

HERITAGE FINANCIAL CORP /WA/

Form 10-K

March 02, 2012

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

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

Commission File No. 0-29480

HERITAGE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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Washington (State or other jurisdiction of incorporation or organization)	91-1857900 (IRS Employer Identification No.)
201 Fifth Avenue SW, Olympia, Washington (Address of principal executive offices)	98501 (Zip Code)
(360) 943-1500 (Registrant's telephone number, including area code)	

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

Title of each class Common Stock	Name of each exchange on which registered NASDAQ Stock Market LLC
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Securities registered pursuant to Section 12(g) of the Act:

None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was \$187,483,668 and was based upon the last sales price as quoted on the NASDAQ Stock Market for June 30, 2011.

The registrant had 15,456,297 shares of common stock outstanding as of February 9, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

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Portions of the registrant's definitive Proxy Statement for the 2012 Annual Meeting of Shareholders will be incorporated by reference into Part III of this Form 10-K.

Table of Contents

HERITAGE FINANCIAL CORPORATION

FORM 10-K

December 31, 2011

TABLE OF CONTENTS

	Page
PART I	
ITEM 1. <u>BUSINESS</u>	3
ITEM 1A. <u>RISK FACTORS</u>	29
ITEM 1B. <u>UNRESOLVED STAFF COMMENTS</u>	37
ITEM 2. <u>PROPERTIES</u>	37
ITEM 3. <u>LEGAL PROCEEDINGS</u>	38
ITEM 4. <u>MINE SAFETY DISCLOSURES</u>	38
PART II	
ITEM 5. <u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	39
ITEM 6. <u>SELECTED FINANCIAL DATA</u>	42
ITEM 7. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	44
ITEM 7A. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	59
ITEM 8. <u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	59
ITEM 9. <u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	59
ITEM 9A. <u>CONTROLS AND PROCEDURES</u>	60
ITEM 9B. <u>OTHER INFORMATION</u>	62
PART III	
ITEM 10. <u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	63
ITEM 11. <u>EXECUTIVE COMPENSATION</u>	63
ITEM 12. <u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	63
ITEM 13. <u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS; AND DIRECTOR INDEPENDENCE</u>	64
ITEM 14. <u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	64
PART IV	
ITEM 15. <u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u>	65
<u>SIGNATURES</u>	67

Table of Contents

PART I

ITEM 1. BUSINESS

General

Heritage Financial Corporation (the "Company") is a bank holding company that was incorporated in the State of Washington in August 1997. We were organized for the purpose of acquiring all of the capital stock of Heritage Savings Bank upon our reorganization from a mutual holding company form of organization to a stock holding company form of organization. Effective September 1, 2004, Heritage Savings Bank switched its charter from a state chartered savings bank to a state chartered commercial bank and changed its legal name from Heritage Savings Bank to Heritage Bank. Effective September 1, 2005, Central Valley Bank (acquired by the Company in March 1999) changed its charter from a nationally chartered commercial bank to a state chartered commercial bank.

In June 2006, the Company completed the acquisition of Western Washington Bancorp and its wholly owned subsidiary, Washington State Bank, N.A. Washington State Bank, N.A. was merged into Heritage Bank on the date of acquisition. Effective July 30, 2010, Heritage Bank entered into a definitive agreement with the Federal Deposit Insurance Corporation (the "FDIC"), pursuant to which Heritage Bank acquired certain assets and assumed certain liabilities of Cowlitz Bank, a Washington state-chartered commercial bank headquartered in Longview, Washington (the "Cowlitz Acquisition"). The Cowlitz Acquisition included nine branches of Cowlitz Bank, including its division Bay Bank, which opened as branches of Heritage Bank on August 2, 2010. The acquisition also included the Trust Services Division of Cowlitz Bank. Effective November 5, 2010, Heritage Bank entered into a definitive agreement with the FDIC, pursuant to which Heritage Bank acquired certain assets and assumed certain liabilities of Pierce Commercial Bank, a Washington state-chartered commercial bank headquartered in Tacoma, Washington (the "Pierce Commercial Acquisition"). The Pierce Commercial Acquisition included one branch, which opened as a branch of Heritage Bank on November 8, 2010.

We are primarily engaged in the business of planning, directing, and coordinating the business activities of our wholly owned subsidiaries: Heritage Bank and Central Valley Bank (the "Banks"). The deposits of Heritage Bank and Central Valley Bank are insured by the FDIC. Heritage Bank conducts business from its main office in Olympia, Washington and its twenty-six branch offices located in western Washington and the greater Portland, Oregon area. Central Valley Bank conducts business from its main office in Toppenish, Washington and its five branch offices located in Yakima and Kittitas counties of Washington State.

Our business consists primarily of lending and deposit relationships with small businesses and their owners in our market areas, and attracting deposits from the general public. We also make real estate construction and land development loans, one-to-four family residential loans, and consumer loans and originate for sale or investment purposes first mortgage loans on residential properties located in western and central Washington State and the greater Portland, Oregon area.

On November 2008, the Company entered into a Letter Agreement and Securities Purchase Agreement (collectively, the "Purchase Agreement") with the U.S. Department of the Treasury ("Treasury") under the Troubled Asset Relief Program ("TARP") Capital Purchase Plan, pursuant to which the Company sold (i) 24,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A ("Series A Preferred Stock") and (ii) a warrant (the "Warrant") to purchase 276,074 shares of the Company's common stock at \$13.04 per share for an aggregate purchase price of \$24.0 million in cash. On September 22, 2009, the Company completed the sale of 4.3 million shares of common stock in a public offering. The purchase price was \$11.50 per share and net proceeds from the sale totaled approximately \$46.6 million. Under the terms of the Warrant, because the Company's September 22, 2009 offering of common stock was a qualified equity offering resulting in aggregate gross proceeds of at least \$24.0 million, the number of shares of our common stock underlying the Warrant was reduced by 50% to 138,037 shares.

Table of Contents

In December 2010, the Company completed the sale of 4.4 million shares of common stock in a public offering. The purchase price was \$13.00 per share and net proceeds from the sale totaled approximately \$57.6 million.

In December 2010 the Company redeemed the 24,000 shares of its Series A Preferred Stock held by the Treasury. The Company paid the Treasury a total of \$24.1 million, consisting of \$24.0 million of principal and \$123,000 of accrued and unpaid dividends.

On August 17, 2011, the Company repurchased the Warrant from the Treasury for \$450,000. The Warrant repurchase, together with the Company's earlier redemption of the entire amount of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, held by the Treasury, represents full repayment of all TARP obligations and cancellation of all equity interests in the Company held by the Treasury.

Market Areas

We offer financial services to meet the needs of the communities we serve through our community-oriented financial institutions. Headquartered in Olympia, Thurston County, Washington, we conduct business through Heritage Bank and Central Valley Bank. Heritage Bank conducts business from its main office in Olympia, Washington and its twenty-six branch offices located in western Washington and the greater Portland, Oregon area. Mortgage loan operations are performed in one office located in Thurston County. Central Valley Bank operates six full service offices, with five in Yakima County and one in Kittitas County.

Lending Activities

General. Lending activities are conducted through Heritage Bank and Central Valley Bank. Our focus is on commercial business lending. We also originate consumer loans, real estate construction and land development loans and one-to-four family residential loans. Most of our one-to-four family residential loans are originated for sale in the secondary market, although some of these loans are retained. Commercial and industrial loans, including owner occupied commercial real estate loans, totaling \$440.5 million, or 52.5% of total originated loans, as of December 31, 2011 and \$392.3 million, or 52.8% of total originated loans, as of December 31, 2010 and non-owner occupied commercial real estate totaling \$251.0 million, or 30.0% of total originated loans, as of December 31, 2011 and \$221.7 million, or 29.9% of total originated loans, as of December 31, 2010. One-to-four family residential loans totaled \$38.0 million, or 4.5% of total originated loans, at December 31, 2011, and \$47.5 million, or 6.5% of total originated loans, at December 31, 2010. Real estate construction and land development loans totaled \$77.3 million, or 9.3% of total originated loans, at December 31, 2011, and \$58.0 million, or 7.8% of total originated loans, at December 31, 2010.

We lend under policies that are reviewed and approved annually by our board of directors. In addition, we have established internal lending guidelines that are updated as needed. These policies and guidelines address underwriting standards, structure and rate considerations, and compliance with laws, regulations and internal lending limits. We conduct post-approval reviews on selected loans and routinely engage external loan specialists to perform reviews of our loan portfolio to check for credit quality, proper documentation and compliance with laws and regulations.

Table of Contents

The following table provides information about our originated loan portfolio by type of loan for the dates indicated. These balances are prior to deduction for the allowance for loan losses.

	2011		2010		December 31, 2009		2008		2007	
	Balance	% of Total Originated Loans	Balance	% of Total Originated Loans	Balance	% of Total Originated Loans	Balance	% of Total Originated Loans	Balance	% of Total Originated Loans
(Dollars in thousands)										
Originated Loans:										
Commercial business:										
Commercial and industrial(1)(2)	\$ 440,471	52.5%	\$ 392,301	52.8%	\$ 408,622	52.8%	\$ 410,657	50.9%	\$ 388,483	49.8%
Non-owner occupied commercial real estate(1)	251,049	30.0	221,739	29.9	194,613	25.2	190,706	23.5	196,637	25.2
Total commercial business	691,520	82.5	614,040	82.7	603,235	78.0	601,363	74.4	585,120	75.0
One-to-four family residential(3)	37,960	4.5	47,505	6.5	53,623	7.0	57,231	7.1	57,132	7.4
Real estate construction and land development:										
One-to-four family residential	22,369	2.7	29,377	4.0	46,060	6.0	71,159	8.8	82,165	10.6
Multifamily residential and commercial properties	54,954	6.6	28,588	3.8	49,665	6.4	59,572	7.3	40,342	5.2
Total real estate construction and land development(4)	77,323	9.3	57,965	7.8	95,725	12.4	130,731	16.1	122,507	15.8
Consumer	32,981	3.9	23,832	3.2	21,261	2.8	21,255	2.6	16,641	2.1
Gross originated loans	839,784	100.2	743,342	100.2	773,844	100.2	810,580	100.2	781,400	100.3
Less: deferred loan fees	(1,860)	(0.2)	(1,323)	(0.2)	(1,597)	(0.2)	(1,854)	(0.2)	(2,081)	(0.3)
Total originated loans	\$ 837,924	100.0%	\$ 742,019	100.0%	\$ 772,247	100.0%	\$ 808,726	100.0%	\$ 779,319	100.0%

(1) Commercial and industrial loans include owner-occupied commercial real estate

(2) During the year ended December 31, 2009 certain loan balances previously categorized as commercial business were reclassified as real estate construction and land development multifamily residential and commercial properties. The amounts reclassified were \$33.2 million and \$32.9 million as of December 31, 2008 and 2007, respectively.

(3) Excludes loans held for sale of \$1.8 million, \$764,000, \$825,000, \$304,000, and \$447,000 as of December 31, 2011, 2010, 2009, 2008, and 2007, respectively.

(4) Balances are net of undisbursed loan proceeds.

The following table provides information about our purchased covered loan portfolio by type of loan for the December 31, 2011 and December 31, 2010. There were no purchased covered loans for the years ended December 31, 2009, 2008 and 2007. These balances are prior to deduction for the allowance for loan losses.

	2011		2010	
	Balance	% of Total Purchased Covered Loans	Balance	% of Total Purchased Covered Loans
Purchased Covered Loans:				
Commercial business:				
Commercial and industrial(1)	\$ 76,674	70.1%	\$ 92,265	71.7%
Non-owner occupied commercial real estate(1)	15,753	14.4	17,576	13.6
Total commercial business	92,427	84.5	109,841	85.3
One-to-four family residential	5,197	4.8	6,224	4.8

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Real estate construction and land development:				
One-to-four family residential	5,786	5.3	5,876	4.6
Multifamily residential and commercial properties				
Total real estate construction and land development(2)	5,786	5.3	5,876	4.6
Consumer	5,947	5.4	6,774	5.3
Gross purchased covered loans	\$ 109,357	100.0%	\$ 128,715	100.0%

Table of Contents

(1) Commercial and industrial loans include owner-occupied commercial real estate

(2) Balances are net of undisbursed loan proceeds.

The following table provides information about our purchased non-covered loan portfolio by type of loan for the December 31, 2011 and December 31, 2010. There were no purchased non-covered loans for the years ended December 31, 2009, 2008 and 2007. These balances are prior to deduction for the allowance for loan losses.

	December 31, 2011		December 31, 2010	
	Balance	% of Total Purchased Non-Covered Loans	Balance	% of Total Purchased Non-Covered Loans
Purchased Non-Covered Loans:				
Commercial business:				
Commercial and industrial(1)	\$ 52,659	59.8%	\$ 77,815	59.4%
Non-owner occupied commercial real estate(1)	12,833	14.5	18,435	14.0
Total commercial business	65,492	74.3	96,250	73.4
One-to-four family residential	2,743	3.1	4,986	3.8
Real estate construction and land development:				
One-to-four family residential	1,381	1.6	3,816	2.8
Multifamily residential and commercial properties	1,078	1.2	1,244	0.9
Total real estate construction and land development(2)	2,459	2.8	5,060	3.9
Consumer	17,420	19.8	24,753	18.9
Gross purchased non-covered loans	\$ 88,114	100.0%	\$ 131,049	100.0%

(1) Commercial and industrial loans include owner-occupied commercial real estate

(2) Balances are net of undisbursed loan proceeds.

The following table presents at December 31, 2011 (i) the aggregate contractual maturities of loans in the named categories of our originated loan portfolio and (ii) the aggregate amounts of fixed rate and variable or adjustable rate loans in the named categories that mature after one year.

	Within 1 year	Over 1-5 years	Maturing After 5 years	Total
	(In thousands)			
Commercial business	\$ 139,666	\$ 175,699	\$ 376,155	\$ 691,520
Real estate construction and land development	54,978	21,538	807	77,323
Total	\$ 194,644	\$ 197,237	\$ 376,962	\$ 768,843
Fixed rate loans		\$ 94,963	\$ 121,604	\$ 216,567
Variable or adjustable rate loans		102,274	255,358	357,632
Total		\$ 197,237	\$ 376,962	\$ 574,199

Commercial Business Lending

We offer different types of commercial business loans. The types of commercial business loans offered are business lines of credit, term equipment financing and term owner-occupied commercial real estate loans. We also originate loans that are guaranteed by the Small Business Administration (SBA) and Heritage Bank is a

Table of Contents

preferred lender of the SBA. Before extending credit to a business we look closely at the borrower's management ability, financial history, including cash flow of the borrower and all guarantors, and the liquidation value of the collateral. Emphasis is placed on having a comprehensive understanding of the borrower's global cash flow and performing necessary financial due diligence.

At December 31, 2011 we had \$691.5 million, or 82.5%, of our total originated loans receivable in commercial business loans with an average loan size of approximately \$270,000.

We originate commercial real estate loans within our primary market areas. Owner-occupied commercial real estate loans are preferred. Our underwriting standards require that commercial real estate loans not exceed 75% of the lower of appraised value at origination or cost, of the underlying collateral. Cash flow coverage to debt servicing requirements is generally a minimum of 1.10 times for multifamily loans and 1.15 times for commercial real estate loans. Cash flow coverage is calculated using an underwriting interest rate equal to the note rate plus 2%.

Commercial real estate loans typically involve a greater degree of risk than single-family residential mortgage loans. Payments on loans secured by commercial real estate properties are dependent on successful operation and management of the properties and repayment of these loans may be affected by adverse conditions in the real estate market or the economy. We seek to minimize these risks by determining the financial condition of the borrower, the quality and value of the collateral, and the management of the property securing the loan. We also generally obtain personal guarantees from the owners of the collateral after a thorough review of personal financial statements. In addition, we review our commercial real estate loan portfolio annually for performance of individual loans, and stress-test loans for potential changes in interest rates, occupancy, and collateral values.

See Risk Factors Our loan portfolio is concentrated in loans with a higher risk of loss Repayment of our commercial business loans as well as commercial real estate loans, is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value. See also Risk Factors Our loan portfolio is concentrated in loans with a higher risk of loss Our commercial real estate loans, which includes multifamily real estate loans, involve higher principal amounts than other loans and repayment of these loans may be dependent on factors outside our control or the control of our borrowers.

One-to-Four Family Residential Mortgages

The majority of our one-to four-family residential loans are secured by single-family residences located in our primary market areas. Our underwriting standards require that single-family portfolio loans generally are owner-occupied and do not exceed 80% of the lower of appraised value at origination or cost of the underlying collateral. Terms typically range from 15 to 30 years. We generally sell most single-family loans in the secondary market. Management determines to what extent we will retain or sell these loans and other fixed rate mortgages in order to control the Banks interest rate sensitivity position, growth and liquidity.

See Management's Discussion and Analysis of Financial Condition and Results of Operations Asset/Liability Management.

Real Estate Construction and Land Development

We originate single-family residential construction loans for the construction of custom homes (where the home buyer is the borrower). We also provide financing to builders for the construction of pre-sold homes and, in selected cases, to builders for the construction of speculative residential property. Because of the higher risks present in the residential construction industry, our lending to builders is limited to those who have demonstrated a favorable record of performance and who are building in markets that management understands. We further endeavor to limit our construction lending risk through adherence to strict underwriting guidelines and

Table of Contents

procedures. Speculative construction loans are short term in nature and priced with a variable rate of interest. We require builders to have tangible equity in each construction project, have prompt and thorough documentation of all draw requests and we inspect the project prior to paying any draw requests.

See Risk Factors Our loan portfolio is concentrated in loans with a higher risk of loss Our real estate construction and land development loans are based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate.

Origination and Sales of Residential Mortgage Loans

Consistent with our asset/liability management strategy, we sell a significant portion of our residential mortgage loans to the secondary market. Commitments to sell mortgage loans generally are made during the period between the taking of the loan application and the closing of the mortgage loan. Most of these sale commitments are made on a best efforts basis whereby we are only obligated to sell the mortgage if the mortgage loan is approved and closed. As a result, management believes that market risk is minimal. In addition, some of our mortgage loan production is brokered to other lenders prior to funding.

When we sell mortgage loans, we typically sell the servicing of the loans (i.e., collection of principal and interest payments). However, we serviced \$84,000, \$115,000, and \$131,000 in mortgage loans for others as of December 31, 2011, 2010, and 2009, respectively.

The following table presents summary information concerning our origination and sale of residential mortgage loans and the gains from the sale of loans.

	2011	Year Ended December 31,			2007
		2010	2009	2008	
		(In thousands)			
Residential mortgage loans:					
Originated	\$ 24,929	\$ 18,605	\$ 16,981	\$ 16,177	\$ 4,963
Sold	16,952	16,125	16,460	16,320	4,516
Gains on sales of loans, net	\$ 285	\$ 226	\$ 288	\$ 265	\$ 64
Commitments and Contingent Liabilities					

In the ordinary course of business, we enter into various types of transactions that include commitments to extend credit that are not included in our consolidated financial statements. We apply the same credit standards to these commitments as we use in all our lending activities and have included these commitments in our lending risk evaluations. Our exposure to credit loss under commitments to extend credit is represented by the amount of these commitments.

Table of Contents

The following table presents outstanding commitments to extend credit, including letters of credit, at the dates indicated:

	December 31	
	2011	2010
	(In thousands)	
Commercial business:		
Commercial and industrial	\$ 138,118	\$ 147,022
Owner-occupied commercial real estate	2,328	2,977
Non-owner occupied commercial real estate	6,225	6,712
Total commercial business	146,671	156,711
One-to-four family residential		44
Real estate construction and land development:		
One-to-four family residential	4,247	3,542
Five or more family residential and commercial properties	15,305	11,595
Total real estate construction and land development	19,552	15,137
Consumer	37,251	40,640
Total outstanding commitments	203,474	212,532

Delinquencies and Nonperforming Assets

Delinquency Procedures. We send a borrower a delinquency notice 15 days after the due date when the borrower fails to make a required payment on a loan. If the delinquency is not brought current, additional delinquency notices are mailed at 30 and 45 days for commercial loans. Additional written and oral contacts are made with the borrower between 60 and 90 days after the due date.

If a real estate loan payment is past due for 45 days or more, the collection manager may perform a review of the condition of the property if suspect. We may negotiate and accept a repayment program with the borrower, accept a voluntary deed in lieu of foreclosure or, when considered necessary, begin foreclosure proceedings. If foreclosed on, real property is sold at a public sale and we bid on the property to protect our interest. A decision as to whether and when to begin foreclosure proceedings is based on such factors as the amount of the outstanding loan relative to the value of the property securing the original indebtedness, the extent of the delinquency, and the borrower's ability and willingness to cooperate in resolving the delinquency.

Real estate acquired by us is classified as other real estate owned until it is sold. When property is acquired, it is recorded at the estimated fair value (less costs to sell) at the date of acquisition, not to exceed net realizable value, and any resulting write-down is charged to the allowance for loan losses. Upon acquisition, all costs incurred in maintaining the property are expensed. Costs relating to the development and improvement of the property, however, are capitalized to the extent of the property's net realizable value.

Delinquencies in the commercial business loan portfolio are handled by the assigned loan officer. Generally, notices are sent and personal contact is made with the borrower when the loan is 15 days past due. Loan officers are responsible for collecting loans they originate or which are assigned to them. Depending on the nature of the loan and the type of collateral securing the loan, we may negotiate and accept a modified payment program or take other actions as circumstances warrant.

Classification of Loans. Federal regulations require that our Banks periodically evaluate the risks inherent in their respective loan portfolios. In addition, the Division of Banks of the Washington State Department of Financial Institutions (Division) and the FDIC have the authority to identify problem loans and, if appropriate, require them to be reclassified. There are three classifications for problem loans: Substandard, Doubtful, and Loss. Substandard loans have one or more defined weaknesses and are characterized by the distinct possibility

Table of Contents

that the institution will sustain some loss if the deficiencies are not corrected. Doubtful loans have the weaknesses of Substandard loans, with additional characteristics that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values questionable. There is a high probability of some loss in loans classified as Doubtful. A loan classified as Loss is considered uncollectible and of such little value that continuance as a loan of the institution is not warranted. If a loan or a portion of the loan is classified as Loss, the institution must charge-off this amount. We also have loans we classify as Watch and Other Assets Especially Mentioned (OAEM). Loans classified as Watch are performing assets but have elements of risk that require more monitoring than other performing loans. Loans classified as OAEM are assets that continue to perform but have shown deterioration in credit quality and require close monitoring.

The Banks routinely test their problem loans for potential impairment. A loan is considered impaired when, based on current information and events, it is probable that the Banks will be unable to collect all amounts due according to the original contractual terms of the loan agreement. Problem loans that may be impaired are identified using the Banks normal loan review procedures, which include post-approval reviews, monthly reviews by credit administration of criticized loan reports, scheduled internal reviews, underwriting during extensions and renewals and the analysis of information routinely received on a borrower s financial performance.

Impairment is measured using the present value of expected future cash flows, discounted at the loan s effective interest rate, unless the loan is collateral dependent, in which case impairment is measured using the fair value of the collateral after deducting appropriate collateral disposition costs. Furthermore, when it is practically expedient, impairment is measured by the fair market price of the loan.

Subsequent to an initial measure of impairment, if there is a significant change in the amount or timing of a loan s expected future cash flows or a change in the value of collateral or market price of a loan, based on new information received, the impairment is recalculated. However, the net carrying value of a loan never exceeds the recorded investment in the loan.

Table of Contents

Nonperforming Assets. Nonperforming assets consist of nonaccrual loans and other real estate owned. The following table provides information about our originated nonaccrual loans, restructured loans, and other real estate owned for the indicated dates.

	2011	2010	December 31, 2009 (Dollars in thousands)	2008	2007
Nonaccrual originated loans:					
Commercial business	\$ 8,266	\$ 10,667	\$ 9,728	\$ 1,176	\$ 33
One-to-four family residential					
Real estate construction and land development	14,947	15,816	25,108	2,221	949
Consumer	125				39
Total nonaccrual originated loans(1)(2)	23,338	26,483	34,836	3,397	1,021
Noncovered other real estate owned	3,710	3,030	704	2,031	169
Total nonperforming originated assets	\$ 27,048	\$ 29,513	\$ 35,540	\$ 5,428	\$ 1,190
Restructured originated performing loans:					
Commercial business	\$ 12,606	\$ 394	\$ 425	\$	\$
One-to-four family residential	835				
Real estate construction and land development	364				
Total restructured originated loans(3)	\$ 13,805	\$ 394	\$ 425	\$	\$
Accruing originated loans past due 90 days or more(4)	\$ 1,328	\$ 1,313	\$ 277	\$ 664	\$ 2,084
Potential problem originated loans(5)	\$ 29,742	\$ 56,088	\$ 53,086	\$ 43,061	\$ 22,023
Allowance for loan losses on originated loans	\$ 22,317	\$ 22,062	\$ 26,164	\$ 15,423	\$ 10,374
Nonperforming originated loans to total originated loans(6)	2.57%	3.14%	4.27%	0.42%	0.13%
Allowance for loan losses to total originated loans	2.66%	2.97%	3.38%	1.91%	1.33%
Allowance for loan losses to nonperforming originated loans(5)	103.52%	94.73%	79.34%	454.02%	1,016.06%
Nonperforming originated assets to total originated assets(6)	2.14%	2.38%	3.32%	0.57%	0.13%

- (1) \$11.7 million, \$8.7 million and \$17.0 million of nonaccrual loans were considered troubled debt restructures at December 31, 2011, 2010 and 2009, respectively. There were no troubled debt restructures at December 31, 2008 and 2007.
- (2) \$1.8 million, \$3.2 million and \$2.3 million of nonaccrual loans were guaranteed by government agencies at December 31, 2011, 2010 and 2009, respectively. There were no nonaccrual loans guaranteed by government agencies at December 31, 2008 and 2007.
- (3) \$592,000 of restructured loans were guaranteed by government agencies at December 31, 2011. There were no restructured loans guaranteed by government agencies at December 31, 2010, 2009, 2008 and 2007.
- (4) \$6,000 and \$92,000 of accruing originated loans past due 90 days or more were guaranteed by government agencies at December 31, 2011 and 2010, respectively. There were no accruing originated loans past due 90 days or more guaranteed by government agencies at December 31, 2009, 2008 and 2007.
- (5) \$2.8 million, \$5.4 million and \$7.2 million of potential problem originated loans were guaranteed by government agencies at December 31, 2011, 2010 and 2009, respectively. There were no potential problem originated loans guaranteed by government agencies at December 31, 2008 and 2007.