COMMUNITY WEST BANCSHARES /
Form 10-Q
May 13, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011

or

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

For the transition period from _________ to _________

Commission File Number: 000-23575

COMMUNITY WEST BANCSHARES
(Exact name of registrant as specified in its charter)

California	77-0446957
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
445 Pine Avenue, Goleta, California	93117
(Address of principal executive offices)	(Zip Code)

(805) 692-5821
(Registrant's telephone number, including area code)

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 o
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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer o

Non-accelerated filer o(Do not check if a smaller reporting company)	Smaller reporting company x

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

Number of shares of common stock of the registrant outstanding as of May 13, 2011: 5,980,981 shares

TABLE OF CONTENTS

The unaudited consolidated financial statements included in this Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto of Community West Bancshares included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Table of Contents

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

COMMUNITY WEST BANCSHARES
CONSOLIDATED BALANCE SHEETS

	March 31, 2011 (unaudited)	December 31, 2010
ASSETS	(dollars in thousands)	
Cash and due from banks	$15,239	$ 6,201
Federal funds sold	25	25
Cash and cash equivalents	15,264	6,226
Time deposits in other financial institutions	290	290
Investment securities available-for-sale, at fair value; amortized cost of $23,017 at March 31, 2011 and $23,038 at December 31, 2010	23,261	23,342
Investment securities held-to-maturity, at amortized cost; fair value of $16,335 at March 31, 2011 and $17,514 at December 31, 2010	15,767	16,893
Federal Home Loan Bank (FHLB) stock, at cost	4,831	5,031
Federal Reserve Bank (FRB) stock, at cost	1,322	1,322
Loans:		
Loans held for sale, at lower of cost or fair value	77,440	82,320
Loans held for investment, net of allowance for loan losses of $13,172 at March 31, 2011 and $13,302 at December 31, 2010	490,255	498,312
Total loans	567,695	580,632
Foreclosed real estate and repossessed assets	9,664	8,478
Premises and equipment, net	2,947	2,915
Other assets	24,498	22,475
TOTAL ASSETS	$665,539	$ 667,604
LIABILITIES		
Deposits:		
Non-interest-bearing demand	$47,951	$ 35,767
Interest-bearing demand	280,989	262,431
Savings	21,844	20,371
Time certificates	176,833	211,324
Total deposits	527,617	529,893
Other borrowings	64,000	64,000
Convertible debentures	7,872	8,081
Other liabilities	3,807	3,988
Total liabilities	603,296	605,962
STOCKHOLDERS' EQUITY		
Preferred stock, no par value; 10,000,000 shares authorized; 15,600 shares issued and outstanding	14,874	14,807
Common stock, no par value; 10,000,000 shares authorized; 5,980,981 and 5,916,272 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	33,369	33,133
Retained earnings	13,856	13,523
Accumulated other comprehensive income, net	144	179
Total stockholders' equity	62,243	61,642
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$665,539	$ 667,604

See accompanying notes

Table of Contents

COMMUNITY WEST BANCSHARES
CONSOLIDATED INCOME STATEMENTS (UNAUDITED)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
	(in thousands, except per share amounts)	
INTEREST INCOME		
Loans	$ 9,044	$ 9,534
Investment securities	283	399
Other	3	9
Total interest income	9,330	9,942
INTEREST EXPENSE		
Deposits	1,670	2,059
Other borrowings and convertible debentures	591	588
Total interest expense	2,261	2,647
NET INTEREST INCOME	7,069	7,295
Provision for loan losses	983	3,074
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,086	4,221
NON-INTEREST INCOME		
Other loan fees	230	352
Gains from loan sales, net	82	103
Document processing fees	105	125
Loan servicing, net	148	89
Service charges	130	129
Other	43	41
Total non-interest income	738	839
NON-INTEREST EXPENSES		
Salaries and employee benefits	3,109	3,008
Occupancy and equipment expenses	505	499
FDIC assessment	302	325
Professional services	215	203
Advertising and marketing	70	92
Depreciation and amortization	98	113
Loss on sale of foreclosed real estate and repossessed assets	459	62
Data processing	127	127
Other operating expenses	924	542
Total non-interest expenses	5,809	4,971
Income before provision for income taxes	1,015	89
Provision for income taxes	420	38
NET INCOME	$ 595	$ 51
Preferred stock dividends	262	262
NET INCOME (LOSS) APPLICABLE TO COMMON STOCKHOLDERS	$ 333	$ (211)
Earnings (loss) per common share:		
Basic	$ 0.06	$ (0.04)
Diluted	$ 0.05	$ (0.04)
Basic weighted average number of common shares outstanding	5,960	5,915

Diluted weighted average number of common shares outstanding	8,245	5,915

See accompanying notes.

4

Table of Contents

COMMUNITY WEST BANCSHARES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

	Preferred Stock	Common Stock Shares (in thousands)	Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
BALANCES AT JANUARY 1, 2011	$ 14,807	5,916	$ 33,133	$ 13,523	$ 179	$ 61,642
Stock option expense, recognized in earnings			7			7
Conversion of debentures		60	210			210
Exercise of stock options		5	19			19
Comprehensive income:						
Net income				595		595
Change in unrealized loss on securities available-for-sale, net					(35)	(35)
Comprehensive income						560
Dividends on preferred stock	67			(262)		(195)
BALANCES AT MARCH 31, 2011	$ 14,874	5,981	$ 33,369	$ 13,856	$ 144	$ 62,243

See accompanying notes.

Table of Contents

COMMUNITY WEST BANCSHARES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended March 31, 2011	2010
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$595	$51
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	983	3,074
Depreciation and amortization	98	113
Stock-based compensation	7	5
Net amortization of discounts and premiums for investment securities	(22)	(66)
Loss (gain) on:		
Sale of foreclosed real estate and repossessed assets	459	62
Sale of loans held for sale	(82)	(103)
Loan originated for sale and principal collections, net	3,171	5,795
Changes in:		
Servicing rights, net of amortization	29	62
Other assets	(1,993)	(145)
Other liabilities	(216)	(118)
Net cash provided by operating activities	3,029	8,730
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of available-for-sale securities	(2,362)	(2,204)
Principal pay downs and maturities of available-for-sale securities	2,407	2,298
Redemptions of Federal Home Loan Bank stock	200	-
Principal pay downs and maturities of held-to-maturity securities	1,125	2,571
Loan originations and principal collections, net	6,396	3,893
Proceeds from sale of foreclosed real estate and repossessed assets	824	359
Net decrease in time deposits in other financial institutions	-	165
Purchase of premises and equipment, net	(130)	(23)
Net cash provided by investing activities	8,460	7,059
CASH FLOWS FROM FINANCING ACTIVITIES:		
Preferred stock dividends	(262)	(262)
Amortization of discount on preferred stock	67	67
Exercise of stock options	19	-
Net increase in demand deposits and savings accounts	32,215	34,859
Net decrease in time certificates of deposit	(34,490)	(26,152)
Proceeds from FHLB and FRB advances	-	22,000
Repayment of FHLB and the FRB advances	-	(37,000)
Net cash used in financing activities	(2,451)	(6,488)
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,038	9,301
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,226	5,511
CASH AND CASH EQUIVALENTS, END OF PERIOD	$15,264	$14,812
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$2,495	$2,380
Cash paid for income taxes	815	5
Supplemental Disclosure of Noncash Investing Activity:		

Transfers to foreclosed real estate and repossessed assets	$2,469	$2,299

See accompanying notes.

Table of Contents

COMMUNITY WEST BANCSHARES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the results of operations and financial condition for the interim period. The unaudited consolidated financial statements include Community West Bancshares (“CWBC") and its wholly-owned subsidiary, Community West Bank, N.A. ("CWB" or the “Bank”). CWBC and CWB are referred to herein collectively as “the Company”. The accompanying unaudited condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X promulgated by the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair statement have been reflected in the financial statements. However, the results of operations for the three-month period ended March 31, 2011 are not necessarily indicative of the results to be expected for the full year.

These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Loans Held for Investment – Loans are recognized at the principal amount outstanding, net of unearned income, loan participations and amounts charged off. Unearned income includes deferred loan origination fees reduced by loan origination costs. Unearned income on loans is amortized to interest income over the life of the related loan using the level yield method. The following is a description of the loan categories held for investment.

Commercial Loans
In addition to traditional term commercial loans made to business customers, CWB grants revolving business lines of credit. Under the terms of the revolving lines of credit, CWB grants a maximum loan amount, which remains available to the business during the loan term. Generally, as part of the loan requirements, the business agrees to maintain its primary banking relationship with CWB. CWB does not extend material loans of this type in excess of two years.

Commercial Real Estate
Commercial real estate and construction loans are primarily made for the purpose of purchasing, improving or constructing single-family residences, commercial or industrial properties. This loan category also includes SBA 504 loans and loans made on land.

A substantial portion of CWB's real estate construction loans are first and second trust deeds on the construction of owner-occupied single family dwellings. CWB also makes real estate construction loans on commercial properties. These consist of first and second trust deeds collateralized by the related real property. Construction loans are generally written with terms of six to eighteen months and usually do not exceed a loan to appraised value of 80%.

Commercial and industrial real estate loans are secured by nonresidential property. Office buildings or other commercial property primarily secure these loans. Loan to appraised value ratios on nonresidential real estate loans are generally restricted to 80% of appraised value of the underlying real property if occupied by the owner or owner’s business; otherwise, these loans are generally restricted to 75% of appraised value of the underlying real property.

SBA 504 loans are made in conjunction with Certified Development Companies. These loans are granted to purchase or construct real estate or acquire machinery and equipment. The loan is structured with a conventional first trust deed provided by a private lender and a second trust deed which is funded through the sale of debentures. The predominant structure is terms of 10% down payment, 50% conventional first loan and 40% debenture.

Conventional and investor loans are sometimes funded by our secondary-market partners and CWB receives a premium for these transactions.

SBA Loans

The SBA loans consist of 7(a) and Business and Industry loans ("B&I"). The 7(a) loan proceeds are used for working capital, machinery and equipment purchases, land and building purposes, leasehold improvements and debt refinancing. In general, the SBA guarantees up to 85% of the loan amount depending on loan size. In certain instances, the Company sells a portion of the loans, however, under the SBA 7(a) loan program, the Company is required to retain a minimum of 5% of the principal balance of each loan it sells into the secondary market.

Table of Contents

B&I loans are guaranteed by the U.S. Department of Agriculture. The guaranteed amount is generally 80%. B&I loans are similar to the 7(a) loans but are made to businesses in designated rural areas. These loans can also be sold into the secondary market.

Single Family Real Estate Loans
The mortgage loans consist of first and second mortgage loans secured by trust deeds on one to four family homes. These loans are made to borrowers for purposes such as purchasing a home, refinancing an existing home, interest rate reduction, home improvement, or debt consolidation. Generally, these loans are underwritten to specific investor guidelines and are committed for sale to that investor. Although the majority of these loans are sold servicing released into the secondary market, a relatively small percentage is held as part of the Bank's portfolio.

Manufactured Housing Loans
The Bank originates loans secured by manufactured homes located in mobile home parks along the California coast and in the Sacramento area. The loans are serviced internally and are originated under one of two programs: fixed rate loans written for terms of 10 to 20 years; adjustable rate loans written for a term of 30 years with the initial interest rates fixed for the first 5 or 10 years and then adjusting annually subject to caps and floors.

HELOC
The Bank provides lines of credit collateralized by residential real estate, home equity lines of credit (HELOC), for consumer related purposes. Typically, HELOCs are collateralized by a second deed of trust.

Other Installment Loans
Installment loans consist of automobile and general-purpose loans made to individuals. These loans are primarily fixed rate.

Provision and Allowance for Loan Losses – The Company maintains a detailed, systematic analysis and procedural discipline to determine the amount of the allowance for loan losses ("ALL"). The ALL is based on estimates and is intended to be adequate to provide for probable losses inherent in the loan portfolio. This process involves deriving probable loss estimates that are based on migration analysis/historical loss rates and qualitative factors that are based on management's judgment. The migration analysis and historical loss rate calculations are based upon the annualized loss rates utilizing a twelve quarter loss history. Migration analysis is utilized for the Commercial Real Estate, Commercial and SBA portfolios. The historical loss rate method is utilized for the homogeneous loan categories which include Manufactured Housing, HELOC's, Single Family Residential and Consumer loans. The migration analysis takes into account the risk rating of loans that are charged off in each loan category. In loan categories that historic loss rates are utilized, management increases the reserve requirement for Special Mention and Substandard loans. Loans that are considered Doubtful are typically charged off. The following is a description of the characteristics of loans graded Pass, Special Mention, Substandard, Doubtful and Loss. Loan ratings are reviewed as part of our normal loan monitoring process, but, at a minimum, updated on an annual basis.

Pass
Loans rated in this category are acceptable loans, appropriately underwritten, bearing an ordinary risk of loss to the Bank. Loans in this category are loans to quality borrowers with financial statements presenting a good primary source as well as an adequate secondary source of repayment. In the case of individuals, borrowers deserving of this rating are quality borrowers demonstrating a reasonable level of secure income, a net worth adequate to support the loan and presenting a good primary source as well as an adequate secondary source of repayment.

Special Mention
A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution's credit

position at some future date.

Substandard
A Substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans does not have to exist in individual loans classified Substandard.

Table of Contents

Doubtful
A loan classified Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

Loss Loans
Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable loans is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this loan even though partial recovery may be affected in the future. Losses are taken in the period in which they surface as uncollectible. The following is the Bank’s policy regarding charging off loans by loan categories.

Commercial, Commercial Real Estate and SBA Loans
Charge-Offs on these loan categories are taken as soon as all or a portion of any loan balance is deemed to be uncollectible. A loan is considered uncollectible when the debtor is delinquent in principal or interest repayment 90 days or more and, in the opinion of the Bank, improvement in the debtor's ability to repay the debt in a timely manner is doubtful. Also, collateral value is insufficient to cover the outstanding indebtedness and outside guarantors do not provide adequate support. Loans secured by real estate on which principal or interest is due and unpaid for 90 days are evaluated for possible charge-down. Loan balances are charged-down to the fair value of the property, if, based on a current appraisal, an apparent deficiency exists. In the event there is no perceived equity, the loan is charged-off in full like any other unsecured loan, which is not secured and over 90 days.

Single Family Real Estate, HELOC’s and Manufactured Housing Loans
Consumer loans and residential mortgages secured by one-to-four family residential properties, HELOC and manufactured housing loans in which principal or interest is due and unpaid for 90 days, are evaluated for possible charge-down. Loan balances are charged-down to the fair value of the property if, based on a current appraisal, an apparent deficiency exists. In the event there is no perceived equity, the loan is charged-off in full like any other consumer loan, which is not secured and unpaid over 90-120 days.

Consumer Loans
All consumer loans (excluding real estate mortgages, home equity loans and savings secured loans) are charged-off or charged-down to net recoverable value before becoming 120 days or 5 payments delinquent. Consumer losses are identified well before the 120 day limit whenever possible. Net recoverable value can only be determined if the collateral is in the Bank's possession, and its liquidation value can be verified and realized in the near term.

The second component of the ALL covers qualitative factors related to non-impaired loans. The qualitative allowance on each of the loan pools is based on the following factors:

- Concentrations of credit
- Trends in volume, maturity, composition
- Volume and trend in delinquency
- Economic conditions
- Outside exams
- Geographic distance
- Policy and procedures
- Staff experience and ability

The ALL calculation for the different loan portfolios is as follows:

- Commercial Real Estate, Commercial and SBA – Migration analysis combined with risk rating is used to determine the required allowance for all non-impaired loans. In addition, the migration results are adjusted based upon the qualitative factors previously discussed that affect this specific portfolio category. Reserves on impaired loans are assigned based upon the individual characteristics of the loan.

- Manufactured Housing, Single Family Residential, HELOC and Consumer – The allowance is calculated on the basis of loss history and risk rating, which is primarily a function of delinquency. In addition, the migration results are adjusted based upon the qualitative factors previously discussed that affect this specific portfolio.

Table of Contents

The Company evaluates and individually assesses impairment on loans greater than $100,000 classified as substandard or doubtful that are either non-performing or considered a trouble debt restructure. Measured impairment is determined on a loan-by-loan basis and in total establishes a specific reserve for impaired loans. The amount of impairment is determined by comparing the recorded investment in each loan with its value measured by one of three methods.

- The expected future cash flows are estimated and then discounted at the effective interest rate.
- The loan’s observable market price, if it is of a kind for which there is a secondary market.
- The value of the underlying collateral net of selling costs. Selling costs are estimated based on industry standards, the Bank’s actual experience, or based on actual costs incurred as appropriate. When evaluating real estate collateral, the Bank typically uses appraisals or valuations, no more than twelve months old at time of evaluation. When evaluating non-real estate collateral securing the loan, the Bank will use audited financial statements or appraisals no more than twelve months old. Additionally for both real estate and non-real estate collateral, the Bank may use other sources to determine value as deemed appropriate.

Interest income is not recognized on impaired loans except for limited circumstances in which a loan, although impaired, continues to perform in accordance with the loan contract.

The Company determines the appropriate ALL on a monthly basis. Any differences between estimated and actual observed losses from the prior month are reflected in the current period in determining the appropriate ALL determination and adjusted as deemed necessary. The review of the adequacy of the allowance takes into consideration such factors as concentrations of credit, changes in the growth, size and composition of the loan portfolio, overall and individual portfolio quality, review of specific problem loans, collateral, guarantees and economic conditions that may affect the borrowers' ability to pay and/or the value of the underlying collateral. Additional factors considered include: geographic location of borrowers, changes in the Company’s product-specific credit policy and lending staff experience. These estimates depend on the outcome of future events and, therefore, contain inherent uncertainties.

The Company's ALL is maintained at a level believed adequate by management to absorb known and inherent probable losses on existing loans. A provision for loan losses is charged to expense. The allowance is charged for losses when management believes that full recovery on the loan is unlikely.

The Bank has a centralized appraisal management process that tracks and monitors appraisals, appraisal reviews and other valuations. The centralization focus is to ensure the use of qualified and independent appraisers capable of providing reliable real estate values in the context of ever changing market conditions. The review process is monitored to ensure application of the appropriate appraisal methodology, agreement with the interpretation of market data and the resultant real estate value. The process also provides the means of tracking the performance quality of the appraisers on the Bank’s approved appraiser list. Any loan evaluation that results in the Bank determining that elevated credit risk and/or default risk exists and also exhibits a lack of a timely valuation of the collateral or apparent collateral value deterioration is reappraised and reevaluated to determine the current extent of any change in collateral value and credit risk. A similar review process is conducted quarterly on all classified and criticized real estate credits to determine the timeliness and adequacy of the real estate collateral value. A detection of non-compliance is then addressed through a new appraisal or reappraisal and review.

Foreclosed Real Estate and Repossessed Assets – Foreclosed real estate and other repossessed assets includes real estate and other repossessed assets and the collateral property is recorded at fair value at the time of foreclosure less estimated costs to sell. Any excess of loan balance over the fair value less estimated costs to sell of the other assets is charged-off against the allowance for loan losses. Subsequent to the legal ownership date, management periodically performs a new valuation and the asset is carried at the lower of carrying amount or fair value. Operating expenses or income, and gains or losses on disposition of such properties, are recorded in current operations.

Income Taxes – The Company uses the asset and liability method, which recognizes a liability or asset representing the tax effects of future deductible or taxable amounts that have been recognized in the consolidated financial statements. Due to tax regulations, certain items of income and expense are recognized in different periods for tax return purposes than for financial statement reporting. These items represent "temporary differences." Deferred income taxes are recognized for the tax effect of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is established for deferred tax assets if, based on weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets may not be realized.

Table of Contents

The Company is subject to the provisions of ASC 740, "Income Taxes" (ASC 740). ASC 740 prescribes a more-likely-than-not threshold for the financial statement recognition of uncertain tax positions. ASC 740 clarifies the accounting for income taxes by prescribing a minimum recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. On a quarterly basis the Company evaluates income tax accruals in accordance with ASC 740 guidance on uncertain tax positions.

Recent Accounting Pronouncements – In July 2010, FASB issued a final Accounting Standards Update, ASU 2010-20, that requires entities to provide extensive new disclosures in their financial statements about their financial receivables, including credit risk exposures and allowance for credit losses. The ASU requires new qualitative and quantitative disclosures on the allowance for credit losses, credit quality, impaired loans, modifications and nonaccrual and past due financing receivables. Generally, the update was effective for interim or annual reporting periods ended subsequent to December 15, 2010. Certain elements of the ASU regarding disclosures for troubled debt restructuring have been deferred and will be effective for periods ending on or after June 15, 2011. Adoption of ASU 2010-20 did not have a material impact on the Company's financial condition, results of operations or cash flows.

Table of Contents

2. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities is as follows:

March 31, 2011	(in thousands)			
Available-for-sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agency: MBS	$5,291	$202	$-	$5,493
U.S. Government agency: CMO	17,726	62	(20)	17,768
Total	$23,017	$264	$(20)	$23,261
Held-to-maturity securities				
U.S. Government agency: MBS	$15,767	$642	$(74)	$16,335
U.S. Government agency: CMO	-	-	-	-
Total	$15,767	$642	$(74)	$16,335

December 31, 2010	(in thousands)			
Available-for-sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agency: MBS	$5,472	$206	$-	$5,678
U.S. Government agency: CMO	17,566	102	(4)	17,664
Total	$23,038	$308	$(4)	$23,342
Held-to-maturity securities				
U.S. Government agency: MBS	$16,893	$698	$(77)	$17,514
U.S. Government agency: CMO	-	-	-	-
Total	$16,893	$698	$(77)	$17,514

At March 31, 2011, $39.0 million of securities, at carrying value, was pledged to the Federal Home Loan Bank, San Francisco, as collateral for current and future advances.

The maturity periods and weighted average yields of investment securities at March 31, 2011 are as follows:

	Total Amount		Less than One Year		One to Five Years		Five to Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
			(dollars in thousands)					
Available-for-sale securities								
U. S. Government:								
Agency: MBS	$5,493	2.4%	$-	-	$5,422	2.4%	$71	2.7%
Agency: CMO	17,768	0.9%	3,994	0.9%	13,774	0.9%	-	-
Total	$23,261	1.3%	$3,994	0.9%	$19,196	1.3%	$71	2.7%
Held-to-maturity securities								
U.S. Government:								
Agency: MBS	$15,767	4.4%	$50	5.0%	$8,802	4.7%	$6,915	4.0%
Agency: CMO	-	-	-	-	-	-	-	-
Total	$15,767	4.4%	$50	5.0%	$8,802	4.7%	$6,915	4.0%

12

Table of Contents

The following tables show all securities that are in an unrealized loss position and temporarily impaired as of:

March 31, 2011	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Vale	Unrealized Losses
			(in thousands)			
Available-for-sale securities						
U.S. Government agency: MBS	$-	$-	$-	$-	$-	$-
U.S. Government agency: CMO	8,843	20	-	-	8,843	20
Total	$8,843	$20	$-	$-	$8,843	$20
Held-to-maturity securities						
U.S. Government agency: MBS	$1,513	$74	$-	$-	$1,513	$74
U.S. Government agency: CMO	-	-	-	-	-	-
Total	$1,513	$74	$-	$-	$1,513	$74

December 31, 2010	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(in thousands)			
Available-for-sale securities						
U.S. Government agency: MBS	$-	$-	$-	$-	$-	$-
U.S. Government agency: CMO	3,118	4	-	-	3,118	4
Total	$3,118	$4	$-	$-	$3,118	$4
Held-to-maturity securities						
U.S. Government agency: MBS	$1,444	$77	$-	$-	$1,444	$77
U.S. Government agency: CMO	-	-	-	-	-	-
Total	$1,444	$77	$-	$-	$1,444	$77

As of March 31, 2011 and December 31, 2010, there were eight and three securities, respectively, in an unrealized loss position.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things (i) the length of time and the extent to which the fair value has been less than cost (ii) the financial condition and near-term prospects of the issuer and (iii) the Company's intent to sell an impaired security and if it is not more likely than not it will be required to sell the security before the recovery of its amortized basis.

The unrealized losses are primarily due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality, as all are direct or indirect agencies of the U. S. Government. Accordingly, as of March 31, 2011 and December 31, 2010, management believes the impairments detailed in the table above are temporary and no other-than-temporary impairment loss has been realized in the Company's consolidated income statements.

3. LOAN SALES AND SERVICING

SBA Loan Sales - The Company periodically sells the guaranteed portion of selected SBA loans into the secondary market, on a servicing-retained basis. The Company retains the unguaranteed portion of these loans and services the loans as required under the SBA programs to retain specified yield amounts. The SBA program stipulates that the Company retains a minimum of 5% of the loan balance, which is unguaranteed. The percentage of each unguaranteed loan in excess of 5% may be periodically sold to a third party, typically for a cash premium. The Company records servicing liabilities for the unguaranteed loans sold calculated based on the present value of the estimated future servicing costs associated with each loan. The balance of all servicing rights and obligations is subsequently amortized over the estimated life of the loans using an estimated prepayment rate of 5-25%. Quarterly, the servicing asset is analyzed for impairment.

Table of Contents

The Company also periodically sells certain SBA loans into the secondary market, on a servicing-released basis, typically for a cash premium.

As of March 31, 2011 and December 31, 2010, the Company had approximately $75.7 million and $77.5 million, respectively, in SBA loans included in loans held for sale.

Mortgage Loan Sales – The Company enters into mortgage loan rate lock commitments (normally for 30 days) with potential borrowers. In conjunction therewith, the Company enters into a forward sale commitment to sell the locked loan to a third party investor. This forward sale agreement requires delivery of the loan on a “best efforts” basis but does not obligate the Company to deliver if the mortgage loan does not fund.

The mortgage rate lock agreement and the forward sale agreement qualify as derivatives. The value of these derivatives is generally equal to the fee, if any, charged to the borrower at inception but may fluctuate in the event of changes in interest rates. These derivative financial instruments are recorded at fair value if material. Although the Company does not attempt to qualify these transactions for the special hedge accounting, management believes that changes in the fair value of the two commitments generally offset and create an economic hedge. At March 31, 2011 and December 31, 2010, the Company had $3.8 million and $10.9 million, respectively, in outstanding mortgage loan interest rate lock and forward sale commitments, the value of related derivative instruments were not material to the Company’s financial position or results of operations.

4. LOANS HELD FOR INVESTMENT

The composition of the Company’s loans held for investment loan portfolio follows:

	March 31, 2011	December 31, 2010
	(in thousands)	
Commercial	$49,413	$57,369
Commercial real estate	181,043	173,906
SBA	46,724	51,549
Manufactured housing	192,920	194,682
Single family real estate	12,463	13,722
HELOC	20,728	20,273
Consumer	408	379
	503,699	511,880
Less:		
Allowance for loan losses	13,172	13,302
Deferred costs	(160)	(181)
Purchased premiums	(12)	(14)
Discount on SBA loans	444	461
Loans held for investment, net	$490,255	$498,312

Table of Contents

At March 31, 2011, the aging of the Company's loans held for investment was as follows:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
			(in thousands)				
Single family real estate	$ 1,530	$ -	$ 465	$ 1,995	$ 10,468	$ 12,463	$ -
Commercial real estate:							
Commercial real estate	8,372	770	974	10,116	102,542	112,658	-
SBA 504 1st TD	1,734	331	266	2,331	35,876	38,207	-
Land	-	-	567	567	5,937	6,504	-
Construction	8,411	-	31	8,442	15,232	23,674	-
Commercial loans	1,141	30	436	1,607	47,806	49,413	-
SBA loans	761	1,037	14,749	16,547	30,177	46,724	-
Mfg. housing	997	285	120	1,402	191,518	192,920	-
HELOC	30	-	-	30	20,698	20,728	-
Consumer	18	-	-	18	390	408	-
Total	$ 22,994	$ 2,453	$ 17,608	$ 43,055	$ 460,644	$ 503,699	$ -

Of the $16.5 million SBA loans past due, $13.8 million is guaranteed.

At December 31, 2010, the aging of the Company's loans held for investment was as follows:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
			(in thousands)				
Single family real estate	$ 40	$ 504	$ 143	$ 687	$ 13,035	$ 13,722	$ 143
Commercial real estate:							
Commercial real estate	331	-	981	1,312	103,118	104,430	-
SBA 504 1st TD	-	-	1,100	1,100	38,267	39,367	-
Land	195	-	571	766	5,970	6,736	-
Construction	-	-	49	49	23,324	23,373	-
Commercial loans	739	-	174	913	56,456	57,369	34
SBA loans	2,098	910	17,129	20,137	31,412	51,549	-
Mfg. housing	914	318	894	2,126	192,556	194,682	-
HELOC	-	-	2	2	20,271	20,273	-
Consumer	-	-	21	21	358	379	-
Total	$ 4,317	$ 1,732	$ 21,064	$ 27,113	$ 484,767	$ 511,880	$ 177

Of the $20.1 million SBA loans past due, $17.3 million is guaranteed.

15

Table of Contents

An analysis of the allowance for credit losses for loans held for investment is as follows:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
	(in thousands)	
Balance, beginning of period	$13,302	$13,733
Loans charged off	(1,194)	(2,442)
Recoveries on loans previously charged off	81	44
Net charge-offs	(1,113)	(2,398)
Provision for loan losses	983	3,074
Balance, end of period	$13,172	$14,409

As of March 31, 2011 and December 31, 2010, the Company also had established reserves for credit losses on undisbursed loans of $229,000 and $194,000, respectively, which are included in other liabilities in the consolidated balance sheet.

The following schedule summarizes the provision, charge-offs and recoveries by loan category:

	Allowance 12/31/10	Provision	Charge-offs	Recoveries	Net Charge-offs	Allowance 3/31/11
			(in thousands)			
Commercial real estate	$ 2,532	$ 315	$ (18)	$ 2	$ (16)	$ 2,831
Manufactured housing	4,168	368	(281)	25	(256)	4,280
Commercial	2,094	98	(322)	10	(312)	1,880
SBA	3,753	(48)	(423)	42	(381)	3,324
Single family real estate	135	192	(150)	1	(149)	178
HELOC	547					