HANMI FINANCIAL CORP
Form 10-Q
August 09, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2013

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: 000-30421

HANMI FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	**95-4788120**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
3660 Wilshire Boulevard, Penthouse Suite A	
Los Angeles, California	**90010**
(Address of Principal Executive Offices)	**(Zip Code)**

(213) 382-2200

(Registrant s Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, 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 ¨

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	x
Non-Accelerated Filer	¨ (Do Not Check if a Smaller Reporting Company)	Smaller Reporting Company	¨

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

As of July 31, 2013, there were 31,607,087 outstanding shares of the Registrant s Common Stock.

Hanmi Financial Corporation and Subsidiaries

Quarterly Report on Form 10-Q

Three and Six Months Ended June 30, 2013

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Part I Financial Information

Item 1. Financial Statements

Hanmi Financial Corporation and Subsidiaries

Consolidated Balance Sheets *(Unaudited)*

(In thousands, except share data)

	June 30, 2013	December 31, 2012
Assets		
Cash and due from banks	$ 72,429	$ 92,350
Interest-bearing deposits in other banks	5,431	175,697
Cash and cash equivalents	77,860	268,047
Restricted cash		5,350
Securities available-for-sale, at fair value (amortized cost of $399,900 as of June 30, 2013 and $443,712 as of December 31, 2012)	400,815	451,060
Loans held for sale, at the lower of cost or fair value	2,553	8,306
Loans receivable, net of allowance for loan losses of $59,876 as of June 30, 2013 and $63,305 as of December 31, 2012	2,128,208	1,986,051
Accrued interest receivable	7,441	7,581
Premises and equipment, net	14,463	15,150
Other real estate owned, net	900	774
Customers liability on acceptances	1,372	1,336
Servicing assets	6,383	5,542
Other intangible assets, net	1,253	1,335
Investment in federal home loan bank stock, at cost	14,197	17,800
Investment in federal reserve bank stock, at cost	13,200	12,222
Income tax assets	63,783	60,028
Bank-owned life insurance	29,517	29,054
Prepaid expenses	2,572	2,084
Other assets	8,897	10,800
Total assets	**$ 2,773,414**	**$ 2,882,520**
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 736,470	$ 720,931
Interest-bearing	1,625,443	1,675,032
Total deposits	2,361,913	2,395,963
Accrued interest payable	2,570	11,775
Bank s liability on acceptances	1,372	1,336
Federal home loan bank advances	2,743	2,935
Junior subordinated debentures		82,406
Accrued expenses and other liabilities	9,420	9,741
Total liabilities	**2,378,018**	**2,504,156**

Stockholders equity:

Common stock, $0.001 par value; authorized 62,500,000 shares; issued 32,182,731 shares (31,604,837 shares outstanding) and 32,074,434 shares (31,496,540 shares outstanding) as of June 30, 2013 and December 31, 2012	257	257
Additional paid-in capital	551,286	550,123
Unearned compensation	(33)	(57)
Accumulated other comprehensive income, net of tax (benefit) expense of ($702) as of June 30, 2013 and $1,946 as of December 31, 2012	1,634	5,418
Accumulated deficit	(87,890)	(107,519)
Less: treasury stock, at cost; 577,894 shares as of June 30, 2013 and December 31, 2012	(69,858)	(69,858)
Total stockholders equity	**395,396**	**378,364**
Total liabilities and stockholders equity	**$ 2,773,414**	**$ 2,882,520**

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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Hanmi Financial Corporation and Subsidiaries

Consolidated Statements of Operations *(Unaudited)*

(In thousands, except share and per share data)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Interest and Dividend Income:				
Interest and fees on loans	$ 27,839	$ 27,241	$ 54,638	$ 54,783
Taxable interest on investment securities	2,100	2,190	4,216	4,288
Tax-exempt interest on investment securities	73	99	168	201
Interest on term federal funds sold		168		493
Interest on federal funds sold		31	6	33
Interest on interest-bearing deposits in other banks	24	59	112	127
Dividends on federal reserve bank stock	196	148	379	276
Dividends on federal home loan bank stock	147	29	255	58
Total interest and dividend income	30,379	29,965	59,774	60,259
Interest Expense:				
Interest on deposits	3,100	3,953	6,259	8,872
Interest on federal home loan bank advances	41	43	79	86
Interest on junior subordinated debentures	84	797	678	1,596
Total interest expense	3,225	4,793	7,016	10,554
Net interest income before provision for credit losses	27,154	25,172	52,758	49,705
Provision for credit losses		4,000		6,000
Net interest income after provision for credit losses	27,154	21,172	52,758	43,705
Non-Interest Income:				
Service charges on deposit accounts	2,884	2,936	5,932	6,104
Insurance commissions	1,418	1,294	2,631	2,530
Remittance fees	541	487	1,038	941
Trade finance fees	276	292	553	584
Other service charges and fees	335	380	733	744
Bank-owned life insurance income	233	238	463	637
Gain on sales of SBA loans guaranteed portion	2,378	5,473	5,070	5,473
Net loss on sales of other loans	(460)	(5,326)	(557)	(7,719)
Net gain on sales of investment securities	303	1,381	312	1,382
Other-than-temporary impairment loss on investment securities		(116)		(116)
Other operating income	242	150	332	262
Total non-interest income	8,150	7,189	16,507	10,822
Non-Interest Expense:				
Salaries and employee benefits	9,415	9,449	18,766	18,559
Occupancy and equipment	2,555	2,621	5,111	5,216
Deposit insurance premiums and regulatory assessments	517	1,498	751	2,899
Data processing	1,142	1,298	2,312	2,551
Other real estate owned expense	(20)	69	12	25

Professional fees	2,365	1,089	4,521	1,838
Directors and officers liability insurance	219	295	439	592
Supplies and communications	630	576	1,125	1,134
Advertising and promotion	1,005	1,009	1,677	1,610
Loan-related expense	91	88	237	288
Amortization of other intangible assets	41	45	82	116
Other operating expenses	2,004	1,726	4,098	3,681
Total non-interest expense	19,964	19,763	39,131	38,509
Income before provision (benefit) for income taxes	15,340	8,598	30,134	16,018
Provision (benefit) for income taxes	5,821	(47,177)	10,505	(47,098)
Net income	**$ 9,519**	**$ 55,775**	**$ 19,629**	**$ 63,116**
Earnings per share:				
Basic	$ 0.30	$ 1.77	$ 0.62	$ 2.01
Diluted	$ 0.30	$ 1.77	$ 0.62	$ 2.00
Weighted-average shares outstanding:				
Basic	31,590,760	31,475,610	31,565,013	31,473,065
Diluted	31,655,988	31,499,803	31,633,535	31,489,943

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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Hanmi Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income *(Unaudited)*

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Net Income	$ 9,519	$ 55,775	$ 19,629	$ 63,116
Other comprehensive income (loss), net of tax				
Unrealized (loss) gain on securities				
Unrealized holding (loss) gain arising during period	(5,553)	214	(6,121)	888
Less: reclassification adjustment for gain included in net income	(303)	(1,266)	(312)	(1,266)
Unrealized gain on interest rate swap		8		9
Unrealized gain on interest-only strip of servicing assets	(2)	(3)	1	(1)
Income tax benefit related to items of other comprehensive income	2,397		2,648	
Other comprehensive loss	(3,461)	(1,047)	(3,784)	(370)
Comprehensive Income	**$ 6,058**	**$ 54,728**	**$ 15,845**	**$ 62,746**

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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Hanmi Financial Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders Equity *(Unaudited)*

(In thousands, except share data)

	Common Stock - Number of Shares Gross Shares Issued and Outstanding	Treasury Shares	Net Shares Issued and Outstanding	Common Stock	Stockholders Equity Additional Paid-in Capital	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Treasury Stock, at Cost	Total Stockholders Equity
Balance at January 1, 2012	**32,066,987**	**(577,786)**	**31,489,201**	**$ 257**	**$ 549,744**	**$ (166)**	**$ 3,524**	**$ (197,893)**	**$ (69,858)**	**$ 285,608**
Share-based compensation expense					77	25				102
Restricted stock awards					(25)	25				
Comprehensive income:										
Net income								63,116		63,116
Change in unrealized gain on securities Available-for-sale and interest-only strips, net of income taxes							(370)			(370)
Total comprehensive income										62,746
Balance at June 30, 2012	**32,066,987**	**(577,786)**	**31,489,201**	**$ 257**	**$ 549,796**	**$ (116)**	**$ 3,154**	**$ (134,777)**	**$ (69,858)**	**$ 348,456**
Balance at January 1, 2013	32,074,434	(577,894)	31,496,540	$ 257	$ 550,123	$ (57)	$ 5,418	$ (107,519)	$ (69,858)	$ 378,364
Share-based compensation expense					165	24				189
Exercises of stock options	2,241		2,241		(291)					(291)
Exercises of stock warrants	106,056		106,056		1,289					1,289
Comprehensive income:										
Net income								19,629		19,629
Change in unrealized gain on securities Available-for-sale and interest-only strips, net of income taxes							(3,784)			(3,784)
Total comprehensive income										15,845
Balance at June 30, 2013	**32,182,731**	**(577,894)**	**31,604,837**	**$ 257**	**$ 551,286**	**$ (33)**	**$ 1,634**	**$ (87,890)**	**$ (69,858)**	**$ 395,396**

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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Hanmi Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows *(Unaudited)*

(In thousands)

	Six Months Ended June 30,	
	2013	**2012**
Cash flows from operating activities:		
Net income	$ 19,629	$ 63,116
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	997	1,087
Amortization of premiums and accretion of discounts on investment securities, net	1,443	2,005
Amortization of other intangible assets	82	116
Amortization of servicing assets	739	419
Share-based compensation expense	189	102
Provision for credit losses		6,000
Other-than-temporary loss on investment securities		116
FRB and FHLB stock dividends		334
Net gain on sales of investment securities	(312)	(1,382)
Net (gain) loss on sales of loans	(4,513)	465
Loss on investment in affordable housing partnership	378	440
Gain on bank-owned life insurance settlement		(163)
Valuation adjustment on other real estate owned	7	57
Valuation adjustment for loans held for sale		1,781
Origination of loans held for sale	(45,978)	(60,589)
Proceeds from sales of SBA loans guaranteed portion	60,562	72,223
Change in restricted cash	5,350	(2,001)
Change in accrued interest receivable	140	661
Change in cash surrender value of bank-owned life insurance	(463)	(473)
Change in prepaid expenses	(488)	(1,128)
Change in other assets	1,489	(7,909)
Change in income tax assets	(1,425)	(52,063)
Change in accrued interest payable	(9,205)	(1,150)
Change in stock warrants payable	82	137
Change in other liabilities	1,239	882
Net cash provided by operating activities	**29,942**	**23,083**
Cash flows from investing activities:		
Proceeds from matured term federal funds		160,000
Proceeds from redemption of federal home loan bank and federal reserve bank stock	3,603	2,109
Proceeds from matured or called securities available-for-sale	40,247	71,339
Proceeds from sales of securities available-for-sale	24,764	88,538
Proceeds from matured or called securities held to maturity		6,338
Proceeds from sales of other real estate owned	548	
Proceeds from sales of loans held for sale	5,380	65,470
Proceeds from insurance settlement on bank-owned life insurance		344
Purchases of term federal fund		(155,000)
Change in loans receivable	(154,739)	(16,160)
Purchases of securities available-for-sale	(22,329)	(98,311)
Purchases of premises and equipment	(310)	(396)
Purchases of loans receivable		(82,669)
Purchases of federal reserve bank stock	(978)	(1,979)

Net cash (used in) provided by investing activities	**(103,814)**	**39,623**
Cash flows from financing activities:		
Change in deposits	(34,050)	40,197
Repayment of long-term federal home loan bank advances	(192)	(181)
Redemption of junior subordinated debentures	(82,406)	
Proceeds from exercise of stock options	28	
Proceeds from exercise of stock warrants	305	
Net cash (used in) provided by financing activities	**(116,315)**	**40,016**
Net (decrease) increase in cash and cash equivalents	**(190,187)**	**102,722**
Cash and cash equivalents at beginning of year	268,047	201,683
Cash and cash equivalents at end of period	**$ 77,860**	**$ 304,405**

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Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest paid	$ 12,430	$ 11,704
Income taxes paid	$ 11,910	$ 4,912
Non-cash activities:		
Transfer of loans receivable to other real estate owned	$ 800	$ 948
Transfer of loans receivable to loans held for sale	$ 8,010	$ 64,471
Transfer of loans held for sale to loans receivable	$	$ 1,779
Conversion of stock warrants into common stock	$ 983	$
Income tax benefit related to items of other comprehensive income	$ 2,648	$
Change in unrealized loss in accumulated other comprehensive income	$ 6,120	$

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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Hanmi Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements *(Unaudited)*

Three and Six Months Ended June 30, 2013 and 2012

Note 1 Basis of Presentation

Hanmi Financial Corporation (Hanmi Financial, the Company, we or us) is a Delaware corporation and is subject to the Bank Holding Company Act of 1956, as amended. Our primary subsidiary is Hanmi Bank (the Bank), a California state chartered bank. Our other subsidiaries are Chun-Ha Insurance Services, Inc., a California corporation (Chun-Ha), and All World Insurance Services, Inc., a California corporation (All World).

In management s opinion, the accompanying unaudited consolidated financial statements of Hanmi Financial Corporation and Subsidiaries reflect all adjustments of a normal and recurring nature that are necessary for a fair presentation of the results for the interim period ended June 30, 2013, but are not necessarily indicative of the results that will be reported for the entire year or any other interim period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted. The aforementioned unaudited consolidated financial statements are in conformity with GAAP. Such interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. The interim information should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (the 2012 Annual Report on Form 10-K).

The preparation of interim consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Descriptions of our significant accounting policies are included in *Note 2 Summary of Significant Accounting Policies* in our 2012 Annual Report on Form 10-K.

Note 2 Investment Securities

The following is a summary of investment securities available-for-sale:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
		(In thousands)		
June 30, 2013:				
Mortgage-backed securities [(1)]	$ 125,177	$ 1,312	$ 1,871	$ 124,618
Collateralized mortgage obligations [(1)]	83,955	1,414	521	84,848
U.S. government agency securities	98,853	18	1,267	97,604
Municipal bonds-tax exempt	10,166	485		10,651
Municipal bonds-taxable	44,053	1,679	186	45,546
Corporate bonds	20,475	176	276	20,375
SBA loan pool securities	13,842		341	13,501
Other securities	3,025	1	93	2,933
Equity securities	354	385		739
Total securities available-for-sale	**$ 399,900**	**$ 5,470**	**$ 4,555**	**$ 400,815**
December 31, 2012:				
Mortgage-backed securities [(1)]	$ 157,185	$ 3,327	$ 186	$ 160,326
Collateralized mortgage obligations [(1)]	98,821	1,775	109	100,487

U.S. government agency securities	92,990	222	94	93,118
Municipal bonds-tax exempt	12,209	603		12,812
Municipal bonds-taxable	44,248	2,029	135	46,142
Corporate bonds	20,470	176	246	20,400
SBA loan pool securities	14,104	4	82	14,026
Other securities	3,331	73	47	3,357
Equity securities	354	78	40	392
Total securities available-for-sale	**$ 443,712**	**$ 8,287**	**$ 939**	**$ 451,060**

(1) Collateralized by residential mortgages and guaranteed by U.S. government sponsored entities

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The amortized cost and estimated fair value of investment securities at June 30, 2013, by contractual maturity, are shown below. Although mortgage-backed securities and collateralized mortgage obligations have contractual maturities through 2042, expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
	(In thousands)	
Within one year	$	$
Over one year through five years	29,404	29,406
Over five years through ten years	111,880	111,811
Over ten years	49,130	49,393
Mortgage-backed securities	125,177	124,618
Collateralized mortgage obligations	83,955	84,848
Equity securities	354	739
Total	**$ 399,900**	**$ 400,815**

FASB ASC 320, *Investments Debt and Equity Securities*, requires us to periodically evaluate our investments for other-than-temporary impairment (OTTI). There was no OTTI charge during the six months ended June 30, 2013.

Gross unrealized losses on investment securities available-for-sale, the estimated fair value of the related securities and the number of securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows as of June 30, 2013 and December 31, 2012:

	Holding Period								
	Less Than 12 Months			12 Months or More			Total		
	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities	Gross Unrealized Loss	Estimated Fair Value	Number of Securities
	(In thousands, except number of securities)								
June 30, 2013:									
Mortgage-backed securities	$ 1,871	$ 79,024	26	$	$		$ 1,871	$ 79,024	26
Collateralized mortgage obligations	521	25,134	10				521	25,134	10
U.S. government agency securities	1,267	89,068	31				1,267	89,068	31
Municipal bonds-taxable	183	7,485	6	3	444	1	186	7,929	7
Corporate bonds	108	4,880	1	168	10,819	3	276	15,699	4
SBA loan pool securities	341	13,501	4				341	13,501	4
Other securities	10	2,016	4	83	918	1	93	2,934	5
Total	**$ 4,301**	**$ 221,108**	**82**	**$ 254**	**$ 12,181**	**5**	**$ 4,555**	**$ 233,289**	**87**
December 31, 2012:									
Mortgage-backed securities	$ 186	$ 28,354	10	$	$		$ 186	$ 28,354	10
Collateralized mortgage obligations	109	14,344	5				109	14,344	5
U.S. government agency securities	94	26,894	9				94	26,894	9
Municipal bonds-taxable	126	4,587	4	9	1,964	3	135	6,551	7
Corporate bonds				246	10,738	3	246	10,738	3
SBA loan pool securities	82	11,004	3				82	11,004	3
Other securities	1	12	1	46	953	1	47	965	2
Equity securities	40	96	1				40	96	1

Total	**$ 638**	**$ 85,291**	**33**	**$ 301**	**$ 13,655**	**7**	**$ 939**	**$ 98,946**	**40**

All individual securities that have been in a continuous unrealized loss position for 12 months or longer as of June 30, 2013 and December 31, 2012 had investment grade ratings upon purchase. The issuers of these securities have not established any cause for default on these securities and the various rating agencies have reaffirmed these securities long-term investment grade status as of June 30, 2013. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated.

FASB ASC 320 requires other-than-temporarily impaired investment securities to be written down when fair value is below amortized cost in circumstances where: (1) an entity has the intent to sell a security; (2) it is more likely than not that an entity will be required to sell the security before recovery of its amortized cost basis; or (3) an entity does not expect to recover the entire amortized cost basis of the security. If an entity intends to sell a security or if it is more likely than not the entity will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security s amortized cost basis and its fair value. If an entity does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income.

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The Company does not intend to sell these securities and it is not more likely than not that we will be required to sell the investments before the recovery of its amortized cost basis. In addition, the unrealized losses on municipal and corporate bonds are not considered other-than-temporarily impaired as the bonds are rated investment grade and there are no credit quality concerns with the issuers. Interest payments have been made as scheduled, and management believes this will continue in the future and that the bonds will be repaid in full as scheduled. Therefore, in management s opinion, all securities that have been in a continuous unrealized loss position for the past 12 months or longer as of June 30, 2013 and December 31, 2012 were not other-than-temporarily impaired, and therefore, no impairment charges as of June 30, 2013 and December 31, 2012 were warranted.

Realized gains and losses on sales of investment securities, proceeds from sales of investment securities and the tax expense on sales of investment securities were as follows for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Gross realized gains on sales of investment securities	$ 304	$ 1,431	$ 313	$ 1,432
Gross realized losses on sales of investment securities	(1)	(50)	(1)	(50)
Net realized gains on sales of investment securities	**$ 303**	**$ 1,381**	**$ 312**	**$ 1,382**
Proceeds from sales of investment securities	$ 15,764	$ 85,538	$ 24,764	$ 88,538
Tax expense on sales of investment securities	$ 127	$ 581	$ 131	$ 581

For the three months ended June 30, 2013, there was a $303,000 net gain in earnings resulting from the redemption and sale of investment securities that had previously been recorded as net unrealized gains of $812,000 in comprehensive income. For the three months ended June 30, 2012, there was a $1.4 million net gain in earnings resulting from the redemption and sale of investment securities that had previously been recorded as net unrealized gains of $1.9 million in comprehensive income.

For the six months ended June 30, 2013, there was a $312,000 net gain in earnings resulting from the redemption and sale of investment securities that had previously been recognized as net unrealized gains of $856,000 in comprehensive income. For the six months ended June 30, 2012, there was a $1.4 million net gain in earnings resulting from the redemption and sale of investment securities that had previously been recorded as net unrealized gains of $1.7 million in comprehensive income.

Investment securities available-for-sale with carrying values of $55.7 million and $18.2 million as of June 30, 2013 and December 31, 2012, respectively, were pledged to secure FHLB advances, public deposits and for other purposes as required or permitted by law.

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Note 3 Loans

The Board of Directors and management review and approve the Bank s loan policy and procedures on a regular basis to reflect issues such as regulatory and organizational structure changes, strategic planning revisions, concentrations of credit, loan delinquencies and non-performing loans, problem loans, and policy adjustments.

Real estate loans are loans secured by liens or interest in real estate, to provide purchase, construction, and refinance on real estate properties. Commercial and industrial loans consist of commercial term loans, commercial lines of credit, and SBA loans. Consumer loans consist of auto loans, credit cards, personal loans, and home equity lines of credit. We maintain management loan review and monitoring departments that review and monitor pass graded loans as well as problem loans to prevent further deterioration.

Concentrations of Credit: The majority of the Bank s loan portfolio consists of commercial real estate and commercial and industrial loans. The Bank has been diversifying and monitoring commercial real estate loans based on property types, tightening underwriting standards, and portfolio liquidity and management, and has not exceeded certain specified limits set forth in the Bank s loan policy. Most of the Bank s lending activity occurs within Southern California.

Loans Receivable

Loans receivable consisted of the following as of the dates indicated:

	June 30, 2013	December 31, 2012
	(In thousands)	
Real estate loans:		
Commercial property	$ 887,782	$ 787,094
Residential property	88,654	101,778
Total real estate loans	976,436	888,872
Commercial and industrial loans:		
Commercial term (1)	940,555	884,364
Commercial lines of credit (2)	45,195	56,121
SBA loans (3)	157,240	148,306
International loans	32,583	34,221
Total commercial and industrial loans	1,175,573	1,123,012
Consumer loans	35,380	36,676
Total gross loans	**2,187,389**	**2,048,560**
Allowance for loans losses	(59,876)	(63,305)
Deferred loan fees	695	796
Loans receivable, net	**$ 2,128,208**	**$ 1,986,051**

(1) Includes owner-occupied property loans of $838.5 million and $774.2 million as of June 30, 2013 and December 31, 2012, respectively.
(2) Includes owner-occupied property loans of $1.0 million and $1.4 million as of June 30, 2013 and December 31, 2012, respectively.
(3) Includes owner-occupied property loans of $142.9 million and $128.4 million as of June 30, 2013 and December 31, 2012, respectively.

Accrued interest on loans receivable was $5.7 million and $5.4 million at June 30, 2013 and December 31, 2012, respectively. At June 30, 2013 and December 31, 2012, loans receivable totaling $691.6 million and $524.0 million, respectively, were pledged to secure advances from the FHLB and the FRB s federal discount window.

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The following table details the information on the sales and reclassifications of loans receivable to loans held for sale by portfolio segment for the three months ended June 30, 2013 and 2012:

	Real Estate	Commercial and Industrial	Consumer	Total
		(In thousands)		
June 30, 2013				
Balance at beginning of period	$	$ 6,043	$	$ 6,043
Origination of loans held for sale		22,834		22,834
Reclassification from loans receivable to loans held for sale	780	3,857		4,637
Sales of loans held for sale		(30,956)		(30,956)
Principal payoffs and amortization		(5)		(5)
Balance at end of period	**$ 780**	**$ 1,773**	**$**	**$ 2,553**
June 30, 2012				
Balance at beginning of period	$ 10,879	$ 45,114	$	$ 55,993
Origination of loans held for sale		34,723		34,723
Reclassification from loans receivable to loans held for sale	15,148	11,842		26,990
Reclassification from loans held for sale to loans receivable	(1,647)	(132)		(1,779)
Sales of loans held for sale	(21,909)	(87,552)		(109,461)
Principal payoffs and amortization	(58)	(146)		(204)
Valuation adjustments	(1,124)			(1,124)
Balance at end of period	**$ 1,289**	**$ 3,849**	**$**	**$ 5,138**

For the three months ended June 30, 2013, loans receivable of $4.6 million were reclassified as loans held for sale, and loans held for sale of $31.0 million were sold. For the three months ended June 30, 2012, loans receivable of $27.0 million were reclassified as loans held for sale, and loans held for sale of $109.5 million were sold.

The following table details the information on the sales and reclassifications of loans receivable to loans held for sale by portfolio segment for the six months ended June 30, 2013 and 2012:

	Real Estate	Commercial and Industrial	Consumer	Total
		(In thousands)		
June 30, 2013				
Balance at beginning of period	$	$ 8,306	$	$ 8,306
Origination of loans held for sale		45,978		45,978
Reclassification from loans receivable to loans held for sale	780	7,230		8,010
Sales of loans held for sale		(59,721)		(59,721)
Principal payoffs and amortization		(20)		(20)
Balance at end of period	**$ 780**	**$ 1,773**	**$**	**$ 2,553**
June 30, 2012				
Balance at beginning of period	$ 11,068	$ 11,519	$	$ 22,587
Origination of loans held for sale		60,589		60,589
Reclassification from loans receivable to loans held for sale	32,224	32,247		64,471
Reclassification from loans held for sale to other real estate owned	(360)			(360)

Reclassification from loans held for sale to loans receivable	(1,647)	(132)		(1,779)
Sales of loans held for sale	(38,703)	(99,455)		(138,158)
Principal payoffs and amortization	(169)	(262)		(431)
Valuation adjustments	(1,124)	(657)		(1,781)
Balance at end of period	**$ 1,289**	**$ 3,849**	**$**	**$ 5,138**

For the six months ended June 30, 2013, loans receivable of $8.0 million were reclassified as loans held for sale, and loans held for sale of $59.7 million were sold. For the six months ended June 30, 2012, loans receivable of $64.5 million were reclassified as loans held for sale, and loans held for sale of $138.2 million were sold.

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Allowance for Loan Losses and Allowance for Off-Balance Sheet Items

In the first quarter of 2010, the look-back period was reduced from twelve quarters to eight quarters, with 60 percent weighting given to the most recent four quarters and 40 percent to the oldest four quarters, to place greater emphasis on losses taken by the Bank during the economic downturn. In the second quarter of 2013, management reevaluated the look-back period and restored the twelve quarter look-back period in order to capture a period of higher losses that would have otherwise been excluded. Risk factor calculations are weighted at 50 percent for the most recent four quarters, 33 percent for the next four quarters, and 17 percent for the oldest four quarters. As homogenous loans are bulk graded, the risk grade is not factored into the historical loss analysis. The change in methodology maintained the Bank s allowance at a level consistent with prior quarter. Under the previous methodology, the Bank would have recognized a negative provision of $5.9 million, which the Bank did not consider to be prudent, given the uncertainty in the economy.

Activity in the allowance for loan losses and allowance for off-balance sheet items was as follows for the periods indicated:

	As of and for the Three Months Ended			As of and for the Six Months Ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
			(In thousands)		
Allowance for loan losses:					
Balance at beginning of period	$ 61,191	$ 63,305	$ 81,052	$ 63,305	$ 89,936
Actual charge-offs	(3,490)	(3,024)	(14,716)	(6,514)	(27,037)
Recoveries on loans previously charged off	1,867	714	1,324	2,581	2,361
Net loan charge-offs	(1,623)	(2,310)	(13,392)	(3,933)	(24,676)
Provision charged to operating expense	308	196	4,233	504	6,633
Balance at end of period	**$ 59,876**	**$ 61,191**	**$ 71,893**	**$ 59,876**	**$ 71,893**
Allowance for off-balance sheet items:					
Balance at beginning of period	$ 1,628	$ 1,824	$ 2,581	$ 1,822	$ 2,981
Provision charged to operating expense	(308)	(196)	(233)	(504)	(633)
Balance at end of period	**$ 1,320**	**$ 1,628**	**$ 2,348**	**$ 1,318**	**$ 2,348**

The following table details the information on the allowance for loan losses by portfolio segment for the three months ended June 30, 2013 and 2012:

	Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
			(In thousands)		
June 30, 2013					
Allowance for loan losses:					
Beginning balance	$ 17,832	$ 39,560	$ 1,795	$ 2,004	$ 61,191
Charge-offs	(146)	(3,308)	(36)		(3,490)
Recoveries on loans previously charged off	1,042	819	6		1,867
Provision	(248)	1,963	119	(1,526)	308
Ending balance	**$ 18,480**	**$ 39,034**	**$ 1,884**	**$ 478**	**$ 59,876**
Ending balance: individually evaluated for impairment	$ 28	$ 5,011	$ 385	$	$ 5,424
Ending balance: collectively evaluated for impairment	$ 18,452	$ 34,023	$ 1,499	$ 478	$ 54,452

Loans receivable:					
Ending balance	**$ 976,436**	**$ 1,175,573**	**$ 35,380**	**$**	**$ 2,187,389**
Ending balance: individually evaluated for impairment	$ 6,972	$ 37,055	$ 1,647	$	$ 45,674
Ending balance: collectively evaluated for impairment	$ 969,464	$ 1,138,518	$ 33,733	$	$ 2,141,715
June 30, 2012					
Allowance for loan losses:					
Beginning balance	$ 22,230	$ 54,638	$ 2,244	$ 1,940	$ 81,052
Charge-offs	(5,243)	(9,393)	(80)		(14,716)
Recoveries on loans previously charged off	517	789	18		1,324
Provision	3,902	776	(425)	(20)	4,233
Ending balance	**$ 21,406**	**$ 46,810**	**$ 1,757**	**$ 1,920**	**$ 71,893**
Ending balance: individually evaluated for impairment	$ 437	$ 7,224	$	$	$ 7,661
Ending balance: collectively evaluated for impairment	$ 20,969	$ 39,586	$ 1,757	$ 1,920	$ 64,232
Loans receivable:					
Ending balance	**$ 839,816**	**$ 1,070,469**	**$ 39,339**	**$**	**$ 1,949,624**
Ending balance: individually evaluated for impairment	$ 16,619	$ 42,087	$ 1,401	$	$ 60,107
Ending balance: collectively evaluated for impairment	$ 823,197	$ 1,028,382	$ 37,938	$	$ 1,889,517

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The following table details the information on the allowance for loan losses by portfolio segment for the six months ended June 30, 2013 and 2012:

	Real Estate	Commercial and Industrial	Consumer (In thousands)	Unallocated	Total
June 30, 2013					
Allowance for loan losses:					
Beginning balance	$ 18,180	$ 41,928	$ 2,280	$ 917	$ 63,305
Charge-offs	(359)	(5,955)	(200)		(6,514)
Recoveries on loans previously charged off	1,050	1,476	55		2,581
Provision	(391)	1,585	(251)	(439)	504
Ending balance	**$ 18,480**	**$ 39,034**	**$ 1,884**	**$ 478**	**$ 59,876**
Ending balance: individually evaluated for impairment	$ 28	$ 5,011	$ 385	$	$ 5,424
Ending balance: collectively evaluated for impairment	$ 18,452	$ 34,023	$ 1,499	$ 478	$ 54,452
Loans receivable:					
Ending balance	**$ 976,436**	**$ 1,175,573**	**$ 35,380**	**$**	**$ 2,187,389**
Ending balance: individually evaluated for impairment	$ 6,972	$ 37,055	$ 1,647	$	$ 45,674
Ending balance: collectively evaluated for impairment	$ 969,464	$ 1,138,518	$ 33,733	$	$ 2,141,715
June 30, 2012					
Allowance for loan losses:					
Beginning balance	$ 19,637	$ 66,005	$ 2,243	$ 2,051	$ 89,936
Charge-offs	(8,085)	(18,508)	(444)		(27,037)
Recoveries on loans previously charged off	517	1,802	42		2,361
Provision	9,337	(2,489)	(84)	(131)	6,633
Ending balance	**$ 21,406**	**$ 46,810**	**$ 1,757**	**$ 1,920**	**71,893**
Ending balance: individually evaluated for impairment	$ 437	$ 7,224	$	$	7,661
Ending balance: collectively evaluated for impairment	$ 20,969	$ 39,586	$ 1,757	$ 1,920	64,232
Loans receivable:					
Ending balance	**$ 839,816**	**$ 1,070,469**	**$ 39,339**	**$**	**1,949,624**
Ending balance: individually evaluated for impairment	$ 16,619	$ 42,087	$ 1,401	$	60,107
Ending balance: collectively evaluated for impairment	$ 823,197	$ 1,028,382	$ 37,938	$	1,889,517

Credit Quality Indicators

As part of the on-going monitoring of the credit quality of our loan portfolio, we utilize an internal loan grading system to identify credit risk and assign an appropriate grade (from (0) to (8)) for each and every loan in our loan portfolio. All loans are reviewed by a third-party loan reviewer on a semi-annual basis. Additional adjustments are made when determined to be necessary. The loan grade definitions are as follows:

Pass: Pass loans, grades (0) to (4), are in compliance in all respects with the Bank s credit policy and regulatory requirements, and do not exhibit any potential or defined weaknesses as defined under Special Mention (5), Substandard (6) or Doubtful (7). This category is the strongest level of the Bank s loan grading system. It incorporates all performing loans with no credit weaknesses. It includes cash and stock/security secured loans or other investment grade loans. The following are sub categories within the Pass category, or grades (0) to (4):

Pass (0): Loans or commitments secured in full by cash or cash equivalents.

Pass (1): Loans or commitments requiring a very strong, well-structured credit relationship with an established borrower. The relationship should be supported by audited financial statements indicating cash flow well in excess of debt service requirements, excellent liquidity, and very strong capital.

Pass (2): Loans or commitments requiring a well-structured credit that may not be as seasoned or as high quality as grade (1). Capital, liquidity, debt service capacity, and collateral coverage must all be well above average. This grade includes individuals with substantial net worth supported by liquid assets and strong income.

Pass (3): Loans or commitments to borrowers exhibiting a fully acceptable credit risk. These borrowers should have sound balance sheets and significant cash flow coverage, although they may be somewhat more leveraged and exhibit greater fluctuations in earning and financing but generally would be considered very attractive to the Bank as a borrower. The borrower has historically demonstrated the ability to manage economic adversity. Real estate and asset-based loans with this grade must have characteristics that place them well above the minimum underwriting requirements. Asset-based borrowers assigned this grade must exhibit extremely favorable leverage and cash flow characteristics and consistently demonstrate a high level of unused borrowing capacity.

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Pass (4): Loans or commitments to borrowers exhibiting either somewhat weaker balance sheets or positive, but inconsistent, cash flow coverage. These borrowers may exhibit somewhat greater credit risk, and as a result, the Bank may have secured its exposure to mitigate the risk. If so, the collateral taken should provide an unquestionable ability to repay the indebtedness in full through liquidation, if necessary. Cash flows should be adequate to cover debt service and fixed obligations, although there may be a question about the borrower s ability to provide alternative sources of funds in emergencies. Better quality real estate and asset-based borrowers who fully comply with all underwriting standards and are performing according to projections would be assigned this grade.

Special Mention: A Special Mention credit, grade (5), has potential weaknesses that deserve management s close attention. If not corrected, these potential weaknesses may result in deterioration of the repayment of the debt and result in a Substandard classification. Loans that have significant actual, not potential, weaknesses are considered more severely classified.

Substandard: A Substandard credit, grade (6), has a well-defined weakness that jeopardizes the liquidation of the debt. A credit graded Substandard is not protected by the sound worth and paying capacity of the borrower, or of the value and type of collateral pledged. With a Substandard loan, there is a distinct possibility that the Bank will sustain some loss if the weaknesses or deficiencies are not corrected.

Doubtful: A Doubtful credit, grade (7), is one that has critical weaknesses that would make the collection or liquidation of the full amount due improbable. However, there may be pending events which may work to strengthen the credit, and therefore the amount or timing of a possible loss cannot be determined at the current time.

Loss: A loan classified as Loss, grade (8), is considered uncollectible and of such little value that their continuance as active bank assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this asset even though partial recovery may be possible in the future. Loans classified Loss will be charged off in a timely manner.

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As of June 30, 2013 and December 31, 2012, pass (grade 0-4), criticized (grade 5) and classified (grade 6-7) loans, disaggregated by loan class, were as follows:

	Pass (Grade 0-4)	Criticized (Grade 5)	Classified (Grade 6-7)	Total Loans
		(In thousands)		
June 30, 2013				
Real estate loans:				
Commercial property				
Retail	$ 433,954	$ 3,755	$ 2,362	$ 440,071
Land	5,465		7,981	13,446
Other	419,664	12,026	2,575	434,265
Residential property	86,677		1,977	88,654
Commercial and industrial loans:				
Commercial term				
Unsecured	84,786	631	16,612	102,029
Secured by real estate	779,408	16,105	43,013	838,526
Commercial lines of credit	42,914	608	1,673	45,195
SBA loans	146,716	884	9,640	157,240
International loans	31,303		1,280	32,583
Consumer loans	32,617	181	2,582	35,380
Total gross loans	**$ 2,063,504**	**$ 34,190**	**$ 89,695**	**$ 2,187,389**
December 31, 2012				
Real estate loans:				
Commercial property				
Retail	$ 386,650	$ 3,971	$ 2,324	$ 392,945
Land	5,491		8,516	14,007
Other	366,518	12,132	1,492	380,142
Residential property	99,250		2,528	101,778
Commercial and industrial loans:				
Commercial term				
Unsecured	87,370	663	22,139	110,172
Secured by real estate	710,723	13,038	50,431	774,192
Commercial lines of credit	53,391	863	1,867	56,121
SBA loans	136,058	1,119	11,129	148,306
International loans	34,221			34,221
Consumer loans	33,707	201	2,768	36,676
Total gross loans	**$ 1,913,379**	**$ 31,987**	**$ 103,194**	**$ 2,048,560**

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The following is an aging analysis of past due loans, disaggregated by loan class, as of June 30, 2013 and December 31, 2012:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Accruing 90 Days or More Past Due
				(In thousands)			
June 30, 2013							
Real estate loans:							
Commercial property							
Retail	$	$	$	$	$ 440,071	$ 440,071	$
Land					13,446	13,446	
Other					434,265	434,265	
Residential property		219	810	1,029	87,625	88,654	
Commercial and industrial loans:							
Commercial term							
Unsecured	416	455	1,885	2,756	99,273	102,029	
Secured by real estate			122	122	838,404	838,526	
Commercial lines of credit		146	188	334	44,861	45,195	
SBA loans	2,376	2,707	3,718	8,801	148,439	157,240	
International loans					32,583	32,583	
Consumer loans	492	962	413	1,867	33,513	35,380	
Total gross loans	**$ 3,284**	**$ 4,489**	**$ 7,136**	**$ 14,909**	**$ 2,172,480**	**$ 2,187,389**	**$**
December 31, 2012							
Real estate loans:							
Commercial property							
Retail	$	$ 111	$	$ 111	$ 392,834	$ 392,945	$
Land			335	335	13,672	14,007	
Other					380,142	380,142	
Residential property		588	311	899	100,879	101,778	
Commercial and industrial loans:							
Commercial term							
Unsecured	918	1,103	1,279	3,300	106,872	110,172	
Secured by real estate	1,949		926	2,875	771,317	774,192	
Commercial lines of credit		188	416	604	55,517	56,121	
SBA loans	3,759	1,039	2,800	7,598	140,708	148,306	
International loans					34,221	34,221	
Consumer loans	61	146	538	745	35,931	36,676	
Total gross loans	**$ 6,687**	**$ 3,175**	**$ 6,605**	**$ 16,467**	**$ 2,032,093**	**$ 2,048,560**	**$**

Impaired Loans

Loans are considered impaired when non-accrual and principal or interest payments have been contractually past due for 90 days or more, unless the loan is both well-collateralized and in the process of collection; or they are classified as Troubled Debt Restructuring (TDR) loans to offer terms not typically granted by the Bank; or when current information or events make it unlikely to collect in full according to the contractual terms of the loan agreements; or there is a deterioration in the borrower s financial condition that raises uncertainty as to timely collection of either principal or interest; or full payment of both interest and principal is in doubt according to the original contractual terms.

We evaluate loan impairment in accordance with applicable GAAP. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan s effective interest rate or, as a practical expedient, at the loan s observable market price or the fair value of the collateral if the loan is collateral dependent, less costs to sell. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the allowance for loan losses or, alternatively, a specific allocation will be established. Additionally, loans that are considered impaired are specifically excluded from the quarterly migration analysis when determining the amount of the allowance for loan losses required for the period.

The allowance for collateral-dependent loans is determined by calculating the difference between the outstanding loan balance and the value of the collateral as determined by recent appraisals. The allowance for collateral-dependent loans varies from loan to loan based on the collateral coverage of the loan at the time of designation as non-performing. We continue to monitor the collateral coverage, using recent appraisals, on these loans on a quarterly basis and adjust the allowance accordingly.

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The following table provides information on impaired loans, disaggregated by loan class, as of the dates indicated:

	Recorded Investment	Unpaid Principal Balance	With No Related Allowance Recorded (In thousands)	With an Allowance Recorded	Related Allowance
June 30, 2013					
Real estate loans:					
Commercial property					
Retail	$ 1,818	$ 1,818	$ 1,818	$	$
Land	1,612	1,902	1,612		
Other	523	523		523	28
Residential property	3,019	3,091	3,019		
Commercial and industrial loans:					
Commercial term					
Unsecured	12,689	13,742	3,440	9,249	3,863
Secured by real estate	16,492	17,649	15,887	605	119
Commercial lines of credit	1,052	1,259	1,052		
SBA loans	5,541	8,832	3,363	2,178	998
International loans	1,281	1,280	572	709	31
Consumer loans	1,647	1,718	457	1,190	385
Total gross loans	**$ 45,674**	**$ 51,814**	**$ 31,220**	**$ 14,454**	**$ 5,424**
December 31, 2012					
Real estate loans:					
Commercial property					
Retail	$ 2,930	$ 3,024	$ 2,930	$	$
Land	2,097	2,307	2,097		
Other	527	527		527	67
Residential property	3,265	3,308	1,866	1,399	94
Commercial and industrial loans:					
Commercial term					
Unsecured	14,532	15,515	6,826	7,706	2,144
Secured by real estate	22,050	23,221	9,520	12,530	2,319
Commercial lines of credit	1,521	1,704	848	673	230
SBA loans	6,170	10,244	4,294	1,876	762
International loans					
Consumer loans	1,652	1,711	449	1,203	615
Total gross loans	**$ 54,744**	**$ 61,561**	**$ 28,830**	**$ 25,914**	**$ 6,231**

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The following table provides information on impaired loans, disaggregated by loan class, as of dates indicated:

	Average Recorded Investment for the Three Months Ended	Interest Income Recognized for the Three Months Ended	Average Recorded Investment for the Six Months Ended	Interest Income Recognized for the Six Months Ended
		(In thousands)		
June 30, 2013				
Real estate loans:				
Commercial property				
Retail	$ 1,823	$ 18	$ 2,309	$ 44
Land	1,637	40	1,674	80
Other	524	6	525	10
Residential property	3,027	31	3,043	59
Commercial and industrial loans:				
Commercial term				
Unsecured	12,933	221	13,093	406
Secured by real estate	16,539	305	17,026	618
Commercial lines of credit	1,060	9	1,286	24
SBA loans	5,595	281	6,034	554
International loans	1,330		1,414	
Consumer loans	1,649	15	1,646	27
Total gross loans	**$ 46,117**	**$ 926**	**$ 48,050**	**$ 1,822**
June 30, 2012				
Real estate loans:				
Commercial property				
Retail	$ 2,546	$ 19	$ 1,945	$ 48
Land	2,137	45	2,175	91
Other	878	11	1,138	33
Construction	7,983	89	8,090	178
Residential property	3,177	48	3,259	84
Commercial and industrial loans:				
Commercial term				
Unsecured	13,474	192	14,257	430
Secured by real estate	19,021	525	22,756	958
Commercial lines of credit	1,788	22	1,835	30
SBA loans	8,336	286	8,150	483
Consumer loans	1,402	2	903	10
Total gross loans	**$ 60,742**	**$ 1,239**	**$ 64,508**	**$ 2,345**

The following is a summary of interest foregone on impaired loans for the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
		(In thousands)		
	$ 1,057	$ 1,505	$ 2,125	$ 2,933

Interest income that would have been recognized had impaired loans performed in accordance with their original terms				
Less: Interest income recognized on impaired loans	(926)	(1,239)	(1,822)	(2,345)
Interest foregone on impaired loans	**$ 131**	**$ 266**	**$ 303**	**$ 588**

There were no commitments to lend additional funds to borrowers whose loans are included above.

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Non-Accrual Loans

Loans are placed on non-accrual status when, in the opinion of management, the full timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payments become more than 90 days past due, unless management believes the loan is adequately collateralized and in the process of collection. However, in certain instances, we may place a particular loan on non-accrual status earlier, depending upon the individual circumstances surrounding the loan s delinquency. When a loan is placed on non-accrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income. Non-accrual loans may be restored to accrual status when principal and interest payments become current and full repayment is expected.

The following table details non-accrual loans, disaggregated by loan class, as of the dates indicated:

	June 30, 2013	December 31, 2012
	(In thousands)	
Real estate loans:		
Commercial property		
Retail	$	$ 1,079
Land	1,612	2,097
Residential property	1,620	1,270
Commercial and industrial loans:		
Commercial term		
Unsecured	6,209	8,311
Secured by real estate	5,389	8,679
Commercial lines of credit	1,052	1,521
SBA loans	10,596	12,563
Consumer loans	1,497	1,759
Total non-accrual loans	**$ 27,975**	**$ 37,279**

The following table details non-performing assets as of the dates indicated:

	June 30, 2013	December 31, 2012
	(In thousands)	
Non-accrual loans	$ 27,975	$ 37,279
Loans 90 days or more past due and still accruing		
Total non-performing loans	27,975	37,279
Other real estate owned	900	774
Total non-performing assets	**$ 28,875**	**$ 38,053**

Loans on non-accrual status, excluding loans held for sale, totaled $28.0 million as of June 30, 2013, compared to $37.3 million as of December 31, 2012, representing a 25.0 percent decrease. Delinquent loans (defined as 30 days or more past due), excluding loans held for sale, were $14.9 million as of June 30, 2013, compared to $16.5 million as of December 31, 2012, representing a 9.5 percent decrease.

As of June 30, 2013, other real estate owned consisted of two properties in Virginia and California with a combined carrying value of $900,000, and a valuation adjustment of $126,000 was recorded. As of December 31, 2012, there were two properties located in Illinois and Virginia with a combined carrying value of $774,000 and no valuation adjustment.

Troubled Debt Restructuring

In April 2011, the FASB issued ASU 2011-02, *A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring*, which clarifies the guidance for evaluating whether a restructuring constitutes a TDR. This guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For the purposes of measuring impairment of loans that are newly considered impaired, the guidance should be applied prospectively for the first interim or annual period beginning on or after June 15, 2011.

As a result of the amendments in ASU 2011-02, we reassessed all restructurings that occurred on or after the beginning of the annual period and identified certain receivables as TDRs. Upon identifying those receivables as TDRs, we considered them impaired and applied the impairment measurement guidance prospectively for those receivables newly identified as impaired.

During the three months ended June 30, 2013, we restructured monthly payments on 9 loans, with a net carrying value of $787,000 as of June 30, 2013, through temporary payment structure modifications or re-amortization. For the restructured loans on accrual status, we determined that, based on the financial capabilities of the borrowers at the time of the loan restructuring and the borrowers past performance in the payment of debt service under the previous loan terms, performance and collection under the revised terms are probable.

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The following table details troubled debt restructurings, disaggregated by concession type and by loan type, as of June 30, 2013 and December 31, 2012:

	Non-Accrual TDRs					Accrual TDRs				
	Deferral of Principal	Deferral of Principal and Interest	Reduction of Principal and Interest	Extension of Maturity	Total	Deferral of Principal	Deferral of Principal and Interest	Reduction of Principal and Interest	Extension of Maturity	Total
	(In thousands)									
June 30, 2013										
Real estate loans:										
Commercial property										
Retail	$	$	$	$	$	$ 342	$	$	$ 174	$ 516
Other						523				523
Residential property	811				811					
Commercial and industrial loans:										
Commercial term										
Unsecured		570	2,830	926	4,326	906		1,848	2,671	5,425
Secured by real estate	2,221	1,035	279		3,535	2,116		579	4,510	7,205
Commercial lines of credit	656		188	208	1,052					
SBA loans	1,641	1,191	811		3,643	450		75		525
International loans								1,280		1,280
Consumer loans								149		149
Total	**$ 5,329**	**$ 2,796**	**$ 4,108**	**$ 1,134**	**$ 13,367**	**$ 4,337**	**$**	**$ 3,931**	**$ 7,355**	**$ 15,623**
December 31, 2012										
Real estate loans:										
Commercial property										
Retail	$	$	$	$ 1,080	$ 1,080	$ 357	$	$	$ 175	$ 532
Other						527				527
Residential property	827				827		572			572
Commercial and industrial loans:										
Commercial term										
Unsecured		658	4,558	1,413	6,629	976		1,090	3,260	5,326
Secured by real estate	2,317	1,343	318		3,978	4,444		448	4,547	9,439
Commercial lines of credit	673		188	244	1,105					
SBA loans	2,831	1,287	1,032		5,150	484		100		584
Total	**$ 6,648**	**$ 3,288**	**$ 6,096**	**$ 2,737**	**$ 18,769**	**$ 6,788**	**$ 572**	**$ 1,638**	**$ 7,982**	**$ 16,980**

The following table details troubled debt restructuring, disaggregated by loan class, for the three months ended June 30, 2013 and 2012:

	June 30, 2013			June 30, 2012		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(In thousands, except number of loans)					
Commercial and industrial loans:						
Commercial term						
Unsecured (1)	6	$ 518	$ 498	10	$ 1,640	$ 1,588
Secured by real estate (2)				1	378	358
Commercial lines of credit (3)	1			1	196	192
SBA loans (4)	1	148	140	4	681	653

Consumer loans [5]	1	149		149					
Total	**9**	**$ 815**	**$**	**787**	**16**	**$**	**2,895**	**$**	**2,791**

(1) Includes modifications of $42,000 through a reduction of principal or accrued interest and $456,000 through extensions of maturity for the three months ended June 30, 2013, and modifications of $1.2 million through payment deferrals and $394,000 through extensions of maturity for the three months ended June 30, 2012.

(2) Includes a modification of $358,000 through a reduction of principal or accrued interest for the three months ended June 30, 2012.

(3) Includes a modification of zero through a reduction of principal or accrued interest for the three months ended June 30, 2013 and a modification of $192,000 through a reduction of principal or accrued interest for the three months ended June 30, 2012.

(4) Includes a modification of $140,000 through a reduction of principal or accrued interest for the three months ended June 30, 2013, and modifications of $362,000 through payment deferrals and $291,000 through reductions of principal or accrued interest for the three months ended June 30, 2012.

(5) Includes a modification of $149,000 through a reduction of principal or accrued interest for the three months ended June 30, 2013.

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The following table details troubled debt restructuring, disaggregated by loan class, for the six months ended June 30, 2013 and 2012:

	June 30, 2013			June 30, 2012		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(In thousands, except number of loans)					
Commercial and industrial loans:						
Commercial term						
Unsecured (1)	7	764	692	27	4,696	4,426
Secured by real estate (2)				3	2,211	2,144
Commercial lines of credit (3)	1			1	202	192
SBA loans (4)	2	161	147	9	975	934
International loans (5)	2	1,584	1,280			
Consumer loans (6)	1	149	149			
Total	**13**	**$ 2,658**	**$ 2,268**	**40**	**$ 8,084**	**$ 7,696**

(1) Includes modifications of $42,000 through a reduction of principal or accrued interest and $650,000 through extensions of maturity for the six months ended June 30, 2013, and modifications of $893,000 through payment deferrals, $1.9 million through reductions of principal or accrued interest and $1.6 million through extensions of maturity for the six months ended June 30, 2012.

(2) Includes modifications of $1.6 million through reductions of principal or accrued interest and $497,000 through an extension of maturity for the six months ended June 30, 2012.

(3) Includes a modification of zero through a reduction of principal or accrued interest for the three months ended June 30, 2013 and a modification of $192,000 through a reduction of principal or accrued interest for the six months ended June 30, 2012.

(4) Includes modifications of $7,000 through a payment deferral and $140,000 through a reduction of principal or accrued interest for the six months ended June 30, 2013, and modifications of $503,000 through payments deferral and $442,000 through reductions of principal or accrued interest for the six months ended June 30, 2012.

(5) Includes a modification of $1.3 million through reductions of principal or accrued interest for the six months ended June 30, 2013.

(6) Includes a modification of $149,000 through a reduction of principal or accrued interest for the six months ended June 30, 2013.

As of June 30, 2013 and December 31, 2012, total TDRs, excluding loans held for sale, were $29.0 million and $35.7 million, respectively. A debt restructuring is considered a TDR if we grant a concession that we would not have otherwise considered to the borrower, for economic or legal reasons related to the borrower s financial difficulties. Loans are considered to be TDRs if they were restructured through payment structure modifications such as reducing the amount of principal and interest due monthly and/or allowing for interest only monthly payments for six months or less. All TDRs are impaired and are individually evaluated for specific impairment using one of these three criteria: (1) the present value of expected future cash flows discounted at the loan s effective interest rate; (2) the loan s observable market price; or (3) the fair value of the collateral if the loan is collateral dependent.

At June 30, 2013 and December 31, 2012, TDRs, excluding loans held for sale, were subjected to specific impairment analysis, and $3.3 million and $3.6 million, respectively, of reserves relating to these loans were included in the allowance for loan losses.

The following table details troubled debt restructurings that defaulted subsequent to the modifications occurring within the previous twelve months, disaggregated by loan class, for the three and six months ended June 30, 2013 and 2012, respectively:

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012

	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
				(In thousands, except number of loans)				
Commercial and industrial loans:								
Commercial term								
Unsecured	4	$ 311	6	$ 636	4			