First Foundation Inc.
Form 10-Q
November 16, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015

OR

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

Commission File Number 001-36461

FIRST FOUNDATION INC.

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	20-8639702 (I.R.S. Employer Identification Number)
18101 Von Karman Avenue, Suite 700 Irvine, CA 92612 (Address of principal executive offices)	92612 (Zip Code)

(949) 202-4160

(Registrant's telephone number, including area code)

Not Applicable

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

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions 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	x	Smaller reporting company	¨

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

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.

15,962,686 shares of Common Stock, par value $0.001 per share, as of November 12, 2015

FIRST FOUNDATION INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
FIRST FOUNDATION INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	September 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Cash and cash equivalents	$206,338	$29,692
Securities available-for-sale (“AFS”)	360,559	138,270
Loans held for sale	108,903	—
Loans, net of deferred fees	1,536,005	1,166,392
Allowance for loan and lease losses (“ALLL”)	(11,300)	(10,150)
Net loans	1,524,705	1,156,242
Investment in FHLB stock	17,820	12,361
Premises and equipment, net	2,397	2,187
Deferred taxes	11,969	9,748
Real estate owned (“REO”)	4,492	334
Goodwill and intangibles	2,481	197
Other assets	9,083	6,393
Total Assets	$2,248,747	$1,355,424
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Liabilities:		
Deposits	$1,321,527	$962,954
Borrowings	660,000	282,886
Accounts payable and other liabilities	9,924	10,088
Total Liabilities	1,991,451	1,255,928
Commitments and contingencies	—	—
Shareholders’ Equity		
	16	8

Common Stock, par value $.001: 20,000,000 shares authorized; 15,962,686 and 7,845,182 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively		
Additional paid-in-capital	226,796	78,204
Retained earnings	28,714	20,384
Accumulated other comprehensive income, net of tax	1,770	900
Total Shareholders' Equity	257,296	99,496
Total Liabilities and Shareholders' Equity	$2,248,747	$1,355,424

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED INCOME STATEMENTS - UNAUDITED

(In thousands, except share and per share amounts)

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Interest income:				
Loans	$15,634	$11,404	$41,097	$31,735
Securities AFS	1,107	799	2,744	1,741
Fed funds sold, FHLB stock and deposits	367	181	1,418	514
Total interest income	17,108	12,384	45,259	33,990
Interest expense:				
Deposits	1,328	953	3,366	2,595
Borrowings	319	284	1,137	682
Total interest expense	1,647	1,237	4,503	3,277
Net interest income	15,461	11,147	40,756	30,713
Provision for loan losses	570	—	1,473	235
Net interest income after provision for loan losses	14,891	11,147	39,283	30,478
Noninterest income:				
Asset management, consulting and other fees	5,870	6,309	17,642	17,388
Other income	998	428	1,850	1,316
Total noninterest income	6,868	6,737	19,492	18,704
Noninterest expense:				
Compensation and benefits	10,870	8,764	29,440	25,278
Occupancy and depreciation	2,561	1,867	6,486	5,499
Professional services and marketing costs	1,481	1,192	4,051	4,540
Other expenses	2,044	1,272	4,311	4,195
Total noninterest expense	16,956	13,095	44,288	39,512
Income before taxes on income	4,803	4,789	14,487	9,670
Taxes on income	2,041	2,130	6,157	4,282
Net income	$2,762	$2,659	$8,330	$5,388
Net income per share:				
Basic	$0.22	$0.34	$0.87	$0.70
Diluted	$0.21	$0.32	$0.84	$0.66

Shares used to compute net income per share:				
Basic	12,623,924	7,735,350	9,534,056	7,734,372
Diluted	13,074,935	8,240,424	9,929,445	8,188,633

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENT OF CHANGES

IN SHAREHOLDERS' EQUITY - Unaudited

(In thousands, except share amounts)

	Common Stock		Additional		Accumulated Other	
	Number of Shares	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Total
Balance: December 31, 2014	7,485,182	$ 8	$78,204	$20,384	$ 900	$99,496
Net income				8,330		8,330
Other comprehensive income					870	870
Stock based compensation			383			383
Issuance of common stock:						
Exercise of options	17,100		201			201
Payout of contingent consideration	31,064		452			452
Sale of stock	272,035		5,000			5,000
Stock issued in acquisition	621,345	1	11,805			11,806
Issuance of restricted stock	7,129					
Public Offering	7,168,831	7	130,751			130,758
Balance: September 30, 2015	15,962,686	$ 16	$226,796	$28,714	$ 1,770	$257,296

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME - UNAUDITED

(In thousands)

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net income	$2,762	$2,659	$8,330	$5,388
Other comprehensive income:				
Unrealized holding gains (losses) on securities arising during the period	2,690	(704)	1,477	2,249
Other comprehensive income (loss) before tax	2,690	(704)	1,477	2,249
Income tax (expense) benefit related to items of other comprehensive income	(1,107)	291	(607)	(926)
Other comprehensive income (loss)	1,583	(413)	870	1,323
Total comprehensive income	$4,345	$2,246	$9,200	$6,711

(See accompanying notes to the consolidated financial statements)

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FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(In thousands)

	For the Nine Months Ended September 30, 2015	2014
Cash Flows from Operating Activities:		
Net income	$8,330	$5,388
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,473	235
Stock–based compensation expense	383	387
Depreciation and amortization	995	949
Deferred tax provision	(1,068)	487
Accretion of discounts on purchased loans, net	(523)	(1,581)
Gain on sale of loans	(205)	—
Gain on sale of REO	—	(1,038)
Increase in other assets	(2,076)	(793)
Increase/(decrease) in accounts payable and other liabilities	(14)	3,309
Net cash provided by operating activities	7,295	7,343
Cash Flows from Investing Activities:		
Net increase in loans (including changes in loans held for sale)	(402,543)	(198,383)
Proceeds from sale of loans	2,205	—
Proceeds from sale of REO	—	4,198
Purchase of loan secured by REO property	—	(1,285)
Purchases of premises and equipment	(1,142)	(152)
Purchase of securities AFS	(225,396)	(78,639)
Maturity / sale / payments – securities AFS	11,648	5,115
Cash acquired in acquisition	38,081	—
Purchases (net of redemptions) of FHLB stock	(5,307)	(3,055)
Net cash used in investing activities	(582,454)	(272,201)
Cash Flows from Financing Activities:		
Increase in deposits	238,732	149,127
FHLB Advances – net increase	397,000	74,000
Proceeds – term note	10,114	15,000
Principal payments – term note	(30,000)	(1,381)
Proceeds from sale of stock, net	135,959	-
Net cash provided by financing activities	751,805	236,746
Increase (decrease) in cash and cash equivalents	176,646	(28,112)
Cash and cash equivalents at beginning of year	29,692	56,954
Cash and cash equivalents at end of period	$206,338	$28,842

Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$4,444	$3,167
Income taxes	$7,650	$2,501
Noncash transactions:		
Chargeoffs against allowance for loans losses	$323	$—
Transfer of foreclosed loans to REO	$—	$1,834
Transfer of loans to loans held for sale	$113,325	$—

(See accompanying notes to the consolidated financial statements)

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FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 - UNAUDITED

NOTE 1: BASIS OF PRESENTATION

The consolidated financial statements include First Foundation Inc. (“FFI”) and its wholly owned subsidiaries: First Foundation Advisors (“FFA”), First Foundation Bank (“FFB” or the “Bank”) and First Foundation Insurance Services (“FFIS”), a wholly owned subsidiary of FFB (collectively referred to as the “Company”). All inter-company balances and transactions have been eliminated in consolidation. The results of operations reflect any interim adjustments, all of which are of a normal recurring nature and which, in the opinion of management, are necessary for a fair presentation of the results for the interim period presented. The results for the 2015 interim periods are not necessarily indicative of the results expected for the full year.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

The accompanying unaudited consolidated financial statements include all information and footnotes required for interim financial statement presentation. Those financial statements assume that readers of this Report have read the most recent Annual Report on Form 10-K which contains the latest available audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2014.

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the 2015 presentation.

In September, 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments”. The amendments in this update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2015, including interim periods within those fiscal periods. The adoption of ASU No. 2015-16 is not expected to have a material impact on the Company’s Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 660): Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs-Contracts with Customers (Subtopic 340-40)”. The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. This update was originally effective for annual reporting periods beginning on or after December 15, 2016 and interim periods therein and requires expanded disclosures. In July 2015 the FASB issued a deferral of ASU 2014-09 of one year making it effective for annual reporting periods beginning on or after December 15, 2017 while also providing for early adoption but not before the original effective date. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance to have a material impact on the Company's consolidated financial statements.

NOTE 2: ACQUISITIONS

On June 16, 2015, the Company completed the acquisition of Pacific Rim Bank (‘PRB”), through a merger of PRB with and into the Bank, in exchange for 621,345 shares of its common stock with a fair value of $19.00 per share and paid $543,000 in cash, which was paid to dissenting shareholders. The primary reason for acquiring PRB was to expand our operations into Hawaii.

The acquisition is accounted for under the purchase method of accounting. The acquired assets, assumed liabilities and identifiable intangible assets are recorded at their respective acquisition date fair values. Goodwill of $1.3 million, which is not tax deductible, is included in intangible assets in the table below. These amounts are based on current information and are subject to adjustment as the Company completes its analysis of the fair values of the assets acquired and liabilities assumed.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – UNAUDITED

The following table represents the assets acquired and liabilities assumed of PRB as of June 16, 2015 and the fair value adjustments and amounts recorded by the Bank in 2015 under the acquisition method of accounting:

(dollars in thousands)	PRB Book Value	Fair Value Adjustments	Fair Value
Assets Acquired:			
Cash and cash equivalents	$38,624	$ —	$38,624
Securities AFS	7,179	115	7,294
Loans, net of deferred fees	80,192	(2,419)	77,773
Allowance for loan losses	(2,034)	2,034	—
Premises and equipment, net	251	(188)	63
Investment in FHLB stock	152	—	152
Deferred taxes	—	1,802	1,802
REO	4,374	(216)	4,158
Intangible assets	—	2,399	2,399
Other assets	269	—	269
Total assets acquired	$129,007	$ 3,527	$132,534
Liabilities Assumed:			
Deposits	$119,663	$ 178	$119,841
Accounts payable and other liabilities	442	(98)	344
Total liabilities assumed	120,105	80	120,185
Excess of assets acquired over liabilities assumed	8,902	3,447	12,349
Total	$129,007	$ 3,527	$132,534
Consideration:			
Stock issued			$11,806
Cash paid			543
Total			$12,349

In many cases, the fair values of assets acquired and liabilities assumed were determined by estimating the cash flows expected to result from those assets and liabilities and discounting them at appropriate market rates. The most significant category of assets for which this procedure was used was that of acquired loans. The excess of expected cash flows above the fair value of the majority of loans will be accreted to interest income over the remaining lives of the loans in accordance with FASB Accounting Standards Codification (“ASC”) 310-20.

Certain loans, for which specific credit-related deterioration since origination was identified, are recorded at fair value reflecting the present value of the amounts expected to be collected. Income recognition on these “purchased credit impaired” loans is based on a reasonable expectation about the timing and amount of cash flows to be collected. Acquired loans deemed impaired and considered collateral dependent, with the timing of the sale of loan collateral indeterminate, remain on nonaccrual status and have no accretable yield. All purchased credit impaired loans were classified as accruing loans as of and subsequent to the acquisition date.

In accordance with generally accepted accounting principles there was no carryover of the allowance for loan losses that had been previously recorded by PRB.

The Company recorded a deferred income tax asset of $1.8 million related to PRB’s operating loss carry-forward and other tax attributes of PRB, along with the effects of fair value adjustments resulting from applying the purchase method of accounting.

The fair value of savings and transaction deposit accounts acquired from PRB were assumed to approximate their carrying value as these accounts have no stated maturity and are payable on demand. Certificates of deposit accounts were valued by comparing the contractual cost of the portfolio to an identical portfolio bearing current market rates. The portfolio was segregated into pools based on remaining maturity. For each pool, the projected cash flows from maturing certificates were then calculated based on contractual rates and prevailing market rates. The valuation adjustment for each pool is equal to the present value of the difference of these two cash flows, discounted at the assumed market rate for a certificate with a corresponding maturity. This valuation adjustment

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – UNAUDITED

will be accreted to reduce interest expense over the remaining maturities of the respective pools. The Company also recorded a core deposit intangible, which represents the value of the deposit relationships acquired from PRB, of $1.1 million. The core deposit intangible will be amortized over a period of 7 years.

Pro Forma Information (unaudited)

The following table presents unaudited pro forma information as if the acquisition of PRB had occurred on January 1, 2015, and January 1, 2014, for the nine months periods ending September 30, 2015 and 2014, respectively, after giving effect to certain adjustments. The unaudited pro forma information for these periods includes adjustments for interest income on loans acquired, amortization of intangibles arising from the transaction, adjustments for interest expense on deposits acquired, and the related income tax effects of all these items and the income tax benefits derived from PRB's loss before taxes. The net effect of these pro forma adjustments were increases of $0.2 million and $33,000 in net income for the nine months ended September 30, 2015 and 2014, respectively. The unaudited pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transaction been effected on the assumed dates.

	Nine Months Ended September 30,	
	2015	2014
(dollars in thousands)		
Net interest income	$42,386	$33,616
Provision for loan losses	1,473	235
Noninterest income	19,610	19,074
Noninterest expenses	47,050	43,330
Income before taxes	13,473	9,125
Taxes on income	5,728	4,051
Net income	$7,745	$5,074
Net income per share:		
Basic	$0.76	$0.61
Diluted	$0.73	$0.58

The revenues (net interest income and noninterest income) and net income for the period from June 16, 2015 to September 30, 2015 related to the operations acquired from PRB and included in the results of operations for the nine months ended September 30, 2015 was approximately $1.6 million and $0.5 million, respectively.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – UNAUDITED

NOTE 3: FAIR VALUE MEASUREMENTS

Assets Measured at Fair Value on a Recurring Basis

The following tables show the recorded amounts of assets and liabilities measured at fair value on a recurring basis as of:

		Fair Value Measurement Level		
	Total	Level 1	Level 2	Level 3
(dollars in thousands)				
September 30, 2015:				
Investment securities available for sale:				
US Treasury securities	$300	$300	$—	$ —
FNMA and FHLB Agency notes	16,236	—	16,236	—
Agency mortgage-backed securities	344,023	—	344,023	—
Total assets at fair value on a recurring basis	$360,559	$300	$360,259	$ —
December 31, 2014:				
Investment securities available for sale:				
US Treasury securities	$300	$300	$—	$ —
FNMA and FHLB Agency notes	10,277	—	10,277	—
Agency mortgage-backed securities	127,693	—	127,693	—
Total assets at fair value on a recurring basis	$138,270	$300	$137,970	$ —

Fair Value of Financial Instruments

We have elected to use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available for sale are measured at fair value on a recurring basis. Additionally, from time to time, we may be required to measure at fair value other assets on a nonrecurring basis, such as loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Fair value estimates are made at a discrete point in time based on relevant market information and other information about the financial instruments. Because no active market exists for a significant portion of our financial instruments, fair value estimates are based in large part on judgments we make primarily regarding current economic conditions, risk characteristics of various financial instruments, prepayment rates, and future expected loss experience. These estimates are subjective in nature and invariably involve some inherent uncertainties. Additionally, unexpected changes in events or circumstances can occur that could require us to make changes to our assumptions and which, in turn, could significantly affect and require us to make changes to our previous estimates of fair value.

In addition, the fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of existing and anticipated future customer relationships and the value of assets and liabilities that are not considered financial instruments, such as premises and equipment and other real estate owned.

The Company does not currently have any assets measured at fair value on a nonrecurring basis.

The following methods and assumptions were used to estimate the fair value of financial instruments.

Cash and Cash Equivalents. The fair value of cash and cash equivalents approximates its carrying value.

Interest-Bearing Deposits with Financial Institutions. The fair values of interest-bearing deposits maturing within ninety days approximate their carrying values.

Investment Securities Available for Sale. Investment securities available-for-sale are measured at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security’s credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as level 3 include asset-backed securities in less liquid markets.

Federal Home Loan Bank and Federal Reserve Bank Stock. The Bank is a member of the Federal Home Loan Bank (the "FHLB") and the Federal Reserve Bank of San Francisco (the "FRB"). As members, we are required to own stock of the FHLB and the FRB, the amount of which is based primarily on the level of our borrowings from those institutions. We also have the right to acquire additional shares of stock in either or both of the FHLB and the FRB; however, to date, we have not done so. The fair values of that stock are equal to their respective carrying amounts, are classified as restricted securities and are periodically evaluated for impairment based on our assessment of the ultimate recoverability of our investments in that stock. Any cash or stock dividends paid to us on such stock are reported as income.

Loans Held for Sale. Mortgage loans originated or transferred and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Loans. The fair value for loans with variable interest rates is the carrying amount. The fair value of fixed rate loans is derived by calculating the discounted value of future cash flows expected to be received by the various homogeneous categories of loans. All loans have been adjusted to reflect changes in credit risk.

Impaired Loans. ASC 820-10 applies to loans measured for impairment in accordance with ASC 310-10, "Accounting by Creditors for Impairment of a Loan", including impaired loans measured at an observable market price (if available), and at the fair value of the loan's collateral (if the loan is collateral dependent) less selling cost. The fair value of an impaired loan is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. When the fair value of the collateral is based on an observable market price or a current appraised value, we measure the impaired loan at nonrecurring Level 2. When an appraised value is not available, or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price or a discounted cash flow has been used to determine the fair value, we measure the impaired loan at nonrecurring Level 3.

Deposits. The fair value of demand deposits, savings deposits, and money market deposits is defined as the amounts payable on demand at quarter-end. The fair value of fixed maturity certificates of deposit is estimated based on the discounted value of the future cash flows expected to be paid on the deposits.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – UNAUDITED

Borrowings. The fair value of $660 million in borrowings is the carrying value of overnight FHLB advances that approximate fair value because of the short-term maturity of this instrument, resulting in a Level 2 classification. The fair value of term borrowings is derived by calculating the discounted value of future cash flows expected to be paid out by the Company. The term loan with a balance of $19.9 million at December 31, 2014 was a variable rate loan for which the rate adjusted quarterly, and as such, its fair value was based on its carrying value resulting in a Level 3 classification. The carrying amounts and estimated fair values of financial instruments are as follows as of:

	Carrying	Fair Value Measurement Level			
(dollars in thousands)	Value	1	2	3	Total
September 30, 2015:					
Assets:					
Cash and cash equivalents	$206,338	$206,338	$—	$—	$206,338
Securities AFS	360,559	300	360,259	—	360,559
Loans	1,524,705	—	—	1,557,574	1,557,574
Loans held for sale	108,903	—	—	110,809	110,809
Investment in FHLB stock	17,820	17,820	—	—	17,820
Liabilities:					
Deposits	1,321,527	960,672	359,382	—	1,320,054
Borrowings	660,000	-	660,000	—	660,000
December 31, 2014:					
Assets:					
Cash and cash equivalents	$29,692	$29,692	$—	$—	$29,692
Securities AFS	138,270	300	137,970	—	138,270
Loans	1,156,242	—	—	1,186,408	1,186,408
Investment in FHLB stock	12,361	12,361	—	—	12,361
Liabilities:					
Deposits	962,954	709,604	253,244	—	962,848
Borrowings	282,886	—	263,000	19,886	282,886

NOTE 4: SECURITIES

The following table provides a summary of the Company’s securities AFS portfolio as of:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2015:				
US Treasury securities	$ 300	$—	$—	$ 300
FNMA and FHLB Agency notes	16,167	69	—	16,236
Agency mortgage-backed securities	341,085	3,126	(188)	344,023
Total	$ 357,552	$ 3,195	$ (188)	$ 360,559
December 31, 2014:				
US Treasury securities	$ 300	$—	$—	$ 300
FNMA and FHLB Agency notes	10,496	—	(219)	10,277
Agency mortgage-backed securities	125,944	1,881	(132)	127,693
Total	$ 136,740	$ 1,881	$ (351)	$ 138,270

The US Treasury securities are pledged as collateral to the State of California to meet regulatory requirements related to the Bank’s trust operations.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – UNAUDITED

The table below indicates, as of September 30, 2015 the gross unrealized losses and fair values of our investments, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position.

	Securities with Unrealized Loss at September 30, 2015					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
FNMA and FHLB Agency notes	$—	$—	$—	$—	$—	$ —
Agency mortgage backed securities	20,268	(188)	—	—	20,268	(188)
Total temporarily impaired securities	$20,268	$(188)	$—	$—	$20,268	$ (188)

Unrealized losses on FNMA and FHLB agency notes and agency mortgage-backed securities have not been recognized into income because the issuer bonds are of high credit quality, management does not intend to sell and it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the bonds approach maturity.

The scheduled maturities of securities AFS and the related weighted average yields were as follows as of September 30, 2015:

(dollars in thousands)	Less than 1 Year	1 Through 5 years	5 Through 10 Years	After 10 Years	Total
Amortized Cost:					
US Treasury securities	$300	$—	$—	$—	$300
FNMA and FHLB Agency notes	—	12,760	2,748	659	16,167
Total	$300	$12,760	$2,748	$659	$16,467
Weighted average yield	0.45%	1.50%	1.94%	2.86%	1.61%
Estimated Fair Value:					
US Treasury securities	$300	$—	$—	$—	$300
FNMA and FHLB Agency notes	—	12,798	2,763	675	16,236
Total	$300	$12,798	$2,763	$675	$16,536

Agency mortgage backed securities are excluded from the above table because such securities are not due at a single maturity date. The weighted average yield of the agency mortgage backed securities as of September 30, 2015 was 2.29%.

NOTE 5: LOANS

The following is a summary of our loans as of:

(dollars in thousands)	September 30, 2015	December 31, 2014
Outstanding principal balance:		
Loans secured by real estate:		
Residential properties:		
Multifamily	$478,018	$481,491
Single family	521,702	360,644
Total real estate loans secured by residential properties	999,720	842,135
Commercial properties	329,972	205,320
Land and construction	12,570	4,309
Total real estate loans	1,342,262	1,051,764
Commercial and industrial loans	158,259	93,537
Consumer loans	35,979	21,125
Total loans	1,536,500	1,166,426
Premiums, discounts and deferred fees and expenses	(495)	(34)
Total	$1,536,005	$1,166,392

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FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – UNAUDITED

As of September 30, 2015 and December 31, 2014, the principal balances shown above are net of unaccreted discount related to loans acquired in an acquisition of $2.9 million and $0.8 million, respectively.

In 2012 and 2015, the Company purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of these purchased credit impaired loans is as follows for the periods indicated:

(dollars in thousands)	Nine Months Ended September 30, 2015	Year Ended December 31, 2014
Outstanding principal balance:		
Loans secured by real estate:		
Residential properties	$ —	$ —
Commercial properties	537	206
Land	1,616	—
Total real estate loans	2,153	206
Commercial and industrial loans	6,788	2,002
Consumer loans	19	249
Total loans	8,960	2,457
Unaccreted discount on purchased credit impaired loans	(2,298)	(651)
Total	$ 6,662	$ 1,806

Accretable yield, or income expected to be collected on purchased credit impaired loans, is as follows as of:

(dollars in thousands)	September 30, 2015	December 31, 2014
Beginning balance	$ 130	$ 2,349
Accretion of income	(207)	(1,076)
Reclassifications from nonaccretable difference	—	(391)
Acquisition	789	—
Disposals	(56)	(752)
Ending balance	$ 656	$ 130

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – UNAUDITED

The following table summarizes our delinquent and nonaccrual loans as of:

	Past Due and Still Accruing				Total Past		
	30–59	60-89	90 Days		Due and		
(dollars in thousands)	Days	Days	or More	Nonaccrual	Nonaccrual	Current	Total
September 30, 2015:							
Real estate loans:							
Residential properties	$—	$—	$—	$ —	$ —	$999,720	$999,720
Commercial properties	—	—	797	1,579	2,376	327,596	329,972
Land and construction	—	—	965	—	965	11,605	12,570
Commercial and industrial loans	984	76	2,365	2,550	5,975	152,284	158,259
Consumer loans	—	—	—	89	89	35,890	35,979
Total	$984	$76	$ 4,127	$ 4,218	$ 9,405	$1,527,095	$1,536,500
Percentage of total loans	0.06 %	0.00 %	0.27 %	0.27 %	0.61 %		
December 31, 2014:							
Real estate loans:							
Residential properties	$—	$—	$—	$ —	$ —	$842,135	$842,135
Commercial properties	—	805	200	596	1,601	203,719	205,320
Land and construction	—	—	651	—	651	3,658	4,309
Commercial and industrial loans	2,092	289	700	342	3,423	90,114	93,537
Consumer loans	—	—	637	163	800	20,325	21,125
Total	$2,092	$1,094	$ 2,188	$ 1,101	$ 6,475	$1,159,951	$1,166,426
Percentage of total loans	0.18 %	0.09 %	0.19 %	0.09 %	0.56 %		

Accrual of interest on loans is discontinued when reasonable doubt exists as to the full, timely collection of interest or principal and, generally, when a loan becomes contractually past due for ninety days or more with respect to principal or interest. The accrual of interest may be continued on a well-secured loan contractually past due ninety days or more with respect to principal or interest if the loan is in the process of collection or collection of the principal and interest is deemed probable. The Bank considers a loan to be impaired when, based upon current information and events, it believes it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. The determination of past due, nonaccrual or impairment status of loans acquired in an acquisition, other than loans deemed purchased impaired, is the same as loans we originate.

As of September 30, 2015 and December 31, 2014, the Company had two loans with a balance of $0.5 million and $0.5 million, respectively, classified as a troubled debt restructuring (“TDR”) which are included as nonaccrual in the table above. Both loans were classified as a TDR as a result of a reduction in required principal payments and an extension of the maturity date of the loans.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 30, 2015 – UNAUDITED

NOTE 6: ALLOWANCE FOR LOAN LOSSES

The following is a roll forward of the Bank's allowance for loan losses for the following periods:

(dollars in thousands)	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Quarter Ended September 30, 2015:					
Real estate loans:					
Residential properties	$ 6,628	$ 291	$ —	$ —	$ 6,919
Commercial properties	1,912	298	(70)	—	2,140
Commercial and industrial loans	1,917	77	—	—	1,994
Consumer loans	343	(96)	—	—	247
Total	$ 10,800	$ 570	$ (70)	$ —	$ 11,300
Nine Months Ended September 30, 2015:					
Real estate loans:					
Residential properties	$ 6,586	$ 333	$ —	$ —	$ 6,919
Commercial properties	1,526	924	(310)	—	2,140
Commercial and industrial loans	1,897	110	(13)	—	1,994
Consumer loans	141				