

FIRST PACTRUST BANCORP INC

Form 10-K

March 10, 2008

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS

PURSUANT TO SECTIONS 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended December 31, 2007

.. 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 000-49806

FIRST PACTRUST BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	04-3639825 (I.R.S. Employer Identification No.)
610 Bay Boulevard, Chula Vista, California (Address of Principal Executive Offices)	91910 (Zip Code)
Registrant's telephone number, including area code: (619) 691-1519	

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, par value \$0.01 per share

(Title of class)

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

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained herein, and no disclosure will be contained, to the best of 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 definition of "accelerated filer," "large accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock on the Nasdaq System as of June 30, 2007, was \$68.4 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.) As of March 7, 2008, there were issued and outstanding 4,372,238 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

PART III of Form 10-K Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held during April 2008.

Table of Contents

FIRST PACTRUST BANCORP, INC. AND SUBSIDIARIES

FORM 10-K

December 31, 2007

INDEX

	Page
PART I	
Item 1 <u>Business</u>	3
Item 1A <u>Risk Factors</u>	27
Item 1B <u>Unresolved Staff Comments</u>	29
Item 2 <u>Properties</u>	30
Item 3 <u>Legal Proceedings</u>	30
Item 4 <u>Submission of Matters to a Vote of Security Holders</u>	30
PART II	
Item 5 <u>Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u>	31
Item 6 <u>Selected Financial Data</u>	33
Item 7 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
Item 7A <u>Quantitative and Qualitative Disclosures about Market Risk</u>	47
Item 8 <u>Financial Statements and Supplementary Data</u>	49
Item 9 <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	76
Item 9A <u>Controls and Procedures</u>	76
Item 9B <u>Other Information</u>	76
PART III	
Item 10 <u>Directors and Executive Officers of the Registrant</u>	77
Item 11 <u>Executive Compensation</u>	77
Item 12 <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	78
Item 13 <u>Certain Relationships and Related Transactions and Director Independence</u>	78
Item 14 <u>Principal Accountant Fees and Services</u>	78
PART IV	
Item 15 <u>Exhibits and Financial Statement Schedules</u>	79
<u>Signatures</u>	80

Table of Contents

PART I

Item 1. Business

General

First PacTrust Bancorp, Inc. (the Company) was incorporated under Maryland law in March 2002 to hold all of the stock of Pacific Trust Bank (the Bank). Maryland was chosen as the state of incorporation because it provides protections similar to Delaware with respect to takeover, indemnification and limitations on liability, with reduced franchise taxes. First PacTrust Bancorp, Inc. is a savings and loan holding company and is subject to regulation by the Office of Thrift Supervision. First PacTrust Bancorp, Inc. is a unitary thrift holding company, which means that it owns one thrift institution. As a thrift holding company, First PacTrust Bancorp, Inc., activities are limited to banking, securities, insurance and financial services-related activities. See How We Are Regulated First PacTrust Bancorp, Inc. First PacTrust Bancorp, Inc. is not an operating company and has no significant assets other than all of the outstanding shares of common stock of Pacific Trust Bank, the net proceeds retained from its initial public offering completed in August 2002, and its loan to the First PacTrust Bancorp, Inc. 401(k) Employee Stock Ownership Plan. First PacTrust Bancorp, Inc. has no significant liabilities. The management of the Company and the Bank is substantially the same. The Company utilizes the support staff and offices of the Bank and pays the Bank for these services. If the Company expands or changes its business in the future, the Company may hire the Company s own employees. Unless the context otherwise requires, all references to the Company include the Bank and the Company on a consolidated basis.

The Company is a community-oriented financial institution offering a variety of financial services to meet the needs of the communities we serve. The Company is headquartered in Chula Vista, California, a suburb of San Diego, California and has nine banking offices primarily serving San Diego and Riverside Counties in California. Our geographic market for loans and deposits is principally San Diego and Riverside counties.

The principal business consists of attracting retail deposits from the general public and investing these funds primarily in permanent loans secured by first mortgages on owner-occupied, one-to four- family residences and a variety of consumer loans. The Company also originates loans secured by multi-family and commercial real estate and, to a limited extent, commercial business loans.

The Company offers a variety of deposit accounts having a wide range of interest rates and terms, which generally include savings accounts, money market deposits, certificate accounts and checking accounts. The Company solicits deposits in the Company s market area and, to a lesser extent from institutional depositors nationwide, and has accepted brokered deposits.

The principal executive offices of First PacTrust Bancorp, Inc. are located at 610 Bay Boulevard, Chula Vista, California, and its telephone number is (619) 691-1519.

The Company s reports, proxy statements and other information the Company files with the SEC, as well as news releases, are available free of charge through the Company s Internet site at <http://www.firstpactrustbancorp.com>. This information can be found on the First PacTrust Bancorp, Inc. News or SEC Filings pages of our Internet site. The annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed and furnished pursuant to Section 13(a) of the Exchange Act are available as soon as reasonably practicable after they have been filed with the SEC. Reference to the Company s Internet address is not intended to incorporate any of the information contained on our Internet site into this document.

Forward-Looking Statements

This Form 10-K contains various forward-looking statements that are based on assumptions and describe our future plans and strategies and our expectations. These forward-looking statements are generally identified

Table of Contents

by words such as believe, expect, intend, anticipate, estimate, project, or similar words. Our ability to predict results or the actual effect of plans or strategies is uncertain. Factors which could cause actual results to differ materially from those estimated include, but are not limited to, changes in interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of our loan and investment portfolios, demand for our loan products, deposit flows, our operating expenses, competition, demand for financial services in our market areas and accounting principles and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements, and you should not rely too much on these statements. We do not undertake, and specifically disclaim, any obligation to publicly revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Lending Activities

General. The Company's mortgage loans carry either a fixed or an adjustable rate of interest. Mortgage loans generally are long-term and amortize on a monthly basis with principal and interest due each month. The Company also has loans in the portfolio which require only interest payments on a monthly basis or may have the potential for negative amortization. At December 31, 2007, the Company had a total of \$294.3 million in interest only mortgage loans and \$48.2 million in mortgage loans with potential for negative amortization. In 2005, the Company introduced a new lending product called the Green Account. This product is America's first fully-transactional flexible mortgage account. The Green account is a first mortgage line of credit with an associated clearing account that allows all types of deposits and withdrawals to be performed, including direct deposit, check, debit card, ATM, ACH debits and credits, and internet banking and bill payment transactions. At December 31, 2007, the balance of the Company's Green account loans totaled \$164.0 million. For further detailed information on this product, visit the Company's website at www.pacifictrustbank.com. At December 31, 2007, the Company's net loan portfolio totaled \$710.6 million, which constituted 91.7% of our total assets.

Senior loan officers may approve loans to one borrower or group of related borrowers up to \$1.5 million. The Executive Vice President of Lending may approve loans to one borrower or group of related borrowers up to \$2.0 million. The President/CEO may approve loans to one borrower or group of related borrowers up to \$2.5 million. The Management Loan Committee may approve loans to one borrower or group of related borrowers up to \$8.0 million, with no single loan exceeding \$4.0 million. The Board Loan Committee must approve loans over these amounts or outside our general loan policy.

At December 31, 2007, the maximum amount which the Company could have loaned to any one borrower and the borrower's related entities, was approximately \$12.3 million. The largest lending relationship to a single borrower or a group of related borrowers was a combination of commercial real estate, multi-family and single family loans totaling an aggregate amount of \$12.5 million. At the time of origination, the total exposure was within the bank's maximum loan to one borrower amount which has since declined primarily due to a reduction of capital. The properties securing these loans are located in Anaheim and San Diego, California. These loans were current as of December 31, 2007 and have never been delinquent.

Table of Contents

The following table presents information concerning the composition of the Company's loan portfolio in dollar amounts and in percentages as of the dates indicated.

	2007		2006		December 31, 2005		2004		2003	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in Thousands)										
Real Estate										
One- to four-family	\$ 421,064	58.96%	\$ 515,891	69.46%	\$ 559,193	80.87%	\$ 517,564	81.90%	\$ 496,253	84.07%
Commercial and multi-family	94,544	13.24	106,310	14.31	96,650	13.98	96,655	15.29	75,386	12.77
Construction	18,866	2.64	16,409	2.21	6,424	0.93	126	0.02	2,229	0.38
Consumer:										
Home equity-real estate secured*	175,702	24.60	100,545	13.54	25,550	3.69	12,905	2.04	10,738	1.82
Automobile	430	0.06	589	0.08	820	0.12	1,274	0.20	2,202	0.37
Other	2,123	0.30	2,355	0.32	2,196	0.32	2,746	0.44	2,706	0.46
Commercial	1,398	0.20	611	0.08	622	0.09	681	0.11	752	0.13
Total loans	714,127	100.00%	742,710	100.00%	691,455	100.00%	631,951	100.00%	590,266	100.00%
Net deferred loan origination costs	2,208		2,004		1,733		1,203		1,217	
Allowance for loan losses	(6,240)		(4,670)		(4,691)		(4,430)		(4,232)	
Total loans receivable, net	\$ 710,095		\$ 740,044		\$ 688,497		\$ 628,724		\$ 587,251	

* At 12/31/07, this total includes \$164.0 million of the Company's Green account loans, of which \$155.0 million is secured by one-to-four family properties, \$6.2 million is secured by commercial properties, \$2.3 million is secured by multi-family properties and \$429 thousand is secured by land. At 12/31/06, this total included \$87.3 million of the Company's Green account loans, of which \$84.4 million was secured by one-to four- family properties, \$1.3 million was secured by multi-family properties and \$1.7 million was secured by commercial properties. At 12/31/05, this total included \$9.7 million of the Company's Green account loans all of which were secured by one-to four-family properties.

Table of Contents

The following table shows the composition of the Company's loan portfolio by fixed- and adjustable-rate at the dates indicated.

	2007		2006		December 31, 2005		2004		2003	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
FIXED-RATE LOANS										
<u>Real Estate</u>										
One- to four-family	\$ 10,440	1.46%	\$ 10,750	1.45%	\$ 13,061	1.89%	\$ 14,762	2.34%	\$ 54,339	9.21%
Commercial and multi-family	70,061	9.81	67,444	9.08	47,253	6.83	33,684	5.33	3,884	0.66
Construction										
<u>Other loans</u>										
Consumer:										
Automobile	420	.06	546	.07	721	0.10	1,003	0.16	1,727	0.29
Home equity-real estate secured	429	.06								
Other	448	.06	381	.05	369	0.05	401	0.06	725	0.12
Commercial	500	.07			65	0.01	87	0.01	192	0.03
Total fixed-rate loans	82,298	11.52	79,121	10.65	61,469	8.88	49,937	7.90	60,867	10.31
ADJUSTABLE-RATE										
<u>Real Estate</u>										
One- to four-family	410,624	57.50	505,141	68.01	546,132	78.98	502,802	79.56	441,914	74.87
Commercial and multi-family	24,483	3.43	38,866	5.23	49,397	7.15	62,971	9.97		