PROVIDENT FINANCIAL HOLDINGS INC
Form 10-Q
May 08, 2018
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 March 31, 2018
[ ] 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)

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(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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No 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 April 30, 2018
Common stock, $ 0.01 par value, per share	7,460,804 shares

PROVIDENT FINANCIAL HOLDINGS, INC.

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

	March 31, 2018	June 30, 2017
Assets		
Cash and cash equivalents	$50,574	$72,826
Investment securities – held to maturity, at cost	95,724	60,441
Investment securities – available for sale, at fair value	8,002	9,318
Loans held for investment, net of allowance for loan losses of $7,531 and $8,039, respectively; includes $4,996 and $6,445 at fair value, respectively	894,167	904,919
Loans held for sale, at fair value	89,823	116,548
Accrued interest receivable	3,100	2,915
Real estate owned, net	787	1,615
Federal Home Loan Bank (“FHLB”) – San Francisco stock	8,108	8,108
Premises and equipment, net	8,734	6,641
Prepaid expenses and other assets	17,583	17,302
Total assets	$1,176,602	$1,200,633
Liabilities and Stockholders’ Equity		
Liabilities:		
Non interest-bearing deposits	$87,520	$77,917
Interest-bearing deposits	834,979	848,604
Total deposits	922,499	926,521
Borrowings	111,176	126,226
Accounts payable, accrued interest and other liabilities	22,327	19,656
Total liabilities	1,056,002	1,072,403
Commitments and Contingencies		
Stockholders’ equity:		
Preferred stock, $.01 par value (2,000,000 shares authorized; none issued and outstanding)	—	—
Common stock, $.01 par value (40,000,000 shares authorized; 18,033,115 and 17,949,365 shares issued; 7,460,804 and 7,714,052 shares outstanding, respectively)	180	180
Additional paid-in capital	94,719	93,209
Retained earnings	190,301	192,754
Treasury stock at cost (10,572,311 and 10,235,313 shares, respectively)	(164,786)	(158,142)
Accumulated other comprehensive income, net of tax	186	229
Total stockholders’ equity	120,600	128,230

Total liabilities and stockholders' equity	$1,176,602	$1,200,633

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 March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Interest income:				
Loans receivable, net	$9,933	$9,704	$29,825	$30,300
Investment securities	382	142	958	354
FHLB – San Francisco stock	144	184	428	827
Interest-earning deposits	233	250	591	406
Total interest income	10,692	10,280	31,802	31,887
Interest expense:				
Checking and money market deposits	96	90	311	293
Savings deposits	147	144	445	434
Time deposits	613	686	1,877	2,189
Borrowings	712	713	2,176	2,151
Total interest expense	1,568	1,633	4,809	5,067
Net interest income	9,124	8,647	26,993	26,820
Recovery from the allowance for loan losses	(505)	(165)	(347)	(665)
Net interest income, after recovery from the allowance for loan losses	9,629	8,812	27,340	27,485
Non-interest income:				
Loan servicing and other fees	493	362	1,173	939
Gain on sale of loans, net	3,597	5,395	12,761	19,869
Deposit account fees	529	562	1,623	1,664
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(19)	(74)	(81)	(240)
Card and processing fees	372	338	1,126	1,063
Other	238	208	701	580
Total non-interest income	5,210	6,791	17,303	23,875
Non-interest expense:				
Salaries and employee benefits	8,808	10,370	26,710	32,033
Premises and occupancy	1,255	1,241	3,829	3,765
Equipment	442	352	1,179	1,054
Professional expenses	400	436	1,441	1,571
Sales and marketing expenses	213	421	717	970
Deposit insurance premiums and regulatory assessments	189	189	591	614
Other(1)	1,132	759	6,919	4,061
Total non-interest expense	12,439	13,768	41,386	44,068
Income before income taxes	2,400	1,835	3,257	7,292
Provision for income taxes(2)	667	690	2,526	3,049
Net income	$1,733	$1,145	$731	$4,243

Basic earnings per share	$0.23	$0.14	$0.10	$0.53
Diluted earnings per share	$0.23	$0.14	$0.09	$0.52
Cash dividends per share	$0.14	$0.13	$0.42	$0.39

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(1) Includes $3.4 million of litigation settlement expenses for the nine months ended March 31, 2018.

(2) Includes a net tax charge of $1.9 million resulting from the revaluation of net deferred tax assets consistent with the Tax Cuts
and Jobs Act for the nine months ended March 31, 2018.

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 March 31,		For the Nine Months Ended March 31,	
	2018	2017	2018	2017
Net income	$1,733	$1,145	$731	$4,243
Change in unrealized holding loss on securities available for sale	(35)	(28)	(113)	(112)
Reclassification adjustment for net loss on securities available for sale included in net income	(2)	—	43	—
Other comprehensive loss, before income tax benefit	(37)	(28)	(70)	(112)
Income tax benefit	(13)	(12)	(27)	(47)
Other comprehensive loss	(24)	(16)	(43)	(65)
Total comprehensive income	$1,709	$1,129	$688	$4,178

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

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

For the Quarters Ended March 31, 2018 and 2017:

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
Balance at December 31, 2017	7,474,776	$ 180	$ 94,011	$ 189,610	$ (163,311)	$ 210	$ 120,700
Net income				1,733			1,733
Other comprehensive loss						(24)	(24)
Purchase of treasury stock[1]	(80,972)				(1,475)		(1,475)
Exercise of stock options	56,500		416				416
Distribution of restricted stock	10,500						—
Amortization of restricted stock			167				167
Stock options expense			125				125
Cash dividends[2]				(1,042)			(1,042)
Balance at March 31, 2018	7,460,804	$ 180	$ 94,719	$ 190,301	$ (164,786)	$ 186	$ 120,600

[1] Includes the repurchase of 3,291 shares of distributed restricted stock in settlement of employee withholding tax obligations.
[2] Cash dividends of $0.14 per share were paid in the quarter ended March 31, 2018.

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
Balance at December 31, 2016	7,915,116	$ 179	$ 92,215	$ 192,699	$ (152,802)	$ 264	$ 132,555
Net income				1,145			1,145
Other comprehensive loss						(16)	(16)
Purchase of treasury stock	(89,819)				(1,678)		(1,678)
Exercise of stock options	60,250		524				524
Amortization of restricted stock			139				139
Awards of restricted stock			(53)		53		—
Stock options expense			115				115
Tax effect from stock-based compensation			(165)				(165)
Cash dividends[1]				(1,028)			(1,028)
Balance at March 31, 2017	7,885,547	$ 179	$ 92,775	$ 192,816	$ (154,427)	$ 248	$ 131,591

(1) Cash dividends of $0.13 per share were paid in the quarter ended March 31, 2017.

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

For the Nine Months Ended March 31, 2018 and 2017:

	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, 2017	7,714,052	$ 180	$ 93,209	$ 192,754	$ (158,142)	$ 229	$ 128,230
Net income				731			731
Other comprehensive loss						(43)	(43)
Purchase of treasury stock[1]	(347,498)				(6,627)		(6,627)
Exercise of stock options	83,750		677				677
Distribution of restricted stock	10,500						—
Amortization of restricted stock			458				458
Forfeitures of restricted stock			17		(17)		—
Stock options expense			358				358
Cash dividends[2]				(3,184)			(3,184)
Balance at March 31, 2018	7,460,804	$ 180	$ 94,719	$ 190,301	$ (164,786)	$ 186	$ 120,600

[1] Includes the repurchase of 3,291 shares of distributed restricted stock in settlement of employee withholding tax obligations.
[2] Cash dividends of $0.42 per share were paid in the nine months ended March 31, 2018.

	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, 2016	7,975,250	$ 178	$ 90,802	$ 191,666	$ (149,508)	$ 313	$ 133,451
Net income				4,243			4,243
Other comprehensive loss						(65)	(65)
Purchase of treasury stock[1]	(261,453)				(4,999)		(4,999)
Exercise of stock options	84,000	1	808				809
Distribution of restricted stock	87,750						—
Amortization of restricted stock			634				634
Awards of restricted stock			(214)		214		—
Forfeitures of restricted stock			134		(134)		—
Stock options expense			597				597
Tax effect from stock-based compensation			14				14
Cash dividends[2]				(3,093)			(3,093)
Balance at March 31, 2017	7,885,547	$ 179	$ 92,775	$ 192,816	$ (154,427)	$ 248	$ 131,591

(1) Includes the repurchase of 25,598 shares of distributed restricted stock in settlement of employee withholding tax obligations.
(2) Cash dividends of $0.39 per share were paid in the nine months ended March 31, 2017.

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)

	Nine Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	$731	$4,243
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,229	1,948
Recovery from the allowance for loan losses	(347)	(665)
(Recovery) provision of losses on real estate owned	(552)	145
Gain on sale of loans, net	(12,761)	(19,869)
Loss (gain) on sale of real estate owned, net	564	(84)
Stock-based compensation	816	1,231
(Benefit) provision for deferred income taxes	(28)	1,335
Tax effect from stock based compensation	—	(14)
Increase in accounts payable, accrued interest and other liabilities	3,294	1,507
Increase in prepaid expenses and other assets	(482)	(572)
Loans originated for sale	(944,349)	(1,507,162)
Proceeds from sale of loans	983,504	1,609,636
Net cash provided by operating activities	32,619	91,679
Cash flows from investing activities:		
Decrease (increase) in loans held for investment, net	8,956	(42,052)
Principal payments from investment securities held to maturity	18,082	9,398
Principal payments from investment securities available for sale	1,252	1,434
Purchase of investment securities held to maturity	(54,147)	(10,970)
Proceeds from sale of real estate owned	2,223	1,497
Purchase of premises and equipment	(2,713)	(991)
Net cash used for investing activities	(26,347)	(41,684)
Cash flows from financing activities:		
(Decrease) increase in deposits, net	(4,022)	11,922
Repayments of short-term borrowings, net	(15,000)	—
Proceeds from long-term borrowings	10,000	20,000
Repayments of long-term borrowings	(10,050)	(55)
Exercise of stock options	677	809
Withholding taxes on stock based compensation	(318)	(501)
Tax effect from stock based compensation	—	14
Cash dividends	(3,184)	(3,093)
Treasury stock purchases	(6,627)	(4,999)
Net cash (used for) provided by financing activities	(28,524)	24,097
Net (decrease) increase in cash and cash equivalents	(22,252)	74,092
Cash and cash equivalents at beginning of period	72,826	51,206
Cash and cash equivalents at end of period	$50,574	$125,298
Supplemental information:		

Cash paid for interest	$4,816	$5,043
Cash paid for income taxes	$2,400	$2,384
Transfer of loans held for sale to held for investment	$1,122	$2,280
Real estate acquired in the settlement of loans	$1,659	$1,845

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

March 31, 2018

Note 1: Basis of Presentation

The unaudited interim condensed consolidated financial statements included herein reflect all adjustments which are, in the opinion of management, necessary to present a fair statement of the results of operations for the interim periods presented. All such adjustments are of a normal, recurring nature. The condensed consolidated statement of financial condition at June 30, 2017 is derived from the audited consolidated financial statements of Provident Financial Holdings, Inc. and its wholly-owned subsidiary, Provident Savings Bank, F.S.B. (the “Bank”) (collectively, the “Corporation”). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”) with respect to interim financial reporting. It is recommended that these unaudited interim condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation’s Annual Report on Form 10-K for the year ended June 30, 2017. The results of operations for the quarter and nine months ended March 31, 2018 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2018.

Note 2: Accounting Standard Updates (“ASU”)

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

Note 3: 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 March 31, 2018 and 2017, there were outstanding options to purchase 529,000 shares and 683,250 shares of the Corporation’s common stock, respectively. Of those shares, as of March 31, 2018 and 2017, there were 26,000 shares and 76,000 shares, respectively, which were excluded from the diluted EPS computation as their effect was anti-dilutive. As of March 31, 2018, there were outstanding restricted stock awards of 98,500 shares which had a dilutive effect in the third quarter of fiscal 2018; and as of March 31, 2017, there were outstanding restricted stock awards of 111,000 shares which had a dilutive effect in the third quarter of fiscal 2017.

The following table provides the basic and diluted EPS computations for the quarters and nine months ended March 31, 2018 and 2017, respectively.

(In Thousands, Except Earnings Per Share)	For the Quarters Ended March 31, 2018	2017	For the Nine Months Ended March 31, 2018	2017
Numerator:				
Net income – numerator for basic earnings per share and diluted earnings per share - available to common stockholders	$1,733	$1,145	$731	$4,243
Denominator:				
Denominator for basic earnings per share:				
Weighted-average shares	7,457	7,926	7,573	7,943
Effect of dilutive shares:				
Stock options	97	142	111	153
Restricted stock	62	26	53	30
Denominator for diluted earnings per share:				
Adjusted weighted-average shares and assumed conversions	7,616	8,094	7,737	8,126
Basic earnings per share	$0.23	$0.14	$0.10	$0.53
Diluted earnings per share	$0.23	$0.14	$0.09	$0.52

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 nine months ended March 31, 2018 and 2017, respectively.

	For the Quarter Ended March 31, 2018		
(In Thousands)	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	$8,750	$374	$9,124
Recovery from the allowance for loan losses	(505)	—	(505)
Net interest income, after recovery from the allowance for loan losses	9,255	374	9,629
Non-interest income:			
Loan servicing and other fees [(1)]	313	180	493
(Loss) gain on sale of loans, net [(2)]	(1)	3,598	3,597
Deposit account fees	529	—	529
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(19)	—	(19)
Card and processing fees	372	—	372
Other	238	—	238
Total non-interest income	1,432	3,778	5,210
Non-interest expense:			
Salaries and employee benefits	4,763	4,045	8,808
Premises and occupancy	842	413	1,255
Operating and administrative expenses	1,050	1,326	2,376
Total non-interest expense	6,655	5,784	12,439
Income (loss) before income taxes	4,032	(1,632)	2,400
Provision (benefit) for income taxes	1,252	(585)	667
Net income (loss)	$2,780	$(1,047)	$1,733
Total assets, end of period	$1,086,437	$90,165	$1,176,602

(1) Includes an inter-company charge of $222 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 $44 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 Quarter Ended March 31, 2017 Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	$7,940	$707	$8,647
Recovery from the allowance for loan losses	(121)	(44)	(165)
Net interest income after recovery from the allowance for loan losses	8,061	751	8,812
Non-interest income:			
Loan servicing and other fees [(1)]	125	237	362
Gain on sale of loans, net [(2)]	1	5,394	5,395
Deposit account fees	562	—	562
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(68)	(6)	(74)
Card and processing fees	338	—	338
Other	208	—	208
Total non-interest income	1,166	5,625	6,791
Non-interest expense:			
Salaries and employee benefits	4,662	5,708	10,370
Premises and occupancy	784	457	1,241
Operating and administrative expenses	1,333	824	2,157
Total non-interest expense	6,779	6,989	13,768
Income (loss) before income taxes	2,448	(613)	1,835
Provision (benefit) for income taxes	948	(258)	690
Net income (loss)	$1,500	$(355)	$1,145
Total assets, end of period	$1,093,715	$105,730	$1,199,445

(1) Includes an inter-company charge of $173 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 $48 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

	For the Nine Months Ended March 31, 2018		
(In Thousands)	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	$25,517	$1,476	$26,993
Recovery from the allowance for loan losses	(347)	—	(347)
Net interest income, after recovery from the allowance for loan losses	25,864	1,476	27,340
Non-interest income:			
Loan servicing and other fees [1]	468	705	1,173
Gain on sale of loans, net [2]	21	12,740	12,761
Deposit account fees	1,623	—	1,623
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(81)	—	(81)
Card and processing fees	1,126	—	1,126
Other	701	—	701
Total non-interest income	3,858	13,445	17,303
Non-interest expense:			
Salaries and employee benefits	13,714	12,996	26,710
Premises and occupancy	2,491	1,338	3,829
Operating and administrative expenses[3]	4,490	6,357	10,847
Total non-interest expense	20,695	20,691	41,386
Income (loss) before income taxes	9,027	(5,770)	3,257
Provision (benefit) for income taxes[4]	4,595	(2,069)	2,526
Net income (loss)	$4,432	$(3,701)	$731
Total assets, end of period	$1,086,437	$90,165	$1,176,602

(1) Includes an inter-company charge of $561 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 $182 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

(3) Includes $3.4 million of litigation settlement expenses for the first nine months of fiscal 2018 with $2.1 million allocated to PBM.

(4) Includes a net tax charge of $1.9 million resulting from the revaluation of net deferred tax assets consistent with the Tax Cuts and Jobs Act for the nine months ended March 31, 2018, all charged to the Bank.

(In Thousands)	For the Nine Months Ended March 31, 2017 Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	$23,336	$3,484	$26,820
Recovery from the allowance for loan losses	(431)	(234)	(665)
Net interest income, after recovery from the allowance for loan losses	23,767	3,718	27,485
Non-interest income:			
Loan servicing and other fees [(1)]	444	495	939
Gain on sale of loans, net [(2)]	39	19,830	19,869
Deposit account fees	1,664	—	1,664
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(231)	(9)	(240)
Card and processing fees	1,063	—	1,063
Other	580	—	580
Total non-interest income	3,559	20,316	23,875
Non-interest expense:			
Salaries and employee benefits	14,198	17,835	32,033
Premises and occupancy	2,432	1,333	3,765
Operating and administrative expenses	3,632	4,638	8,270
Total non-interest expense	20,262	23,806	44,068
Income before income taxes	7,064	228	7,292
Provision for income taxes	2,953	96	3,049
Net income	$4,111	$132	$4,243
Total assets, end of period	$1,093,715	$105,730	$1,199,445

(1) Includes an inter-company charge of $396 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 $216 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 March 31, 2018 and June 30, 2017 were as follows:

As of March 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Carrying Value
(In Thousands)					
Held to maturity:					
Certificates of deposit	$ 600	$ —	$ —	$ 600	$ 600
U.S. SBA loan pool securities[1]	3,009	—	18	2,991	3,009
U.S. government sponsored enterprise MBS [2]	92,115	110	875	91,350	92,115
Total investment securities - held to maturity	$ 95,724	$ 110	$ 893	$ 94,941	$ 95,724
Available for sale:					
U.S. government agency MBS	$ 4,490	$ 166	$ —	$ 4,656	$ 4,656
U.S. government sponsored enterprise MBS	2,820	131	—	2,951	2,951
Private issue CMO [3]	391	4	—	395	395
Total investment securities - available for sale	$ 7,701	$ 301	$ —	$ 8,002	$ 8,002
Total investment securities	$ 103,425	$ 411	$ 893	$ 102,943	$ 103,726

(1) Small Business Administration ("SBA").
(2) Mortgage-Backed Securities (“MBS”).
(3) Collateralized Mortgage Obligations (“CMO”).

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

In the third quarters of fiscal 2018 and 2017, the Corporation received MBS principal payments of $7.6 million and $3.5 million, respectively, and there were no sales of investment securities during these periods. The Corporation purchased $12.6 million of U.S. government sponsored enterprise MBS and $3.0 million of U.S. SBA loan pool securities, to be held to maturity, during the third quarter of fiscal 2018; while the Corporation purchased $11.0 million of U.S. government sponsored enterprise MBS during the third quarter of fiscal 2017. For the first nine months of fiscal 2018 and 2017, the Corporation received MBS principal payments of $19.3 million and $10.8 million, respectively, and there were no sales of investment securities during these periods. For the first nine months of fiscal 2018, the Corporation purchased $51.1 million in U.S. government sponsored enterprise MBS and $3.0

million in U.S. SBA loan pool securities, to be held to maturity; while the Corporation purchased $11.0 million in U.S. government sponsored enterprise MBS during the first nine months of fiscal 2017.

The Corporation held investments with an unrealized loss position of $893,000 at March 31, 2018 and $77,000 at June 30, 2017. At March 31, 2018 and June 30, 2017, the gross unrealized losses and the fair value for investment securities by investment category aggregated by the length of time that individual securities have been in a continuous unrealized loss position was as follows:

As of March 31, 2018	Unrealized Holding Losses		Unrealized Holding Losses		Unrealized Holding Losses	
(In Thousands)	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held to maturity:						
U.S. SBA loan pool securities	$2,984	$ 18	$ —	$ —	$2,984	$ 18
U.S. government sponsored enterprise MBS	80,725	875	—	—	80,725	875
Total investment securities	$83,709	$ 893	$ —	$ —	$83,709	$ 893

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

The Corporation evaluates individual investment securities quarterly for other-than-temporary declines in market value. As of March 31, 2018 and June 30, 2017, the unrealized holding losses were for a term of less than 12 months. The Corporation does not believe that there are any other-than-temporary impairments on the investment securities at March 31, 2018 and 2017; therefore, no impairment losses were recorded for the quarters and nine months ended March 31, 2018 and 2017.

Contractual maturities of investment securities as of March 31, 2018 and June 30, 2017 were as follows:

	March 31, 2018		June 30, 2017	
(In Thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Held to maturity:				
Due in one year or less	$600	$600	$600	$ 600
Due after one through five years	16,745	16,534	4,698	4,708
Due after five through ten years	35,636	35,139	41,404	41,374
Due after ten years	42,743	42,668	13,739	13,947
Total investment securities - held to maturity	$95,724	$94,941	$60,441	$ 60,629
Available for sale:				
Due in one year or less	$—	$—	$—	$ —
Due after one through five years	—	—	—	—
Due after five through ten years	—	—	—	—

Due after ten years	7,701	8,002	8,954	9,318
Total investment securities - available for sale	$ 7,701	$ 8,002	$ 8,954	$ 9,318
Total investment securities	$ 103,425	$ 102,943	$ 69,395	$ 69,947

Note 6: Loans Held for Investment

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

(In Thousands)	March 31, 2018	June 30, 2017
Mortgage loans:		
Single-family	$316,912	$322,197
Multi-family	466,266	479,959
Commercial real estate	106,937	97,562
Construction	10,915	16,009
Commercial business loans	450	576
Consumer loans	130	129
Total loans held for investment, gross	901,610	916,432
Undisbursed loan funds	(5,591)	(9,015)
Advance payments of escrows	160	61
Deferred loan costs, net	5,519	5,480
Allowance for loan losses	(7,531)	(8,039)
Total loans held for investment, net	$894,167	$904,919

The following table sets forth information at March 31, 2018 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 two percent of loans held for investment at both March 31, 2018 and June 30, 2017. Adjustable rate loans having no stated repricing dates that reprice when the index they are tied to reprices (e.g. prime rate index) and checking account overdrafts are reported as repricing within one year. The table does not include any estimate of prepayments which may cause the Corporation's actual repricing experience to differ materially from that shown.

	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	$140,839	$30,990	$74,783	$57,090	$13,210	$316,912
Multi-family	130,608	166,749	157,761	10,914	234	466,266
Commercial real estate	29,657	40,992	35,740	—	548	106,937
Construction	9,011	—	—	—	1,904	10,915
Commercial business loans	26	—	—	—	424	450
Consumer loans	130	—	—	—	—	130
Total loans held for investment, gross	$310,271	$238,731	$268,284	$68,004	$16,320	$901,610

The Corporation has developed an internal loan grading system to evaluate and quantify the Bank's loans held for investment portfolio with respect to quality and risk. Management continually evaluates the credit quality of the Corporation's loan portfolio and conducts a quarterly review of the adequacy of the allowance for loan losses using quantitative and qualitative methods. The Corporation has adopted an internal risk rating policy in which each loan is rated for credit quality with a rating of pass, special mention, substandard, doubtful or loss. The two primary components that are used during the loan review process to determine the proper allowance levels are individually evaluated allowances and collectively evaluated allowances. Quantitative loan loss factors are developed by determining the historical loss experience, expected future cash flows, discount rates and collateral fair values, among other components. Qualitative loan loss factors are developed by assessing general economic indicators such as gross domestic product, retail sales, unemployment rates, employment growth, California home sales and median California home prices. The Corporation assigns individual factors for the quantitative and qualitative methods for each loan category and each internal risk rating.

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

Pass - These loans range from minimal credit risk to average, but still acceptable, credit risk. The likelihood of loss is considered remote.
Special Mention - A Special Mention asset has potential weaknesses that may be temporary or, if left uncorrected, may result in a loss. While concerns exist, the bank is currently protected and loss is considered unlikely and not imminent.
Substandard - A substandard loan is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses, that may jeopardize the liquidation of the debt. A substandard loan is characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
Doubtful - A doubtful loan has all of the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of the currently existing facts, conditions and values, highly questionable and improbable.
Loss - A loss loan is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted.

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

	March 31, 2018						
(In Thousands)	Single-family	Multi-family	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
Pass	$306,519	$ 466,266	$ 106,937	$ 9,989	$ 377	$ 130	$890,218
Special Mention	1,913	—	—	926	—	—	2,839
Substandard	8,480	—	—	—	73	—	8,553
Total loans held for investment, gross	$316,912	$ 466,266	$ 106,937	$ 10,915	$ 450	$ 130	$901,610

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

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

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

The following table summarizes the Corporation's allowance for loan losses at March 31, 2018 and June 30, 2017:

(In Thousands)	March 31, 2018	June 30, 2017
Collectively evaluated for impairment:		
Mortgage loans:		
Single-family	$2,960	$3,515
Multi-family	3,312	3,420
Commercial real estate	966	879
Construction	94	96
Commercial business loans	16	21
Consumer loans	7	7
Total collectively evaluated allowance	7,355	7,938
Individually evaluated for impairment:		
Mortgage loans:		
Single-family	161	86
Commercial business loans	15	15
Total individually evaluated allowance	176	101
Total loan loss allowance	$7,531	$8,039

The following table is provided to disclose additional details on the Corporation’s allowance for loan losses for the quarters and nine months ended March 31, 2018 and 2017, respectively:

(Dollars in Thousands)	For the Quarters Ended March 31, 2018	2017	For the Nine Months Ended March 31, 2018	2017
Allowance at beginning of period	$8,075	$8,391	$8,039	$8,670
Recovery from the allowance for loan losses	(505)	(165)	(347)	(665)
Recoveries:				
Mortgage loans:				
Single-family	71	83	203	379
Multi-family	—	3	—	16
Commercial business loans	—	75	—	75
Consumer loans	—	1	—	2
Total recoveries	71	162	203	472
Charge-offs:				
Mortgage loans:				
Single-family	(110)	(112)	(364)	(199)
Consumer loans	—	(1)	—	(3)
Total charge-offs	(110)	(113)	(364)	(202)
Net (charge-offs) recoveries	(39)	49	(161)	270
Balance at end of period	$7,531	$8,275	$7,531	$8,275
Allowance for loan losses as a percentage of gross loans held for investment at the end of the period	0.84 %	0.93 %	0.84 %	0.93 %
Net charge-offs (recoveries) as a percentage of average loans receivable, net, during the period (annualized)	0.02 %	(0.02)%	0.02 %	(0.03)%

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

(In Thousands)	March 31, 2018 Current	30-89 Days Past Due	Non-Accrual (1)	Total Loans Held for Investment
Mortgage loans:				
Single-family	$309,932	$157	$ 6,823	$ 316,912
Multi-family	466,266	—	—	466,266
Commercial real estate	106,937	—	—	106,937
Construction	10,915	—	—	10,915
Commercial business loans	377	—	73	450
Consumer loans	127	3	—	130
Total loans held for investment, gross	$894,554	$160	$ 6,896	$ 901,610

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

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

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

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

(In Thousands)	Quarter Ended March 31, 2018 Single-family	Multi-family	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
Allowance for loan losses:							
Allowance at beginning of period	$3,303	$3,295	$933	$ 504	$ 32	$ 8	$8,075
(Recovery) provision for loan losses	(143)	17	33	(410)	(1)	(1)	(505)
Recoveries	71	—	—	—	—	—	71
Charge-offs	(110)	—	—	—	—	—	(110)
Allowance for loan losses, end of period	$3,121	$3,312	$966	$ 94	$ 31	$ 7	$7,531
Allowance for loan losses:							
Individually evaluated for impairment	$161	$—	$—	$—	$ 15	$ —	$176
Collectively evaluated for impairment	2,960	3,312	966	94	16	7	7,355
Allowance for loan losses, end of period	$3,121	$3,312	$966	$ 94	$ 31	$ 7	$7,531
Loans held for investment:							
Individually evaluated for impairment	$7,929	$—	$—	$—	$ 73	$ —	$8,002
Collectively evaluated for impairment	308,983	466,266	106,937	10,915	377	130	893,608
Total loans held for investment, gross	$316,912	$466,266	$106,937	$ 10,915	$ 450	$ 130	$901,610
Allowance for loan losses as a percentage of gross loans	0.98 %	0.71 %	0.90 %	0.86 %	6.89 %	5.38 %	0.84 %

held for investment

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(In Thousands)	Quarter Ended March 31, 2017 Single-family	Multi-family	Commercial Real Estate	Construction	Other Mortgage	Commercial Business	Consumer	Total
Allowance for loan losses:								
Allowance at beginning of period	$4,283	$3,156	$836	$65	$6	$37	$8	$8,391
(Recovery) provision for loan losses	(345)	208	32	15	(1)	(73)	(1)	(165)
Recoveries	83	3	—	—	—	75	1	162
Charge-offs	(112)	—	—	—	—	—	(1)	(113)
Allowance for loan losses, end of period	$3,909	$3,367	$868	$80	$5	$39	$7	$8,275
Allowance for loan losses:								
Individually evaluated for impairment	$—	$—	$—	$—	$—	$15	$—	$15
Collectively evaluated for impairment	3,909	3,367	868	80	5	24	7	8,260
Allowance for loan losses, end of period	$3,909	$3,367	$868	$80	$5	$39	$7	$8,275
Loans held for investment:								
Individually evaluated for impairment	$6,849	$372	$201	$—	$—	$83	$—	$7,505
Collectively evaluated for impairment	312,865	458,808	96,163	16,552	241	585	126	885,340
Total loans held for investment, gross	$319,714	$459,180	$96,364	$16,552	$241	$668	$126	$892,845
Allowance for loan losses as a percentage of gross loans held for investment	1.22%	0.73%	0.90%	0.48%	2.07%	5.84%	5.56%	0.93%

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(In Thousands)	Nine Months Ended March 31, 2018 Single-family	Multi-family	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
Allowance for loan losses:							
Allowance at beginning of period	$3,601	$3,420	$879	$96	$ 36	$ 7	$8,039
(Recovery) provision for loan losses	(319)	(108)	87	(2)	(5)	—	(347)
Recoveries	203	—	—	—	—	—	203
Charge-offs	(364)	—	—	—	—	—	(364)
Allowance for loan losses, end of period	$3,121	$3,312	$966	$94	$ 31	$ 7	$7,531
Allowance for loan losses:							
Individually evaluated for impairment	$161	$—	$—	$—	$ 15	$ —	$176
Collectively evaluated for impairment	2,960	3,312	966	94	16	7	7,355
Allowance for loan losses, end of period	$3,121	$3,312	$966	$94	$ 31	$ 7	$7,531
Loans held for investment:							
Individually evaluated for impairment	$7,929	$—	$—	$—	$ 73	$ —	$8,002
Collectively evaluated for impairment	308,983	466,266	106,937	10,915	377	130	893,608
Total loans held for investment, gross	$316,912	$466,266	$106,937	$10,915	$ 450	$ 130	$901,610
Allowance for loan losses as a percentage of gross loans held for investment	0.98%	0.71%	0.90%	0.86%	6.89%	5.38%	0.84%

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	Nine Months Ended March 31, 2017							
(In Thousands)	Single-family	Multi-family	Commercial Real Estate	Construction	Other Mortgage	Commercial Business	Consumer	Total
Allowance for loan losses:								
Allowance at beginning of period	$4,933	$2,800	$848	$31	$7	$43	$8	$8,670
(Recovery) provision for loan losses	(1,204)	551	20	49	(2)	(79)	—	(665)
Recoveries	379	16	—	—	—	75	2	472
Charge-offs	(199)	—	—	—	—	—	(3)	(202)
Allowance for loan losses, end of period	$3,909	$3,367	$868	$80	$5	$39	$7	$8,275
Allowance for loan losses:								
Individually evaluated for impairment	$—	$—	$—	$—	$—	$15	$—	$15
Collectively evaluated for impairment	3,909	3,367	868	80	5	24	7	8,260
Allowance for loan losses, end of period	$3,909	$3,367	$868	$80	$5	$39	$7	$8,275
Loans held for investment:								
Individually evaluated for impairment	$6,849	$372	$201	$—	$—	$83	$—	$7,505
Collectively evaluated for impairment	312,865	458,808	96,163	16,552	241	585	126	885,340
Total loans held for investment, gross	$319,714	$459,180	$96,364	$16,552	$241	$668	$126	$892,845
Allowance for loan losses as a percentage of gross loans held for investment	1.22%	0.73%	0.90%	0.48%	2.07%	5.84%	5.56%	0.93%

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

	At March 31, 2018				
(In Thousands)	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance[1]	Net Recorded Investment
Mortgage loans:					
Single-family:					
With a related allowance	$1,166	$ —	$ 1,166	$ (152)	$ 1,014
Without a related allowance[2]	6,467	(773)	5,694	—	5,694
Total single-family	7,633	(773)	6,860	(152)	6,708
Commercial business loans:					
With a related allowance	73	—	73	(15)	58
Total commercial business loans	73	—	73	(15)	58
Total non-performing loans	$7,706	$ (773)	$ 6,933	$ (167)	$ 6,766

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

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

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

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

At both March 31, 2018 and June 30, 2017, there were no commitments to lend additional funds to those borrowers whose loans were classified as non-performing.

For the quarters ended March 31, 2018 and 2017, the Corporation's average recorded investment in non-performing loans was $7.6 million and $9.3 million, respectively. The Corporation records payments on non-performing loans utilizing the cash basis or cost recovery method of accounting during the periods when the loans are on non-performing status. For both quarters ended March 31, 2018 and 2017, interest income of $70,000 and $132,000, respectively, was recognized, based on cash receipts from loan payments on non-performing loans and $51,000 and $60,000, respectively, was collected and applied to reduce the loan balances under the cost recovery method. Forgone interest income, which would have been recorded had the non-performing loans been current in accordance with their original terms, amounted to $37,000 and $29,000 for the quarters ended March 31, 2018 and 2017, respectively, and was not included in the results of operations.

For the nine months ended March 31, 2018 and 2017, the Corporation's average recorded investment in non-performing loans was $8.1 million and $10.5 million, respectively. For the nine months ended March 31, 2018 and 2017, interest income of $240,000 and $235,000, respectively, was recognized, based on cash receipts from loan payments on non-performing loans and $226,000 and $196,000, respectively, was collected and applied to reduce the loan balances under the cost recovery method. Forgone interest income, which would have been recorded had the non-performing loans been current in accordance with their original terms, amounted to $121,000 and $105,000 for the nine months ended March 31, 2018 and 2017, respectively, and was not included in the results of operations.

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The following tables present the average recorded investment in non-performing loans and the related interest income recognized for the quarters and nine months ended March 31, 2018 and 2017:

	Quarter Ended March 31,			
	2018		2017	
(In Thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Without related allowances:				
Mortgage loans:				
Single-family	$6,397	$ 49	$7,325	$ 115
Multi-family	—	—	373	4
Commercial real estate	—	—	134	1
	6,397	49	7,832	120
With related allowances:				
Mortgage loans:				
Single-family	1,170	20	1,398	10
Commercial business loans	74	1	84	2
	1,244	21	1,482	12
Total	$7,641	$ 70	$9,314	$ 132

	Nine Months Ended March 31,			
	2018		2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Without related allowances:				
Mortgage loans:				
Single-family	$7,296	$ 184	$8,480	$ 152
Multi-family	—	—	406	4
Commercial real estate	22	13	45	1
	7,318	197	8,931	157
With related allowances:				
Mortgage loans:				
Single-family	738	39	1,287	56
Multi-family	—	—	156	17
Commercial business loans	76	4	88	5
	814	43	1,531	78
Total	$8,132	$ 240	$10,462	$ 235

For the quarter and nine months ended March 31, 2018, there were two loans totaling $2.2 million that were newly modified from their original terms and re-underwritten or identified in the Corporation's asset quality reports as restructured loans. This compares to no loans that were newly modified from their original terms during the quarter and the nine months ended March 31, 2017. During the quarters and nine months ended March 31, 2018 and 2017, no restructured loans were in default within a 12-month period subsequent to their original restructuring. Additionally, during the quarters and nine months ended March 31, 2018 and 2017, there were no loans whose modification was extended beyond the initial maturity of the modification, except for one commercial business loan with an outstanding balance of $85,000 which was extended for two years during the second quarter of fiscal 2017. At both March 31, 2018 and June 30, 2017, there were no commitments to lend additional funds to those borrowers whose loans were restructured.

As of March 31, 2018, the Corporation held 12 restructured loans with a net outstanding balance of $5.4 million: two were classified as special mention on accrual status ($811,000); and 10 were classified as substandard ($4.5 million with $3.2 million on non-accrual status). As of June 30, 2017, the Corporation held 10 restructured loans with a net outstanding balance of $3.6 million: one was classified as special mention on accrual status ($506,000); and nine were classified as substandard ($3.1 million, all on non-accrual status). Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Assets that do not currently expose the Corporation to sufficient risk to warrant adverse classification but possess weaknesses are designated as special mention and are closely monitored by the Corporation. As of March 31, 2018 and June 30, 2017, $3.7 million or 68 percent, and $1.7 million or 46 percent, respectively, of the restructured loans were current with respect to their modified payment terms.

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

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

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

(In Thousands)	At March 31, 2018	At June 30, 2017
Restructured loans on non-accrual status:		
Mortgage loans:		
Single-family	$ 3,092	$ 3,061
Commercial business loans	58	65
Total	3,150	3,126
Restructured loans on accrual status:		

Mortgage loans:		
Single-family	2,202	506
Total	2,202	506
Total restructured loans	$ 5,352	$ 3,632

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

(In Thousands)	At March 31, 2018 Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance[1]	Net Recorded Investment
Mortgage loans:					
Single-family:					
With a related allowance	$2,235	$ —	$ 2,235	$ (161)	$ 2,074
Without a related allowance[2]	$3,610	$ (390)	$ 3,220	$ —	$ 3,220
Total single-family	5,845	(390)	5,455	(161)	5,294
Commercial business loans:					
With a related allowance	73	—	73	(15)	58
Total commercial business loans	73	—	73	(15)	58
Total restructured loans	$5,918	$ (390)	$ 5,528	$ (176)	$ 5,352

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

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

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

During the quarter ended March 31, 2018, two properties were acquired in the settlement of loans, while one previously foreclosed upon property was sold. This compares to the quarter ended March 31, 2017 when two properties were acquired in the settlement of loans, while one previously foreclosed upon property was sold. For the nine months ended March 31, 2018, three properties

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were acquired in the settlement of loans, while three previously foreclosed upon properties were sold. This compares to the nine months ended March 31, 2017 when five properties were acquired in the settlement of loans, while four previously foreclosed upon properties were sold. As of March 31, 2018, there were two outstanding real estate owned properties located in California with a net fair value of $787,000. This compares to the real estate owned with a net fair value of $1.6 million at June 30, 2017, comprised of one property located in California and one property located in Arizona. A new appraisal was obtained on each of the properties at the time of foreclosure and fair value was derived by using the lower of the appraised value or the listing price of the property, net of selling costs. Any initial loss was recorded as a charge to the allowance for loan losses before being transferred to real estate owned. Subsequent to transfer to real estate owned, if there is further deterioration in real estate values, specific real estate owned loss reserves are established and charged to the statement of operations. In addition, the Corporation records costs to carry real estate owned as real estate operating expenses as incurred.

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

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of originating loans or providing funds under existing lines of credit, loan sale commitments to third parties and option contracts. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the accompanying Condensed Consolidated Statements of Financial Condition. The Corporation's exposure to credit loss, in the event of non-performance by the counterparty to these financial instruments, is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in entering into financial instruments with off-balance sheet risk as it does for on-balance sheet instruments. As of March 31, 2018 and June 30, 2017, the Corporation had commitments to extend credit (on loans to be held for investment and loans to be held for sale) of $67.9 million and $111.8 million, respectively.

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

Commitments (In Thousands)	March 31, 2018	June 30, 2017
Undisbursed loan funds – Construction loans	$ 5,591	$9,015
Undisbursed lines of credit – Commercial business loans	579	646
Undisbursed lines of credit – Consumer loans	509	562
Commitments to extend credit on loans to be held for investment	4,996	19,119
Total	$ 11,675	$29,342

The following table provides information regarding the allowance for loan losses for the undisbursed funds and commitments to extend credit on loans to be held for investment for the quarters and nine months ended March 31, 2018 and 2017:

	For the Quarters Ended March 31,		For the Nine Months Ended March 31,	
(In Thousands)	2018	2017	2018	2017
Balance, beginning of the period	$188	$173	$277	$204

(Recovery) provision	(29)	67	(118)	36
Balance, end of the period	$159	$240	$159	$240

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 March 31, 2018, $985,000 was included in other assets and $489,000 was included in other liabilities; at June 30, 2017, $1.5 million was included in other assets and $38,000 was included in other liabilities. The Corporation does not apply hedge accounting to its derivative financial instruments; therefore, all changes in fair value are recorded in earnings.

The net impact of derivative financial instruments is recorded within the gain on sale of loans contained in the Condensed Consolidated Statements of Operations during the quarters and nine months ended March 31, 2018 and 2017 were as follows:

Derivative Financial Instruments	For the Quarters Ended March 31, 2018	2017	For the Nine Months Ended March 31, 2018	2017
(In Thousands)				
Commitments to extend credit on loans to be held for sale	$266	$628	$173	$(1,681)
Mandatory loan sale commitments and TBA MBS trades	(281)	(760)	(1,072)	2,105
Option contracts, net	—	(11)	(37)	333
Total net (loss) gain	$(15)	$(143)	$(936)	$757

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

Derivative Financial Instruments	March 31, 2018 Amount	Fair Value	June 30, 2017 Amount	Fair Value
(In Thousands)				
Commitments to extend credit on loans to be held for sale [(1)]	$62,871	$982	$92,726	$809
Best efforts loan sale commitments	(16,900)	—	(17,225)	—
Mandatory loan sale commitments and TBA MBS trades	(134,097)	(486)	(179,777)	586
Option contracts, net	—	—	(3,000)	37
Total	$(88,126)	$496	$(107,276)	$1,432

(1) Net of 26.3 percent at March 31, 2018 and 25.7 percent at June 30, 2017 of commitments which management has estimated may not fund.

Note 8: Fair Value of Financial Instruments

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

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

(In Thousands)	Aggregate Fair Value	Aggregate Unpaid Principal Balance	Net Unrealized (Loss) Gain
As of March 31, 2018:			
Loans held for investment, at fair value	$ 4,996	$ 5,319	$ (323)
Loans held for sale, at fair value	$ 89,823	$ 87,513	$ 2,310
As of June 30, 2017:			
Loans held for investment, at fair value	$ 6,445	$ 6,696	$ (251)
Loans held for sale, at fair value	$ 116,548	$ 112,940	$ 3,608

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

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

Level 1	-	Unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.
Level 2	-	Observable inputs other than Level 1 such as: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated to observable market data for substantially the full term of the asset or liability.
Level 3	-	Unobservable inputs for the asset or liability that use significant assumptions, including assumptions of risks. These unobservable assumptions reflect the Corporation’s estimate of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of pricing models, discounted cash flow models and similar techniques.

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

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

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

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

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

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

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

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

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

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

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

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

	Fair Value Measurement at March 31, 2018 Using:			
(In Thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities - available for sale:				
U.S. government agency MBS	$—	$4,656	$—	$4,656
U.S. government sponsored enterprise MBS	—	2,951	—	2,951
Private issue CMO	—	—	395	395
Investment securities - available for sale	—	7,607	395	8,002
Loans held for investment, at fair value	—	—	4,996	4,996
Loans held for sale, at fair value	—	89,823	—	89,823
Interest-only strips	—	—	24	24
Derivative assets:				
Commitments to extend credit on loans to be held for sale	—	—	985	985
Derivative assets	—	—	985	985
Total assets	$—	$97,430	$6,400	$103,830
Liabilities:				
Derivative liabilities:				
Commitments to extend credit on loans to be held for sale	$—	$—	$3	$3
Mandatory loan sale commitments	—	—	50	50
TBA MBS trades	—	436	—	436
Derivative liabilities	—	436	53	489
Total liabilities	$—	$436	$53	$489

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

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

(In Thousands)	Private Issue CMO	Loans Held For Investment, at fair value [1]	Interest-Only Strips	Loan Commit-ments to Originate [2]	Manda-tory Commit-ments [3]	Total
	For the Quarter Ended March 31, 2018 Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3)					
Beginning balance at December 31, 2017	$419	$ 5,157	$ 26	$ 716	$ (24)	$6,294
Total gains or losses (realized/unrealized):						
Included in earnings	—	(118)	—	266	(26)	122
Included in other comprehensive loss	(2)	—	(2)	—	—	(4)
Purchases	—	—	—	—	—	—
Issuances	—	—	—	—	—	—
Settlements	(22)	(43)	—	—	—	(65)
Transfers in and/or out of Level 3	—	—	—	—	—	—
Ending balance at March 31, 2018	$395	$ 4,996	$ 24	$ 982	$ (50)	$6,347

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

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

(3) Consists of mandatory loan sale commitments.

(In Thousands)	Private Issue CMO	Loans Held For Investment, at fair value [1]	Interest-Only Strips	Loan Commit-ments to Originate [2]	Manda-tory Commit-ments [3]	Option Contracts	Total
	For the Quarter Ended March 31, 2017 Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3)						
Beginning balance at December 31, 2016	$538	$ 5,964	$ 37	$ 1,476	$ (280)	$ —	$7,735
Total gains or losses (realized/unrealized):							
Included in earnings	—	(10)	—	628	216	(11)	823
Included in other comprehensive income (loss)	—	—	(2)	—	—	—	(2)
Purchases	—	—	—	—	—	42	42
Issuances	—	—	—	—	—	—	—
Settlements	(37)	(399)	—	—	5	—	(431)
Transfers in and/or out of Level 3	—	695	—	—	—	—	695
Ending balance at March 31, 2017	$501	$ 6,250	$ 35	$ 2,104	$ (59)	$ 31	$8,862

(1)

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

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

(3) Consists of mandatory loan sale commitments.

(In Thousands)	For the Nine Months Ended March 31, 2018 Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3) Private Issue CMO	Loans Held For Investment, at fair value [1]	Interest-Only Strips	Loan Commit-ments to Originate [2]	Manda-tory Commit-ments [3]	Option Contracts	Total
Beginning balance at June 30, 2017	$461	$ 6,445	$ 31	$ 809	$ 47	$ 37	$7,830
Total gains or losses (realized/unrealized):							
Included in earnings	—	(72)	—	173	(99)	(37)	(35)
Included in other comprehensive loss	(1)	—	(7)	—	—	—	(8)
Purchases	—	—	—	—	—	—	—
Issuances	—	—	—	—	—	—	—
Settlements	(65)	(1,899)	—	—	2	—	(1,962)
Transfers in and/or out of Level 3	—	522	—	—	—	—	522
Ending balance at March 31, 2018	$395	$ 4,996	$ 24	$ 982	$ (50)	$ —	$6,347

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

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

(3) Consists of mandatory loan sale commitments.

(In Thousands)	For the Nine Months Ended March 31, 2017 Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3) Private Issue CMO	Loans Held For Investment, at fair value [1]	Interest-Only Strips	Loan Commit-ments to originate [2]	Manda-tory Commit-ments [3]	Option Contracts	Total
Beginning balance at June 30, 2016	$601	$ 5,159	$ 47	$3,785	$ (31)	$ —	$9,561
Total gains or losses (realized/ unrealized):							
Included in earnings	—	(111)	—	(1,681)	(39)	333	(1,498)
Included in other comprehensive (loss) income	1	—	(12)	—	—	—	(11)
Purchases	—	—	—	—	—	180	180
Issuances	—	—	—	—	—	—	—
Settlements	(101)	(1,077)	—	—	11	(482)	(1,649)
Transfers in and/or out of Level 3	—	2,279	—	—	—	—	2,279
Ending balance at March 31, 2017	$501	$ 6,250	$ 35	$2,104	$ (59)	$ 31	$8,862

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

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

(3) Consists of mandatory loan sale commitments.

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

	Fair Value Measurement at March 31, 2018 Using:			
(In Thousands)	Level 1	Level 2	Level 3	Total
Non-performing loans	$ —	$ 5,695	$ 1,071	$ 6,766
MSA	—	—	139	139
Real estate owned, net	—	787	—	787
Total	$ —	$ 6,482	$ 1,210	$ 7,692

	Fair Value Measurement at June 30, 2017 Using:			
(In Thousands)	Level 1	Level 2	Level 3	Total
Non-performing loans	$ —	$ 7,049	$ 946	$ 7,995
MSA	—	—	407	407
Real estate owned, net	—	1,615	—	1,615
Total	$ —	$ 8,664	$ 1,353	$ 10,017

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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 March 31, 2018:

(Dollars In Thousands)	Fair Value As of March 31, 2018	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	$395	Market comparable pricing	Comparability adjustment	0.5% – 1.0% (0.9%)	Increase
Loans held for investment, at fair value	$4,996	Relative value analysis	Broker quotes Credit risk factors	95.4% – 102.3% (98.5%) of par 1.2% - 100.0% (4.6%)	Increase Decrease
Non-performing loans	$741	Discounted cash flow	Default rates	5.0%	Decrease
Non-performing loans	$330	Relative value analysis	Loss severity	20.0% - 30.0% (23.3%)	Decrease
MSA	$139	Discounted cash flow	Prepayment speed (CPR) Discount rate	8.0% - 60.0% (27.9%) 9.0% - 10.5% (9.4%)	Decrease Decrease
Interest-only strips	$24	Discounted cash flow	Prepayment speed (CPR) Discount rate	15.6% - 32.8% (29.0%) 9.0%	Decrease Decrease
Commitments to extend credit on loans to be held for sale	$985	Relative value analysis	TBA-MBS broker quotes Fall-out ratio [3]	98.3% – 103.9% (101.5%) of par 15.1% - 27.1% (26.3%)	Increase Decrease
Liabilities:					
Commitments to extend credit on loans to be held for sale	$3	Relative value analysis	TBA-MBS broker quotes Fall-out ratio [3]	100.6% – 103.8% (102.4%) of par 15.1% - 27.1% (26.3%)	Increase Decrease
Mandatory loan sale commitments	$50	Relative value analysis	TBA MBS broker quotes	100.0% - 104.5% (101.7%) of par 0.021%	Decrease Decrease

Roll-forward costs (4)

(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 other inputs. Significant increases or decreases in any of these inputs in isolation could result in significantly lower or higher fair value measurement. The various unobservable inputs used to determine valuations may have similar or diverging impacts on valuation.

The carrying amount and fair value of the Corporation's other financial instruments as of March 31, 2018 and June 30, 2017 was as follows:

	March 31, 2018				
(In Thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Investment securities - held to maturity	$95,724	$94,941	—	$94,941	$—
Loans held for investment, not recorded at fair value	$889,171	$861,134	—	—	$861,134
FHLB – San Francisco stock	$8,108	$8,108	—	$8,108	—
Financial liabilities:					
Deposits	$922,499	$887,824	—	—	$887,824
Borrowings	$111,176	$109,498	—	—	$109,498

	June 30, 2017				
(In Thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Investment securities - held to maturity	$60,441	$60,629	—	$60,629	—
Loans held for investment, not recorded at fair value	$898,474	$885,650	—	—	$885,650
FHLB – San Francisco stock	$8,108	$8,108	—	$8,108	—
Financial liabilities:					
Deposits	$926,521	$896,140	—	—	$896,140
Borrowings	$126,226	$126,083	—	—	$126,083

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

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

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

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

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

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

While the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. During the quarter ended March 31, 2018, there were no significant changes to the Corporation's valuation techniques that had, or are expected to have, a material impact on its consolidated financial position or results of operations.

Note 9: Incentive Plans

As of March 31, 2018, the Corporation had two active share-based compensation plans, which are described below. These plans are the 2013 Equity Incentive Plan ("2013 Plan") and the 2010 Equity Incentive Plan ("2010 Plan"). Additionally, the Corporation had one inactive share-based compensation plan - the 2006 Equity Incentive Plan ("2006 Plan") where no new awards can be granted but outstanding grants remain eligible for exercise.

For the quarters ended March 31, 2018 and 2017, the compensation cost for these plans was $292,000 and $254,000, respectively. The income tax benefit recognized in the Condensed Consolidated Statements of Operations per adoption of ASU 2016-09 for share-based compensation plans for the quarter ended March 31, 2018 was $186,000; while the income tax expense recognized in the Condensed Consolidated Statements of Stockholders' Equity for share-based compensation plans for the quarter ended March 31, 2017 was $165,000.

For the first nine months ended March 31, 2018 and 2017, the compensation cost for these plans was $816,000 and $1.2 million, respectively. The income tax benefit recognized in the Condensed Consolidated Statements of Operations per adoption of ASU 2016-09 for share-based compensation plans for the first nine months ended March 31, 2018 was $206,000; while the income tax benefit recognized in the Condensed Consolidated Statements of Stockholders' Equity for share-based compensation plans for the first nine months ended March 31, 2017 was $14,000.

Equity Incentive Plans. The Corporation established and the shareholders approved the 2013 Plan, the 2010 Plan and the 2006 Plan (collectively, "the Plans") for directors, advisory directors, directors emeriti, officers and employees of the Corporation and its subsidiary. The 2013 Plan authorizes 300,000 stock options and 300,000 shares of restricted stock. The 2013 Plan also provides that no person may be granted more than 60,000 stock options or 45,000 shares of restricted stock in any one year. The 2010 Plan authorizes 586,250 stock options and 288,750 shares of restricted stock. The 2010 Plan also provides that no person may be granted more than 117,250 stock options or 43,312 shares of restricted stock in any one year. The 2006 Plan authorized 365,000 stock options and 185,000 shares of restricted stock. The 2006 Plan also 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 Plans - Stock Options. Under the Plans, options may not be granted at a price less than the fair market value at the date of the grant. Options typically vest over a five-year or shorter period as long as the director, advisory director, director emeritus, officer or employee remains in service to the Corporation. The options are exercisable after vesting for up to the remaining term of the original grant. The maximum term of the options granted is 10 years.

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

During the third quarter of fiscal 2018, no