

PACIFIC PREMIER BANCORP INC
Form 10-K
March 30, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

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 No.: 0-22193

Pacific Premier Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Delaware 33-0743196
(State of Incorporation) (I.R.S. Employer Identification No)

1600 Sunflower Ave. 2nd Floor, Costa Mesa, California 92626
(Address of Principal Executive Offices and Zip Code)
Registrant's telephone number, including area code: (714) 431-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of class	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

(Do not check if a 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

The aggregate market value of the voting stock held by non-affiliates of the registrant, i.e., persons other than directors and executive officers of the registrant, was approximately \$40,776,900 and was based upon the last sales price as quoted on The NASDAQ Stock Market as of June 30, 2010, the last business day of the most recently completed second fiscal quarter.

As of March 29, 2011, the Registrant had 10,068,226 shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement filed under Regulation 14A promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, which definitive proxy statement is to be filed within 120 days after the registrant's fiscal year ended December 31, 2010, are incorporated by reference in Part III hereof.

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PART I

ITEM 1. BUSINESS

Forward-Looking Statements

All references to “we”, “us”, “our”, or the “Company” mean Pacific Premier Bancorp, Inc. and our consolidated subsidiaries, including Pacific Premier Bank, our primary operating subsidiary. All references to “Bank” refer to Pacific Premier Bank. All references to the “Corporation” refer to Pacific Premier Bancorp, Inc.

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements represent plans, estimates, objectives, goals, guidelines, expectations, intentions, projections and statements of our beliefs concerning future events, business plans, objectives, expected operating results and the assumptions upon which those statements are based. Forward-looking statements include without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and are typically identified with words such as “may,” “could,” “should,” “will,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” or words or phrases of similar meaning. We caution that the forward-looking statements are based largely on our expectations and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors which are, in many instances, beyond our control. Actual results, performance or achievements could differ materially from those contemplated, expressed, or implied by the forward-looking statements.

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The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward-looking statements:

- The strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- The effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the “Federal Reserve”);
 - Inflation/deflation, interest rate, market and monetary fluctuations;
- The timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;
 - The willingness of users to substitute competitors’ products and services for our products and services;
- The impact of changes in financial services policies, laws and regulations, including those concerning taxes, banking, securities and insurance, and the application thereof by regulatory bodies;
 - Technological changes;
- The effect of acquisitions we may make, if any, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions;
 - Changes in the level of our nonperforming assets and charge-offs;
- Oversupply of inventory and continued deterioration in values of California real estate, both residential and commercial;
- The effect of changes in accounting policies and practices, as may be adopted from time-to-time by bank regulatory agencies, the SEC, the Public Company Accounting Oversight Board, the Financial Accounting Standards Board or other accounting standards setters;
 - Possible other-than-temporary impairments (“OTTI”) of securities held by us;
- The impact of current governmental efforts to restructure the U.S. financial regulatory system, including enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act;
 - Changes in consumer spending, borrowing and savings habits;
- The effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
 - Ability to attract deposits and other sources of liquidity;
 - Changes in the financial performance and/or condition of our borrowers;
- Changes in the competitive environment among financial and bank holding companies and other financial service providers;
- Geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, which could impact business and

economic conditions in the United States and abroad;

- Unanticipated regulatory or judicial proceedings; and
- Our ability to manage the risks involved in the foregoing.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Annual Report on Form 10-K. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We will not update the forward-looking statements to reflect actual results or changes in the factors affecting the forward-looking statements.

Overview

We are a California-based bank holding company incorporated in 1997 in the State of Delaware and registered as a banking holding company under the Bank Holding Company Act of 1956, as amended ("BHCA"), for Pacific Premier Bank, a California state-chartered commercial bank. The Bank is subject to examination and regulation by the California Department of Financial Institutions (the "DFI"), the Federal Reserve, and by the Federal Deposit Insurance Corporation (the "FDIC").

We conduct business throughout Southern California from our nine locations in the counties of Los Angeles, Orange, Riverside and San Bernardino. We operate depository branches in the cities of Palm Desert, Palm Springs, San Bernardino, Seal Beach, Huntington Beach, Los Alamitos, Costa Mesa and Newport Beach, California. Our corporate headquarters are located in Costa Mesa, California.

We provide banking services within our targeted markets in Southern California to businesses and consumers in the communities we serve. Through our branches and our Internet website at www.ppbi.com, we offer a broad array of deposit products and services for both business and consumer customers, including checking, money market and savings accounts, cash management services, electronic banking, and on-line bill payment. We offer a wide array of loan products, such as commercial business loans, lines of credit, commercial real estate loans, and U.S. Small Business Administration ("SBA") loans. At December 31, 2010, we had consolidated total assets of \$826.8 million, net loans of \$555.5 million, total deposits of \$659.2 million, and consolidated total stockholders' equity of \$78.6 million. At December 31, 2010, the Bank was considered a "well-capitalized" financial institution for regulatory capital purposes.

Acquisition of Canyon National Bank

Effective February 11, 2011, the Bank assumed all of the deposits and acquired essentially all of the assets of Canyon National Bank ("Canyon National") from the FDIC, as receiver for Canyon National (the "Acquisition"), pursuant to the terms of a Purchase and Assumption Agreement dated as of February 11, 2011 (the "Agreement") with the FDIC. Canyon National was the wholly owned subsidiary of Canyon Bancorp and was a national bank headquartered in Palm Springs, California with three branches in Palm Springs and Palm Desert, California. Neither the Company nor the Bank acquired any assets or assumed any liabilities of Canyon Bancorp. The transaction was structured as a whole bank purchase and assumption without a loss sharing agreement. The Bank participated in a competitive bid process with the FDIC. The FDIC accepted Pacific Premier's bid, which included an asset discount bid of \$27.9 million and no deposit premium. Canyon National had approximately \$216.2 million in total assets including approximately \$164.7 million in gross loans, and \$204.3 million in total deposits at February 11, 2011. The foregoing amounts represent Canyon National's book value and do not necessarily reflect the fair value of the assets acquired or liabilities assumed.

Operating Strategy

The Bank was founded in 1983 as a state chartered savings and loan, became a federally chartered stock savings bank in 1991 and, in March 2007, converted to a California-chartered commercial bank. In the fourth quarter of 2000, our management implemented a new business plan to refocus Pacific Premier's business model, emphasizing community banking. To achieve the Bank's goals, we implemented a three-phase strategic plan which involved:

- Phase 1: lowering the risk profile of the Bank and re-capitalizing Pacific Premier;
- Phase 2: growing the balance sheet through the origination of adjustable rate multi-family residential loans; and
- Phase 3: transforming the institution to a commercial banking business model.

The first two phases of our strategic plan were completed in 2002 and 2004, respectively. Our transition to a commercial banking platform began in 2005 as we recruited experienced business bankers from other regional and national commercial banks. These business bankers helped us to introduce new credit and deposit products as well as on-line banking and cash management services. This in turn allowed us to begin to capture small business customers in our market. Our transition to a commercial banking platform is being achieved by retaining and growing the number of business banking relationships within the Southern California market.

Our primary goal is to develop the Bank into one of Southern California's top performing commercial banks as an alternative to the large regional and national banks for businesses, professionals, entrepreneurs and non-profit organizations for the long term benefit of our stockholders, customers and employees. The following are our operating strategies which we have adopted in order to achieve this goal:

- Expansion through Acquisitions. The consolidation and current turmoil in the banking industry has created an opportunity in our markets and we expect to expand the Bank's franchise through acquisitions. Many banks have been negatively impacted by the sluggish economic environment, which we expect will lead to the continued consolidation and elimination of certain of our competitors. We intend to take advantage of this opportunity over the next couple of years by pursuing whole bank acquisitions or all or part of failing bank acquisitions through FDIC-assisted transactions and/or through traditional merger and acquisitions opportunities of existing banks.
- Expansion through Relationship Banking. The industry wide consolidation and turmoil is also creating opportunities to acquire new business banking customers. Profitable businesses are not having their needs met either from a service level or credit availability basis and we intend to convert these businesses to customers of the Bank. We believe customer relationships are built through a series of consistently executed experiences in both routine transactions and higher value interactions. Our business bankers are focused on developing long term relationships with business owners, professionals, entrepreneurs, and non-profit organizations through consistent and frequent contact. Additionally, our bankers are actively involved in community organizations and events, thus building and capitalizing on the Bank's reputation within our local communities.
- Reduction in Wholesale Funding and Brokered Deposits. As we transitioned towards a commercial banking platform, we have reduced our reliance on wholesale borrowings, such as advances from the Federal Home Loan Bank ("FHLB") and brokered deposits.
- Diversifying our Loan Portfolio. We believe it is important to diversify our loan portfolio in order to better manage credit risks. As part of our transition to a commercial banking platform, we have increased the amount of owner-occupied commercial real estate ("CRE") loans, commercial and industrial ("C&I") loans and Small Business Administration ("SBA") loans within the portfolio.
- Proactive Asset Management and Sound Credit Quality. Our conservative credit and risk management culture has resulted in relatively low levels of nonperforming loans and an overall high credit quality within the loan portfolio as compared to our peer banks. Our portfolio management strategies involve the early identification of loan weakness, aggressive collection techniques, loss mitigation through loan sales and/or working with third parties to refinance the

credit. We will continue to monitor economic trends and conditions that could positively or negatively impact our business. We seek to take advantage of these trends by entering or exiting certain lines of business or offering or eliminating various loan product types, as evidenced by our decision to curtail our multi-family and commercial non-owner occupied real estate lending. We will continue to adjust our risk management practices to the on-going changes in our local economy that impact our business.

Our executive offices are located at 1600 Sunflower Avenue, 2nd Floor, Costa Mesa, California 92626 and our telephone number is (714) 431-4000. Our Internet website address is www.ppbi.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and all amendments thereto, from 1998 to present that have been filed with the SEC, are available free of charge on our Internet website. Also on our website are our Code of Ethics, Insider Trading and Beneficial Ownership forms, and Corporate Governance Guidelines. The information contained in our website, or in any websites linked by our website, is not a part of this Annual Report on Form 10-K.

Lending Activities

General. In 2010, we maintained our commitment to a high level of credit quality in our lending activities. We expanded our efforts to diversify our loan portfolio and focused our efforts on meeting the financial needs of qualified individuals and local businesses. The Company offers a full complement of flexible and structured loan products tailored to meet the needs of our customers.

During 2010, we made loans to borrowers secured by real property and business assets located principally in Southern California, our market area. We emphasize relationship lending and focus on generating loans with customers who also maintain full depository relationships with us. These efforts assist us in establishing and expanding depository relationships consistent with the Company's strategic direction. The Company has generally ceased or minimized making loans secured by multi-family or commercial non-owner occupied real estate, although such loans continue to make up a substantial portion of our loan portfolio. We maintain a house lending limit below our \$23.0 million legal lending limit for secured loans and \$13.8 million for unsecured loans as of December 31, 2010. During 2010, we originated or purchased \$64.3 million of C&I loans, \$27.0 million of owner-occupied commercial real estate loans, \$15.0 million of other loans, \$2.6 million of non-owner occupied commercial real estate loans and \$2.3 million of SBA loans. At December 31, 2010, we had \$567.6 million in total gross loans outstanding.

Multi-family Real Estate Lending. Although we were not an active multi-family lender in 2010, on occasion, we originate and purchase loans secured by multi-family residential properties (five units and greater) located predominantly in Southern California. Pursuant to our underwriting policies, multi-family residential loans may be made in an amount up to 75% of the lesser of the appraised value or the purchase price of the collateral property. In addition, we generally require a stabilized minimum debt service coverage ratio of 1.15:1, based on the qualifying loan interest rate. Loans are made for terms of up to 30 years with amortization periods up to 30 years. As part of our desired strategy to diversify the loan portfolio, we have substantially reduced the origination of multi-family real estate loans beginning in late 2007. Historically, we have managed our concentration in multi-family real estate loans by selling excess loan production. However, in recent periods, the level of loan sales has decreased significantly due to dislocations in the credit markets. Multi-family loan sales remain a strategic option for us as the Bank continues its transition to a traditional commercial bank. At December 31, 2010, we had \$243.6 million of multi-family real estate secured loans, constituting 42.9% of our loan portfolio.

Commercial Non-Owner Occupied Real Estate Lending. Although we were not an active commercial non-owner occupied real estate lender in 2010, on occasion, we originate and purchase loans that are not occupied by the borrower and are secured by commercial real estate, such as retail centers, small office and light industrial buildings, and mixed-use commercial properties located predominantly in Southern California. Pursuant to our underwriting policies, commercial non-owner occupied real estate loans may be made in amounts up to 75% of the lesser of the appraised value or the purchase price of the collateral property. We consider the net operating income of the property

and typically require a stabilized debt service coverage ratio of at least 1.20:1, based on the qualifying interest rate. Loans are generally made for terms up to 15 years with amortization periods up to 30 years. At December 31, 2010, we had \$130.5 million of commercial non-owner occupied real estate secured loans, constituting 23.0% of our loan portfolio.

One-to-Four Family Real Estate Lending. We participate in single family lending on occasion through purchases to diversify our portfolio; and, in keeping with the Company's strategy of offering a full complement of loan products to customers, we occasionally fund home loans to banking customers. When we do originate or purchase loans we do not engage in Alt-A or subprime lending. The Company's portfolio of one-to-four family loans at December 31, 2010 totaled \$20.3 million, constituting 3.6% of our loan portfolio, of which \$13.5 million consists of loans secured by first liens on real estate and \$6.8 million, consists of loans secured by second or junior liens on real estate.

Commercial Owner-Occupied Business Lending. We originate and purchase loans secured by commercial owner-occupied real estate, such as retail buildings, small office and light industrial buildings, and mixed-use commercial properties located predominantly in Southern California. We will also, from time to time, make a loan secured by a special purpose property, such as a gas station. Pursuant to our underwriting policies, commercial owner-occupied real estate loans may be made in amounts of up to 75% of the lesser of the appraised value or the purchase price of the collateral property. Loans are generally made for terms up to 15 years with amortization periods up to 30 years. Commercial owner-occupied real estate loans originated or purchased in 2010 had an average balance of \$422,000 and an average loan-to-value ratio of 36.3% at origination or purchase. At December 31, 2010, we had \$113.0 million of commercial owner-occupied real estate secured loans, constituting 20.0% of our loan portfolio.

Commercial and Industrial Lending. We originate C&I loans secured by business assets including inventory, receivables, machinery and equipment to businesses located in our primary market area. In many instances, real estate holdings of the borrower, its principals or loan guarantors are also taken as collateral. Loan types include revolving lines of credit, term loans, seasonal loans and loans secured by liquid collateral such as cash deposits or marketable securities. We also issue letters of credit on behalf of our customers, backed by loans or deposits with the Company. At December 31, 2010, C&I loans totaled \$54.7 million, constituting 9.6% of our loan portfolio, and had additional commitments to extend credit of \$30.1 million.

SBA Lending. The Company is approved to originate loans under the SBA's Preferred Lenders Program ("PLP"). The PLP lending status affords the Company a higher level of delegated credit autonomy, translating to a significantly shorter turnaround time from application to funding, which is critical to our marketing efforts. We originate loans under the SBA's 7(a), 504, and Express loan programs, in conformity with SBA underwriting and documentation standards. The guaranteed portion of the 7(a) loans is typically sold on the secondary market. At December 31, 2010, we had \$4.1 million of SBA loans, constituting 0.7% of our loan portfolio.

Other Loans. We originate other consumer loan products, generally for banking customers only, which consist primarily of saving account and auto loans. Before we make a consumer loan, we assess the applicant's ability to repay the loan and, if applicable, the value of the collateral securing the loan. At December 31, 2010, we had \$1.4 million in other loans that represented 0.02% of our gross loans.

Interest Rates on Our Loans. We employ a risk-based pricing strategy on all loans that we fund. The interest rates, fees and loan structure of our loans generally vary based on a number of factors, including the degree of credit risk, size, maturity of the loan, a borrower's business or property management expertise, and prevailing market rates for similar types of loans as well as the deposit balances the borrower maintains with us. Adjustable rate C&I and SBA loans are typically priced based on a margin over the Prime rate. Commercial real estate loans are typically 3, 5, 7, or 10-year fixed rate hybrid adjustable-rate loans and are based on one of several interest rate indices. Many of the C&I loans and substantially all of the non-owner occupied real estate loans originated by the Company in 2010 had minimum interest rates, or floor rates, below which the rate charged may not be reduced regardless of further reductions in the underlying interest rate index. Substantially all commercial real estate loans also include prepayment

penalties.

Lending Risks on Our Loans. Lending risks vary by the type of loan extended. In our C&I and SBA lending activities, collectability of the loans may be adversely affected by risks generally related to small businesses, such as:

- Changes or continued weakness in general or local economic conditions;
- Changes or continued weakness in specific industry segments, including weakness affecting the business' customer base;
 - Changes in consumer behavior;
 - Changes in a business' personnel;
- Increases in supplier costs that cannot be passed along to customers;
 - Increases in operating expenses (including energy costs);
 - Changes in governmental rules, regulations and fiscal policies;
 - Increases in interest rates, tax rates; and
 - Other factors beyond the control of the borrower or the lender.

In our investor real estate loans, payment performance and the liquidation values of collateral properties may be adversely affected by risks generally incidental to interests in real property, such as:

- Changes or continued weakness in general or local economic conditions;
 - Changes or continued weakness in specific industry segments;
 - Declines in real estate values;
 - Declines in rental rates;
 - Declines in occupancy rates;
 - Increases in other operating expenses (including energy costs);
 - The availability of property financing;
- Changes in governmental rules, regulations and fiscal policies, including rent control ordinances, environmental legislation and taxation;
 - Increases in interest rates, real estate and personal property tax rates; and
 - Other factors beyond the control of the borrower or the lender.

We attempt to mitigate these risks through sound and prudent underwriting practices, as well as a proactive loan review process and our risk management practices. See "Lending Activities - Underwriting and Approval Authority for Our Loans" immediately below. We will not extend credit to any one borrower that is in excess of regulatory limits.

Underwriting and Approval Authority for Our Loans. Our board of directors establishes our lending policies. Each loan must meet minimum underwriting criteria established in our lending policies and must fit within our overall strategies for yield, interest rate risk, and portfolio concentrations. The underwriting and quality control functions are managed through our corporate office. Each loan application is evaluated from a number of underwriting perspectives. For C&I and SBA loans, underwriting considerations include historic business cash flows, debt service coverage, loan-to-value ratios of underlying collateral, if any, debt to equity ratios, credit history, business experience, history of business, forecasts of operations, economic conditions, business viability, net worth, and liquidity. For loans secured by real estate, underwriting considerations include property appraised value, loan-to-value ratios, level of debt service coverage utilizing both the actual net operating income and forecasted net operating income and use and condition of the property, as well as the borrower's liquidity, income, credit history, net worth, and operating experience. We do not offer loans on a limited- or no-documentation basis unless fully secured by cash collateral.

Business loans are generally originated as recourse or with full guarantees from key borrowers or borrower principals. Loans secured by real estate are likewise originated on a full recourse basis. On loans made to entities, such as partnerships, limited liability companies, corporations or trusts, we typically obtain personal guarantees from

the appropriate managing members, major stockholders, trustees or other appropriate principals. In 2010, substantially all of our loans to entities were originated with full recourse and/or personal guarantees from the principals of the borrowers.

Prior to processing and underwriting any loan request, we issue a letter of interest based on a preliminary analysis by our bankers, which letter details the terms and conditions on which we will consider the loan request. Upon receipt of the signed letter of interest, a completed loan application and a deposit, a credit report and other required reports are ordered and, if necessary, additional information is requested. Upon receipt of all requested information, we process and underwrite each loan application and prepare all the loan documentation after the loan has been approved.

Our credit memorandums, which are prepared by our underwriters, include a description of the transaction and prospective borrower and guarantors, the collateral securing the loan, if any, the proposed uses of loan proceeds and source(s) of repayment, as well as an analysis of the borrower's business and personal financial statements and creditworthiness. The financial statements and creditworthiness of any guarantors are also analyzed. For loans secured by real property, the credit memorandum will include an analysis of the property. Loans for which real estate is the primary collateral require an independent appraisal conducted by a licensed appraiser. All appraisal reports are appropriately reviewed by our appraisal department. Our board of directors reviews and approves annually the independent list of acceptable appraisers. When appropriate, environmental reports are obtained and reviewed as well.

Following loan approval and prior to funding, our underwriting and processing departments ensure that all loan approval terms have been satisfied, that those terms conform with lending policies (or are properly documented as exceptions with required approvals), and that all the required documentation is present and in proper form.

Business loans are subject to the Company's guidelines regarding appropriate covenants and periodic monitoring requirements which may include, but are not limited to:

- Capital and lease expenditures;
 - Capital levels;
- Salaries and other withdrawals;
 - Working capital levels;
 - Debt to net worth ratios;
 - Sale of assets;
 - Change of management;
 - Change of ownership;
 - Cash flow requirements;
- Profitability requirements;
 - Debt service ratio;
- Collateral coverage ratio; and
 - Current and quick ratios.

Subject to the above standards, our board of directors delegates authority and responsibility to management for loan approvals of up to \$1.5 million for all loans secured by real estate and up to \$250,000 for loans not secured by real estate. Loan approvals at the management level require the approval of at least two members of our Management Loan Committee, consisting of our President and Chief Executive Officer, Chief Credit Officer, and Chief Banking Officer. All loans in excess of \$1.5 million, including total aggregate borrowings by one borrower in excess of \$1.5 million, and any loan in excess of \$250,000 not secured by real estate, require a majority approval of our board's Credit Committee, which is comprised of three directors, including our President and Chief Executive Officer.

Portfolio Management and Loan Servicing. Portfolio management and loan servicing activities are centralized at our corporate headquarters. Our loan servicing operations are designed to provide prompt customer service and accurate and timely information for account follow-up, financial reporting and loss mitigation. Following the funding of an

approved loan, the data is entered into our data processing system, which provides monthly billing statements, tracks payment performance, and effects agreed upon interest rate adjustments. Loan servicing activities include (i) the collection and remittance of loan payments, (ii) accounting for principal and interest and other collections and expenses, and (iii) holding and disbursing escrow or impounding funds for real estate taxes and insurance premiums.

Our portfolio management operations are designed to ensure that management and the board of directors has timely and comprehensive information regarding the performance of our loan portfolio. This information provides an essential leading indicator of potential performance issues prior to loan payment delinquency. For each of the Company's non-homogeneous loans, our Portfolio Managers collect financial information from borrowers and guarantors in order to conduct a detailed loan review in accordance with our policies, generally annually or more often as appropriate. The Portfolio Managers also visit properties and businesses on a periodic basis to perform inspections of our collateral and associated revenue-generating activities of borrowers. In conjunction with the loan review process, all loans in the portfolio are assigned a risk grade that, among other purposes, factors into the Company's allowance for loan and lease loss calculations.

When payments are not received by their contractual due date, collection efforts are initiated by our loss mitigation personnel. Accounts past-due by more than 10 days are assigned to our collector for comprehensive payment collection efforts. Our Portfolio Managers conduct an evaluation of all loans 90 days or more past due by obtaining an estimate of value on the underlying collateral and an analysis of such collateral. The evaluation may result in our partial or complete charge off of the loan, but collection efforts still continue. Portfolio Managers also conduct discussions with borrowers in order to identify whether alternatives to foreclosure exist. When foreclosure will maximize the Company's recovery for a non-performing loan, the Portfolio Managers will carry out the foreclosure process, including any associated judicial legal actions.

Loan Portfolio Composition. At December 31, 2010, our net loans receivable held for investment totaled \$555.5 million and we had no loans receivable held for sale. The types of loans that the Company may originate are subject to federal and state law.

The following table sets forth the composition of our loan portfolio in dollar amounts and as a percentage of the portfolio at the dates indicated:

	2010			At December 31, 2009			2008		
	Amount	% of Total	Weighted Average Interest Rate	Amount	% of Total	Weighted Average Interest Rate	Amount	% of Total	Weighted Average Interest Rate
(dollars in thousands)									
Real estate loans:									
Multi-family	\$ 243,584	42.9 %	6.2 %	\$ 278,744	48.4 %	6.2 %	\$ 287,592	45.7 %	6.3 %
Commercial investor	130,525	23.0 %	6.7 %	149,577	26.0 %	6.8 %	163,428	26.0 %	7.0 %
One-to-four family (1)	20,318	3.6 %	5.4 %	8,491	1.5 %	8.3 %	9,925	1.6 %	8.8 %
Construction	-	0.0 %	0.0 %	-	0.0 %	0.0 %	2,733	0.4 %	8.0 %
Land	-	0.0 %	0.0 %	-	0.0 %	0.0 %	2,550	0.4 %	0.0 %
Business loans:									
Commercial owner occupied (2)	113,025	20.0 %	6.6 %	103,019	17.9 %	7.1 %	112,406	17.9 %	7.1 %

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Commercial and industrial	54,687	9.6 %	6.3 %	31,109	5.4 %	7.0 %	43,235	6.9 %	6.8 %
SBA	4,088	0.7 %	5.9 %	3,337	0.5 %	5.7 %	4,942	0.8 %	6.3 %
Other loans	1,417	0.2 %	4.5 %	1,991	0.3 %	1.3 %	1,956	0.3 %	2.3 %
Total gross loans	567,644	100.0%	6.4 %	576,268	100.0%	6.6 %	628,767	100.0%	6.7 %
Less loans held for sale	-			-			668		
Total gross loans held for investment	567,644			576,268			628,099		
Less (plus): Deferred loan origination costs (fees) and premiums (discounts)	(3,227)			(779)			252		
Allowance for loan losses	(8,879)			(8,905)			(5,881)		
Loans held for investment, net	\$ 555,538			\$ 566,584			\$ 622,470		

	At December 31, 2007		2006		2006	
	Amount	% of Total	Weighted Average Interest Rate (dollars in thousands)	Amount	% of Total	Weighted Average Interest Rate
Real estate loans:						
Multi-family	\$ 341,263	54.5 %	6.8 %	\$ 357,275	58.8 %	6.9 %
Commercial investor	142,134	22.7 %	7.2 %	170,175	28.0 %	7.4 %
One-to-four family (1)	13,080	2.1 %	8.6 %	12,825	2.1 %	9.5 %
Construction	2,048	0.3 %	7.8 %	-	0.0 %	0.0 %
Land	5,389	0.9 %	11.9 %	3,277	0.5 %	8.9 %
Business loans:						
Commercial owner occupied (2)	57,614	9.2 %	7.6 %	35,929	5.9 %	7.3 %
Commercial and industrial	50,992	8.1 %	8.1 %	22,762	3.8 %	9.1 %
SBA	13,995	2.2 %	8.5 %	5,312	0.9 %	9.9 %
Other loans	177	0.0 %	8.6 %	63	0.0 %	9.4 %
Total gross loans	626,692	100.0%	7.2 %	607,618	100.0%	7.2 %
Less loans held for sale	749			795		

Total gross loans held for investment	625,943	606,823
Less (plus):		
Deferred loan origination costs (fees) and premiums (discounts)	769	1,024
Allowance for loan losses	(4,598)	(3,543)
Loans held for investment, net	\$ 622,114	\$ 604,304

- (1) Includes second trust deeds.
(2) Secured by real estate

Loan Portfolio Characteristics. In general, the Company does not require regular updates of collateral valuations for non-homogeneous loans that are not classified as potential problem or problem loans. However, updated valuations are obtained for collateral securing non-homogeneous loans that are identified as potential problem or problem loans at least every twenty-four months. Updated collateral valuations may be required more frequently at the discretion of the Company's management or for loans identified as impaired in accordance with the Company's allowance for loan loss policy. Market values may be substantiated by obtaining an appraisal or an appropriate evaluation by the Company's Chief Appraiser. At December 31, 2010, 21.4% of multi-family, 23.2% of commercial investor and 28.8% of commercial owner occupied loans had current updated collateral valuations within the last twenty-four months.

The following table sets forth by loan category our average loan size, months of seasoning, average loan-to-value ratio (the proportion of the principal amount of the loan to the most current market value of the collateral property) and debt coverage ratio (the proportion of the property's annual net operating income to its annual debt service, which includes principal and interest payments) at the date indicated.

	At December 31, 2010				
	Average Loan Size	Seasoning (months)	Loan-to-Value Ratio		Debt Coverage Ratio
	(dollars in thousands)				
Real estate loans:					
Multi-family	\$ 1,041	65	69	%	1.20
Commercial investor	1,165	56	59	%	1.29
One-to-four family	109	110	67	%	N/A
Business loans:					
Commercial owner occupied	706	85	51	%	N/A
Commercial and industrial	511	38	N/A		N/A

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SBA	151	34	N/A	N/A
Other loans	80	27	N/A	N/A

Loan Maturity. For our commercial real estate and business loans, repayment typically depends on the successful operation of the businesses or the properties securing the loans. Several months before a loan matures, our portfolio managers contact our borrowers to obtain personal and/or business financial and operations data and property information for review. When deemed appropriate, business and property visits are made to assess the borrower's revenue-generating activities and to perform inspections of our collateral. This information is reviewed and evaluated for indications of potential payoff issues prior to maturity. If potential issues are discovered, our portfolio managers work on a strategy with the borrower well in advance of the loan maturing in order to maximize the benefit to the Company. At December 31, 2010, we had \$26.8 million or 4.7% of total gross loans held for investment that were due to mature in one year or less, primarily in our loan category of total C&I loans of \$25.8 million.

The following table does not reflect prepayment assumptions, but rather shows the contractual maturity of the Company's loans at the date indicated:

	At December 31, 2010							Total
	Commercial Multifamily	Commercial Investor	One-to-Four Family	Commercial Owner Occupied (in thousands)	Commercial and Industrial	SBA	Other Loans	
Amounts due								
One year or less	\$-	\$ -	\$ 2	\$ 423	\$ 25,829	\$-	\$583	\$26,837
More than one year to three years	758	4,240	315	4,634	1,747	1,057	31	12,782
More than three years to five years	446	21,624	507	5,310	5,471	271	27	33,656
More than five years to 10 years	7,107	91,657	6,326	38,044	5,749	2,760	122	151,765
More than 10 years to 20 years	2,269	5,405	4,823	33,912	3,281	-	654	50,344
More than 20 years	233,004	7,599	8,345	30,702	12,610	-	-	292,260
Total gross loans	243,584	130,525	20,318	113,025	54,687	4,088	1,417	567,644
Less (plus)								
Deferred loan origination (fees) costs	(176)	(121)	(1,676)	(151)	(4)	(1,316)	217	(3,227)
Allowance for loan losses (allocated)	(2,730)	(1,580)	(332)	(1,687)	(2,356)	(145)	(49)	(8,879)
Total loans, net	240,678	128,824	18,310	111,187	52,327	2,627	1,585	555,538
Loans held for sale, net	-	-	-	-	-	-	-	-
Loans held for investment, net	\$240,678	\$128,824	\$18,310	\$111,187	\$52,327	\$2,627	\$1,585	\$555,538

The following table sets forth at December 31, 2010 the dollar amount of gross loans receivable contractually due after December 31, 2011 and whether such loans have fixed interest rates or adjustable interest rates.

At December 31, 2010
Loans Due After December 31, 2011

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	Fixed	Adjustable (in thousands)	Total
Real estate loans:			
Multi-family	\$ 1,493	\$ 242,091	\$ 243,584
Commercial investor	17,226	113,299	130,525
One-to-four family	4,576	15,740	20,316
Business loans:			
Commercial owner occupied	59,134	53,468	112,602
Commercial and industrial	3,182	25,676	28,858
SBA	49	4,039	4,088
Other loans	812	22	834
Total gross loans	\$ 86,472	\$ 454,335	\$ 540,807

The following table sets forth the Company's loan originations, purchases, sales, and principal repayments for the periods indicated:

	For the Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Beginning balance of gross loans	\$ 576,268	\$ 628,767	\$ 626,692
Loans originated:			
Real estate loans:			
Multi-family	-	494	34,166
Commercial investor	-	-	33,058
One-to-four family	-	200	250
Business loans:			
Commercial owner occupied	600	365	5,375
Commercial and industrial	63,530	4,249	17,512
SBA	2,322	1,150	907
Other loans	5,183	958	1,215
Total loans originated	71,635	7,416	92,483
Loans purchased:			
Multi-family	-	4,051	4,577
Commercial investor	2,579	-	9,305
	26,380	-	53,710

Commercial owner occupied			
Commercial and industrial	745	-	-
Other loans	9,884	-	-
Total loans purchased	39,588	4,051	67,592
Total loan production	111,223	11,467	160,075
Total	687,491	640,234	786,767
Less:			
Principal repayments	61,983	56,808	161,352
Change in undisbursed loan funds	21,984	(4,701)	(10,854)
Sales of loans	29,977	2,515	6,235
Charge-offs	2,339	4,811	1,174
Transfer to other real estate owned	3,564	4,533	93
Total gross loans	567,644	576,268	628,767
Ending balance loans held for sale, gross	-	-	668
Ending balance loans held for investment, gross	\$ 567,644	\$ 576,268	\$ 628,099

Delinquent Loans. When a borrower fails to make required payments on a loan and does not cure the delinquency within 30 days, we normally record a notice of default and, after providing the required notices to the borrower, commence foreclosure proceedings. If the loan is not reinstated within the time permitted by law, we may sell the property at a foreclosure sale. At these foreclosure sales, we generally acquire title to the property. At December 31, 2010, loans delinquent 60 or more days as a percentage of total gross loans was 0.54%, down from 0.95% at year-end 2009.

The following table sets forth delinquencies in the Company's loan portfolio at the dates indicated:

	30 - 59 Days		60 - 89 Days		90 Days or More (1)	
	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans
(dollars in thousands)						
At December 31, 2010						
Real estate loans:						
Commercial investor	2	\$617	-	\$-	-	\$-
One-to-four family	3	\$402	1	\$17	1	\$20
Business loans:						
Commercial owner occupied	1	184	-	-	3	2,225
SBA	-	-	-	-	7	846
Total	6	\$1,203	1	\$17	11	\$3,091
Delinquent loans to total gross loans		0.21 %		0.00 %		0.54 %

At December 31, 2009

Real estate loans:

Multi-family	1	\$3,150	-	\$-	3	\$2,073	
Commercial investor	1	694	-	-	1	1,851	
One-to-four family	3	44	-	-	4	97	
Business loans:							
Commercial owner occupied	-	-	-	-	2	996	
SBA	1	69	1	52	3	463	
Other	1	18	-	-	-	-	
Total	7	\$3,975	1	\$52	13	\$5,480	
Delinquent loans to total gross loans		0.69	%	0.01	%	0.95	%

At December 31, 2008

Real estate loans:

Multi-family	-	\$-	-	\$-	1	\$350	
Commercial investor	1	1,062	1	317	1	638	
One-to-four family	4	129	2	32	8	637	
Land	-	-	-	-	1	2,550	
Business loans:							
SBA	1	216	-	-	2	127	
Total	6	\$1,407	3	\$349	13	\$4,302	
Delinquent loans to total gross loans		0.22	%	0.06	%	0.68	%

At December 31, 2007

Real estate loans:

Commercial investor	1	\$641	1	\$641	1	\$3,125	
One-to-four family and other loans	8	251	15	719	7	284	
Business loans:							
Commercial and industrial	2	208	3	458	-	-	
SBA	2	119	5	804	-	-	
Total	13	\$1,219	24	\$2,622	8	\$3,409	
Delinquent loans to total gross loans		0.19	%	0.42	%	0.54	%

At December 31, 2006

Real estate loans:

One-to-four family and other loans	4	\$108	4	\$182	13	\$634	
Total	4	\$108	4	\$182	13	\$634	
Delinquent loans to total gross loans		0.02	%	0.03	%	0.10	%

(1) All 90 day or greater delinquency are on nonaccrual status and are reported as part of nonperforming loans.

Allowance for Loan Losses. We maintain an allowance for loan losses to absorb losses inherent in the loans held for investment portfolio at the balance sheet date. Management evaluates the adequacy of the allowance quarterly to maintain the allowance at levels sufficient to provide for these inherent losses. The allowance for loan losses is reported as a reduction of loans held for investment. The allowance is increased by a provision for loan losses which is charged to expense and reduced by charge-offs, net of recoveries. Loans held for sale are carried at the lower of amortized cost or fair value. Net unrealized losses, if any, are recorded in current earnings.

The federal banking agencies adopted an interagency policy statement on the allowance for loan and lease losses. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of adequate allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation allowances. Generally, the policy statement recommends that institutions establish and maintain effective systems and controls to identify, monitor and address asset quality problems; that management analyzes all significant factors that affect the collectability of the portfolio in a reasonable manner; and that management establishes acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. Federal regulations require that the Bank utilize an internal asset classification system to identify and report problem and potential problem assets. The Bank's Chief Credit Officer has responsibility for identifying and reporting problem assets to the Bank's Credit and Investment Review Committee ("CIRC"), which operates pursuant to the board-approved CIRC policy. The policy incorporates the regulatory requirements of monitoring and classifying all of our assets.

We separate our assets, largely loans, by type, and we use various asset classifications to segregate the assets into various risk categories. We use the various asset classifications as a means of measuring risk for determining the valuation allowance for groups and individual assets at a point in time. Currently, we designate our assets into a category of "Pass," "Special Mention," "Substandard" or "Loss." A brief description of these classifications follows:

- Pass classifications represent assets with a level of credit quality which contain no well-defined deficiency or weakness.
- Special Mention assets do not currently expose the Bank to sufficient risk to warrant classification in one of the adverse categories, but possess correctable deficiency or potential weaknesses deserving management's close attention.
- Substandard assets are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. These assets are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Other real estate owned ("OREO") acquired from foreclosure is classified as substandard.
- Loss assets are those that are considered uncollectible and of such little value that their continuance as assets is not warranted. Amounts classified as loss are promptly charged off.

Our determination as to the classification of assets and the amount of valuation allowances necessary are subject to review by bank regulatory agencies, which can order a change in a classification or an increase to the allowance. While we believe that an adequate allowance for estimated loan losses has been established, there can be no assurance that our regulators, in reviewing assets including the loan portfolio, will not request us to materially increase our allowance for estimated loan losses, thereby negatively affecting our financial condition and earnings at that time. In addition, actual losses are dependent upon future events and, as such, further increases to the level of allowances for estimated loan losses may become necessary.

The Company's CIRC reviews the Chief Credit Officer's recommendations for classifying our assets quarterly and reports the results of our review to the board of directors. At December 31, 2010, we had \$20.6 million of assets classified as substandard, compared to \$36.9 million at December 31, 2009. The decrease was primarily in our loan categories of \$13.7 million and OREO of \$3.3 million.

The following tables set forth information concerning substandard assets at the dates indicated:

At December 31, 2010							Total Substandard	
Loans		OREO		Securities		Assets		
Gross	# of		# of	Fair	# of		# of	
Balance	Loans	Balance	Properties	Value	Securities	Balance	Assets	

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(dollars in thousands)

Real estate loans:								
Multi-family	\$4,153	5	\$-	-	--	--	\$4,153	5
Commercial investor	5,435	8	-	-	--	--	5,435	8
One-to-four family	495	9	34	1	--	--	529	10
Business loans:								
Commercial owner occupied	4,476	7	-	-	--	--	4,476	7
Commercial and industrial	1,139	5	-	-	--	--	1,139	5
SBA	1,132	11	-	-	--	--	1,132	11
Securities	--	--	--	--	3,781	52	3,781	52
Total substandard assets	\$16,830	45	\$34	1	\$3,781	52	\$20,645	98

At December 31, 2009

	Loans		OREO		Securities		Total Substandard Assets	
	Gross Balance	# of Loans	Balance	# of Properties	Fair Value	# of Securities	Balance	# of Assets
(dollars in thousands)								
Real estate loans:								
Multi-family	\$12,268	10	\$-	-	--	--	\$12,268	10
Commercial investor	10,712	12	515	1	--	--	11,227	13
One-to-four family	724	16	-	-	--	--	724	16
Land	-	-	2,138	1	--	--	2,138	1
Business loans:								
Commercial owner occupied	3,576	7	727	1	--	--	4,303	8
Commercial and industrial	2,102	6	-	-	--	--	2,102	6
SBA	1,146	11	-	-	--	--	1,146	11
Securities	--	--	--	--	2,988	27	2,988	27
Total substandard assets	\$30,528	62	\$3,380	3	\$2,988	27	\$36,896	92

In determining the allowance for loan losses, we evaluate loan credit losses on an individual basis in accordance with FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan, and on a collective basis based on FASB Statement No. 5, Accounting for Contingencies. For loans evaluated on an individual basis, we analyze the borrower's creditworthiness, cash flows and financial status, and the condition and estimated value of the collateral. Loans evaluated individually that are deemed to be impaired are separated from our collective credit loss analysis.

Unless an individual borrower relationship warrants a separate analysis, the majority of our loans are evaluated for credit losses on a collective basis through a quantitative analysis to arrive at base loss factors that are adjusted through a qualitative analysis for internal and external identified risks. The adjusted factor is applied against the loan risk category to determine the appropriate allowance. Our base loss factors are calculated using our trailing twelve-month and annualized trailing six-month actual charge-off data for all loan types except (1) loans fully secured by cash deposits, the guaranteed portion of SBA loans and FHA/VA guaranteed 1st TD loans, for which there is no loss exposure, (2) certain loan segments for which we have no recent loss experience and for which we rely on charge-off data for all FDIC insured commercial banks and savings institutions based in California, and (3) negative deposit

accounts. Then adjustments for the following internal and external risk factors are added to the base factors:

Internal Factors

- Changes in lending policies and procedures, including underwriting standards and collection, charge-offs, and recovery practices;
- Changes in the nature and volume of the loan portfolio and the terms of loans, as well as new types of lending;
- Changes in the experience, ability, and depth of lending management and other relevant staff that may have an impact on our loan portfolio;
- Changes in the volume and severity of past due and classified loans, and in the volume of non-accruals, troubled debt restructurings, and other loan modifications;
- Changes in the quality of our loan review system and the degree of oversight by our board of directors; and
- The existence and effect of any concentrations of credit and changes in the level of such concentrations.

External Factors

- Changes in national, state and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments (includes trends in real estate values and the interest rate environment);
- Changes in the value of the underlying collateral for collateral-dependent loans; and
- The effect of external factors, such as competition, legal developments and regulatory requirements on the level of estimated credit losses in our current loan portfolio.

The factor adjustment for each of the nine above-described risk factors are determined by the Chief Credit Officer and approved by the CIRC on a quarterly basis.

The allowance for loan loss (“ALLL”) factors are reviewed for reasonableness against the 10-year average, 15-year average, and trailing twelve month total charge-off data for all FDIC insured commercial banks and savings institutions based in California. Given the above evaluations, the amount of the allowance for loan losses is based upon the total loans evaluated individually and collectively.

As of December 31, 2010, the allowance for loan losses totaled \$8.9 million, essentially unchanged from December 31, 2009 and up from \$5.9 million at December 31, 2008. At December 31, 2010, the allowance for loan losses as a percent of nonperforming loans was 270.9%, compared with 88.9% at December 31, 2009 and 113.1% at December 31, 2008. At December 31, 2010, the allowance for loan losses as a per-cent of gross loans was 1.56%, compared with 1.55% at December 31, 2009 and 0.94% at December 31, 2008.

The following table sets forth the Company’s allowance for loan losses and the percent of gross loans to total gross loans in each of the categories listed for the periods indicated:

	2010	For the Year Ended December 31,			2006
		2009	2008	2007	
		(dollars in thousands)			
Allowance for Loan Losses					
Balance at beginning of period	8,905	5,881	4,598	3,543	3,050
ALLL Transfer In *	-	-	8	-	-
Provision for loan losses	2,092	7,735	2,241	1,651	531
Charge-offs:					

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Real estate:					
Multi-family	334	1,527	-	-	-
Commercial investor	512	317	-	-	-
One-to-four family	123	125	226	101	266
Business loans:					
Commercial owner occupied	264	59	-	-	-
Commercial and industrial	708	1,409	-	-	-
SBA	398	906	948	600	-
Other loans	-	468	-	-	-
Total charge-offs	2,339	4,811	1,174	701	266
Recoveries:					
Real estate:					
One-to-four family	40	26	88	103	225
Business loans:					
Commercial and industrial	13	4	-	-	-
SBA	154	31	-	-	-
Other loans	14	39	120	2	3
Total recoveries	221	100	208	105	228
Net loan charge-offs	2,118	4,711	966	596	38
Balance at end of period	\$ 8,879	\$ 8,905	\$ 5,881	\$ 4,598	\$ 3,543
Ratios					
Net charge-offs to average net loans	0.39 %	0.79 %	0.16 %	0.10 %	0.01 %
Allowance for loan losses to gross loans at end of period	1.56 %	1.55 %	0.94 %	0.73 %	0.58 %

* Note: Represents the addition of valuation reserves for overdrafts that were previously held outside of the General Allowance.

The following table sets forth the Company's allowance for loan losses and the percent of gross loans to total gross loans in each of the categories listed at the dates indicated:

Balance at End of Period	Applicable to	Amount	At December 31,								
			2010 % of Loans in Category to	Allowance as a % of Loan	2009 % of Loans in Category to	Allowance as a % of Loan	2008 % of Loans in Category to	Allowance as a % of Loan			
Total	Category	Amount	Total	Category	Amount	Total	Category	Amount	Total	Category	
Loans	Balance	Amount	Loans	Balance	Amount	Loans	Balance	Amount	Loans	Balance	
(dollars in thousands)											
Real estate loans:											

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Multi-family	\$ 2,730	42.9 %	1.12 %	\$ 3,386	48.4 %	1.21 %	\$ 1,958	45.7 %	0.68 %
Commercial investor	1,580	23.0 %	1.21 %	1,602	26.0 %	1.07 %	1,373	26.0 %	0.84 %
One-to-four family	332	3.6 %	1.63 %	272	1.5 %	3.20 %	231	1.6 %	2.33 %
Construction	-	0.0 %	0.00 %	-	0.0 %	0.00 %	78	0.4 %	2.84 %
Land	-	0.0 %	0.00 %	-	0.0 %	0.00 %	-	0.4 %	0.00 %
Business loans:	-			-			-		
Commercial owner occupied	1,687	20.0 %	1.49 %	907	17.9 %	0.88 %	935	17.9 %	0.83 %
Commercial and industrial	2,356	9.6 %	4.31 %	2,410	5.4 %	7.75 %	1,123	6.9 %	2.60 %
SBA	145	0.7 %	3.55 %	326	0.5 %	9.78 %	177	0.8 %	3.57 %
Other Loans	49	0.2 %	3.46 %	2	0.3 %	0.10 %	7	0.3 %	0.37 %
Total	\$ 8,879	100.0%	1.56 %	\$ 8,905	100.0%	1.55 %	\$ 5,881	100.0%	0.94 %

At December 31,

Balance at End of Period Applicable to	Amount	2007			2006				
		% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance	Amount	% of Loans in Category to Total Loans	Allowance as a % of Loan Category Balance	Amount		
Real estate loans:									
Multi-family	\$1,718	54.5 %	0.50 %	\$1,488	58.8 %	0.42 %			
Commercial investor	1,349	22.7 %	0.95 %	933	28.0 %	0.55 %			
One-to-four family	197	2.1 %	1.51 %	350	2.1 %	2.73 %			
Construction	24	0.3 %	1.17 %	-	0.0 %	0.00 %			
Land	-	0.9 %	0.00 %	-	0.5 %	0.00 %			
Business loans:	-			-					
Commercial owner occupied	296	9.2 %	0.51 %	190	5.9 %	0.53 %			
Commercial and industrial	765	8.1 %	1.50 %	506	3.8 %	2.22 %			
SBA	247	2.2 %	1.77 %	72	0.9 %	1.36 %			
Other Loans	1	0.0 %	0.68 %	4	0.0 %	6.72 %			
Total	\$4,598	100.0 %	0.73 %	\$3,543	100.0 %	0.58 %			

The following table sets forth the allowance for loan losses amounts calculated by the categories listed at the dates indicated:

Balance at End of Period Applicable to	2010		2009		2008		2007		2006	
	Amount	% of to Total	Amount	% of to Total	Amount	% of to Total	Amount	% of to Total	Amount	% of to Total
	(dollars in thousands)									

Allocated allowance	\$8,832	99.5 %	\$8,905	100.0 %	\$5,881	100.0 %	\$4,598	100.0 %	\$3,377	95.3 %
Specific allowance	47	0.5 %	-	0.0 %	-	0.0 %	-	0.0 %	166	4.7 %
Total	\$8,879	100.0 %	\$8,905	100.0 %	\$5,881	100.0 %	\$4,598	100.0 %	\$3,543	100.0 %

Investment Activities

Our investment policy as established by our board of directors attempts to provide and maintain liquidity, generate a favorable return on investments without incurring undue interest rate and credit risk and complement our lending activities. Specifically, our policies limit investments to U.S. government securities, federal agency-backed securities, non-government guaranteed mortgage-backed securities (“MBS”), municipal bonds, and corporate bonds.

Our investment securities portfolio amounted to \$168.4 million at December 31, 2010, as compared to \$137.7 million at December 31, 2009, representing a 22.3% increase. As of December 31, 2010, the portfolio consisted of \$159,000 in U.S. Treasuries, \$130.6 million in government sponsored entities (“GSE”) MBS, \$19.8 million in municipal bonds, \$4.6 million of private label MBS, \$11.3 million of FHLB stock, and \$2.0 million of stock of the Federal Reserve Bank of San Francisco (the “Federal Reserve Bank”). In addition, \$38.3 million of the GSE securities have been pledged as collateral for the Company’s \$28.5 million of inverse puttable reverse repurchase agreements.

In the third quarter of 2009 through the beginning of 2010, we began restructuring our investment portfolio to reduce the level of private label MBS and reinvest in government sponsored enterprise-backed securities and municipal bonds. All of our \$19.8 million municipal bond securities in our portfolio have an underlying rating of investment grade with the majority insured by the largest bond insurance companies to bring each of these securities to a Moody’s AA- rating or better. The Company has only purchased general obligation bonds that are risk-weighted at 20% for regulatory capital purposes. The Company has reduced its exposure to any single adverse event by holding securities from geographically diversified municipalities. We are continually monitoring the quality of our municipal bond portfolio in light of the current financial problems. To our knowledge, none of the municipalities in which we hold bonds are exhibiting financial problems that would require us to record an OTTI charge.

In June 2008, the Company redeemed its shares in two AMF mutual funds it owned and received a pro rata distribution in kind of the securities held by the mutual funds. The managers of the mutual funds had limited redemptions to payment-in-kind only and did not permit the owners of the funds to redeem their shares for cash. In aggregate, the Company received cash of \$2.9 million and 160 securities with a market value totaling \$21.3 million. The Company’s redemption of its shares in the mutual funds resulted in a charge to earnings of approximately \$3.6 million (pre-tax). The charge is the difference between the total purchase price of \$27.7 million, paid by the Company for the mutual funds and the market value of the cash and securities of \$24.1 million at the close of business on June 18, 2008, which is the date the Company redeemed its shares in the mutual funds. For 2010, the Company took OTTI charges of \$1.1 million, compared with \$2.0 million in 2009, all of which for both years were related to the private label MBS received from these mutual funds.

Below is a table of our securities by security type further separated by rating agency grade at the date indicated:

Security Type	Ratings	Number	At December 31, 2010			Unrealized Gain/(Loss)
			Face Value	Amortized Cost	Fair Value	
(dollars in thousands)						

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U.S. Treasury	AAA	2	\$146	\$148	\$159	\$11
Government Sponsored Enterprise	AAA	76	126,297	130,353	130,581	228
Municipal bonds	AAA/AA	29	20,145	20,555	19,759	(796)
Private Label:						
Investment Grade	AAA	6	189	189	179	(10)
Investment Grade	AA-BBB	24	908	885	635	(250)
Non-investment Grade *	Below BBB	49	8,986	4,517	3,781	(736)
Total investment securities available for sale		186	\$156,671	\$156,647	\$155,094	\$(1,553)

* Non-investment grade includes all ratings below BBB.

The following table sets forth the amortized costs and fair values of the Company's investment securities available for sale and stock at the dates indicated:

	At December 31,			
	2010 Amortized Cost	Fair Value	2009 Amortized Cost	Fair Value
	(in thousands)			
Investment securities available for sale				
U.S. Treasury	\$ 148	\$ 159	\$ 148	\$ 154
Municipal bonds	20,555	19,759	17,918	17,965
Mortgage-backed securities	135,944	135,176	108,300	105,288
Total investment securities available for sale	156,647	155,094	126,366	123,407
Stock				
FHLB	11,315	11,315	12,731	12,731
Federal Reserve Bank	2,019	2,019	1,599	1,599
Total stock	13,334	13,334	14,330	14,330
Total securities	\$ 169,981	\$ 168,428	\$ 140,696	\$ 137,737

The following table sets forth the fair values and weighted average yields on our investment securities available for sale portfolio and stock by contractual maturity at the date indicated.

	At December 31, 2010									
	One Year or Less		More than One to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
	(dollars in thousands)									
Investment securities available for sale										
U.S. Treasury	\$ -	0.00%	\$ 79	3.53%	\$ 80	4.15%	\$ -	0.00%	\$ 159	3.84%

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Municipal bonds	-	0.00%	-	0.00%	-	0.00%	19,759	3.92%	19,759	3.92%
Mortgage-backed securities	-	0.00%	37	6.06%	127	5.31%	135,012	2.95%	135,176	2.95%
Total investment securities available for sale	-	0.00%	116	4.34%	207	4.86%	154,771	3.07%	\$155,094	3.07%
Stock										
FHLB	11,315	0.00%	-	0.00%	-	0.00%				