

SP Bancorp, Inc.
Form 10-K
February 28, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal ended December 31, 2013.

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____.

Commission file number: 001-34933

SP BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	27-3347359 (I.R.S. Employer Identification Number)
5224 West Plano Parkway, Plano, Texas (Address of principal executive offices)	75093 (Zip Code)
Registrant's telephone number, including area code: <u>(972) 931-5311</u>	

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

Common Stock, par value \$0.01 per share
(Title of each class)

The NASDAQ Stock Market LLC
(Name of each exchange on which registered)

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

None

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Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on June 30, 2013, as reported by the Nasdaq Stock Market, was approximately \$28.6 million.

As of February 27, 2014, there were issued and outstanding 1,602,563 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE:

The information required by Part III of this Annual Report on Form 10-K, to the extent not set forth herein, is incorporated by reference from the Registrant's Definitive Proxy Statement relating to the 2013 Annual Meeting of Stockholders, and any adjournment or postponement thereof, to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Annual Report on Form 10-K relates.

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PART I

ITEM 1. Business
SP Bancorp, Inc.

SP Bancorp, Inc., a Maryland corporation (the Company) is a bank holding company and the parent of SharePlus Bank, a Texas chartered state bank (the Bank). The Company is regulated by the Board of Governors of the Federal Reserve System (the Federal Reserve). In December 2013, the Bank received approval from the Texas Department of Banking (the Department) to convert its charter to a Texas state bank charter and became a member of the Federal Reserve and the Company became a bank holding company. With these changes, the Department and the Federal Reserve are the primary regulators of the Bank and the Company is regulated by the Federal Reserve as a bank holding company. The Bank is subject to examination by the Federal Deposit Insurance Corporation (the FDIC). When using the terms we, us, our, or the Company, are referring to SP Bancorp and the Bank on a consolidated basis.

As of December 31, 2013, we had \$304.0 million of total assets, \$220.1 million of loans, net, including loans held for sale, \$261.3 million of deposits and \$32.8 million of total stockholders' equity on a consolidated basis.

All information presented in this Annual Report on Form 10-K (this Annual Report) that relates to a period prior to the completion of our initial public offering on October 29, 2010, including the consolidated financial data presented as of and for the years ended December 31, 2009 and earlier, refers to the Bank.

Our executive offices are located at 5224 W. Plano Parkway, Plano, Texas 75093. Our telephone number at this address is (972) 931-5311. Our website address is www.shareplus.com. A copy of this Annual Report is available on our website. Information on our website is not incorporated into this Annual Report and should not be considered part of this Annual Report.

SharePlus Bank

The Bank is a Texas chartered bank headquartered in Plano, Texas. The Bank was originally chartered in 1958 as a federal credit union serving the employees and family members of Frito-Lay, Inc. Over the years and through a series of mergers, the credit union also grew to serve the employees and family members of YUM! Brands, Inc., A&W Restaurants, Inc., KFC Corporation, Long John Silver's, Inc., Pizza Hut, Inc., Taco Bell Corporation, and various PepsiCo divisions, as well as dozens of other companies that provided banking services to their employees. Throughout this Annual Report these companies are sometimes referred to as our former sponsor companies.

The Bank operates as a full-service commercial bank, providing services that include the acceptance of checking and savings deposits, the origination of one- to four-family residential mortgage, mortgage warehouse, commercial real estate, commercial business, home equity, automobile and personal loans. In addition to the Bank's home office in Plano, Texas, the Bank has three branches as of December 31, 2013: one located near downtown Dallas, Texas; one located near the Bank's headquarters in Plano, Texas; and one located in Louisville, Kentucky. In June 2013, the Bank closed its Irvine, California branch, and in March 2013, the Bank closed one of its branches located in Louisville, Kentucky, but an agency office remains there.

Our business consists primarily of taking deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in mortgage loans secured by residential real estate, home equity loans and lines of credit, commercial real estate loans, consumer loans (consisting primarily of automobile loans) and commercial business loans. At December 31, 2013, \$190.8 million, or 86.2% of our total loan portfolio was comprised of residential and commercial real estate loans. We also offer brokerage services for the purchase and sale of non-deposit investment and insurance products through a third-party brokerage arrangement.

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The majority of our residential and commercial real estate loans are originated through our Texas branch network and are collateralized by properties within this market area. Additionally, we are a preferred lender through various employee loan programs and executive relocation loan programs for certain of our former sponsor companies. As a result of these programs a portion of our residential real estate loan portfolio is collateralized by properties outside of our Texas market area.

We also invest in investment securities, primarily consisting of government sponsored mortgage-backed securities and collateralized mortgage obligations guaranteed by Fannie Mae and Freddie Mac, and to a lesser extent, municipal obligations, small business administration obligations and agency bonds.

We offer a variety of deposit accounts, including noninterest-bearing and interest-bearing demand accounts, savings accounts, money market accounts and certificates of deposit.

Forward Looking Statements

This Annual Report contains forward-looking statements, which can be identified by the use of words such as estimate, project, believe, intend, anticipate, plan, seek, expect, may and words of similar meaning. These forward-looking statements include, but are not limited to:

statements of our goals, intentions and expectations;

statements regarding our business plans, prospects, growth and operating strategies;

statements regarding the asset quality of our loan and investment portfolios; and

estimates of our risks and future costs and benefits.

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this Annual Report, except as may be required by applicable law.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

general economic conditions, either nationally or in our market areas, that are worse than expected;

competition among depository and other financial institutions;

changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;

adverse changes in the securities markets;

changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;

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our ability to enter new markets successfully and capitalize on growth opportunities;

our ability to successfully integrate acquired entities, if any;

changes in consumer spending, borrowing and savings habits;

changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board (the FASB), the Securities and Exchange Commission (the SEC) and the Public Company Accounting Oversight Board;

changes in federal, state and local tax rates;

our ability to attract and retain key personnel;

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changes in our organization, compensation and benefit plans;

changes in our financial condition or results of operations that reduce capital; and

changes in the financial condition or future prospects of issuers of securities that we own.

Because of these and a wide variety of other uncertainties, our future results may be materially different from the results indicated by these forward-looking statements. See Risk Factors for additional risks and uncertainties that may affect our business.

Market Areas

Our primary market area consists of the communities located in the Dallas-Fort Worth-Arlington metropolitan statistical area, which includes the cities of Plano and Dallas and Collin County and Dallas County. This region is also known as the Dallas-Fort Worth Metroplex or the DFW Metroplex and encompasses 12 counties in North Texas. The city of Plano is a suburb north of Dallas and is one of the largest cities in Texas.

Plano is the corporate headquarters for some of the country's largest and most recognized companies with the following companies having their headquarters (or major regional offices) in Plano: Capital One Auto Finance, Dr. Pepper Snapple Group (formerly Cadbury Schweppes Americas Beverages), Cinemark Theatres, Frito Lay, J.C. Penney, Dell Perot Systems and Rent-A-Center. The total area of the DFW Metroplex contains 9,286 square miles. Its size makes it larger than the area of Rhode Island and Connecticut combined.

In addition to serving the DFW Metroplex, we also serve retail customers (primarily employees of our former sponsor companies) through one branch office and one agency office located in Louisville, Kentucky. Louisville is the largest city in the state of Kentucky and is home to the University of Louisville and many major corporations and organizations.

Competition

We face intense competition in our market areas, both in making loans and attracting deposits. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies and investment banking firms. Many of our competitors have greater name recognition and market presence and offer certain services that we do not or cannot provide. Our deposit sources are primarily concentrated in the communities surrounding our banking offices, located in the Dallas-Fort Worth Metroplex and surrounding communities in North Texas.

Lending Activities

Our principal lending activities include the origination of mortgage loans secured by residential and commercial real estate, home equity loans, including lines of credit and home improvement loans, consumer loans (consisting primarily of automobile loans) and commercial business loans.

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Loan Portfolio Composition. The table below sets forth the composition of our loan portfolio, including loans held for sale, by type of loan, at the dates indicated.

	2013		2012		As of December 31, 2011		2010		2009	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)										
Mortgage loans:										
One-to-four-family residential	\$ 121,222	54.74%	\$ 129,891	56.16%	\$ 142,956	65.35%	\$ 143,929	73.38%	\$ 125,418	72.96%
Mortgage warehouse	31,550	14.25	33,094	14.30	12,541	5.73				
Home Equity ⁽¹⁾	8,942	4.04	8,564	3.70	9,612	4.40	10,112	5.15	8,996	5.23
Commercial real estate	38,055	17.18	41,489	17.94	38,348	17.53	29,303	14.94	22,615	13.16
Consumer Loans:										
Automobile and other vehicles	2,821	1.27	3,451	1.49	5,321	2.43	7,195	3.67	9,892	5.75
Signature ⁽²⁾	1,213	0.55	1,341	0.58	1,711	0.78	1,806	0.92	2,072	1.21
Other ⁽³⁾	714	0.32	968	0.42	1,286	0.59	1,334	0.68	1,536	0.89
Commercial business loans	16,932	7.65	12,505	5.41	6,986	3.19	2,473	1.26	1,369	0.80
Total loans	\$ 221,449	100.00%	\$ 231,303	100.00%	\$ 218,761	100.00%	\$ 196,152	100.00%	\$ 171,898	100.00%
Other items:										
Premiums on mortgage pools ⁽⁴⁾	55		66		71		106		51	
Deferred loan origination costs, net	691		629		494		532		458	
Allowance for loan losses	(2,069)		(2,420)		(1,754)		(2,136)		(940)	
Total loans, net	\$ 220,126		\$ 229,578		\$ 217,572		\$ 194,654		\$ 171,467	

(1) Includes home equity loans, home equity lines of credit and home improvement loans.

(2) Signature loans are unsecured.

(3) Includes loans on recreational vehicles, boats, certificates of deposit and other securities and other secured loans.

(4) Represents the premium over par value paid for purchased loans. The premium is amortized on a monthly basis as an adjustment to yield.

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Loan Portfolio Maturities and Yields. The table below sets forth the scheduled repayments of our loan portfolio at December 31, 2013. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

	One-to-four family residential		Mortgage warehouse		Home equity	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)					
Due during the years						
<u>ending December 31,</u>						
2014	\$ 2	7.33%	\$ 31,550	5.37%	\$ 12	6.98%
2015	863	4.64%		%	90	6.65%
2016	273	6.91%		%		