

COMMUNITY WEST BANCSHARES /
Form 10-Q
May 04, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018 or

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 NO

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an 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. (Check one):

Large accelerated filer

Accelerated filer

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 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.

Common stock of the registrant issued and outstanding of 8,216,164 as of April 27, 2018.

Table of Contents

| | |
|---|------|
| Index | Page |
| Part I. Financial Information | |
| Item 1 – Financial Statements | |
| <u>Consolidated Balance Sheets as of March 31, 2018 (unaudited) and December 31, 2017</u> | 3 |
| <u>Consolidated Income Statements for the three months ended March 31, 2018 and 2017 (unaudited)</u> | 4 |
| <u>Consolidated Statements of Comprehensive Income for the three months ended March 31, 2018 and 2017 (unaudited)</u> | 5 |
| <u>Consolidated Statement of Stockholders' Equity for the three months ended March 31, 2018 (unaudited)</u> | 6 |
| <u>Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017 (unaudited)</u> | 7 |
| <u>Notes to Unaudited Consolidated Financial Statements</u> | 8 |
| The financial statements included in this Form 10-Q should be read in conjunction with Community West Bancshares' Annual Report on Form 10-K for the fiscal year ended December 31, 2017. | |
| Item 2 – <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 33 |
| Item 3 – <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 48 |
| Item 4 – <u>Controls and Procedures</u> | 48 |
| Part II. Other Information | |
| <u>Item 1 – Legal Proceedings</u> | 49 |
| <u>Item 1A – Risk Factors</u> | 49 |
| <u>Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds</u> | 49 |
| <u>Item 3 – Defaults Upon Senior Securities</u> | 49 |
| <u>Item 4 – Mine Safety Disclosures</u> | 49 |
| <u>Item 5 – Other Information</u> | 49 |
| <u>Item 6 – Exhibits</u> | 49 |
| <u>Signatures</u> | 50 |

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

COMMUNITY WEST BANCSHARES
CONSOLIDATED BALANCE SHEETS

| | March 31, 2018 (unaudited) (in thousands, except share amounts) | December 31, 2017 |
|---|---|----------------------|
| Assets: | | |
| Cash and due from banks | \$ 3,462 | \$ 3,639 |
| Federal funds sold | 11 | 12 |
| Interest-earning demand in other financial institutions | 65,336 | 42,218 |
| Cash and cash equivalents | 68,809 | 45,869 |
| Investment securities - available-for-sale, at fair value; amortized cost of \$27,829 at March 31, 2018 and \$28,742 at December 31, 2017 | 27,715 | 28,783 |
| Investment securities - held-to-maturity, at amortized cost; fair value of \$7,116 at March 31, 2018 and \$7,671 at December 31, 2017 | 7,099 | 7,565 |
| Investment securities - measured at fair value; amortized cost of \$66 at March 31, 2018 and December 31, 2017 | 174 | - |
| Federal Home Loan Bank stock, at cost | 2,347 | 2,347 |
| Federal Reserve Bank stock, at cost | 1,373 | 1,373 |
| Loans: | | |
| Held for sale, at lower of cost or fair value | 52,767 | 55,094 |
| Held for investment, net of allowance for loan losses of \$8,458 at March 31, 2018 and \$8,420 at December 31, 2017 | 684,552 | 671,095 |
| Total loans | 737,319 | 726,189 |
| Other assets acquired through foreclosure, net | 233 | 372 |
| Premises and equipment, net | 5,706 | 5,581 |
| Other assets | 14,914 | 15,236 |
| Total assets | \$ 865,689 | \$ 833,315 |
| Liabilities: | | |
| Deposits: | | |
| Non-interest-bearing demand | \$ 118,206 | \$ 108,500 |
| Interest-bearing demand | 258,717 | 256,717 |
| Savings | 14,347 | 14,085 |
| Certificates of deposit (\$250,000 or more) | 81,690 | 81,985 |
| Other certificates of deposit | 237,077 | 238,397 |
| Total deposits | 710,037 | 699,684 |
| Other borrowings | 76,843 | 56,843 |
| Other liabilities | 7,098 | 6,718 |
| Total liabilities | 793,978 | 763,245 |
| Stockholders' equity: | | |
| Common stock — no par value, 60,000,000 shares authorized; 8,216,164 shares issued and outstanding at March 31, 2018 and 8,193,339 at December 31, 2017 | 42,798 | 42,604 |
| Retained earnings | 28,986 | 27,441 |
| Accumulated other comprehensive income (loss) | (73) | 25 |

| | | |
|--|------------|------------|
| Total stockholders' equity | 71,711 | 70,070 |
| Total liabilities and stockholders' equity | \$ 865,689 | \$ 833,315 |

See the accompanying notes.

Table of Contents

COMMUNITY WEST BANCSHARES

CONSOLIDATED INCOME STATEMENTS (unaudited)

| | Three Months Ended | |
|---|--|----------|
| | March 31, | |
| | 2018 | 2017 |
| | (in thousands, except per share amounts) | |
| Interest income: | | |
| Loans, including fees | \$ 9,651 | \$ 8,442 |
| Investment securities and other | 337 | 261 |
| Total interest income | 9,988 | 8,703 |
| Interest expense: | | |
| Deposits | 1,443 | 858 |
| Other borrowings | 195 | 71 |
| Total interest expense | 1,638 | 929 |
| Net interest income | 8,350 | 7,774 |
| Provision (credit) for loan losses | (144) | 144 |
| Net interest income after provision for loan losses | 8,494 | 7,630 |
| Non-interest income: | | |
| Other loan fees | 296 | 303 |
| Document processing fees | 117 | 133 |
| Service charges | 116 | 96 |
| Other | 110 | 109 |
| Total non-interest income | 639 | 641 |
| Non-interest expenses: | | |
| Salaries and employee benefits | 4,149 | 3,931 |
| Occupancy, net | 784 | 645 |
| Professional services | 304 | 179 |
| FDIC assessment | 214 | 110 |
| Data processing | 212 | 168 |
| Advertising and marketing | 170 | 156 |
| Depreciation | 167 | 163 |
| Stock based compensation | 116 | 84 |
| Loan servicing and collection | 70 | 106 |
| Other | 347 | 381 |
| Total non-interest expenses | 6,533 | 5,923 |
| Income before provision for income taxes | 2,600 | 2,348 |
| Provision for income taxes | 786 | 992 |
| Net income | \$ 1,814 | \$ 1,356 |
| Earnings per share: | | |
| Basic | \$ 0.22 | \$ 0.17 |
| Diluted | \$ 0.21 | \$ 0.16 |
| Weighted average number of common shares outstanding: | | |
| Basic | 8,209 | 8,100 |
| Diluted | 8,686 | 8,532 |
| Dividends declared per common share | \$ 0.040 | \$ 0.035 |

See the accompanying notes.

Table of Contents

COMMUNITY WEST BANCSHARES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

| | Three Months Ended March 31, | |
|--|---------------------------------|----------|
| | 2018 | 2017 |
| | (in thousands) | |
| Net income | \$ 1,814 | \$ 1,356 |
| Other comprehensive income, net: | | |
| Unrealized income on securities available-for-sale (AFS), net (tax effect of \$27 and \$0 for each respective period presented) | (39) | 29 |
| Net other comprehensive income | (39) | 29 |
| Comprehensive income | \$ 1,775 | \$ 1,385 |

See the accompanying notes.

Table of Contents

COMMUNITY WEST BANCSHARES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (unaudited)

| | Common Stock | | Accumulated Other Comprehensive | Retained | Total |
|---|----------------|----------|---------------------------------------|----------|---------------|
| | Shares | Amount | Income (Loss) | Earnings | Stockholders' |
| | (in thousands) | | | | Equity |
| Balance, December 31, 2017 | 8,193 | \$42,604 | \$ 25 | \$27,441 | \$ 70,070 |
| Net income | - | - | - | 1,814 | 1,814 |
| Exercise of stock options | 23 | 78 | - | - | 78 |
| Stock based compensation | - | 116 | - | - | 116 |
| Dividends on common stock | - | - | - | (328) | (328) |
| Other comprehensive income, net | - | - | (39) | - | (39) |
| Impact of ASU 2016-01 and 2018-02 as of January 1, 2018 | - | - | (59) | 59 | - |
| Balance, March 31, 2018 | 8,216 | \$42,798 | \$ (73) | \$28,986 | \$ 71,711 |

See the accompanying notes.

Table of Contents

COMMUNITY WEST BANCSHARES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2018 | 2017 |
| | (in thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$ 1,814 | \$ 1,356 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Provision (credit) for loan losses | (144) | 144 |
| Depreciation | 167 | 163 |
| Stock based compensation | 116 | 84 |
| Excess tax benefit of stock-based compensation | — | — |
| Deferred income taxes | (164) | 17 |
| Change in assets measured at fair value | — | — |
| Net accretion of discounts and premiums for investment securities | 29 | 5 |
| (Gains)/Losses on: | | |
| Sales of investment securities, AFS | | |
| Sale of repossessed assets, net | 26 | (3) |
| Sale of loans, net | — | — |
| Sale of assets, net | — | — |
| Loans originated for sale and principal collections, net | 2,327 | 1,605 |
| Changes in: | | |
| Investment securities held at fair value | (18) | - |
| Other assets | 438 | 76 |
| Other liabilities | 406 | 604 |
| Servicing assets, net | 46 | 6 |
| Other, net | — | — |
| Net cash provided by operating activities | 5,043 | 4,057 |
| Cash flows from investing activities: | | |
| Proceeds from held for investment loan sales | — | — |
| Proceeds from sale of available-for-sale securities | — | — |
| Principal pay downs and maturities of available-for-sale securities | 832 | 617 |
| Purchase of available-for-sale securities | - | (4,660) |
| Purchases of securities held-to-maturity | — | — |
| Proceeds from principal pay downs and maturities of securities held-to-maturity | 452 | 382 |
| Purchase of held-to-maturity securities | — | — |
| Loan originations and principal collections, net | (13,412) | (39,274) |
| Purchase of bank owned life insurance | — | — |
| Purchase of restricted stock, net | — | — |
| Purchase of bank owned life insurance | — | — |
| Net decrease in interest-bearing deposits in other financial institutions | — | — |
| Proceeds from held for investment loan sales | — | — |
| Purchase of premises and equipment, net | (292) | (823) |
| Proceeds from sale of other real estate owned and repossessed assets, net | 214 | 107 |
| Other, net | — | — |
| Net cash used in investing activities | (12,206) | (43,651) |
| Cash flows from financing activities: | | |
| Net increase in deposits | 10,353 | 27,894 |

Edgar Filing: COMMUNITY WEST BANCSHARES / - Form 10-Q

| | | |
|---|----------|----------|
| Deposits purchased from the FDIC | — | — |
| Net increase (decrease) in borrowings | 20,000 | 10,000 |
| Repayments on borrowings | — | (2,000) |
| Exercise of stock options | 78 | 44 |
| Cash dividends paid on common stock | (328) | (283) |
| Common stock repurchase | — | - |
| Net cash provided by financing activities | 30,103 | 35,655 |
| Net increase (decrease) cash and cash equivalents | 22,940 | (3,939) |
| Cash and cash equivalents at beginning of year | 45,869 | 34,116 |
| Cash and cash equivalents at end of period | \$68,809 | \$30,177 |
| Supplemental disclosure: | | |
| Cash paid during the period for: | | |
| Interest | \$219 | |