REPUBLIC BANCORP INC /KY/
Form 10-Q
November 06, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2015

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky	61-0862051
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

601 West Market Street, Louisville, Kentucky	40202
(Address of principal executive offices)	(Zip Code)

(502) 584-3600

(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 twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

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

The number of shares outstanding of the registrant's Class A Common Stock and Class B Common Stock, as of October 30, 2015, was 18,608,260 and 2,245,250.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	September 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	$ 90,731	$ 72,878
Securities available for sale	461,558	435,911
Securities held to maturity (fair value of $41,601 in 2015 and $45,807 in 2014)	41,041	45,437
Mortgage loans held for sale, at fair value	8,526	6,388
Other loans held for sale, at the lower of cost or fair value	3,800	—
Loans	3,297,874	3,040,495
Allowance for loan and lease losses	(26,959)	(24,410)
Loans, net	3,270,915	3,016,085
Federal Home Loan Bank stock, at cost	28,208	28,208
Premises and equipment, net	29,877	32,987
Premises, held for sale	1,218	1,317
Goodwill	10,168	10,168
Other real estate owned	2,832	11,243
Bank owned life insurance	52,465	51,415
Other assets and accrued interest receivable	34,638	34,976
TOTAL ASSETS	$ 4,035,977	$ 3,747,013
LIABILITIES		
Deposits:		
Non interest-bearing	$ 637,875	$ 502,569
Interest-bearing	1,729,955	1,555,613
Total deposits	2,367,830	2,058,182
Securities sold under agreements to repurchase and other short-term borrowings	309,624	356,108
Federal Home Loan Bank advances	711,500	707,500
Subordinated note	41,240	41,240

Other liabilities and accrued interest payable	31,071	25,252
Total liabilities	3,461,265	3,188,282
Commitments and contingent liabilities (Footnote 9)	—	—
STOCKHOLDERS' EQUITY		
Preferred stock, no par value	—	—
Common Stock, no par value	4,904	4,904
Additional paid in capital	135,527	134,889
Retained earnings	429,917	414,623
Accumulated other comprehensive income	4,364	4,315
Total stockholders' equity	574,712	558,731
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 4,035,977	$ 3,747,013

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
INTEREST INCOME:				
Loans, including fees	$ 34,040	$ 30,916	$ 99,247	$ 91,188
Taxable investment securities	1,733	1,896	5,285	5,663
Federal Home Loan Bank stock and other	334	332	1,058	1,195
Total interest income	36,107	33,144	105,590	98,046
INTEREST EXPENSE:				
Deposits	1,068	930	3,233	2,845
Securities sold under agreements to repurchase and other short-term borrowings	17	28	72	72
Federal Home Loan Bank advances	2,982	3,116	8,907	9,947
Subordinated note	616	628	1,874	1,886
Total interest expense	4,683	4,702	14,086	14,750
NET INTEREST INCOME	31,424	28,442	91,504	83,296
Provision for loan and lease losses	2,233	1,510	3,322	1,500
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	29,191	26,932	88,182	81,796
NON INTEREST INCOME:				
Service charges on deposit accounts	3,399	3,568	9,685	10,426
Net refund transfer fees	97	(133)	17,339	16,091
Mortgage banking income	972	876	3,549	2,174
Interchange fee income	1,967	1,619	6,205	5,344
Gain on call of securities available for sale	—	—	88	—
Net loss on other real estate owned	(8)	(758)	(282)	(1,309)
Increase in cash surrender value of bank owned life insurance	348	381	1,050	951
Other	1,031	974	2,643	2,646
Total non interest income	7,806	6,527	40,277	36,323
NON INTEREST EXPENSES:				
Salaries and employee benefits	15,297	12,164	44,897	40,612

Occupancy and equipment, net	5,217	5,544	15,560	16,874
Communication and transportation	951	905	2,768	2,787
Marketing and development	756	1,135	2,318	2,466
FDIC insurance expense	474	424	1,622	1,407
Bank franchise tax expense	846	731	4,094	3,901
Data processing	959	824	3,017	2,495
Interchange related expense	909	788	2,847	2,632
Supplies	229	205	809	705
Other real estate owned expense	146	218	485	916
Legal and professional fees	653	730	2,796	2,179
Other	1,801	1,537	5,264	4,714
Total non interest expenses	28,238	25,205	86,477	81,688
INCOME BEFORE INCOME TAX EXPENSE	8,759	8,254	41,982	36,431
INCOME TAX EXPENSE	3,119	3,008	14,234	12,879
NET INCOME	$ 5,640	$ 5,246	$ 27,748	$ 23,552
BASIC EARNINGS PER SHARE:				
Class A Common Stock	$ 0.27	$ 0.25	$ 1.34	$ 1.14
Class B Common Stock	$ 0.25	$ 0.24	$ 1.22	$ 1.09
DILUTED EARNINGS PER SHARE:				
Class A Common Stock	$ 0.27	$ 0.25	$ 1.34	$ 1.13
Class B Common Stock	$ 0.25	$ 0.24	$ 1.22	$ 1.08
DIVIDENDS DECLARED PER COMMON SHARE:				
Class A Common Stock	$ 0.198	$ 0.187	$ 0.583	$ 0.550
Class B Common Stock	$ 0.180	$ 0.170	$ 0.530	$ 0.500

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$ 5,640	$ 5,246	$ 27,748	$ 23,552
OTHER COMPREHENSIVE INCOME				
Change in fair value of derivatives used for cash flow hedges	(503)	28	(724)	(676)
Reclassification amount for derivative losses realized in income	100	104	304	303
Change in unrealized gain (loss) on securities available for sale	488	(10)	670	2,618
Reclassification adjustment for gain on security available for sale recognized in earnings	—	—	(88)	—
Change in unrealized gain on securities available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings	(58)	65	(84)	434
Net unrealized gains	27	187	78	2,679
Tax effect	(11)	(66)	(29)	(939)
Total other comprehensive income, net of tax	16	121	49	1,740
COMPREHENSIVE INCOME	$ 5,656	$ 5,367	$ 27,797	$ 25,292

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

NINE MONTHS ENDED SEPTEMBER 30, 2015

(in thousands)	Common Stock Class A Shares Outstanding	Class B Shares Outstanding	Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, January 1, 2015	18,603	2,245	$ 4,904	$ 134,889	$ 414,623	$ 4,315	$ 558,731
Net income	—	—	—	—	27,748	—	27,748
Net change in accumulated other comprehensive income	—	—	—	—	—	49	49
Dividend declared Common Stock:							
Class A Shares	—	—	—	—	(10,850)	—	(10,850)
Class B Shares	—	—	—	—	(1,190)	—	(1,190)
Stock options exercised, net of shares redeemed	14	—	4	305	(65)	—	244
Repurchase of Class A Common Stock	(19)	—	(4)	(124)	(349)	—	(477)
Conversion of Class B Common Stock to Class A Common Stock	—	—	—	—	—	—	—
Net change in notes receivable on Class A Common Stock	—	—	—	(25)	—	—	(25)
Deferred director compensation expense - Class A Common Stock	5	—	—	171	—	—	171

Stock based compensation expense - restricted stock	—	—	—	207	—	—	207
Stock based compensation expense - stock options	—	—	—	104	—	—	104
Balance, September 30, 2015	18,603	2,245	$ 4,904	$ 135,527	$ 429,917	$ 4,364	$ 574,712

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (in thousands)

	Nine Months Ended September 30, 2015	2014
OPERATING ACTIVITIES:		
Net income	$ 27,748	$ 23,552
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization on investment securities, net	506	446
Accretion on loans, net	(2,422)	(5,618)
Depreciation of premises and equipment	4,965	4,753
Amortization of mortgage servicing rights	1,057	996
Provision for loan and lease losses	3,322	1,500
Net gain on sale of mortgage loans held for sale	(3,189)	(1,894)
Origination of mortgage loans held for sale	(128,026)	(54,046)
Proceeds from sale of mortgage loans held for sale	129,077	53,556
Origination of other loans held for sale	(86,218)	—
Proceeds from sale of other loans held for sale	85,564	—
Net realized gain on sales, calls and impairment of securities	(88)	—
Net gain realized on sale of other real estate owned	(734)	(733)
Writedowns of other real estate owned	1,016	2,042
Net gain on sale of banking center	(28)	—
Deferred director compensation expense - Company Stock	171	145
Stock based compensation expense	311	366
Increase in cash surrender value of bank owned life insurance	(1,050)	(951)
Net change in other assets and liabilities:		
Accrued interest receivable	(228)	(283)
Accrued interest payable	(95)	(310)
Other assets	(1,709)	1,750
Other liabilities	5,336	1,500
Net cash provided by operating activities	35,286	26,771
INVESTING ACTIVITIES:		
Purchases of securities available for sale	(994,305)	(119,427)
Proceeds from calls, maturities and paydowns of securities available for sale	968,812	102,111
Proceeds from calls, maturities and paydowns of securities to be held to maturity	4,357	3,342
Net change in outstanding warehouse lines of credit	(74,117)	(123,008)
Purchase of loans, including premiums paid	(87,619)	(144,669)
Net change in other loans	(96,916)	(51,492)
Proceeds from redemption of Federal Home Loan Bank stock	—	134
Proceeds from sales of other real estate owned	7,880	8,991
Proceeds from sale of banking center	1,623	—
Net purchases of premises and equipment	(2,312)	(4,240)
Purchase of bank owned life insurance	—	(25,000)
Net cash used in investing activities	(272,597)	(353,258)

FINANCING ACTIVITIES:		
Net change in deposits	309,648	68,979
Net change in securities sold under agreements to repurchase and other short-term borrowings	(46,484)	110,319
Payments of Federal Home Loan Bank advances	(208,000)	(108,000)
Proceeds from Federal Home Loan Bank advances	212,000	165,000
Repurchase of Common Stock	(477)	(347)
Net proceeds from Common Stock options exercised	244	443
Cash dividends paid	(11,767)	(11,088)
Net cash provided by financing activities	255,164	225,306
NET CHANGE IN CASH AND CASH EQUIVALENTS	17,853	(101,181)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	72,878	170,863
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 90,731	$ 69,682
SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 14,181	$ 15,060
Income taxes	12,219	13,703
SUPPLEMENTAL NONCASH DISCLOSURES:		
Transfers from loans to real estate acquired in settlement of loans	$ 2,713	$ 6,466
Loans provided for sales of other real estate owned	2,962	1,331

See accompanying footnotes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – SEPTEMBER 30, 2015 and 2014 (UNAUDITED) AND DECEMBER 31, 2014

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The consolidated financial statements include the accounts of Republic Bancorp, Inc. (the "Parent Company") and its wholly-owned subsidiaries, Republic Bank & Trust Company ("RB&T" or the "Bank") and Republic Insurance Services, Inc. (the "Captive"). The Bank is a Kentucky-based, state chartered non-member financial institution. The Captive, which was formed during the third quarter of 2014, is a wholly-owned insurance subsidiary of the Company. The Captive provides property and casualty insurance coverage to the Company and the Bank as well as eight other third-party insurance captives for which insurance may not be available or economically feasible. Republic Bancorp Capital Trust ("RBCT") is a Delaware statutory business trust that is a wholly-owned unconsolidated finance subsidiary of Republic Bancorp, Inc. All companies are collectively referred to as "Republic" or the "Company." All significant intercompany balances and transactions are eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. For further information, refer to the consolidated financial statements and footnotes thereto included in Republic's Form 10-K for the year ended December 31, 2014.

As of September 30, 2015, the Company was divided into four distinct business operating segments: Traditional Banking, Warehouse Lending ("Warehouse"), Mortgage Banking and Republic Processing Group ("RPG"). Management considers the first three segments to collectively constitute "Core Bank" or "Core Banking" activities. The Warehouse segment was reported as a division of the Traditional Banking segment prior to the fourth quarter of 2014, but realized the quantitative and qualitative nature of a segment by the end of 2014. All prior periods have been reclassified to conform to the current presentation.

Traditional Banking, Warehouse Lending and Mortgage Banking (collectively "Core Bank" or "Core Banking")

The Traditional Bank provides traditional banking products primarily to customers in the Company's market footprint. As of September 30, 2015, in addition to Internet Banking and Correspondent Lending delivery channels, Republic had 40 full-service banking centers with locations as follows:

- Kentucky — 32
- Metropolitan Louisville — 19
- Central Kentucky — 8
- Elizabethtown — 1
- Frankfort — 1
- Georgetown — 1
- Lexington — 4
- Shelbyville — 1
- Western Kentucky — 2
- Owensboro — 2
- Northern Kentucky — 3
- Covington — 1
- Florence — 1
- Independence — 1
- Southern Indiana — 3
- Floyds Knobs — 1
- Jeffersonville — 1
- New Albany — 1
- Metropolitan Tampa, Florida — 2
- Metropolitan Cincinnati, Ohio — 1
- Metropolitan Nashville, Tennessee — 2

Republic's headquarters are located in Louisville, which is the largest city in Kentucky based on population.

Core Banking results of operations are primarily dependent upon net interest income, which represents the difference between the interest income and fees on interest-earning assets and the interest expense on interest-bearing liabilities. Interest-earning Core Banking assets primarily consist of investment securities and commercial and consumer loans primarily secured by real estate and/or personal property. Interest-bearing liabilities primarily consist of interest-bearing deposit accounts, securities sold under agreements to repurchase, as well as short-term and long-term borrowing sources. Federal Home Loan Bank ("FHLB") advances have traditionally been a significant borrowing source for the Bank.

Other sources of Core Banking income include service charges on deposit accounts, debit and credit card interchange fee income, title insurance commissions, fees charged to clients for trust services, increases in the cash surrender value of Bank Owned Life Insurance ("BOLI") and revenue generated from Mortgage Banking activities. Mortgage Banking activities represent both the origination and sale of loans in the secondary market and the servicing of loans for others, primarily the Federal Home Loan Mortgage Corporation ("Freddie Mac" or "FHLMC").

Core Banking operating expenses consist primarily of salaries and employee benefits, occupancy and equipment expenses, communication and transportation costs, data processing, interchange related expenses, marketing and development expenses, Federal Deposit Insurance Corporation ("FDIC") insurance expense, franchise tax expense and various general and administrative costs. Core Banking results of operations are significantly impacted by general economic and competitive conditions, particularly changes in market interest rates, government laws and policies and actions of regulatory agencies.

The Core Bank provides short-term, revolving credit facilities to mortgage bankers across the Nation through its Warehouse segment in the form of warehouse lines of credit. These credit facilities are secured by single family, first lien residential real estate loans. Outstanding balances on these credit facilities may be subject to significant fluctuations consistent with the overall market demand for mortgage loans.

The Core Bank began acquiring single family, first lien mortgage loans for investment through its Correspondent Lending channel in May 2014. Correspondent Lending generally involves the Bank acquiring, primarily from its Warehouse clients, closed loans that meet the Bank's specifications. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium.

Republic Processing Group

All divisions of the RPG segment operate through the Bank. Nationally, RPG facilitates the receipt and payment of federal and state tax refunds under the Tax Refund Solutions ("TRS") division, primarily through refund transfers ("RTs"). RTs are products whereby a tax refund is issued to the taxpayer after the Bank has received the refund from the federal or state government. There is no credit risk or borrowing cost associated with these products because they are only delivered to the taxpayer upon receipt of the tax refund directly from the governmental paying authority. Fees earned on RTs, net of rebates, are the primary source of revenue for the TRS division and the RPG segment, and are reported as non interest income under the line item "Net refund transfer fees."

The TRS division historically originated and obtained a significant source of revenue from Refund Anticipation Loans ("RALs"), but terminated this product effective April 30, 2012. RALs were short-term consumer loans offered to taxpayers that were secured by the client's anticipated tax refund, which represented the sole source of repayment. While RALs were terminated in 2012, TRS may receive recoveries from previously charged-off RALs.

The Republic Payment Solutions ("RPS") division offers general purpose reloadable prepaid debit cards through third party program managers.

The Republic Credit Solutions ("RCS") division offers short-term consumer credit products.

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Accounting Standards Update ("ASU") ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments.

Topic 805 requires that an acquirer retrospectively adjust provisional amounts recognized in a business combination, during the measurement period. To simplify the accounting for adjustments made to provisional amounts, the amendments in this ASU require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is required to also record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date.

The amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. This ASU is not expected to have a material impact on the Company's financial statements.

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2. INVESTMENT SECURITIES

Securities Available for Sale

The gross amortized cost and fair value of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income ("AOCI") were as follows:

September 30, 2015 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 216,938	$ 1,148	$ (2)	$ 218,084
Private label mortgage backed security	4,037	1,136	—	5,173
Mortgage backed securities - residential	96,609	4,364	(37)	100,936
Collateralized mortgage obligations	120,341	1,074	(393)	121,022
Freddie Mac preferred stock	—	269	—	269
Mutual fund	1,000	25	—	1,025
Corporate bonds	15,009	40	—	15,049
Total securities available for sale	$ 453,934	$ 8,056	$ (432)	$ 461,558

December 31, 2014 (in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 146,625	$ 312	$ (15)	$ 146,922
Private label mortgage backed security	4,030	1,220	—	5,250
Mortgage backed securities - residential	118,836	5,511	(91)	124,256
Collateralized mortgage obligations	143,283	1,034	(1,146)	143,171
Freddie Mac preferred stock	—	231	—	231
Mutual fund	1,000	18	—	1,018
Corporate bonds	15,011	52	—	15,063
Total securities available for sale	$ 428,785	$ 8,378	$ (1,252)	$ 435,911

Securities Held to Maturity

The carrying value, gross unrecognized gains and losses, and fair value of securities held to maturity were as follows:

September 30, 2015 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 1,523	$ 8	$ (1)	$ 1,530
Mortgage backed securities - residential	53	7	—	60
Collateralized mortgage obligations	34,465	558	—	35,023
Corporate bonds	5,000	—	(12)	4,988
Total securities held to maturity	$ 41,041	$ 573	$ (13)	$ 41,601

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December 31, 2014 (in thousands)	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
U.S. Treasury securities and U.S. Government agencies	$ 1,747	$ 1	$ (7)	$ 1,741
Mortgage backed securities - residential	147	20	—	167
Collateralized mortgage obligations	38,543	423	(4)	38,962
Corporate bonds	5,000	—	(63)	4,937
Total securities held to maturity	$ 45,437	$ 444	$ (74)	$ 45,807

At September 30, 2015 and December 31, 2014, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

Sales of Securities Available for Sale

During the three months ended September 30, 2015, there were no sales or calls of securities available for sale. During the nine months ended September 30, 2015, the Bank recognized a gain of $88,000 on the call of one security available for sale.

During the three and nine months ended September 30, 2014, there were no sales or calls of securities available for sale.

Investment Securities by Contractual Maturity

The amortized cost and fair value of the investment securities portfolio by contractual maturity at September 30, 2015 follows. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are detailed separately.

	Securities Available for Sale		Securities Held to Maturity	
September 30, 2015 (in thousands)	Amortized Cost	Fair Value	Carrying Value	Fair Value

Due in one year or less	$ —	$ —	$ 1,005	$ 1,013
Due from one year to five years	221,947	223,120	5,518	5,505
Due from five years to ten years	10,000	10,013	—	—
Due beyond ten years	—	—	—	—
Private label mortgage backed security	4,037	5,173	—	—
Mortgage backed securities - residential	96,609	100,936	53	60
Collateralized mortgage obligations	120,341	121,022	34,465	35,023
Freddie Mac preferred stock	—	269	—	—
Mutual fund	1,000	1,025	—	—
Total securities	$ 453,934	$ 461,558	$ 41,041	$ 41,601

Freddie Mac Preferred Stock

During 2008, the U.S. Treasury, the Federal Reserve Board and the Federal Housing Finance Agency ("FHFA") announced that the FHFA was placing Freddie Mac under conservatorship and giving management control to the FHFA. The Bank contemporaneously determined that its 40,000 shares of Freddie Mac preferred stock were fully impaired and recorded an other-than-temporary impairment ("OTTI") charge of $2.1 million in 2008. The OTTI charge brought the carrying value of the stock to $0. During the third quarter of 2014, based on active trading volume of Freddie Mac preferred stock, the Company determined it appropriate to record an unrealized gain to Other Comprehensive Income ("OCI") related to its Freddie Mac preferred stock holdings. Based on the stock's market closing price as of September 30, 2015, the Company's unrealized gain for its Freddie Mac preferred stock totaled $269,000.

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Mortgage Backed Securities and Collateralized Mortgage Obligations

At September 30, 2015, with the exception of the $5.2 million private label mortgage backed security, all other mortgage backed securities and collateralized mortgage obligations (“CMOs”) held by the Bank were issued by U.S. Government-sponsored entities and agencies, primarily Freddie Mac and the Federal National Mortgage Association (“Fannie Mae” or “FNMA”), institutions that the government has affirmed its commitment to support. At September 30, 2015 and December 31, 2014, there were gross unrealized losses of $430,000 and $1.2 million related to available for sale mortgage backed securities and CMOs. Because the decline in fair value of these securities is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Bank does not have the intent to sell these securities, and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be OTTI.

Market Loss Analysis

Securities with unrealized losses at September 30, 2015 and December 31, 2014, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 months		12 months or more		Total	
September 30, 2015 (in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available for sale:						
U.S. Treasury securities and U.S. Government agencies	$ —	$ —	$ 9,971	$ (2)	$ 9,971	$ (2)
Mortgage backed securities - residential	6,241	(37)	—	—	6,241	(37)
Collateralized mortgage obligations	1,910	(48)	44,331	(345)	46,241	(393)
Total securities available for sale	$ 8,151	$ (85)	$ 54,302	$ (347)	$ 62,453	$ (432)

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities held to maturity:						
U.S. Treasury securities and U.S. Government agencies	$ 517	$ (1)	$ —	$ —	$ 517	$ (1)
Collateralized mortgage obligations	—	—	—	—	—	—

Corporate bonds	4,988	(12)	—	—	4,988	(12)
Total securities held to maturity	$ 5,505	$ (13)	$ —	$ —	$ 5,505	$ (13)

	Less than 12 months		12 months or more		Total	
December 31, 2014 (in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available for sale:						
U.S. Treasury securities and U.S. Government agencies	$ 2,089	$ (15)	$ —	$ —	$ 2,089	$ (15)
Mortgage backed securities - residential	7,535	(91)	—	—	7,535	(91)
Collateralized mortgage obligations	46,058	(881)	12,534	(265)	58,592	(1,146)
Total securities available for sale	$ 55,682	$ (987)	$ 12,534	$ (265)	$ 68,216	$ (1,252)

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities held to maturity:						
U.S. Treasury securities and U.S. Government agencies	$ 517	$ (7)	$ —	$ —	$ 517	$ (7)
Collateralized mortgage obligations	9,045	(4)	—	—	9,045	(4)
Corporate bonds	4,936	(63)	—	—	4,936	(63)
Total securities held to maturity	$ 14,498	$ (74)	$ —	$ —	$ 14,498	$ (74)

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At September 30, 2015, the Bank's security portfolio consisted of 161 securities, 13 of which were in an unrealized loss position. At December 31, 2014, the Bank's security portfolio consisted of 157 securities, 17 of which were in an unrealized loss position.

Other-than-temporary impairment ("OTTI")

Unrealized losses for all investment securities are reviewed to determine whether the losses are "other-than-temporary." Investment securities are evaluated for OTTI on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in value below amortized cost is other-than-temporary. In conducting this assessment, the Bank evaluates a number of factors including, but not limited to:

- The length of time and the extent to which fair value has been less than the amortized cost basis;
- The Bank's intent to hold until maturity or sell the debt security prior to maturity;
- An analysis of whether it is more likely than not that the Bank will be required to sell the debt security before its anticipated recovery;
- Adverse conditions specifically related to the security, an industry, or a geographic area;
- The historical and implied volatility of the fair value of the security;
- The payment structure of the security and the likelihood of the issuer being able to make payments;
- Failure of the issuer to make scheduled interest or principal payments;
- Any rating changes by a rating agency; and
- Recoveries or additional decline in fair value subsequent to the balance sheet date.

The term "other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a general lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized for the anticipated credit losses.

The Bank owns one private label mortgage backed security with a total carrying value of $5.2 million at September 30, 2015. This security, with an average remaining life currently estimated at five years, is mostly backed by "Alternative A" first lien mortgage loans, but also has an insurance "wrap" or guarantee as an added layer of protection to the security holder. This asset is illiquid, and as such, the Bank determined it to be a Level 3 security in accordance with Accounting Standards Codification ("ASC") Topic 820, Fair Value Measurements and Disclosures. Based on this determination, the Bank utilized an income valuation model ("present value model") approach, in determining the fair value of the security. This approach is beneficial for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support for this investment.

See additional discussion regarding the Bank's private label mortgage backed security under Footnote 6 "Fair Value" in this section of the filing.

Pledged Investment Securities

Investment securities pledged to secure public deposits, securities sold under agreements to repurchase and securities held for other purposes, as required or permitted by law are as follows:

(in thousands)	September 30, 2015	December 31, 2014
Carrying amount	$ 383,926	$ 409,868
Fair value	384,491	410,307

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3. LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The composition of the loan portfolio at September 30, 2015 and December 31, 2014 follows:

(in thousands)	September 30, 2015	December 31, 2014
Residential real estate:		
Owner occupied	$ 1,089,213	$ 1,118,341
Owner occupied - correspondent*	246,122	226,628
Non owner occupied	108,726	96,492
Commercial real estate	827,054	772,309
Commercial real estate - purchased whole loans*	35,473	34,898
Construction & land development	54,573	38,480
Commercial & industrial	224,469	157,339
Lease financing receivables	7,931	2,530
Warehouse lines of credit	393,548	319,431
Home equity	277,778	245,679
Consumer:		
RPG loans	5,127	4,095
Credit cards	11,684	9,573
Overdrafts	970	1,180
Purchased whole loans*	5,341	4,626
Other consumer	9,865	8,894
Total loans**	3,297,874	3,040,495
Allowance for loan and lease losses	(26,959)	(24,410)
Total loans, net	$ 3,270,915	$ 3,016,085

* Identifies loans to borrowers located primarily outside of the Bank’s market footprint.

** Total loans are presented inclusive of premiums, discounts and net loan origination fees and costs. See table directly below for expanded detail.

The table below reconciles the contractually receivable and carrying amounts of loans at September 30, 2015 and December 31, 2014:

(in thousands)	September 30, 2015	December 31, 2014

Contractually receivable	$ 3,302,613	$ 3,050,599
Unearned income(1)	(600)	(174)
Unamortized premiums(2)	3,966	4,490
Unaccreted discounts(3)	(9,681)	(15,675)
Net unamortized deferred origination fees and costs	1,576	1,255
Carrying value of loans	$ 3,297,874	$ 3,040,495

(1) Unearned income relates to lease financing receivables.
(2) Premiums predominately relate to loans acquired through the Bank's Correspondent Lending channel.
(3) Discounts predominately relate to loans acquired in the Bank's 2012 FDIC-assisted transactions.

Loan Purchases

In May 2014, the Bank began acquiring single family, first lien mortgage loans for investment within its loan portfolio through its Correspondent Lending channel. Correspondent Lending generally involves the Bank acquiring, primarily from Warehouse clients, closed loans that meet the Bank's specifications. Substantially all loans purchased through the Correspondent Lending channel are purchased at a premium. Loans acquired through the Correspondent Lending channel generally reflect borrowers outside of the Bank's market footprint, with 80% of such loans as of September 30, 2015 secured by collateral in the state of California.

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In addition to secured mortgage loans acquired through its Correspondent Lending channel, the Bank also began acquiring unsecured consumer installment loans for investment from a third-party originator in April 2014. Such consumer loans are purchased at par and are selected by the Bank based on certain underwriting characteristics.

The table below reflects the purchased activity of single family, first lien mortgage loans and unsecured consumer loans, by class, during the three and nine months ended September 30, 2015 and 2014.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Residential real estate:				
Owner occupied - correspondent*	$ 22,003	$ 128,374	$ 84,804	$ 139,632
Consumer:				
Purchased whole loans*	2,453	2,524	2,815	5,037
Total purchased loans	$ 24,456	$ 130,898	$ 87,619	$ 144,669

* Represents origination amount, inclusive of purchase premiums, where applicable.

Purchased Credit Impaired ("PCI") Loans

PCI loans acquired during the Bank's 2012 FDIC-assisted transactions are accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality.

The table below reconciles the contractually required and carrying amounts of PCI loans at September 30, 2015 and December 31, 2014:

(in thousands)	September 30, 2015	December 31, 2014
Contractually-required principal	$ 19,313	$ 26,571
Non-accretable amount	(1,877)	(6,784)
Accretable amount	(4,212)	(2,297)
Carrying value of loans	$ 13,224	$ 17,490

The following table presents a rollforward of the accretable amount on PCI loans for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Balance, beginning of year	$ (4,323)	$ (2,487)	$ (2,297)	$ (3,457)
Transfers between non-accretable and accretable	(573)	(609)	(3,927)	(2,949)
Net accretion into interest income on loans, including loan fees	684	678	2,012	3,988
Other changes	—	—	—	—
Balance, end of year	$ (4,212)	$ (2,418)	$ (4,212)	$ (2,418)

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Credit Quality Indicators

Based on the Bank's internal analyses performed as of September 30, 2015 and December 31, 2014, the following tables reflect loans by risk category. Risk categories are defined in the Company's Annual Report on Form 10-K for the year ended December 31, 2014:

September 30, 2015 (in thousands)	Pass	Special Mention *	Substandard *	Doubtful / Loss	Purchased Credit Impaired Loans - Group 1	Purchased Credit Impaired Loans - Substandard	Total Rated Loans**
Residential real estate:							
Owner occupied	$ —	$ 23,897	$ 14,237	$ —	$ 930	$ —	$ 39,064
Owner occupied - correspondent	—	—	—	—	—	—	—
Non owner occupied	—	1,422	1,607	—	1,076	—	4,105
Commercial real estate	801,868	5,193	10,042	—	9,951	—	827,054
Commercial real estate - purchased whole loans	35,473	—	—	—	—	—	35,473
Construction & land development	51,793	113	2,632	—	35	—	54,573
Commercial & industrial	220,904	2,134	199	—	1,232	—	224,469
Lease financing receivables	7,931	—	—	—	—	—	7,931
Warehouse lines of credit	393,548	—	—	—	—	—	393,548
Home equity	—	—	2,391	—	—	—	2,391
Consumer:							
RPG loans	—	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—
Purchased whole loans	—	—	—	—	—	—	—
Other consumer	—	8	92	—	—	—	100
Total rated loans	$ 1,511,517	$ 32,767	$ 31,200	$ —	$ 13,224	$ —	$ 1,588,708

* At September 30, 2015, Special Mention and Substandard loans included $181,000 and $3 million, respectively, which were removed from PCI accounting in accordance with ASC 310-30-35-13 due to a post-acquisition troubled debt restructuring.

** The above table excludes all non-classified residential real estate, home equity and consumer loans at the respective period ends.

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December 31, 2014 (in thousands)	Pass	Special Mention *	Substandard *	Doubtful Loss	Purchased Credit Impaired Loans - Group 1	Purchased Credit Impaired Loans - Substandard	Total Rated Loans**
Residential real estate:							
Owner occupied	$ —	$ 26,828	$ 14,586	$ —	$ 1,205	$ —	$ 42,619
Owner occupied - correspondent	—	—	—	—	—	—	—
Non owner occupied	—	844	2,886	—	1,709	—	5,439
Commercial real estate	736,012	7,838	15,636	—	12,823	—	772,309
Commercial real estate - Purchased whole loans	34,898	—	—	—	—	—	34,898
Construction & land development	35,339	120	2,525	—	496	—	38,480
Commercial & industrial	153,362	625	2,108	—	1,244	—	157,339
Lease financing receivables	2,530	—	—	—	—	—	2,530
Warehouse lines of credit	319,431	—	—	—	—	—	319,431
Home equity	—	—	2,220	—	—	—	2,220
Consumer:							
RPG loans	—	—	—	—	—	—	—
Credit cards	—	—	—	—	—	—	—
Overdrafts	—	—	—	—	—	—	—
Purchased whole loans	—	—	—	—	—	—	—
Other consumer	—	13	38	—	13	—	64
Total rated loans	$ 1,281,572	$ 36,268	$ 39,999	$ —	$ 17,490	$ —	$ 1,375,329

* At December 31, 2014, Special Mention and Substandard loans included $443,000 and $6 million, respectively, which were removed from PCI accounting in accordance with ASC 310-30-35-13 due to a post-acquisition troubled debt restructuring.

** The above table excludes all non-classified residential real estate, home equity and consumer loans at the respective period ends.

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Allowance for Loan and Lease Losses

Activity in the allowance for loan and leases ("Allowance") follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Allowance, beginning of period	$ 25,248	$ 22,772	$ 24,410	$ 23,026
Charge offs - Core Banking	(676)	(1,071)	(1,853)	(2,698)
Charge offs - RPG	(182)	(2)	(208)	(2)
Total charge offs	(858)	(1,073)	(2,061)	(2,700)
Recoveries - Core Banking	312	376	1,027	1,233
Recoveries - RPG	24	32	261	558
Total recoveries	336	408	1,288	1,791
Net (charge offs) recoveries - Core Banking	(364)	(695)	(826)	(1,465)
Net (charge offs) recoveries - RPG	(158)	30	53	556
Net (charge offs) recoveries	(522)	(665)	(773)	(909)
Provision for loan and lease losses - Core Banking	1,100	1,542	2,192	2,012
Provision - RPG	1,133	(32)	1,130	(512)
Total provision	2,233	1,510	3,322	1,500
Allowance, end of period	$ 26,959	$ 23,617	$ 26,959	$ 23,617

The Allowance calculation includes the following qualitative factors, which are considered in combination with the Bank's historical loss rates in determining the general loss reserve within the Allowance:

- Changes in nature, volume and seasoning of the portfolio;
- Changes in experience, ability and depth of lending management and other relevant staff;
- Changes in the quality of the Bank's credit review system;
- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- Changes in the volume and severity of past due, non-performing and classified loans and leases;
- Changes in the value of underlying collateral for collateral-dependent loans and leases;
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of portfolios, including the condition of various market segments;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and

- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution's existing portfolio.

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The following tables present the activity in the Allowance by portfolio class for the three months ended September 30, 2015 and 2014:

	Residential Real Estate				Commercial Real Estate -			Lease
Three Months Ended September 30, 2015 (in thousands)	Owner Occupied	Owner Occupied Correspondent	Non Owner Occupied	Commercial Real Estate	Purchased Whole Loans	Construction & Land Development	Commercial & Industrial	Financing Receivables
Beginning balance	$ 8,202	$ 608	$ 904	$ 7,840	$ 35	$ 1,100	$ 1,191	$ 76
Provision for losses	330	7	83	200	—	31	235	7
Charge offs	(153)	—	(97)	(27)	—	—	—	—
Recoveries	76	—	—	—	—	—	18	—
Ending balance	$ 8,455	$ 615	$ 890	$ 8,013	$ 35	$ 1,131	$ 1,444	$ 83

(continued)	Warehouse Lines of Credit	Home Equity	Consumer RPG Loans	Credit Cards	Overdrafts	Purchased Whole Loans	Other Consumer	Total
Beginning balance	$ 1,222	$ 2,765	$ 252	$ 399	$ 286	$ 207	$ 161	$ 25,248
Provision for losses	(238)	124	1,133	40	138	154	(11)	2,233
Charge offs	—	(110)	(182)	(30)	(152)	(25)	(82)	(858)
Recoveries	—	54	24	6	63	1	94	336
Ending balance	$ 984	$ 2,833	$ 1,227	$ 415	$ 335	$ 337	$ 162	$ 26,959

	Residential Real Estate				Commercial Real Estate -			Lease
Three Months Ended	Owner Occupied	Owner Occupied Correspondent	Non Owner Occupied	Commercial Real Estate	Purchased Whole Loans	Construction & Land Development	Commercial & Industrial	Financing Receivables

September 30, 2014
(in thousands)

Beginning balance	$ 8,055	60	$ 839	$ 7,696	$ 34	$ 1,090	$ 1,152	3
Provision for losses	(148)	706	50	547	—	(4)	(81)	5
Charge offs	(161)	—	(135)	(365)	—	—	—	—
Recoveries	26	—	17	9	—	—	37	—
Ending balance	$ 7,772	766	$ 771	$ 7,887	$ 34	$ 1,086	$ 1,108	8

(continued)	Warehouse Lines of Credit	Home Equity	Consumer RPG Loans	Credit Cards	Overdrafts	Purchased Whole Loans	Other Consumer	Total
Beginning balance	$ 610	$ 2,403	$ 46	$ 286	$ 280	—	$ 218	$ 22,772
Provision for losses	71	283	(32)	19	17			