PROVIDENT FINANCIAL HOLDINGS INC
Form 10-K
September 01, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark one)

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

For the fiscal year ended June 30, 2017 OR

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

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 Number)
3756 Central Avenue, Riverside, California	92506
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (951) 686-6060
Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $.01 per share	The NASDAQ Stock Market LLC
(Title of Each Class)	(Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO X .
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO X .
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO .
Indicate by check mark 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 X NO .

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

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

Large accelerated filer _____	Accelerated filer X
Non-accelerated filer _____ (Do not check if a smaller reporting company)	Smaller reporting company _____
Emerging growth company _____	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2).
YES NO X .

The Registrant's common stock is listed on the NASDAQ Global Select Market under the symbol "PROV." The aggregate market value of the common stock held by non affiliates of the Registrant, based on the closing sales price of the Registrant's common stock as quoted on the NASDAQ Global Select Market on December 31, 2016, was $145.6 million. As of August 25, 2017, there were 7,695,552 shares of the Registrant's common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Shareholders are incorporated by reference into Part II.
2. Portions of the definitive Proxy Statement for the fiscal 2017 Annual Meeting of Shareholders ("Proxy Statement") are incorporated by reference into Part III.

PROVIDENT FINANCIAL HOLDINGS, INC.
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As used in this report, the terms “we,” “our,” “us,” and “Provident” refer to Provident Financial Holdings, Inc. and its consolidated subsidiaries, unless the context indicates otherwise. When we refer to the “Bank” or “Provident Savings Bank” in this report, we are referring to Provident Savings Bank, F.S.B., a wholly owned subsidiary of Provident Financial Holdings, Inc.

PART I

Item 1. Business

General

Provident Financial Holdings, Inc. (the “Corporation”), a Delaware corporation, was organized in January 1996 for the purpose of becoming the holding company of Provident Savings Bank, F.S.B. (the “Bank”) upon the Bank’s conversion from a federal mutual to a federal stock savings bank (“Conversion”). The Conversion was completed on June 27, 1996. The Corporation is regulated by the Federal Reserve Board ("FRB"). At June 30, 2017, the Corporation had consolidated total assets of $1.20 billion, total deposits of $926.5 million and stockholders’ equity of $128.2 million. The Corporation has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this Annual Report on Form 10-K (“Form 10-K”), including the audited consolidated financial statements and related data, relates primarily to the Bank and its subsidiaries.

The Bank, founded in 1956, is a federally chartered stock savings bank headquartered in Riverside, California. The Bank is regulated by the Office of the Comptroller of the Currency (“OCC”), its primary federal regulator, and the Federal Deposit Insurance Corporation (“FDIC”), the insurer of its deposits. The Bank’s deposits are federally insured up to applicable limits by the FDIC. The Bank has been a member of the Federal Home Loan Bank (“FHLB”) – San Francisco since 1956.

The Bank is a financial services company committed to serving consumers and small to mid-sized businesses in the Inland Empire region of Southern California. The Bank conducts its business operations as Provident Bank, Provident Bank Mortgage (“PBM”), a division of the Bank, and through its subsidiary, Provident Financial Corp. The business activities of the Bank consist of community banking, mortgage banking, investment services and trustee services for real estate transactions. Financial information regarding the Corporation’s two operating segments, Provident Bank and Provident Bank Mortgage, is contained in Note 17 to the Corporation’s audited consolidated financial statements included in Item 8 of this Form 10-K.

The Bank’s community banking operations primarily consist of accepting deposits from customers within the communities surrounding its full service offices and investing those funds in single-family, multi-family, commercial real estate, construction, commercial business, consumer and other mortgage loans. The Bank's mortgage banking activities primarily consist of the origination, purchase and sale of single-family mortgage loans (including second mortgages and equity lines of credit). Through its subsidiary, Provident Financial Corp, the Bank conducts trustee services for the Bank’s real estate transactions and in the past has held real estate for investment. For additional information, see “Subsidiary Activities” in this Form 10-K. The activities of Provident Financial Corp are included in the Bank's operating segment results. The Bank’s revenues are derived principally from interest earned on its loan and investment portfolios, and fees generated through its community banking and mortgage banking activities.

On June 22, 2006, the Bank established the Provident Savings Bank Charitable Foundation (“Foundation”) in order to further its commitment to the local community. The specific purpose of the Foundation is to promote and provide for the betterment of youth, education, housing and the arts in the Bank’s primary market areas of Riverside and San Bernardino counties. The Foundation was funded with a $500,000 charitable contribution made by the Bank in the fourth quarter of fiscal 2006. The Bank contributed $40,000 annually to the Foundation in fiscal 2017, 2016 and 2015.

Subsequent Events:

On July 31, 2017, the Corporation announced that the Corporation's Board of Directors declared a cash dividend of $0.14 per share, reflecting an eight percent increase from the $0.13 per share paid on June 9, 2017. Shareholders of the Corporation's common stock at the close of business on August 21, 2017 were entitled to receive the cash dividend, payable on September 11, 2017.

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Market Area

The Bank is headquartered in Riverside, California and operates 13 full-service banking offices in Riverside County and one full-service banking office in San Bernardino County. Management considers Riverside and Western San Bernardino counties to be the Bank's primary market for deposits. Through the operations of PBM, the Bank has expanded its mortgage lending market to include most of Southern California and some of Northern California. The Bank is the largest independent community bank headquartered in Riverside County and it has the eighth largest deposit market share of all banks and the fourth largest of community banks in Riverside County. PBM operates two wholesale loan production offices located in Pleasanton and Rancho Cucamonga, California and nine retail loan production offices located in Atascadero, Brea, Escondido, Glendora, Rancho Cucamonga, Riverside (3) and Roseville, California.

The large geographic area encompassing Riverside and San Bernardino counties is referred to as the "Inland Empire." According to the 2010 Census Bureau population statistics, Riverside and San Bernardino Counties have the fourth and fifth largest populations in California, respectively. The Bank's market area consists primarily of suburban and urban communities. Western Riverside and San Bernardino counties are relatively densely populated and are within the greater Los Angeles metropolitan area. According to the United States of America ("U.S.") Department of Labor, Bureau of Labor Statistics, the unemployment rate in the Inland Empire in June 2017 was 5.5%, compared to 4.7% in California and 4.4% nationwide, an improvement compared to the unemployment data reported in June 2016, which was 6.6% in the Inland Empire, 5.4% in California and 4.9% nationwide.

In 2017, the Inland Empire economy is estimated to gain 46,600 jobs (3.3%), after adding 47,500 in 2016 (3.5%). The expansion will continue partly because of the area's traditional advantages for blue collar/technical sectors (available land, modestly priced labor, growing population), as well as continued growth in health care, and a small addition of jobs in higher paying sectors. As these sectors add workers, they should bring dollars to the area that circulate through its population serving sectors causing them to expand as well. In addition, 33.0% of growth is forecasted for lower paying sectors and 67.0% in moderate and better paying jobs. That is generally considered a good mix as 50% - 50% is a more normal distribution. If 2017 performs as forecasted, the share of lower paying jobs for the full 2011 - 2017 period shows the Inland Empire (40.0%) with a smaller share than California as a whole (45.7%). This is largely due to the importance of its blue collar/technical sectors in its job growth mix (Source: Inland Empire Quarterly Economic Reports - April 2017).

In the height of the spring home buying season, California's housing market were not affected by housing shortages as sales and median home prices bound higher in June 2017. Existing single-family home sales totaled 443,150 in June 2017 on a seasonally adjusted annualized rate, up 3.3% from May 2017 and 2.4% from June 2016. California's median home price in June 2017 was $555,150, up 0.9% from May 2017 and up 7.0% from June 2016. The median number of days on the market fell to 22.4 days in June 2017 from 27.1 days a year ago, the fastest pace since May 2004, when it took 21.9 days to sell a home. At the regional level, the San Francisco Bay Area, Inland Empire, and Los Angeles metro area all registered year-to-year sales increases of 6.1%, 10.4%, and 8.3%, respectively (Source: California Association of Realtors – July 17, 2017 News Release).

Competition

The Bank faces significant competition in its market area in originating real estate loans and attracting deposits. The population growth in the Inland Empire has attracted numerous financial institutions to the Bank's market area. The Bank's primary competitors are large national and regional commercial banks as well as other community-oriented banks and savings institutions. The Bank also faces competition from credit unions and a large number of mortgage companies that operate within its market area. Many of these institutions are significantly larger than the Bank and therefore have greater financial and marketing resources than the Bank. The Bank's mortgage banking operations also face competition from mortgage bankers, brokers and other financial institutions. This competition may limit the Bank's growth and profitability in the future.

Personnel

As of June 30, 2017, the Bank had 464 full-time equivalent employees, which consisted of 409 full-time, 54 prime-time and one part-time employee. The employees are not represented by a collective bargaining unit and management believes that its relationship with employees is good.

Segment Reporting

Financial information regarding the Corporation's operating segments is contained in Note 17 to the Corporation's audited consolidated financial statements included in Item 8 of this Form 10-K.

Internet Website

The Corporation maintains a website at www.myprovident.com. The information contained on that website is not included as a part of, or incorporated by reference into, this Form 10-K. Other than an investor's own internet access charges, the Corporation makes available free of charge through that website the Corporation's annual report, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after these materials have been electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). In addition, the SEC maintains a website that contains reports, proxy and information statements, and other information regarding companies that file electronically with the SEC. This information is available at www.sec.gov.

Lending Activities

General. The lending activity of the Bank is predominately comprised of the origination of first mortgage loans secured by single-family residential properties to be held for sale and, to a lesser extent, to be held for investment. The Bank also originates multi-family and commercial real estate loans and, to a lesser extent, construction, commercial business, consumer and other mortgage loans to be held for investment. The Bank's net loans held for investment were $904.9 million at June 30, 2017, representing 75.4% of consolidated total assets. This compares to $840.0 million, or 71.7% of consolidated total assets, at June 30, 2016.

At June 30, 2017, the maximum amount that the Bank could have loaned to any one borrower and the borrower's related entities under applicable regulations was $18.9 million, or 15% of the Bank's unimpaired capital and surplus. At June 30, 2017, the Bank had no loans or group of loans to related borrowers with outstanding balances in excess of this amount. The Bank's five largest lending relationships at June 30, 2017 consisted of: three multi-family loans totaling $8.1 million to one group of borrowers; one commercial real estate loan totaling $6.1 million to one group of borrowers; one multi-family loan totaling $5.2 million to one group of borrowers; one multi-family loan totaling $4.9 million to one group of borrowers; and one commercial real estate loan totaling $4.5 million to one group of borrowers. The real estate collateral for these loans is located in Southern California, except for one property which is located in Northern California. At June 30, 2017, all of these loans were performing in accordance with their repayment terms.

Loans Held For Investment Analysis. The following table sets forth the composition of the Bank's loans held for investment at the dates indicated:

	At June 30,									
	2017		2016		2015		2014		2013	
(Dollars In Thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Mortgage loans:										
Single-family	$322,197	35.16 %	$324,497	37.93 %	$365,961	44.47 %	$377,824	48.43 %	$404,154	53.09 %
Multi-family	479,959	52.37	415,627	48.59	347,020	42.17	301,191	38.60	262,268	34.45
Commercial real estate	97,562	10.65	99,528	11.63	100,897	12.26	96,781	12.40	92,423	12.14
Construction	16,009	1.75	14,653	1.71	8,191	0.99	2,869	0.37	292	0.04
Other	—	—	332	0.04	—	—	—	—	—	—
Total mortgage loans	915,727	99.93	854,637	99.90	822,069	99.89	778,665	99.80	759,137	99.72
Commercial business loans	576	0.06	636	0.08	666	0.08	1,237	0.16	1,687	0.22
Consumer loans	129	0.01	203	0.02	244	0.03	306	0.04	437	0.06
Total loans held for investment, gross	916,432	100.00%	855,476	100.00%	822,979	100.00%	780,208	100.00%	761,261	100.00%
Undisbursed loan funds	(9,015)		(11,258)		(3,360)		(1,090)		(292)	
Advance payments of escrows	61		56		199		215		300	
Deferred loan costs, net	5,480		4,418		3,140		2,552		2,063	
Allowance for loan losses	(8,039)		(8,670)		(8,724)		(9,744)		(14,935)	
Total loans held for investment, net	$904,919		$840,022		$814,234		$772,141		$748,397	

Maturity of Loans Held for Investment. The following table sets forth information at June 30, 2017 regarding the dollar amount of principal payments becoming contractually due during the periods indicated for loans held for investment. Demand loans, loans having no stated schedule of principal payments, loans having no stated maturity, and overdrafts are reported as becoming due within one year. The table does not include any estimate of prepayments, which can significantly shorten the average life of loans held for investment and may cause the Bank's actual principal payment experience to differ materially from that shown below:

(In Thousands)	Within One Year	After One Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years	Beyond 10 Years	Total
Mortgage loans:						
Single-family	$23	$ 91	$ 369	$5,655	$316,059	$322,197
Multi-family	2,209	2,118	3,967	7,398	464,267	479,959
Commercial real estate	1,111	170	2,861	77,402	16,018	97,562
Construction	11,856	4,153	—	—	—	16,009
Commercial business loans	139	140	—	—	297	576
Consumer loans	129	—	—	—	—	129
Total loans held for investment, gross	$15,467	$ 6,672	$ 7,197	$90,455	$796,641	$916,432

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The following table sets forth the dollar amount of all loans held for investment due after June 30, 2018 which have fixed and floating or adjustable interest rates:

(Dollars In Thousands)	Fixed-Rate	%[1]	Floating or Adjustable Rate	%[1]
Mortgage loans:				
Single-family	$ 14,062	4 %	$ 308,112	96 %
Multi-family	1,520	— %	476,230	100 %
Commercial real estate	—	— %	96,451	100 %
Construction	—	— %	4,153	100 %
Commercial business loans	412	94 %	25	6 %
Total loans held for investment, gross	$ 15,994	2 %	$ 884,971	98 %

[1] As a percentage of each category.

Scheduled contractual principal payments of loans do not reflect the actual life of such assets. The average life of loans is generally substantially less than their contractual terms because of prepayments. In addition, due-on-sale clauses generally give the Bank the right to declare loans immediately due and payable in the event, among other things, the borrower sells the real property that secures the loan. The average life of mortgage loans tends to increase, however, when current market interest rates are substantially higher than the interest rates on existing loans held for investment and, conversely, decrease when the interest rates on existing loans held for investment are substantially higher than current market interest rates, as borrowers are generally less inclined to refinance their loans when market rates increase and more inclined to refinance their loans when market rates decrease.

Single-Family Mortgage Loans. The Bank's predominant lending activity is the origination by PBM of loans secured by first mortgages on owner-occupied, single-family (one to four units) residences in the communities where the Bank has established full service branches and loan production offices. At June 30, 2017, total single-family loans held for investment decreased to $322.2 million, or 35.2% of the total loans held for investment, from $324.5 million, or 37.9% of the total loans held for investment, at June 30, 2016. The slight decrease in the single-family loans in fiscal 2017 was primarily attributable to loan principal payments and real estate owned acquired in the settlement of loans, partly offset by new loans originated for investment.

The Bank's residential mortgage loans are generally underwritten and documented in accordance with guidelines established by institutional loan buyers, Freddie Mac, Fannie Mae and the Federal Housing Administration ("FHA") (collectively, "the secondary market"). All conforming agency loans are generally underwritten and documented in accordance with the guidelines established by these secondary market purchasers, as well as the Department of Housing and Urban Development ("HUD"), FHA and the Veterans' Administration ("VA"). Loans are normally classified as either conforming (meeting agency criteria) or non-conforming (meeting an institutional investor's criteria). Non-conforming loans are typically those that exceed agency loan limits but closely mirror agency underwriting criteria. The non-conforming loans are underwritten to expanded guidelines allowing a borrower with good credit a broader range of product choices. Given the recent market environment, PBM has expanded the production of FHA, VA, Freddie Mac and Fannie Mae loans.

The Bank has underwriting standards that require verified documentation of income and assets from borrowers and our underwriting conforms to agency mandated credit score requirements. Generally, mortgage insurance is required on all loans exceeding 80% loan-to-value based on the lower of purchase price or appraised value. Loan-to-value ("LTV") is the ratio derived by dividing the original loan balance by the lower of the original appraised value or purchase price of the real estate collateral. The maximum allowable loan-to-value is 97% on a purchase transaction for conventional financing with mortgage insurance and 96.5% loan-to-value for FHA financing with mortgage insurance. Second home purchases and rate and term refinance transactions are capped at 90% loan-to-value with mortgage insurance. Non-owner occupied purchase and rate and term refinance transactions are capped at 80% loan-to-value while non-owner occupied refinance cash-out transactions are capped at 75% loan-to-value. We manage our underwriting standards, loan-to-value ratios and credit standards to the currently required agency and investor policies and guidelines. These standards may change at any time, given changes in real estate market conditions, secondary mortgage market requirements and changes to investor policies and guidelines.

The Bank offers closed-end, fixed-rate home equity loans that are secured by the borrower's primary residence. These loans do not exceed 80% of the appraised value of the residence and have terms of up to 15 years requiring monthly payments of principal and interest. At June 30, 2017, home equity loans amounted to $13.3 million or 4.1% of single-family loans held for investment, as compared to $9.9 million or 3.0% of single-family loans held for investment at June 30, 2016.

The Bank offers adjustable rate mortgage ("ARM") loans at rates and terms competitive with market conditions. Substantially all of the ARM loans originated by the Bank meet the underwriting standards of the secondary market. The Bank offers several ARM products, which adjust monthly, semi-annually, or annually after an initial fixed period ranging from one month to seven years subject to a limitation on the annual increase of one to two percentage points and an overall limitation of three to six percentage points. The following indexes, plus a margin of 2.00% to 3.25%, are used to calculate the periodic interest rate changes; the London Interbank Offered Rate ("LIBOR"), the FHLB Eleventh District cost of funds ("COFI"), the 12-month average U.S. Treasury ("12 MAT") or the weekly average yield on one year U.S. Treasury securities adjusted to a constant maturity of one year ("CMT"). Loans based on the LIBOR index constitute a majority of the Bank's loans held for investment. The majority of the ARM loans held for investment have three or five-year fixed periods prior to the first adjustment ("3/1 or 5/1 hybrids") and provide for interest and fully amortizing loan payments throughout the term of the loan. Loans of this type have embedded interest rate risk if interest rates should rise during the initial fixed rate period.

The Bank offered interest-only ARM loans in the past, which typically had a fixed interest rate for the first three to five years, followed by a periodic adjustable interest rate, coupled with an interest only payment of three to ten years, followed by a fully amortizing loan payment for the remaining term. As of June 30, 2017 and 2016, interest-only, first trust deed, ARM loans were $17.6 million and $64.6 million, or 5.7% and 7.6%, respectively, of the single-family, first trust deed, loans held for investment. As of June 30, 2017, $17.0 million of interest-only ARM loans begin to fully amortize in the next 12 months and $578,000 begin to fully amortize between one year and five years. The reset of interest rates on ARM loans, primarily interest-only single-family loans, to fully-amortizing status may create a payment shock for some borrowers primarily because the majority of loans are repricing at 2.75% over six-month LIBOR, which may result in a higher interest rate than the borrower's pre-adjustment interest rate.

In fiscal 2006, during the Bank's 50th Anniversary, the Bank offered 50-year single-family ARM loans. At June 30, 2017, the Bank had 21 loans with 50-year terms with $6.9 million outstanding, compared to 25 loans for $8.5 million at June 30, 2016.

As of June 30, 2017, the Bank had $9.0 million in negative amortization mortgage loans (a loan in which accrued interest exceeding the required monthly loan payment may be added to the loan principal), originated prior to 2008, which consisted of $6.2 million of multi-family loans, $2.7 million of single-family loans and $110,000 of commercial real estate loans. This compares to $10.2 million at June 30, 2016, which consisted of $6.9 million of multi-family loans, $3.1 million of single-family loans and $170,000 of commercial real estate loans. Negative amortization involves a greater risk to the Bank because the credit risk exposure increases when the loan incurs negative amortization and the value of the property serving as collateral for the loan does not increase proportionally. Negative amortization is only permitted up to a specific level, typically up to 115% of the original loan amount, and the payment on such loans is subject to increased payments when the level is reached, adjusting periodically as provided in the loan documents and potentially resulting in a higher payment by the borrower. The adjustment of these loans to higher payment requirements can be a substantial factor in higher delinquency levels because the borrower may not be able to make the higher payments. Also, real estate values may decline and credit standards may tighten in concert with the higher payment requirement, making it difficult for borrowers to sell their properties or refinance their mortgages to pay off their mortgage obligation.

Borrower demand for ARM loans versus fixed-rate mortgage loans is a function of the level of interest rates, the expectations of changes in the level of interest rates and the difference between the initial interest rates and fees charged for each type of loan. The relative amount of fixed-rate mortgage loans and ARM loans that can be originated at any time is largely determined by the demand for each product in a given interest rate and competitive environment. Given the recent market environment, the production of ARM loans has been lower as compared to fixed rate mortgages.

The retention of ARM loans, rather than fixed-rate loans, helps to reduce the Bank's exposure to changes in interest rates. There is, however, unquantifiable credit risk resulting from the potential of increased interest charges to be paid by the borrower as a result of increases in interest rates or the expiration of interest-only periods. It is possible that, during periods of rising interest rates, the risk of default on ARM loans may increase as a result of the increase in the required payment from the borrower. Furthermore, the risk of default may increase because ARM loans originated by the Bank occasionally provide, as a marketing incentive, for initial rates of interest below those rates that would apply if the adjustment index plus the applicable margin were initially used for pricing. Because of these characteristics, ARM loans are subject to increased risks of default or delinquency. Additionally, while ARM loans allow the Bank to decrease the sensitivity of its assets as a result of changes in interest rates, the extent of this interest sensitivity is limited by the periodic and lifetime interest rate adjustment limits. Furthermore, because loan indexes may not respond perfectly to changes in market interest rates, upward adjustments on loans may occur more slowly than increases in the Bank's cost of interest-bearing liabilities, especially during periods of rapidly increasing interest rates. Because of these characteristics, the Bank has no assurance that yields on ARM loans will be sufficient to offset increases in the Bank's cost of funds.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") requires lenders to make a reasonable, good faith determination of a borrower's ability to repay any consumer closed-end credit transaction secured by a dwelling and to limit prepayment penalties. Increased risks of legal challenge, private right of action and regulatory enforcement actions result from these rules. The Bank originates an immaterial number of loans that do not meet the definition of a "qualified mortgage" ("QM"). To mitigate the risks involved with non-QM loans, the Bank has implemented systems, processes, procedural and product changes, and maintains its underwriting standards, to ensure that the "ability-to-repay" requirements of the new rules are adequately addressed.

The following table describes certain credit risk characteristics of the Bank's single-family, first trust deed, mortgage loans held for investment as of June 30, 2017:

(Dollars In Thousands)	Outstanding Balance [1]	Weighted-Average FICO[2]	Weighted-Average LTV[3]	Weighted-Average Seasoning[4]
Interest only	$ 17,586	731	76%	9.55 years
Stated income[5]	$ 100,328	730	62%	11.49 years
FICO less than or equal to 660	$ 9,497	644	63%	9.04 years
Over 30-year amortization	$ 10,156	730	64%	11.76 years

(1) The outstanding balance presented on this table may overlap more than one category. Of the outstanding balance, $451,000 of "interest only," $5.2 million of "stated income," $346,000 of "FICO less than or equal to 660," and $220,000 of "over 30-year amortization" balances were non-performing.

(2) The FICO score represents the creditworthiness of a borrower based on the borrower's credit history, as reported by an independent third party. A higher FICO score indicates a greater degree of creditworthiness. Bank regulators have issued guidance stating that a FICO score of 660 and below is indicative of a "subprime" borrower.

(3) LTV is the ratio derived by dividing the current loan balance by the lower of the original appraised value or purchase price of the real estate collateral at the time of loan origination.

(4) Seasoning describes the number of years since the funding date of the loan.

(5) Stated income is defined as a loan to a borrower whose stated income on his/her loan application was not subject to verification during the loan origination process.

The following table summarizes the amortization schedule of the Bank's interest only single-family, first trust deed, mortgage loans held for investment, including the percentage of those which are identified as non-performing or 30 – 89 days delinquent as of June 30, 2017:

(Dollars In Thousands)	Balance	Non-Performing[1]	30 - 89 Days Delinquent[1]
Fully amortize in the next 12 months	$17,008	3%	—%
Fully amortize between 1 year and 5 years	578	—%	—%
Fully amortize after 5 years	—	—%	—%
Total	$17,586	3%	—%

(1) As a percentage of each category.

The following table summarizes the interest rate reset (repricing) schedule of the Bank's stated income single-family, first trust deed, mortgage loans held for investment, including the percentage of those which are identified as non-performing or 30 – 89 days delinquent as of June 30, 2017:

(Dollars In Thousands)	Balance [1]	Non-Performing[1]	30 - 89 Days Delinquent[1]
Interest rate reset in the next 12 months	$99,685	5%	—%
Interest rate reset between 1 year and 5 years	643	12%	—%
Total	$100,328	5%	—%

[1] As a percentage of each category. Also, the loan balances and percentages on this table may overlap with the table describing interest only single-family, first trust deed, mortgage loans held for investment.

A decline in real estate values subsequent to the time of origination of our real estate secured loans could result in higher loan delinquency levels, foreclosures, provisions for loan losses and net charge-offs. Real estate values and real estate markets are beyond the Bank's control and are generally affected by changes in national, regional or local economic conditions and other factors. These factors include fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature, such as earthquakes and other natural disasters particular to California where substantially all of our real estate collateral is located. If real estate values decline from the levels at the time of loan origination, the value of our real estate collateral securing the loans could be significantly reduced. The Bank's ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and it would be more likely to suffer losses on defaulted loans. Additionally, the Bank does not periodically update the LTV ratios on its loans held for investment by obtaining new appraisals or broker price opinions unless a specific loan has demonstrated deterioration or the Bank receives a loan modification request from a borrower. Therefore, it is reasonable to assume that the LTV ratios disclosed in the following table may be understated in comparison to the current LTV ratios as a result of the year of origination, the subsequent general decline in real estate values that may have occurred prior to 2012 to the extent not fully recovered and the specific location of the individual properties. The Bank cannot quantify the current LTV ratios on its loans held for investment or quantify the impact of the decline in real estate values to the original LTV ratios on its loans held for investment by loan type, geography, or other subsets.

The following table provides a detailed breakdown of the Bank's single-family, first trust deed, mortgage loans held for investment by the calendar year of origination and geographic location as of June 30, 2017:

	Calendar Year of Origination									
(Dollars In Thousands)	2009 & Prior	2010	2011	2012	2013	2014	2015	2016	YTD June 30, 2017	Total
Loan balance	$175,283	$118	$968	$3,124	$2,733	$10,529	$15,338	$45,754	$54,612	$308,459
Weighted average LTV[1]	63%	66%	61%	57%	45%	66%	69%	67%	74%	66%
Weighted average age (in years)	11.54	6.62	5.92	4.93	3.99	2.87	2.04	0.97	0.44	7.09
Weighted average FICO[2]	730	700	711	741	755	749	740	744	744	736
Number of loans	578	1	4	15	22	25	22	80	83	830

Geographic breakdown (%):										
Inland Empire	34%	100%	57%	11%	43%	45%	21%	24%	32%	32%
Southern California (other than Inland Empire)	53%	—%	43%	38%	28%	27%	51%	42%	47%	49%
Other California	12%	—%	—%	51%	29%	28%	28%	34%	21%	19%
Other states	1%	—%	—%	—%	—%	—%	—%	—%	—%	—%
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

(1) LTV is the ratio derived by dividing the current loan balance by the lower of the original appraised value or purchase price of the real estate collateral at the time of loan origination.

(2) At time of loan origination.

Multi-Family and Commercial Real Estate Mortgage Loans. At June 30, 2017, multi-family mortgage loans were $480.0 million and commercial real estate loans were $97.6 million, or 52.3% and 10.7%, respectively, of loans held for investment. This compares to multi-family mortgage loans of $415.6 million and commercial real estate loans of $99.5 million, or 48.6% and 11.6%, respectively, of loans held for investment at June 30, 2016. Consistent with its strategy to diversify the composition of loans held for investment, the Bank has made the origination and purchase of multi-family and commercial real estate loans a priority. During fiscal 2017 the Bank originated $99.5 million and purchased $42.2 million of multi-family and commercial real estate loans, all of which were underwritten in accordance with the Bank's origination guidelines. This compares to loan originations of $116.0 million and loan purchases of $43.7 million during fiscal 2016. At June 30, 2017, the Bank had 639 multi-family and 130 commercial real estate loans in loans held for investment.

Multi-family mortgage loans originated by the Bank are predominately adjustable rate loans, including 1/1, 3/1, 5/1 and 7/1 hybrids, with a term to maturity of 10 to 30 years and a 25 to 30 year amortization schedule. Commercial real estate loans originated by the Bank are also predominately adjustable rate loans, including 1/1, 3/1, 5/1 and 7/1 hybrids, with a term to maturity of 10 years and a 25 year amortization schedule. Rates on multi-family and commercial real estate ARM loans generally adjust monthly, quarterly, semi-annually or annually at a specific margin over the respective interest rate index, subject to annual interest rate caps and life-of-loan interest rate caps. At June 30, 2017, $427.7 million, or 89.1%, of the Bank's multi-family loans were secured by five to 36 unit projects. The Bank's commercial real estate loan portfolio generally consists of loans secured by small office buildings, light industrial centers, warehouses and small retail centers. Properties securing multi-family and commercial real estate loans are primarily located in Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Francisco and Alameda counties. The Bank originates multi-family and commercial real estate loans in amounts typically ranging from $350,000 to $6.0 million. At June 30, 2017, the Bank had 66 commercial real estate and multi-family loans with principal balances greater than $1.5 million totaling $158.1 million. The Bank obtains appraisals on all properties that secure multi-family and commercial real estate loans. Underwriting of multi-family and commercial real estate loans includes, among other considerations, a thorough analysis of the cash flows generated by the property to support the debt service and the financial resources, experience and the income level of the borrowers and guarantors.

Multi-family and commercial real estate loans afford the Bank an opportunity to price the loans with higher interest rates than those generally available from single-family mortgage loans. However, loans secured by such properties are generally greater in amount, more difficult to evaluate and monitor and are more susceptible to default as a result of general economic conditions and, therefore, involve a greater degree of risk than single-family residential mortgage loans. Because payments on loans secured by multi-family and commercial real estate properties are often dependent on the successful operation and management of the properties, repayment of such loans may be impacted by adverse conditions in the real estate market or the economy. During fiscal 2017, the Bank had net recoveries of $18,000 in non-performing multi-family and commercial real estate loans, as compared to net recoveries of $1.4 million during fiscal 2016. At June 30, 2017, total non-performing multi-family and commercial real estate loans were $201,000, net of allowances and charge-offs, and none were past due 30 to 89 days. Non-performing loans and/or delinquent loans may increase if there is a general decline in California real estate markets and in the event poor general economic conditions prevail.

The following table summarizes the interest rate reset or maturity schedule of the Bank's multi-family loans held for investment, including the percentage of those which are identified as non-performing, 30 – 89 days delinquent or not fully amortizing as of June 30, 2017:

(Dollars In Thousands)	Balance	Non-Performing[1]	30 - 89 Days Delinquent[1]	Percentage Not Fully Amortizing[1]
Interest rate reset or mature in the next 12 months	$94,653	—%	—%	8%

Interest rate reset or mature between 1 year and 5 years	360,412	—%	—%	5%
Interest rate reset or mature after 5 years	24,894	—%	—%	3%
Total	$479,959	—%	—%	5%

(1) As a percentage of each category.

The following table summarizes the interest rate reset or maturity schedule of the Bank's commercial real estate loans held for investment, including the percentage of those which are identified as non-performing, 30 – 89 days delinquent or not fully amortizing as of June 30, 2017:

(Dollars In Thousands)	Balance	Non-Performing[1]	30 - 89 Days Delinquent[1]	Percentage Not Fully Amortizing[1]
Interest rate reset or mature in the next 12 months	$22,787	1%	—%	69%
Interest rate reset or mature between 1 year and 5 years	73,175	—%	—%	88%
Interest rate reset or mature after 5 years	1,600	—%	—%	100%
Total	$97,562	—%	—%	84%

[1] As a percentage of each category.

The following table provides a detailed breakdown of the Bank's multi-family mortgage loans held for investment by the calendar year of origination and geographic location as of June 30, 2017:

	Calendar Year of Origination									
(Dollars In Thousands)	2009 & Prior	2010	2011	2012	2013	2014	2015	2016	YTD June 30, 2017	Total
Loan balance	$24,669	$ —	$6,827	$21,490	$70,485	$81,348	$85,904	$133,951	$55,285	$479,959
Weighted average LTV[1]	42%	—%	53%	52%	54%	54%	54%	49%	54%	52%
Weighted average debt coverage ratio[2]	1.58x	—	1.57x	1.75x	1.68x	1.66x	1.62x	1.66x	1.62x	1.65x
Weighted average age (in years)	12.11	—	5.74	4.82	3.91	2.96	1.99	0.99	0.20	2.65
Weighted average FICO[2]	695	—	768	722	764	764	757	756	751	753
Number of loans	56	—	9	24	95	99	125	153	78	639
Geographic breakdown (%):										
Inland Empire	32%	—%	7%	16%	30%	12%	17%	9%	19%	17%
Southern California (other than Inland Empire)	48%	—%	78%	50%	49%	54%	64%	65%	65%	59%
	9%	—%	15%	34%	21%	34%	19%	26%	16%	23%

Other																			
California																			
Other states	11	%	—%	—	%	—	%	—	%	—	%	—	%	—	%	—	%	1	%
	100	%	—%	100	%	100	%	100	%	100	%	100	%	100	%	100	%	100	%

(1) LTV is the ratio derived by dividing the current loan balance by the lower of the original appraised value or purchase price of the real estate collateral at the time of loan origination.

(2) At time of loan origination.

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The following table provides a detailed breakdown of the Bank's commercial real estate mortgage loans held for investment by the calendar year of origination and geographic location as of June 30, 2017:

	Calendar Year of Origination									
(Dollars In Thousands)	2009 & Prior	2010	2011	2012	2013	2014	2015	2016	YTD June 30, 2017	Total[3][4]
Loan balance	$1,506	$342	$ —	$12,879	$13,288	$22,441	$22,180	$17,815	$7,111	$97,562
Weighted average LTV[1]	27 %	54 %	— %	47 %	46 %	44 %	42 %	51 %	39 %	45 %
Weighted average debt coverage ratio [2]	1.87x	1.25x	—	1.89x	1.66x	1.94x	1.79x	1.58x	2.11x	1.80x
Weighted average age (in years)	15.48	7.10	—	4.74	3.93	2.90	1.96	1.10	0.25	2.76
Weighted average FICO[2]	729	703	—	752	759	756	755	759	745	755
Number of loans	7	2	—	11	19	28	28	23	12	130
Geographic breakdown (%):										
Inland Empire	77 %	50 %	— %	74 %	23 %	36 %	28 %	11 %	16 %	32 %
Southern California (other than Inland Empire)	23 %	50 %	— %	26 %	47 %	45 %	32 %	62 %	54 %	43 %
Other California	— %	— %	— %	— %	30 %	19 %	40 %	27 %	30 %	25 %
Other states	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
	100 %	100 %	— %	100 %	100 %	100 %	100 %	100 %	100 %	100 %

(1) LTV is the ratio derived by dividing the current loan balance by the lower of the original appraised value or purchase price of the real estate collateral at the time of loan origination.

(2) At time of loan origination.

(3) Comprised of the following: $41.9 million in mixed use; $14.5 million in retail; $10.4 million in mobile home park; $10.1 million in office; $6.0 million in warehouse; $5.0 million in medical/dental office; $3.7 million in mini-storage; $2.6 million in restaurant/fast food; $1.8 million in light industrial/manufacturing; and $1.6 million in automotive - non gasoline.

(4) Consists of $91.8 million or 94.1% in investment properties and $5.8 million or 5.9% in owner occupied properties.

Construction Mortgage Loans. The Bank originates from time to time two types of construction loans: short-term construction loans and construction/permanent loans. During fiscal 2017 and 2016, the Bank originated a total of $12.1 million and $14.7 million of construction loans, respectively. As of June 30, 2017 and 2016, the Bank had $16.0 million and $14.7 million of construction loans, respectively, of which $9.0 million and $11.3 million, respectively, was undisbursed.

The composition of the Bank's construction loan portfolio is as follows:

At June 30,

	2017		2016	
	Amount	Percent	Amount	Percent
(Dollars In Thousands)				
Short-term construction	$16,009	100.00 %	$14,175	96.74 %
Construction/permanent	—	— %	478	3.26 %
	$16,009	100.00 %	$14,653	100.00 %

Short-term construction loans include three types of loans: custom construction, tract construction, and speculative construction. Additionally, from time to time, the Bank makes short-term (18 to 36 month) lot loans to facilitate land acquisition prior to the start of construction. For additional information on lot loans, see "Other Mortgage Loans" below. The Bank provides construction financing for single-family, multi-family and commercial real estate properties. Custom construction loans are made to individuals who, at the time of application, have a contract executed with a builder to construct their residence. Custom construction loans are generally originated for a term of 12 months, with fixed interest rates at the prime lending rate plus a margin and with loan-to-value ratios of up to 75% of the appraised value of the completed property. The owner secures long-term permanent financing at the completion of construction.

The Bank makes tract construction loans to subdivision builders. These subdivisions are usually financed and built in phases. A thorough analysis of market trends and demand within the area are reviewed for feasibility. Tract construction may include the building and financing of model homes under a separate loan. The terms for tract construction loans are generally 12 months with interest rates fixed at a margin above the prime lending rate. At June 30, 2017, there were no tract construction loans.

Speculative construction loans are made to home builders and are termed “speculative” because the home builder does not have, at the time of loan origination, a signed sale contract with a home buyer who has a commitment for permanent financing with either the Bank or another lender for the finished home. The home buyer may be identified during or after the construction period. The builder may be required to debt service the speculative construction loan for a significant period of time after the completion of construction until the homebuyer is identified. At June 30, 2017, there were six single-family speculative construction loans of $5.4 million with $2.6 million of undisbursed funds.

Construction/permanent loans automatically roll from the construction to the permanent phase. The construction phase of a construction/permanent loan generally lasts nine to 12 months and the interest rate charged is generally fixed at a margin above prime rate and with a loan-to-value ratio of up to 75% of the appraised value of the completed property. At June 30, 2017, there were no construction/permanent loans.

Construction loans under $1.0 million are approved by Bank personnel specifically designated to approve construction loans. The Bank’s Loan Committee, comprised of the Chief Executive Officer, Chief Lending Officer, Chief Financial Officer and Vice President - Loan Administration, approves all construction loans over $1.0 million. Prior to approval of any construction loan, an independent fee appraiser inspects the site and the Bank reviews the existing or proposed improvements, identifies the market for the proposed project, and analyzes the pro-forma data and assumptions on the project. In the case of a tract or speculative construction loan, the Bank reviews the experience and expertise of the builder. The Bank obtains credit reports, financial statements and tax returns on the borrowers and guarantors, an independent appraisal of the project, and any other expert report necessary to evaluate the proposed project. In the event of cost overruns, the Bank requires the borrower to deposit their own funds into a loan-in-process account, which the Bank disburses consistent with the completion of the subject property pursuant to a revised disbursement schedule.

The construction loan documents require that construction loan proceeds be disbursed in increments as construction progresses. Disbursements are based on periodic on-site inspections by independent fee inspectors and Bank personnel. At inception, the Bank also requires borrowers to deposit funds into the loan-in-process account covering the difference between the actual cost of construction and the loan amount. The Bank regularly monitors the construction loan portfolio, economic conditions and housing inventory. The Bank’s property inspectors perform periodic inspections. The Bank believes that the internal monitoring system helps reduce many of the risks inherent in its construction loans.

Construction loans afford the Bank the opportunity to achieve higher interest rates and fees with shorter terms to maturity than its single-family mortgage loans. Construction loans, however, are generally considered to involve a higher degree of risk than single-family mortgage loans because of the inherent difficulty in estimating both a property’s value at completion of the project and the cost of the project. The nature of these loans is such that they are generally more difficult to evaluate and monitor. If the estimate of construction costs proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the project. If the estimate of value upon completion proves to be inaccurate, the Bank may be confronted with a project whose value is insufficient to assure full repayment. Projects may also be jeopardized by disagreements between borrowers and builders and by the failure of builders to pay subcontractors. Loans to builders to construct homes for which no purchaser has been identified carry additional risk because the payoff for the loan depends on the builder's ability to sell the property prior to the time that the construction loan matures. The Bank has sought to address these risks by adhering to strict underwriting policies, disbursement procedures and monitoring practices. In addition, because the Bank's construction lending is in its primary market area, changes in the local or regional economy and real estate market could adversely affect the Bank's construction loans held for investment.

Other Mortgage Loans. There were no other mortgage loans at June 30, 2017 as compared to $332,000 at June 30, 2016. The Bank makes land loans from time to time, primarily lot loans, to accommodate borrowers who intend to build on the land within a specified period of time.

Participation Loan Purchases and Sales. In an effort to expand production and diversify risk, the Bank purchases loans and loan participations, with collateral primarily in California, which allows for greater geographic distribution outside of the Bank's primary lending areas. The Bank generally purchases between 50% and 100% of the total loan amount. When the Bank purchases a participation loan, the lead lender will usually retain a servicing fee, thereby decreasing the loan yield. This servicing fee approximates the expense the Bank would incur if the Bank were to service the loan. All properties serving as collateral for loan participations are inspected by an employee of the Bank or a third party inspection service prior to being approved by the Loan Committee and the Bank relies upon the same underwriting criteria required for those loans originated by the Bank. The Bank purchased $61.7 million of loans to be held for investment (primarily multi-family loans) in fiscal 2017, compared to $45.9 million of purchased loans to be held for investment (primarily multi-family loans) in fiscal 2016. As of June 30, 2017, total loans serviced by other financial institutions were $23.3 million, as compared to $807,000 at June 30, 2016. As of June 30, 2017, all loans serviced by others were performing according to their contractual payment terms.

The Bank also sells participating interests in loans when it has been determined that it is beneficial to diversify the Bank’s risk. Participation sales enable the Bank to maintain acceptable loan concentrations and comply with the Bank’s loans to one borrower policy. Generally, selling a participating interest in a loan increases the yield to the Bank on the portion of the loan that is retained. In fiscal 2017, the Bank sold one construction loan participation interest of $2.57 million, where $206,000 was disbursed in fiscal 2017 and none were sold in fiscal 2016.

Commercial Business Loans. The Bank has a Business Banking Department that primarily serves businesses located within the Inland Empire. Commercial business loans allow the Bank to diversify its lending and increase the average loan yield. As of June 30, 2017, commercial business loans were $576,000, or 0.1% of loans held for investment, a decrease of $60,000, or 9%, during fiscal 2017 from $636,000, or 0.1% of loans held for investment at June 30, 2016. These loans represent secured and unsecured lines of credit and term loans secured by business assets.

Commercial business loans are generally made to customers who are well known to the Bank and are generally secured by accounts receivable, inventory, business equipment and/or other assets. The Bank’s commercial business loans may be structured as term loans or as lines of credit. Lines of credit are made at variable rates of interest equal to a negotiated margin above the prime rate and term loans are at a fixed or variable rate. The Bank may also require personal guarantees from financially capable parties associated with the business based on a review of personal financial statements. Commercial business term loans are generally made to finance the purchase of assets and have maturities of five years or less. Commercial lines of credit are typically made for the purpose of providing working capital and are usually approved with a term of one year or less.

Commercial business loans involve greater risk than residential mortgage loans and involve risks that are different from those associated with residential and commercial real estate loans. Real estate loans are generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral value and liquidation of the underlying real estate collateral is viewed as the primary source of repayment in the event of borrower default. Although commercial business loans are often collateralized by equipment, inventory, accounts receivable or other business assets including real estate, the liquidation of collateral in the event of a borrower default is often an insufficient source of repayment because accounts receivable may not be collectible and inventories and equipment may be obsolete or of limited use. Accordingly, the repayment of a commercial business loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is secondary and oftentimes an insufficient source of repayment. At June 30, 2017, the Bank had $65,000 of non-performing commercial business loans, net of allowances and charge-offs, down 14% from $76,000 at June 30, 2016. During fiscal 2017, the Bank had a $75,000 net recovery on commercial business loans, as compared to an $85,000 net recovery during fiscal 2016.

Consumer Loans. At June 30, 2017, the Bank’s consumer loans were $129,000, or less than 0.1% of the Bank’s loans held for investment, a decrease of $74,000, or 36%, from $203,000, or less than 0.1% of the Bank's loans held for investment at June 30, 2016. The Bank offers open-ended lines of credit on either a secured or unsecured basis. The Bank offers secured savings lines of credit which have an interest rate that is four percentage points above the COFI, which adjusts monthly. Secured savings lines of credit at June 30, 2017 and 2016 were $18,000 and $77,000, respectively, and were included in consumer loans.

Consumer loans potentially have a greater risk than residential mortgage loans, particularly in the case of loans that are unsecured. Consumer loan collections are dependent on the borrower's ongoing financial stability, and thus are more likely to be adversely affected by job loss, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans. The Bank had no consumer loans at June 30, 2017 as compared to one consumer loan on a non-performing basis that was fully reserved at June 30, 2016. During fiscal 2017, the Bank had $10,000 of net recoveries on consumer loans, as compared to net charge-offs of $1,000 during fiscal 2016.

Mortgage Banking Activities

General. Mortgage banking involves the origination and sale of single-family mortgages (first and second trust deeds), including equity lines of credit, by PBM for the purpose of generating gains on sale of loans and fee income on the origination of loans. PBM also originates single-family loans to be held for investment. Due to the recent economic and real estate conditions and consistent with the Bank's short-term strategy, PBM has been primarily originating loans and, to a lesser extent, purchasing loans for sale to investors. Given current pricing in the mortgage markets, the Bank sells the majority of its loans on a servicing-released basis. Generally, the level of loan sale activity and, therefore, its contribution to the Bank's profitability depends on maintaining a sufficient volume of loan originations. Changes in the level of interest rates and the California economy affect the number of loans originated by PBM and, thus, the amount of loan sales, gain on sale of loans, net interest income and loan fees earned. The origination and purchase of loans, primarily fixed rate loans, was $1.99 billion, $2.00 billion and $2.52 billion during fiscal 2017, 2016 and 2015, respectively, including $76.5 million, $36.6 million and $40.2 million, respectively, of loans originated and purchased for investment. The total loan origination volume in fiscal 2017 was slightly lower than fiscal 2016, primarily as a result of a decrease in refinance activity, partly offset by an increase in loans originated for home purchases.

Loan Solicitation and Processing. The Bank's mortgage banking operations consist of both wholesale and retail loan originations. The Bank's wholesale loan production utilizes a network of approximately 500 loan brokers approved by the Bank who originate and submit loans at a markup over the Bank's daily published price. Accepted loans are funded and sold by the Bank. Wholesale loans originated and purchased for sale in fiscal 2017, 2016 and 2015 were $915.9 million, $940.6 million and $1.30 billion, respectively. PBM has two regional wholesale lending offices: one in Pleasanton and one in Rancho Cucamonga, California, housing wholesale originators, underwriters and processors.

PBM's retail loan production operations utilize loan officers, underwriters and processors. PBM's loan officers generate retail loan originations primarily through referrals from realtors, builders, employees and customers. As of June 30, 2017, PBM operated nine stand-alone retail loan production offices in Atascadero, Brea, Escondido, Glendora, Rancho Cucamonga, Riverside (3) and Roseville, California. Generally, the cost of retail operations exceeds the cost of wholesale operations as a result of the additional employees needed for retail operations. The revenue per mortgage for retail originations is, however, generally higher since the origination fees are retained by the Bank instead of the wholesale loan broker. Retail loans originated and purchased for sale in fiscal 2017, 2016 and 2015 were $997.1 million, $1.02 billion and $1.18 billion, respectively.

The Bank requires evidence of marketable title, lien position, loan-to-value, title insurance and appraisals on all properties. The Bank also requires evidence of fire and casualty insurance on the value of improvements. As stipulated by federal regulations, the Bank requires flood insurance to protect the property securing its interest if such property is located in a designated flood area.

Loan Commitments and Rate Locks. The Bank issues commitments for residential mortgage loans conditioned upon the occurrence of certain events. Such commitments are made with specified terms and conditions. Interest rate locks are generally offered to prospective borrowers for up to a 60-day period. The borrower may lock in the rate at any time from application until the time they wish to close the loan. Occasionally, borrowers obtaining financing in new home developments are offered rate locks for up to 120 days from application. The Bank's outstanding commitments to originate loans to be held for sale at June 30, 2017 and 2016 were $92.7 million and $181.8 million, respectively. For additional information, see Note 15 of the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K. When the Bank issues a loan commitment to a borrower, there is a risk to the Bank that a rise in interest rates will reduce the value of the mortgage before it can be closed and sold. To control the interest rate risk caused by mortgage banking activities, the Bank uses loan sale commitments and over-the-counter put and call option contracts related to mortgage-backed securities. If the Bank is unable to reasonably predict the amount of loan commitments which may not fund (fallout), the Bank may enter into “best-efforts” loan sale commitments. For additional information, see “Derivative Activities” below.

Loan Origination and Other Fees. The Bank may receive origination points and loan fees. Origination points are a percentage of the principal amount of the mortgage loan, which is charged to a borrower for funding a loan. The amount of points charged by the Bank ranges from 0% to 2.5%. Current accounting standards require points and fees received for originating loans held for investment (net of certain loan origination costs) to be deferred and amortized into interest income over the contractual life of the loan. Origination costs and fees for loans held for sale and loans held for investment recorded at fair value are recognized in non-interest income under gain (loss) on sale of loans, net, as incurred and not deferred. At June 30, 2017 and 2016, the Bank had $5.5 million and $4.4 million of unamortized deferred loan origination costs (net) in loans held for investment, respectively.

Loan Originations, Sales and Purchases.   The Bank’s mortgage originations include loans insured by the FHA and VA as well as conventional loans. Except for loans originated as held for investment, loans originated through mortgage banking activities are intended for eventual sale into the secondary market. As such, these loans must meet the origination and underwriting criteria established by secondary market investors. The Bank sells a large percentage of the mortgage loans that it originates as whole loans to investors. The Bank also sells conforming whole loans to Fannie Mae and Freddie Mac. For additional information, see "Derivative Activities" on the following page.

The following table shows the Bank's loan originations, purchases, sales and principal repayments during the periods indicated:

(In Thousands)	Year Ended June 30, 2017	2016	2015
Loans originated and purchased for sale:			
Retail originations	$997,142	$1,022,296	$1,175,413
Wholesale originations	915,896	940,573	1,305,302
Total loans originated and purchased for sale[1]	1,913,038	1,962,869	2,480,715
Loans sold:			
Servicing released	(1,935,349)	(1,948,423)	(2,392,251)
Servicing retained	(38,250)	(45,798)	(17,663)
Total loans sold[2]	(1,973,599)	(1,994,221)	(2,409,914)
Loans originated for investment:			
Mortgage loans:			
Single-family	80,280	39,177	41,317
Multi-family	87,511	91,988	83,016
Commercial real estate	11,989	24,061	26,948
Construction	12,123	14,654	6,825
Other	—	332	—
Commercial business loans	45	—	372
Consumer loans	1	1	1
Total loans originated for investment[3]	191,949	170,213	158,479
Loans purchased for investment:			
Mortgage loans:			
Single-family	19,516	2,233	303
Multi-family	42,188	41,741	16,302
Commercial real estate	—	1,950	—
Total loans purchased for investment[3]	61,704	45,924	16,605
Loan principal repayments	(196,993)	(187,017)	(134,175)
Real estate acquired in the settlement of loans	(1,845)	(6,347)	(3,044)
Decrease in other items, net[4]	(2,267)	(890)	(741)
Net (decrease) increase in loans held for investment and loans held for sale at fair value	$(8,013)	$(9,469)	$107,925

(1) Includes PBM loans originated and purchased for sale during fiscal 2017, 2016 and 2015 totaling $1.91 billion, $1.96 billion and $2.48 billion, respectively.

(2) Includes PBM loans sold during fiscal 2017, 2016 and 2015 totaling $1.97 billion, $1.99 billion and $2.41 billion, respectively.

(3) Includes PBM loans originated and purchased for investment during fiscal 2017, 2016 and 2015 totaling $76.5 million, $36.6 million, and $40.2 million, respectively.

(4) Includes net changes in undisbursed loan funds, deferred loan fees or costs, allowance for loan losses, fair value of loans held for investment, fair value of loans held for sale, advance payments of escrows and repurchases.

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Mortgage loans sold to investors generally are sold without recourse other than standard representations and warranties. Generally, mortgage loans sold to Fannie Mae and Freddie Mac are sold on a non-recourse basis and foreclosure losses are generally the responsibility of the purchaser and not the Bank, except in the case of FHA and VA loans used to form Government National Mortgage Association pools, which are subject to limitations on the FHA's and VA's loan guarantees.

Loans previously sold by the Bank to the FHLB – San Francisco under its Mortgage Partnership Finance ("MPF") program have a recourse provision. The FHLB – San Francisco absorbs the first four basis points of loss, and a credit scoring process is used to calculate the credit enhancement or recourse amount to the Bank once the first four basis points is exhausted. All losses above this calculated recourse amount are the responsibility of the FHLB – San Francisco in addition to the first four basis points of loss. The FHLB – San Francisco pays the Bank a credit enhancement fee on a monthly basis to compensate the Bank for accepting the recourse obligation. As of June 30, 2017 and 2016, the Bank serviced $15.1 million and $20.4 million, respectively, of loans under this program and has established a recourse liability of $105,000 and $242,000, respectively. In fiscal 2017, 2016 and 2015, a net (recovery) loss of $0, $(15,000) and $32,000, respectively, was realized under this program.

Occasionally, the Bank is required to repurchase loans sold to Fannie Mae, Freddie Mac or other investors if it is determined that such loans do not meet the credit requirements of the investor, or if one of the parties involved in the loan misrepresented pertinent facts, committed fraud, or if such loans were 30 days past due within 120 days of the loan funding date. During fiscal 2017, 2016 and 2015, the Bank repurchased $1.7 million, $1.7 million and $1.6 million of single-family mortgage loans, respectively. However, additional repurchase requests were settled for an aggregate of $11,000, $470,000 and $22,000 in fiscal 2017, 2016 and 2015, respectively, that did not result in the repurchase of the loan itself. In fiscal 2016, the Bank entered into a global settlement with one of the Bank's legacy loan investors, which eliminated all past, current and future repurchase claims from this particular investor, in exchange for a one-time $400,000 payment.

Derivative Activities. Mortgage banking involves the risk that a rise in interest rates will reduce the value of a mortgage before it can be sold. This type of risk occurs when the Bank commits to an interest rate lock on a borrower's application during the origination process and interest rates increase before the loan can be sold. Such interest rate risk also arises when mortgages are placed in the warehouse (i.e., held for sale) without locking in an interest rate for their eventual sale to the secondary market. The Bank seeks to control or limit the interest rate risk caused by mortgage banking activities. The two methods used by the Bank to help reduce interest rate risk from its mortgage banking activities are loan sale commitments and the purchase of over-the-counter put and call option contracts related to mortgage-backed securities. At various times, depending on loan origination volume and management's assessment of projected loans which may not fund, the Bank may reduce or increase its derivative positions. If the Bank is unable to reasonably predict the amount of loan commitments which may not fund, the Bank may enter into "best-efforts" loan sale commitments rather than "mandatory" loan sale commitments. Mandatory loan sale commitments may include whole loan and/or To-Be-Announced MBS ("TBA MBS") loan sale commitments.

Under mandatory loan sale commitments, usually with Fannie Mae, Freddie Mac or other investors, the Bank is obligated to sell certain dollar amounts of mortgage loans that meet specific underwriting and legal criteria before the expiration of the commitment period. These terms include the maturity of the individual loans, the yield to the purchaser, the servicing spread to the Bank (if servicing is retained) and the maximum principal amount of the individual loans. The mandatory loan sale commitments protect loan sale prices from interest rate fluctuations that may occur from the time the interest rate of the loan is established to the time of its sale. The amount of and delivery date of the loan sale commitments are based upon management's estimates as to the volume of loans that will close and the length of the origination commitments. The mandatory loan sale commitments do not provide complete interest-rate protection, however, because of the possibility of loans which may not fund during the origination process. Differences between the estimated volume and timing of loan originations and the actual volume and timing of loan originations can expose the Bank to significant losses. If the Bank is unable to deliver the mortgage loans during the appropriate delivery period, the Bank may be required to pay a non-delivery fee or repurchase the commitments at current market prices. Similarly, if the Bank has too many loans to deliver, the Bank must execute additional loan sale commitments at current market prices, which may be unfavorable to the Bank. Generally, the Bank seeks to maintain loan sale commitments equal to the funded loans held for sale at fair value, plus those applications that the Bank has rate locked and/or committed to close, adjusted by the projected fallout. The ultimate accuracy of such projections will directly bear upon the amount of interest rate risk incurred by the Bank.

The activities described above are managed continually as markets change; however, there can be no assurance that the Bank will be successful in its effort to eliminate the risk of interest rate fluctuations between the time origination commitments are issued and the ultimate sale of the loan. The Bank completes a daily analysis, which reports the Bank’s interest rate risk position with respect to its loan origination and sale activities. The Bank’s interest rate risk management activities are conducted in accordance with a written policy that has been approved by the Bank’s Board of Directors which covers objectives, functions, instruments to be used, monitoring and internal controls. The Bank does not enter into option positions for trading or speculative purposes and does not enter into option contracts that could generate a financial obligation beyond the initial premium paid. The Bank does not apply hedge accounting to its derivative financial instruments; therefore, all changes in fair value are recorded in earnings.

At June 30, 2017, the Bank had call and put option contracts outstanding with a notional value of $2.0 million and $5.0 million, respectively. This compares to put option contracts outstanding with a notional value of $5.0 million and no call option contracts outstanding at June 30, 2016. At June 30, 2017 and 2016, the Bank had outstanding mandatory loan sale commitments of $21.8 million and $4.7 million, respectively; outstanding TBA MBS trades of $158.0 million and $298.0 million, respectively; outstanding best-efforts loan sale commitments of $17.2 million and $29.6 million, respectively; and commitments to originate loans to be held for sale of $92.7 million and $181.8 million, respectively. For additional information, see Note 15 of the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K. Additionally, as of June 30, 2017 and 2016, the Bank's loans held for sale at fair value were $116.5 million and $189.5 million, respectively, which were also covered by the loan sale commitments described above. For fiscal 2017 and 2016, the Bank had a net loss of $3.4 million and a net gain of $742,000, respectively, attributable to the underlying derivative financial instruments used to mitigate the interest rate risk of its mortgage banking activities and the fair-value adjustment on loans held for sale.

Loan Servicing

The Bank receives fees from a variety of investors in return for performing the traditional services of collecting individual loan payments on loans sold by the Bank to such investors. At June 30, 2017, the Bank was servicing $119.3 million of loans for others, an increase from $105.5 million at June 30, 2016. The increase was primarily attributable to loans sold with servicing retained during fiscal 2017, partly offset by loan prepayments. Loan servicing includes processing payments, accounting for loan funds and collecting and paying real estate taxes, hazard insurance and other loan-related items such as private mortgage insurance. After the Bank receives the gross mortgage payment from individual borrowers, it remits to the investor a predetermined net amount based on the loan sale agreement for that mortgage.

Servicing assets are amortized in proportion to and over the period of the estimated net servicing income and are carried at the lower of cost or fair value. The fair value of servicing assets is determined by calculating the present value of the estimated net future cash flows consistent with contractually specified servicing fees. The Bank periodically evaluates servicing assets for impairment, which is measured as the excess of cost over fair value. This review is performed on a disaggregated basis, based on loan type and interest rate. Generally, loan servicing becomes more valuable when interest rates rise (as prepayments typically decrease) and less valuable when interest rates decline (as prepayments typically increase). In estimating fair values at June 30, 2017 and 2016, the Bank used a weighted average Constant Prepayment Rate ("CPR") of 17.02% and 19.68%, respectively, and a weighted-average discount rate of 9.11% and 9.07%, respectively. The required impairment reserve against servicing assets at June 30, 2017 and 2016 was $158,000 and $168,000, respectively. In aggregate, servicing assets had a carrying value of $739,000 and a fair value of $811,000 at June 30, 2017, compared to a carrying value of $627,000 and a fair value of $627,000 at June 30, 2016.

Rights to future income from serviced loans that exceed contractually specified servicing fees are recorded as interest-only strips. Interest-only strips are carried at fair value, utilizing the same assumptions used to calculate the value of the underlying servicing assets, with any unrealized gain or loss, net of tax, recorded as a component of accumulated other comprehensive income (loss). Interest-only strips had a fair value of $31,000, gross unrealized gains of $31,000 and no amortized cost at June 30, 2017, compared to a fair value of $47,000, gross unrealized gains of $47,000 and no amortized cost at June 30, 2016.

Delinquencies and Classified Assets

Delinquent Loans. When a mortgage loan borrower fails to make a required payment when due, the Bank initiates collection procedures. In most cases, delinquencies are cured promptly; however, if the loan remains delinquent on the 120th day for single-family loans or the 90th day for other loans, or sooner if the borrower is chronically delinquent, and after all reasonable means of obtaining the payment have been exhausted, foreclosure proceedings, according to the terms of the security instrument and applicable law, are initiated. Interest income is reduced by the full amount of accrued and uncollected interest on such loans.

The following tables identify the Corporation's total recorded investment in non-performing loans by type at the dates and for the periods indicated. Generally, a loan is placed on non-accrual status when it becomes 90 days past due as to principal or interest or if the loan is deemed impaired, after considering economic and business conditions and collection efforts, where the borrower's financial condition is such that collection of the contractual principal or interest on the loan is doubtful. In addition, interest income is not recognized on any loan where management has determined that collection is not reasonably assured. A non-performing loan may be restored to accrual status when delinquent principal and interest payments are brought current and future monthly principal and interest payments are expected to be collected on a timely basis. Loans with a related allowance reserve have been individually evaluated for impairment using either a discounted cash flow analysis or, for collateral dependent loans, current appraised value less the costs to sell to establish realizable value. These analysis may identify a specific impairment amount needed or may conclude that no reserve is needed. Loans that are not individually evaluated for impairment are included in pools of homogeneous loans for evaluation of related allowance reserves.

	At or For the Year Ended June 30, 2017						
(In Thousands)	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance[1]	Net Recorded Investment	Average Recorded Investment	Interest Income Recognized
Mortgage loans:							
Single-family:							
With a related allowance	$1,821	$ —	$ 1,821	$ (325)	$ 1,496	$ 1,702	$ 82
Without a related allowance[2]	7,119	(886)	6,233	—	6,233	7,726	249
Total single-family	8,940	(886)	8,054	(325)	7,729	9,428	331
Multi-family:							
With a related allowance	—	—	—	—	—	140	21
Without a related allowance[2]	—	—	—	—	—	312	29
Total multi-family	—	—	—	—	—	452	50
Commercial real estate:							
Without a related allowance[2]	201	—	201	—	201	84	2
Total commercial real estate	201	—	201	—	201	84	2
Commercial business loans:							
With a related allowance	80	—	80	(15)	65	87	6
Total commercial business loans	80	—	80	(15)	65	87	6
Total non-performing loans	$9,221	$ (886)	$ 8,335	$ (340)	$ 7,995	$ 10,051	$ 389

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

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

	At or For the Year Ended June 30, 2016						
(In Thousands)	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance(1)	Net Recorded Investment	Average Recorded Investment	Interest Income Recognized
Mortgage loans:							
Single-family:							
With a related allowance	$3,328	$ —	$ 3,328	$ (773)	$ 2,555	$ 2,514	$ 85
Without a related allowance(2)	8,339	(1,370)	6,969	—	6,969	8,344	63
Total single-family	11,667	(1,370)	10,297	(773)	9,524	10,858	148
Multi-family:							
With a related allowance	468	—	468	(141)	327	196	15
Without a related allowance(2)	400	(18)	382	—	382	1,804	568
Total multi-family	868	(18)	850	(141)	709	2,000	583
Commercial real estate:							
Without a related allowance(2)	—	—	—	—	—	589	28
Total commercial real estate	—	—	—	—	—	589	28
Commercial business loans:							
With a related allowance	96	—	96	(20)	76	101	7
Total commercial business loans	96	—	96	(20)	76	101	7
Consumer loans:							
Without a related allowance(2)	13	(13)	—	—	—	—	—
Total consumer loans	13	(13)	—	—	—	—	—
Total non-performing loans	$12,644	$ (1,401)	$ 11,243	$ (934)	$ 10,309	$ 13,548	$ 766

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

Restructured Loans. A troubled debt restructuring (“restructured loan”) is a loan which the Bank, for reasons related to a borrower’s financial difficulties, grants a concession to the borrower that the Bank would not otherwise consider.

The loan terms which have been modified or restructured due to a borrower’s financial difficulty, include but are not limited to:
a) A reduction in the stated interest rate.
b) An extension of the maturity at an interest rate below market.
c) A reduction in the accrued interest.
d) Extensions, deferrals, renewals and rewrites.

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 Bank. The Bank 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 sets forth delinquencies in the Bank's loans held for investment as of the dates indicated, gross of collectively and individually evaluated allowances, if any:

	At June 30,											
	2017				2016				2015			
	30 – 89 Days		Non-performing		30 - 89 Days		Non-performing		30 - 89 Days		Non-performing	
(Dollars In Thousands)	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans
Mortgage loans:												
Single-family	3	$ 1,035	27	$ 8,016	4	$ 1,644	35	$ 10,258	3	$ 1,335	34	$ 10,542
Multi-family	—	—	—	—	—	—	2	850	—	—	4	2,246
Commercial real estate	—	—	1	201	—	—	—	—	—	—	5	1,699
Commercial business loans	—	—	1	80	—	—	1	96	—	—	1	109
Consumer loans	—	—	—	—	1	—	1	—	1	—	—	—
Total	3	$ 1,035	29	$ 8,297	5	$ 1,644	39	$ 11,204	4	$ 1,335	44	$ 14,596

The following table sets forth information with respect to the Bank's non-performing assets and restructured loans, net of allowance for loan losses and fair value adjustments, at the dates indicated:

(Dollars In Thousands)	At June 30, 2017	2016	2015	2014	2013
Loans on non-performing status (excluding restructured loans):					
Mortgage loans:					
Single-family	$4,668	$6,292	$7,010	$7,442	$8,129
Multi-family	—	709	653	1,333	1,236
Commercial real estate	201	—	680	1,552	3,218
Commercial business loans	—	—	—	—	7
Total	4,869	7,001	8,343	10,327	12,590
Accruing loans past due 90 days or more	—	—	—	—	—
Restructured loans on non-performing status:					
Mortgage loans:					
Single-family	3,061	3,232	2,902	2,957	5,094
Multi-family	—	—	1,593	1,760	2,521
Commercial real estate	—	—	1,019	800	1,354
Commercial business loans	65	76	89	92	123
Total	3,126	3,308	5,603	5,609	9,092
Total non-performing loans	7,995	10,309	13,946	15,936	21,682
Real estate owned, net	1,615	2,706	2,398	2,467	2,296
Total non-performing assets	$9,610	$13,015	$16,344	$18,403	$23,978
Non-performing loans as a percentage of loans held for investment, net	0.88 %	1.23 %	1.71 %	2.06 %	2.90 %
Non-performing loans as a percentage of total assets	0.67 %	0.88 %	1.19 %	1.44 %	1.79 %
Non-performing assets as a percentage of total assets	0.80 %	1.11 %	1.39 %	1.66 %	1.98 %

The following table describes the non-performing loans, net of allowance for loan losses and fair value adjustments, by the calendar year of origination as of June 30, 2017:

(Dollars In Thousands)	Calendar Year of Origination 2009 & Prior	2010	2011	2012	2013	2014	2015	2016	YTD June 30, 2017	Total
Mortgage loans:										
Single-family	$7,640	$ —	$ —	$ 89	$ —	$ —	$ —	$ —	$ —	$7,729
Commercial real estate	201	—	—	—	—	—	—	—	—	201

Commercial business loans	65	—	—	—	—	—	—	—	—	65
Total	$7,906	$ —	$ —	$ 89	$ —	$ —	$ —	$ —	$ —	$7,995

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The following table describes the non-performing loans, net of allowance for loan losses and fair value adjustments, by the geographic location as of June 30, 2017:

(Dollars In Thousands)	Inland Empire	Southern California(1)	Other California(2)	Other States	Total
Mortgage loans:					
Single-family	$ 2,221	$ 4,409	$ 1,099	$ —	$ 7,729
Commercial real estate	201	—	—	—	201
Commercial business loans	65	—	—	—	65
Total	$ 2,487	$ 4,409	$ 1,099	$ —	$ 7,995

(1) Other than the Inland Empire.
(2) Other than the Inland Empire and Southern California.

The following table summarizes classified assets, which is comprised of classified loans, net of allowance for loan losses, and real estate owned at the dates indicated:

	At June 30, 2017		At June 30, 2016	
(Dollars In Thousands)	Balance	Count	Balance	Count
Special mention loans:				
Mortgage loans:				
Single-family	$ 3,443	9	$ 4,896	14
Multi-family	272	1	3,974	4
Total special mention loans	3,715	10	8,870	18
Substandard loans:				
Mortgage loans:				
Single-family	7,729	29	9,524	37
Multi-family	—	—	709	2
Commercial real estate	201	1	—	—
Commercial business loans	65	1	76	1
Consumer loans	—	—	—	1
Total substandard loans	7,995	31	10,309	41
Total classified loans	11,710	41	19,179	59
Real estate owned:				
Single-family	1,615	2	2,706	4
Total real estate owned	1,615	2	2,706	4
Total classified assets	$ 13,325	43	$ 21,885	63

The Bank assesses loans individually and classifies the loans as substandard non-performing when the accrual of interest has been discontinued, loans have been restructured or management has serious doubts about the future collectibility of principal and interest, even though the loans are currently performing. Factors considered in determining classification include, but are not limited to, expected future cash flows, collateral value, the financial condition of the borrower and current economic conditions. The Bank measures each non-performing loan based on Accounting Standards Codification ("ASC") 310, "Receivables," establishes a collectively evaluated or individually evaluated allowance and charges off those loans or portions of loans deemed uncollectible.

During the fiscal years ended June 30, 2017 and 2016, there were no newly restructured loans. Additionally, during the fiscal year ended June 30, 2017, one restructured loan with a total balance of $85,000 had its modification extended beyond the initial maturity of the modification; while in fiscal 2016, there was no restructured loan whose modification was extended beyond the initial maturity of the modification. As of June 30, 2017, the outstanding balance of restructured loans was $3.6 million, comprised of 10 loans. These restructured loans are classified as follows: one loan is classified as special mention and remains on accrual status ($506,000) and nine loans are classified as substandard on non-performing status ($3.1 million). As of June 30, 2017, 46%, or $1.7 million of the restructured loans have a current payment status, consistent with their modified terms. The Bank upgrades restructured single-family loans to the pass category if the borrower has demonstrated satisfactory contractual payments for at least six consecutive months or 12 months for those loans that were restructured more than once and there is a reasonable assurance that the payments will continue. Once the borrower has demonstrated satisfactory contractual payments beyond 12 consecutive months, the loan is no longer categorized as a restructured loan.

The following table shows the restructured loans by type, net of allowance for loan losses, at June 30, 2017 and 2016 :

	At June 30, 2017				
(In Thousands)	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance[1]	Net Recorded Investment
Mortgage loans:					
Single-family:					
With a related allowance	$485	$ —	$ 485	$ (97)	$ 388
Without a related allowance[2]	3,618	(439)	3,179	—	3,179
Total single-family	4,103	(439)	3,664	(97)	3,567
Commercial business loans:					
With a related allowance	80	—	80	(15)	65
Total commercial business loans	80	—	80	(15)	65
Total restructured loans	$4,183	$ (439)	$ 3,744	$ (112)	$ 3,632

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

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(In Thousands)	At June 30, 2016 Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance[1]	Net Recorded Investment
Mortgage loans:					
Single-family					
With a related allowance	$999	$ —	$ 999	$ (200)	$ 799
Without a related allowance[2]	4,507	(784)	3,723	—	3,723
Total single-family	5,506	(784)	4,722	(200)	4,522
Commercial business loans:					
With a related allowance	96	—	96	(20)	76
Total commercial business loans	96	—	96	(20)	76
Total restructured loans	$5,602	$ (784)	$ 4,818	$ (220)	$ 4,598

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

As of June 30, 2017, total non-performing assets, net of allowance for loan losses and fair value adjustments, were $9.6 million, or 0.80% of total assets, which was primarily comprised of: 27 single-family loans ($7.7 million); one commercial real estate loan ($201,000); one commercial business loan ($65,000); and real estate owned comprised of two single-family properties ($1.6 million). As of June 30, 2017, 47%, or $3.7 million of non-performing loans had a current payment status. This compares to total non-performing assets, net of allowance for loan losses and fair value adjustments, of $13.0 million, or 1.11% of total assets, with $6.1 million, or 59%, of non-performing loans with a current payment status at June 30, 2016.

Foregone interest income, which would have been recorded for the fiscal years ended June 30, 2017 and 2016 had the non-performing loans been current in accordance with their original terms, amounted to $68,000 and $118,000, respectively, and was not included in the results of operations for the fiscal years ended June 30, 2017 and 2016 .

Other Loans of Concern. As of June 30, 2017, $3.7 million of loans which were not disclosed as non-performing loans were classified as special mention because known information about possible credit problems of the borrowers causes management to have some doubt as to the ability of such borrowers to comply with present loan repayment terms. Of these loans, $3.4 million were single-family mortgage loans and $272,000 was a multi-family mortgage loan. As of June 30, 2016, $8.9 million of loans which were not disclosed as non-performing loans were classified by the Bank as special mention for the same reasons. In addition, as of June 30, 2017 and 2016, all substandard loans were disclosed above as non-performing loans.

Foreclosed Real Estate. Real estate acquired by the Bank as a result of foreclosure or by deed-in-lieu of foreclosure is classified as real estate owned until it is sold. When a property is acquired, it is recorded at its market value less the estimated cost of sale. Subsequent declines in value are charged to operations. As of June 30, 2017, the real estate owned balance was $1.6 million (two single-family properties), located in California and Arizona, compared to $2.7 million (four single-family properties) at June 30, 2016, of which three are located in California and one property is located in Arizona. In managing the real estate owned properties for quick disposition, the Bank completes the necessary repairs and maintenance to the individual properties before listing for sale, obtains new appraisals and broker price opinions (“BPO”) to determine current market listing prices, and engages local realtors who are most familiar with real estate sub-markets, among other techniques, which generally results in the quick disposition of real estate owned.

Asset Classification. The OCC has adopted various regulations regarding the problem assets of savings institutions. The regulations require that each institution review and classify its assets on a regular basis. In addition, in connection with examinations of institutions, OCC examiners have the authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified as a loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. If an asset or portion thereof is classified as loss, the institution establishes an individually evaluated allowance and may subsequently charge-off the amount of the asset classified as loss. A portion of the allowance for loan losses established to cover probable losses related to assets classified substandard or doubtful may be included in determining an institution's regulatory capital. Assets that do not currently expose the institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated as special mention and are closely monitored by the Bank.

The aggregate amounts of the Bank's classified assets, including loans classified by the Bank as special mention, were as follows at the dates indicated:

	At June 30,	
(Dollars In Thousands)	2017	2016
Special mention loans	$3,715	$8,870
Substandard loans	7,995	10,309
Total classified loans	11,710	19,179
Real estate owned, net	1,615	2,706
Total classified assets	$13,325	$21,885
Total classified assets as a percentage of total assets	1.11 %	1.87 %

Classified assets decreased at June 30, 2017 from the June 30, 2016 level primarily due to loan classification upgrades, disposition of real estate owned properties and a general improvement in the real estate market, resulting in fewer delinquent loans. The classified assets are primarily located in Southern California.

Not all of the Bank's classified assets are delinquent or non-performing. In determining whether the Bank's assets expose the Bank to sufficient risk to warrant classification, the Bank may consider various factors, including the payment history of the borrower, the loan-to-value ratio, and the debt coverage ratio of the property securing the loan. After consideration of these factors, the Bank may determine that the asset in question, though not currently delinquent, presents a risk of loss that requires it to be classified or designated as special mention. In addition, the Bank's loans held for investment may include single-family, commercial and multi-family real estate loans with a balance exceeding the current market value of the collateral which are not classified because they are performing and have borrowers who have sufficient resources to support the repayment of the loan.

Allowance for Loan Losses. The allowance for loan losses is maintained to cover losses inherent in the loans held for investment. In originating loans, the Bank recognizes that losses will be experienced and that the risk of loss will vary with, among other factors, the type of loan being made, the creditworthiness of the borrower over the term of the loan, general economic conditions and, in the case of a secured loan, the quality of the collateral securing the loan. The responsibility for the review of the Bank's assets and the determination of the adequacy of the allowance lies with the Internal Asset Review Committee ("IAR Committee"). The Bank adjusts its allowance for loan losses by charging or crediting its provision (recovery) for loan losses against the Bank's operations.

The Bank has established a methodology for the determination of the provision for loan losses. The methodology is set forth in a formal policy and takes into consideration the need for a collectively evaluated allowance for groups of homogeneous loans and an individually evaluated allowance that are tied to individual problem loans. The Bank's methodology for assessing the appropriateness of the allowance consists of several key elements.

The allowance is calculated by applying loss factors to the loans held for investment. The loss factors are applied according to loan program type and loan classification. The loss factors for each program type and loan classification are established based on an evaluation of the historical loss experience, prevailing market conditions, concentration in loan types and other relevant factors consistent with ASC 450, “Contingency”. Homogeneous loans, such as residential mortgage, home equity and consumer installment loans are considered on a pooled loan basis. A factor is assigned to each pool based upon expected charge-offs for one year. The factors for larger, less homogeneous loans, such as construction and commercial real estate loans, are based upon loss experience tracked over business cycles considered appropriate for the loan type.

Collectively evaluated or individually evaluated allowances are established to absorb losses on loans for which full collectibility may not be reasonably assured as prescribed in ASC 310. Estimates of identifiable losses are reviewed continually and, generally, a provision (recovery) for losses is charged (credited) against operations on a quarterly basis as necessary to maintain the allowance at an appropriate level. Management presents the minutes summarizing the actions of the IAR Committee to the Bank's Board of Directors on a quarterly basis.

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 IAR Committee meets quarterly to review and monitor conditions in the portfolio and to determine the appropriate allowance for loan losses. To the extent that any of these conditions are apparent by identifiable problem loans or portfolio segments as of the evaluation date, the IAR Committee's estimate of the effect of such conditions may be reflected as an individually evaluated allowance applicable to such loans or portfolio segments. Where any of these conditions is not apparent by specifically identifiable problem loans or portfolio segments as of the evaluation date, the IAR Committee's evaluation of the probable loss related to such condition is reflected in the general allowance. The intent of the IAR Committee is to reduce the differences between estimated and actual losses. Pooled loan factors are adjusted to reflect current estimates of charge-offs for the subsequent 12 months. Loss activity is reviewed for non-pooled loans and the loss factors are adjusted, if necessary. By assessing the probable estimated losses inherent in the loans held for investment on a quarterly basis, the Bank is able to adjust specific and inherent loss estimates based upon the most recent information that has become available.

At June 30, 2017, the Bank had an allowance for loan losses of $8.0 million, or 0.88% of gross loans held for investment, compared to an allowance for loan losses at June 30, 2016 of $8.7 million, or 1.02% of gross loans held for investment. A $1.0 million recovery from the allowance for loan losses was recorded in fiscal 2017, compared to a $1.7 million recovery from the allowance for loan losses in fiscal 2016. Although management believes the best information available is used to make such (recovery) provision, future adjustments to the allowance for loan losses may be necessary and results of operations could be significantly and adversely affected if circumstances differ substantially from the assumptions used in making the determinations.

A portion of the Bank's portfolio of first trust deed, single-family mortgage loans held for investment contains certain non-traditional underwriting characteristics (e.g. interest only, stated income, negative amortization, FICO less than or equal to 660, and/or over 30-year amortization schedule) as described in the section above entitled "Single-Family Mortgage Loans" in this Form 10-K. These loans may have a greater risk of default in comparison to single-family mortgage loans that have been underwritten with more stringent requirements. As a result, the Bank may experience higher future levels of non-performing single-family loans that may require additional allowances for loan losses and may adversely affect the Bank's financial condition and results of operations.

While the Bank believes that it has established its existing allowance for loan losses in accordance with GAAP, there can be no assurance that regulators, in reviewing the Bank's loan portfolio, will not recommend that the Bank significantly increase its allowance for loan losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that substantial increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect the Bank's financial condition and results of operations.

The following table sets forth an analysis of the Bank's allowance for loan losses for the periods indicated. Where individually evaluated allowances have been established, any differences between the individually evaluated allowances and the amount of loss realized has been charged or credited to current operations.

(Dollars In Thousands)	Year Ended June 30, 2017	2016	2015	2014	2013
Allowance at beginning of period	$8,670	$8,724	$9,744	$14,935	$21,483
Recovery from the allowance for loan losses	(1,042)	(1,715)	(1,387)	(3,380)	(1,499)
Recoveries:					
Mortgage Loans:					
Single-family	507	539	635	562	754
Multi-family	18	1,228	360	345	6
Commercial real estate	—	216	—	—	—
Construction	—	—	—	20	—
Commercial business loans	75	85	—	—	—
Consumer loans	13	1	1	2	2
Total recoveries	613	2,069	996	929	762
Charge-offs:					
Mortgage loans:					
Single-family	(199)	(406)	(552)	(965)	(5,136)
Multi-family	—	—	(4)	(1,762)	(244)
Commercial real estate	—	—	(73)	—	(265)
Other	—	—	—	—	(159)
Commercial business loans	—	—	—	(9)	—
Consumer loans	(3)	(2)	—	(4)	(7)
Total charge-offs	(202)	(408)	(629)	(2,740)	(5,811)
Net recoveries (charge-offs)	411	1,661	367	(1,811)	(5,049)
Allowance at end of period	$8,039	$8,670	$8,724	$9,744	$14,935
Allowance for loan losses as a percentage of gross loans held for investment	0.88%	1.02%	1.06%	1.25%	1.96%
Net (recoveries) charge-offs as a percentage of average loans receivable, net, during the period	(0.04)%	(0.17)%	(0.04)%	0.21%	0.51%

The following table sets forth the breakdown of the allowance for loan losses by loan category at the periods indicated. Management believes that the allowance can be allocated by category only on an approximate basis. The allocation of the allowance is based upon an asset classification matrix. The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance in one category to absorb losses in any other categories.

	At June 30, 2017		2016		2015		2014		2013	
(Dollars In Thousands)	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans
Mortgage loans:										
Single-family	$3,601	35.16 %	$4,933	37.93 %	$5,280	44.47 %	$5,476	48.43 %	$9,062	53.09 %
Multi-family	3,420	52.37	2,800	48.59	2,616	42.17	3,142	38.60	4,689	34.45
Commercial real estate	879	10.65	848	11.63	734	12.26	989	12.40	1,053	12.14
Construction	96	1.75	31	1.71	42	0.99	35	0.37	—	0.04
Other	—	—	7	0.04	—	—	—	—	—	—
Commercial business loans	36	0.06	43	0.08	43	0.08	92	0.16	119	0.22
Consumer loans	7	0.01	8	0.02	9	0.03	10	0.04	12	0.06
Total allowance for loan losses	$8,039	100.00 %	$8,670	100.00 %	$8,724	100.00 %	$9,744	100.00 %	$14,935	100.00 %

Investment Securities Activities

Federally chartered savings institutions are permitted under federal and state laws to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies and government sponsored enterprises and of state and municipal governments, deposits at the FHLB, certificates of deposit of federally insured institutions, certain bankers' acceptances, mortgage-backed securities and federal funds. Subject to various restrictions, federally chartered savings institutions may also invest a portion of their assets in commercial paper and corporate debt securities. Savings institutions such as the Bank are also required to maintain an investment in FHLB – San Francisco stock.

The investment policy of the Bank, established by the Board of Directors and implemented by the Bank's Asset-Liability Committee, seeks to provide and maintain adequate liquidity, complement the Bank's lending activities, and generate a favorable return on investment without incurring undue interest rate risk or credit risk. Investments are made based on certain considerations, such as credit quality, yield, maturity, liquidity and marketability. The Bank also considers the effect that the proposed investment would have on the Bank's risk-based capital requirements and interest rate risk sensitivity.

At June 30, 2017 and 2016, the Bank's investment securities portfolio was $69.8 million and $51.5 million, respectively, which primarily consisted of federal agency and government sponsored enterprise obligations. The Bank's investment securities portfolio was classified as held to maturity and available for sale. The Corporation purchased held to maturity mortgage-backed securities totaling $34.5 million and $41.7 million during fiscal 2017 and 2016, respectively.

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The following table sets forth the composition of the Bank's investment portfolio at the dates indicated:

(Dollars In Thousands)	At June 30, 2017 Amortized Cost	Estimated Fair Value	Percent	2016 Amortized Cost	Estimated Fair Value	Percent	2015 Amortized Cost	Estimated Fair Value	Percent
Held to maturity securities:									
U.S. government sponsored enterprise MBS [1]	$59,841	$ 60,029	85.82 %	$39,179	$ 39,638	76.25 %	$—	$ —	— %
Certificates of deposits	600	600	0.86	800	800	1.54	800	800	5.35
Total investment securities - held to maturity	$60,441	$ 60,629	86.68 %	$39,979	$ 40,438	77.79 %	$800	$ 800	5.35 %
Available for sale securities:									
U.S. government agency MBS[1]	$5,197	$ 5,383	7.69 %	$6,308	$ 6,572	12.64 %	$7,613	$ 7,906	52.84 %
U.S. government sponsored enterprise MBS[1]	3,301	3,474	4.97	3,998	4,223	8.13	5,083	5,387	36.01
Private issue CMO[2]	456	461	0.66	598	601	1.16	708	717	4.79
Common stock[3]	—	—	—	147	147	0.28	250	151	1.01
Total investment securities - available for sale	$8,954	$ 9,318	13.32 %	$11,051	$ 11,543	22.21 %	$13,654	$ 14,161	94.65 %
Total investment securities	$69,395	$ 69,947	100.00 %	$51,030	$ 51,981	100.00 %	$14,454	$ 14,961	100.00 %

(1) Mortgage-backed securities ("MBS")
(2) Collateralized mortgage obligations ("CMO")
(3) Common stock of a community development financial institution

As of June 30, 2017, the Bank held investments with an unrealized loss position of $77,000 for less than a 12-month period. There were no other than temporary impairments at June 30, 2017.

(In Thousands)	Unrealized Holding Losses Less Than 12 Months		Unrealized Holding Losses 12 Months or More		Unrealized Holding Losses Total	
Description of Securities	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. government sponsored enterprise MBS	$28,722	$ 77	$ —	$ —	$28,722	$ 77
Total	$28,722	$ 77	$ —	$ —	$28,722	$ 77

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The following table sets forth the outstanding balance, maturity and weighted average yield of the investment securities at June 30, 2017:

(Dollars in Thousands)	Due in One Year or Less Amount	Yield	Due After One to Five Years Amount	Yield	Due After Five to Ten Years Amount	Yield	Due After Ten Years Amount	Yield	Total Amount	Yield
Held to maturity securities:										
U.S. government sponsored enterprise MBS	$—	— %	$4,698	1.86 %	$41,404	1.74 %	$13,739	2.30 %	$59,841	1.88 %
Certificates of deposits	600	1.13	—	—	—	—	—	—	600	1.13
Total investment securities held to maturity	$600	1.13 %	$4,698	1.86 %	$41,404	1.74 %	$13,739	2.30 %	$60,441	1.87 %
Available for sale securities:										
U.S. government agency MBS	$—	— %	$—	— %	$—	— %	$5,383	2.21 %	$5,383	2.21 %
U.S. government sponsored enterprise MBS	—	—	—	—	—	—	3,474	3.00	3,474	3.00
Private issue CMO	—	—	—	—	—	—	461	3.00	461	3.00
Total investment securities available for sale	$—	— %	$—	— %	$—	— %	$9,318	2.54 %	$9,318	2.54 %
Total investment securities	$600	1.13 %	$4,698	1.86 %	$41,404	1.74 %	$23,057	2.40 %	$69,759	1.96 %

The actual maturity and yield for MBS and CMO may differ from the stated maturity and stated yield due to scheduled amortization, loan prepayments and acceleration of premium amortization or discount accretion.

Deposit Activities and Other Sources of Funds

General. Deposits, the proceeds from loan sales and loan repayments are the major sources of the Bank's funds for lending and other investment purposes. Scheduled loan repayments are a relatively stable source of funds, while deposit inflows and outflows are influenced significantly by general interest rates and money market conditions. Loan sales are also influenced significantly by general interest rates. Borrowings through the FHLB – San Francisco and repurchase agreements may be used to compensate for declines in the availability of funds from other sources.

Deposit Accounts. Substantially all of the Bank's depositors are residents of the State of California. Deposits are attracted from within the Bank's market area by offering a broad selection of deposit instruments, including checking, savings, money market and time deposits. Deposit account terms vary, differentiated by the minimum balance required, the time periods that the funds must remain on deposit and the interest rate, among other factors. In determining the terms of its deposit accounts, the Bank considers current interest rates, profitability to the Bank, interest rate risk characteristics, competition and its customers' preferences and concerns. Generally, the Bank's deposit rates are commensurate with the median rates of its competitors within a given market. The Bank may occasionally pay above-market interest rates to attract or retain deposits when less expensive sources of funds are not available. The Bank may also pay above-market interest rates in specific markets in order to increase the deposit base of a particular office or group of offices. The Bank reviews its deposit composition and pricing on a weekly basis.

The Bank generally offers time deposits for terms not exceeding seven years. As illustrated in the following table, time deposits represented 29% of the Bank's deposit portfolio at June 30, 2017, compared to 33% at June 30, 2016. As of June 30, 2017, total brokered deposits were $1.6 million with a weighted average interest rate of 3.88% and remaining maturities within two years. At June 30, 2016, total brokered deposits were $1.6 million with a weighted average interest rate of 3.88% and remaining maturities within three years. The Bank attempts to reduce the overall cost of its deposit portfolio and to increase its franchise value by emphasizing transaction accounts, which are subject to a heightened degree of competition. For additional information, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K.

The following table sets forth information concerning the Bank's weighted-average interest rate of deposits at June 30, 2017:

Weighted Average Interest Rate	Original Term	Deposit Account Type	Minimum Amount	Balance (In Thousands)	Percentage of Total Deposits	
		Transaction accounts:				
—%	N/A	Checking accounts – non interest-bearing	$ —	$ 77,917	8.41	%
0.11%	N/A	Checking accounts – interest-bearing	$ —	259,437	28.00	
0.20%	N/A	Savings accounts	$ 10	285,967	30.86	
0.27%	N/A	Money market accounts	$ —	35,323	3.81	
		Time deposits:				
0.05%	30 days or less	Fixed-term, fixed rate	$ 1,000	23	—	
0.13%	31 to 90 days	Fixed-term, fixed rate	$ 1,000	6,051	0.65	
0.14%	91 to 180 days	Fixed-term, fixed rate	$ 1,000	8,024	0.87	
0.22%	181 to 365 days	Fixed-term, fixed rate	$ 1,000	46,341	5.00	
0.54%	Over 1 to 2 years	Fixed-term, fixed rate	$ 1,000	61,418	6.63	
0.82%	Over 2 to 3 years	Fixed-term, fixed rate	$ 1,000	21,542	2.33	
1.52%	Over 3 to 5 years	Fixed-term, fixed rate	$ 1,000	109,675	11.84	
2.08%	Over 5 to 10 years	Fixed-term, fixed rate	$ 1,000	14,803	1.60	
0.39%				$ 926,521	100.00	%

The following table indicates the aggregate dollar amount of the Bank's time deposits with balances of $100,000 or more differentiated by time remaining until maturity as of June 30, 2017:

Maturity Period	Amount
(In Thousands)	
Three months or less	$17,501
Over three to six months	19,009
Over six to twelve months	16,300
Over twelve months	80,338
Total	$133,148

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Deposit Flows. The following table sets forth the balances (inclusive of interest credited) and changes in the dollar amount of deposits in the various types of accounts offered by the Bank at and between the dates indicated:

	At June 30,					
	2017			2016		
(Dollars In Thousands)	Amount	Percent of Total	Increase (Decrease)	Amount	Percent of Total	Increase (Decrease)
Checking accounts – non interest-bearing	$77,917	8.41 %	$ 6,759	$71,158	7.68 %	$ 3,620
Checking accounts – interest-bearing	259,437	28.00	21,458	237,979	25.69	13,889
Savings accounts	285,967	30.86	10,657	275,310	29.72	20,220
Money market accounts	35,323	3.81	2,241	33,082	3.57	1,410
Time deposits:						
Fixed-term, fixed rate which mature:						
Within one year	113,946	12.30	(34,921)	148,867	16.07	(25,138)
Over one to two years	64,749	6.99	7,989	56,760	6.13	(23,185)
Over two to five years	78,815	8.51	(13,533)	92,348	9.97	602
Over five years	10,367	1.12	(513)	10,880	1.17	10,880
Total	$926,521	100.00 %	$ 137	$926,384	100.00 %	$ 2,298

Time Deposits by Rates. The following table sets forth the aggregate balance of time deposits categorized by interest rates at the dates indicated:

	At June 30,		
(Dollars In Thousands)	2017	2016	2015
Below 1.00%	$143,133	$146,226	$169,743
1.00 to 1.99%	115,555	151,240	160,218
2.00 to 2.99%	7,622	9,822	12,667
3.00 to 3.99%	1,567	1,567	3,068
Total	$267,877	$308,855	$345,696

Time Deposits by Maturities. The following table sets forth the aggregate dollar amount of time deposits at June 30, 2017 differentiated by interest rates and maturity:

(Dollars In Thousands)	One Year or Less	Over One to Two Years	Over Two to Three Years	Over Three to Four Years	After Four Years	Total
Below 1.00%	$98,083	$31,255	$13,620	$169	$6	$143,133
1.00 to 1.99%	15,784	30,908	35,148	17,392	16,323	115,555
2.00 to 2.99%	79	1,019	850	—	5,674	7,622
3.00 to 3.99%	—	1,567	—	—	—	1,567
Total	$113,946	$64,749	$49,618	$17,561	$22,003	$267,877

Deposit Activity. The following table sets forth the deposit activity of the Bank at and for the periods indicated:

	At or For the Year Ended June 30,		
(In Thousands)	2017	2016	2015
Beginning balance	$926,384	$924,086	$897,870
Net (withdrawals) deposits before interest credited	(3,671)	(2,099)	21,455
Interest credited	3,808	4,397	4,761
Net increase in deposits	137	2,298	26,216
Ending balance	$926,521	$926,384	$924,086

Borrowings. The FHLB – San Francisco functions as a central reserve bank providing credit for member financial institutions. As a member, the Bank is required to own capital stock in the FHLB – San Francisco and is authorized to apply for advances using such stock and certain of its mortgage loans and other assets (principally investment securities) as collateral, provided certain creditworthiness standards have been met. Advances are made pursuant to several different credit programs. Each credit program has its own interest rate, maturity, terms and conditions. Depending on the program, limitations on the amount of advances are based on the financial condition of the member institution and the adequacy of collateral pledged to secure the credit. The Bank utilizes advances from the FHLB – San Francisco as an alternative to deposits to supplement its supply of lendable funds, to meet deposit withdrawal requirements and to help manage interest rate risk. The FHLB – San Francisco has, from time to time, served as the Bank's primary borrowing source. As of June 30, 2017 and 2016, the FHLB – San Francisco borrowing capacity was limited to 35% of the Bank's total assets at both dates. Advances from the FHLB – San Francisco are typically secured by the Bank's single-family residential, multi-family and commercial real estate mortgage loans. Total mortgage loans pledged to the FHLB – San Francisco were $733.4 million at June 30, 2017 as compared to $776.5 million at June 30, 2016. In addition, the Bank pledged investment securities totaling $451,000 at June 30, 2017 as compared to $591,000 at June 30,