PROVIDENT FINANCIAL HOLDINGS INC
Form 10-Q
February 09, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

[ü]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended December 31, 2014
[ ]	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
000-28304

PROVIDENT FINANCIAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	33-0704889
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3756 Central Avenue, Riverside, California 92506
(Address of principal executive offices and zip code)

(951) 686-6060
(Registrant’s telephone number, including area code)

____

(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 ü 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 ü 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 [ü]
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 ü .

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Title of class:	As of February 2, 2015
Common stock, $ 0.01 par value, per share	8,995,149 shares

PROVIDENT FINANCIAL HOLDINGS, INC.

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PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Financial Condition
In Thousands, Except Share Information

	(Unaudited) December 31, 2014	June 30, 2014
Assets		
Cash and cash equivalents	$32,078	$118,937
Investment securities – held to maturity (fair value $800 and $800, respectively)	800	800
Investment securities – available for sale, at fair value	15,377	16,347
Loans held for investment, net of allowance for loan losses of $8,693 and $9,744, respectively	797,783	772,141
Loans held for sale, at fair value	228,783	158,883
Accrued interest receivable	2,554	2,483
Real estate owned, net	3,496	2,467
Federal Home Loan Bank (“FHLB”) – San Francisco stock	7,056	7,056
Premises and equipment, net	5,806	6,369
Prepaid expenses and other assets	18,657	20,146
Total assets	$1,112,390	$1,105,629
Liabilities and Stockholders’ Equity		
Liabilities:		
Non interest-bearing deposits	$55,804	$58,654
Interest-bearing deposits	849,708	839,216
Total deposits	905,512	897,870
Borrowings	41,400	41,431
Accounts payable, accrued interest and other liabilities	21,128	20,466
Total liabilities	968,040	959,767
Commitments and Contingencies		
Stockholders’ equity:		
Preferred stock, $.01 par value (2,000,000 shares authorized; none issued and outstanding)	—	—
Common stock, $.01 par value (40,000,000 shares authorized; 17,716,365 and 17,714,365 shares issued; 8,995,149 and 9,312,269 shares outstanding, respectively)	177	177
Additional paid-in capital	87,153	88,259
Retained earnings	185,148	182,458
Treasury stock at cost (8,721,216 and 8,402,096 shares, respectively)	(128,560)	(125,418)
Accumulated other comprehensive income, net of tax	432	386
Total stockholders’ equity	144,350	145,862

Total liabilities and stockholders' equity	$1,112,390	$1,105,629

The accompanying notes are an integral part of these condensed consolidated financial statements.

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PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Operations
(Unaudited)
In Thousands, Except Per Share Information

	Quarter Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Interest income:				
Loans receivable, net	$9,376	$9,085	$18,571	$18,791
Investment securities	72	86	148	178
FHLB – San Francisco stock	132	204	276	412
Interest-earning deposits	76	138	170	248
Total interest income	9,656	9,513	19,165	19,629
Interest expense:				
Checking and money market deposits	110	96	214	198
Savings deposits	160	152	317	299
Time deposits	940	1,171	1,916	2,434
Borrowings	336	439	671	1,082
Total interest expense	1,546	1,858	3,118	4,013
Net interest income	8,110	7,655	16,047	15,616
Recovery from the allowance for loan losses	(354)	(898)	(1,172)	(1,840)
Net interest income, after recovery from the allowance for loan losses	8,464	8,553	17,219	17,456
Non-interest income:				
Loan servicing and other fees	291	331	559	526
Gain on sale of loans, net	8,042	5,732	15,694	12,486
Deposit account fees	604	619	1,230	1,240
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(51)	(82)	(70)	(30)
Card and processing fees	336	317	692	661
Other	275	227	502	444
Total non-interest income	9,497	7,144	18,607	15,327
Non-interest expense:				
Salaries and employee benefits	9,950	8,912	19,531	19,364
Premises and occupancy	1,150	1,104	2,498	2,263
Equipment	414	474	886	954
Professional expenses	493	507	957	931
Sales and marketing expenses	399	391	730	806
Deposit insurance premiums and regulatory assessments	238	229	511	443
Other	1,268	1,254	2,538	2,640
Total non-interest expense	13,912	12,871	27,651	27,401
Income before income taxes	4,049	2,826	8,175	5,382
Provision for income taxes	1,721	1,223	3,457	2,266
Net income	$2,328	$1,603	$4,718	$3,116

Basic earnings per share	$0.26	$0.16	$0.51	$0.31
Diluted earnings per share	$0.25	$0.16	$0.50	$0.30
Cash dividends per share	$0.11	$0.10	$0.22	$0.20

The accompanying notes are an integral part of these condensed consolidated financial statements.

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)
In Thousands

	For the Quarters Ended December 31,		For the Six Months Ended December 31,	
	2014	2013	2014	2013
Net income	$2,328	$1,603	$4,718	$3,116
Change in unrealized holding gain (loss) on securities available for sale	95	(45)	79	(166)
Reclassification of (gains) losses to net income	—	—	—	—
Other comprehensive income (loss), before income taxes	95	(45)	79	(166)
Income tax expense (benefit)	40	(19)	33	(70)
Other comprehensive income (loss)	55	(26)	46	(96)
Total comprehensive income	$2,383	$1,577	$4,764	$3,020

The accompanying notes are an integral part of these condensed consolidated financial statements.

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
In Thousands, Except Share Information

For the Quarters and Six Months Ended December 31, 2014 and 2013:

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income, Net of Tax	Total
Balance at September 30, 2014	9,152,065	$177	$86,759	$183,825	$(126,175)	$377	$144,963
Net income				2,328			2,328
Other comprehensive income						55	55
Purchase of treasury stock	(156,916)				(2,385)		(2,385)
Amortization of restricted stock			182				182
Stock options expense			212				212
Cash dividends				(1,005)			(1,005)
Balance at December 31, 2014	8,995,149	$177	$87,153	$185,148	$(128,560)	$432	$144,350

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
Balance at September 30, 2013	10,201,348	$177	$87,917	$180,299	$(111,719)	$484	$157,158
Net income				1,603			1,603
Other comprehensive loss						(26)	(26)
Purchase of treasury stock	(385,083)				(5,670)		(5,670)
Exercise of stock options	35,500	—	259				259
Amortization of restricted stock			51				51
Forfeiture of restricted stock			51		(51)		—
Stock options expense			79				79
Tax effect from stock based compensation			1				1
Cash dividends				(1,005)			(1,005)
Balance at December 31, 2013	9,851,765	$177	$88,358	$180,897	$(117,440)	$458	$152,450

The accompanying notes are an integral part of these condensed consolidated financial statements.

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income, Net of Tax	Total
Balance at June 30, 2014	9,312,269	$177	$88,259	$182,458	$(125,418)	$386	$145,862
Net income				4,718			4,718
Other comprehensive income						46	46
Purchase of treasury stock	(319,120)				(4,783)		(4,783)
Exercise of stock options	2,000	—	14				14
Amortization of restricted stock			241				241
Awards of restricted stock			(1,641)		1,641		—
Stock options expense			296				296
Tax effect from stock based compensation			(16)				(16)
Cash dividends				(2,028)			(2,028)
Balance at December 31, 2014	8,995,149	$177	$87,153	$185,148	$(128,560)	$432	$144,350

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
Balance at June 30, 2013	10,386,399	$177	$87,742	$179,816	$(108,315)	$554	$159,974
Net income				3,116			3,116
Other comprehensive loss						(96)	(96)
Purchase of treasury stock	(575,134)				(9,074)		(9,074)
Exercise of stock options	40,500	—	296				296
Amortization of restricted stock			102				102
Forfeitures of restricted stock			51		(51)		—
Stock options expense			159				159
Tax effect from stock based compensation			8				8
Cash dividends				(2,035)			(2,035)
Balance at December 31, 2013	9,851,765	$177	$88,358	$180,897	$(117,440)	$458	$152,450

The accompanying notes are an integral part of these condensed consolidated financial statements.

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited - In Thousands)

	Six Months Ended December 31, 2014	2013
Cash flows from operating activities:		
Net income	$4,718	$3,116
Adjustments to reconcile net income to net cash (used for) provided by operating activities:		
Depreciation and amortization	1,041	863
Recovery from the allowance for loan losses	(1,172)	(1,840)
Recovery from the allowance for losses on real estate owned	(17)	(17)
Gain on sale of loans, net	(15,694)	(12,486)
Gain on sale of real estate owned, net	(6)	(161)
Stock-based compensation	537	261
Decrease (increase) in current and deferred income taxes	1,294	(3,922)
Tax effect from stock based compensation	16	(8)
Increase (decrease) in accounts payable and other liabilities	302	(3,217)
(Increase) decrease in prepaid expenses and other assets	(258)	150
Loans originated for sale	(1,079,427)	(1,136,684)
Proceeds from sale of loans	1,025,890	1,219,194
Net cash (used for) provided by operating activities	(62,776)	65,249
Cash flows from investing activities:		
Increase in loans held for investment, net	(26,544)	(10,215)
Principal payments from investment securities available for sale	1,297	1,619
Purchase of investment securities available for sale	(250)	—
Redemption of FHLB – San Francisco stock	—	4,368
Proceeds from sale of real estate owned	883	2,530
Purchase of premises and equipment	(267)	(510)
Net cash used for investing activities	(24,881)	(2,208)
Cash flows from financing activities:		
Increase (decrease) in deposits, net	7,642	(9,254)
Repayments of long-term borrowings	(31)	(55,029)
Exercise of stock options	14	296
Tax effect from stock based compensation	(16)	8
Cash dividends	(2,028)	(2,035)
Treasury stock purchases	(4,783)	(9,074)
Net cash provided by (used for) financing activities	798	(75,088)
Net decrease in cash and cash equivalents	(86,859)	(12,047)
Cash and cash equivalents at beginning of period	118,937	193,839
Cash and cash equivalents at end of period	$32,078	$181,792
Supplemental information:		
Cash paid for interest	$3,129	$4,342
Cash paid for income taxes	$2,175	$6,180
Transfer of loans held for sale to held for investment	$1,762	$2,259

Real estate acquired in the settlement of loans	$2,292	$3,972

The accompanying notes are an integral part of these condensed consolidated financial statements.

PROVIDENT FINANCIAL HOLDINGS, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014

Note 1: Basis of Presentation

The unaudited interim condensed consolidated financial statements included herein reflect all adjustments which are, in the opinion of management, necessary to present a fair statement of the results of operations for the interim periods presented. All such adjustments are of a normal, recurring nature. The condensed consolidated statements of financial condition at June 30, 2014 are derived from the audited consolidated financial statements of Provident Financial Holdings, Inc. and its wholly-owned subsidiary, Provident Savings Bank, F.S.B. (the “Bank”) (collectively, the “Corporation”). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”) with respect to interim financial reporting. It is recommended that these unaudited interim condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation’s Annual Report on Form 10-K for the year ended June 30, 2014. The results of operations for the quarter and six months ended December 31, 2014 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2015.

Note 2: Accounting Standard Updates (“ASU”)

ASU 2013-11:
In July 2013, the Financial Accounting Standards Board (“FASB”) issued ASU 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Corporation's adoption of this ASU did not have a material impact on its consolidated financial statements.

ASU 2014-04:
In January 2014, the FASB issued ASU 2014-04, "Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The amendments in this ASU are intended to reduce diversity in practice by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate property recognized. Holding foreclosed real estate property presents different operational and economic risk to creditors compared with holding an impaired loan. Therefore, consistency in the timing of loan derecognition and

presentation of foreclosed real estate properties is of qualitative significance to users of the creditor’s financial statements. Additionally, the disclosure of the amount of foreclosed residential real estate properties and of the recorded investment in consumer mortgage loans secured by residential real estate properties that are in the process of foreclosure is expected to provide decision-useful information to many users of the creditor’s financial statements. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Corporation's adoption of this ASU is not expected to have a material impact on its consolidated financial statements.

ASU 2014-14:
In August 2014, the FASB issued ASU 2014-14," Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure." Current GAAP provides classification and measurement guidance for situations in which a creditor obtains a debtor's assets in satisfaction of a receivable, including receipt of assets through foreclosure, but does not provide specific guidance on how to classify and measure foreclosed loans that are government guaranteed. Current GAAP also does not provide guidance on how to determine the unit of account; that is, whether a single asset should be recognized or whether two separate assets should be recognized (real estate and a guarantee receivable). In practice, most creditors derecognize the loan and recognize a single asset. Some creditors recognize a nonfinancial asset (other real estate owned), while others recognize a financial asset (typically, a guarantee receivable). Regardless of the classification of the asset (or assets), measurement of the asset (or total measurement of the assets) in practice generally represents the amount recoverable under the guarantee. The amendments in this ASU should reduce variations in practice by providing guidance on how to classify and measure certain government-guaranteed mortgage loans upon foreclosure. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Corporation's adoption of this ASU is not expected to have a material impact on its consolidated financial statements.

Note 3: Earnings Per Share

Basic earnings per share ("EPS") excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the earnings of the entity.

As of December 31, 2014 and 2013, there were outstanding options to purchase 1.1 million shares and 974,200 shares of the Corporation's common stock, respectively, of which 271,500 shares and 508,200 shares, respectively, were excluded from the diluted EPS computation as their effect was anti-dilutive. As of December 31, 2014 and 2013, there were outstanding restricted stock awards of 266,500 shares and 66,500 shares, respectively, all of which have dilutive effects.

The following table provides the basic and diluted EPS computations for the quarters and six months ended December 31, 2014 and 2013, respectively.

(In Thousands, Except Earnings Per Share)	For the Quarters Ended December 31,		For the Six Months Ended December 31,	
	2014	2013	2014	2013
Numerator:				
Net income – numerator for basic earnings per share and diluted earnings per share - available to common stockholders	$2,328	$1,603	$4,718	$3,116
Denominator:				
Denominator for basic earnings per share:				
Weighted-average shares	9,120	10,078	9,187	10,192
Effect of dilutive shares:				
Stock options	62	164	117	179
Restricted stock	56	29	49	27

Denominator for diluted earnings per share:				
Adjusted weighted-average shares and assumed conversions	9,238	10,271	9,353	10,398
Basic earnings per share	$0.26	$0.16	$0.51	$0.31
Diluted earnings per share	$0.25	$0.16	$0.50	$0.30

Note 4: Operating Segment Reports

The Corporation operates in two business segments: community banking through the Bank and mortgage banking through Provident Bank Mortgage ("PBM"), a division of the Bank.

The following tables set forth condensed consolidated statements of operations and total assets for the Corporation's operating segments for the quarters and six months ended December 31, 2014 and 2013, respectively.

	For the Quarter Ended December 31, 2014		
(In Thousands)	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	$6,925	$1,185	$8,110
(Recovery) provision for loan losses	(373)	19	(354)
Net interest income, after (recovery) provision for loan losses	7,298	1,166	8,464
Non-interest income:			
Loan servicing and other fees [(1)]	85	206	291
Gain on sale of loans, net [(2)]	75	7,967	8,042
Deposit account fees	604	—	604
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(50)	(1)	(51)
Card and processing fees	336	—	336
Other	275	—	275
Total non-interest income	1,325	8,172	9,497
Non-interest expense:			
Salaries and employee benefits	4,528	5,422	9,950
Premises and occupancy	716	434	1,150
Operating and administrative expenses	1,093	1,719	2,812
Total non-interest expense	6,337	7,575	13,912
Income before income taxes	2,286	1,763	4,049
Provision for income taxes	988	733	1,721
Net income	$1,298	$1,030	$2,328
Total assets, end of period	$883,665	$228,725	$1,112,390

(1) Includes an inter-company charge of $144 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2) Includes an inter-company charge of $61 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

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(In Thousands)	For the Quarter Ended December 31, 2013 Provident Bank	 Provident Bank Mortgage	 Consolidated Totals
Net interest income	$6,671	$984	$7,655
Recovery from the allowance for loan losses	(876)	(22)	(898)
Net interest income after recovery from the allowance for loan losses	7,547	1,006	8,553
Non-interest income:			
Loan servicing and other fees [1]	210	121	331
Gain on sale of loans, net [2]	86	5,646	5,732
Deposit account fees	619	—	619
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(82)	—	(82)
Card and processing fees	317	—	317
Other	227	—	227
Total non-interest income	1,377	5,767	7,144
Non-interest expense:			
Salaries and employee benefits	3,600	5,312	8,912
Premises and occupancy	630	474	1,104
Operating and administrative expenses	1,056	1,799	2,855
Total non-interest expense	5,286	7,585	12,871
Income (loss) before income taxes	3,638	(812)	2,826
Provision (benefit) for income taxes	1,564	(341)	1,223
Net income (loss)	$2,074	$(471)	$1,603
Total assets, end of period	$1,003,275	$130,787	$1,134,062

(1) Includes an inter-company charge of $5 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2) Includes an inter-company charge of $39 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

	For the Six Months Ended December 31, 2014		
(In Thousands)	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	$13,820	$2,227	$16,047
(Recovery) provision for loan losses	(1,263)	91	(1,172)
Net interest income, after (recovery) provision for loan losses	15,083	2,136	17,219
Non-interest income:			
Loan servicing and other fees [(1)]	93	466	559
Gain on sale of loans, net [(2)]	146	15,548	15,694
Deposit account fees	1,230	—	1,230
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(69)	(1)	(70)
Card and processing fees	692	—	692
Other	502	—	502
Total non-interest income	2,594	16,013	18,607
Non-interest expense:			
Salaries and employee benefits	8,795	10,736	19,531
Premises and occupancy	1,588	910	2,498
Operating and administrative expenses	2,249	3,373	5,622
Total non-interest expense	12,632	15,019	27,651
Income before income taxes	5,045	3,130	8,175
Provision for income taxes	2,155	1,302	3,457
Net income	$2,890	$1,828	$4,718
Total assets, end of period	$883,665	$228,725	$1,112,390

(1) Includes an inter-company charge of $302 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2) Includes an inter-company charge of $75 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

(In Thousands)	For the Six Months Ended December 31, 2013 Provident Bank	 Provident Bank Mortgage	 Consolidated Totals
Net interest income	$13,238	$2,378	$15,616
(Recovery) provision for loan losses	(1,859)	19	(1,840)
Net interest income, after (recovery) provision for loan losses	15,097	2,359	17,456
Non-interest income:			
Loan servicing and other fees (1)	344	182	526
Gain on sale of loans, net (2)	323	12,163	12,486
Deposit account fees	1,240	—	1,240
(Loss) gain on sale and operations of real estate owned acquired in the settlement of loans, net	(31)	1	(30)
Card and processing fees	661	—	661
Other	444	—	444
Total non-interest income	2,981	12,346	15,327
Non-interest expense:			
Salaries and employee benefits	7,555	11,809	19,364
Premises and occupancy	1,313	950	2,263
Operating and administrative expenses	2,070	3,704	5,774
Total non-interest expense	10,938	16,463	27,401
Income (loss) before income taxes	7,140	(1,758)	5,382
Provision (benefit) for income taxes	3,005	(739)	2,266
Net income (loss)	$4,135	$(1,019)	$3,116
Total assets, end of period	$1,003,275	$130,787	$1,134,062

(1) Includes an inter-company charge of $13 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2) Includes an inter-company charge of $46 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

Note 5: Investment Securities

The amortized cost and estimated fair value of investment securities as of December 31, 2014 and June 30, 2014 were as follows:

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Carrying Value
(In Thousands)					
Held to maturity:					
Certificates of deposit	$800	$—	$—	$800	$800
Total investment securities - held to maturity	$800	$—	$—	$800	$800
Available for sale:					
U.S. government agency MBS [(1)]	$8,150	$341	$—	$8,491	$8,491
U.S. government sponsored enterprise MBS	5,503	334	—	5,837	5,837
Private issue CMO [(2)]	792	7	—	799	799
Common stock - community development financial institution	250	—	—	250	250
Total investment securities - available for sale	$14,695	$682	$—	$15,377	$15,377
Total investment securities	$15,495	$682	$—	$16,177	$16,177

[(1)] Mortgage-Backed Securities (“MBS”).
[(2)] Collateralized Mortgage Obligations (“CMO”).

June 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Carrying Value
(In Thousands)					
Held to maturity:					
Certificates of deposit	$800	$—	$—	$800	$800
Total investment securities - held to maturity	$800	$—	$—	$800	$800
Available for sale:					
U.S. government agency MBS	$8,772	$337	$—	$9,109	$9,109
U.S. government sponsored enterprise MBS	6,128	257	—	6,385	6,385
Private issue CMO	841	12	—	853	853
Total investment securities - available for sale	$15,741	$606	$—	$16,347	$16,347
Total investment securities	$16,541	$606	$—	$17,147	$17,147

In the second quarters of fiscal 2015 and 2014, the Corporation received MBS principal payments of $517,000 and $799,000, respectively, and did not purchase or sell investment securities. For the first six months of fiscal 2015 and 2014, the Corporation received MBS principal payments of $1.3 million and $1.6 million, respectively, and did not purchase or sell investment securities, except the fiscal 2015 purchase of $250,000 in the common stock of a community development financial institution to help fulfill the Corporation's Community Reinvestment Act obligation.

The Corporation evaluates individual investment securities quarterly for other-than-temporary declines in market value. As of December 31, 2014, no investment securities were in an unrealized loss position. This compares to December 31, 2013 when the gross unrealized holding losses related to two adjustable rate private issue CMOs, where one had been in an unrealized loss position for more than 12 months. Based on the nature of the investments, management concluded that such unrealized losses were not other than temporary as of December 31, 2013. The Corporation does not believe that there are any other-than-temporary impairments at December 31, 2014 and 2013; therefore, no impairment losses have been recorded for the quarters and six months ended December 31, 2014 and 2013. The Corporation intends and has the ability to hold these CMOs until maturity and will not likely be required to sell the CMOs before realizing a full recovery.

Contractual maturities of investment securities as of December 31, 2014 and June 30, 2014 were as follows:

(In Thousands)	December 31, 2014 Amortized Cost	December 31, 2014 Estimated Fair Value	June 30, 2014 Amortized Cost	June 30, 2014 Estimated Fair Value
Held to maturity:				
Due in one year or less	$800	$800	$800	$800
Due after one through five years	—	—	—	—
Due after five through ten years	—	—	—	—
Due after ten years	—	—	—	—
Total investment securities - held to maturity	$800	$800	$800	$800
Available for sale:				
Due in one year or less	$—	$—	$—	$—
Due after one through five years	—	—	—	—
Due after five through ten years	—	—	—	—
Due after ten years	14,445	15,127	15,741	16,347
No stated maturity (common stock)	250	250	—	—
Total investment securities - available for sale	$14,695	$15,377	$15,741	$16,347
Total investment securities	$15,495	$16,177	$16,541	$17,147

Note 6: Loans Held for Investment

Loans held for investment consisted of the following:

(In Thousands)	December 31, 2014	June 30, 2014
Mortgage loans:		
Single-family	$377,262	$377,997
Multi-family	322,302	301,211
Commercial real estate	100,859	96,803
Construction	4,378	2,869
Commercial business loans	859	1,237
Consumer loans	265	306
Total loans held for investment, gross	805,925	780,423
Undisbursed loan funds	(2,281)	(1,090)
Deferred loan costs, net	2,832	2,552
Allowance for loan losses	(8,693)	(9,744)
Total loans held for investment, net	$797,783	$772,141

As of December 31, 2014, the Corporation had $15.2 million in mortgage loans that are subject to negative amortization, consisting of $11.4 million in multi-family loans, $3.6 million in single-family loans and $254,000 in commercial real estate loans. This compares to $23.3 million of negative amortization mortgage loans at June 30, 2014, consisting of $18.7 million in multi-family loans, $3.7 million in single-family loans and $856,000 in commercial real estate loans. During the second quarters and six months of fiscal 2015 and 2014, no loan interest income was added to the negative amortization loan balance. Negative amortization involves a greater risk to the Corporation because the loan principal balance may increase by a range of 110% to 115% of the original loan amount during the period of negative amortization and because the loan payment may increase beyond the means of the borrower when loan principal amortization is required. Also, the Corporation has originated interest-only ARM loans, which typically have a fixed interest rate for the first two to five years coupled with an interest only payment, followed by a periodic adjustable rate and a fully amortizing loan payment. As of December 31, 2014 and June 30, 2014, the interest-only ARM loans were $160.3 million and $170.7 million, or 20% and 22% of loans held for investment, respectively.

The following table sets forth information at December 31, 2014 regarding the dollar amount of loans held for investment that are contractually repricing during the periods indicated, segregated between adjustable rate loans and fixed rate loans. Fixed-rate loans comprised 4% of loans held for investment at December 31, 2014, unchanged from June 30, 2014. Adjustable rate loans having no stated repricing dates that reprice when the index they are tied to reprices (e.g. prime rate index) and checking account overdrafts are reported as repricing within one year. The table does not include any estimate of prepayments which may cause the Corporation’s actual repricing experience to differ materially from that shown.

	Adjustable Rate					
(In Thousands)	Within One Year	After One Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years	Fixed Rate	Total
Mortgage loans:						
Single-family	$305,453	$19,393	$32,575	$4,233	$15,608	$377,262
Multi-family	85,070	64,281	157,330	10,677	4,944	322,302
Commercial real estate	28,238	11,143	50,560	1,336	9,582	100,859
Construction	2,569	—	—	—	1,809	4,378
Commercial business loans	388	—	122	—	349	859
Consumer loans	255	—	—	—	10	265
Total loans held for investment, gross	$421,973	$94,817	$240,587	$16,246	$32,302	$805,925

The allowance for loan losses is maintained at a level sufficient to provide for estimated losses based on evaluating known and inherent risks in the loans held for investment and upon management’s continuing analysis of the factors underlying the quality of the loans held for investment. These factors include changes in the size and composition of the loans held for investment, actual loan loss experience, current economic conditions, detailed analysis of individual loans for which full collectability may not be assured, and determination of the realizable value of the collateral securing the loans. Provision (recovery) for (from) the allowance for loan losses is charged (credited) against operations on a quarterly basis, as necessary, to maintain the allowance at appropriate levels. Although management believes it uses the best information available to make such determinations, there can be no assurance that regulators, in reviewing the Corporation’s loans held for investment, will not request a significant increase in its allowance for loan losses. Future adjustments to the allowance for loan losses may be necessary and results of operations could be significantly and adversely affected as a result of economic, operating, regulatory, and other conditions beyond the Corporation’s control.

In compliance with the regulatory reporting requirements of the Office of the Comptroller of the Currency (“OCC”), the Bank’s primary federal regulator, non-performing loans are charged-off to their fair market values in the period the loans, or portion thereof, are deemed uncollectible, generally after the loan becomes 150 days delinquent for real estate secured first trust deed loans and 120 days delinquent for commercial business or real estate secured second trust deed loans. For loans that were modified from their original terms, were re-underwritten and identified in the Corporation's asset quality reports as troubled debt restructurings ("restructured loans"), the charge-off occurs when the loan becomes 90 days delinquent; and where borrowers file bankruptcy, the charge-off occurs when the loan becomes 60 days delinquent. The amount of the charge-off is determined by comparing the loan balance to the estimated fair value of the underlying collateral, less disposition costs, with the loan balance in excess of the estimated fair value charged-off against the allowance for loan losses. The allowance for loan losses for non-performing loans is determined by applying Accounting Standards Codification ("ASC") 310, "Receivables." For restructured loans that are less than 90 days delinquent, the allowance for loan losses are segregated into (a) individually evaluated allowances for those loans with applicable discounted cash flow calculations still in their restructuring period, classified lower than pass, and containing an embedded loss component or (b) collectively evaluated allowances based on the aggregated pooling method. For non-performing loans less than 60 days delinquent where the borrower has filed bankruptcy, the collectively evaluated allowances are assigned based on the aggregated pooling method. For non-performing commercial real estate loans, an individually evaluated allowance is calculated based on the loan's fair value and if the fair value is higher than the loan balance, no allowance is required.

The following table summarizes the Corporation’s allowance for loan losses at December 31, 2014 and June 30, 2014:

(In Thousands)	December 31, 2014	June 30, 2014
Collectively evaluated for impairment:		
Mortgage loans:		
Single-family	$4,483	$5,476
Multi-family	2,998	3,142
Commercial real estate	1,075	989
Construction	17	35
Commercial business loans	33	51
Consumer loans	10	10
Total collectively evaluated allowance	8,616	9,703
Individually evaluated for impairment:		
Mortgage loans:		
Single-family	57	—
Commercial business loans	20	41
Total individually evaluated allowance	77	41
Total loan loss allowance	$8,693	$9,744

The following table is provided to disclose additional details on the Corporation's allowance for loan losses:

	For the Quarters Ended December 31,		For the Six Months Ended December 31,	
(Dollars in Thousands)	2014	2013	2014	2013
Allowance at beginning of period	$8,888	$12,105	$9,744	$14,935
Recovery from the allowance for loan losses	(354)	(898)	(1,172)	(1,840)
Recoveries:				
Mortgage loans:				
Single-family	164	99	273	267
Multi-family	93	8	164	19
Construction	—	20	—	20
Consumer loans	—	—	1	1
Total recoveries	257	127	438	307
Charge-offs:				
Mortgage loans:				
Single-family	(98)	(90)	(317)	(780)
Multi-family	—	(199)	—	(1,577)
Consumer loans	—	(4)	—	(4)
Total charge-offs	(98)	(293)	(317)	(2,361)
Net recoveries (charge-offs)	159	(166)	121	(2,054)
Balance at end of period	$8,693	$11,041	$8,693	$11,041
Allowance for loan losses as a percentage of gross loans held for investment	1.08%	1.44%	1.08%	1.44%
Net (recoveries) charge-offs as a percentage of average loans receivable, net, during the period (annualized)	(0.07)%	0.08%	(0.03)%	0.46%
Allowance for loan losses as a percentage of gross non-performing loans at the end of the period	73.88%	57.17%	73.88%	57.17%

The following tables identify the Corporation's total recorded investment in non-performing loans by type, net of allowance for loan losses at December 31, 2014 and June 30, 2014:

	December 31, 2014		
(In Thousands)	Recorded Investment	Allowance for Loan Losses [1]	Net Investment
Mortgage loans:			
Single-family:			
With a related allowance	$2,660	$(514)	$2,146
Without a related allowance [2]	5,207	—	5,207
Total single-family loans	7,867	(514)	7,353
Multi-family:			
With a related allowance	264	(79)	185
Without a related allowance [2]	1,995	—	1,995
Total multi-family loans	2,259	(79)	2,180
Commercial real estate:			
Without a related allowance [2]	1,520	—	1,520
Total commercial real estate loans	1,520	—	1,520
Commercial business loans:			
With a related allowance	120	(22)	98
Total commercial business loans	120	(22)	98
Total non-performing loans	$11,766	$(615)	$11,151

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

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

(In Thousands)	June 30, 2014 Recorded Investment	Allowance for Loan Losses [1]	Net Investment
Mortgage loans:			
Single-family:			
With a related allowance	$5,480	$(1,148)	$4,332
Without a related allowance [2]	6,067	—	6,067
Total single-family loans	11,547	(1,148)	10,399