brokers; while the fair value of MSA and interest-only strips are determined using the internally developed models which are based on discounted cash flow analysis. The fair value of non-performing loans is calculated by using discounted cash flows, relative value analysis or collateral value, less selling costs.

While the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. During the quarter ended March 31, 2014, there were no significant changes to the

Corporation's valuation techniques that had, or are expected to have, a material impact on its consolidated financial position or results of operations.

Note 10: Incentive Plans

As of March 31, 2014, the Corporation had five share-based compensation plans, which are described below. These plans are the 2013 Equity Incentive Plan ("2013 Plan"), the 2010 Equity Incentive Plan ("2010 Plan"), the 2006 Equity Incentive Plan ("2006 Plan"), the 2003 Stock Option Plan and the 1996 Stock Option Plan.

For the quarters ended March 31, 2014 and 2013, the compensation cost for these plans was $126,000 and $157,000, respectively. The income tax effect recognized in the Condensed Consolidated Statements of Financial Condition for share-based compensation plans was a $(130,000) debit and a $14,000 credit in the quarters ended March 31, 2014 and 2013, respectively.

For the nine months ended March 31, 2014 and 2013, the compensation cost for these plans was $387,000 and $396,000, respectively. The income tax effect recognized in the Condensed Consolidated Statements of Financial Condition for share-based compensation plans was a $(122,000) debit and an $85,000 credit for the nine months ended March 31, 2014 and 2013, respectively.

Equity Incentive Plan. The Corporation established and the shareholders approved the 2013 Plan, the 2010 Plan and the 2006 Plan for directors, advisory directors, directors emeriti, officers and employees of the Corporation and its subsidiary. The 2013 Plan authorizes 300,000 stock options and 300,000 shares of restricted stock. The 2013 Plan also provides that no person may be granted more than 60,000 stock options or 45,000 shares of restricted stock in any one year. The 2010 Plan authorizes 586,250 stock options and 288,750 shares of restricted stock. The 2010 Plan also provides that no person may be granted more than 117,250 stock options or 43,312 shares of restricted stock in any one year. The 2006 Plan authorizes 365,000 stock options and 185,000 shares of restricted stock. The 2006 Plan also provides that no person may be granted more than 73,000 stock options or 27,750 shares of restricted stock in any one year.

Equity Incentive Plan - Stock Options. Under the 2013 Plan, 2010 Plan and 2006 Plan (collectively, "the Plans"), options may not be granted at a price less than the fair market value at the date of the grant. Options typically vest over a five-year or shorter period as long as the director, advisory director, director emeritus, officer or employee remains in service to the Corporation. The options are exercisable after vesting for up to the remaining term of the original grant. The maximum term of the options granted is 10 years.

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option valuation model with the following assumptions. The expected volatility is based on implied volatility from historical common stock closing prices for the prior 84 months. The expected dividend yield is based on the most recent quarterly dividend on an annualized basis. The expected term is based on the historical experience of all fully vested stock option grants and is reviewed annually. The risk-free interest rate is based on the U.S. Treasury note rate with a term similar to the underlying stock option on the particular grant date.

	For the Quarter Ended March 31, 2014		For the Nine Months Ended March 31, 2014	
Expected volatility range	55.1	%	55.1	%
Weighted-average volatility	55.1	%	55.1	%
Expected dividend yield	2.6	%	2.6	%

Expected term (in years)	7.7	7.7
Risk-free interest rate	2.3 %	2.3 %

During the third quarter of fiscal 2014, 20,000 options were granted while 9,000 options were exercised and 9,500 options were forfeited. This compares to the third quarter of fiscal 2013 when 14,000 options were exercised. For the first nine months of fiscal 2014, 20,000 options were granted, while 49,500 options were exercised and 31,300 options were forfeited. This compares to the first nine months of fiscal 2013 when 20,000 options were granted, 42,000 options were exercised and 24,000 options were forfeited. As of March 31, 2014 and 2013, there were 499,750 and 188,450 stock options available for future grants under the Plans, respectively.

The following tables summarize the stock option activity in the Plans for the quarter and nine months ended March 31, 2014.

	For the Quarter Ended March 31, 2014			
Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($000)
Outstanding at December 31, 2013	649,500	$12.89		
Granted	20,000	$15.14		
Exercised	(9,000)	$7.39		
Forfeited	(9,500)	$28.31		
Outstanding at March 31, 2014	651,000	$12.81	5.81	$3,704
Vested and expected to vest at March 31, 2014	608,400	$13.11	5.68	$3,410
Exercisable at March 31, 2014	438,000	$14.87	4.96	$2,236

	For the Nine Months Ended March 31, 2014			
Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($000)
Outstanding at June 30, 2013	711,800	$12.71		
Granted	20,000	$15.14		
Exercised	(49,500)	$7.33		
Forfeited	(31,300)	$20.64		
Outstanding at March 31, 2014	651,000	$12.81	5.81	$3,704
Vested and expected to vest at March 31, 2014	608,400	$13.11	5.68	$3,410
Exercisable at March 31, 2014	438,000	$14.87	4.96	$2,236

As of March 31, 2014 and 2013, there was $717,000 and $1.1 million of unrecognized compensation expense, respectively, related to unvested share-based compensation arrangements under the Plans. The expense is expected to be recognized over a weighted-average period of 2.0 years and 2.4 years, respectively. The forfeiture rate during the first nine months of fiscal 2014 and 2013 was 20 percent for both periods, and was calculated by using the historical forfeiture experience of all fully vested stock option grants and is reviewed annually.

Equity Incentive Plan – Restricted Stock. The Corporation used 300,000 shares, 288,750 shares and 185,000 shares of its treasury stock to fund the 2013 Plan, the 2010 Plan and the 2006 Plan, respectively. Awarded shares typically vest over a five-year or shorter period as long as the director, advisory director, director emeriti, officer or employee remains in service to the Corporation. Once vested, a recipient of restricted stock will have all rights of a shareholder, including the power to vote and the right to receive dividends. The Corporation recognizes compensation expense for the restricted stock awards based on the fair value of the shares at the award date.

There was no restricted stock activity in the third quarter of fiscal 2014 and 2013, other than the award of 15,000 shares in the third quarter of fiscal 2014. For the first nine months of fiscal 2014, there was no restricted stock activity, other than the award of 15,000 shares and the forfeiture of 5,750 shares. This compares to the vesting and distribution of 800 shares and the forfeiture of 1,500 shares of restricted stock in the first nine months of fiscal 2013. As of March 31, 2014 and 2013, there were 460,350 shares and 169,600 shares of restricted stock available for future awards under

the Plans.

The following tables summarize the unvested restricted stock activity in the quarter and nine months ended March 31, 2014.

	For the Quarter Ended March 31, 2014	
Unvested Shares	Shares	Weighted-Average Award Date Fair Value
Unvested at December 31, 2013	66,500	$7.07
Granted	15,000	$13.96
Vested	—	$—
Forfeited	—	$—
Unvested at March 31, 2014	81,500	$8.34
Expected to vest at March 31, 2014	65,200	$8.34

	For the Nine Months Ended March 31, 2014	
Unvested Shares	Shares	Weighted-Average Award Date Fair Value
Unvested at June 30, 2013	72,250	$7.07
Granted	15,000	$13.96
Vested	—	$—
Forfeited	(5,750)	$7.07
Unvested at March 31, 2014	81,500	$8.34
Expected to vest at March 31, 2014	65,200	$8.34

As of March 31, 2014 and 2013, the unrecognized compensation expense was $529,000 and $568,000, respectively, related to unvested share-based compensation arrangements under the Plans, and reported as a reduction to stockholders' equity. This expense is expected to be recognized over a weighted-average period of 2.3 years and 2.2 years, respectively. Similar to stock options, a forfeiture rate of 20 percent has been applied for the restricted stock compensation expense calculations in the first nine months of fiscal 2014 and 2013, for both periods. For the nine months ended March 31, 2014 and 2013, the fair value of shares vested and distributed was $0 and $9,000, respectively.

Stock Option Plans. The Corporation established the 2003 Stock Option Plan and the 1996 Stock Option Plan (collectively, the "Stock Option Plans") for key employees and eligible directors under which options to acquire up to 352,500 shares and 1.15 million shares of common stock, respectively, may be granted. Under the Stock Option Plans, stock options may not be granted at a price less than the fair market value at the date of the grant. Stock options typically vest over a five-year period on a pro-rata basis as long as the employee or director remains in service to the Corporation. The stock options are exercisable after vesting for up to the remaining term of the original grant. The maximum term of the stock options granted is 10 years. As of March 31, 2014, no stock options remain available for future grant under the 2003 and 1996 Stock Option Plans, which expired in November 2013 and January 2007, respectively.

The fair value of each stock option grant is estimated on the date of the grant using the Black-Scholes option valuation model with the following assumptions. The expected volatility is based on implied volatility from historical common stock closing prices for the prior 84 months. The expected dividend yield is based on the most recent quarterly dividend on an annualized basis. The expected term is based on the historical experience of all fully vested stock

option grants and is reviewed annually. The risk-free interest rate is based on the U.S. Treasury note rate with a term similar to the underlying stock option on the particular grant date.

For the third quarter of fiscal 2014 and 2013, there was no activity in the Stock Option Plans, except forfeitures of 50,000 shares in the third quarter of fiscal 2014. For the first nine months of fiscal 2014 and 2013, there was no activity in the Stock Option Plans, except forfeitures of 138,000 shares and 7,500 shares, respectively. As of March 31, 2014 and 2013, there were no stock options and 14,900 stock options available for future grants under the Stock Option Plans, respectively.

The following tables summarize the activity in the Stock Option Plans for the quarter and nine months ended March 31, 2014.

	For the Quarter Ended March 31, 2014			
Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($000)
Outstanding at December 31, 2013	324,700	$25.17		
Granted	—	$—		
Exercised	—	$—		
Forfeited	(50,000)	$30.00		
Outstanding at March 31, 2014	274,700	$24.29	0.84	$—
Vested and expected to vest at March 31, 2014	274,700	$24.29	0.84	$—
Exercisable at March 31, 2014	274,700	$24.29	0.84	$—

	For the Nine Months Ended March 31, 2014			
Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($000)
Outstanding at June 30, 2013	412,700	$24.30		
Granted	—	$—		
Exercised	—	$—		
Forfeited	(138,000)	$24.30		
Outstanding at March 31, 2014	274,700	$24.29	0.84	$—
Vested and expected to vest at March 31, 2014	274,700	$24.29	0.84	$—
Exercisable at March 31, 2014	274,700	$24.29	0.84	$—

As of March 31, 2014 and 2013, there was no unrecognized compensation expense at both dates, related to unvested share-based compensation arrangements under the Stock Option Plans.

Note 11: Reclassification adjustment of Accumulated Other Comprehensive Income ("AOCI")

ASU 2013-02, "Comprehensive Income (Topic 220)," requires disclosure of reclassification adjustments of AOCI, including changes in AOCI balances by component and significant items reclassified out of AOCI.

The following tables provide the changes in AOCI by component for the quarters and nine months ended March 31, 2014 and 2013.

	For the Quarter Ended March 31, 2014		
	Unrealized gain and losses on		
(In Thousands)	Investment securities available for sale	Interest-only strips	Total
Beginning balance at December 31, 2013	$408	$50	$458
Other comprehensive income (loss) before reclassifications	19	(9)	10
Amount reclassified from accumulated other comprehensive income	—	—	—
Net other comprehensive income (loss)	19	(9)	10
Ending balance at March 31, 2014	$427	$41	$468

	For the Quarter Ended March 31, 2013		
	Unrealized gain and losses on		
(In Thousands)	Investment securities available for sale	Interest-only strips	Total
Beginning balance at December 31, 2012	$525	$74	$599
Other comprehensive income (loss) before reclassifications	32	(3)	29
Amount reclassified from accumulated other comprehensive income	—	—	—
Net other comprehensive income (loss)	32	(3)	29
Ending balance at March 31, 2013	$557	$71	$628

	For the Nine Months Ended March 31, 2014		
	Unrealized gain and losses on		
(In Thousands)	Investment securities available for sale	Interest-only strips	Total
Beginning balance at June 30, 2013	$498	$56	$554
Other comprehensive loss before reclassifications	(71)	(15)	(86)
Amount reclassified from accumulated other comprehensive income	—	—	—
Net other comprehensive loss	(71)	(15)	(86)

Ending balance at March 31, 2014	$427	$41	$468

(In Thousands)	For the Nine Months Ended March 31, 2013 Unrealized gain and losses on Investment securities available for sale	Interest-only strips	Total
Beginning balance at June 30, 2012	$552	$74	$626
Other comprehensive income (loss) before reclassifications	5	(3)	2
Amount reclassified from accumulated other comprehensive income	—	—	—
Net other comprehensive income (loss)	5	(3)	2
Ending balance at March 31, 2013	$557	$71	$628

There were no significant items reclassified out of AOCI for the quarters and nine months ended March 31, 2014 and 2013.

Note 12: Offsetting Derivative and Other Financial Instruments

The Corporation's derivative transactions are generally governed by International Swaps and Derivatives Association Master Agreements and similar arrangements, which include provisions governing the setoff of assets and liabilities between the parties. When the Corporation has more than one outstanding derivative transaction with a single counterparty, the setoff provisions contained within these agreements generally allow the non-defaulting party the right to reduce its liability to the defaulting party by amounts eligible for setoff, including the collateral received as well as eligible offsetting transactions with that counterparty, irrespective of the currency, place of payment, or booking office. The Corporation's policy is to present its derivative assets and derivative liabilities on the Condensed Consolidated Statements of Financial Condition on a net basis for each type of derivatives. The derivative assets and liabilities are comprised of mandatory loan sale commitments, TBA MBS trades and option contracts.

The following tables present the gross and net amounts of derivative assets and liabilities and other financial instruments as reported in the Corporation's Condensed Consolidated Statement of Financial Condition, and the gross amount not offset in the Corporation's Condensed Consolidated Statement of Financial Condition as of the dates indicated.

As of March 31, 2014:

(In Thousands)	Gross Amount of Recognized Assets	Gross Amount Offset in the Condensed Statement of Financial Condition	Net Amount of Assets Presented in the Condensed Statement of Financial Condition	Gross Amount Not Offset in the Condensed Statement of Financial Condition Financial Instruments	Cash Collateral Received	Net Amount
Assets						
Derivatives	$200	$2	$198	$—	$—	$198
Total	$200	$2	$198	$—	$—	$198

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(In Thousands)	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Condensed Statement of Financial Condition	Net Amount of Liabilities Presented in the Condensed Statement of Financial Condition	Gross Amount Not Offset in the Condensed Statement of Financial Condition		
				Financial Instruments	Cash Collateral Pledged	Net Amount
Liabilities						
Derivatives	$4	$—	$4	$—	$—	