FIRST PACTRUST BANCORP INC
Form 10-K
February 25, 2011
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS

PURSUANT TO SECTIONS 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

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

For the transition period from __________ to __________
Commission file number 000-49806

FIRST PACTRUST BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland	**04-3639825**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
610 Bay Boulevard, Chula Vista, California	**91910**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code: (619) 691-1519

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

Common Stock, par value $0.01 per share

(Title of class)

Nasdaq Global Market

(Name of each exchange on which registered)

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

None

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

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES x. NO ¨.

Check whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ¨ NO ¨.

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained herein, and no disclosure will be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock on the Nasdaq Global Market as of June 30, 2010, was $21.9 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.) As of February 24, 2011, there were issued and outstanding 9,729,066 shares of the Registrant s Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

PART III of Form 10-K Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held during May 2011.

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FIRST PACTRUST BANCORP, INC. AND SUBSIDIARIES

FORM 10-K

December 31, 2010

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PART I

Item 1. Business

General

First PacTrust Bancorp, Inc. (the Company) is a unitary thrift holding company that is subject to regulation by the Office of Thrift Supervision. The Company was incorporated under Maryland law in March 2002 to hold all of the stock of Pacific Trust Bank (the Bank). As a thrift holding company, First PacTrust Bancorp, Inc., activities are limited to banking, securities, insurance and financial services-related activities. See How We Are Regulated First PacTrust Bancorp, Inc. First PacTrust Bancorp, Inc. is not an operating company and has no significant assets other than all of the outstanding shares of common stock of Pacific Trust Bank, the net proceeds retained from its initial public offering completed in August 2002, its loan to the First PacTrust Bancorp, Inc. 401(k) Employee Stock Ownership Plan, the proceeds for investments made and the net proceeds retained from the private placement completed in November 2010. First PacTrust Bancorp, Inc. has no significant liabilities other than employee compensation. The management of the Company and the Bank is substantially the same. However, Gregory Mitchell currently serves as President and Chief Operating Officer of the Company and is currently not an employee of the Bank. The Company utilizes the support staff and offices of the Bank and pays the Bank for these services. If the Company expands or changes its business in the future, the Company may hire additional employees of its own. Unless the context otherwise requires, all references to the Company include the Bank and the Company on a consolidated basis.

The Bank is a community-oriented financial institution offering a variety of financial services to meet the banking and financial needs of the communities we serve. The Bank is headquartered in San Diego County, California, and as of December 31, 2010 operated nine banking offices primarily serving San Diego and Riverside Counties in California.

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

The Company offers a variety of deposit accounts for both individuals and businesses with varying rates and terms, which generally include savings accounts, money market deposits, certificate accounts and checking accounts. The Company solicits deposits in the Company s market area and, to a lesser extent, from institutional depositors nationwide, and in the past has accepted brokered deposits.

The principal executive offices of First PacTrust Bancorp, Inc. are located at 610 Bay Boulevard, Chula Vista, California, and its telephone number is (619) 691-1519. The Company s common stock is traded on the Nasdaq Global Market under the symbol FPTB.

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

On November 1, 2010, the Company completed a private placement to select institutional and other accredited investors of 4,418,390 shares of common stock and 1,036,156 shares of newly designated Class B non-voting common stock at a price of $11.00 per share, providing the Company with aggregate gross proceeds

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of $60.0 million. In connection with the private placement, the Company issued warrants that are exercisable for a total of 1,635,000 shares of non-voting common stock at an exercise price of $11.00 per share. The primary purpose of the private placement was to enable the Company to repurchase the 19,300 shares of Fixed Rate Cumulative Perpetual Preferred Stock Series A that was issued to the U.S. Department of Treasury on November 21, 2008 pursuant to the TARP , Troubled Asset Relief Program s Capital Purchase Program. On December 15, 2010, the Company redeemed the $19.3 million of Series A Preferred Stock issued to the U.S. Treasury.

During much of 2008, 2009 and 2010, market and economic conditions in our industry and in California have declined resulting in increased delinquencies and foreclosures. A number of federal legislative and regulatory initiatives have been enacted to address these conditions. See Asset Quality and How we are Regulated in Item 1, Risk Factors in Item 1A and Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

Forward-Looking Statements

This Form 10-K contains various forward-looking statements that are based on assumptions and describe our future plans and strategies and our expectations. These forward-looking statements are generally identified by words such as believe, expect, intend, anticipate, estimate, proj similar words. Our ability to predict results or the actual effect of future plans or strategies is uncertain. Factors which could cause actual results to differ materially from those estimated include, but are not limited to, changes in interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of our loan and investment portfolios, demand for our loan products, deposit flows, our operating expenses, competition, demand for financial services in our market areas and accounting principles and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements, and you should not rely too much on these statements. We do not undertake, and specifically disclaim, any obligation to publicly revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Lending Activities

General. The Company s mortgage loans carry either a fixed or an adjustable rate of interest. Mortgage loans generally are long-term and amortize on a monthly basis with principal and/or interest due each month. At December 31, 2010, the Company s net loan portfolio totaled $678.2 million, which constituted 78.7% of our total assets. The breakdown of loans in the portfolio was: 83.8% 1-4 residential (the SFR Mortgage Portfolio), 7.6% commercial real estate, 4.8% multi-family, 2.1% land, 1.7% Consumer and other.

The $578.8 million SFR mortgage portfolio was comprised of $568.9 million of first deed of trust loans and $9.9 million of loans secured by subordinated or junior liens. The Company s SFR mortgage portfolio is comprised of a combination of traditional, fully-amortizing loans and non-traditional and/or interest only loans. For instance, in 2005 the Company introduced a fully-transactional flexible mortgage product called the Green Account. The Green Account is a first mortgage line of credit with an associated clearing account that allows all types of deposits and withdrawals to be performed, including direct deposit, check, debit card, ATM, ACH debits and credits, and internet banking and bill payment transactions. For further detailed information on the Green Account, visit the Company s website at www.pacifictrustbank.com. At December 31, 2010, the balance of the Company s Green Account loans totaled $245.5 million. Also, the Company had a total of $177.9 million in interest-only mortgage loans and $32.1 million in mortgage loans with potential for negative amortization.

As of December 31, 2010, the Executive Vice President of Lending may approve loans to one borrower or group of related borrowers up to $2.0 million. The President/CEO of the Bank may approve loans to one borrower or group of related borrowers up to $2.5 million. The Management Loan Committee may approve loans

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to one borrower or group of related borrowers up to $8.0 million, with no single loan exceeding $4.0 million. The Board Loan Committee must approve loans over these amounts or outside our general loan policy. During January, 2011, the Board of Directors of the Bank approved increases to these loan authorizations. Currently, the Executive Vice President of Lending may approve loans to one borrower or group of related borrowers up to $2.5 million. The Chief Credit Officer may approve loans to one borrower or group of related borrowers up to $3.5 million. The President/CEO may approve loans to one borrower or group of related borrowers up to $2.5 million. The Management Loan Committee may approve loans to one borrower or group of related borrowers up to $10.0 million, with no single loan exceeding $5.0 million. The Board Loan Committee must approve loans over these amounts or outside our general loan policy.

At December 31, 2010, the maximum amount which the Company could have loaned to any one borrower and the borrower s related entities was approximately $16.3 million. The largest lending relationship to a single borrower or a group of related borrowers was a combination of commercial real estate, multi-family and single family loans with an aggregate loan exposure amount of $12.0 million. The properties securing these loans are located in Anaheim and San Diego, California. All of these loans were performing in accordance with their terms as of December 31, 2010.

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

	December 31, 2010		2009		2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)									
Real Estate										
One- to four-family	$ 355,007	51.38%	$ 425,125	56.00%	$ 460,316	56.92%	$ 421,064	58.96%	$ 515,891	69.46%
Multi-family	29,245	4.23	31,421	4.14	34,831	4.31	37,339	5.23	49,597	6.68
Non-Residential	39,035	5.65	39,900	5.26	41,498	5.13	35,500	4.97	36,605	4.93
Land	10,660	1.54	13,549	1.78	21,733	2.69	21,705	3.04	20,108	2.71
Construction					17,835	2.20	18,866	2.64	16,409	2.21
Other Loans:										
Consumer	11,031	1.60	11,370	1.50	12,313	1.52	14,293	2.00	16,195	2.18
Green*	245,481	35.53	237,188	31.25	219,091	27.09	163,962	22.96	87,294	11.75
Commercial	529	0.07	567	0.07	1,133	0.14	1,398	0.20	611	0.08
Total loans	690,988	100.00%	759,120	100.00%	808,750	100.00%	714,127	100.00%	742,710	100.00%
Net deferred loan origination costs	1,824		2,262		2,581		2,208		2,004	
Allowance for loan losses	(14,637)		(13,079)		(18,286)		(6,240)		(4,670)	
Total loans receivable, net	$ 678,175		$ 748,303		$ 793,045		$ 710,095		$ 740,044	

* Under current OTS guidance, the Bank is required to classify Green loans as HELOCs on its quarterly Thrift Financial Report (TFR) due to the revolver feature of this product. Nonetheless, 87.4% of Green mortgages are first trust deed mortgages. The Company has requested the OTS reconsider the classification of these loans on TFRs to better reflect their terms and characteristics. Historically, these loans have outperformed the Bank s traditional one-to four- unit first deed of trust mortgage portfolio. From 2008-2010, the Green Account loans experienced losses of 0.14% of the aggregate loan amount, while the traditional mortgage portfolio experienced a loss rate of 0.13%. As of December 31, 2010, none of the Company s Green Accounts were nonperforming.

As of December 31, 2010, of this total $214.5 million was secured by one-to four family properties, $13.7 million was secured by commercial properties, $9.3 million was secured by second trust deed lines of credit, $3.8 million was secured by multi-family properties and $4.2 million was secured by land. At 12/31/09, of this total $208.9 million was secured by one-to four family properties, $14.3 million was secured by commercial properties, $8.7 million was secured by second trust deed lines of credit, $2.8 million was

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secured by multi-family properties and $2.5 million was secured by land. At 12/31/08, of this total $192.5 million was secured by one-to four-family loans, $14.9 million was secured by commercial properties, $8.3 million was secured by second trust deed line of credit, $2.5 million was secured by multi-family properties, and $798 thousand was secured by land. At 12/31/07, of this total $149.3 million was secured by one-to four- family properties, $6.2 million was secured by commercial properties, $5.7 million was secured by second trust deed lines of credit, $2.3 million was secured by multi-family properties and $429 thousand was secured by land. At 12/31/06, of this total $82.7 million was secured by one- to four- family properties, $2.0 million was secured by second trust deed lines of credit, $1.3 million was secured by multi-family properties and $1.7 million was secured by commercial properties.

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

	December 31,									
	2010		2009		2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)									
FIXED-RATE LOANS										
Real Estate										
One- to four-family	$ 5,019	0.73%	$ 6,396	0.84%	$ 7,740	0.96%	$ 10,440	1.46%	$ 10,750	1.45%
Multi-family	22,532	3.26	21,992	2.90	22,693	2.81	23,035	3.23	29,458	3.97
Non-Residential	24,463	3.54	25,048	3.30	25,591	3.16	25,425	3.56	17,984	2.42
Land	9,823	1.42	12,691	1.67	21,631	2.67	21,601			