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

FORM 10-Q
(Mark One)

[ü]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended December 31, 2014
[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from ________________ to _________________

Commission File Number
000-28304

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

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

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

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

____

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer [ ]	Accelerated filer [ü]
Non-accelerated filer [ ]	Smaller reporting company [ ]

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

Yes No ü .

APPLICABLE ONLY TO CORPORATE ISSUERS

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

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

PROVIDENT FINANCIAL HOLDINGS, INC.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

December 31, 2014

Note 1: Basis of Presentation

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

Note 2: Accounting Standard Updates (“ASU”)

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

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

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

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

Note 3: Earnings Per Share

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

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

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

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

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

Note 4: Operating Segment Reports

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 5: Investment Securities

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

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

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

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

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

The Corporation evaluates individual investment securities quarterly for other-than-temporary declines in market value. As of December 31, 2014, no investment securities were in an unrealized loss position. This compares to December 31, 2013 when the gross unrealized holding losses related to two adjustable rate private issue CMOs, where one had been in an unrealized loss position for more than 12 months. Based on the nature of the investments, management concluded that such unrealized losses were not

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other than temporary as of December 31, 2013. The Corporation does not believe that there are any other-than-temporary impairments at December 31, 2014 and 2013; therefore, no impairment losses have been recorded for the quarters and six months ended December 31, 2014 and 2013. The Corporation intends and has the ability to hold these CMOs until maturity and will not likely be required to sell the CMOs before realizing a full recovery.

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

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

Note 6: Loans Held for Investment

Loans held for investment consisted of the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	June 30, 2014		
(In Thousands)	Recorded Investment	Allowance for Loan Losses [1]	Net Investment
Mortgage loans:			
Single-family:			
With a related allowance	$5,480	$(1,148)	$4,332
Without a related allowance [2]	6,067	—	6,067
Total single-family loans	11,547	(1,148)	10,399
Multi-family:			
With a related allowance	956	(354)	602
Without a related allowance [2]	2,491	—	2,491
Total multi-family loans	3,447	(354)	3,093
Commercial real estate:			
Without a related allowance [2]	2,352	—	2,352
Total commercial real estate loans	2,352	—	2,352
Commercial business loans:			
With a related allowance	138	(46)	92
Total commercial business loans	138	(46)	92
Total non-performing loans	$17,484	$(1,548)	$15,936

(1) Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.
(2) There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the individual loan balance.

At December 31, 2014 and June 30, 2014, there were no commitments to lend additional funds to those borrowers whose loans were classified as non-performing.

The following table describes the aging analysis (length of time on non-performing status) of non-performing loans, net of allowance for loan losses or charge offs, as of December 31, 2014:

(In Thousands)	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	Total
Mortgage loans:					
Single-family	$791	$22	$684	$5,856	$7,353
Multi-family	—	—	404	1,776	2,180
Commercial real estate	—	—	448	1,072	1,520
Commercial business loans	—	—	—	98	98
Total	$791	$22	$1,536	$8,802	$11,151

For the quarters ended December 31, 2014 and 2013, the Corporation's average investment in non-performing loans was $11.8 million and $17.2 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 the quarters ended December 31, 2014 and 2013, interest income of $151,000 and $251,000, respectively, was recognized, based on cash receipts from loan payments on non-performing loans; and

$14,000 and $100,000, respectively, was collected and applied to the net loan balances under the cost recovery method. Foregone interest income, which would have been recorded had the non-performing

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loans been current in accordance with their original terms, amounted to $17,000 and $82,000 for the quarters ended December 31, 2014 and 2013, respectively, and was not included in the results of operations.

For the six months ended December 31, 2014 and 2013, the Corporation's average investment in non-performing loans was $13.4 million and $17.8 million, respectively. For the six months ended December 31, 2014 and 2013, interest income of $248,000 and $438,000, respectively, was recognized, based on cash receipts from loan payments on non-performing loans; and $161,000 and $203,000, respectively, was collected and applied to the net loan balances under the cost recovery method. Foregone interest income, which would have been recorded had the non-performing loans been current in accordance with their original terms, amounted to $36,000 and $202,000 for the six months ended December 31, 2014 and 2013, respectively, and was not included in the results of operations.

For the quarters and six months ended December 31, 2014 and 2013, 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, 2014 and 2013, no restructured loans were in default within a 12-month period subsequent to their original restructuring. Additionally, during the quarter and six months ended December 31, 2014, there was one loan for $113,000 whose modification was extended beyond the initial maturity of the modification. This compares to the quarter and six months ended December 31, 2013 when there were two loans to a single borrower totaling $810,000 whose modifications were extended beyond the initial maturity of the modification.

As of December 31, 2014, the net outstanding balance of the 16 restructured loans was $6.0 million: one was classified as special mention and remains on accrual status ($687,000); and 15 were classified as substandard ($5.3 million, all of which were on non-accrual status). As of June 30, 2014, the net outstanding balance of the 17 restructured loans was $6.0 million: one was classified as special mention on accrual status ($343,000); and 16 were classified as substandard ($5.6 million, all of which were 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, 2014 and June 30, 2014, $5.3 million or 89 percent, and $3.7 million or 62 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 others.

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)	December 31, 2014	June 30, 2014
Restructured loans on non-accrual status:		
Mortgage loans:		
Single-family	$2,792	$2,957
Multi-family	1,591	1,760
Commercial real estate	792	800
Commercial business loans	98	92
Total	5,273	5,609
Restructured loans on accrual status:		
Mortgage loans:		
Single-family	687	343
Total	687	343
Total restructured loans	$5,960	$5,952

The following tables show the restructured loans by type, net of allowance for loan losses, at December 31, 2014 and June 30, 2014:

	December 31, 2014		
(In Thousands)	Recorded Investment	Allowance for Loan Losses [1]	Net Investment
Mortgage loans:			
Single-family:			
With a related allowance	$751	$(150)	$601
Without a related allowance [2]	2,878	—	2,878
Total single-family loans	3,629	(150)	3,479
Multi-family:			
Without a related allowance [2]	1,591	—	1,591
Total multi-family loans	1,591	—	1,591
Commercial real estate:			
Without a related allowance [2]	792	—	792
Total commercial real estate loans	792	—	792
Commercial business loans:			
With a related allowance	120	(22)	98
Total commercial business loans	120	(22)	98
Total restructured loans	$6,132	$(172)	$5,960

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

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

(In Thousands)	June 30, 2014 Recorded Investment	Allowance for Loan Losses [1]	Net Investment
Mortgage loans:			
Single-family:			
With a related allowance	$994	$(248)	$746
Without a related allowance [2]	2,554	—	2,554
Total single-family loans	3,548	(248)	3,300
Multi-family:			
Without a related allowance [2]	1,760	—	1,760
Total multi-family loans	1,760	—	1,760
Commercial real estate:			
Without a related allowance [2]	800	—	800
Total commercial real estate loans	800	—	800
Commercial business loans:			
With a related allowance	138	(46)	92
Total commercial business loans	138	(46)	92
Total restructured loans	$6,246	$(294)	$5,952

(1) Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.
(2) There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the individual loan balance.

During the quarter ended December 31, 2014, four properties were acquired in the settlement of loans, while two previously foreclosed upon properties were sold. This compares to the quarter ended December 31, 2013 when three properties were acquired in the settlement of loans, while four previously foreclosed upon properties were sold. For the six months ended December 31, 2014, seven properties were acquired in the settlement of loans, while four previously foreclosed upon properties were sold and one real estate owned property was written off. This compares to the six months ended December 31, 2013 when six properties were acquired in the settlement of loans, while nine previously foreclosed upon properties were sold. As of December 31, 2014, real estate owned was comprised of six properties with a net fair value of $3.5 million, primarily located in Southern California. This compares to four real estate owned properties, primarily located in Southern California, with a net fair value of $2.5 million at June 30, 2014. A new appraisal was obtained on each of the properties at the time of foreclosure and fair value was calculated by using the lower of the appraised value or the listing price of the property, net of disposition costs. Any initial loss was recorded as a charge to the allowance for loan losses before being transferred to real estate owned. Subsequently, 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, 2014 and June 30, 2014, the Corporation had commitments to extend credit (on loans to be held for investment and loans to be held for sale) of $126.3 million and $134.8 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, 2014	June 30, 2014
Undisbursed loan funds - Construction loans	$2,281	$1,090
Undisbursed lines of credit – Mortgage loans	497	616
Undisbursed lines of credit – Commercial business loans	843	1,222
Undisbursed lines of credit – Consumer loans	708	774
Commitments to extend credit on loans to be held for investment	4,692	2,247
Total	$9,021	$5,949

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, 2014, $2.2 million was included in other assets and $2.1 million was included in other liabilities; at June 30, 2014, $2.6 million was included in other assets and $1.4 million 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 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, 2014 and 2013.

	For the Quarters Ended December 31,		For the Six Months Ended December 31,	
(In Thousands)	2014	2013	2014	2013
Balance, beginning of the period	$108	$89	$61	$115
(Recovery) provision	(27)	36	20	10
Balance, end of the period	$81	$125	$81	$125

The net impact of derivative financial instruments on the gain on sale of loans contained in the Condensed Consolidated Statements of Operations during the quarters and six months ended December 31, 2014 and 2013 was as follows:

	For the Quarters Ended December 31,		For the Six Months Ended December 31,	
Derivative Financial Instruments (In Thousands)	2014	2013	2014	2013
Commitments to extend credit on loans to be held for sale	$344	$(3,117)	$(437)	$1,280

Mandatory loan sale commitments and TBA MBS trades	(1,614)	5,424	(677)	(5,824)
Option contracts	(57)	158	(162)	266
Total net (loss) gain	$(1,327)	$2,465	$(1,276)	$(4,278)

The outstanding derivative financial instruments at the dates indicated were as follows:

Derivative Financial Instruments	December 31, 2014 Amount	December 31, 2014 Fair Value	June 30, 2014 Amount	June 30, 2014 Fair Value
(In Thousands)				
Commitments to extend credit on loans to be held for sale [1]	$121,575	$2,129	$132,567	$2,566
Best efforts loan sale commitments	(31,484)	—	(18,069)	—
Mandatory loan sale commitments and TBA MBS trades	(290,785)	(2,105)	(258,021)	(1,428)
Put option contracts	(10,000)	44	(10,000)	—
Call option contracts	10,000	66	—	—
Total	$(200,694)	$134	$(153,523)	$1,138

(1) Net of 29.3 percent at December 31, 2014 and 28.0 percent at June 30, 2014 of commitments which management has estimated may not fund.

Note 8: Income Taxes

ASC 740, "Income Taxes," requires the affirmative evaluation that it is more likely than not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from positions taken in income tax returns. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. Management has determined that there are no unrecognized tax benefits to be reported in the Corporation's financial statements.

ASC 740 requires that when determining the need for a valuation allowance against a deferred tax asset, management must assess both positive and negative evidence with regard to the realizability of the tax losses represented by that asset. To the extent available sources of taxable income are insufficient to absorb tax losses, a valuation allowance is necessary. Sources of taxable income for this analysis include prior years' tax returns, the expected reversals of taxable temporary differences between book and tax income, prudent and feasible tax-planning strategies, and future taxable income. The deferred tax asset related to the allowance will be realized when actual charge-offs are made against the allowance. Based on the availability of loss carry-backs and projected taxable income during the periods for which loss carry-forwards are available, management believes it is more likely than not the Corporation will realize the deferred tax asset. The Corporation continues to monitor the deferred tax asset on a quarterly basis for a valuation allowance. The future realization of these tax benefits primarily hinges on adequate future earnings to utilize the tax benefit. Prospective earnings or losses, tax law changes or capital changes could prompt the Corporation to reevaluate the assumptions which may be used to establish a valuation allowance. The Corporation maintains net deferred income tax assets for deductible temporary tax differences, such as loss reserves, deferred compensation, non-accrued interest and unrealized gains. The Corporation did not have any liabilities for uncertain tax positions or any known unrecognized tax benefit at December 31, 2014 or June 30, 2014.

The Corporation files income tax returns for the United States and state of California jurisdictions. The Internal Revenue Service has audited the Bank's income tax returns through 1996 and the California Franchise Tax Board has audited the Bank through 1990. Also, the Internal Revenue Service completed a review of the Corporation's income tax returns for fiscal 2006 and 2007; and the California Franchise Tax Board completed a review of the Corporation's income tax returns for fiscal 2009 and 2010. Tax years subsequent to fiscal 2010 remain subject to federal examination; and the California state income tax returns for years subsequent to fiscal 2010 are subject to future examination by state taxing authorities.

It is the Corporation's policy to record any penalties or interest charges arising from federal or state taxes as a component of income tax expense. During the quarter ended December 31, 2014, there were no tax penalties or interest charges. For the six months ended December 31, 2014, the Corporation paid $4,000 in interest charges to the State of California tax authority for the fiscal 2010 tax obligation. There were no tax penalties or interest charges for the quarter and six months ended December 31, 2013.

Note 9: 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. Direct loan origination costs and fees for loans held for sale under the fair value method are recognized in Non-interest income under Gain (loss) on sale of loans, net, as incurred and not deferred.

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 sale at fair value.

(In Thousands)	Aggregate Fair Value	Aggregate Unpaid Principal Balance	Net Unrealized Gain
As of December 31, 2014:			
Loans held for sale, measured at fair value	$228,783	$219,859	$8,924
As of June 30, 2014:			
Loans held for sale, measured at fair value	$158,883	$152,192	$6,691

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, 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 are primarily comprised of U.S. government agency MBS, U.S. government sponsored enterprise MBS, private issue CMO and common stock of a community development financial institution. The Corporation utilizes unadjusted quoted prices in active markets for identical securities for its fair value measurement of debt securities, quoted prices in active and less than active markets for similar securities for its fair value measurement of MBS and debt securities (Level 2), broker price indications for similar securities in non-active markets for its fair value measurement of CMO (Level 3) and pricing indications from recent transaction in non-active markets for common stock of a community development financial institution (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, including management's estimate of loan commitments which may not fund (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 TBA MBS trades. If no such quoted price exists, the fair value of a loan is determined by quoted prices for a similar loan or loans (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, net of estimated disposition costs, 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 for those which are in the process of foreclosure or 90 days delinquent for which the fair value is derived from the appraised value of the collateral (Level 2). For other non-performing loans which are not restructured 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 the 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 the 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 calculated 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 calculated 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 at the time of foreclosure or the listing price, net of estimated disposition 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:

	Fair Value Measurement at December 31, 2014 Using:			
(In Thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities:				
U.S. government agency MBS	$—	$8,491	$—	$8,491
U.S. government sponsored enterprise MBS	—	5,837	—	5,837
Private issue CMO	—	—	799	799
Common stock - community development financial institution	—	—	250	250
Investment securities	—	14,328	1,049	15,377
Loans held for sale, at fair value	—	228,783	—	228,783
Interest-only strips	—	—	64	64
Derivative assets:				
Commitments to extend credit on loans to be held for sale	—	—	2,134	2,134
Option contracts	—	—	110	110
Derivative assets	—	—	2,244	2,244
Total assets	$—	$243,111	$3,357	$246,468
Liabilities:				
Derivative liabilities:				
Commitments to extend credit on loans to be held for sale	$—	$—	$5	$5
Mandatory loan sale commitments	—	—	86	86
TBA MBS trades	—	2,019	—	2,019
Derivative liabilities	—	2,019	91	2,110
Total liabilities	$—	$2,019	$91	$2,110

(In Thousands)	Fair Value Measurement at June 30, 2014 Using: Level 1	Level 2	Level 3	Total
Assets:				
Investment securities:				
U.S. government agency MBS	$—	$9,109	$—	$9,109
U.S. government sponsored enterprise MBS	—	6,385	—	6,385
Private issue CMO	—	—	853	853
Investment securities	—	15,494	853	16,347
Loans held for sale, at fair value	—	158,883	—	158,883
Interest-only strips	—	—	62	62
Derivative assets:				
Commitments to extend credit on loans to be held for sale	—	—	2,570	2,570
Derivative assets	—	—	2,570	2,570
Total assets	$—	$174,377	$3,485	$177,862
Liabilities:				
Derivative liabilities:				
Commitments to extend credit on loans to be held for sale	$—	$—	$4	$4
Mandatory loan sale commitments	—	—	93	93
TBA MBS trades	—	1,335	—	1,335
Derivative liabilities	—	1,335	97	1,432
Total liabilities	$—	$1,335	$97	$1,432

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, 2014 Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3)						
(In Thousands)	Private Issue CMO	Common stock [1]	Interest-Only Strips	Loan Commit-ments to Originate [2]	Manda-tory Commit-ments [3]	Option Contracts	Total
Beginning balance at September 30, 2014	$828	$250	$70	$1,785	$(245)	$33	$2,721
Total gains or losses (realized/ unrealized):							
Included in earnings	—	—	—	344	149	(57)	436
Included in other comprehensive loss	(4)	—	(6)	—	—	—	(10)
Purchases	—	—	—	—	—	134	134
Issuances	—	—	—	—	—	—	—
Settlements	(25)	—	—	—	10	—	(15)
Transfers in and/or out of Level 3	—	—	—	—	—	—	—
Ending balance at December 31, 2014	$799	$250	$64	$2,129	$(86)	$110	$3,266

(1) Common stock of a community development financial institution.
(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, 2013 Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3)					
(In Thousands)	Private Issue CMO	Interest-Only Strips	Loan Commit-ments to Originate [1]	Manda-tory Commit-ments [2]	Option Contracts	Total
Beginning balance at September 30, 2013	$953	$103	$3,365	$(141)	$82	$4,362
Total gains or losses (realized/unrealized):						
Included in earnings	—	—	(3,117)	329	158	(2,630)
Included in other comprehensive loss	19	(15)	—	—	—	4
Purchases	—	—	—	—	155	155
Issuances	—	—	—	—	—	—
Settlements	(47)	—	—	8	(64)	(103)
Transfers in and/or out of Level 3	—	—	—	—	—	—
Ending balance at December 31, 2013	$925	$88	$248	$196	$331	$1,788

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

For the Six Months Ended December 31, 2014
Fair Value Measurement
Using Significant Other Unobservable Inputs
(Level 3)

(In Thousands)	Private Issue CMO	Common stock [1]	Interest-Only Strips	Loan Commitments to Originate [2]	Mandatory Commitments [3]	Option Contracts	Total
Beginning balance at June 30, 2014	$853	$—	$62	$2,566	$(93)	$—	$3,388
Total gains or losses (realized/unrealized):							
Included in earnings	—	—	—	(437)	(7)	(162)	(606)
Included in other comprehensive loss	(5)	—	2	—	—	—	(3)
Purchases	—	250	—	—	—	321	571
Issuances	—	—	—	—	—	—	—
Settlements	(49)	—	—	—	14	(49)	(84)
Transfers in and/or out of Level 3	—	—	—	—	—	—	—
Ending balance at December 31, 2014	$799	$250	$64	$2,129	$(86)	$110	$3,266

[1] Common stock of a community development financial institution.
[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, 2013
Fair Value Measurement
Using Significant Other Unobservable Inputs
(Level 3)

(In Thousands)	Private Issue CMO	Interest-Only Strips	Loan Commitments to originate [1]	Mandatory Commitments [2]	Option Contracts	Total
Beginning balance at June 30, 2013	$1,019	$98	$(1,032)	$83	$589	$757
Total gains or losses (realized/unrealized):						
Included in earnings	—	—	1,280	99	266	1,645
Included in other comprehensive loss	19	(10)	—	—	—	9
Purchases	—	—	—	—	370	370
Issuances	—	—	—	—	—	—
Settlements	(113)	—	—	14	(894)	(993)
Transfers in and/or out of Level 3	—	—	—	—	—	—
Ending balance at December 31, 2013	$925	$88	$248	$196	$331	$1,788

[1] Consists of commitments to extend credit on loans to be held for sale.
[2] Consists of mandatory loan sale commitments.

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:

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	Fair Value Measurement at December 31, 2014 Using:			
(In Thousands)	Level 1	Level 2	Level 3	Total
Non-performing loans	$—	$9,138	$2,013	$11,151
MSA	—	—	208	208
Real estate owned, net	—	3,496	—	3,496
Total	$—	$12,634	$2,221	$14,855

	Fair Value Measurement at June 30, 2014 Using:			
(In Thousands)	Level 1	Level 2	Level 3	Total
Non-performing loans	$—	$10,910	$5,026	$15,936
MSA	—	—	241	241
Real estate owned, net	—	2,467	—	2,467
Total	$—	$13,377	$5,267	$18,644

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, 2014:

(Dollars In Thousands)	Fair Value As of December 31, 2014	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	$799	Market comparable pricing	Comparability adjustment	(0.4)% – 1.1% (0.9%)	Increase
Common stock of community development financial institution	$250	Market pricing	Pricing indications from recent transactions	$0.00 - $0.14 ($0.05)	Increase
Non-performing loans	$92	Discounted cash flow	Default rates	0.0% - 30.0% (0.0%)	Decrease
Non-performing loans	$1,921	Relative value analysis	Loss severity	20.0% - 30.0% (21.9%)	Decrease
MSA	$208	Discounted cash flow	Prepayment speed (CPR) Discount rate	19.5% - 60.0% (31.0%) 9.0% - 10.5% (9.2%)	Decrease Decrease
Interest-only strips	$64	Discounted cash flow	Prepayment speed (CPR) Discount rate	20.2% - 39.2% (25.7%) 9.0%	Decrease Decrease
Commitments to extend credit on loans to be held for sale	$2,134	Relative value analysis	TBA-MBS broker quotes Fall-out ratio [3]	99.1% – 106.2% (102.3%) of par 22.5% - 30.3% (29.3%)	Decrease Decrease
Option contracts	$110	Relative value analysis	Broker quotes	126.8% of par	Increase
Liabilities:					
Commitments to extend credit on loans to be held for sale	$5	Relative value analysis	TBA-MBS broker quotes Fall-out ratio [3]	101.4% – 103.9% (102.3%) of par 22.5% - 30.3% (29.3%)	Increase Increase
	$86				

Mandatory loan sale commitments	Relative value analysis	TBA MBS broker quotes	101.2% - 105.0% (104.3%) of par	Increase
		Roll-forward costs [4]	0.007%	Increase

[1] The range is based on the estimated fair values and management estimates.

[2] Unless otherwise noted, this column represents the directional change in the fair value of the Level 3 investments 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 others. 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, 2014 and June 30, 2014 were as follows:

(In Thousands)	December 31, 2014 Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Loans held for investment, net	$797,783	$804,707	—	—	$804,707
FHLB – San Francisco stock	$7,056	$7,056	—	$7,056	—
Financial liabilities:					
Deposits	$905,512	$882,526	—	—	$882,526
Borrowings	$41,400	$44,440	—	—	$44,440

(In Thousands)	June 30, 2014 Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Loans held for investment, net	$772,141	$778,851	—	—	$778,851
FHLB – San Francisco stock	$7,056	$7,056	—	$7,056	—
Financial liabilities:					
Deposits	$897,870	$875,440	—	—	$875,440
Borrowings	$41,431	$44,424	—	—	$44,424

Loans held for investment: 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 based on management estimates, consistent with 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 calculated by using 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, 2014, 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 10: Incentive Plans

As of December 31, 2014, the Corporation had five share-based compensation plans, which are described below. These plans are the 2013 Equity Incentive Plan (“2013 Plan”), the 2010 Equity Incentive Plan (“2010 Plan”), the 2006 Equity Incentive Plan (“2006 Plan”), the 2003 Stock Option Plan and the 1996 Stock Option Plan.

For the quarters ended December 31, 2014 and 2013, the compensation cost for these plans was $394,000 and $130,000, respectively. The income tax effect recognized in the Condensed Consolidated Statements of Financial Condition for share-based compensation plans was none and a $1,000 credit in the quarters ended December 31, 2014 and 2013, respectively.

For the six months ended December 31, 2014 and 2013, the compensation cost for these plans was $537,000 and $261,000, respectively. The income tax effect recognized in the Condensed Consolidated Statements of Financial Condition for share-based compensation plans was a $16,000 debit and an $8,000 credit for the six months ended December 31, 2014 and 2013, respectively.

Equity Incentive Plan. The Corporation established and the shareholders approved the 2013 Plan, the 2010 Plan and the 2006 Plan 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 authorizes 365,000 stock options and 185,000 shares of restricted stock. The 2006 Plan also provides 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 Plan - Stock Options. Under the 2013 Plan, 2010 Plan and 2006 Plan (collectively, “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.

	For the Quarter Ended December 31, 2014		For the Six Months Ended December 31, 2014	
Expected volatility range	—	%	53.7	%
Weighted-average volatility	—	%	53.7	%
Expected dividend yield	—	%	3.0	%
Expected term (in years)	0		7.2	
Risk-free interest rate	—	%	2.2	%

During the second quarter of fiscal 2015, no options were granted, exercised or forfeited. This compares to the second quarter of fiscal 2014 when 35,500 options were exercised, 21,800 options were forfeited and no options were granted. For the first six months of fiscal 2015, 369,000 options were granted, while 2,000 options were exercised and no options were forfeited. This compares to the first six months of fiscal 2014 when no options were granted, while 40,500 options were exercised and 21,800 options were forfeited. As of December 31, 2014 and 2013, there were 130,750 and 510,250 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, 2014.

	For the Quarter Ended December 31, 2014			
Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($000)
Outstanding at September 30, 2014	1,015,000	$13.49		
Granted	—	$—		
Exercised	—	$—		
Forfeited	—	$—		
Outstanding at December 31, 2014	1,015,000	$13.49	6.76	$3,726
Vested and expected to vest at December 31, 2014	898,600	$13.63	6.51	$3,404
Exercisable at December 31, 2014	433,000	$14.19	4.19	$2,117

	For the Six Months Ended December 31, 2014			
Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($000)
Outstanding at June 30, 2014	648,000	$12.84		
Granted	369,000	$14.59		
Exercised	(2,000)	$7.03		
Forfeited	—	$—		
Outstanding at December 31, 2014	1,015,000	$13.49	6.76	$3,726
Vested and expected to vest at December 31, 2014	898,600	$13.63	6.51	$3,404
Exercisable at December 31, 2014	433,000	$14.19	4.19	$2,117

As of December 31, 2014 and 2013, there was $2.6 million and $657,000 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 3.3 years and 1.8 years, respectively. The forfeiture rate during the first six months of fiscal 2015 and 2014 was 20 percent for both periods, and was calculated by using the historical forfeiture experience of all fully vested stock option grants and is reviewed annually.

Equity Incentive Plan – 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 2015 and 2014, other than the forfeiture of 5,750 shares in the second quarter of fiscal 2014. For the first six months of fiscal 2015, there was no restricted stock activity, other than the award of 185,000 shares. This compares to no restricted stock activity, other than the forfeiture of 5,750 shares of restricted stock in the first six months of fiscal 2014. As of December 31, 2014 and 2013, there were 275,350 shares and 475,350 shares of restricted stock available for future awards under the Plans.

The following tables summarize the unvested restricted stock activity in the quarter and six months ended December 31, 2014.

	For the Quarter Ended December 31, 2014	
Unvested Shares	Shares	Weighted-Average Award Date Fair Value
Unvested at September 30, 2014	266,500	$11.78
Granted	—	$—
Vested	—	$—
Forfeited	—	$—
Unvested at December 31, 2014	266,500	$11.78
Expected to vest at December 31, 2014	213,200	$11.78

	For the Six Months Ended December 31, 2014	
Unvested Shares	Shares	Weighted-Average Award Date Fair Value
Unvested at June 30, 2014	81,500	$8.34
Granted	185,000	$13.30
Vested	—	$—
Forfeited	—	$—
Unvested at December 31, 2014	266,500	$11.78
Expected to vest at December 31, 2014	213,200	$11.78

As of December 31, 2014 and 2013, the unrecognized compensation expense was $2.7 million and $370,000, 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 3.5 years and 1.5 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 2015 and 2014.

Stock Option Plans. The Corporation established the 2003 Stock Option Plan and the 1996 Stock Option Plan (collectively, the "Stock Option Plans") for key employees and eligible directors under which options to acquire up to 352,500 shares and 1.15 million shares of common stock, respectively, may be granted. Under the Stock Option Plans, 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, 2014, no stock options remain available for future grants under the 2003 and 1996 Stock Option Plans, which expired in November 2013 and January 2007, respectively.

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 all fully vested 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 2015 and 2014, there was no activity in the Stock Option Plans, except forfeitures of 13,000 shares in the second quarter of fiscal 2014. For the first six months of fiscal 2015 and 2014, there was no activity in the Stock Option Plans, except forfeitures of 17,500 shares and 88,000 shares, respectively. As of December 31, 2014 and 2013, there were no stock options available for future grants under the Stock Option Plans.

The following tables summarize the activity in the Stock Option Plans for the quarter and six months ended December 31, 2014.

	For the Quarter Ended December 31, 2014			
Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($000)
Outstanding at September 30, 2014	77,500	$23.41		
Granted	—	$—		
Exercised	—	$—		
Forfeited	—	$—		
Outstanding at December 31, 2014	77,500	$23.41	2.00	$—
Vested and expected to vest at December 31, 2014	77,500	$23.41	2.00	$—
Exercisable at December 31, 2014	77,500	$23.41	2.00	$—

	For the Six Months Ended December 31, 2014			
Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($000)
Outstanding at June 30, 2014	95,000	$23.33		
Granted	—	$—		
Exercised	—	$—		
Forfeited	(17,500)	$23.00		
Outstanding at December 31, 2014	77,500	$23.41	2.00	$—
Vested and expected to vest at December 31, 2014	77,500	$23.41	2.00	$—
Exercisable at December 31, 2014	77,500	$23.41	2.00	$—

As of December 31, 2014 and 2013, there was no unrecognized compensation expense at both dates, related to unvested share-based compensation arrangements under the Stock Option Plans.

Note 11: Reclassification adjustment of Accumulated Other Comprehensive Income ("AOCI")

ASU 2013-02, "Comprehensive Income (Topic 220)," requires disclosure of reclassification adjustments of AOCI, including changes in AOCI balances by component and significant items reclassified out of AOCI.

The following tables provide the changes in AOCI by component for the quarters and six months ended December 31, 2014 and 2013.

(In Thousands)	For the Quarter Ended December 31, 2014 Unrealized gains and losses on Investment securities available for sale	Interest-only strips	Total
Beginning balance at September 30, 2014	$337	$40	$377
Other comprehensive income (loss) before reclassifications	58	(3)	55
Amount reclassified from accumulated other comprehensive income	—	—	—
Net other comprehensive income (loss)	58	(3)	55
Ending balance at December 31, 2014	$395	$37	$432

(In Thousands)	For the Quarter Ended December 31, 2013 Unrealized gains and losses on Investment securities available for sale	Interest-only strips	Total
Beginning balance at September 30, 2013	$425	$59	$484
Other comprehensive loss before reclassifications	(17)	(9)	(26)
Amount reclassified from accumulated other comprehensive income	—	—	—
Net other comprehensive loss	(17)	(9)	(26)
Ending balance at December 31, 2013	$408	$50	$458

(In Thousands)	For the Six Months Ended December 31, 2014 Unrealized gains on Investment securities available for sale	Interest-only strips	Total
Beginning balance at June 30, 2014	$351	$35	$386
Other comprehensive income before reclassifications	44	2	46
Amount reclassified from accumulated other comprehensive income	—	—	—
Net other comprehensive income	44	2	46
Ending balance at December 31, 2014	$395	$37	$432

(In Thousands)	For the Six Months Ended December 31, 2013 Unrealized gains and losses on Investment securities available for sale	Interest-only strips	Total
Beginning balance at June 30, 2013	$498	$56	$554
Other comprehensive loss before reclassifications	(90)	(6)	(96)
Amount reclassified from accumulated other comprehensive income	—	—	—
Net other comprehensive loss	(90)	(6)	(96)
Ending balance at December 31, 2013	$408	$50	$458

There were no significant items reclassified out of AOCI for the quarters and six months ended December 31, 2014 and 2013.

Note 12: 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 for each type of derivatives. 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, 2014:

	Gross Amount of	Gross Amount Offset in the Condensed Consolidated Statements	Net Amount of Assets in the Condensed Consolidated Statements	Gross Amount Not Offset in the Condensed Consolidated Statements of Financial Condition
				Cash