

PROVIDENT FINANCIAL HOLDINGS INC
Form 10-Q
February 08, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended December 31, 2017

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 (I.R.S. Employer
incorporation or organization) 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 No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No .

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 January 31, 2018
Common stock, \$ 0.01 par value, per share	7,477,776 shares

PROVIDENT FINANCIAL HOLDINGS, INC.

Table of Contents

PART 1 - FINANCIAL INFORMATION

Financial Statements. The Unaudited Interim Condensed Consolidated
 ITEM 1 - Financial Statements of Provident Financial Holdings, Inc. filed as a part
 of the report are as follows:

	Page
<u>Condensed Consolidated Statements of Financial Condition</u> as of December 31, 2017 and June 30, 2017	1
<u>Condensed Consolidated Statements of Operations</u> for the Quarters and Six Months Ended December 31, 2017 and 2016	2
<u>Condensed Consolidated Statements of Comprehensive Income</u> for the Quarters and Six Months Ended December 31, 2017 and 2016	3
<u>Condensed Consolidated Statements of Stockholders' Equity</u> for the Quarters and Six Months Ended December 31, 2017 and 2016	4
<u>Condensed Consolidated Statements of Cash Flows</u> for the Six Months Ended December 31, 2017 and 2016	6
<u>Notes to Unaudited Interim Condensed Consolidated Financial Statements</u>	7
ITEM 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations:	
<u>General</u>	46
<u>Safe-Harbor Statement</u>	47
<u>Critical Accounting Policies</u>	48
<u>Executive Summary and Operating Strategy</u>	48
<u>Off-Balance Sheet Financing Arrangements and Contractual Obligations</u>	49
<u>Comparison of Financial Condition at December 31, 2017 and June 30, 2017</u>	50
<u>Comparison of Operating Results</u> for the Quarters and Six Months Ended December 31, 2017 and 2016	52
<u>Asset Quality</u>	61
<u>Loan Volume Activities</u>	69
<u>Liquidity and Capital Resources</u>	70
<u>Supplemental Information</u>	72
ITEM 3 - <u>Quantitative and Qualitative Disclosures about Market Risk</u>	72
ITEM 4 - <u>Controls and Procedures</u>	75
PART II - OTHER INFORMATION	
ITEM 1 - <u>Legal Proceedings</u>	76
ITEM 1A - <u>Risk Factors</u>	77
ITEM 2 - <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	77
ITEM 3 - <u>Defaults Upon Senior Securities</u>	78
ITEM 4 - <u>Mine Safety Disclosures</u>	78

ITEM 5 - <u>Other Information</u>	<u>78</u>
ITEM 6 - <u>Exhibits</u>	<u>78</u>
<u>SIGNATURES</u> ¹²	<u>81</u>

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

	December 31, 2017	June 30, 2017
Assets		
Cash and cash equivalents	\$ 47,173	\$ 72,826
Investment securities – held to maturity, at cost	87,626	60,441
Investment securities – available for sale, at fair value	8,405	9,318
Loans held for investment, net of allowance for loan losses of \$8,075 and \$8,039, respectively; includes \$5,157 and \$6,445 at fair value, respectively	885,976	904,919
Loans held for sale, at fair value	96,589	116,548
Accrued interest receivable	3,147	2,915
Real estate owned, net	621	1,615
Federal Home Loan Bank (“FHLB”) – San Francisco stock	8,108	8,108
Premises and equipment, net	7,816	6,641
Prepaid expenses and other assets	16,670	17,302
Total assets	\$ 1,162,131	\$ 1,200,633
Liabilities and Stockholders’ Equity		
Liabilities:		
Non interest-bearing deposits	\$ 77,144	\$ 77,917
Interest-bearing deposits	830,644	848,604
Total deposits	907,788	926,521
Borrowings	111,189	126,226
Accounts payable, accrued interest and other liabilities	22,454	19,656
Total liabilities	1,041,431	1,072,403
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; 17,976,615 and 17,949,365 shares issued; 7,474,776 and 7,714,052 shares outstanding, respectively)	180	180
Additional paid-in capital	94,011	93,209
Retained earnings	189,610	192,754
Treasury stock at cost (10,501,839 and 10,235,313 shares, respectively)	(163,311)	(158,142)
Accumulated other comprehensive income, net of tax	210	229
Total stockholders’ equity	120,700	128,230

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

Total liabilities and stockholders' equity	\$ 1,162,131	\$ 1,200,633
--	--------------	--------------

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

1

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

	Quarter Ended		Six Months Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Interest income:				
Loans receivable, net	\$9,735	\$10,116	\$19,892	\$20,596
Investment securities	319	128	576	212
FHLB – San Francisco stock	143	458	284	643
Interest-earning deposits	168	101	358	156
Total interest income	10,365	10,803	21,110	21,607
Interest expense:				
Checking and money market deposits	112	105	215	203
Savings deposits	149	146	298	290
Time deposits	625	731	1,264	1,503
Borrowings	728	736	1,464	1,438
Total interest expense	1,614	1,718	3,241	3,434
Net interest income	8,751	9,085	17,869	18,173
(Recovery) provision for loan losses	(11	)(350	)158	(500
Net interest income, after (recovery) provision for loan losses	8,762	9,435	17,711	18,673
Non-interest income:				
Loan servicing and other fees	317	310	680	577
Gain on sale of loans, net	4,317	6,478	9,164	14,474
Deposit account fees	536	552	1,094	1,102
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(22	)(63	)(62	)(166
Card and processing fees	373	361	754	725
Other	220	194	463	372
Total non-interest income	5,741	7,832	12,093	17,084
Non-interest expense:				
Salaries and employee benefits	8,633	10,349	17,902	21,663
Premises and occupancy	1,260	1,235	2,574	2,524
Equipment	375	340	737	702
Professional expenses	521	630	1,041	1,135
Sales and marketing expenses	301	253	504	549
Deposit insurance premiums and regulatory assessments	218	177	402	425
Other ⁽¹⁾	1,905	1,684	5,787	3,302
Total non-interest expense	13,213	14,668	28,947	30,300
Income before income taxes	1,290	2,599	857	5,457
Provision for income taxes ⁽²⁾	2,067	1,095	1,859	2,359
Net (loss) income	\$(777	)\$1,504	\$(1,002	)\$3,098

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

Basic (loss) earnings per share	\$ (0.10)	\$ 0.19	\$ (0.13)	\$ 0.39
Diluted (loss) earnings per share	\$ (0.10)	\$ 0.18	\$ (0.13)	\$ 0.38
Cash dividends per share	\$ 0.14	\$ 0.13	\$ 0.28	\$ 0.26

..

(1) Includes \$650,000 of litigation expense accrual related to "McKeen-Chaplin" and "Neal" matters for the quarter ended December 31, 2017 and \$3.4 million

of litigation expense accruals related to "McKeen-Chaplin," "Neal" and "Cannon" matters for the six months ended December 31, 2017.

(2) Includes a net tax charge of \$1.8 million resulting from the revaluation of net deferred tax assets consistent with the Tax Cuts and Jobs Act for the quarter and six months ended December 31, 2017.

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

2

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

	For the Quarters Ended		For the Six Months Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Net (loss) income	\$(777)	\$1,504	\$(1,002)	\$3,098
Change in unrealized holding loss on securities available for sale	(80)	(28)	(78)	(84)
Reclassification adjustment for net loss on securities available for sale included in net loss	45	—	45	—
Other comprehensive loss, before income taxes	(35)	(28)	(33)	(84)
Income tax benefit	(15)	(12)	(14)	(35)
Other comprehensive loss	(20)	(16)	(19)	(49)
Total comprehensive (loss) income	\$(797)	\$1,488	\$(1,021)	\$3,049

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 Ended December 31, 2017 and 2016:

	Common Stock Shares	Additional Paid-In Capital Amount	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Total Net of Tax	
Balance at September 30, 2017	7,609,552	\$ 180	\$ 93,669	\$ 191,451	\$(160,609) \$ 230	\$ 124,921
Net loss			(777)			(777)
Other comprehensive loss					(20)	(20)
Purchase of treasury stock	(140,526)			(2,702)		(2,702)
Exercise of stock options	5,750	84				84
Amortization of restricted stock		142				142
Stock options expense		116				116
Cash dividends ⁽¹⁾			(1,064)			(1,064)
Balance at December 31, 2017	7,474,776	\$ 180	\$ 94,011	\$ 189,610	\$(163,311) \$ 210	\$ 120,700

⁽¹⁾ Cash dividends of \$0.14 per share were paid in the quarter ended December 31, 2017.

	Common Stock Shares	Additional Paid-In Capital Amount	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Total Net of Tax	
Balance at September 30, 2016	7,978,166	\$ 178	\$ 91,633	\$ 192,227	\$(151,095) \$ 280	\$ 133,223
Net income			1,504			1,504
Other comprehensive loss					(16)	(16)
Purchase of treasury stock	(85,800)			(1,659)		(1,659)
Exercise of stock options	22,750	1	267			268
Amortization of restricted stock		133				133
Awards of restricted stock		(25)		25		—
Forfeiture of restricted stock		73		(73)		—
Stock options expense		142				142
Tax effect from stock-based compensation		(8)				(8)
Cash dividends ⁽¹⁾			(1,032)			(1,032)
Balance at December 31, 2016	7,915,116	\$ 179	\$ 92,215	\$ 192,699	\$(152,802) \$ 264	\$ 132,555

⁽¹⁾ Cash dividends of \$0.13 per share were paid in the quarter ended December 31, 2016.

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

4

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

For the Six Months Ended December 31, 2017 and 2016:

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Total Net of Tax	
Balance at June 30, 2017	7,714,052	\$ 180	\$ 93,209	\$ 192,754	\$(158,142)	\$ 229	\$ 128,230
Net loss				(1,002)			(1,002)
Other comprehensive loss						(19)	(19)
Purchase of treasury stock	(266,526)				(5,152)		(5,152)
Exercise of stock options	27,250		261				261
Amortization of restricted stock			291				291
Forfeitures of restricted stock			17		(17)		—
Stock options expense			233				233
Cash dividends ⁽¹⁾				(2,142)			(2,142)
Balance at December 31, 2017	7,474,776	\$ 180	\$ 94,011	\$ 189,610	\$(163,311)	\$ 210	\$ 120,700

⁽¹⁾ Cash dividends of \$0.28 per share were paid in the six months ended December 31, 2017.

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Total Net of Tax	
Balance at June 30, 2016	7,975,250	\$ 178	\$ 90,802	\$ 191,666	\$(149,508)	\$ 313	\$ 133,451
Net income				3,098			3,098
Other comprehensive loss						(49)	(49)
Purchase of treasury stock ⁽¹⁾	(171,634)				(3,321)		(3,321)
Exercise of stock options	23,750	1	284				285
Distribution of restricted stock	87,750						—
Amortization of restricted stock			495				495
Awards of restricted stock			(161)		161		—
Forfeitures of restricted stock			134		(134)		—
Stock options expense			482				482
Tax effect from stock-based compensation			179				179
Cash dividends ⁽²⁾				(2,065)			(2,065)
Balance at December 31, 2016	7,915,116	\$ 179	\$ 92,215	\$ 192,699	\$(152,802)	\$ 264	\$ 132,555

⁽¹⁾ Includes the repurchase of 25,598 shares of distributed restricted stock in settlement of employee withholding tax obligations.

⁽²⁾ Cash dividends of \$0.26 per share were paid in the six months ended December 31, 2016.

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

5

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

	Six Months Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net (loss) income	\$(1,002)	\$3,098
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	1,582	1,334
Provision (recovery) for loan losses	158	(500)
(Recovery) provision of losses on real estate owned	(552)	76
Gain on sale of loans, net	(9,164)	(14,474)
Loss (gain) on sale of real estate owned, net	580	(33)
Stock-based compensation	524	977
(Benefit) provision for deferred income taxes	(79)	1,504
Tax effect from stock based compensation	—	(179)
Increase in accounts payable, accrued interest and other liabilities	3,278	3,441
Increase in prepaid expenses and other assets	(306)	(497)
Loans originated for sale	(724,156)	(1,189,253)
Proceeds from sale of loans	753,571	1,230,321
Net cash provided by operating activities	24,434	35,815
Cash flows from investing activities:		
Decrease (increase) in loans held for investment, net	17,548	(29,008)
Principal payments from investment securities held to maturity	10,837	6,252
Principal payments from investment securities available for sale	885	1,044
Purchase of investment securities held to maturity	(38,511)	—
Proceeds from sale of real estate owned	1,587	857
Purchase of premises and equipment	(1,589)	(185)
Net cash used for investing activities	(9,243)	(21,040)
Cash flows from financing activities:		
(Decrease) increase in deposits, net	(18,733)	2,289
Repayments of short-term borrowings, net	(15,000)	—
Proceeds from long-term borrowings	—	20,000
Repayments of long-term borrowings	(37)	(36)
Exercise of stock options	261	285
Withholding taxes on stock based compensation	(41)	(501)
Tax effect from stock based compensation	—	179
Cash dividends	(2,142)	(2,065)
Treasury stock purchases	(5,152)	(3,321)
Net cash (used for) provided by financing activities	(40,844)	16,830
Net (decrease) increase in cash and cash equivalents	(25,653)	31,605
Cash and cash equivalents at beginning of period	72,826	51,206
Cash and cash equivalents at end of period	\$47,173	\$82,811
Supplemental information:		
Cash paid for interest	\$3,252	\$3,411

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

Cash paid for income taxes	\$2,350	\$ 1,934
Transfer of loans held for sale to held for investment	\$521	\$ 1,584
Real estate acquired in the settlement of loans	\$700	\$ 1,298

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

6

PROVIDENT FINANCIAL HOLDINGS, INC.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

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 statement of financial condition at June 30, 2017 is 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, 2017. The results of operations for the quarter and six months ended December 31, 2017 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2018.

Note 2: Accounting Standard Updates ("ASU")

There have been no accounting standard updates or changes in the status of their adoption that are applicable to the Corporation as previously disclosed in Note 1 of the Corporation's Annual Report on Form 10-K for the year ended June 30, 2017, except the adoption of ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," beginning in fiscal 2018 which did not have a material impact on its condensed consolidated financial statements.

Note 3: (Loss) Earnings Per Share

Basic (loss) 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, 2017 and 2016, there were outstanding options to purchase 585,500 shares and 903,000 shares of the Corporation's common stock, respectively. Of those shares, as of December 31, 2017 and 2016, there were 585,500 shares and 151,000 shares, respectively, which were excluded from the diluted EPS computation as their effect was anti-dilutive. As of December 31, 2017, there were outstanding restricted stock awards of 109,000 shares with no dilutive effect in the second quarter of fiscal 2018; and as of December 31, 2016, there were outstanding restricted stock awards of 105,000 shares which had a dilutive effect in the second quarter of fiscal 2017.

The following table provides the basic and diluted EPS computations for the quarters and six months ended December 31, 2017 and 2016, respectively.

(In Thousands, Except Earnings Per Share)	For the Quarters Ended December 31,		For the Six Months Ended December 31,	
	2017	2016	2017	2016
Numerator:				
Net (loss) income – numerator for basic earnings per share and diluted earnings per share - available to common stockholders	\$(777)	\$1,504	\$(1,002)	\$3,098
Denominator:				
Denominator for basic earnings per share:				
Weighted-average shares	7,566	7,954	7,630	7,951
Effect of dilutive shares:				
Stock options	—	170	—	164
Restricted stock	—	21	—	35
Denominator for diluted earnings per share:				
Adjusted weighted-average shares and assumed conversions	7,566	8,145	7,630	8,150
Basic (loss) earnings per share	\$(0.10)	\$0.19	\$(0.13)	\$0.39
Diluted (loss) earnings per share	\$(0.10)	\$0.18	\$(0.13)	\$0.38

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, 2017 and 2016, respectively.

(In Thousands)	For the Quarter Ended December 31, 2017		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	\$8,217	\$534	\$8,751
Recovery from the allowance for loan losses	(11)	)—	(11)
Net interest income, after recovery from the allowance for loan losses	8,228	534	8,762
Non-interest income:			
Loan servicing and other fees ⁽¹⁾	108	209	317
Gain on sale of loans, net ⁽²⁾	22	4,295	4,317
Deposit account fees	536	—	536
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(22)	)—	(22)
Card and processing fees	373	—	373
Other	220	—	220
Total non-interest income	1,237	4,504	5,741
Non-interest expense:			
Salaries and employee benefits	4,449	4,184	8,633
Premises and occupancy	822	438	1,260
Operating and administrative expenses ⁽³⁾	1,189	2,131	3,320
Total non-interest expense	6,460	6,753	13,213
Income (loss) before income taxes	3,005	(1,715)	1,290
Provision (benefit) for income taxes ⁽⁴⁾	2,532	(465)	2,067
Net income (loss)	\$473	\$(1,250)	\$(777)
Total assets, end of period	\$1,065,204	\$96,927	\$1,162,131

(1) Includes an inter-company charge of \$99 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 \$79 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

(3) Includes \$650,000 of litigation expense accrual for the second quarter of fiscal 2018, all of which was allocated to PBM.

(4) Includes a net tax charge of \$1.8 million resulting from the revaluation of net deferred tax assets consistent with the Tax Cuts and Jobs Act for the quarter ended December 31, 2017.

(In Thousands)	For the Quarter Ended December 31, 2016		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	\$7,821	\$1,264	\$9,085
Recovery from the allowance for loan losses	(346)	)(4	)(350)
Net interest income after recovery from the allowance for loan losses	8,167	1,268	9,435
Non-interest income:			
Loan servicing and other fees ⁽¹⁾	250	60	310
Gain on sale of loans, net ⁽²⁾	37	6,441	6,478
Deposit account fees	552	—	552
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(58)	)(5	)(63)
Card and processing fees	361	—	361
Other	194	—	194
Total non-interest income	1,336	6,496	7,832
Non-interest expense:			
Salaries and employee benefits	4,642	5,707	10,349
Premises and occupancy	792	443	1,235
Operating and administrative expenses	1,152	1,932	3,084
Total non-interest expense	6,586	8,082	14,668
Income (loss) before income taxes	2,917	(318)	)2,599
Provision (benefit) for income taxes	1,228	(133)	)1,095
Net income (loss)	\$1,689	\$(185)	)\$1,504
Total assets, end of period	\$1,035,158	\$156,997	\$1,192,155

- (1) Includes an inter-company charge of \$128 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 \$109 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, 2017		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	\$ 16,767	\$ 1,102	\$ 17,869
Provision for loan losses	158	—	158
Net interest income, after provision for loan losses	16,609	1,102	17,711
Non-interest income:			
Loan servicing and other fees ⁽¹⁾	155	525	680
Gain on sale of loans, net ⁽²⁾	22	9,142	9,164
Deposit account fees	1,094	—	1,094
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(62)	)—	(62)
Card and processing fees	754	—	754
Other	463	—	463
Total non-interest income	2,426	9,667	12,093
Non-interest expense:			
Salaries and employee benefits	8,951	8,951	17,902
Premises and occupancy	1,649	925	2,574
Operating and administrative expenses ⁽³⁾	3,440	5,031	8,471
Total non-interest expense	14,040	14,907	28,947
Income (loss) before income taxes	4,995	(4,138)	857
Provision (benefit) for income taxes ⁽⁴⁾	3,343	(1,484)	1,859
Net income (loss)	\$ 1,652	\$(2,654)	\$(1,002)
Total assets, end of period	\$ 1,065,204	\$ 96,927	\$ 1,162,131

- (1) Includes an inter-company charge of \$339 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 \$138 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.
- (3) Includes \$3.4 million of litigation accrual expense for the first six months of fiscal 2018, of which \$2.1 million was allocated to PBM.
- (4) Includes a net tax charge of \$1.8 million resulting from the revaluation of net deferred tax assets consistent with the Tax Cuts and Jobs Act for the six months ended December 31, 2017.

(In Thousands)	For the Six Months Ended December 31, 2016		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	\$15,396	\$2,777	\$18,173
Recovery from the allowance for loan losses	(310)	)(190)	)(500)
Net interest income, after recovery from the allowance for loan losses	15,706	2,967	18,673
Non-interest income:			
Loan servicing and other fees ⁽¹⁾	319	258	577
Gain on sale of loans, net ⁽²⁾	38	14,436	14,474
Deposit account fees	1,102	—	1,102
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(163)	)(3)	)(166)
Card and processing fees	725	—	725
Other	372	—	372
Total non-interest income	2,393	14,691	17,084
Non-interest expense:			
Salaries and employee benefits	9,536	12,127	21,663
Premises and occupancy	1,648	876	2,524
Operating and administrative expenses	2,299	3,814	6,113
Total non-interest expense	13,483	16,817	30,300
Income before income taxes	4,616	841	5,457
Provision for income taxes	2,005	354	2,359
Net income	\$2,611	\$487	\$3,098
Total assets, end of period	\$1,035,158	\$156,997	\$1,192,155

(1) Includes an inter-company charge of \$223 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 \$168 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, 2017 and June 30, 2017 were as follows:

As of December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Carrying Value
(In Thousands)					
Held to maturity:					
Certificates of deposit	\$ 600	\$ —	\$ —	\$ 600	\$ 600
U.S. government sponsored enterprise MBS ⁽¹⁾	87,026	147	437	86,736	87,026
Total investment securities - held to maturity	\$ 87,626	\$ 147	\$ 437	\$ 87,336	\$ 87,626
Available for sale:					
U.S. government agency MBS	\$ 4,678	\$ 181	\$ —	\$ 4,859	\$ 4,859
U.S. government sponsored enterprise MBS	2,977	150	—	3,127	3,127
Private issue CMO ⁽²⁾	413	6	—	419	419
Total investment securities - available for sale	\$ 8,068	\$ 337	\$ —	\$ 8,405	\$ 8,405
Total investment securities	\$ 95,694	\$ 484	\$ 437	\$ 95,741	\$ 96,031

⁽¹⁾ Mortgage-Backed Securities (“MBS”).

⁽²⁾ Collateralized Mortgage Obligations (“CMO”).

As of June 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Carrying Value
(In Thousands)					
Held to maturity:					
Certificates of deposit	\$ 600	\$ —	\$ —	\$ 600	\$ 600
U.S. government sponsored enterprise MBS	59,841	265	77	60,029	59,841
Total investment securities - held to maturity	\$ 60,441	\$ 265	\$ 77	\$ 60,629	\$ 60,441
Available for sale:					
U.S. government agency MBS	\$ 5,197	\$ 186	\$ —	\$ 5,383	\$ 5,383
U.S. government sponsored enterprise MBS	3,301	173	—	3,474	3,474
Private issue CMO	456	5	—	461	461
Total investment securities - available for sale	\$ 8,954	\$ 364	\$ —	\$ 9,318	\$ 9,318
Total investment securities	\$ 69,395	\$ 629	\$ 77	\$ 69,947	\$ 69,759

In the second quarters of fiscal 2018 and 2017, the Corporation received MBS principal payments of \$5.8 million and \$3.2 million, respectively, and there were no sales of investment securities during these periods. The Corporation purchased U.S. government sponsored enterprise MBS totaling \$28.4 million, to be held to maturity, during the second quarter of fiscal 2018 and no purchases were made during the second quarter of fiscal 2017. For the first six months of fiscal 2018 and 2017, the Corporation received MBS principal payments of \$11.7 million and \$7.3 million, respectively, and there were no sales of investment securities during these periods. In the first six months of fiscal 2018, the Corporation purchased U.S. government sponsored enterprise MBS totaling \$38.5 million, to be held to maturity, and none were purchased in the first six months of fiscal 2017.

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

The Corporation held investments with an unrealized loss position of \$437,000 at December 31, 2017 and \$77,000 at June 30, 2017.

As of December 31, 2017 (In Thousands)	Unrealized Holding Losses Less Than 12 Months		Unrealized Holding Losses 12 Months or More		Unrealized Holding Losses Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
Held to maturity:						
U.S. government sponsored enterprise MBS	\$71,893	\$ 437	\$ —	\$ —	—\$71,893	\$ 437
Total investment securities	\$71,893	\$ 437	\$ —	\$ —	—\$71,893	\$ 437

As of June 30, 2017 (In Thousands)	Unrealized Holding Losses Less Than 12 Months		Unrealized Holding Losses 12 Months or More		Unrealized Holding Losses Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
Held to maturity:						
U.S. government sponsored enterprise MBS	\$28,722	\$ 77	\$ —	\$ —	—\$28,722	\$ 77
Total investment securities	\$28,722	\$ 77	\$ —	\$ —	—\$28,722	\$ 77

The Corporation evaluates individual investment securities quarterly for other-than-temporary declines in market value. As of December 31, 2017 and June 30, 2017, the unrealized holding losses were for a term of less than 12 months. The Corporation does not believe that there are any other-than-temporary impairments on the investment securities at December 31, 2017 and 2016; therefore, no impairment losses were recorded for the quarters and six months ended December 31, 2017 and 2016.

Contractual maturities of investment securities as of December 31, 2017 and June 30, 2017 were as follows:

(In Thousands)	December 31, 2017		June 30, 2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Held to maturity:				
Due in one year or less	\$600	\$ 600	\$600	\$ 600
Due after one through five years	11,036	11,002	4,698	4,708
Due after five through ten years	43,596	43,286	41,404	41,374
Due after ten years	32,394	32,448	13,739	13,947
Total investment securities - held to maturity	\$87,626	\$ 87,336	\$60,441	\$ 60,629
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	8,068	8,405	8,954	9,318
Total investment securities - available for sale	\$8,068	\$ 8,405	\$8,954	\$ 9,318
Total investment securities	\$95,694	\$ 95,741	\$69,395	\$ 69,947

Note 6: Loans Held for Investment

Loans held for investment, net of fair value adjustments, consisted of the following:

(In Thousands)	December June 30, 31, 2017 2017	
Mortgage loans:		
Single-family	\$313,837	\$322,197
Multi-family	463,786	479,959
Commercial real estate	103,366	97,562
Construction	14,430	16,009
Commercial business loans	478	576
Consumer loans	144	129
Total loans held for investment, gross	896,041	916,432
Undisbursed loan funds	(7,358)	(9,015)
Advance payments of escrows	46	61
Deferred loan costs, net	5,322	5,480
Allowance for loan losses	(8,075)	(8,039)
Total loans held for investment, net	\$885,976	\$904,919

The following table sets forth information at December 31, 2017 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 2 percent of loans held for investment at both December 31, 2017 and June 30, 2017. 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.

(In Thousands)	Adjustable Rate				Fixed Rate	Total
	Within One Year	After One Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years		
Mortgage loans:						
Single-family	\$152,732	\$23,887	\$73,968	\$51,007	\$12,243	\$313,837
Multi-family	117,609	169,374	160,034	14,216	2,553	463,786
Commercial real estate	27,941	38,106	31,511	5,220	588	103,366
Construction	12,527	—	—	—	1,903	14,430
Commercial business loans	46	—	—	—	432	478
Consumer loans	144	—	—	—	—	144
Total loans held for investment, gross	\$310,999	\$231,367	\$265,513	\$70,443	\$17,719	\$896,041

The Corporation has developed an internal loan grading system to evaluate and quantify the Bank's loans held for investment portfolio with respect to quality and risk. Management continually evaluates the credit quality of the Corporation's loan portfolio and conducts a quarterly review of the adequacy of the allowance for loan losses using quantitative and qualitative methods. The Corporation has adopted an internal risk rating policy in which each loan is rated for credit quality with a rating of pass, special mention, substandard, doubtful or loss. The two primary components that are used during the loan review process to determine the proper allowance levels are individually

evaluated allowances and collectively evaluated allowances. Quantitative loan loss factors are developed by determining the historical loss experience, expected future cash flows, discount rates and collateral fair values, among other components. Qualitative loan loss factors are developed by assessing general economic indicators such as

gross domestic product, retail sales, unemployment rates, employment growth, California home sales and median California home prices. The Corporation assigns individual factors for the quantitative and qualitative methods for each loan category and each internal risk rating.

The Corporation categorizes all of the loans held for investment into risk categories based on relevant information about the ability of the borrower to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. A description of the general characteristics of the risk grades is as follows:

Pass - These loans range from minimal credit risk to average, but still acceptable, credit risk. The likelihood of loss is considered remote.

Special Mention - A Special Mention asset has potential weaknesses that may be temporary or, if left uncorrected, may result in a loss. While concerns exist, the bank is currently protected and loss is considered unlikely and not imminent.

Substandard - A substandard loan is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses, that may jeopardize the liquidation of the debt. A substandard loan is characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful - A doubtful loan has all of the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of the currently existing facts, conditions and values, highly questionable and improbable.

Loss - A loss loan is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted.

The following tables summarize gross loans held for investment, net of fair value adjustments, by loan types and risk category at the dates indicated:

(In Thousands)	December 31, 2017						Total
	Single-family	Multi-family	Commercial Real Estate	Construction	Commercial Business	Consumer	
Pass	\$302,868	\$463,786	\$103,366	\$10,734	\$402	\$144	\$881,300
Special Mention	2,842	—	—	926	—	—	3,768
Substandard	8,127	—	—	2,770	76	—	10,973
Total loans held for investment, gross	\$313,837	\$463,786	\$103,366	\$14,430	\$478	\$144	\$896,041

(In Thousands)	June 30, 2017						Total
	Single-family	Multi-family	Commercial Real Estate	Construction	Commercial Business	Consumer	
Pass	\$310,738	\$479,687	\$97,361	\$16,009	\$496	\$129	\$904,420
Special Mention	3,443	272	—	—	—	—	3,715
Substandard	8,016	—	201	—	80	—	8,297
Total loans held for investment, gross	\$322,197	\$479,959	\$97,562	\$16,009	\$576	\$129	\$916,432

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. The 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.

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 derived based on the loan's discounted cash flow fair value (for restructured loans) or collateral fair value less estimated selling costs 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, 2017 and June 30, 2017:

(In Thousands)	December 31, 2017	June 30, 2017
Collectively evaluated for impairment:		
Mortgage loans:		
Single-family	\$ 3,303	\$3,515
Multi-family	3,295	3,420
Commercial real estate	933	879
Construction	504	96
Commercial business loans	17	21
Consumer loans	8	7
Total collectively evaluated allowance	8,060	7,938
Individually evaluated for impairment:		
Mortgage loans:		
Single-family	—	86
Commercial business loans	15	15
Total individually evaluated allowance	15	101
Total loan loss allowance	\$ 8,075	\$8,039

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

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

(Dollars in Thousands)	For the Quarters Ended		For the Six Months Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Allowance at beginning of period	\$8,063	\$8,725	\$8,039	\$8,670
(Recovery) provision for loan losses	(11)	(350)	158	(500)
Recoveries:				
Mortgage loans:				
Single-family	48	33	132	296
Multi-family	—	6	—	13
Consumer loans	—	—	—	1
Total recoveries	48	39	132	310
Charge-offs:				
Mortgage loans:				
Single-family	(25)	(21)	(254)	(87)
Consumer loans	—	(2)	—	(2)
Total charge-offs	(25)	(23)	(254)	(89)
Net recoveries (charge-offs)	23	16	(122)	221
Balance at end of period	\$8,075	\$8,391	\$8,075	\$8,391
Allowance for loan losses as a percentage of gross loans held for investment at the end of the period	0.90	% 0.96	% 0.90	% 0.96
Net (recoveries) charge-offs as a percentage of average loans receivable, net, during the period (annualized)	(0.01)%	(0.01)%	0.02	%(0.04)%

The following tables denote the past due status of the Corporation's gross loans held for investment, net of fair value adjustments, at the dates indicated.

(In Thousands)	December 31, 2017			Total Loans Held for Investment
	Current	30-89 Days Past Due	Non-Accrual (¹)	
Mortgage loans:				
Single-family	\$304,173	\$1,537	\$ 8,127	\$ 313,837
Multi-family	463,786	—	—	463,786
Commercial real estate	103,366	—	—	103,366
Construction	14,430	—	—	14,430
Commercial business loans	402	—	76	478
Consumer loans	144	—	—	144
Total loans held for investment, gross	\$886,301	\$1,537	\$ 8,203	\$ 896,041

(¹) All loans 90 days or greater past due are placed on non-accrual status.

(In Thousands)	June 30, 2017			Total Loans Held for Investment
	Current	30-89 Days Past Due	Non-Accrual (¹)	
Mortgage loans:				
Single-family	\$313,146	\$1,035	\$ 8,016	\$ 322,197
Multi-family	479,959	—	—	479,959
Commercial real estate	97,361	—	201	97,562
Construction	16,009	—	—	16,009
Commercial business loans	496	—	80	576
Consumer loans	129	—	—	129
Total loans held for investment, gross	\$907,100	\$1,035	\$ 8,297	\$ 916,432

(¹) All loans 90 days or greater past due are placed on non-accrual status.

The following tables summarize the Corporation's allowance for loan losses and recorded investment in gross loans, by portfolio type, at the dates and for the periods indicated.

(In Thousands)	Quarter Ended December 31, 2017							
	Single-family	Multi-family	Commercial Real Estate	Construction	Commercial Business	Consumer	Total	
Allowance for loan losses:								
Allowance at beginning of period	\$3,579	\$3,431	\$875	\$ 140	\$ 31	\$ 7	\$8,063	
(Recovery) provision for loan losses	(299)	(136)	58	364	1	1	(11)	
Recoveries	48	—	—	—	—	—	48	
Charge-offs	(25)	—	—	—	—	—	(25)	
Allowance for loan losses, end of period	\$3,303	\$3,295	\$933	\$ 504	\$ 32	\$ 8	\$8,075	
Allowance for loan losses:								
Individually evaluated for impairment	\$—	\$—	\$—	\$—	\$ 15	\$—	\$15	
Collectively evaluated for impairment	3,303	3,295	933	504	17	8	8,060	
Allowance for loan losses, end of period	\$3,303	\$3,295	\$933	\$ 504	\$ 32	\$ 8	\$8,075	
Loans held for investment:								
Individually evaluated for impairment	\$7,038	\$—	\$—	\$—	\$ 76	\$—	\$7,114	
Collectively evaluated for impairment	306,799	463,786	103,366	14,430	402	144	888,927	
Total loans held for investment, gross	\$313,837	\$463,786	\$103,366	\$ 14,430	\$ 478	\$ 144	\$896,041	
Allowance for loan losses as a percentage of gross loans	1.05	%0.71	%0.90	%3.49	% 6.69	% 5.56	% 0.90	%

held for investment

19

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

(In Thousands)	Quarter Ended December 31, 2016								
	Single-family	Multi-family	Commercial Real Estate	Construction	Other Mortgage	Commercial Business	Consumer	Total	
Allowance for loan losses:									
Allowance at beginning of period	\$4,575	\$3,186	\$854	\$53	\$7	\$42	\$8	\$8,725	
(Recovery) provision for loan losses	(304)	(36)	(18)	12	(1)	(5)	2	(350)	
Recoveries	33	6	—	—	—	—	—	39	
Charge-offs	(21)	—	—	—	—	—	(2)	(23)	
Allowance for loan losses, end of period	\$4,283	\$3,156	\$836	\$65	\$6	\$37	\$8	\$8,391	
Allowance for loan losses:									
Individually evaluated for impairment	\$97	\$—	\$—	\$—	\$—	\$15	\$—	\$112	
Collectively evaluated for impairment	4,186	3,156	836	65	6	22	8	8,279	
Allowance for loan losses, end of period	\$4,283	\$3,156	\$836	\$65	\$6	\$37	\$8	\$8,391	
Loans held for investment:									
Individually evaluated for impairment	\$7,844	\$374	\$—	\$—	\$—	\$85	\$—	\$8,303	
Collectively evaluated for impairment	308,751	448,091	98,044	16,872	265	525	184	872,732	
Total loans held for investment, gross	\$316,595	\$448,465	\$98,044	\$16,872	\$265	\$610	\$184	\$881,035	
Allowance for loan losses as a percentage of gross loans held for investment	1.35	%0.70	%0.85	%0.39	%2.26	%6.07	%4.35	%0.96	%

(In Thousands)	Six Months Ended December 31, 2017							Total
	Single-family	Multi-family	Commercial Real Estate	Construction	Commercial Business	Consumer		
Allowance for loan losses:								
Allowance at beginning of period	\$3,601	\$3,420	\$879	\$96	\$36	\$7		\$8,039
(Recovery) provision for loan losses	(176)	(125)	54	408	(4)	1		158
Recoveries	132	—	—	—	—	—		132
Charge-offs	(254)	—	—	—	—	—		(254)
Allowance for loan losses, end of period	\$3,303	\$3,295	\$933	\$504	\$32	\$8		\$8,075
Allowance for loan losses:								
Individually evaluated for impairment	\$—	\$—	\$—	\$—	\$15	\$—		\$15
Collectively evaluated for impairment	3,303	3,295	933	504	17	8		8,060
Allowance for loan losses, end of period	\$3,303	\$3,295	\$933	\$504	\$32	\$8		\$8,075
Loans held for investment:								
Individually evaluated for impairment	\$7,038	\$—	\$—	\$—	\$76	\$—		\$7,114
Collectively evaluated for impairment	306,799	463,786	103,366	14,430	402	144		888,927
Total loans held for investment, gross	\$313,837	\$463,786	\$103,366	\$14,430	\$478	\$144		\$896,041
Allowance for loan losses as a percentage of gross loans held for investment	1.05	%0.71	%0.90	%3.49	%6.69	%5.56	%0.90	%

(In Thousands)	Six Months Ended December 31, 2016								
	Single-family	Multi-family	Commercial Real Estate	Construction	Other Mortgage	Commercial Business	Consumer	Total	
Allowance for loan losses:									
Allowance at beginning of period	\$4,933	\$2,800	\$848	\$31	\$7	\$43	\$8	\$8,670	
(Recovery) provision for loan losses	(859)	) 343	(12)	) 34	(1)	) (6)	) 1	(500)
Recoveries	296	13	—	—	—	—	1	310	
Charge-offs	(87)	) —	—	—	—	—	(2)	) (89)
Allowance for loan losses, end of period	\$4,283	\$3,156	\$836	\$65	\$6	\$37	\$8	\$8,391	
Allowance for loan losses:									
Individually evaluated for impairment	\$97	\$—	\$—	\$—	\$—	\$15	\$—	\$112	
Collectively evaluated for impairment	4,186	3,156	836	65	6	22	8	8,279	
Allowance for loan losses, end of period	\$4,283	\$3,156	\$836	\$65	\$6	\$37	\$8	\$8,391	
Loans held for investment:									
Individually evaluated for impairment	\$7,844	\$374	\$—	\$—	\$—	\$85	\$—	\$8,303	
Collectively evaluated for impairment	308,751	448,091	98,044	16,872	265	525	184	872,732	
Total loans held for investment, gross	\$316,595	\$448,465	\$98,044	\$16,872	\$265	\$610	\$184	\$881,035	
Allowance for loan losses as a percentage of gross loans held for investment	1.35	%0.70	%0.85	%0.39	%2.26	%6.07	%4.35	%0.96	%

The following tables identify the Corporation's total recorded investment in non-performing loans by type at the dates and for the periods indicated. Generally, a loan is placed on non-accrual status when it becomes 90 days past due as to principal or interest or if the loan is deemed impaired, after considering economic and business conditions and collection efforts, where the borrower's financial condition is such that collection of the contractual principal or interest on the loan is doubtful. In addition, interest income is not recognized on any loan where management has determined that collection is not reasonably assured. A non-performing loan may be restored to accrual status when delinquent principal and interest payments are brought current, the borrower(s) has demonstrated sustained payment performance and future monthly principal and interest payments are expected to be collected on a timely basis. Loans with a related allowance reserve have been individually evaluated for impairment using either a discounted cash flow analysis or, for collateral dependent loans, current appraisals less costs to sell, to establish realizable value. This analysis may identify a specific impairment amount needed or may conclude that no reserve is needed. Loans that are not individually evaluated for impairment are included in pools of homogeneous loans for evaluation of related allowance reserves.

(In Thousands)	At December 31, 2017				
	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Net Recorded Investment ⁽¹⁾	
Mortgage loans:					
Single-family:					
With a related allowance	\$ 1,126	\$ —	\$ 1,126	\$ (240)	) \$ 886
Without a related allowance ⁽²⁾	7,951	(913)	) 7,038	—	) 7,038
Total single-family	9,077	(913)	) 8,164	(240)	) 7,924
Commercial business loans:					
With a related allowance	76	—	76	(15)	) 61
Total commercial business loans	76	—	76	(15)	) 61
Total non-performing loans	\$9,153	\$ (913)	) \$ 8,240	\$ (255)	) \$ 7,985

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

(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 loan balance.

(In Thousands)	At June 30, 2017				Net Recorded Investment
	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance ⁽¹⁾	
Mortgage loans:					
Single-family:					
With a related allowance	\$ 1,821	\$ —	\$ 1,821	\$ (325)	) \$ 1,496
Without a related allowance ⁽²⁾	7,119	(886)	) 6,233	—	6,233
Total single-family	8,940	(886)	) 8,054	(325)	) 7,729
Commercial real estate:					
Without a related allowance ⁽²⁾	201	—	201	—	201
Total commercial real estate	201	—	201	—	201
Commercial business loans:					
With a related allowance	80	—	80	(15)	) 65
Total commercial business loans	80	—	80	(15)	) 65
Total non-performing loans	\$ 9,221	\$ (886)	) \$ 8,335	\$ (340)	) \$ 7,995

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

⁽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 loan balance.

At both December 31, 2017 and June 30, 2017, there were no commitments to lend additional funds to those borrowers whose loans were classified as non-performing.

For the quarters ended December 31, 2017 and 2016, the Corporation's average recorded investment in non-performing loans was \$8.2 million and \$10.6 million, respectively. The Corporation records payments on non-performing loans utilizing the cash basis or cost recovery method of accounting during the periods when the loans are on non-performing status. For both quarters ended December 31, 2017 and 2016, interest income of \$10,000 and \$34,000, respectively, was recognized, based on cash receipts from loan payments on non-performing loans and \$80,000 and \$68,000, respectively, was collected and applied to reduce the loan balances under the cost recovery method. Forgone interest income, which would have been recorded had the non-performing loans been current in accordance with their original terms, amounted to \$35,000 and \$37,000 for the quarters ended December 31, 2017 and 2016, respectively, and was not included in the results of operations.

For the six months ended December 31, 2017 and 2016, the Corporation's average recorded investment in non-performing loans was \$8.4 million and \$11.0 million, respectively. For the six months ended December 31, 2017 and 2016, interest income of \$170,000 and \$103,000, respectively, was recognized, based on cash receipts from loan payments on non-performing loans and \$174,000 and \$136,000, respectively, was collected and applied to reduce the loan balances under the cost recovery method. Forgone interest income, which would have been recorded had the non-performing loans been current in accordance with their original terms, amounted to \$84,000 and \$76,000 for the six months ended December 31, 2017 and 2016, respectively, and was not included in the results of operations.

The following tables present the average recorded investment in non-performing loans and the related interest income recognized for the quarters and six months ended December 31, 2017 and 2016:

Quarter Ended December 31,
 2017 2016
 Average Interest Average Interest
 Recorded Income Recorded Income
 (In Thousands) Investment Recognized Investment Recognized

Without related allowances:

Mortgage loans:				
Single-family	\$7,301	\$ —	\$7,458	\$ 1
Multi-family	—	—	375	—
	7,301	—	7,833	1

With related allowances:

Mortgage loans:				
Single-family	786	8	2,578	19
Multi-family	—	—	92	12
Commercial business loans	76	2	88	2
	862	10	2,758	33
Total	\$8,163	\$ 10	\$10,591	\$ 34

Six Months Ended December 31,
 2017 2016
 Average Interest Average Interest
 Recorded Income Recorded Income
 Investment Recognized Investment Recognized

Without related allowances:

Mortgage loans:				
Single-family	\$7,659	\$ 135	\$7,771	\$ 37
Multi-family	—	—	377	—
Commercial real estate	34	13	—	—
	7,693	148	8,148	37

With related allowances:

Mortgage loans:				
Single-family	608	19	2,517	46
Multi-family	—	—	279	17
Commercial business loans	77	3	91	3
	685	22	2,887	66

Total	\$8,378\$ 170	\$11,035\$ 103
-------	---------------	----------------

25

For the quarters and six months ended December 31, 2017 and 2016, there were no loans that were newly modified from their original terms, re-underwritten or identified in the Corporation's asset quality reports as restructured loans. During the quarters and six months ended December 31, 2017 and 2016, no restructured loans were in default within a 12-month period subsequent to their original restructuring. Additionally, during the quarters and six months ended December 31, 2017 and 2016, there were no loans whose modification was extended beyond the initial maturity of the modification, except for one commercial business loan with an outstanding balance of \$85,000 which was extended for two years during the second quarter of fiscal 2017. At both December 31, 2017 and June 30, 2017, there were no commitments to lend additional funds to those borrowers whose loans were restructured.

As of December 31, 2017, the Corporation held 12 restructured loans with a net outstanding balance of \$4.4 million: two were classified as special mention on accrual status (\$962,000); and 10 were classified as substandard (\$3.5 million, all on non-accrual status). As of June 30, 2017, the Corporation held 10 restructured loans with a net outstanding balance of \$3.6 million: one was classified as special mention on accrual status (\$506,000); and nine were classified as substandard (\$3.1 million, all on non-accrual status). Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Assets that do not currently expose the Corporation to sufficient risk to warrant adverse classification but possess weaknesses are designated as special mention and are closely monitored by the Corporation. As of December 31, 2017 and June 30, 2017, \$2.8 million or 64 percent, and \$1.7 million or 46 percent, respectively, of the restructured loans were current with respect to their modified payment terms.

The Corporation upgrades restructured single-family loans to the pass category if the borrower has demonstrated satisfactory contractual payments for at least six consecutive months; 12 months for those loans that were restructured more than once; and if the borrower has demonstrated satisfactory contractual payments beyond 12 consecutive months, the loan is no longer categorized as a restructured loan. In addition to the payment history described above, multi-family, commercial real estate, construction and commercial business loans (which are sometimes referred to in this report as "preferred loans") must also demonstrate a combination of the following characteristics to be upgraded: satisfactory cash flow, satisfactory guarantor support, and additional collateral support, among other characteristics.

To qualify for restructuring, a borrower must provide evidence of their creditworthiness such as, current financial statements, their most recent income tax returns, current paystubs, current W-2s, and most recent bank statements, among other documents, which are then verified by the Corporation. The Corporation re-underwrites the loan with the borrower's updated financial information, new credit report, current loan balance, new interest rate, remaining loan term, updated property value and modified payment schedule, among other considerations, to determine if the borrower qualifies.

The following table summarizes at the dates indicated the restructured loan balances, net of allowance for loan losses, by loan type and non-accrual versus accrual status:

(In Thousands)	At December 31, 2017	At June 30, 2017
Restructured loans on non-accrual status:		
Mortgage loans:		
Single-family	\$ 3,416	\$ 3,061
Commercial business loans	61	65
Total	3,477	3,126
Restructured loans on accrual status:		
Mortgage loans:		
Single-family	962	506

Total	962	506
Total restructured loans	\$ 4,439	\$ 3,632

26

The following tables identify the Corporation's total recorded investment in restructured loans by type at the dates and for the periods indicated.

(In Thousands)	At December 31, 2017				
	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance (⁽¹⁾)	Net Recorded Investment
Mortgage loans:					
Single-family:					
Without a related allowance ⁽²⁾	\$4,914	\$ (536)	\$ 4,378	\$ —	\$ 4,378
Total single-family	4,914	(536)	4,378	—	4,378
Commercial business loans:					
With a related allowance	76	—	76	(15)	61
Total commercial business loans	76	—	76	(15)	61
Total restructured loans	\$4,990	\$ (536)	\$ 4,454	\$ (15)	\$ 4,439

⁽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 loan balance.

(In Thousands)	At June 30, 2017				
	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance (⁽¹⁾)	Net Recorded Investment
Mortgage loans:					
Single-family					
With a related allowance	\$485	\$ —	\$ 485	\$ (97)	\$ 388
Without a related allowance ⁽²⁾	3,618	(439)	3,179	—	3,179
Total single-family	4,103	(439)	3,664	(97)	3,567
Commercial business loans:					
With a related allowance	80	—	80	(15)	65
Total commercial business loans	80	—	80	(15)	65
Total restructured loans	\$4,183	\$ (439)	\$ 3,744	\$ (112)	\$ 3,632

⁽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 loan balance.

During the quarter ended December 31, 2017, one property was acquired in the settlement of loans, while no previously foreclosed upon properties were sold. This compares to the quarter ended December 31, 2016 when no properties were acquired in the settlement of loans, while two previously foreclosed upon properties were sold. For the six months ended December 31, 2017, one property was acquired in the settlement of loans, while two previously foreclosed upon properties were sold. This compares

to the six months ended December 31, 2016 when three properties were acquired in the settlement of loans, while three previously foreclosed upon properties were sold. As of December 31, 2017, there was one outstanding real estate owned property located in California with a net fair value of \$621,000. This compares to the real estate owned with a net fair value of \$1.6 million at June 30, 2017, comprised of one property located in California and one property located in Arizona. A new appraisal was obtained on each of the properties at the time of foreclosure and fair value was derived by using the lower of the appraised value or the listing price of the property, net of selling costs. Any initial loss was recorded as a charge to the allowance for loan losses before being transferred to real estate owned. Subsequent to transfer to real estate owned, if there is further deterioration in real estate values, specific real estate owned loss reserves are established and charged to the statement of operations. In addition, the Corporation records costs to carry real estate owned as real estate operating expenses as incurred.

Note 7: Derivative and Other Financial Instruments with Off-Balance Sheet Risks

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of originating loans or providing funds under existing lines of credit, loan sale commitments to third parties and option contracts. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the accompanying Condensed Consolidated Statements of Financial Condition. The Corporation's exposure to credit loss, in the event of non-performance by the counterparty to these financial instruments, is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in entering into financial instruments with off-balance sheet risk as it does for on-balance sheet instruments. As of December 31, 2017 and June 30, 2017, the Corporation had commitments to extend credit (on loans to be held for investment and loans to be held for sale) of \$57.7 million and \$111.8 million, respectively.

The following table provides information at the dates indicated regarding undisbursed funds to borrowers on existing lines of credit with the Corporation as well as commitments to originate loans to be held for investment at the dates indicated below.

Commitments (In Thousands)	December 31, June 30,	
	2017	2017
Undisbursed loan funds – Construction loans	\$ 7,358	\$9,015
Undisbursed lines of credit – Commercial business loans	559	646
Undisbursed lines of credit – Consumer loans	525	562
Commitments to extend credit on loans to be held for investment	9,702	19,119
Total	\$ 18,144	\$29,342

The following table provides information regarding the allowance for loan losses for the undisbursed funds and commitments to extend credit on loans to be held for investment for the quarters and six months ended December 31, 2017 and 2016.

(In Thousands)	For the Quarters Ended		For the Six Months Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Balance, beginning of the period	\$213	\$173	\$277	\$204
Recovery	(25)	—	(89)	(31)

Balance, end of the period \$188 \$173\$188 \$173

In accordance with ASC 815, “Derivatives and Hedging,” and interpretations of the Derivatives Implementation Group of the FASB, the fair value of the commitments to extend credit on loans to be held for sale, loan sale commitments, to be announced (“TBA”) MBS trades, put option contracts and call option contracts are recorded at fair value on the Condensed Consolidated Statements of Financial Condition. At December 31, 2017, \$739,000 was included in other assets and \$228,000 was included in other liabilities; at June 30, 2017, \$1.5 million was included in other assets and \$38,000 was included in other liabilities. The Corporation does not apply hedge accounting to its derivative financial instruments; therefore, all changes in fair value are recorded in earnings.

The net impact of derivative financial instruments is recorded within the gain on sale of loans contained in the Condensed Consolidated Statements of Operations during the quarters and six months ended December 31, 2017 and 2016 were as follows:

	For the Quarters Ended December 31,		For the Six Months Ended December 31,	
	2017	2016	2017	2016
Derivative Financial Instruments (In Thousands)				
Commitments to extend credit on loans to be held for sale	\$29	\$(1,098)	\$(93)	\$(2,309)
Mandatory loan sale commitments and TBA MBS trades	(582)	1,068	(791)	2,865
Option contracts, net	—	366	(37)	344
Total net (loss) gain	\$(553)	\$336	\$(921)	\$900

The outstanding derivative financial instruments and other loan sale agreements at the dates indicated were as follows:

	December 31, 2017		June 30, 2017	
	Amount	Fair Value	Amount	Fair Value
Derivative Financial Instruments (In Thousands)				
Commitments to extend credit on loans to be held for sale ⁽¹⁾	\$48,032	\$716	\$92,726	\$809
Best efforts loan sale commitments	(12,890)	—	(17,225)	—
Mandatory loan sale commitments and TBA MBS trades	(121,575)	(205)	(179,777)	586
Option contracts, net	—	—	(3,000)	37
Total	\$(86,433)	\$511	\$(107,276)	\$1,432

⁽¹⁾ Net of 30.6 percent at December 31, 2017 and 25.7 percent at June 30, 2017 of commitments which management has estimated may not fund.

Note 8: Fair Value of Financial Instruments

The Corporation adopted ASC 820, "Fair Value Measurements and Disclosures," and elected the fair value option pursuant to ASC 825, "Financial Instruments" on loans originated for sale by PBM. ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 825 permits entities to elect to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the "Fair Value Option") at specified election dates. At each subsequent reporting date, an entity is required to report unrealized gains and losses on items in earnings for which the fair value option has been elected. The objective of the Fair Value Option is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

The following table describes the difference at the dates indicated between the aggregate fair value and the aggregate unpaid principal balance of loans held for investment at fair value and loans held for sale at fair value:

(In Thousands)	Aggregate Fair Value	Aggregate Unpaid Principal Balance	Net Unrealized (Loss) Gain
As of December 31, 2017:			
Loans held for investment, at fair value	\$ 5,157	\$ 5,362	\$ (205)
Loans held for sale, at fair value	\$ 96,589	\$ 93,449	\$ 3,140
As of June 30, 2017:			
Loans held for investment, at fair value	\$ 6,445	\$ 6,696	\$ (251)
Loans held for sale, at fair value	\$ 116,548	\$ 112,940	\$ 3,608

ASC 820-10-65-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly," provides additional guidance for estimating fair value in accordance with ASC 820, "Fair Value Measurements," when the volume and level of activity for the asset or liability have significantly decreased.

ASC 820 establishes a three-level valuation hierarchy that prioritizes inputs to valuation techniques used in fair value calculations. The three levels of inputs are defined as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.

Level 2 - Observable inputs other than Level 1 such as: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated to observable market data for substantially the full term of the asset or liability.

Level 3 - Unobservable inputs for the asset or liability that use significant assumptions, including assumptions of risks. These unobservable assumptions reflect the Corporation's estimate of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of pricing models, discounted cash flow models and similar techniques.

ASC 820 requires the Corporation to maximize the use of observable inputs and minimize the use of unobservable inputs. If a financial instrument uses inputs that fall in different levels of the hierarchy, the instrument will be categorized based upon the lowest level of input that is significant to the fair value calculation.

The Corporation's financial assets and liabilities measured at fair value on a recurring basis consist of investment securities available for sale, loans held for investment at fair value, loans held for sale at fair value, interest-only strips and derivative financial instruments; while non-performing loans, mortgage servicing assets ("MSA") and real estate owned are measured at fair value on a nonrecurring basis.

Investment securities - available for sale are primarily comprised of U.S. government agency MBS and U.S. government sponsored enterprise MBS. The Corporation utilizes quoted prices in active and less than active markets for similar securities for its fair value measurement of MBS and debt securities (Level 2) and broker price indications for similar securities in non-active markets for its fair value measurement of the CMO (Level 3).

Derivative financial instruments are comprised of commitments to extend credit on loans to be held for sale, mandatory loan sale commitments, TBA MBS trades and option contracts. The fair value of TBA MBS trades is determined using quoted secondary-market prices (Level 2). The fair values of other derivative financial instruments are determined by quoted prices for a similar commitment or commitments, adjusted for the specific attributes of each commitment (Level 3).

Loans held for investment at fair value are primarily single-family loans which have been transferred from loans held for sale. The fair value is determined by the quoted secondary-market prices which account for interest rate characteristics, and are then adjusted for management estimates of the specific credit risk attributes of each loan (Level 3).

Loans held for sale at fair value are primarily single-family loans. The fair value is determined, when possible, using quoted secondary-market prices such as mandatory loan sale commitments. If no such quoted price exists, the fair value of a loan is determined by quoted prices for a similar loan or loans, adjusted for the specific attributes of each loan (Level 2).

Non-performing loans are loans which are inadequately protected by the current net worth and paying capacity of the borrowers or of the collateral pledged. The non-performing loans are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. The fair value of a non-performing loan is determined based on an observable market price or current appraised value of the underlying collateral. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the borrower. For non-performing loans which are restructured loans, the fair value is derived from discounted cash flow analysis (Level 3), except those which are in the process of foreclosure or 90 days delinquent for which the fair value is derived from the appraised value of its collateral (Level 2). For other non-performing loans which are not restructured loans, other than non-performing commercial real estate loans, the fair value is derived from relative value analysis: historical experience and management estimates by loan type for which collectively evaluated allowances are assigned (Level 3); or the appraised value of its collateral for loans which are in the process of foreclosure or where borrowers file bankruptcy (Level 2). For non-performing commercial real estate loans, the fair value is derived from the appraised value of its collateral (Level 2). Non-performing loans are reviewed and evaluated on at least a quarterly basis for additional allowance and adjusted accordingly, based on the same factors identified above. This loss is not recorded directly as an adjustment to current earnings or other comprehensive income (loss), but rather as a component in determining the overall adequacy of the allowance for loan losses. These adjustments to the estimated fair value of non-performing loans may result in increases or decreases to the provision for loan losses recorded in current earnings.

The Corporation uses the amortization method for its MSA, which amortizes the MSA in proportion to and over the period of estimated net servicing income and assesses the MSA for impairment based on fair value at each reporting date. The fair value of MSA is derived using the present value method; which includes a third party's prepayment projections of similar instruments, weighted-average coupon rates and the estimated average life (Level 3).

The rights to future income from serviced loans that exceed contractually specified servicing fees are recorded as interest-only strips. The fair value of interest-only strips is derived using the same assumptions that are used to value the related MSA (Level 3).

The fair value of real estate owned is derived from the lower of the appraised value or the listing price, net of estimated selling costs (Level 2).

The Corporation's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Corporation's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following fair value hierarchy tables present information at the dates indicated about the Corporation's assets measured at fair value on a recurring basis:

(In Thousands)	Fair Value Measurement at December 31, 2017 Using:		
	Level 1	Level 2	Level 3 Total
Assets:			
Investment securities - available for sale:			
U.S. government agency MBS	\$4,859	\$—	\$4,859
U.S. government sponsored enterprise MBS	—3,127	—	3,127
Private issue CMO	—	419	419
Investment securities - available for sale	—7,986	419	8,405
Loans held for investment, at fair value	—	5,157	5,157
Loans held for sale, at fair value	—96,589	—	96,589
Interest-only strips	—	26	26
Derivative assets:			
Commitments to extend credit on loans to be held for sale	—	737	737
TBA MBS trades	—2	—	2
Derivative assets	—2	737	739
Total assets	\$104,577	\$6,339	\$110,916
Liabilities:			
Derivative liabilities:			
Commitments to extend credit on loans to be held for sale	\$—	\$21	\$21
Mandatory loan sale commitments	—	24	24
TBA MBS trades	—183	—	183
Derivative liabilities	—183	45	228
Total liabilities	\$183	\$45	\$228

(In Thousands)	Fair Value Measurement at June 30, 2017 Using:		
	Level 1	Level 2	Level 3 Total
Assets:			
Investment securities - available for sale:			
U.S. government agency MBS	\$5,383	\$—	\$5,383
U.S. government sponsored enterprise MBS	—3,474	—	3,474
Private issue CMO	—	461	461
Investment securities - available for sale	—8,857	461	9,318
Loans held for investment, at fair value	—	6,445	6,445
Loans held for sale, at fair value	—116,548	—	116,548
Interest-only strips	—	31	31
Derivative assets:			
Commitments to extend credit on loans to be held for sale	—	847	847
Mandatory loan sale commitments	—	47	47
TBA MBS trades	—539	—	539
Option contracts	—	37	37
Derivative assets	—539	931	1,470
Total assets	\$125,944	\$7,868	\$133,812
Liabilities:			
Derivative liabilities:			
Commitments to extend credit on loans to be held for sale	\$—	\$38	\$38
Derivative liabilities	—	38	38
Total liabilities	\$—	\$38	\$38

The following tables summarize reconciliations of the beginning and ending balances during the periods shown of recurring fair value measurements recognized in the Condensed Consolidated Statements of Financial Condition using Level 3 inputs:

For the Quarter Ended December 31, 2017						
Fair Value Measurement						
Using Significant Other Unobservable Inputs						
(Level 3)						
(In Thousands)	Loans Held For Private Issue CMO ⁽¹⁾	Loans Held For Investment, at fair value (1)	Interest- Only Strips	Loan Commit- ments to Originate (2)	Manda- tory Commit- ments ⁽³⁾	Total
Beginning balance at September 30, 2017	\$448	\$ 6,924	\$ 28	\$ 687	\$ (4)	\$8,083
Total gains or losses (realized/unrealized):						
Included in earnings	—	38	—	29	(20)	47
Included in other comprehensive loss	—	—	(2)	—	—	(2)
Purchases	—	—	—	—	—	—
Issuances	—	—	—	—	—	—
Settlements	(29)	(1,805)	—	—	—	(1,834)
Transfers in and/or out of Level 3	—	—	—	—	—	—
Ending balance at December 31, 2017	\$419	\$ 5,157	\$ 26	\$ 716	\$ (24)	\$6,294

The valuation of loans held for investment at fair value includes the management estimates of the specific credit

- (1) risk attributes of each loan (Level 3), in addition to the quoted secondary-market prices which account for interest rate characteristics.
(2) Consists of commitments to extend credit on loans to be held for sale.
(3) Consists of mandatory loan sale commitments.

For the Quarter Ended December 31, 2016							
Fair Value Measurement							
Using Significant Other Unobservable Inputs							
(Level 3)							
(In Thousands)	Loans Held For Private Issue CMO ⁽¹⁾	Loans Held For Investment, at fair value (1)	Interest- Only Strips	Loan Commit- ments to Originate (2)	Manda- tory Commit- ments ⁽³⁾	Option Contracts	Total
Beginning balance at September 30, 2016	\$560	\$ 5,529	\$ 42	\$ 2,574	\$ (24)	\$ 22	\$8,703
Total gains or losses (realized/unrealized):							
Included in earnings	—	(139)	—	(1,098)	(250)	366	(1,121)
Included in other comprehensive income (loss)	—	—	(5)	—	—	—	(5)
Purchases	—	—	—	—	—	94	94
Issuances	—	—	—	—	—	—	—
Settlements	(22)	(250)	—	—	(6)	(482)	(760)
Transfers in and/or out of Level 3	—	824	—	—	—	—	824
Ending balance at December 31, 2016	\$538	\$ 5,964	\$ 37	\$ 1,476	\$ (280)	\$ —	\$7,735

(1)

The valuation of loans held for investment at fair value includes the management estimates of the specific credit risk attributes of each loan (Level 3), in addition to the quoted secondary-market prices which account for interest rate characteristics.

- (2) Consists of commitments to extend credit on loans to be held for sale.
- (3) Consists of mandatory loan sale commitments.

For the Six Months Ended December 31, 2017
 Fair Value Measurement
 Using Significant Other Unobservable Inputs
 (Level 3)

(In Thousands)	Loans Held For Private Issue CMO ⁽¹⁾	Investment, at fair value (1)	Interest- Only Strips	Loan Commit- ments to Originate (2)	Manda- tory Commit- ments ⁽³⁾	Option Contracts	Total
Beginning balance at June 30, 2017	\$461	\$ 6,445	\$ 31	\$ 809	\$ 47	\$ 37	\$7,830
Total gains or losses (realized/unrealized):							
Included in earnings	—	46	—	(93)	(73)	(37)	(157)
Included in other comprehensive loss	1	—	(5)	—	—	—	(4)
Purchases	—	—	—	—	—	—	—
Issuances	—	—	—	—	—	—	—
Settlements	(43)	(1,856)	—	—	2	—	(1,897)
Transfers in and/or out of Level 3	—	522	—	—	—	—	522
Ending balance at December 31, 2017	\$419	\$ 5,157	\$ 26	\$ 716	\$ (24)	\$ —	\$6,294

The valuation of loans held for investment at fair value includes the management estimates of the specific credit risk attributes of each loan (Level 3), in addition to the quoted secondary-market prices which account for interest rate characteristics.

(2) Consists of commitments to extend credit on loans to be held for sale.

(3) Consists of mandatory loan sale commitments.

For the Six Months Ended December 31, 2016
 Fair Value Measurement
 Using Significant Other Unobservable Inputs
 (Level 3)

(In Thousands)	Loans Held For Private Issue CMO ⁽¹⁾	Investment, at fair value (1)	Interest- Only Strips	Loan Commit- ments to originate (2)	Manda- tory Commit- ments ⁽³⁾	Option Contracts	Total
Beginning balance at June 30, 2016	\$601	\$ 5,159	\$ 47	\$ 3,785	\$ (31)	\$ —	\$9,561
Total gains or losses (realized/ unrealized):							
Included in earnings	—	(101)	—	(2,309)	(255)	344	(2,321)
Included in other comprehensive (loss) income	1	—	(10)	—	—	—	(9)
Purchases	—	—	—	—	—	138	138
Issuances	—	—	—	—	—	—	—
Settlements	(64)	(678)	—	—	6	(482)	(1,218)
Transfers in and/or out of Level 3	—	1,584	—	—	—	—	1,584
Ending balance at December 31, 2016	\$538	\$ 5,964	\$ 37	\$ 1,476	\$ (280)	\$ —	\$7,735

The valuation of loans held for investment at fair value includes the management estimates of the specific credit risk attributes of each loan (Level 3), in addition to the quoted secondary-market prices which account for interest rate characteristics.

(2) Consists of commitments to extend credit on loans to be held for sale.

(3) Consists of mandatory loan sale commitments.

35

The following fair value hierarchy tables present information about the Corporation's assets measured at fair value at the dates indicated on a nonrecurring basis:

Fair Value Measurement at December 31, 2017 Using:			
(In Thousands)	Level 1	Level 2	Total
Non-performing loans	\$7,038	\$947	\$7,985
MSA	—	450	450
Real estate owned, net	—	621	621
Total	\$7,659	\$1,397	\$9,056

Fair Value Measurement at June 30, 2017 Using:			
(In Thousands)	Level 1	Level 2	Total
Non-performing loans	\$7,049	\$946	\$7,995
MSA	—	407	407
Real estate owned, net	—	1,615	1,615
Total	\$8,664	\$1,353	\$10,017

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

The following table presents additional information about valuation techniques and inputs used for assets and liabilities, including derivative financial instruments, which are measured at fair value and categorized within Level 3 as of December 31, 2017:

(Dollars In Thousands)	Fair Value As of December 31, 2017	Valuation Techniques	Unobservable Inputs	Range ⁽¹⁾ (Weighted Average)	Impact to Valuation from an Increase in Inputs ⁽²⁾
Assets:					
Securities available - for sale: Private issue CMO	\$ 419	Market comparable pricing	Comparability adjustment	0.6% – 1.7% (1.5%)	Increase
Loans held for investment, at fair value	\$ 5,157	Relative value analysis	Broker quotes	97.9% – 104.8% (100.8%) of par	Increase
			Credit risk factors	1.2% - 100.0% (4.6%)	Decrease
Non-performing loans	\$ 61	Discounted cash flow	Default rates	5.0%	Decrease
Non-performing loans	\$ 886	Relative value analysis	Loss severity	20.0% - 30.0% (21.4%)	Decrease
MSA	\$ 450	Discounted cash flow	Prepayment speed (CPR)	10.2% - 60.0% (21.3%)	Decrease
			Discount rate	9.0% - 10.5% (9.2%)	Decrease
Interest-only strips	\$ 26	Discounted cash flow	Prepayment speed (CPR)	15.6% - 29.7% (27.4%)	Decrease
			Discount rate	9.0%	Decrease
Commitments to extend credit on loans to be held for sale	\$ 737	Relative value analysis	TBA-MBS broker quotes	99.3% – 105.1% (102.0%) of par	Increase
			Fall-out ratio ⁽³⁾	12.9% - 32.0% (30.6%)	Decrease
Liabilities:					
Commitments to extend credit on loans to be held for sale	\$ 21	Relative value analysis	TBA-MBS broker quotes	98.5% – 101.5% (100.8%) of par	Increase
			Fall-out ratio ⁽³⁾	12.9% - 32.0% (30.6%)	Decrease
Mandatory loan sale commitments	\$ 24	Relative value analysis	TBA MBS broker quotes	100.9% - 103.4% (103.4%) of par	Decrease
				0.012%	Decrease

Roll-forward costs

(4)

- (1) The range is based on the estimated fair values and management estimates.
Unless otherwise noted, this column represents the directional change in the fair value of the Level 3 investments
- (2) that would result from an increase to the corresponding unobservable input. A decrease to the unobservable input would have the opposite effect. Significant changes in these inputs in isolation could result in significantly higher or lower fair value measurements.
- (3) The percentage of commitments to extend credit on loans to be held for sale which management has estimated may not fund.
- (4) An estimated cost to roll forward the mandatory loan sale commitments which management has estimated may not be delivered to the corresponding investors in a timely manner.

The significant unobservable inputs used in the fair value measurement of the Corporation's assets and liabilities include the following: prepayment speeds, discount rates, MBS – TBA quotes, fallout ratios, broker quotes and roll-forward costs, among other inputs. Significant increases or decreases in any of these inputs in isolation could result in significantly lower or higher fair value measurement. The various unobservable inputs used to determine valuations may have similar or diverging impacts on valuation.

The carrying amount and fair value of the Corporation's other financial instruments as of December 31, 2017 and June 30, 2017 was as follows:

(In Thousands)	December 31, 2017				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Investment securities - held to maturity	\$87,626	\$87,336	—	\$87,336	\$—
Loans held for investment, not recorded at fair value	\$880,819	\$864,096	—	—	\$864,096
FHLB – San Francisco stock	\$8,108	\$8,108	—	\$8,108	—
Financial liabilities:					
Deposits	\$907,788	\$874,441	—	—	\$874,441
Borrowings	\$111,189	\$111,141	—	—	\$111,141
June 30, 2017					
(In Thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Investment securities - held to maturity	\$60,441	\$60,629	—	\$60,629	—
Loans held for investment, not recorded at fair value	\$898,474	\$885,650	—	—	\$885,650
FHLB – San Francisco stock	\$8,108	\$8,108	—	\$8,108	—
Financial liabilities:					
Deposits	\$926,521	\$896,140	—	—	\$896,140
Borrowings	\$126,226	\$126,083	—	—	\$126,083

Investment securities - held to maturity: The investment securities - held to maturity consist of time deposits at CRA qualified minority financial institutions and U.S. government sponsored enterprise MBS. Due to the short-term nature of the time deposits, the principal balances approximated fair value (Level 2). For the MBS, the Corporation utilizes quoted prices in active and less than active markets for similar securities for its fair value measurement of MBS and debt securities (Level 2).

Loans held for investment, not recorded at fair value: For loans that reprice frequently at market rates, the carrying amount approximates the fair value. For fixed-rate loans, the fair value is determined by either (i) discounting the estimated future cash flows of such loans over their estimated remaining contractual maturities using a current interest rate at which such loans would be made to borrowers, or (ii) quoted market prices. The allowance for loan losses is subtracted as an estimate of the underlying credit risk.

FHLB – San Francisco stock: The carrying amount reported for FHLB – San Francisco stock approximates fair value. When redeemed, the Corporation will receive an amount equal to the par value of the stock.

Deposits: The fair value of time deposits is estimated using a discounted cash flow calculation. The discount rate is based upon rates currently offered for deposits of similar remaining maturities. The fair value of transaction accounts (checking, money market and savings accounts) is estimated using a discounted cash flow calculation and management estimates of current market conditions.

Borrowings: The fair value of borrowings has been estimated using a discounted cash flow calculation. The discount rate on such borrowings is based upon rates currently offered for borrowings of similar remaining maturities.

The Corporation has various processes and controls in place to ensure that fair value is reasonably estimated. The Corporation generally determines fair value of their Level 3 assets and liabilities by using internally developed models which primarily utilize discounted cash flow techniques and prices obtained from independent management services or brokers. The Corporation performs due diligence procedures over third-party pricing service providers in order to support their use in the valuation process. The fair values of investment securities, commitments to extend credit on loans held for sale, mandatory commitments and option contracts are determined from the independent management services or brokers; while the fair value of MSA and interest-only strips are determined using the internally developed models which are based on discounted cash flow analysis. The fair value of non-performing loans is determined by calculating discounted cash flows, relative value analysis or collateral value, less selling costs.

While the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. During the quarter ended December 31, 2017, there were no significant changes to the Corporation's valuation techniques that had, or are expected to have, a material impact on its consolidated financial position or results of operations.

Note 9: Incentive Plans

As of December 31, 2017, the Corporation had two active share-based compensation plans, which are described below. These plans are the 2013 Equity Incentive Plan ("2013 Plan") and the 2010 Equity Incentive Plan ("2010 Plan"). Additionally, the Corporation had one inactive share-based compensation plan - the 2006 Equity Incentive Plan ("2006 Plan") where no new awards can be granted but outstanding grants remain eligible for exercise.

For the quarters ended December 31, 2017 and 2016, the compensation cost for these plans was \$258,000 and \$275,000, respectively. The income tax expense recognized in the Condensed Consolidated Statements of Operations per adoption of ASU 2016-09 for share-based compensation plans for the quarter ended December 31, 2017 was \$7,000; while the income tax expense recognized in the Condensed Consolidated Statements of Stockholders' Equity for share-based compensation plans for the quarter ended December 31, 2016 was \$8,000.

For the first six months ended December 31, 2017 and 2016, the compensation cost for these plans was \$524,000 and \$977,000, respectively. The income tax benefit recognized in the Condensed Consolidated Statements of Operations per adoption of ASU 2016-09 for share-based compensation plans for the first six months ended December 31, 2017 was \$20,000; while the income tax benefit recognized in the Condensed Consolidated Statements of Stockholders' Equity for share-based compensation plans for the first six months ended December 31, 2016 was \$179,000.

Equity Incentive Plans. The Corporation established and the shareholders approved the 2013 Plan, the 2010 Plan and the 2006 Plan (collectively, "the Plans") for directors, advisory directors, directors emeriti, officers and employees of the Corporation and its subsidiary. The 2013 Plan authorizes 300,000 stock options and 300,000 shares of restricted stock. The 2013 Plan also provides that no person may be granted more than 60,000 stock options or 45,000 shares of restricted stock in any one year. The 2010 Plan authorizes 586,250 stock options and 288,750 shares of restricted stock. The 2010 Plan also provides that no person may be granted more than 117,250 stock options or 43,312 shares of restricted stock in any one year. The 2006 Plan authorized 365,000 stock options and 185,000 shares of restricted stock. The 2006 Plan also provided that no person may be granted more than 73,000 stock options or 27,750 shares of restricted stock in any one year.

Equity Incentive Plans - Stock Options. Under the Plans, options may not be granted at a price less than the fair market value at the date of the grant. Options typically vest over a five-year or shorter period as long as the director, advisory director, director emeritus, officer or employee remains in service to the Corporation. The options are

exercisable after vesting for up to the remaining term of the original grant. The maximum term of the options granted is 10 years.

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option valuation model with the following assumptions. The expected volatility is based on implied volatility from historical common stock closing prices for the prior 84 months. The expected dividend yield is based on the most recent quarterly dividend on an annualized basis. The expected term is based on the historical experience of all fully vested stock option grants and is reviewed annually. The risk-free interest rate is based on the U.S. Treasury note rate with a term similar to the underlying stock option on the particular grant date.

During the second quarter of fiscal 2018, no options were granted, while 5,750 options were exercised and no options were forfeited. This compares to the second quarter of fiscal 2017 when 6,000 options were granted, 22,750 options were exercised

and 11,250 options were forfeited. During the first six months of fiscal 2018, no options were granted, 27,250 options were exercised and 2,500 options were forfeited. This compares to the first six months of fiscal 2017 when 26,000 options were granted, while 23,750 options were exercised and 27,250 options were forfeited. As of December 31, 2017 and 2016, there were 147,500 and 138,000 stock options available for future grants under the Plans, respectively.

The following tables summarize the stock option activity in the Plans for the quarter and six months ended December 31, 2017.

Options	For the Quarter Ended December 31, 2017			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$000)
Outstanding at September 30, 2017	591,250	\$12.27		
Granted	—	\$—		
Exercised	(5,750)	\$14.59		
Forfeited	—	\$—		
Outstanding at December 31, 2017	585,500	\$12.25	5.29	\$3,633
Vested and expected to vest at December 31, 2017	545,350	\$12.03	5.17	\$3,501
Exercisable at December 31, 2017	384,750	\$10.67	4.41	\$2,973

Options	For the Six Months Ended December 31, 2017			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$000)
Outstanding at June 30, 2017	615,250	\$12.14		
Granted	—	\$—		
Exercised	(27,250)	\$9.57		
Forfeited	(2,500)	\$14.59		
Outstanding at December 31, 2017	585,500	\$12.25	5.29	\$3,633
Vested and expected to vest at December 31, 2017	545,350	\$12.03	5.17	\$3,501
Exercisable at December 31, 2017	384,750	\$10.67	4.41	\$2,973

As of December 31, 2017 and 2016, there was \$652,000 and \$1.1 million of unrecognized compensation expense, respectively, related to unvested share-based compensation arrangements under the Plans. The expense is expected to be recognized over a weighted-average period of 1.1 years and 2.0 years, respectively. The forfeiture rate during the first six months of fiscal 2018 and 2017 was 20 percent for both periods, and was calculated by using the historical forfeiture experience of stock option grants and is reviewed annually.

Equity Incentive Plans – Restricted Stock. The Corporation used 300,000 shares, 288,750 shares and 185,000 shares of its treasury stock to fund the 2013 Plan, the 2010 Plan and the 2006 Plan, respectively. Awarded shares typically vest over a five-year or shorter period as long as the director, advisory director, director emeriti, officer or employee remains in service to the Corporation. Once vested, a recipient of restricted stock will have all rights of a shareholder, including the power to vote and the right to receive dividends. The Corporation recognizes compensation expense for the restricted stock awards based on the fair value of the shares at the award date.

There was no restricted stock activity in the second quarter of fiscal 2018. This compares to the award of 3,000 shares, the forfeiture of 8,250 shares and no vesting of restricted stock in the second quarter of fiscal 2017. For the first six months of fiscal 2018, there was no restricted stock activity, other than the forfeiture of 2,000 shares. This compares to the award of 18,000 shares, the forfeiture of 15,250 shares and the vesting of 87,750 shares of restricted stock in the first six months of fiscal 2017. As of December 31,

2017 and 2016, there were 267,750 shares and 271,750 shares of restricted stock, respectively available for future awards under the Plans.

The following table summarizes the unvested restricted stock activity in the quarter and six months ended December 31, 2017.

Unvested Shares	For the Quarter Ended December 31, 2017	
	Shares	Weighted-Average Award Date Fair Value
Unvested at September 30, 2017	109,000	\$14.45
Granted	—	\$—
Vested	—	\$—
Forfeited	—	\$—
Unvested at December 31, 2017	109,000	\$14.45
Expected to vest at December 31, 2017	87,200	\$14.45

Unvested Shares	For the Six Months Ended December 31, 2017	
	Shares	Weighted-Average Award Date Fair Value
Unvested at June 30, 2017	111,000	\$14.16
Granted	—	\$—
Vested	—	\$—
Forfeited	(2,000)	\$13.30
Unvested at December 31, 2017	109,000	\$14.45
Expected to vest at December 31, 2017	87,200	\$14.45

As of December 31, 2017 and 2016, the unrecognized compensation expense was \$867,000 and \$1.3 million, respectively, related to unvested share-based compensation arrangements under the Plans, and reported as a reduction to stockholders' equity. This expense is expected to be recognized over a weighted-average period of 1.3 years and 2.2 years, respectively. Similar to stock options, a forfeiture rate of 20 percent has been applied for the restricted stock compensation expense calculations in the first six months of fiscal 2018 and 2017.

Stock Option Plan. The Corporation established the Stock Option Plan for key employees and eligible directors under which options to acquire up to 352,500 shares of common stock may be granted. Under the Stock Option Plan, stock options may not be granted at a price less than the fair market value at the date of the grant. Stock options typically vest over a five-year period on a pro-rata basis as long as the employee or director remains in service to the Corporation. The stock options are exercisable after vesting for up to the remaining term of the original grant. The maximum term of the stock options granted is 10 years. As of December 31, 2017, no stock options remain available for future grants under the Stock Option Plan, which expired in November 2013.

The fair value of each stock option grant was estimated on the date of the grant using the Black-Scholes option valuation model with the following assumptions. The expected volatility was based on implied volatility from historical common stock closing prices for the prior 84 months. The expected dividend yield was based on the most recent quarterly dividend on an annualized basis. The expected term was based on the historical experience of stock option grants and is reviewed annually. The risk-free interest rate was based on the U.S. Treasury note rate with a

term similar to the underlying stock option on the particular grant date.

For the second quarter of fiscal 2018 and 2017, there was no activity in the Stock Option Plan. For the first six months of fiscal 2018 and 2017, there was no activity in the Stock Option Plan, except forfeitures of 50,000 shares and 12,500 shares, respectively. As of December 31, 2017 and 2016, there were no stock options available for future grants under the Stock Option Plan.

The following table summarizes the activity in the Stock Option Plan for the six months ended December 31, 2017.

For the Six Months Ended December 31,
2017

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)		Aggregate Intrinsic Value (\$000)
Options					
Outstanding at June 30, 2017	50,000	\$19.92			
Granted	—	\$—			
Exercised	—	\$—			
Forfeited	(50,000)	\$19.92			
Outstanding at December 31, 2017	—	\$—	—		\$—
Vested and expected to vest at December 31, 2017	—	\$—	—		\$—
Exercisable at December 31, 2017	—	\$—	—		\$—

As of December 31, 2017 and 2016, there was no unrecognized compensation expense at either date, related to unvested share-based compensation arrangements under the Stock Option Plan.

Note 10: Reclassification adjustment of Accumulated Other Comprehensive Income ("AOCI")

The following tables provide the changes in AOCI by component for the quarters and six months ended December 31, 2017 and 2016.

(In Thousands)	For the Quarter Ended December 31, 2017		
	Unrealized gains and losses on Investment securities available for sale	Interest-only strips	Total
Beginning balance at September 30, 2017	\$214	\$ 16	\$230
Other comprehensive loss before reclassifications	(61)	(4)	(65)
Amount reclassified from accumulated other comprehensive income	42	3	45
Net other comprehensive loss	(19)	(1)	(20)
Ending balance at December 31, 2017	\$195	\$ 15	\$210

(In Thousands)	For the Quarter Ended December 31, 2016		
	Unrealized gains and losses on Investment securities available for sale	Interest-only strips	Total
Beginning balance at September 30, 2016	\$256	\$ 24	\$280
Other comprehensive loss before reclassifications	(14)	(2)	(16)
Amount reclassified from accumulated other comprehensive income	—	—	—
Net other comprehensive loss	(14)	(2)	(16)
Ending balance at December 31, 2016	\$242	\$ 22	\$264

(In Thousands)	For the Six Months Ended December 31, 2017		
	Unrealized gains and losses on Investment securities available for sale	Interest-only strips	Total
Beginning balance at June 30, 2017	\$211	\$ 18	\$229
Other comprehensive loss before reclassifications	(58)	(6)	(64)
Amount reclassified from accumulated other comprehensive income	42	3	45
Net other comprehensive loss	(16)	(3)	(19)
Ending balance at December 31, 2017	\$195	\$ 15	\$210

(In Thousands)	For the Six Months Ended December 31, 2016		
	Unrealized gains and losses on Investment securities available for sale	Interest-only strips	Total
Beginning balance at June 30, 2016	\$286	\$ 27	\$313

Other comprehensive loss before reclassifications	(44)	(5)	(49)
Amount reclassified from accumulated other comprehensive income	—	—	—
Net other comprehensive loss	(44)	(5)	(49)
Ending balance at December 31, 2016	\$242	\$ 22	\$264

Note 11: Offsetting Derivative and Other Financial Instruments

The Corporation's derivative transactions are generally governed by International Swaps and Derivatives Association Master Agreements and similar arrangements, which include provisions governing the setoff of assets and liabilities between the parties. When the Corporation has more than one outstanding derivative transaction with a single counterparty, the setoff provisions contained within these agreements generally allow the non-defaulting party the right to reduce its liability to the defaulting party by amounts eligible for setoff, including the collateral received as well as eligible offsetting transactions with that counterparty,

irrespective of the currency, place of payment, or booking office. The Corporation's policy is to present its derivative assets and derivative liabilities on the Condensed Consolidated Statements of Financial Condition on a net basis. The derivative assets and liabilities are comprised of mandatory loan sale commitments, TBA MBS trades and option contracts.

The following tables present the gross and net amounts of derivative assets and liabilities and other financial instruments as reported in the Corporation's Condensed Consolidated Statement of Financial Condition, and the gross amount not offset in the Corporation's Condensed Consolidated Statement of Financial Condition as of the dates indicated.

As of December 31, 2017:

		Gross Amount	Offset in the Condensed	Net Amount of Assets in the Condensed Consolidated	Gross Amount Not Offset in the Condensed Consolidated	Cash Collateral Received	Net Amount
(In Thousands)	Assets	Amount of Recognized	Statements of Financial Condition	Statements of Financial Condition	Financial Instruments		
	Assets						
	Derivatives	\$ 2	\$	-\$ 2	\$	-\$	-\$ 2
	Total	\$ 2	\$	-\$ 2	\$	-\$	-\$ 2

		Gross Amount	Offset in the Condensed	Net Amount of Liabilities in the Condensed Consolidated	Gross Amount Not Offset in the Condensed Consolidated	Cash Collateral Received	Net Amount
(In Thousands)	Liabilities	Amount of Recognized	Statements of Financial Condition	Statements of Financial Condition	Financial Instruments		
	Liabilities						
	Derivatives	\$ 207	\$	-\$ 207	\$	-\$	-\$ 207
	Total	\$ 207	\$	-\$ 207	\$	-\$	-\$ 207

As of June 30, 2017:

	Gross Amount	Offset in the Condensed	Net Amount of Assets in the Condensed Consolidated	Gross Amount Not Offset in the Condensed Consolidated Statements of Financial Condition	Cash Collateral Net Received	Amount
(In Thousands) Assets	Assets	Condition	Condition	Financial Instruments	Amount	
Derivatives	\$ 623	\$	-\$ 623	\$	-\$	-\$ 623
Total	\$ 623	\$	-\$ 623	\$	-\$	-\$ 623

	Gross Amount	Offset in the Condensed	Net Amount of Liabilities in the Condensed Consolidated	Gross Amount Not Offset in the Condensed Consolidated Statements of Financial Condition	Cash Collateral Net Received	Amount
(In Thousands) Liabilities	Liabilities	Condition	Condition	Financial Instruments	Amount	
Derivatives	\$	-\$	-\$	-\$	-\$	-\$
Total	\$	-\$	-\$	-\$	-\$	-\$

Note 12: Income Taxes

On December 22, 2017, the U.S. Government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, the Tax Act reduces the corporate federal tax rate from a maximum of 35 percent to a flat 21 percent. The corporate tax rate reduction was effective January 1, 2018. Since the Corporation has a fiscal year end of June 30th, the reduced corporate tax rate for its fiscal year 2018 will result in the application of a blended federal statutory tax rate of 28.06 percent, which is based on the applicable tax rates before and after the Tax Act and corresponding number of days in the fiscal year before and after enactment, and then a flat 21 percent tax rate thereafter.

Under generally accepted accounting principles, the Corporation uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to

taxable income in the years in which those temporary differences are expected to be recovered or settled. At June 30, 2017, the Corporation's deferred tax assets and liabilities were determined based on the then-current enacted federal tax rate of 35 percent. As a result of the reduction in the corporate income tax rate under the Tax Act, the Corporation revalued its deferred tax assets and liabilities at December 31, 2017. Deferred tax assets and liabilities expected to be realized in fiscal year 2018 were re-measured using the aforementioned blended rate. All remaining deferred tax assets and liabilities were re-measured using the new statutory federal rate of 21 percent. These re-measurements collectively resulted in a discrete tax expense of \$1.8 million that was recognized during the quarter ended December 31, 2017. The Corporation's revaluation of its deferred tax assets and liabilities is subject to further clarification of the Tax Act and refinements of its estimates. As a result, the actual impact on the deferred tax assets and liabilities and income tax expense due to the Tax Act may vary from the amounts estimated.

The estimated combined federal and state statutory tax rates, before discrete items, for the remainder of fiscal 2018 and for fiscal 2019 are as follows:

Statutory Tax Rates	Q3FY2018	Q4FY2018	FY2019
Federal Tax Rate	28.06%	28.06%	21.00%
State Tax Rate	10.84%	10.84%	10.84%
Combined Statutory Tax Rate ⁽¹⁾	35.86%	35.86%	29.56%

⁽¹⁾ The combined statutory tax rate is net of the federal tax benefit for the state tax deduction.

The Corporation's effective tax rate may differ from the estimated statutory tax rates described above due to discrete items such as further adjustments to net deferred tax assets, excess tax benefits derived from stock option exercises and non-taxable earnings from bank owned life insurance, among other items.

Note 13: Subsequent Event

On January 30, 2018, the Corporation announced that the Corporation's Board of Directors declared a quarterly cash dividend of \$0.14 per share. Shareholders of the Corporation's common stock at the close of business on February 20, 2018 will be entitled to receive the cash dividend. The cash dividend will be payable on March 13, 2018.

ITEM 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations

General

Provident Financial Holdings, Inc., a Delaware corporation, was organized in January 1996 for the purpose of becoming the holding company of Provident Savings Bank, F.S.B. ("the Bank") upon the Bank's conversion from a federal mutual to a federal stock savings bank ("Conversion"). The Conversion was completed on June 27, 1996. The Corporation is regulated by the Federal Reserve Board ("FRB"). At December 31, 2017, the Corporation had total assets of \$1.16 billion, total deposits of \$907.8 million and total stockholders' equity of \$120.7 million. The Corporation has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank and its subsidiaries. As used in this report, the terms "we," "our," "us," and "Corporation" refer to Provident Financial Holdings, Inc. and its consolidated subsidiaries, unless the context indicates otherwise.

The Bank, founded in 1956, is a federally chartered stock savings bank headquartered in Riverside, California. The Bank is regulated by the Office of the Comptroller of the Currency ("OCC"), its primary federal regulator, and the Federal Deposit Insurance Corporation ("FDIC"), the insurer of its deposits. The Bank's deposits are federally insured up to applicable limits by the FDIC. The Bank has been a member of the Federal Home Loan Bank System since 1956.

The Corporation's business consists of community banking activities and mortgage banking activities, conducted by Provident Bank and Provident Bank Mortgage ("PBM"), a division of the Bank. Community banking activities primarily consist of accepting deposits from customers within the communities surrounding the Bank's full service offices and investing those funds in single-family loans, multi-family loans, commercial real estate loans, construction loans, commercial business loans, consumer loans and other real estate loans. The Bank also offers business checking accounts, other business banking services, and services loans for others. Mortgage banking activities consist of the origination, purchase and sale of mortgage loans secured primarily by single-family residences. The Bank currently operates 14 retail/business banking offices in Riverside County and San Bernardino County (commonly known as the

Inland Empire). Provident Bank Mortgage operates two wholesale loan production offices: one in Pleasanton and one in Rancho Cucamonga, California; and nine retail loan production offices located throughout California. The Corporation's revenues are derived principally from interest on its loans and investment securities and fees generated through its community banking and mortgage banking activities. There are various risks inherent in the Corporation's business including, among others, the general business environment, interest rates, the California real estate market, the demand for loans, the prepayment of loans, the repurchase of loans previously sold to investors, the secondary market conditions to sell loans, competitive conditions, legislative and regulatory changes, fraud and other risks.

The Corporation began to distribute quarterly cash dividends in the quarter ended December 31, 2002. On October 24, 2017, the Corporation declared a quarterly cash dividend of \$0.14 per share for the Corporation's shareholders of record at the close of business on November 14, 2017, which was paid on December 5, 2017. Future declarations or payments of dividends will be

subject to the consideration of the Corporation's Board of Directors, which will take into account the Corporation's financial condition, results of operations, tax considerations, capital requirements, industry standards, legal restrictions, economic conditions and other factors, including the regulatory restrictions which affect the payment of dividends by the Bank to the Corporation. Under Delaware law, dividends may be paid either out of surplus or, if there is no surplus, out of net profits for the current fiscal year and/or the preceding fiscal year in which the dividend is declared. For further discussion, see Note 13 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to assist in understanding the financial condition and results of operations of the Corporation. The information contained in this section should be read in conjunction with the Unaudited Interim Condensed Consolidated Financial Statements and accompanying selected Notes to Unaudited Interim Condensed Consolidated Financial Statements.

Safe-Harbor Statement

Certain matters in this Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This Form 10-Q contains statements that the Corporation believes are "forward-looking statements." These statements relate to the Corporation's financial condition, results of operations, plans, objectives, future performance or business. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements the Corporation may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Corporation. There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors which could cause actual results to differ materially include, but are not limited to, the credit risks of lending activities, including changes in the level and trend of loan delinquencies and charge-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the residential and commercial real estate markets and may lead to increased losses and non-performing assets and may result in our allowance for loan losses not being adequate to cover actual losses and require us to materially increase our reserve; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market areas; secondary market conditions for loans and our ability to sell loans in the secondary market; results of examinations of the Corporation by the FRB or of the Bank by the OCC or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to enter into a formal enforcement action or to increase our allowance for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, or impose additional requirements and restrictions on us, any of which could adversely affect our liquidity and earnings; legislative or regulatory changes that adversely affect our business including changes in regulatory policies and principles, including the interpretation of regulatory capital or other rules, including as a result of Basel III; the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd Frank Act") and the implementing regulations; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; adverse changes in the securities markets; our ability to attract and retain deposits; increases in premiums for deposit insurance; our ability to control operating costs and expenses; the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risk associated with the loans on our balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges; disruptions, security breaches, or other adverse events, failures or interruptions in, or attacks on, our information technology systems or on the third-party vendors who perform several of our critical processing functions; our ability

to implement our branch expansion strategy; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we have acquired or may in the future acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; our ability to manage loan delinquency rates; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; our ability to pay dividends on our common stock; adverse changes in the securities markets; the inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; war or terrorist activities; and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and other risks detailed in this report and in the Corporation's other reports filed with or furnished to the SEC, including its Annual Report on Form 10-K for the fiscal year ended June 30, 2017. These developments

could have an adverse impact on our financial position and our results of operations. Forward-looking statements are based upon management's beliefs and assumptions at the time they are made. We undertake no obligation to publicly update or revise any forward-looking statements included in this document or to update the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this document might not occur, and you should not put undue reliance on any forward-looking statements.

Critical Accounting Policies

The discussion and analysis of the Corporation's financial condition and results of operations is based upon the Corporation's condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements. Actual results may differ from these estimates under different assumptions or conditions.

The Corporation's critical accounting policies are described in the Corporation's 2017 Annual Report on Form 10-K for the year ended June 30, 2017 in the Critical Accounting Policies section of Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 1 - Organization and Significant Accounting Policies. There have been no significant changes during the six months ended December 31, 2017 to the critical accounting policies as described in the Corporation's 2017 Annual Report on Form 10-K for the period ended June 30, 2017.

Executive Summary and Operating Strategy

Provident Savings Bank, F.S.B., established in 1956, is a financial services company committed to serving consumers and small to mid-sized businesses in the Inland Empire region of Southern California. The Bank conducts its business operations as Provident Bank, Provident Bank Mortgage, a division of the Bank, and through its subsidiary, Provident Financial Corp. The business activities of the Corporation, primarily through the Bank and its subsidiary, consist of community banking, mortgage banking and, to a lesser degree, investment services for customers and trustee services on behalf of the Bank.

Community banking operations primarily consist of accepting deposits from customers within the communities surrounding the Corporation's full service offices and investing those funds in single-family, multi-family and commercial real estate loans. Also, to a lesser extent, the Corporation makes construction, commercial business, consumer and other mortgage loans. The primary source of income in community banking is net interest income, which is the difference between the interest income earned on loans and investment securities, and the interest expense paid on interest-bearing deposits and borrowed funds. Additionally, certain fees are collected from depositors, such as returned check fees, deposit account service charges, ATM fees, IRA/KEOGH fees, safe deposit box fees, wire transfer fees and overdraft protection fees, among other fees. Community banking operations also include providing investment services which primarily consist of selling alternative investment products such as annuities and mutual funds to the Bank's depositors.

During the next three years, subject to market conditions, the Corporation intends to improve its community banking business by moderately increasing total assets; by increasing single-family mortgage loans and higher yielding preferred loans (i.e., multi-family, commercial real estate, construction and commercial business loans). In addition, the Corporation intends to decrease the percentage of time deposits in its deposit base and to increase the percentage of lower cost checking and savings accounts. This strategy is intended to improve core revenue through a higher net

interest margin and ultimately, coupled with the growth of the Corporation, an increase in net interest income. While the Corporation's long-term strategy is for moderate growth, management recognizes that growth may not occur as a result of weaknesses in general economic conditions.

Mortgage banking operations primarily consist of the origination, purchase and sale of mortgage loans secured by single-family residences. The primary sources of income in mortgage banking are gain on sale of loans and certain fees collected from borrowers in connection with the loan origination process. The Corporation will continue to modify its operations, including the number of mortgage banking personnel, in response to the rapidly changing mortgage banking environment. Changes may include a different product mix, changes to underwriting standards, variations in its operating expenses or a combination of these and other changes.

Provident Financial Corp performs trustee services for the Bank's real estate secured loan transactions and has in the past held, and may in the future hold, real estate for investment. Trustee services contribute a very small percentage of gross revenue.

There are a number of risks associated with the business activities of the Corporation, many of which are beyond the Corporation's control, including: changes in accounting principles, laws, regulation, interest rates and the economy, among others. The Corporation attempts to mitigate many of these risks through prudent banking practices, such as interest rate risk management, credit risk management, operational risk management, and liquidity risk management. The California economic environment presents heightened risk for the Corporation primarily with respect to real estate values and loan delinquencies. Since the majority of the Corporation's loans are secured by real estate located within California, significant declines in the value of California real estate may also inhibit the Corporation's ability to recover on defaulted loans by selling the underlying real estate. In addition, the Corporation's operating costs may increase significantly as a result of the Dodd-Frank Act. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Corporation.

Off-Balance Sheet Financing Arrangements and Contractual Obligations

Commitments and Derivative Financial Instruments. The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, in the form of originating loans or providing funds under existing lines of credit, loan sale agreements to third parties and option contracts. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the accompanying Condensed Consolidated Statements of Financial Condition. The Corporation's exposure to credit loss, in the event of non-performance by the counterparty to these financial instruments, is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in entering into financial instruments with off-balance sheet risk as it does for on-balance sheet instruments. For a discussion on commitments and derivative financial instruments, see Note 7 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

Contractual Obligations. The following table summarizes the Corporation's contractual obligations at December 31, 2017 and the effect these obligations are expected to have on the Corporation's liquidity and cash flows in future periods:

(In Thousands)	Payments Due by Period				Total
	Less than 1 year	1 to less than 3 years	3 to 5 years	Over 5 years	
Operating obligations	\$2,545	\$3,053	\$1,365	\$905	\$7,868
Pension benefits	248	496	496	6,611	7,851
Time deposits	103,338	114,408	29,823	4,685	252,254
FHLB – San Francisco advances	12,560	24,842	33,965	51,711	123,078
FHLB – San Francisco letter of credit	7,000	—	—	—	7,000
FHLB – San Francisco MPF credit enhancement ⁽¹⁾	—	—	—	2,458	2,458
Total	\$125,691	\$142,799	\$65,649	\$66,370	\$400,509

Represents the potential future obligation for loans previously sold by the Bank to the FHLB – San Francisco under ⁽¹⁾ its Mortgage Partnership Finance (“MPF”) program. As of December 31, 2017, the Bank serviced \$13.3 million of loans under this program. The estimated amounts by period are based on historical loss experience.

The expected obligation for time deposits and FHLB – San Francisco advances include anticipated interest accruals based on the respective contractual terms.

In addition to the off-balance sheet financing arrangements and contractual obligations mentioned above, the Corporation has derivatives and other financial instruments with off-balance sheet risks as described in Note 7 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

Comparison of Financial Condition at December 31, 2017 and June 30, 2017

Total assets decreased \$38.5 million, or three percent, to \$1.16 billion at December 31, 2017 from \$1.20 billion at June 30, 2017. The decrease was primarily attributable to decreases in cash and cash equivalents, loans held for investment and loans held for sale, partly offset by an increase in investment securities held to maturity.

Total cash and cash equivalents, primarily excess cash deposited with the Federal Reserve Bank of San Francisco, decreased \$25.6 million, or 35 percent, to \$47.2 million at December 31, 2017 from \$72.8 million at June 30, 2017. The decrease in the total cash and cash equivalents was primarily attributable to the utilization of cash to fund the increase in investment securities held to maturity.

Investment securities (held to maturity and available for sale) increased \$26.2 million, or 38 percent, to \$96.0 million at December 31, 2017 from \$69.8 million at June 30, 2017. The increase was primarily the result of purchases of mortgage-backed securities held to maturity, partly offset by scheduled and accelerated principal payments on mortgage-backed securities during the first six months of fiscal 2018. For further analysis on investment securities, see Note 5 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements of this Form 10-Q.

Loans held for investment decreased \$18.9 million to \$886.0 million at December 31, 2017 from \$904.9 million at June 30, 2017. During the first six months of fiscal 2018, the Corporation originated \$76.7 million of loans held for investment, consisting primarily of single-family and multi-family loans. During the first six months of fiscal 2018, the Corporation purchased \$3.1 million of loans held for investment. Total loan principal payments during the first six months of fiscal 2018 were \$100.8 million, down four percent from \$105.3 million during the comparable period in

fiscal 2017, due primarily to lower loan refinance activity. The balance of preferred loans decreased \$10.4 million, or two percent, to \$574.7 million at December 31, 2017, compared to \$585.1 million at June 30, 2017, net of undisbursed loan funds of \$7.4 million and \$9.0 million, respectively, and represented 65 percent and 64 percent of loans held for investment, respectively. The balance of single-family loans held for investment decreased \$8.4 million, or three percent, to \$313.8 million at December 31, 2017, compared to \$322.2 million at June 30, 2017, and represented 35 percent and 36 percent of loans held for investment, respectively.

The tables below describe the geographic dispersion of gross real estate secured loans held for investment at December 31, 2017 and June 30, 2017, as a percentage of the total dollar amount outstanding:

As of December 31, 2017

(Dollars In Thousands)	Inland Empire	Southern California ⁽¹⁾	Other California	Other States	Total					
Loan Category	Balance	%	Balance	%	Balance	%	Balance	%	Balance	%
Single-family	\$ 103,704	33 %	\$ 148,932	48 %	\$ 60,097	19 %	\$ 1,104	— %	\$ 313,837	100 %
Multi-family	79,149	17 %	275,716	59 %	106,204	23 %	2,717	1 %	463,786	100 %
Commercial real estate	32,604	31 %	46,126	45 %	24,636	24 %	—	— %	103,366	100 %
Construction	3,224	22 %	9,808	68 %	1,398	10 %	—	— %	14,430	100 %
Total	\$ 218,681	24 %	\$ 480,582	54 %	\$ 192,335	21 %	\$ 3,821	1 %	\$ 895,419	100 %

⁽¹⁾ Other than the Inland Empire.

As of June 30, 2017

(Dollars In Thousands)	Inland Empire	Southern California ⁽¹⁾	Other California	Other States	Total					
Loan Category	Balance	%	Balance	%	Balance	%	Balance	%	Balance	%
Single-family	\$ 102,686	32 %	\$ 156,045	49 %	\$ 62,249	19 %	\$ 1,217	— %	\$ 322,197	100 %
Multi-family	80,861	17 %	282,871	59 %	113,459	24 %	2,768	— %	479,959	100 %
Commercial real estate	31,497	32 %	42,192	43 %	23,873	25 %	—	— %	97,562	100 %
Construction	3,760	24 %	10,614	66 %	1,635	10 %	—	— %	16,009	100 %
Total	\$ 218,804	24 %	\$ 491,722	54 %	\$ 201,216	22 %	\$ 3,985	— %	\$ 915,727	100 %

⁽¹⁾ Other than the Inland Empire.

Loans held for sale decreased \$19.9 million, or 17 percent, to \$96.6 million at December 31, 2017 from \$116.5 million at June 30, 2017. The decrease was primarily due to lower loans originated and purchased for sale and the timing difference between loan fundings and loan sale settlements. Total loans originated and purchased for sale during the quarter ended December 31, 2017 was \$331.9 million, down \$74.0 million or 18 percent from \$405.9 million during the quarter ended June 30, 2017.

Total deposits decreased \$18.7 million, or two percent, to \$907.8 million at December 31, 2017 from \$926.5 million at June 30, 2017. Transaction accounts increased \$2.1 million to \$660.7 million at December 31, 2017 from \$658.6 million at June 30, 2017, while time deposits decreased \$20.8 million, or eight percent, to \$247.1 million at December 31, 2017 from \$267.9 million at June 30, 2017. The change in deposit mix was consistent with the Corporation's marketing strategy to promote transaction accounts and the strategic decision to increase the percentage of lower cost checking and savings accounts in its deposit base and decrease the percentage of time deposits by competing less aggressively for time deposits.

Total borrowings decreased \$15.0 million, or 12 percent, to \$111.2 million at December 31, 2017 as compared to \$126.2 million at June 30, 2017, due to the maturity of short-term borrowings. Total borrowings are primarily comprised of long-term FHLB - San Francisco advances for interest rate risk management purposes.

Total stockholders' equity decreased \$7.5 million, or six percent, to \$120.7 million at December 31, 2017 from \$128.2 million at June 30, 2017, primarily as a result of stock repurchases totaling \$5.2 million (see Part II, Item 2, "Unregistered Sales of Equity Securities and Use of Proceeds"), \$2.1 million of quarterly cash dividends paid to shareholders and a net loss of \$1.0 million, partly offset by the amortization of stock-based compensation benefits

during the first six months of fiscal 2018.

51

Comparison of Operating Results for the Quarters and Six Months Ended December 31, 2017 and 2016

The Corporation's net loss for the second quarter of fiscal 2018 was \$777,000, a decrease of \$2.3 million, or 152 percent, as compared to the net income of \$1.5 million in the same period of fiscal 2017. The second quarter of fiscal 2018 results were impacted by a net tax charge of \$1.8 million, or \$(0.24) per diluted share, from the net deferred tax assets revaluation required by the tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act") enacted on December 22, 2017; and a \$650,000 litigation expense accrual which, net of tax benefit, reduced net results by approximately \$(0.06) per diluted share. Compared to the same quarter last year, the decrease was primarily attributable to decreases in the gain on sale of loans, a decline in the recovery from the allowance for loan losses, lower net interest income and an increase in the provision for income taxes, partly offset by a decrease in salaries and employee benefits expense. For the first six months of fiscal 2018, the Corporation's net loss was \$1.0 million, a decrease of \$4.1 million, or 132 percent, from net income of \$3.1 million in the same period of fiscal 2017. The first six months of fiscal 2018 results were impacted by the net tax charge of \$1.8 million, or \$(0.24) per diluted share, from the net deferred tax assets revaluation required by the Tax Act; and a \$3.4 million of litigation expense accruals which, net of tax benefit, reduced net results by approximately \$(0.45) per diluted share. Compared to the same period last year, the decrease was primarily attributable to decreases in the gain on sale of loans, an increase in the litigation expense accruals, a decline in the recovery from the allowance for loan losses, lower net interest income and an increase in the provision for income taxes, partly offset by a decrease in salaries and employee benefits expense.

The Corporation's efficiency ratio, defined as non-interest expense divided by the sum of net interest income and non-interest income, increased to 91 percent for the second quarter of fiscal 2018 from 87 percent in the same period of fiscal 2017. For the first six months of fiscal 2018, the Corporation's efficiency ratio also increased to 97 percent from 86 percent for the same period of fiscal 2017.

Return on average assets decreased 77 basis points to (0.27) percent in the second quarter of fiscal 2018 from 0.50 percent in the same period last year. For the first six months of fiscal 2018, return on average assets was (0.17) percent, down 68 basis points from 0.51 percent in the same period last year.

Return on average equity decreased to (2.50) percent in the second quarter of fiscal 2018 from 4.53 percent in the same period last year. For the first six months of fiscal 2018, return on average equity was (1.59) percent compared to 4.66 percent for the same period last year.

Diluted (loss) earnings per share for the second quarter of fiscal 2018 were \$(0.10), a 156 percent decrease from \$0.18 in the same period last year. For the first six months of fiscal 2018, diluted (loss) earnings per share were \$(0.13), a 134 percent decrease from \$0.38 in the same period last year. The higher percentage decrease in the diluted earnings per share in comparison to the percentage decrease in the net income between each period was primarily attributable to stock repurchases during the prior 12 months.

Net Interest Income:

For the Quarters Ended December 31, 2017 and 2016. Net interest income decreased by \$334,000 to \$8.8 million for the second quarter of fiscal 2018 as compared to the comparable period in fiscal 2017, as a result of a lower average earning asset balance, and a slightly lower net interest margin. The average balance of interest-earning assets decreased \$36.7 million, or three percent, to \$1.14 billion in the second quarter of fiscal 2018 from \$1.18 billion in the comparable period of fiscal 2017, primarily reflecting decreases in average loans receivable and interest earning deposits, partly offset by an increase in the average balance of investment securities. The net interest margin decreased one basis point to 3.08 percent in the second quarter of fiscal 2018 from 3.09 percent in the same period of fiscal 2017, primarily due to a decrease in the average yield on interest-earning assets, partly offset by a decrease in the average cost of interest-bearing liabilities. The weighted-average yield on interest-earning assets decreased by four

basis points to 3.64 percent from 3.68 percent in the same quarter last year, while the weighted-average cost of interest-bearing liabilities decreased by two basis points to 0.62 percent for the second quarter of fiscal 2018 as compared to 0.64 percent in the same quarter last year. The decrease in the average yield of interest-earning assets was primarily due to a decrease in the average yield of FHLB - San Francisco stock, partly offset by increases in the average yield of loans receivable, investment securities and interest-earning deposits.

For the Six Months Ended December 31, 2017 and 2016. Net interest income decreased \$304,000, or two percent, to \$17.9 million for the first six months of fiscal 2018 from \$18.2 million for the comparable period in fiscal 2017, due to a lower average earning assets balance, partly offset by a higher net interest margin. The average balance of interest-earning assets decreased \$32.6 million, or three percent, to \$1.14 billion in the first six months of fiscal 2018 from \$1.18 billion in the comparable period of fiscal 2017, primarily reflecting decreases in average loans receivable and interest earning deposits, partly offset by an increase in the

average balance of investment securities. The net interest margin was 3.12 percent in the first six months of fiscal 2018, up three basis points from 3.09 percent in the same period of fiscal 2017 due to an increase in the average yield on interest-earning assets and a decrease in the average cost of interest-bearing liabilities. The weighted-average yield on interest-earning assets increased by two basis points to 3.69 percent, while the weighted-average cost of interest-bearing liabilities decreased by two basis points to 0.62 percent for the first six months of fiscal 2018 as compared to the same period last year.

Interest Income:

For the Quarters Ended December 31, 2017 and 2016. Total interest income decreased by \$438,000, or four percent, to \$10.4 million for the second quarter of fiscal 2018 from \$10.8 million in the same quarter of fiscal 2017. The decrease was primarily due to lower interest income on loans receivable and FHLB - San Francisco stock, partly offset by higher interest income on investment securities and interest-earning deposits.

Interest income on loans receivable decreased \$381,000, or four percent, to \$9.7 million in the second quarter of fiscal 2018 from \$10.1 million for the same quarter of fiscal 2017. This decrease was attributable to a lower average loan balance, partly offset by a higher average loan yield. The average balance of loans receivable, including loans held for sale, decreased by \$59.5 million, or six percent, to \$990.9 million for the second quarter of fiscal 2018 from \$1.05 billion in the same quarter of fiscal 2017, primarily due to a decrease in average loans held for sale attributable to a decrease in mortgage banking activity which was partly offset by an increase in average loans held for investment. The average loan yield, including loans held for sale, during the second quarter of fiscal 2018 increased eight basis points to 3.93 percent from 3.85 percent during the same quarter last year, primarily due to an increase in the average yield of loans held for investment and an increase in the average yield of loans held for sale with a lower percentage of loans held for sale to total loans receivable.

Loans receivable is comprised of loans held for investment and loans held for sale. The average balance of loans held for investment increased \$36.9 million, or four percent, to \$890.2 million during the second quarter of fiscal 2018 from \$853.3 million in the same quarter of fiscal 2017. The average yield on the loans held for investment increased by two basis points to 3.93 percent in the second quarter of fiscal 2018 from 3.91 percent in the same quarter of fiscal 2017. The average balance of loans held for sale, however, decreased \$96.4 million, or 49 percent, to \$100.7 million during the second quarter of fiscal 2018 from \$197.1 million in the same quarter of fiscal 2017. The average yield on the loans held for sale increased by 32 basis points to 3.91 percent in the second quarter of fiscal 2018 from 3.59 percent in the same quarter of fiscal 2017.

Interest income from investment securities increased \$191,000, or 149 percent, to \$319,000 in the second quarter of fiscal 2018 from \$128,000 for the same quarter of fiscal 2017. This increase was attributable to a higher average balance and, to a lesser extent, a higher average yield. The average balance of investment securities increased \$43.0 million, or 94 percent, to \$88.6 million in the second quarter of fiscal 2018 from \$45.6 million in the same quarter of fiscal 2017. The increase in the average balance of investment securities was primarily the result of purchases of mortgage-backed securities, partly offset by scheduled and accelerated principal payments on mortgage-backed securities. The average investment securities yield increased 32 basis points to 1.44 percent in the second quarter of fiscal 2018 from 1.12 percent in the same quarter of fiscal 2017. The increase in the average investment securities yield was primarily attributable to the purchases of investment securities which had higher average yields than the existing portfolio and the repricing of adjustable mortgage-backed securities to higher interest rates, partly offset by accelerated amortization of purchase premiums resulting from accelerated principal payments.

The FHLB – San Francisco cash dividend received in the second quarter of fiscal 2018 was \$143,000, down 69 percent from \$458,000 in the same quarter of fiscal 2017. The cash dividends received in the second quarter of last year included a special cash dividend, not replicated in the second quarter of fiscal 2018. The average yield decreased to

7.05 percent in the second quarter of fiscal 2018 as compared to 22.63 percent in the comparable quarter last year.

Interest income from interest-earning deposits, primarily cash deposited at the Federal Reserve Bank of San Francisco, was \$168,000 in the second quarter of fiscal 2018, up 66 percent from \$101,000 in the same quarter of fiscal 2017. The increase was due to a higher average yield, partly offset by a lower average balance in the second quarter of fiscal 2018 as compared to the same quarter last year. The average yield earned on interest-earning deposits increased 74 basis points to 1.30 percent in the second quarter of fiscal 2018 from 0.56 percent in the comparable quarter last year, due primarily to the increases in the federal funds rate over the last year. The average balance of the interest-earning deposits in the second quarter of fiscal 2018 was \$50.7 million, a decrease of \$20.3 million or 29 percent, from \$71.0 million in the same quarter of fiscal 2017. The decrease in the average balance of interest-earning deposits was primarily due to the utilization of funds for the increases in loans held for investment and investment securities and the decreases in deposits and borrowings, partly offset by the decline in the average balance of loans held for sale.

For the Six Months Ended December 31, 2017 and 2016. Total interest income decreased by \$497,000, or two percent, to \$21.1 million for the first six months of fiscal 2018 from \$21.6 million in the same period of fiscal 2017. The decrease was primarily due to lower interest income on loans receivable and FHLB - San Francisco stock, partly offset by higher interest income on investment securities and interest-earning deposits.

Loans receivable interest income decreased \$704,000, or three percent, to \$19.9 million in the first six months of fiscal 2018 from \$20.6 million for the same period of fiscal 2017. The decrease was attributable to a lower average loan balance, partly offset by a higher average loan yield in the first six months of fiscal 2018 in comparison to the same period last year. The average balance of loans receivable, including loans held for sale, decreased \$65.0 million to \$999.2 million for the first six months of fiscal 2018 from \$1.06 billion in the same period of fiscal 2017. The average loan yield, including loans held for sale, during the first six months of fiscal 2018 increased 11 basis points to 3.98 percent from 3.87 percent in the same period last year.

Loans receivable is comprised of loans held for investment and loans held for sale. The average balance of loans held for investment increased \$48.8 million, or six percent, to \$899.0 million during the first six months of fiscal 2018 from \$850.2 million in the same period of fiscal 2017. The average yield on the loans held for investment increased by five basis points to 3.99 percent in the first six months of fiscal 2018 from 3.94 percent in the same period of fiscal 2017. The average balance of loans held for sale decreased by \$113.9 million, or 53 percent, to \$100.2 million during the first six months of fiscal 2018 from \$214.1 million in the same period of fiscal 2017. The average yield on the loans held for sale increased by 33 basis points to 3.92 percent in the first six months of fiscal 2018 from 3.59 percent in the same period of fiscal 2017.

Interest income from investment securities increased \$364,000, or 172 percent, to \$576,000 in the first six months of fiscal 2018 from \$212,000 for the same period of fiscal 2017. This increase was attributable to a higher average balance and, to lesser extent, a higher average yield. The average balance of investment securities increased \$34.4 million, or 72 percent, to \$82.0 million in the first six months of fiscal 2018 from \$47.6 million in the same period of fiscal 2017. The increase in average balance of investment securities was primarily the result of purchases of mortgage-backed securities, partly offset by scheduled and accelerated principal payments on mortgage-backed securities. The average investment securities yield increased 51 basis points to 1.40 percent in the first six months of fiscal 2018 from 0.89 percent in the same period of fiscal 2017. The increase in the average investment securities yield was primarily attributable to the purchases of investment securities which had higher average yields than the existing portfolio and the repricing of adjustable mortgage-backed securities to higher interest rates, partly offset by accelerated amortization of purchase premiums resulting from accelerated principal payments.

The FHLB – San Francisco cash dividend received in the first six months of fiscal 2018 was \$284,000, down 56 percent from \$643,000 in the same period of fiscal 2017. The cash dividend received in the first six months of fiscal 2017 includes a special cash dividend received in the second quarter of fiscal 2017, not replicated in the same period of fiscal 2018. The average yield decreased to 7.01 percent in the first six months of fiscal 2018 as compared to 15.88 percent in the comparable period last year.

Interest income from interest-earning deposits, primarily cash deposited at the Federal Reserve Bank of San Francisco, was \$358,000 in the first six months of fiscal 2018, up 129 percent from \$156,000 in the same period of fiscal 2017. The increase was due to a higher average yield, partly offset by a lower average balance in the first six months of fiscal 2018 as compared to the same period last year. The average yield increased 74 basis points to 1.27 percent in the first six months of fiscal 2018 from 0.53 percent in the comparable period last year, due primarily to the recent increases in the federal funds rate. The average balance of the interest-earning deposits in the first six months of fiscal 2018 was \$55.1 million, a decrease of \$2.0 million or four percent, from \$57.1 million in the same period of fiscal 2017. The decrease in interest-earning deposits was primarily due to the utilization of funds for the increases in loans held for investment and investment securities and the decreases in deposits and borrowings, partly offset by the

decline in the average balance of loans held for sale.

Interest Expense:

For the Quarters Ended December 31, 2017 and 2016. Total interest expense for the second quarter of fiscal 2018 was \$1.6 million as compared to \$1.7 million for the same period last year, a decrease of \$104,000, or six percent. This decrease was attributable to a lower interest expense on deposits, primarily in time deposits.

Interest expense on deposits for the second quarter of fiscal 2018 was \$886,000 as compared to \$982,000 for the same period last year, a decrease of \$96,000, or 10 percent. The decrease in interest expense on deposits was primarily attributable to a lower average balance, and to a lesser extent, a lower average cost of deposits. The average balance of deposits decreased \$23.1 million, or two percent, to \$916.2 million during the quarter ended December 31, 2017 from \$939.3 million during the same period last year. The decrease in the average balance was primarily attributable to a decrease in time deposits, partly offset by an increase in

transaction accounts. The average cost of deposits decreased three basis points to 0.38 percent during the second quarter of fiscal 2018 from 0.41 percent during the same quarter last year. The decrease in the average cost of deposits was attributable primarily to a lower average cost of time deposits and a lower percentage of time deposits to the total deposit balance. Strategically, the Corporation has been promoting transaction accounts and competing less aggressively for time deposits. The Corporation believes the increase in transaction accounts was also attributable to the impact of depositors seeking an alternative to lower yielding time deposits in anticipation of higher interest rates. The average balance of transaction accounts to total deposits in the second quarter of fiscal 2018 was 72 percent, compared to 69 percent in the same period of fiscal 2017.

Interest expense on borrowings, consisting of FHLB – San Francisco advances, for the second quarter of fiscal 2018 decreased \$8,000, or one percent, to \$728,000 from \$736,000 for the same period last year. The decrease in interest expense on borrowings was the result of a lower average balance, partly offset by a higher average cost. The average balance of borrowings decreased \$8.0 million, or seven percent, to \$111.5 million during the quarter ended December 31, 2017 from \$119.5 million during the same period last year, due primarily to the maturity of short-term borrowings. The average cost of borrowings increased 15 basis points to 2.59 percent for the quarter ended December 31, 2017 from 2.44 percent in the same quarter last year. The increase in the average cost of advances was primarily due to the maturities of the short-term borrowings with an average cost below the existing borrowings in the second quarter of fiscal 2017.

For the Six Months Ended December 31, 2017 and 2016. Total interest expense for the first six months of fiscal 2018 was \$3.2 million as compared to \$3.4 million for the same period last year, a decrease of \$193,000, or six percent. This decrease was attributable to a lower interest expense on deposits, primarily in time deposits, partly offset by a higher interest expense on borrowings.

Interest expense on deposits for the first six months of fiscal 2018 was \$1.8 million as compared to \$2.0 million for the same period last year, a decrease of \$219,000, or 11 percent. The decrease in interest expense on deposits was primarily attributable to a lower average balance and, to a lesser extent, a lower average cost of deposits. The average balance of deposits decreased \$16.5 million, or two percent, to \$919.6 million during the six months ended December 31, 2017 from \$936.1 million during the same period last year. The increase in the average balance was primarily attributable to a decrease in time deposits, partly offset by an increase in transaction accounts. The average cost of deposits decreased four basis points to 0.38 percent during the first six months of fiscal 2018 from 0.42 percent during the same period last year. The decrease in the average cost of deposits was attributable primarily to a lower average cost of time deposits and a lower percentage of time deposits to the total deposit balance. The average balance of transaction accounts to total deposits in the first six months of fiscal 2018 was 72 percent, compared to 68 percent in the same period of fiscal 2017.

Interest expense on borrowings, consisting of FHLB – San Francisco advances, for the first six months of fiscal 2018 increased \$26,000, or two percent, to \$1.5 million from \$1.4 million for the same period last year. The increase in interest expense on borrowings was the result of a higher average cost, partly offset by a lower average balance. The average cost of borrowings increased 26 basis points to 2.57 percent for the six months ended December 31, 2017 from 2.31 percent in the same period last year. The increase in average cost of advances was primarily due to the maturity of short-term borrowings with a much lower average cost than long-term FHLB borrowings. The average balance of borrowings decreased by \$10.4 million, or eight percent, to \$112.8 million during the six months ended December 31, 2017 from \$123.2 million during the same period last year, primarily due to the maturity of the short-term borrowings.

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

The following tables present the average balance sheets for the quarters and six months ended December 31, 2017 and 2016, respectively:

Average Balance Sheets

(Dollars In Thousands)	Quarter Ended December 31, 2017			Quarter Ended December 31, 2016		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
Interest-earning assets:						
Loans receivable, net ⁽¹⁾	\$990,906	\$9,735	3.93 %	\$1,050,410	\$10,116	3.85 %
Investment securities	88,588	319	1.44 %	45,599	128	1.12 %
FHLB – San Francisco stock	8,108	143	7.05 %	8,094	458	22.63 %
Interest-earning deposits	50,725	168	1.30 %	70,972	101	0.56 %
Total interest-earning assets	1,138,327	10,365	3.64 %	1,175,075	10,803	3.68 %
Non interest-earning assets	33,498			33,638		
Total assets	\$1,171,825			\$1,208,713		
Interest-bearing liabilities:						
Checking and money market accounts ⁽²⁾	\$373,632	112	0.12 %	\$360,678	105	0.12 %
Savings accounts	289,990	149	0.20 %	283,120	146	0.20 %
Time deposits	252,588	625	0.98 %	295,477	731	0.98 %
Total deposits	916,210	886	0.38 %	939,275	982	0.41 %
Borrowings	111,521	728	2.59 %	119,530	736	2.44 %
Total interest-bearing liabilities	1,027,731	1,614	0.62 %	1,058,805	1,718	0.64 %
Non interest-bearing liabilities	19,932			17,007		
Total liabilities	1,047,663			1,075,812		
Stockholders' equity	124,162			132,901		
Total liabilities and stockholders' equity	\$1,171,825			\$1,208,713		
Net interest income		\$8,751		\$9,085		
Interest rate spread ⁽³⁾			3.02 %			3.04 %
Net interest margin ⁽⁴⁾			3.08 %			3.09 %
Ratio of average interest-earning assets to average interest-bearing liabilities			110.76 %			110.98 %
Return on average assets			(0.27)%			0.50 %
Return on average equity			(2.50)%			4.53 %

⁽¹⁾ Includes loans held for sale and non-performing loans, as well as net deferred loan cost amortization of \$409 and \$238 for the quarters ended December 31, 2017 and 2016, respectively.

- (2) Includes the average balance of non interest-bearing checking accounts of \$78.6 million and \$74.0 million during the quarters ended December 31, 2017 and 2016, respectively.
- (3) Represents the difference between the weighted-average yield on all interest-earning assets and the weighted-average rate on all interest-bearing liabilities.
- (4) Represents net interest income before provision for loan losses as a percentage of average interest-earning assets.

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

	Six Months Ended December 31, 2017			Six Months Ended December 31, 2016		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
Interest-earning assets:						
Loans receivable, net ⁽¹⁾	\$999,242	\$19,892	3.98 %	\$1,064,246	\$20,596	3.87 %
Investment securities	82,029	576	1.40 %	47,598	212	0.89 %
FHLB – San Francisco stock	8,108	284	7.01 %	8,094	643	15.88 %
Interest-earning deposits	55,085	358	1.27 %	57,140	156	0.53 %
Total interest-earning assets	1,144,464	21,110	3.69 %	1,177,078	21,607	3.67 %
Non interest-earning assets	32,514			32,603		
Total assets	\$1,176,978			\$1,209,681		
Interest-bearing liabilities:						
Checking and money market accounts ⁽²⁾	\$373,425	215	0.11 %	\$355,685	203	0.11 %
Savings accounts	288,347	298	0.21 %	279,953	290	0.21 %
Time deposits	257,856	1,264	0.97 %	300,416	1,503	0.99 %
Total deposits	919,628	1,777	0.38 %	936,054	1,996	0.42 %
Borrowings	112,834	1,464	2.57 %	123,235	1,438	2.31 %
Total interest-bearing liabilities	1,032,462	3,241	0.62 %	1,059,289	3,434	0.64 %
Non interest-bearing liabilities	18,408			17,354		
Total liabilities	1,050,870			1,076,643		
Stockholders' equity	126,108			133,038		
Total liabilities and stockholders' equity	\$1,176,978			\$1,209,681		
Net interest income		\$17,869		\$18,173		
Interest rate spread ⁽³⁾			3.07 %			3.03 %
Net interest margin ⁽⁴⁾			3.12 %			3.09 %
Ratio of average interest-earning assets to average interest-bearing liabilities			110.85 %			111.12 %
Return on average assets			(0.17) %			0.51 %
Return on average equity			(1.59) %			4.66 %

(1) Includes loans held for sale and non-performing loans, as well as net deferred loan cost amortization of \$616 and \$402 for the six months ended December 31, 2017 and 2016, respectively.

(2) Includes the average balance of non interest-bearing checking accounts of \$79.1 million and \$72.3 million during the six months ended December 31, 2017 and 2016, respectively.

(3) Represents the difference between the weighted-average yield on all interest-earning assets and the weighted-average rate on all interest-bearing liabilities.

(4) Represents net interest income before provision for loan losses as a percentage of average interest-earning assets.

The following tables set forth the effects of changing rates and volumes on interest income and expense for the quarters and six months ended December 31, 2017 and 2016, respectively. Information is provided with respect to the effects attributable to changes in volume (changes in volume multiplied by prior rate), the effects attributable to changes in rate (changes in rate multiplied by prior volume) and the effects attributable to changes that cannot be allocated between rate and volume.

Rate/Volume Variance

(In Thousands)	Quarter Ended December 31, 2017 Compared To Quarter Ended December 31, 2016			
	Increase (Decrease) Due to			
	Rate	Volume	Rate/ Volume	Net
Interest-earning assets:				
Loans receivable ⁽¹⁾	\$204	\$(573)	\$(12)	\$(381)
Investment securities	37	120	34	191
FHLB – San Francisco stock	(315)	1	(1)	(315)
Interest-bearing deposits	132	(28)	(37)	67
Total net change in income on interest-earning assets	58	(480)	(16)	(438)
Interest-bearing liabilities:				
Checking and money market accounts	—	7	—	7
Savings accounts	—	3	—	3
Time deposits	—	(106)	—	(106)
Borrowings	44	(49)	(3)	(8)
Total net change in expense on interest-bearing liabilities	44	(145)	(3)	(104)
Net increase (decrease) in net interest income	\$14	\$(335)	\$(13)	\$(334)

(1) Includes loans held for sale and non-performing loans. For purposes of calculating volume, rate and rate/volume variances, non-performing loans were included in the weighted-average balance outstanding.

(In Thousands)	Six Months Ended December 31, 2017 Compared To Six Months Ended December 31, 2016			
	Increase (Decrease) Due to			
	Rate	Volume	Rate/ Volume	Net
Interest-earning assets:				
Loans receivable ⁽¹⁾	\$590	\$(1,258)	\$(36)	\$(704)
Investment securities	123	153	88	364
FHLB – San Francisco stock	(359)	1	(1)	(359)
Interest-bearing deposits	215	(5)	(8)	202
Total net change in income on interest-earning assets	569	(1,109)	43	(497)
Interest-bearing liabilities:				
Checking and money market accounts	—	12	—	12
Savings accounts	—	8	—	8

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

Time deposits	(30)	(213)	4	(239)
Borrowings	161	(121)	(14)	26
Total net change in expense on interest-bearing liabilities	131	(314)	(10)	(193)
Net increase (decrease) in net interest income	\$438	\$(795)	\$ 53	\$(304)

(1) Includes loans held for sale and non-performing loans. For purposes of calculating volume, rate and rate/volume variances, non-performing loans were included in the weighted-average balance outstanding.

Provision (Recovery) for Loan Losses:

For the Quarters Ended December 31, 2017 and 2016. During the second quarter of fiscal 2018, the Corporation recorded a recovery from the allowance for loan losses of \$11,000, down 97 percent from a \$350,000 recovery from the allowance for loan losses in the same period of fiscal 2017. The recovery recorded in the second quarter of fiscal 2018 was primarily attributable to the decrease in loans held for investment and net loan recoveries during the second quarter of fiscal 2018, partly offset by an increase in classified assets. Total non-performing loans, net of the allowance for loan losses and fair value adjustments, was virtually unchanged at \$8.0 million at both December 31, 2017 and June 30, 2017 and was lower than the \$10.1 million at December 31, 2016. Net loan recoveries in the second quarter of fiscal 2018 were \$23,000 or (0.01) percent (annualized) of average loans receivable, compared to net loan recoveries of \$16,000 or (0.01) percent (annualized) of average loans receivable in the same quarter of fiscal 2017. Total classified loans, net of the allowance for loan losses and fair value adjustments, consisting of special mention and substandard loans, were \$13.2 million at December 31, 2017 as compared to \$11.7 million at June 30, 2017 and \$18.3 million at December 31, 2016.

For the Six Months Ended December 31, 2017 and 2016. During the first six months of fiscal 2018, the Corporation recorded a provision for loan losses of \$158,000, compared to a recovery from the allowance for loan losses of \$500,000 in the same period of fiscal 2017. The provision for loan losses in the first six months of fiscal 2018 was primarily attributable to net loan charge-offs and the increase in classified assets, partly offset by the decrease in loans held for investment during the first six months of fiscal 2018. Net loan charge-offs in the first six months of fiscal 2018 were \$122,000 or 0.02 percent (annualized) of average loans receivable, compared to net loan recoveries of \$221,000 or (0.04) percent (annualized) of average loans receivable in the same period of fiscal 2017.

The allowance for loan losses was determined through quantitative and qualitative adjustments including the Bank's charge-off experience and reflects the impact on loans held for investment from the current general economic conditions of the U.S. and California economies such as the improving unemployment rate and higher home prices in California. See related discussion of "Asset Quality" below.

At December 31, 2017, the allowance for loan losses was \$8.1 million, comprised of collectively evaluated allowances of \$8.1 million and individually evaluated allowances of \$15,000; in comparison to the allowance for loan losses of \$8.0 million at June 30, 2017, comprised of collectively evaluated allowances of \$7.9 million and individually evaluated allowances of \$101,000. The allowance for loan losses as a percentage of gross loans held for investment was 0.90 percent at December 31, 2017, up from 0.88 percent at June 30, 2017. Management considers, based on currently available information, the allowance for loan losses sufficient to absorb potential losses inherent in loans held for investment. For further analysis on the allowance for loan losses, see Note 6 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

Non-Interest Income:

For the Quarters Ended December 31, 2017 and 2016. Total non-interest income decreased \$2.1 million, or 27 percent, to \$5.7 million for the quarter ended December 31, 2017 from \$7.8 million for the same period last year. The decrease was primarily attributable to a decrease in the net gain on sale of loans during the current quarter as compared to the comparable period last year.

The net gain on sale of loans decreased \$2.2 million, or 34 percent, to \$4.3 million for the second quarter of fiscal 2018 from \$6.5 million in the same quarter of fiscal 2017 reflecting the impact of a lower loan sale volume, partly offset by a higher average loan sale margin. Total loan sale volume, which includes the net change in commitments to extend credit on loans to be held for sale, decreased \$175.4 million or 38 percent to \$287.8 million in the quarter ended December 31, 2017 from \$463.2 million in the comparable quarter last year. The decrease in loan sale volume

was attributable primarily to the decrease in refinance activity and, to a lesser extent, purchase activity as compared to the same period last year. Refinance loans as a percentage of total loans originated by PBM during the second quarter of fiscal 2018 were 42 percent, down from 55 percent in the same quarter of fiscal 2017. Retail loans as a percentage of total loans originated for sale by PBM during the first six months of fiscal 2018 were 55 percent, up from 50 percent in the same period of fiscal 2017. The average loan sale margin for PBM increased 10 basis point to 1.49 percent in the second quarter of fiscal 2018 from 1.39 percent in the same period of fiscal 2017. The increase in the average loan sale margin for the six months ended December 31, 2017 was primarily attributable to more favorable loan sale market conditions, a lower percentage of refinance originations and higher percentage of retail originations. The gain on sale of loans includes an unfavorable fair-value adjustment on loans held for sale and derivative financial instruments (commitments to extend credit, commitments to sell loans, commitments to sell mortgage-backed securities, and option contracts) pursuant to ASC 815 and ASC 825 that amounted to a net loss of \$1.3 million in the second quarter of fiscal 2018 as compared to an unfavorable fair-value adjustment net loss of \$6.4 million in the same period last year. The fair-value adjustment on loans held for sale and derivative

financial instruments is consistent with the Bank's mortgage banking activity and the volatility of mortgage interest rates. As of December 31, 2017, the fair value of derivative financial instruments pursuant to ASC 815 and ASC 825 was \$3.7 million, compared to \$5.0 million at June 30, 2017 and \$4.0 million at December 31, 2016.

For the Six Months Ended December 31, 2017 and 2016. Total non-interest income decreased \$5.0 million, or 29 percent, to \$12.1 million for the six months ended December 31, 2017 from \$17.1 million for the same period last year. The decrease was primarily attributable to a decrease in the gain on sale of loans.

The net gain on sale of loans decreased \$5.3 million, or 37 percent, to \$9.2 million for the first six months of fiscal 2018 from \$14.5 million in the same period of fiscal 2017 reflecting the impact of a lower loan sale volume, partly offset by a slightly higher average loan sale margin. Total loan sale volume was \$680.0 million in the first six months ended December 31, 2017, down \$423.4 million, or 38 percent, from \$1.10 billion in the comparable period last year. The decrease in loan sale volume was attributable primarily to a decrease in the refinance market and, to a lesser extent, the purchase market as compared to the same period last year. Refinance loans as a percentage of total loans originated by PBM during the first six months of fiscal 2018 were 42 percent, down from 56 percent in the same period of fiscal 2017. Retail loans as a percentage of total loans originated for sale by PBM during the first six months of fiscal 2018 were 55 percent, up from 50 percent in the same period of fiscal 2017. The average loan sale margin for PBM during the first six months of fiscal 2018 was 1.34 percent, up three basis points from 1.31 percent for the same period of fiscal 2017. The increase in the average loan sale margin for the six months ended December 31, 2017 was primarily attributable to more favorable loan sale market conditions, a lower percentage of refinance originations and higher percentage of retail originations. The gain on sale of loans includes an unfavorable fair-value adjustment on derivative financial instruments pursuant to ASC 815 and ASC 825, a net loss of \$1.4 million in the first six months of fiscal 2018 as compared to an unfavorable fair-value adjustment, a net loss of \$4.3 million, in the same period last year.

Non-Interest Expense:

For the Quarters Ended December 31, 2017 and 2016. Total non-interest expense in the quarter ended December 31, 2017 was \$13.2 million, a decrease of \$1.5 million, or 10 percent, as compared to \$14.7 million in the quarter ended December 31, 2016. The decrease was primarily a result of a decrease in salaries and employee benefits expense, partly offset by an increase in other non-interest expense.

Total salaries and employee benefits expense decreased \$1.7 million, or 17 percent, to \$8.6 million in the second quarter of fiscal 2018 from \$10.3 million in the same period of fiscal 2017. The decrease was primarily attributable to lower incentive compensation costs and PBM staff reductions related to lower mortgage banking loan originations. Total loan originations and purchases (including loans originated and purchased for investment and loans originated and purchased for sale) decreased \$238.5 million, or 39 percent, to \$366.8 million in the second quarter of fiscal 2018 from \$605.3 million in the comparable quarter of fiscal 2017.

Total other non-interest expenses increased \$221,000, or 13 percent, to \$1.9 million in the second quarter of fiscal 2018 from \$1.7 million in the same period of fiscal 2017. The increase in other non-interest expenses was primarily attributable to litigation expense accrual of \$650,000 in the second quarter of fiscal 2018, up from a litigation expense accrual of \$235,000 in the same quarter last year, partly offset by lower other loan origination costs. The litigation expense accrual in the second quarter of fiscal 2018 was related to two lawsuits which were settled on December 18, 2017. No additional contingencies exist regarding these matters although the settlement agreement remains subject to court approval and other customary conditions. For additional information see Part II, Item 1, "Legal Proceedings."

For the Six Months Ended December 31, 2017 and 2016. Total non-interest expense in the six months ended December 31, 2017 was \$28.9 million, a decrease of \$1.4 million as compared to \$30.3 million in the same period

ended December 31, 2016. The decrease was primarily due to a decrease in salaries and employee benefits expense, partly offset by an increase in other non-interest expense.

Total salaries and employee benefits expense decreased \$3.8 million, or 18 percent, to \$17.9 million in the first six months of fiscal 2018 from \$21.7 million in the same period of fiscal 2017. The decrease was primarily attributable to lower incentive compensation costs and PBM staff reductions related to lower mortgage banking loan originations. Total loan originations and purchases (including loans originated and purchased for investment and loans originated and purchased for sale) decreased \$506.9 million, or 39 percent, to \$804.0 million in the first six months of fiscal 2018 from \$1.31 billion in the comparable period of fiscal 2017.

Total other non-interest expenses increased \$2.5 million, or 76 percent, to \$5.8 million in the first six months of fiscal 2018 from \$3.3 million in the same period of fiscal 2017. The increase in other non-interest expenses was primarily attributable to litigation

expense accruals of \$3.4 million in the first six months of fiscal 2018, up from the litigation expense accrual of \$235,000 in the same period last year, partly offset by lower other loan origination costs. The litigation expense accruals in the first six months of fiscal 2018 was related to a lawsuit which was settled on September 12, 2017 and two lawsuits which were settled on December 18, 2017. No additional contingencies exist regarding these matters although the settlement agreements remain subject to court approval and other customary conditions. For additional information see Part II, Item 1, "Legal Proceedings."

Provision (Benefit) for Income Taxes:

The income tax provision reflects accruals for taxes at the applicable rates for federal income tax and California franchise tax based upon reported pre-tax income, adjusted for the effect of all permanent differences between income for tax and financial reporting purposes, such as non-deductible stock-based compensation, non-taxable earnings from bank-owned life insurance policies and certain California tax-exempt loans, among other adjustments. Therefore, there are fluctuations in the effective income tax rate from period to period based on the relationship of net permanent differences to income before tax.

For the Quarters Ended December 31, 2017 and 2016. The Corporation's provision for income taxes was \$2.1 million for the second quarter of fiscal 2018, up 91 percent from the \$1.1 million provision for income taxes in the same quarter last year. The increase was primarily attributable to the net deferred tax asset revaluation required by the Tax Act, partly offset by lower net income before taxes and the reduction of the federal tax rate. The effective income tax rate for the quarter ended December 31, 2017 was 160.2 percent, up from 42.1 percent in the same quarter last year. The Corporation believes that the effective income tax rate applied in the second quarter of fiscal 2018 reflects its current income tax obligations.

The Tax Act provides a reduced federal tax rate for the Corporation, from a maximum 35 percent to a flat 21 percent as of January 1, 2018. However, the Corporation's fiscal year runs through June 30th of each year. As a result, the Corporation will be required to use a blended statutory tax rate for the fiscal year ending on June 30, 2018 and will not realize the full impact of the reduced federal tax rate until fiscal 2019 which begins on July 1, 2018. The estimated combined federal and state statutory tax rates, before discrete items, for the remainder of fiscal 2018 and for fiscal 2019 are as follows:

Statutory Tax Rates	Q3FY2018	Q4FY2018	FY2019
Federal Tax Rate	28.06%	28.06%	21.00%
State Tax Rate	10.84%	10.84%	10.84%
Combined Statutory Tax Rate ⁽¹⁾	35.86%	35.86%	29.56%

⁽¹⁾ The combined statutory tax rate is net of the federal tax benefit for the state tax deduction.

The Corporation's effective tax rate may differ from the estimated statutory tax rates described above due to discrete items such as further adjustments to net deferred tax assets, excess tax benefits derived from stock option exercises and non-taxable earnings from bank owned life insurance, among other items.

For the Six Months Ended December 31, 2017 and 2016. The Corporation's provision for income taxes was \$1.9 million for the first six months of fiscal 2018, down 21 percent from the \$2.4 million provision for income taxes in the same period last year. The decrease was primarily attributable to a lower net income before taxes and the reduction of the federal tax rate, partly offset by the net deferred tax asset revaluation. The effective income tax rate for the six months ended December 31, 2017 was 216.9 percent as compared to 43.2 percent in the same period last year. The Corporation believes that the effective income tax rate applied in the first six months of fiscal 2018 reflects its current income tax obligations.

Asset Quality

Non-performing loans, net of the allowance for loan losses and fair value adjustments, consisting of loans with collateral located in California, was virtually unchanged at \$8.0 million at both December 31, 2017 and June 30, 2017. Non-performing loans as a percentage of loans held for investment at December 31, 2017 was 0.90 percent, up from 0.88 percent at June 30, 2017. The non-performing loans at December 31, 2017 were primarily comprised of 29 single-family loans (\$7.9 million) and one commercial business loan (\$61,000). This compares to the \$8.0 million of non-performing loans at June 30, 2017 which were primarily comprised of 27 single-family loans (\$7.7 million); one commercial real estate loan (\$201,000) and one commercial business loan (\$65,000). No interest accruals were made for loans that were past due 90 days or more or if the loans were deemed non-performing.

As of December 31, 2017, total restructured loans increased \$807,000, or 22 percent, to \$4.4 million from \$3.6 million at June 30, 2017. At December 31, 2017 and June 30, 2017, \$3.5 million and \$3.1 million, respectively, of these restructured loans were classified as non-performing. As of December 31, 2017, \$2.8 million, or 64 percent, of the restructured loans have a current payment status, consistent with their modified payment terms; this compares to \$1.7 million, or 46 percent, of restructured loans that had a current payment status, consistent with their modified payment terms as of June 30, 2017.

Real estate owned was \$621,000 at December 31, 2017, down \$994,000 or 62 percent from \$1.6 million at June 30, 2017. The real estate owned at December 31, 2017 was comprised of one single-family property located in California.

Non-performing assets, which includes non-performing loans and real estate owned, decreased \$1.0 million or 10 percent to \$8.6 million or 0.74 percent of total assets at December 31, 2017 from \$9.6 million or 0.80 percent of total assets at June 30, 2017. Restructured loans which are performing in accordance with their modified terms and are not otherwise classified non-accrual are not included in non-performing assets. For further analysis on non-performing loans and restructured loans, see Note 6 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

Occasionally, the Corporation is required to repurchase loans sold to Freddie Mac, Fannie Mae or other institutional investors if it is determined that such loans do not meet the credit requirements of the investor, or if one of the parties involved in the loan misrepresented pertinent facts, committed fraud, or if such loans were 90-days past due within 120 days of the loan funding date. During the first six months of fiscal 2018, the Corporation did not repurchase any loans from an investor pursuant to the recourse/repurchase covenants contained in the loan sale agreement. This compares to the first six months of fiscal 2017 when the Corporation repurchased one loan, totaling \$389,000, from investors pursuant to the recourse/repurchase covenants contained in the loan sale agreements, which was subsequently paid off. Additional repurchase requests may have been settled that did not result in the repurchase of the loan itself. The primary reasons for honoring the repurchase requests are borrower fraud, undisclosed liabilities on borrower applications, and documentation, verification and appraisal disputes. For the first six months of fiscal 2018 and 2017, the Corporation recorded recourse recoveries of \$22,000 and settled \$11,000 in claims in lieu of loan repurchases in fiscal 2017. As of December 31, 2017, the total recourse reserve for loans sold that are subject to repurchase was \$283,000, down from \$305,000 at June 30, 2017 and from \$412,000 at December 31, 2016.

Beginning in 2008, in connection with the downturn in the real estate market, the Corporation implemented tighter underwriting standards to reduce potential loan repurchase requests, including requiring higher credit scores, generally lower debt-to-income ratios, and verification of income and assets, among other criteria. Despite management's diligent estimate of the recourse reserve, the Corporation is still subject to risks and uncertainties associated with potentially higher loan repurchase claims from investors, and there are no assurances that the current recourse reserve will be sufficient to cover all future recourse claims.

The following table shows the summary of the recourse liability for the quarters and six months ended December 31, 2017 and 2016:

	For the Quarters Ended December 31, 2017		For the Six Months Ended December 31, 2016	
Recourse Liability (In Thousands)				
Balance, beginning of the period	\$305	\$453	\$305	\$453

Recovery from recourse liability	(22)	(30)	(22)	(30)
Net settlements in lieu of loan repurchases	—	(11)	—	(11)
Balance, end of the period	\$283	\$412	\$283	\$412

A decline in real estate values subsequent to the time of origination of the Corporation's real estate secured loans could result in higher loan delinquency levels, foreclosures, provisions for loan losses and net charge-offs. Real estate values and real estate markets are beyond the Corporation's control and are generally affected by changes in national, regional or local economic conditions and other factors. These factors include fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature, such as earthquakes and national disasters particular to California where substantially all of the Corporation's real estate collateral is located. If real estate values decline from the levels described in the following tables (which were derived at the time of loan origination), the value of the real estate collateral securing the Corporation's loans as set forth in the table could be significantly overstated. The Corporation's ability to

recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and it would be more likely to suffer losses on defaulted loans. The Corporation generally does not update the loan-to-value ratio (“LTV”) on its loans held for investment by obtaining new appraisals or broker price opinions (nor does the Corporation intend to do so in the future as a result of the costs and inefficiencies associated with completing the task) unless a specific loan has demonstrated deterioration or the Corporation receives a loan modification request from a borrower (in which case individually evaluated allowances are established, if required). Therefore, it is reasonable to assume that the LTV ratios disclosed in the following tables may be understated or overstated in comparison to their current LTV ratios as a result of their year of origination, the subsequent general decline or improvement in real estate values that has occurred and the specific location and condition of the individual properties. The Corporation has not quantified the current LTVs of its loans held for investment nor the impact the decline or improvement in real estate values has had on the original LTVs of its loans held for investment.

The following table describes certain credit risk characteristics of the Corporation’s single-family, first trust deed, mortgage loans held for investment as of December 31, 2017:

(Dollars In Thousands)	Outstanding Balance ⁽¹⁾	Weighted-Weighted-Weighted-		
		Average FICO ⁽²⁾	Average LTV ⁽³⁾	Average Seasoning ⁽⁴⁾
Interest only	\$ 6,056	741	77%	9.73 years
Stated income ⁽⁵⁾	\$ 87,194	731	61%	12.01 years
FICO less than or equal to 660	\$ 7,243	643	61%	9.53 years
Over 30-year amortization	\$ 9,724	729	63%	12.29 years

The outstanding balance presented on this table may overlap more than one category. Of the outstanding balance, ⁽¹⁾ \$4.8 million of “stated income,” \$333,000 of “FICO less than or equal to 660,” and \$218,000 of “over 30-year amortization” balances were non-performing.

Based on borrower's FICO scores at the time of loan origination. The FICO score represents the creditworthiness ⁽²⁾ of a borrower based on the borrower’s credit history, as reported by an independent third party. A higher FICO score indicates a greater degree of creditworthiness. Bank regulators have issued guidance stating that a FICO score of 660 and below is indicative of a “subprime” borrower.

⁽³⁾ LTV is the ratio derived by dividing the current loan balance by the lower of the original appraised value or purchase price of the real estate collateral.

⁽⁴⁾ Seasoning describes the number of years since the funding date of the loan.

⁽⁵⁾ Stated income is defined as borrower stated income on his/her loan application which was not subject to verification during the loan origination process.

The following table summarizes the amortization schedule of the Corporation’s interest only single-family, first trust deed, mortgage loans held for investment, including the percentage of those which are identified as non-performing or 30 – 89 days delinquent as of December 31, 2017:

(Dollars In Thousands)	30 - 89 Days	
	Balance Non-Performing ⁽¹⁾	Delinquent ⁽¹⁾
Fully amortize in the next 12 months	\$ 6,056 —%	—%
Fully amortize between 1 year and 5 years	— —%	—%
Fully amortize after 5 years	— —%	—%
Total	\$ 6,056 —%	—%

⁽¹⁾ As a percentage of each category.

The following table summarizes the interest rate reset (repricing) schedule of the Corporation's stated income single-family, first trust deed, mortgage loans held for investment, including the percentage of those which are identified as non-performing or 30 – 89 days delinquent as of December 31, 2017:

(Dollars In Thousands)	Balance (1)	Non-Performing (1)	30 - 89 Days Delinquent (1)
Interest rate reset in the next 12 months	\$85,731	6%	1%
Interest rate reset between 1 year and 5 years	1,463	—%	—%
Interest rate reset after 5 years	—	—%	—%
Total	\$87,194	5%	1%

(1) As a percentage of each category. Also, the loan balances and percentages on this table may overlap with the interest only single-family, first trust deed, mortgage loans held for investment table.

The reset of payment terms on adjustable rate mortgage loans (primarily interest only single-family loans) to a fully amortizing status from their interest-only period may create a payment shock for some of the Corporation's borrowers as the loans adjust to a higher monthly payment consisting of both principal and interest, which may result in an increase in non-performing loans. To date, the Corporation has not experienced an elevated level of delinquencies or defaults related to payment shocks.

The following table describes certain credit risk characteristics, geographic locations and the calendar year of loan origination of the Corporation's single-family, first trust deed, mortgage loans held for investment, at December 31, 2017:

(Dollars In Thousands)	Calendar Year of Origination									
	2009 & Prior	2010	2011	2012	2013	2014	2015	2016	2017	Total
Loan balance (in thousands)	\$150,053	\$116	\$949	\$2,322	\$2,565	\$9,087	\$13,363	\$35,908	\$84,521	\$298,884
Weighted-average LTV (1)	62%	65%	60%	51%	44%	66%	69%	66%	74%	66%
Weighted-average age (in years)	12.10	7.13	6.43	5.33	4.50	3.35	2.58	1.44	0.69	6.76
Weighted-average FICO (2)	730	700	711	758	754	753	738	743	737	735
Number of loans	512	1	4	13	22	23	20	66	126	787
Geographic breakdown (%)										
Inland Empire	35%	100%	57%	14%	44%	45%				