COMMUNITY WEST BANCSHARES /
Form 10-Q
May 08, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 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: 000-23575

COMMUNITY WEST BANCSHARES
(Exact name of registrant as specified in its charter)

California	77-0446957
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

445 Pine Avenue, Goleta, California	93117
(Address of principal executive offices)	(Zip Code)

(805) 692-5821
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 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 definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

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

Common stock of the registrant issued and outstanding of 8,204,158 as of April 30, 2015.

Table of Contents

The financial statements included in this Form 10-Q should be read in conjunction with Community West Bancshares' Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

COMMUNITY WEST BANCSHARES
CONSOLIDATED BALANCE SHEETS

	March 31, 2015	December 31, 2014
	(unaudited)	
	(in thousands, except share amounts)	
Assets:		
Cash and due from banks	$1,667	$1,609
Federal funds sold	22	22
Interest-earning demand in other financial institutions	33,758	17,328
Cash and cash equivalents	35,447	18,959
Money market investments	99	99
Investment securities - available-for-sale, at fair value; amortized cost of $23,094 at March 31, 2015 and $22,141 at December 31, 2014	23,123	22,194
Investment securities - held-to-maturity, at amortized cost; fair value of $8,415 at March 31, 2015 and $8,894 at December 31, 2014	7,931	8,447
Federal Home Loan Bank stock, at cost	1,716	1,716
Federal Reserve Bank stock, at cost	1,373	1,373
Loans:		
Held for sale, at lower of cost or fair value	63,724	66,759
Held for investment, net of allowance for loan losses of $7,275 at March 31, 2015 and $7,877 at December 31, 2014	422,077	420,497
Total loans	485,801	487,256
Other assets acquired through foreclosure, net	320	137
Premises and equipment, net	3,018	3,053
Other assets	13,443	14,084
Total assets	$572,271	$557,318
Liabilities:		
Deposits:		
Non-interest-bearing demand	$71,278	$57,364
Interest-bearing demand	265,000	275,631
Savings	15,283	15,265
Certificates of deposit ($250,000 or more)	30,705	13,601
Other certificates of deposit	113,404	115,223
Total deposits	495,670	477,084
Other borrowings	5,000	10,000
Other liabilities	4,098	3,227
Total liabilities	504,768	490,311
Stockholders' equity:		
Preferred stock — no par value, 10,000,000 shares authorized; 5,995 shares issued and outstanding at March 31, 2015 and 7,014 at December 31, 2014	5,995	7,014
	42,001	41,957

Common stock — no par value, 20,000,000 shares authorized; 8,204,158 shares issued and outstanding at March 31, 2015 and 8,203,033 at December 31, 2014		
Retained earnings	19,490	18,005
Accumulated other comprehensive income	17	31
Total stockholders' equity	67,503	67,007
Total liabilities and stockholders' equity	$572,271	$557,318

See the accompanying notes.

Table of Contents
COMMUNITY WEST BANCSHARES
CONSOLIDATED INCOME STATEMENTS (unaudited)

	Three Months Ended March 31,	
	2015	2014
	(in thousands, except per share amounts)	
Interest income:		
Loans, including fees	$6,712	$6,761
Investment securities and other	305	200
Total interest income	7,017	6,961
Interest expense:		
Deposits	605	642
Other borrowings and convertible debt	61	237
Total interest expense	666	879
Net interest income	6,351	6,082
Provision for loan losses	(968)	(1,371)
Net interest income after provision for loan losses	7,319	7,453
Non-interest income:		
Other loan fees	175	175
Gains from loan sales, net	36	65
Document processing fees	92	78
Service charges	73	72
Other	104	128
Total non-interest income	480	518
Non-interest expenses:		
Salaries and employee benefits	3,115	3,227
Occupancy, net	445	439
Professional services	248	360
Data processing	119	172
Depreciation	91	75
Loan servicing and collection	89	265
Advertising and marketing	80	121
Stock option	42	211
FDIC assessment	71	80
Net (gain) loss on sales/write-downs of foreclosed real estate and repossessed assets	(1)	40
Other	472	535
Total non-interest expenses	4,771	5,525
Income before provision for income taxes	3,028	2,446
Income taxes	1,258	1,004
Net income	1,770	1,442
Dividends on preferred stock	140	273
Discount on partial redemption of preferred stock	(19)	—
Net income available to common stockholders	$1,649	$1,169
Earnings per share:		
Basic	$0.20	$0.15
Diluted	$0.19	$0.15
Weighted average number of common shares outstanding:		

Basic	8,203	7,971
Diluted	8,501	8,534
Dividends declared per common share	$0.02	$—

See the accompanying notes.

4

Table of Contents
COMMUNITY WEST BANCSHARES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Net income	$1,770	$1,442
Other comprehensive income (loss), net:		
Unrealized (loss) income on securities available-for-sale (AFS), net (tax effect of $10 and ($66) for each respective period presented)	(14)	95
Net other comprehensive income (loss)	(14)	95
Comprehensive income	$1,756	$1,537

See the accompanying notes.

Table of Contents
COMMUNITY WEST BANCSHARES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (unaudited)

	Preferred Stock		Common Stock		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
	(in thousands)						
Balance, December 31, 2014:	7	$7,014	8,203	$41,957	$ 31	$18,005	$ 67,007
Net income	—	—	—	—	—	1,770	1,770
Exercise of stock options	—	—	1	2	—	—	2
Stock option expense	—	—	—	42	—	—	42
Preferred stock redemption and discount	(1)	(1,019)	—	—	—	19	(1,000)
Dividends on preferred stock	—	—	—	—	—	(140)	(140)
Dividends on common stock	—	—	—	—	—	(164)	(164)
Other comprehensive loss, net	—	—	—	—	(14)	—	(14)
Balance, March 31, 2015	6	$5,995	8,204	$42,001	$ 17	$19,490	$ 67,503

See the accompanying notes.

Table of Contents

COMMUNITY WEST BANCSHARES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Cash flows from operating activities:		
Net income	$1,770	$1,442
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan losses	(968)	(1,371)
Depreciation	91	75
Stock-based compensation	42	211
Deferred income taxes	283	(142)
Net accretion of discounts and premiums for investment securities	(75)	2
(Gains)/Losses on:		
Sale of repossessed assets, net	(1)	40
Sale of loans, net	(36)	(65)
Sale of assets, net	39	—
Loans originated for sale and principal collections, net	3,071	(1,467)
Changes in:		
Other assets	356	589
Other liabilities	894	782
Servicing rights, net	2	66
Net cash provided by operating activities	5,468	162
Cash flows from investing activities:		
Principal pay downs and maturities of available-for-sale securities	4,549	407
Purchase of available-for-sale securities	(5,422)	(1,965)
Proceeds from principal pay downs and maturities of securities held-to-maturity	511	275
Loan originations and principal collections, net	(834)	(8,618)
Liquidation of restricted stock, net	—	225
Purchase of premises and equipment, net	(95)	(34)
Proceeds from sale of other real estate owned and repossessed assets, net	40	393
Net cash used in investing activities	(1,251)	(9,317)
Cash flows from financing activities:		
Net increase in deposits	18,586	10,390
Net decrease in borrowings	(5,000)	(34)
Exercise of stock options	2	1
Cash dividends paid on common stock	(164)	—
Redemption of preferred stock	(1,000)	—
Cash dividends paid on preferred stock	(153)	(1,630)
Net cash provided by financing activities	12,271	8,727
Net (decrease) increase in cash and cash equivalents	16,488	(428)
Cash and cash equivalents at beginning of year	18,959	19,478
Cash and cash equivalents at end of period	$35,447	$19,050
Supplemental disclosure:		
Cash paid during the period for:		
Interest	$661	$762
Income taxes	—	—
Non-cash investing and financing activity:		

Transfers to other assets acquired through foreclosure, net	223	403
Conversion of debentures	—	1,408

See the accompanying notes.

Table of Contents

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Community West Bancshares ("CWBC"), incorporated under the laws of the state of California, is a bank holding company providing full service banking through its wholly-owned subsidiary Community West Bank, N.A. ("CWB" or the "Bank"). These entities are collectively referred to herein as the "Company."

Basis of presentation

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States ("GAAP") and conform to practices within the financial services industry. The accounts of the Company and its consolidated subsidiary are included in these Consolidated Financial Statements. All significant intercompany balances and transactions have been eliminated.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses and fair value of other real estate owned. Although Management believes these estimates to be reasonably accurate, actual amounts may differ. In the opinion of Management, all adjustments considered necessary have been reflected in the financial statements during their preparation.

Interim financial information

The accompanying unaudited consolidated financial statements as of and for the three months ended March 31, 2015 and 2014 have been prepared in a condensed format, and therefore do not include all of the information and footnotes required by GAAP for complete financial statements. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014.

The information furnished in these interim statements reflects all adjustments which are, in the opinion of management, necessary for a fair statement of the results for each respective period presented. Such adjustments are of a normal recurring nature. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for any other quarter or for the full year. The interim financial information should be read in conjunction with the Company's audited consolidated financial statements.

Reclassifications

Certain amounts in the consolidated financial statements as of December 31, 2014 and for the three months ended March 31, 2014 have been reclassified to conform to the current presentation. The reclassifications have no effect on net income, comprehensive income or stockholders' equity as previously reported.

Loans Held For Sale

Loans which are originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value determined on an aggregate basis. Valuation adjustments, if any, are recognized through a valuation allowance by charges to lower of cost or fair value provision. Loans held for sale are mostly comprised of SBA, commercial agriculture and single family residential loans. The Company did not incur any lower of cost or fair value provision in the three months ended March 31, 2015 and 2014.

Loans Held for Investment and Interest and Fees from Loans

Loans are recognized at the principal amount outstanding, net of unearned income, loan participations and amounts charged off. Unearned income includes deferred loan origination fees reduced by loan origination costs. Unearned income on loans is amortized to interest income over the life of the related loan using the level yield method.

Interest income on loans is accrued daily using the effective interest method and recognized over the terms of the loans. Loan fees collected for the origination of loans less direct loan origination costs (net deferred loan fees) are amortized over the contractual life of the loan through interest income. If the loan has scheduled payments, the amortization of the net deferred loan fee is calculated using the interest method over the contractual life of the loan. If the loan does not have scheduled payments, such as a line of credit, the net deferred loan fee is recognized as interest income on a straight-line basis over the contractual life of the loan commitment. Commitment fees based on a percentage of a customer’s unused line of credit and fees related to standby letters of credit are recognized over the commitment period.

When loans are repaid, any remaining unamortized balances of unearned fees, deferred fees and costs and premiums and discounts paid on purchased loans are accounted for through interest income.

Table of Contents

Nonaccrual loans: For all loan types, when a borrower discontinues making payments as contractually required by the note, the Company must determine whether it is appropriate to continue to accrue interest. Generally, the Company places loans in a nonaccrual status and ceases recognizing interest income when the loan has become delinquent by more than 90 days or when Management determines that the full repayment of principal and collection of interest is unlikely. The Company may decide to continue to accrue interest on certain loans more than 90 days delinquent if they are well secured by collateral and in the process of collection. Other personal loans are typically charged off no later than 180 days delinquent.

For all loan types, when a loan is placed on nonaccrual status, all interest accrued but uncollected is reversed against interest income in the period in which the status is changed. Subsequent payments received from the customer are applied to principal and no further interest income is recognized until the principal has been paid in full or until circumstances have changed such that payments are again consistently received as contractually required. The Company occasionally recognizes income on a cash basis for non-accrual loans in which the collection of the remaining principal balance is not in doubt.

Impaired loans: A loan is considered impaired when, based on current information; it is probable that the Company will be unable to collect the scheduled payments of principal and/or interest under the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and/or interest payments. Loans that experience insignificant payment delays or payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays or payment shortfalls on a case-by-case basis. When determining the possibility of impairment, management considers the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. For collateral-dependent loans, the Company uses the fair value of collateral method to measure impairment. The collateral-dependent loans that recognize impairment are charged down to the fair value less costs to sell. All other loans are measured for impairment either based on the present value of future cash flows or the loan’s observable market price.

Troubled debt restructured loan (“TDR”): A TDR is a loan on which the Company, for reasons related to the borrower’s financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. These concessions included but are not limited to term extensions, rate reductions and principal reductions. Forgiveness of principal is rarely granted and modifications for all classes of loans are predominately term extensions. A TDR loan is also considered impaired. Generally, a loan that is modified at an effective market rate of interest may no longer be disclosed as a troubled debt restructuring in years subsequent to the restructuring if it is not impaired based on the terms specified by the restructuring agreement.

Allowance for Loan Losses and Provision for Credit Losses

The Company maintains a detailed, systematic analysis and procedural discipline to determine the amount of the allowance for loan losses (“ALL”). The ALL is based on estimates and is intended to be appropriate to provide for probable losses inherent in the loan portfolio. This process involves deriving probable loss estimates that are based on migration analysis and historical loss rates, in addition to qualitative factors that are based on management’s judgment. The migration analysis and historical loss rate calculations are based on the annualized loss rates utilizing a twelve-quarter loss history. Migration analysis is utilized for the Commercial Real Estate (“CRE”), Commercial, Commercial Agriculture, Small Business Administration (“SBA”), Home Equity Line of Credit (“HELOC”), Single Family Residential, and Consumer portfolios. The historical loss rate method is utilized primarily for the Manufactured Housing portfolio. The migration analysis takes into account the risk rating of loans that are charged off in each loan category. Loans that are considered Doubtful are typically charged off. The following is a description of the characteristics of loan ratings. Loan ratings are reviewed as part of our normal loan monitoring process, but, at a minimum, updated on an annual basis.

Outstanding – This is the highest quality rating that is assigned to any loan in the portfolio. These loans are made to the highest quality borrowers with strong financial statements and unquestionable repayment sources. Collateral securing these types of credits are generally cash deposits in the bank or marketable securities held in custody.

Good – Loans rated in this category are strong loans, underwritten well, that bear little risk of loss to the Company. Loans in this category are loans to quality borrowers with very good financial statements that present an identifiable strong primary source and good secondary source of repayment. Generally, these credits are well collateralized by good quality and liquid assets or low loan to value market real estate.

Pass - Loans rated in this category are acceptable loans, appropriately underwritten, bearing an ordinary risk of loss to the Company. Loans in this category are loans to quality borrowers with financial statements presenting a good primary source as well as an adequate secondary source of repayment. In the case of individuals, borrowers with this rating are quality borrowers demonstrating a reasonable level of secure income, a net worth adequate to support the loan and presenting a good primary source as well as an adequate secondary source of repayment.

Watch – Acceptable credit that requires a temporary increase in attention by management. This can be caused by declines in sales, margins, liquidity or working capital. Generally the primary weakness is lack of current financial statements and industry issues.

Special Mention - A Special Mention loan has potential weaknesses that require management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Table of Contents

Substandard - A Substandard loan is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. These loans have a well-defined weakness or weaknesses that jeopardize full collection of amounts due. They are characterized by the distinct possibility that the Company will sustain some loss if the borrower's deficiencies are not corrected.

Doubtful - A loan classified Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition or liquidation procedures, capital injection, perfecting liens on additional collateral and refinancing plans.

Loss - Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable loans is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this loan even though partial recovery may be realized in the future. Losses are taken in the period in which they are considered uncollectible.

The Company's ALL is maintained at a level believed appropriate by management to absorb known and inherent probable losses on existing loans. The allowance is charged for losses when management believes that full recovery on the loan is unlikely. The following is the Company's policy regarding charging off loans.

Commercial, CRE and SBA Loans

Charge-offs on these loan categories are taken as soon as all or a portion of any loan balance is deemed to be uncollectible. A loan is considered impaired when, based on current information, it is probable that the Company will be unable to collect the scheduled payments of principal and/or interest under the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and/or interest payments. Loans that experience insignificant payment delays or payment shortfalls generally are not classified as impaired. Generally, loan balances are charged-down to the fair value of the collateral, if, based on a current assessment of the value, an apparent deficiency exists. In the event there is no perceived equity, the loan is charged-off in full. Unsecured loans which are delinquent over 90 days are also charged-off in full.

Single Family Real Estate, HELOC's and Manufactured Housing Loans

Consumer loans and residential mortgages secured by one-to-four family residential properties, HELOC and manufactured housing loans in which principal or interest is due and unpaid for 90 days, are evaluated for impairment. Loan balances are charged-off to the fair value of the property, less estimated selling costs, if, based on a current appraisal, an apparent deficiency exists. In the event there is no perceived equity, the loan is generally fully charged-off. Other consumer loans which are not secured and unpaid over 90-120 days are charged-off in full.

Consumer Loans

All consumer loans (excluding real estate mortgages, HELOCs and savings secured loans) are charged-off or charged-down to net recoverable value before becoming 120 days or five payments delinquent.

The ALL calculation for the different loan portfolios is as follows:

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- Commercial Real Estate, Commercial, Commercial Agriculture, SBA, HELOC, Single Family Residential, and Consumer – Migration analysis combined with risk rating is used to determine the required ALL for all non-impaired loans. In addition, the migration results are adjusted based upon qualitative factors that affect this specific portfolio category. Reserves on impaired loans are determined based upon the individual characteristics of the loan.
- Manufactured Housing – The ALL is calculated on the basis of loss history and risk rating, which is primarily a function of delinquency. In addition, the loss results are adjusted based upon qualitative factors that affect this specific portfolio.

The Company evaluates and individually assesses for impairment loans generally greater than $500,000, classified as substandard or doubtful in addition to loans either on nonaccrual, considered a TDR or when other conditions exist which lead management to review for possible impairment. Measurement of impairment on impaired loans is determined on a loan-by-loan basis and in total establishes a specific reserve for impaired loans. The amount of impairment is determined by comparing the recorded investment in each loan with its value measured by one of three methods:

- The expected future cash flows are estimated and then discounted at the effective interest rate.
- The value of the underlying collateral net of selling costs. Selling costs are estimated based on industry standards, the Company's actual experience or actual costs incurred as appropriate. When evaluating real estate collateral, the Company typically uses appraisals or valuations, no more than twelve months old at time of evaluation. When evaluating non-real estate collateral securing the loan, the Company will use audited financial statements or appraisals no more than twelve months old at time of evaluation. Additionally, for both real estate and non-real estate collateral, the Company may use other sources to determine value as deemed appropriate.
- The loan's observable market price.

Table of Contents

Interest income is not recognized on impaired loans except for limited circumstances in which a loan, although impaired, continues to perform in accordance with the loan contract and the borrower provides financial information to support maintaining the loan on accrual.

The Company determines the appropriate ALL on a monthly basis. Any differences between estimated and actual observed losses from the prior month are reflected in the current period in determining the appropriate ALL determination and adjusted as deemed necessary. The review of the appropriateness of the allowance takes into consideration such factors as concentrations of credit, changes in the growth, size and composition of the loan portfolio, overall and individual portfolio quality, review of specific problem loans, collateral, guarantees and economic and environmental conditions that may affect the borrowers' ability to pay and/or the value of the underlying collateral. Additional factors considered include: geographic location of borrowers, changes in the Company's product-specific credit policy and lending staff experience. These estimates depend on the outcome of future events and, therefore, contain inherent uncertainties.

Another component of the ALL considers qualitative factors related to non-impaired loans. The qualitative portion of the allowance on each of the loan pools is based on the following factors:

- Concentrations of credit
- International risk
- Trends in volume, maturity, and composition
- Volume and trend in delinquency
- Economic conditions
- Outside exams
- Geographic distance
- Policy and changes
- Staff experience and ability

Off Balance Sheet and Credit Exposure

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded. They involve, to varying degrees, elements of credit risk in excess of amounts recognized in the consolidated balance sheets. Losses would be experienced when the Company is contractually obligated to make a payment under these instruments and must seek repayment from the borrower, which may not be as financially sound in the current period as they were when the commitment was originally made. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company enters into credit arrangements that generally provide for the termination of advances in the event of a covenant violation or other event of default. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the party. The commitments are collateralized by the same types of assets used as loan collateral.

As with outstanding loans, the Company applies qualitative factors and utilization rates to its off-balance sheet obligations in determining an estimate of losses inherent in these contractual obligations. The estimate for loan losses on off-balance sheet instruments is included within other liabilities and the charge to income that establishes this liability is include in non-interest expense.

Foreclosed Real Estate and Repossessed Assets

Foreclosed real estate and other repossessed assets are recorded at fair value at the time of foreclosure less estimated costs to sell. Any excess of loan balance over the fair value less estimated costs to sell of the other assets is charged-off against the allowance for loan losses. Any excess of the fair value less estimated costs to sell over the loan balance is recorded as a loan loss recovery to the extent of the loan loss previously charged-off against the allowance for loan losses; and, if greater, recorded as a gain on foreclosed assets. Subsequent to the legal ownership date, the Company periodically performs a new valuation and the asset is carried at the lower of carrying amount or fair value less estimated costs to sell. Operating expenses or income, and gains or losses on disposition of such properties, are recorded in current operations.

Income Taxes

The Company uses the asset and liability method, which recognizes an asset or liability representing the tax effects of future deductible or taxable amounts that have been recognized in the consolidated financial statements. Due to tax regulations, certain items of income and expense are recognized in different periods for tax return purposes than for financial statement reporting. These items represent “temporary differences.” Deferred income taxes are recognized for the tax effect of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is established for deferred tax assets if, based on weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets may not be realized. Any interest or penalties assessed by the taxing authorities is classified in the financial statements as income tax expense. Deferred tax assets are included in other assets on the consolidated balance sheets.

Table of Contents

Management evaluates the Company’s deferred tax asset for recoverability using a consistent approach which considers the relative impact of negative and positive evidence, including the Company’s historical profitability and projections of future taxable income. The Company is required to establish a valuation allowance for deferred tax assets and record a charge to income if management determines, based on available evidence at the time the determination is made, that it is more likely than not that some portion or all of the deferred tax assets may not be realized.

The Company is subject to the provisions of ASC 740, Income Taxes (“ASC 740”). ASC 740 prescribes a more-likely-than-not threshold for the financial statement recognition of uncertain tax positions. ASC 740 clarifies the accounting for income taxes by prescribing a minimum recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. On a quarterly basis, the Company evaluates income tax accruals in accordance with ASC 740 guidance on uncertain tax positions.

Earnings Per Share

Basic earnings per common share is computed using the weighted average number of common shares outstanding for the period divided into the net income available to common shareholders. Diluted earnings per share include the effect of all dilutive potential common shares for the period. Potentially dilutive common shares include stock options and warrants.

Recent Accounting Pronouncements

In January 2014, the FASB issued guidance within ASU 2014-04, “Receivables - Troubled Debt Restructurings by Creditors: Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.” The amendments in ASU 2014-04, Subtopic 310-40, Receivables -Troubled Debt Restructurings by Creditors, clarify that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASC 2014-04 are effective for the Company using either a modified retrospective transition method or a prospective transition method for reporting periods beginning after December 15, 2014. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued guidance codified within ASU 2014-09, “Revenue Recognition - Revenue from Contracts with Customers,” which amends the guidance in former Topic 605, Revenue Recognition. The new revenue recognition standard will supersede virtually all revenue guidance in U.S. GAAP, including industry specific guidance. The guidance in this Update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. ASU 2014-09 is effective for the Company for annual reporting periods beginning after December 15, 2016. The Company may elect to apply the amendments of this Update using one of the following two methods: 1) retrospectively to each prior reporting period presented or 2) retrospectively with the cumulative effect of initially applying this Update recognized at the date of initial application. The Company is currently evaluating the impact of the provisions in this standard on the Company’s consolidated financial statements.

2. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities are as follows:

	March 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available-for-sale	(in thousands)			
U.S. government agency notes	$9,340	$ 45	$ (53)	$9,332
U.S. government agency collateralized mortgage obligations ("CMO")	13,688	90	(43)	13,735
Equity securities: Farmer Mac class A stock	66	-	(10)	56
Total	$23,094	$ 135	$ (106)	$23,123
Securities held-to-maturity				
U.S. government agency mortgage backed securities ("MBS")	$7,931	$ 484	$ -	$8,415
Total	$7,931	$ 484	$ -	$8,415

Table of Contents

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available-for-sale	(in thousands)			
U.S. government agency notes	$7,846	$ 65	$ (49)	$7,862
U.S. government agency collateralized mortgage obligations ("CMO")	14,229	73	(31)	14,271
Equity securities: Farmer Mac class A stock	66	-	(5)	61
Total	$22,141	$ 138	$ (85)	$22,194
Securities held-to-maturity				
U.S. government agency MBS	$8,447	$ 447	$ -	$8,894
Total	$8,447	$ 447	$ -	$8,894

At March 31, 2015 and December 31, 2014, $31.0 million and $30.6 million of securities at carrying value, respectively, were pledged to the Federal Home Loan Bank (“FHLB”), as collateral for current and future advances.

The maturity periods and weighted average yields of investment securities at March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015									
	Less than One Year		One to Five Years		Five to Ten Years		Over Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities available-for-sale	(dollars in thousands)									
U.S. government agency notes	$7,074	2.6 %	$-	-	$2,258	0.9 %	$-	-	$9,332	2.2 %
U.S. government agency CMO	448	0.6 %	6,916	1.1 %	2,736	0.6 %	3,635	1.1 %	13,735	1.0 %
Farmer Mac class A stock	-	-	-	-	-	-	-	-	56	-
Total	$7,522	2.4 %	$6,916	1.1 %	$4,994	0.7 %	$3,635	1.1 %	$23,123	1.3 %
Securities held-to-maturity										
U.S. government agency MBS	$-	-	$5,344	3.3 %	$2,587	2.2 %	$-	-	$7,931	3.0 %
Total	$-	-	$5,344	3.3 %	$2,587	2.2 %	$-	-	$7,931	3.0 %

	December 31, 2014									
	Less than One Year		One to Five Years		Five to Ten Years		Over Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities available-for-sale	(dollars in thousands)									
U.S. government agency notes	$7,862	2.5 %	$-	-	$-	-	$-	-	$7,862	2.5 %
U.S. government agency CMO	-	-	7,826	1.0 %	2,801	0.6 %	3,644	1.1 %	14,271	1.1 %
Farmer Mac class A stock	-	-	-	-	-	-	-	-	61	-
Total	$7,862	2.5 %	$7,826	1.0 %	$2,801	0.6 %	$3,644	1.1 %	$22,194	1.3 %

Securities held-to-maturity																
U.S. government agency																
MBS	$-		-	$3,235	4.0	%	$5,212	2.4	%	$-		-	$8,447	2.9	%
Total	$-		-	$3,235	4.0	%	$5,212	2.4	%	$-		-	$8,447	2.9	%

13

Table of Contents

The amortized cost and fair value of investment securities by contractual maturities as of the periods presented were as shown below:

	March 31, 2015		December 31, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Securities available for sale	(in thousands)			
Due in one year or less	$7,519	$ 7,522	$7,846	$ 7,862
After one year through five years	6,872	6,916	7,798	7,826
After five years through ten years	5,001	4,994	2,792	2,801
After ten years	3,636	3,635	3,639	3,644
Farmer Mac class A stock	66	56	66	61
	$23,094	$ 23,123	$22,141	$ 22,194
Securities held to maturity				
Due in one year or less	$-	$ -	$-	$ -
After one year through five years	5,344	5,697	3,235	3,479
After five years through ten years	2,587	2,718	5,212	5,415
After ten years	-	-	-	-
	$7,931	$ 8,415	$8,447	$ 8,894

Actual maturities may differ from contractual maturities as borrowers or issuers have the right to prepay or call the investment securities. Changes in interest rates may also impact prepayments.

The following tables show all securities that are in an unrealized loss position:

	March 31, 2015					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available-for-sale	(in thousands)					
U.S. government agency notes	$53	$5,348	$-	$-	$53	$5,348
U.S. government agency CMO	-	-	43	3,895	43	3,895
Equity securities: Farmer Mac class A stock	10	56	-	-	10	56
	$63	$5,404	$43	$3,895	$106	$9,299
Securities held-to-maturity						
U.S. Government-agency MBS	$-	$-	$-	$-	$-	$-
Total	$-	$-	$-	$-	$-	$-

	December 31, 2014					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Gross Unrealized	Fair Value	Gross Unrealized	Fair Value	Gross Unrealized	Fair Value

	Losses		Losses		Losses	
Securities available-for-sale	(in thousands)					
U.S. government agency notes	$23	$1,918	$26	$3,971	$49	$5,889
U.S. government agency CMO	-	-	31	4,090	31	4,090
Equity securities: Farmer Mac class A stock	5	61	-	-	5	61
	$28	$1,979	$57	$8,061	$85	$10,040
Securities held-to-maturity						
U.S. Government-agency MBS	$-	$-	$-	$-	$-	$-
Total	$-	$-	$-	$-	$-	$-

As of March 31, 2015 and December 31, 2014, there were six securities in an unrealized loss position.

Table of Contents

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things (i) the length of time and the extent to which the fair value has been less than cost (ii) the financial condition and near-term prospects of the issuer and (iii) the Company's intent to sell an impaired security and if it is not more likely than not it will be required to sell the security before the recovery of its amortized basis.

The unrealized losses are primarily due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date, repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of March 31, 2015 and December 31, 2014, management believes the impairments detailed in the table above are temporary and no other-than-temporary impairment loss has been realized in the Company's consolidated income statements.

3. LOAN SALES AND SERVICING

SBA and Agriculture Loans

The Company periodically sells the guaranteed portion of selected SBA loans into the secondary market, on a servicing-retained basis. The Company retains the unguaranteed portion of these loans and services the loans as required under the SBA programs to retain specified yield amounts.

On certain SBA loan sales, the Company retained interest only strips ("I/O strips"), which represent the present value of excess net cash flows generated by the difference between (a) interest at the stated rate paid by borrowers and (b) the sum of (i) pass-through interest paid to third-party investors and (ii) contractual servicing fees. The fair value is determined on a quarterly basis through a discounted cash flow analysis prepared by an independent third party using industry prepayment speeds.

Historically, the Company elected to use the amortizing method for the treatment of servicing assets and measured for impairment on a quarterly basis through a discounted cash flow analysis prepared by an independent third party using industry prepayment speeds. In connection with the sale of a group of SBA loans, the Company recorded a servicing asset and elected to measure this asset at fair value in accordance with ASC 825-10 – Fair Value Option to better reflect the impact of subsequent changes in interest rates.

The SBA program stipulates that the Company retains a minimum of 5% of the loan balance, which is unguaranteed. The percentage of each unguaranteed loan in excess of 5% may be periodically sold to a third party, typically for a cash premium. The Company records servicing liabilities for the sold unguaranteed loans. These servicing liabilities are calculated based on the present value of the estimated future servicing costs associated with each loan. The balance of the remaining servicing liabilities at March 31, 2015 was not material to the Company's financial position or results of operations.

The Company may also periodically sell certain SBA loans into the secondary market, on a servicing-released basis, typically for a cash premium. As of March 31, 2015 and December 31, 2014, the Company had approximately $37.6 million and $40.8 million, respectively, of SBA loans included in loans held for sale. As of March 31, 2015 and December 31, 2014, the principal balance of SBA loans serviced for others was $22.8 million and $24.6 million, respectively.

The Company's agricultural lending program includes loans for agricultural land, agricultural operational lines, and agricultural term loans for crops, equipment and livestock. The primary products are supported by guarantees issued from the USDA, FSA, and the USDA Business and Industry loan program.

As of March 31, 2015 and December 31, 2014, the Company had $25.3 million and $25.1 million, respectively, of USDA loans included in loans held for sale. As of March 31, 2015 and December 31, 2014, the principal balance of USDA loans serviced for others was $1.4 million.

The following table presents the I/O strips activity as of the periods presented:

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Beginning balance	$293	$334
Adjustment to fair value	(7)	-
Ending balance	$286	$334

The fair value adjustments on the I/O strips are recorded in non-interest income.

15

Table of Contents

The key data assumptions used in estimating the fair value of the I/O strips as of the periods presented were as follows:

	March 31, 2015	2014
Weighted-average constant prepayment rate	5.64 %	5.29 %
Weighted-average life (in years)	6	6
Weighted-average discount rate	10.35%	11.89%

A sensitivity analysis of the fair value of the I/O strips to changes in certain key assumptions is presented in the following table:

	March 31, 2015	2014
	(in thousands)	
Discount Rate		
Increase in fair value from 100 basis point decrease	$ 8	$ 9
Decrease in fair value from 100 basis point increase	(8)	(9)
Constant Prepayment Rate		
Increase in fair value from 10 percent decrease	4	5
Decrease in fair value from 10 percent increase	(4)	(5)

The following is a summary of the activity for servicing assets accounted for under the amortization method:

	Three Months Ended March 31, 2015	2014
	(in thousands)	
Beginning balance	$167	$268
Amortization	(8)	(28)
Ending balance	$159	$240

The amortization of the servicing assets has been recorded in non-interest income.

The following is a summary of the activity for servicing assets accounted for under the fair value method:

	Three Months Ended 2015	2014
	(in thousands)	
Beginning balance	$203	$300
Adjustment to fair value	6	(38)
Ending balance	$209	$262

The fair value adjustments on the servicing assets has been recorded in non-interest income.

The key data and assumptions used in estimating the fair value of servicing assets as of the periods presented were as follows:

	March 31, 2015	2014
Weighted-average constant prepayment rate	6.23 %	5.52 %
Weighted-average life (in years)	8	9
Weighted-average discount rate	10.63%	11.93%

Table of Contents

A sensitivity analysis of the fair value of servicing assets to change in certain key assumptions is presented in the following table:

	March 31, 2015	2014
	(in thousands)	
Discount Rate		
Increase in fair value from 100 basis points decrease	$ 9	$ 11
Decrease in fair value from 100 basis points increase	(9)	(10)
Constant Prepayment Rate		
Increase in fair value from 10 percent decrease	6	6
Decrease in fair value from 10 percent increase	(5)	(6)

This sensitivity analysis generally cannot be extrapolated because the relationship of a change in one key assumption to the change in the fair value of the Company's servicing assets usually is not linear. In addition, the effect of changing one key assumption without changing other assumptions is not a viable option.

Mortgage Loans

From time to time, the Company enters into mortgage loan rate lock commitments (normally for 30 days) with potential borrowers. In conjunction therewith, the Company enters into a forward sale commitment to sell the locked loan to a third party investor. This forward sale agreement requires delivery of the loan on a "best efforts" basis but does not obligate the Company to deliver if the mortgage loan does not fund.

The mortgage rate lock agreement and the forward sale agreement qualify as derivatives. The value of these derivatives is generally equal to the fee, if any, charged to the borrower at inception but may fluctuate in the event of changes in interest rates. These derivative financial instruments are recorded at fair value if material. Although the Company does not attempt to qualify these transactions for the special hedge accounting, management believes that changes in the fair value of the two commitments generally offset and create an economic hedge. At March 31, 2015 and December 31, 2014, the Company had $3.3 million and $1.9 million, respectively, in outstanding mortgage loan interest rate lock and forward sale commitments. The value of related derivative instruments was not material to the Company's financial position or results of operations. At March 31, 2015 and December 31, 2014 the Company had $0.7 million and $0.8 million, respectively of mortgage loans held for sale.

4. LOANS HELD FOR INVESTMENT

The composition of the Company's loans held for investment loan portfolio follows:

	March 31, 2015	December 31, 2014
	(in thousands)	
Manufactured housing	$ 169,751	$ 169,662
Commercial real estate	163,163	159,432
Commercial	48,598	49,683
SBA	20,302	21,336
HELOC	13,130	13,481
Single family real estate	14,606	14,957
Consumer	156	178

	429,706	428,729
Allowance for loan losses	7,275	7,877
Deferred fees, net	128	118
Discount on SBA loans	226	237
Total loans held for investment, net	$422,077	$420,497

Table of Contents

The following table presents the contractual aging of the recorded investment in past due held for investment loans by class of loans:

	March 31, 2015						
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Total	Recorded Investment Over 90 Days and Accruing
	(in thousands)						
Manufactured housing	$169,283	$188	$155	$125	$468	$169,751	$ -
Commercial real estate:							
Commercial real estate	119,206	-	-	1,342	1,342	120,548	-
SBA 504 1st trust deed	28,596	-	-	-	-	28,596	-
Land	1,561	-	-	-	-	1,561	-
Construction	12,458	-	-	-	-	12,458	-
Commercial	48,356	242	-	-	242	48,598	-
SBA	20,248	2	52	-	54	20,302	-
HELOC	13,066	-	-	64	64	13,130	-
Single family real estate	14,606	-		-	-	14,606	-
Consumer	156	-	-	-	-	156	-
Total	$427,536	$432	$207	$1,531	$2,170	$429,706	$ -

	December 31, 2014						
	Current	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Total	Recorded Investment Over 90 Days and Accruing
	(in thousands)						
Manufactured housing	$169,233	$239	$ -	$190	$429	$169,662	$ -
Commercial real estate:							
Commercial real estate	119,090	632	-	186	818	119,908	-
SBA 504 1st trust deed	27,297	-	-	-	-	27,297	-
Land	1,569	-	-	-	-	1,569	-
Construction	10,658	-	-	-	-	10,658	-
Commercial	49,683	-	-	-	-	49,683	-
SBA	21,333	3	-	-	3	21,336	-
HELOC	13,459	-	-	22	22	13,481	-
Single family real estate	14,821	-		136	136	14,957	-
Consumer	178	-	-	-	-	178	-
Total	$427,321	$874	$ -	$534	$1,408	$428,729	$ -

Allowance for Loan Losses

The following table summarizes the changes in the allowance for loan losses:

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Beginning balance	$7,877	$12,208
Charge-offs	(131)	(252)
Recoveries	497	771
Net recoveries	366	519
Provision	(968)	(1,371)
Ending balance	$7,275	$11,356

As of March 31, 2015 and December 31, 2014, the Company had reserves for credit losses on undisbursed loans of $37,000 and $39,000, respectively which were included in Other liabilities.

Table of Contents

The following tables summarize the changes in the allowance for loan losses by portfolio type:

	Three Months Ended March 31,							
	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total
2015	(in thousands)							
Beginning balance	$4,032	$ 1,459	$ 986	$1,066	$ 140	$ 192	$ 2	$7,877
Charge-offs	(131)	-	-	-	-	-	-	(131)
Recoveries	49	13	321	110	3	1	-	497
Net charge-offs	(82)	13	321	110	3	1	-	366
Provision	88	105	(707)	(298)	(90)	(68)	2	(968)
Ending balance	$4,038	$ 1,577	$ 600	$878	$ 53	$ 125	$ 4	$7,275
2014								
Beginning balance	$5,114	$ 2,552	$ 2,064	$1,951	$ 280	$ 245	$ 2	$12,208
Charge-offs	(240)	-	-	(12)	-	-	-	(252)
Recoveries	36	639	29	51	15	1	-	771
Net charge-offs	(204)	639	29	39	15	1	-	519
Provision	(30)	(907)	(265)	(132)	(30)	(7)	-	(1,371)
Ending balance	$4,880	$ 2,284	$ 1,828	$1,858	$ 265	$ 239	$ 2	$11,356

The following tables present impairment method information related to loans and allowance for loan losses by loan portfolio segment:

	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total Loans
Loans Held for Investment as of March 31, 2015:	(in thousands)							
Recorded Investment:								
Impaired loans with an allowance recorded	$3,237	$ 1,443	$ 2,854	$1,674	$21	$71	$ -	$9,300
Impaired loans with no allowance recorded	4,033	1,813	44	149	63	460	-	6,562
Total loans individually evaluated for impairment	7,270	3,256	2,898	1,823	84	531	-	15,862
Loans collectively evaluated for impairment	162,481	159,907	45,700	18,479	13,046	14,075	156	413,844
Total loans held for investment	$169,751	$ 163,163	$ 48,598	$20,302	$13,130	$14,606	$ 156	$429,706
Unpaid Principal Balance								
Impaired loans with an allowance recorded	$3,278	$ 1,622	$ 3,543	$7,837	$21	$71	$ -	$16,372
Impaired loans with no allowance recorded	5,900	3,923	50	1,678	69	612	-	12,232
Total loans individually evaluated for impairment	9,178	5,545	3,593	9,515	90	683	-	28,604

Loans collectively evaluated for impairment	162,481	159,907	45,700	18,479	13,046	14,075	156	413,844
Total loans held for investment	$171,659	$ 165,452	$ 49,293	$27,994	$13,136	$14,758	$ 156	$442,448
Related Allowance for Credit Losses								
Impaired loans with an allowance recorded	$428	$ 15	$ 50	$183	$-	$10	$ -	$686
Impaired loans with no allowance recorded	-	-	-	-	-	-	-	-
Total loans individually evaluated for impairment	428	15	50	183	-	10	-	686
Loans collectively evaluated for impairment	3,610	1,562	550	695	53	115	4	6,589
Total loans held for investment	$4,038	$ 1,577	$ 600	$878	$53	$125	$ 4	$7,275

Table of Contents

	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total Loans
Loans Held for Investment as of December 31, 2014:	(in thousands)							
Recorded Investment:								
Impaired loans with an allowance recorded	$4,717	$ 2,783	$ 3,122	$1,837	$86	$591	$ -	$13,136
Impaired loans with no allowance recorded	2,734	831	44	4	-	90	-	3,703
Total loans individually evaluated for impairment	7,451	3,614	3,166	1,841	86	681	-	16,839
Loans collectively evaluated for impairment	162,211	155,818	46,517	19,495	13,395	14,276	178	411,890
Total loans held for investment	$169,662	$ 159,432	$ 49,683	$21,336	$13,481	$14,957	$ 178	$428,729
Unpaid Principal Balance								
Impaired loans with an allowance recorded	$5,172	$ 2,979	$ 4,914	$9,512	$91	$644	$ -	$23,312
Impaired loans with no allowance recorded	4,243	2,895	50	225	-	191	-	7,604
Total loans individually evaluated for impairment	9,415	5,874	4,964	9,737	91	835	-	30,916
Loans collectively evaluated for impairment	162,211	155,818	46,517	19,495	13,395	14,276	178	411,890
Total loans held for investment	$171,626	$ 161,692	$ 51,481	$29,232	$13,486	$15,111	$ 178	$442,806
Related Allowance for Credit Losses								
Impaired loans with an allowance recorded	$399	$ 77	$ 241	$104	$1	$32	$ -	$854
Impaired loans with no allowance recorded	-	-	-	-	-	-	-	-
Total loans individually evaluated for impairment	399	77	241	104	1	32	-	854
Loans collectively evaluated for impairment	3,633	1,382	745	962	139	160	2	7,023
Total loans held for investment	$4,032	$ 1,459	$ 986	$1,066	$140	$192	$ 2	$7,877

A valuation allowance is established for an impaired loan when the fair value of the loan is less than the recorded investment. In certain cases, portions of impaired loans are charged-off to realizable value instead of establishing a valuation allowance and are included, when applicable in the table below as “Impaired loans without specific valuation allowance under ASC 310.” The valuation allowance disclosed above is included in the allowance for loan losses reported in the consolidated balance sheets as of March 31, 2015 and December 31, 2014.

The table below reflects recorded investment in loans classified as impaired:

	March 31, 2015	December 31, 2014
	(in thousands)	
Impaired loans with a specific valuation allowance under ASC 310	$9,300	$ 13,136
Impaired loans without a specific valuation allowance under ASC 310	6,562	3,703
Total impaired loans	$15,862	$ 16,839
Valuation allowance related to impaired loans	$686	$ 854

The following tables summarize impaired loans by class of loans:

	March 31, 2015	December 31, 2014
	(in thousands)	
Manufactured housing	$7,270	$ 7,451
Commercial real estate :		
Commercial real estate	2,262	2,320
SBA 504 1st trust deed	994	1,294
Commercial	2,898	3,166
SBA	1,823	1,841
HELOC	84	86
Single family real estate	531	681
Total	$15,862	$ 16,839

20

Table of Contents

The following table summarizes average investment in impaired loans by class of loans and the related interest income recognized:

	Three Months Ended March 31,			
	2015		2014	
	Average Investment in Impaired Loans	Interest Income	Average Investment in Impaired Loans	Interest Income
	(in thousands)			
Manufactured housing	$7,288	$ 115	$8,862	$ 59
Commercial real estate:				
Commercial real estate	2,269	-	2,728	-
SBA 504 1st trust deed	1,133	9	768	5
Land	-	-	140	-
Commercial	3,003	-	3,662	14
SBA	1,814	11	1,770	3
HELOC	85	-	597	5
Single family real estate	600	1	740	1
Consumer	-	-	-	-
Total	$16,192	$ 136	$19,267	$ 87

The Company is not committed to lend additional funds on these impaired loans.

The following table reflects the recorded investment in certain types of loans at the periods indicated:

	March 31, 2015	December 31, 2014
	(in thousands)	
Nonaccrual loans	$16,048	$ 17,883
SBA guaranteed portion of loans included above	(5,566)	(6,856)
Total nonaccrual loans, net	$10,482	$ 11,027
Troubled debt restructured loans, gross	$9,462	$ 9,685
Loans 30 through 89 days past due with interest accruing	$513	$ -
Allowance for loan losses to gross loans held for investment	1.69 %	1.84 %

The accrual of interest is discontinued when substantial doubt exists as to collectability of the loan; generally at the time the loan is 90 days delinquent. Any unpaid but accrued interest is reversed at that time. Thereafter, interest income is no longer recognized on the loan. Interest income may be recognized on impaired loans to the extent they are not past due by 90 days. Interest on nonaccrual loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Foregone interest on nonaccrual and troubled debt restructured loans for the three months ended March 31, 2015 and 2014 was $0.3 million and $0.4 million, respectively.

The following table presents the composition of nonaccrual loans, net of government guarantees, by class of loans:

	March 31, 2015	December 31, 2014
	(in thousands)	
Manufactured housing	$1,735	$ 1,480
Commercial real estate:		
Commercial real estate	2,887	2,951
SBA 504 1st trust deed	724	1,021
Commercial	2,898	3,167
SBA	1,693	1,713
HELOC	85	86
Single family real estate	460	609
Total	$10,482	$ 11,027

Table of Contents

The guaranteed portion of each SBA loan is repurchased from investors when those loans become past due 120 days by either CWB or the SBA directly. After the foreclosure and collection process is complete, the principal balance of loans repurchased by CWB are reimbursed by the SBA. Although these balances do not earn interest during this period, they generally do not result in a loss of principal to CWB; therefore a repurchase reserve has not been established related to these loans.

The Company utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Under the Company's risk rating system, the Company classifies problem and potential problem loans as "Special Mention," "Substandard," "Doubtful" and "Loss". Substandard loans are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful, have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition or liquidation procedures, capital injection, perfecting liens on additional collateral and refinancing plans. Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable loans is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this loan even though partial recovery may be affected in the future. Losses are taken in the period in which they surface as uncollectible. Loans that do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses that deserve management's close attention are deemed to be Special Mention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Risk ratings are updated as part of our normal loan monitoring process, at a minimum, annually.

The following tables present gross loans by risk rating:

	March 31, 2015				
	Pass	Special Mention	Substandard	Doubtful	Total
	(in thousands)				
Manufactured housing	$164,852	$ -	$ 4,899	$ -	$169,751
Commercial real estate:					
Commercial real estate	107,265	6,918	6,365	-	120,548
SBA 504 1st trust deed	23,531	1,744	3,321	-	28,596
Land	1,561	-	-	-	1,561
Construction	12,458	-	-	-	12,458
Commercial	45,199	398	3,001	-	48,598
SBA	11,837	270	1,875	91	14,073
HELOC	12,288	-	842	-	13,130
Single family real estate	13,961	-	645	-	14,606
Consumer	156	-	-	-	156
Total, net	$393,108	$ 9,330	$ 20,948	$ 91	$423,477
SBA guarantee	-	-	6,229	-	6,229
Total	$393,108	$ 9,330	$ 27,177	$ 91	$429,706

22

Table of Contents

	December 31, 2014				
	Pass	Special Mention	Substandard	Doubtful	Total
	(in thousands)				
Manufactured housing	$162,638	$ -	$ 7,024	$ -	$169,662
Commercial real estate:					
Commercial real estate	106,909	6,544	6,455	-	119,908
SBA 504 1st trust deed	23,038	1,085	3,174	-	27,297
Land	1,569	-	-	-	1,569
Construction	10,658	-	-	-	10,658
Commercial	46,275	158	3,250	-	49,683
SBA	12,803	173	1,891	97	14,964
HELOC	12,888	-	593	-	13,481
Single family real estate	14,105	-	852	-	14,957
Consumer	178	-	-	-	178
Total, net	$391,061	$ 7,960	$ 23,239	$ 97	$422,357
SBA guarantee	-	-	6,372	-	6,372
Total	$391,061	$ 7,960	$ 29,611	$ 97	$428,729

Troubled Debt Restructured Loan (TDR)

A TDR is a loan on which the bank, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the bank would not otherwise consider. The loan terms that have been modified or restructured due to a borrower's financial situation include, but are not limited to, a reduction in the stated interest rate, an extension of the maturity or renewal of the loan at an interest rate below current market, a reduction in the face amount of the debt, a reduction in the accrued interest, extensions, deferrals, renewals and rewrites. The majority of the bank's modifications are extensions in terms or deferral of payments which result in no lost principal or interest followed by reductions in interest rates or accrued interest. A TDR is also considered impaired. Generally, a loan that is modified at an effective market rate of interest may no longer be disclosed as a troubled debt restructuring in years subsequent to the restructuring if it is not impaired based on the terms specified by the restructuring agreement.

The following tables summarize the financial effects of TDR loans by loan class for the periods presented:

	For the Three Months Ended March 31, 2015					
	Number of Loans	Pre-Modification Recorded Investment	Post Modification Recorded Investment	Balance of Loans with Rate Reduction	Balance of Loans with Term Extension	Effect on Allowance for Loan Losses
	(dollars in thousands)					
Manufactured housing	3	$ 174	$ 174	$ -	$ 156	$ 4
Total	3	$ 174	$ 174	$ -	$ 156	$ 4

	For the Three Months Ended March 31, 2014					
	Number of Loans	Pre-Modification Recorded Investment	Post Modification Recorded Investment	Balance of Loans with Rate Reduction	Balance of Loans with Term Extension	Effect on Allowance for Loan Losses

	(dollars in thousands)										
Manufactured housing	4	$	187	$	187		187	$	187		5
Total	4	$	187	$	187	$	187	$	187	$	5

The average rate concessions were 0 basis points and 63 basis points for the three months ended March 31, 2015 and 2014, respectively. The average term extension in months was 13 and 180 for the first quarter of 2015 and 2014, respectively.

23

Table of Contents

The following tables present TDR's by class for which there was a payment default during the period:

	Three Months Ended March 31, 2015			2014		
	Number of Loans	Recorded Investment	Effect on Allowance for Loan Losses	Number of Loans	Recorded Investment	Effect on Allowance for Loan Losses
	(dollars in thousands)					
Manufactured housing	-	$ -	$ -	1	$ 18	$ 5
Total	-	$ -	$ -	1	$ 18	$ 5

A TDR loan is deemed to have a payment default when the borrower fails to make two consecutive payments or the collateral is transferred to repossessed assets.

At March 31, 2015 there were no material loan commitments outstanding on TDR loans.

5. OTHER ASSETS ACQUIRED THROUGH FORECLOSURE

The following table summarizes the changes in other assets acquired through foreclosure:

	Three Months Ended March 31, 2015	2014
	(in thousands)	
Balance, beginning of period	$137	$3,811
Additions	222	403
Proceeds from dispositions	(40)	(393)
Gains (losses) on sales, net	1	(40)
Balance, end of period	$320	$3,781

6. FAIR VALUE MEASUREMENT

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities. FASB ASC 820, Fair Value Measurements and Disclosures ("ASC 820") established a framework for measuring fair value using a three-level valuation hierarchy for disclosure of fair value measurement. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset as of the measurement date. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would consider in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs, as follows:

- Level 1— Observable quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

- Level 2— Observable quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, matrix pricing or model-based valuation techniques where all significant assumptions are observable, either directly or indirectly in the market.

- Level 3— Model-based techniques where all significant assumptions are not observable, either directly or indirectly, in the market. These unobservable assumptions reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques may include use of discounted cash flow models and similar techniques.

The availability of observable inputs varies based on the nature of the specific financial instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Table of Contents

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. When market assumptions are available, ASC 820 requires the Company to make assumptions regarding the assumptions that market participants would use to estimate the fair value of the financial instrument at the measurement date.

FASB ASC 825, Financial Instruments ("ASC 825") requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at March 31, 2015 and December 31, 2014. The estimated fair value amounts for March 31, 2015 and December 31, 2014 have been measured as of period-end, and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at the period-end.

This information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only required for a limited portion of the Company's assets and liabilities.

Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimate, comparisons between the Company's disclosures and those of other companies or banks may not be meaningful.

The following tables summarize the fair value of assets measured on a recurring basis:

	Fair Value Measurements at the End of the Reporting Period Using:			
March 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
	(in thousands)			
Assets:				
Investment securities available-for-sale	$56	$ 23,067	$ -	$23,123
Interest only strips	-	-	286	286
Servicing assets	-	-	209	209
	$56	$ 23,067	$ 495	$23,618

	Fair Value Measurements at the End of the Reporting Period Using:			
December 31, 2014	Quoted Prices in Active	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value

	Markets for Identical Assets (Level 1)			
Assets:	(in thousands)			
Investment securities available-for-sale	$61	$ 22,133	$ -	$22,194
Interest only strips	-	-	293	293
Servicing assets	-	-	203	203
	$61	$ 22,133	$ 496	$22,690

Market valuations of our investment securities which are classified as level 2 are provided by an independent third party. The fair values are determined by using several sources for valuing fixed income securities. Their techniques include pricing models that vary based on the type of asset being valued and incorporate available trade, bid and other market information. In accordance with the fair value hierarchy, the market valuation sources include observable market inputs and are therefore considered Level 2 inputs for purposes of determining the fair values.

On certain SBA loan sales, the Company retained I/O strips which represent the present value of excess net cash flows generated by the difference between (a) interest at the stated rate paid by borrowers and (b) the sum of (i) pass-through interest paid to third-party investors and (ii) contractual servicing fees. I/O strips are classified as Level 3 in the fair value hierarchy. The fair value is determined on a quarterly basis through a discounted cash flow analysis prepared by an independent third party using industry prepayment speeds. I/O strip valuation adjustments are recorded as additions or offsets to loan servicing income. For additional information see Note 3 “Loan Sales and Servicing” beginning on page 15.

Table of Contents

Historically, the Company has elected to use the amortizing method for the treatment of servicing assets and has measured for impairment on a quarterly basis through a discounted cash flow analysis prepared by an independent third party using industry prepayment speeds. In connection with the sale of certain SBA and USDA loans the Company recorded servicing assets and elected to measure those assets at fair value in accordance with ASC 825-10. Significant assumptions in the valuation of servicing assets include estimated loan repayment rates, the discount rate, and servicing costs, among others. Servicing assets are classified as Level 3 measurements due to the use of significant unobservable inputs, as well as significant management judgment and estimation.

The Company also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These assets include loans held for sale, foreclosed real estate and repossessed assets and certain loans that are considered impaired per generally accepted accounting principles.

The following summarizes the fair value measurements of assets measured on a non-recurring basis:

	Fair Value Measurements at the End of the Reporting Period Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Active Markets for Similar Assets (Level 2)	Unobservable Inputs (Level 3)
	(in thousands)			
As of March 31, 2015:				
Impaired loans	$4,227	$ -	$4,227	$ -
Loans held for sale	68,268	-	68,268	-
Foreclosed real estate and repossessed assets	320	-	320	-
	$72,815	$ -	$72,815	$ -
As of December 31, 2014:				
Impaired loans	$5,580	$ -	$5,580	$ -
Loans held for sale	71,475	-	71,475	-
Foreclosed real estate and repossessed assets	137	-	137	-
	$77,192	$ -	$77,192	$ -

The Company records certain loans at fair value on a non-recurring basis. When a loan is considered impaired an allowance for a loan loss is established. The fair value measurement and disclosure requirement applies to loans measured for impairment using the practical expedients method permitted by accounting guidance for impaired loans. Impaired loans are measured at an observable market price, if available or at the fair value of the loan’s collateral, if the loan is collateral dependent. The fair value of the loan’s collateral is determined by appraisals or independent valuation. When the fair value of the loan’s collateral is based on an observable market price or current appraised value, given the current real estate markets, the appraisals may contain a wide range of values and accordingly, the Company classifies the fair value of the impaired loans as a non-recurring valuation within Level 2 of the valuation hierarchy. For loans in which impairment is determined based on the net present value of cash flows, the Company classifies these as a non-recurring valuation within Level 3 of the valuation hierarchy.

Loans held for sale are carried at the lower of cost or fair value. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics or based on the agreed-upon sale price. As such, the Company classifies the fair value of loans held for sale as a non-recurring valuation within Level 2 of the fair value hierarchy. At March 31, 2015 and December 31 2014, the Company had loans held for sale with an aggregate carrying value of $63.7 million and $66.8 million respectively.

Foreclosed real estate and repossessed assets are carried at the lower of book value or fair value less estimated costs to sell. Fair value is based upon independent market prices obtained from certified appraisers or the current listing price, if lower. When the fair value of the collateral is based on a current appraised value, the Company reports the fair value of the foreclosed collateral as non-recurring Level 2. When a current appraised value is not available or if management determines the fair value of the collateral is further impaired, the Company reports the foreclosed collateral as non-recurring Level 3.

FAIR VALUES OF FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Table of Contents

The estimated fair value of the Company's financial instruments are as follows:

	March 31, 2015				
	Carrying	Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
Financial assets:	(in thousands)				
Cash and cash equivalents	$35,447	$35,447	$-	$-	$35,447
Interest-bearing deposits in other financial institutions	99	99	-	-	99
FRB and FHLB stock	3,089	-	3,089	-	3,089
Investment securities	31,054	56	31,482	-	31,538
Loans, net	485,801	-	489,191	10,949	500,140
Financial liabilities:					
Deposits	495,670	-	496,289	-	496,289
Other borrowings	5,000	-	5,016	-	5,016

	December 31, 2014				
	Carrying	Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
Financial assets:	(in thousands)				
Cash and cash equivalents	$18,959	$18,959	$-	$-	$18,959
Interest-bearing deposits in other financial institutions	99	99	-	-	99
FRB and FHLB stock	3,089	-	3,089	-	3,089
Investment securities	30,641	61	31,027	-	31,088
Loans, net	487,256	-	490,193	10,405	500,598
Financial liabilities:					
Deposits	477,084	-	477,204	-	477,204
Other borrowings	10,000	-	10,070	-	10,070

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and cash equivalents

The carrying amounts reported in the consolidated balance sheets for cash and due from banks approximate their fair value.

Money market investments

The carrying amounts reported in the consolidated balance sheets for money market investments approximate their fair value.

Investment securities

The fair value of Farmer Mac class A stock is based on quoted market prices and are categorized as Level 1 of the fair value hierarchy.

The fair value of other investment securities were determined based on matrix pricing. Matrix pricing is a mathematical technique that utilizes observable market inputs including, for example, yield curves, credit ratings and prepayment speeds. Fair values determined using matrix pricing are generally categorized as Level 2 in the fair value hierarchy.

Federal Reserve Stock and Federal Home Loan Bank Stock

CWB is a member of the FHLB system and maintains an investment in capital stock of the FHLB. CWB also maintain an investment in capital stock of the Federal Reserve Bank ("FRB"). These investments are carried at cost since no ready market exists for them, and they have no quoted market value. The Company conducts a periodic review and evaluation of our FHLB stock to determine if any impairment exists. The fair values have been categorized as Level 2 in the fair value hierarchy.

Loans

Fair value for loans is estimated based on discounted cash flows using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality with adjustments that the Company believes a market participant would consider in determining fair value based on a third party independent valuation. As a result, the fair value for loans is categorized as Level 2 in the fair value hierarchy. Fair values of impaired loans using a discounted cash flow method to measure impairment have been categorized as Level 3.

Deposits

The amount payable at demand at report date is used to estimate the fair value of demand and savings deposits. The estimated fair values of fixed-rate time deposits are determined by discounting the cash flows of segments of deposits that have similar maturities and rates, utilizing a discount rate that approximates the prevailing rates offered to depositors as of the measurement date. The fair value measurement of deposit liabilities is categorized as Level 2 in the fair value hierarchy.

Table of Contents

Federal Home Loan Bank advances and other borrowings

The fair values of the Company's borrowings are estimated using discounted cash flow analyses, based on the market rates for similar types of borrowing arrangements. The other borrowings have been categorized as Level 3 in the fair value hierarchy. The FHLB advances have been categorized as Level 2 in the fair value hierarchy.

Off-balance sheet instruments

Fair values for the Company's off-balance sheet instruments (lending commitments and standby letters of credit) are based on quoted fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

The estimated fair value of standby letters of credit outstanding at March 31, 2015 and December 31, 2014 was insignificant. Loan commitments on which the committed interest rates were less than the current market rate are also insignificant at March 31, 2015 and December 31, 2014.

7. OTHER BORROWINGS AND CONVERTIBLE DEBENTURES

Federal Home Loan Bank Advances – The Company through the bank has a blanket lien credit line with the FHLB. FHLB advances are collateralized in the aggregate by CWB's eligible loans and securities. Total FHLB advances were \$5.0 million at March 31, 2015 and \$10.0 million at December 31, 2014, borrowed at fixed rates with a weighted average rate of 2.74%. The Company also had \$50.0 million of letters of credit with FHLB at March 31, 2015 to secure public funds. At March 31, 2015 CWB had pledged to the FHLB, \$31.0 million of securities and \$81.2 million of loans. At March 31, 2015, CWB had \$100.7 million available for additional borrowing. At December 31, 2014, CWB had pledged to the FHLB, \$30.6 million of securities and \$67.3 million of loans. At December 31, 2014, CWB had \$106.2 million available for additional borrowing. Total FHLB interest expense for the three months ended March 31, 2015 and 2014 was \$0.6 million and \$0.2 million, respectively.

Federal Reserve Bank – CWB has established a credit line with the FRB. Advances are collateralized in the aggregate by eligible loans. There were no outstanding FRB advances as of March 31, 2015 and December 31, 2014. CWB had \$91.3 million and \$88.0 million in borrowing capacity as of March 31, 2015 and December 31, 2014, respectively.

Convertible Debentures - Effective March 10, 2014, the Company exercised its early redemption rights and called the outstanding debentures. All \$1.4 million debentures were converted to 317,550 shares of common stock and \$34,000 to cash.

Federal Funds Purchased Lines – The Company has federal funds borrowing lines at correspondent banks totaling \$30.0 million. There was no amount outstanding as of March 31, 2015 and December 31, 2014.

8. STOCKHOLDERS' EQUITY

The following table summarizes the changes in other comprehensive income by component, net of tax for the period indicated:

	Three Months Ended March 31,	
	2015	2014

	Unrealized holding gains (losses) on AFS (in thousands)	
Beginning balance	$31	$(274)
Other comprehensive income (loss) before reclassifications	(14)	95
Amounts reclassified from accumulated other comprehensive income	-	-
Net current-period other comprehensive income (loss)	(14)	95
Ending Balance	$17	$(179)

There were no reclassifications out of accumulated other comprehensive income for the three months ended March 31, 2015 or 2014.

Preferred Stock

The Company's Series A Preferred Stock paid cumulative dividends at a rate of 5% per year until February 15, 2014 then increased to a rate of 9% per year. The Series A Preferred Stock has no maturity date and ranks senior to the Common Stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of the Company.

Table of Contents

During 2014, the Company completed redemption of 55% of the Series A Preferred Stock. The Company redeemed 8,586 shares of stock for $8.4 million and recognized a discount on the partial redemption of $0.2 million.

During the first quarter of 2015, the Company redeemed an additional $1.0 million of Series A Preferred Stock.

During the three months ended March 31, 2015 and 2014, the Company recorded $0.1 million and $0.3 million respectively, of dividends on preferred stock.

Common Stock Warrant

The Warrant issued as part of the TARP provides for the purchase of up to 521,158 shares of the common stock, at an exercise price of $4.49 per share ("Warrant Shares"). The Warrant is immediately exercisable and has a 10-year term. The exercise price and the ultimate number of shares of common stock that may be issued under the Warrant are subject to certain anti-dilution adjustments, such as upon stock splits or distributions of securities or other assets to holders of the common stock, and upon certain issuances of the common stock at or below a specified price relative to the then current market price of the common stock. In the second quarter of 2013, the Treasury sold its warrant position to a private investor. Pursuant to the Securities Purchase Agreement, the private investor has agreed not to exercise voting power with respect to any Warrant Shares.

Common Stock

During the first quarter of 2014, the Company issued 316,872 shares of common stock in conjunction with debenture conversions.

During the three months ended March 31, 2015, the Company paid a quarterly common stock dividend of $0.2 million. There were no such dividends paid in the first quarter of 2014.

9. EARNINGS PER SHARE

The following table presents a reconciliation of basic earnings per share and diluted earnings per share:

	Three Months Ended March 31,	
	2015	2014
	(in thousands, except per share amounts)	
Net income	$1,770	$1,442
Less: dividends and accretion on preferred stock and discount on partial redemption	121	273
Net income available to common stockholders	$1,649	$1,169
Add: debenture interest expense and costs, net of income taxes	-	103
Net income for diluted calculation of earnings per common share	$1,649	$1,272
Weighted average number of common shares outstanding - basic	8,203	7,971
Weighted average number of common shares outstanding - diluted	8,501	8,534
Earnings per share:		
Basic	$0.20	$0.15
Diluted	$0.19	$0.15

10. CAPITAL REQUIREMENT

The Company and CWB are subject to various regulatory capital adequacy requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's business and financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and CWB must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Effective January 1, 2015, CWB was subject to the new guidelines for determining regulatory capital known as "Basel III." These capital rules among other things implement capital reforms and introduce a minimum Common Equity Tier 1 (CET1) ratio of 4.5% and a capital conservation buffer of 2.5%. Phase-in of the capital conservation buffer requirements will begin on January 1, 2016.

Effective March 31, 2015, CWBC met the requirements under the final rule changes to the Federal Reserve's Small Bank Holding Company Policy Statement for institutions with $500 million to $1 billion in total consolidated assets. Under the revised policy, CWBC is no longer subject to certain consolidated regulatory financial reporting requirements and is not subject to Basel III capital rules and reporting requirements.

Table of Contents

As of March 31, 2015 and December 31, 2014, the Company and CWB met the minimum capital ratio requirements to be classified as well-capitalized, as defined by the banking agencies.

The Company's and CWB's capital amounts and ratios as of March 31, 2015 and December 31, 2014 are presented in the table below:

	Total Capital	Tier 1 Capital	Common Equity Tier 1 Capital	Risk-Weighted Assets	Adjusted Average Assets	Total Risk-Based Capital Ratio	Tier 1 Risk-Based Capital Ratio	Common Equity Tier 1 Ratio	Tier 1 Leverage Ratio
March 31, 2015	(dollars in thousands)								
CWB	$71,793	$66,082	$66,082	$455,301	$563,866	15.77 %	14.51 %	14.51 %	11.72 %
Well-capitalized ratios						10.00 %	8.00 %	6.50 %	5.00 %
Minimum capital ratios						8.00 %	6.00 %	4.50 %	4.00 %
December 31, 2014 (Under previous requirements)									
CWBC (Consolidated)	$72,569	$66,939	N/A	$448,199	$564,630	16.19 %	14.94 %	N/A	11.86 %
CWB	$71,303	$65,673	N/A	$448,118	$564,331	15.91 %	14.66 %	N/A	11.64 %
Well-capitalized ratios						10.00 %	6.00 %	N/A	5.00 %
Minimum capital ratios						8.00 %	4.00 %	N/A	4.00 %

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion is designed to provide insight into management's assessment of significant trends related to the Company's consolidated financial condition, results of operations, liquidity, capital resources and interest rate sensitivity. It should be read in conjunction with the Company's unaudited interim consolidated financial statements and notes thereto included herein and the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, and the other financial information appearing elsewhere in this report.

Forward Looking Statements

This report contains certain forward-looking statements, within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbor for "forward-looking statements" provided by the Private Securities Litigation Reform Act of 1995. These statements may include statements that expressly or implicitly predict future results, performance or events. Statements other than statements of historical fact are forward-looking statements. In addition, the words "anticipates," "expects," "believes," "estimates" and "intends" or the negative of these terms or other comparable terminology constitute "forward-looking statements." Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Except as required by law, the Company disclaims any obligation to update any such forward-looking statements or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

Forward-looking statements contained in this Quarterly Report on Form 10-Q involve substantial risks and uncertainties, many of which are difficult to predict and are generally beyond the control of the Company and may cause our actual results to differ significantly from historical results and those expressed in any forward-looking statement. Risks and uncertainties include those set forth in our filings with the Securities and Exchange Commission and the following factors that could cause actual results to differ materially from those presented:

- general economic conditions, either nationally or locally in some or all areas in which business is conducted, or conditions in the real estate or securities markets or the banking industry which could affect liquidity in the capital markets, the volume of loan origination, deposit flows, real estate values, the levels of non-interest income and the amount of loan losses;
- changes in existing loan portfolio composition and credit quality, and changes in loan loss requirements;
- legislative or regulatory changes which may adversely affect the Company's business, including but not limited to the impact of the Dodd-Frank Act and Consumer Protection Act and the regulations required to be promulgated thereunder;
- the drought in California and its impact on the economy;
- the Company's success in implementing its new business initiatives, including expanding its product line, adding new branches and successfully building its brand image;
- changes in interest rates which may reduce net interest margin and net interest income;
- increases in competitive pressure among financial institutions or non-financial institutions;
- technological changes which may be more difficult to implement or more expensive than anticipated;
- changes in borrowing facilities, capital markets and investment opportunities which may adversely affect the business;
- changes in accounting principles, policies or guidelines which may cause conditions to be perceived differently;
- litigation or other matters before regulatory agencies, whether currently existing or commencing in the future, which may delay the occurrence or non-occurrence of events longer than anticipated;
- the ability to originate and purchase loans with attractive terms and acceptable credit quality;

- the ability to attract and retain key members of management; and
- the ability to realize cost efficiencies.

Table of Contents

For additional information regarding risks that may cause our actual results to differ materially from any forward-looking statements, see "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014 and in item 1A of Part II of this Quarterly Report.

Financial Overview and Highlights

Community West Bancshares ("CWBC") incorporated under the laws of the state of California, is a bank holding company headquartered in Goleta, California providing full service banking and lending through its wholly-owned subsidiary Community West Bank ("CWB" or the "Bank"), which has five California branch banking offices in Goleta, Santa Barbara, Santa Maria, Ventura and Westlake Village. These entities are collectively referred to herein as the "Company".

Financial Result Highlights for the First Quarter of 2015

Net income available to common shareholders of the Company of $1.6 million, or $0.19 per diluted share in the first quarter of 2015 (1Q15) compared to $1.2 million or $0.15 per diluted share in the first quarter a year ago. (1Q14). The significant factors impacting the Company's first quarter earnings performance were:

- Net income of $1.8 million in 1Q15 compared to $1.4 million in 1Q14.
- Net interest margin for the first quarter of 2015 and 2014 was 4.65%.
- Total loans decreased slightly to $485.8 million at March 31, 2015 compared to $487.3 million at December 31, 2014.
- The reduction in the provision for loan losses was ($1.0 million) for the first quarter of 2015 compared to ($1.4 million) for the first quarter of 2014, resulting from reduced loss factors and net charge-offs along with continued improvement in credit quality.
- Non-interest expenses decreased $0.7 million to $4.8 million compared to $5.5 million in the first quarter of 2014.
- Net nonaccrual loans decreased to $10.5 million at March 31, 2015, compared to $11.0 million at December 31, 2014 and from $15.7 million at March 31, 2014.
- Allowance for loan losses was $7.3 million at March 31, 2015, or 1.69% of total loans held for investment compared to 1.84% at December 31, 2014 and 2.71% one year ago.
- Total deposits increased $18.6 million to $495.7 million at March 31, 2015 from $477.1 at December 31, 2014.
- Other assets acquired through foreclosure increased slightly to $0.3 million at March 31, 2015 from $0.1 million at December 31, 2014 and declined from $3.8 million at March 31, 2014.

The impact to the Company from these items, and others of both a positive and negative nature, will be discussed in more detail as they pertain to the Company's overall comparative performance for the three months ended March 31, 2015 throughout the analysis sections of this report.

Critical Accounting Policies

A number of critical accounting policies are used in the preparation of the Company's consolidated financial statements. These policies relate to areas of the financial statements that involve estimates and judgments made by management. These include provision and allowance for loan losses and servicing assets. These critical accounting policies are discussed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 with a description of how the estimates are determined and an indication of the consequences of an over or under estimate.

Table of Contents
RESULTS OF OPERATIONS

A summary of our results of operations and financial condition and select metrics is included in the following table:

	Three Months Ended March 31, 2015	2014
	(in thousands, except per share amounts)	
Net income available to common stockholders	$1,649	$1,169
Basic earnings per share	0.20	0.15
Diluted earnings per share	0.19	0.15
Total assets	572,271	550,257
Gross loans	493,076	484,479
Total deposits	495,670	446,525
Total stockholders' equity	67,503	70,462
Book value per common share	7.50	6.70
Net interest margin	4.65 %	4.65 %
Return on average assets	1.27 %	1.07 %
Return on average stockholders' equity	10.68 %	8.49 %

The following table sets forth a summary financial overview for the comparable three months ended March 31, 2015 and 2014:

	Three Months Ended March 31, 2015	2014	Increase (Decrease)
	(in thousands, except per share amounts)		
Consolidated Income Statement Data:			
Interest income	$7,017	$6,961	$ 56
Interest expense	666	879	(213)
Net interest income	6,351	6,082	269
Provision for loan losses	(968)	(1,371)	403
Net interest income after provision for loan losses	7,319	7,453	(134)
Non-interest income	480	518	(38)
Non-interest expenses	4,771	5,525	(754)
Income before income taxes	3,028	2,446	582
Income taxes	1,258	1,004	254
Net income	$1,770	$1,442	$ 328
Dividends on preferred stock	140	273	(133)
Discount on partial redemption of preferred stock	(19)	-	(19)
Net income available to common stockholders	$1,649	$1,169	$ 480
Income per share - basic	$0.20	$0.15	$ 0.05
Income per share - diluted	$0.19	$0.15	$ 0.04

Table of Contents

Interest Rates and Differentials

The following table illustrates average yields on interest-earning assets and average rates on interest-bearing liabilities for the periods indicated:

	Three Months Ended March 31,							
	2015				2014			
	Average Balance	Interest	Average Yield/Cost (2)		Average Balance	Interest	Average Yield/Cost (2)	
Interest-Earning Assets	(in thousands)							
Federal funds sold and interest-earning deposits (5)	$26,773	$20	0.30	%	$22,408	$12	0.22	%
Investment securities	33,208	285	3.48	%	32,062	188	2.38	%
Loans (1)	493,959	6,712	5.51	%	476,341	6,761	5.76	%
Total earnings assets	553,940	7,017	5.14	%	530,811	6,961	5.32	%
Nonearning Assets								
Cash and due from banks	1,843				1,587			
Allowance for loan losses	(7,923)				(12,123)			
Other assets	16,476				25,502			
Total assets	$564,336				$545,777			
Interest-Bearing Liabilities								
Interest-bearing demand deposits	268,792	229	0.35	%	256,329	247	0.39	%
Savings deposits	15,177	36	0.96	%	16,094	58	1.46	%
Time deposits	136,030	340	1.01	%	116,567	337	1.17	%
Total interest-bearing deposits	419,999	605	0.58	%	388,990	642	0.67	%
Convertible debentures	-	-	0.00	%	977	30	12.45	%
Other borrowings	12,000	61	2.06	%	30,000	207	2.80	%
Total interest-bearing liabilities	431,999	666	0.63	%	419,967	879	0.85	%
Noninterest-Bearing Liabilities								
Noninterest-bearing demand deposits	61,532				53,129			
Other liabilities	3,587				3,790			
Stockholders' equity	67,218				68,891			
Total Liabilities and Stockholders' Equity	$564,336				$545,777			
Net interest income and margin (3)		$6,351	4.65	%		$6,082	4.65	%
Net interest spread (4)			4.51	%			4.47	%

(1) Includes nonaccrual loans.
(2) Annualized.
(3) Net interest margin is computed by dividing net interest income by total average earning assets.
(4) Net interest spread represents average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.
(5) Certain amounts have been reclassified to conform to the current year presentation.

Table of Contents

The table below sets forth the relative impact on net interest income of changes in the volume of earning assets and interest-bearing liabilities and changes in rates earned and paid by the Company on such assets and liabilities. For purposes of this table, nonaccrual loans have been included in the average loan balances.

	Three Months Ended March 31, 2015 versus 2014 Increase (Decrease) Due to Changes in (1)		
	Volume	Rate	Total
	(in thousands)		
Interest income:			
Investment securities	$10	$87	$97
Federal funds sold and other	3	5	8
Loans, net	239	(288)	(49)
Total interest income	252	(196)	56
Interest expense:			
Interest checking	11	(29)	(18)
Savings	(2)	(20)	(22)
Time deposits	48	(45)	3
Other borrowings	(91)	(55)	(146)
Convertible debentures	-	(30)	(30)
Total interest expense	(34)	(179)	(213)
Net increase	$286	$(17)	$269

(1) Changes due to both volume and rate have been allocated to volume changes.

Comparison of interest income, interest expense and net interest margin

The Company's primary source of revenue is interest income. Interest income for the three months ended March 31, 2015 was $7.0 million a slight increase from the three months ended March 31, 2014. Total interest income in the first quarter of 2015 benefited from increased yields on investment securities and interest bearing deposits in other institutions. These increases were partially offset by decreased interest income from loans. The loan portfolio continues to have compression in the yields on loans. The annualized yield on interest-earning assets for the first quarter 2015 compared to 2014 decreased to 5.14% due to decreased yields on loans of 25 basis points.

Interest expense for the three months ended March 31, 2015 compared to 2014 decreased by $0.2 million. This decline for the first quarter comparable periods was primarily due to decreased interest paid on FHLB advances and convertible debentures. The annualized average cost of interest-bearing deposits also declined across all deposit types by nine basis points to 0.58% for the three months ended March 31, 2015 compared to the same period in 2014. During the first quarter of 2015, the Company's non-interest bearing demand deposits grew by $13.9 million contributing to a decline in total cost of deposits to 0.51%. The average cost of other borrowings also declined for the comparable periods as $18.0 million of higher cost FHLB advances matured and the convertible debentures were converted to equity.

The net impact of the changes in yields on interest-earning assets and the rates paid on interest-bearing liabilities was no change in the interest margin for the first quarter of 2015 compared to the first quarter of 2014.

Provision for loan losses

The provision for loan losses in each period is reflected as a charge against earnings in that period. The provision for loan losses is equal to the amount required to maintain the allowance for loan losses at a level that is adequate to absorb probable losses inherent in the loan portfolio. The provision (benefit) for loan losses was ($1.0 million) for the first quarter of 2015 compared to $(1.4 million) for the first quarter of 2014. The provision benefit for the three months ended March 31, 2015 resulted from $1.0 million from reduced historical loss factors, $0.4 million net recoveries, and $0.2 million from improvements in impaired loans partially offset by $0.6 million of increased credit qualitative factors. The result of the improvements in credit quality, historical loss rates and net recoveries was the ratio of allowance for loan losses to loans held for investment decreased from 2.71% at March 31, 2014 to 1.69% at March 31, 2015.

Table of Contents

The following schedule summarizes the provision, charge-offs (recoveries) by loan category for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,							
	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total
2015	(in thousands)							
Beginning balance	$4,032	$ 1,459	$ 986	$1,066	$ 140	$ 192	$ 2	$7,877
Charge-offs	(131)	-	-	-	-	-	-	(131)
Recoveries	49	13	321	110	3	1	-	497
Net charge-offs	(82)	13	321	110	3	1	-	366
Provision	88	105	(707)	(298)	(90)	(68)	2	(968)
Ending balance	$4,038	$ 1,577	$ 600	$878	$ 53	$ 125	$ 4	$7,275
2014								
Beginning balance	$5,114	$ 2,552	$ 2,064	$1,951	$ 280	$ 245	$ 2	$12,208
Charge-offs	(240)	-	-	(12)	-	-	-	(252)
Recoveries	36	639	29	51	15	1	-	771
Net charge-offs	(204)	639	29	39	15	1	-	519
Provision	(30)	(907)	(265)	(132)	(30)	(7)	-	(1,371)
Ending balance	$4,880	$ 2,284	$ 1,828	$1,858	$ 265	$ 239	$ 2	$11,356

The percentage of net nonaccrual loans to the total loan portfolio has decreased to 2.13% as of March 31, 2015 from 2.23% at December 31, 2014.

The allowance for loan losses compared to net nonaccrual loans has decreased to 69.4% as of March 31, 2015 from 71.5% as of December 31, 2014. Total past due loans increased to $2.2 million as of March 31, 2015 from $1.4 million as of December 31, 2014. The majority of this increase was in commercial real estate loans over 90 days past due.

Non-Interest Income

The Company earned non-interest income primarily through fees related to services provided to loan and deposit customers, gains from loan sales, and other.

The following table summarizes the Company's non-interest income for the periods indicated:

	Three Months Ended March 31,		Increase
	2015	2014	(Decrease)
	(in thousands)		
Other loan fees	$175	$175	$ -
Document processing fees	92	78	14
Service charges	73	72	1
Gains from loan sales, net	36	65	(29)

Other	104	128	(24)
Total non-interest income	$480	$518	$ (38)

Total non-interest income decreased slightly for the first quarter of 2015 compared to 2014, primarily due to decreased other income and gains from loan sales, net. The decline in other income was mostly due to decreased gains from loan deficiency judgments. Gains from loan sales, net decreased due to the decrease in the SBA discount accretion for the first quarter of 2015 compared to 2014 partially offset by increased gains from mortgage loan sales in 2015 compared to 2014. Document processing fees increased slightly in the first quarter 2015 compared to 2014 mostly due to increased fees from mortgage and manufactured housing loans.

Table of Contents

Non-Interest Expenses

The following table summarizes the Company's non-interest expenses for the periods indicated:

	Three Months Ended March 31,		Increase
	2015	2014	(Decrease)
	(in thousands)		
Salaries and employee benefits	$3,115	$3,227	$ (112)
Occupancy, net	445	439	6
Professional services	248	360	(112)
Data processing	119	172	(53)
Depreciation	91	75	16
Loan servicing and collection	89	265	(176)
Advertising and marketing	80	121	(41)
FDIC assessment	71	80	(9)
Stock option	42	211	(169)
Net (gain) loss on sales/write-downs of foreclosed real estate and repossessed assets	(1)	40	(41)
Other	472	535	(63)
Total non-interest expenses	$4,771	$5,525	$ (754)

Total non-interest expenses for the first quarter of 2015 compared to 2014 decreased by $0.8 million, or 14.5% primarily due to improved credit quality and a Company-wide initiative to reduce expenses. Loan servicing and collection expenses declined by $0.2 million in the first quarter 2015 compared to 2014 due to declined loan collection and foreclosed asset expenses. Stock option expense declined by $0.2 million for the comparable first quarters as a result of immediate vested options granted to the Directors in the first quarter of 2014. No stock options were granted to the directors in the first quarter of 2015. Salaries and employee benefit expenses were $0.1 million lower in the first quarter of 2015 compared to 2014 mostly from decreased salary expenses due to fewer full-time equivalent employees in the first quarter of 2015 compared to 2014. Professional services declined $0.1 million for the first quarter of 2015 compared to 2014 due to decreased legal and accounting expenses partially offset by increased director fees and expenses. Other expenses were impacted by a decline in shareholder expenses at the holding company due to the amortization of the remaining debenture expenses in the first quarter of 2014 of $0.2 million.

Income Taxes

Income taxes for the first quarter of 2015 were $1.3 million compared to a $1.0 million in 2014. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts and their respective tax bases including operating losses and tax credit carryforwards. Net deferred tax assets of $3.0 million are reported in the consolidated balance sheet as a component of total assets.

Accounting standards Codification Topic 740, Income Taxes, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a “more likely than not” standard.

A valuation allowance is established for deferred tax assets if, based on weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets may not be realized. Management evaluates the Company’s deferred tax assets for recoverability using a consistent approach which considers the relative impact of negative and positive evidence, including the Company’s historical profitability and projections of future taxable income. The Company is required to establish a valuation allowance for deferred tax assets and record a charge to income if management determines, based on available evidence at the time the determination is made, that it is more likely than not that some portion or all of the deferred tax assets may not be realized.

There was no valuation allowance on deferred tax assets at March 31, 2015 or December 31, 2014.

The Company is subject to the provisions of ASC 740, Income Taxes (ASC 740). ASC 740 prescribes a more-likely-than-not threshold for the financial statement recognition of uncertain tax positions. ASC 740 clarifies the accounting for income taxes by prescribing a minimum recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. On a quarterly basis, the Company undergoes a process to evaluate whether income tax accruals are in accordance with ASC 740 guidance on uncertain tax positions.

Table of Contents
BALANCE SHEET ANALYSIS

Total assets increased to $572.3 million at March 31, 2015 from $557.3 million at December 31, 2014. This increase in assets was mostly due to the increase in cash and cash equivalents of $16.5 million to $35.4 million at March 31, 2015 from $19.0 million at December 31, 2014.

Total liabilities increased $14.5 million at March 31, 2015 to $504.8 million compared to $490.3 million at December 31, 2014. The increase in liabilities is mostly from deposits partially offset by decreased FHLB advances. Total deposits increased to $495.7 million at March 31, 2015 from $477.1 million at December 31, 2014.

Total stockholders' equity increased to $67.5 million at March 31, 2015 from $67.0 million at December 31, 2014. This was mostly due to the redemption of $1.0 million of preferred stock, $0.1 million of dividends on preferred stock and $0.2 million dividends on common stock offset by income for the quarter of $1.8 million. The book value per common share was $7.50 at March 31, 2015 compared to $7.31 at December 31, 2014.

Selected Balance Sheet Accounts

	March 31, 2015	December 31, 2014	Increase (Decrease)	Percent Increase (Decrease)
	(dollars in thousands)			
Cash and cash equivalents	$35,447	$18,959	$ 16,488	87.0 %
Investment securities available-for-sale	23,123	22,194	929	4.2 %
Investment securities held-to-maturity	7,931	8,447	(516)	(6.1)%
Loans - held for sale	63,724	66,759	(3,035)	(4.5)%
Loans - held for investment, net	422,077	420,497	1,580	0.4 %
Total assets	572,271	557,318	14,953	2.7 %
Total deposits	495,670	477,084	18,586	3.9 %
Other borrowings	5,000	10,000	(5,000)	(50.0)%
Total stockholder's equity	67,503	67,007	496	0.7 %

The table below summarizes the distribution of the Company's loans held for investment at the end of each of the periods indicated.

	March 31, 2015	December 31, 2014
	(in thousands)	
Manufactured housing	$169,751	$169,662
Commercial real estate	163,163	159,432
Commercial	48,598	49,683
SBA	20,302	21,336
HELOC	13,130	13,481
Single family real estate	14,606	14,957
Consumer	156	178
	429,706	428,729
Allowance for loan losses	7,275	7,877
Deferred costs, net	128	118
Discount on SBA loans	226	237
Total loans held for investment, net	$422,077	$420,497

The Company had $63.7 million of loans held for sale at March 31, 2015 compared to $66.8 million at December 31, 2014. Of the $63.7 million loans held for sale at March 31, 2015, $37.7 million were SBA loans, $25.3 million were commercial agriculture loans, and $0.7 million were mortgage loans. Of the $66.8 million loans held for sale at December 31, 2014, $40.9 million were SBA loans, $25.1 million were commercial agriculture loans, and $0.8 million were mortgage loans.

Table of Contents

Concentrations of Lending Activities

The Company's lending activities are primarily driven by the customers served in the market areas where the Company has branch offices in the Central Coast of California. The Company monitors concentrations within five broad categories: geography, industry, product, call code, and collateral. The Company makes manufactured housing, commercial, SBA, construction, real estate and consumer loans to customers through branch offices located in the Company's primary markets. The Company's business is concentrated in these areas and the loan portfolio includes significant credit exposure to the manufactured housing and commercial real estate markets of these areas. As of March 31, 2015 and December 31, 2014, manufactured housing loans comprised 34.4% and 34.3%, respectively of total loans. As of March 31, 2015 and December 31, 2014, commercial real estate loans accounted for approximately 33.1% and 32.2% of total loans, respectively. Approximately 58.0% and 48.3% of these commercial real estate loans were owner-occupied at March 31, 2015 and December 31, 2014, respectively. Substantially all of these loans are secured by first liens with an average loan to value ratios of 49.8% and 48.9% at March 31, 2015 and December 31, 2014, respectively. The Company was within established policy limits at March 31, 2015 and December 31, 2014.

Asset Quality

For all banks and bank holding companies, asset quality plays a significant role in the overall financial condition of the institution and results of operations. The Company measures asset quality in terms of nonaccrual loans as a percentage of gross loans, and net charge-offs as a percentage of average loans. Net charge-offs are calculated as the difference between charged-off loans and recovery payments received on previously charged-off loans.

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Nonaccrual loans (net of guranteed portion)	$10,482	$15,722
Troubled debt restructured loans, gross	9,462	10,769
Nonaccrual loans to gross loans	2.13 %	3.25 %
Net charge-offs (annualized) to average loans	(0.30 %)	(0.44 %)
Allowance for loan losses to nonaccrual loans	69.40 %	72.23 %
Allowance for loan losses to gross loans	1.48 %	2.34 %

The following table reflects the recorded investment in certain types of loans at the dates indicated:

	March 31, 2015	December 31, 2014
	(in thousands)	
Nonaccrual loans	$16,048	$ 17,883
SBA guaranteed portion of loans included above	(5,566)	(6,856)
Total nonaccrual loans, net	$10,482	$ 11,027
Troubled debt restructured loans, gross	$9,462	$ 9,685
Loans 30 through 89 days past due with interest accruing	$513	$ -
Allowance for loan losses to gross loans held for investment	1.69 %	1.84 %

Impaired loans

A loan is considered impaired when, based on current information; it is probable that the Company will be unable to collect the scheduled payments of principal and/or interest under the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and/or interest payments. Loans that experience insignificant payment delays or payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays or payment shortfalls on a case-by-case basis. When determining the possibility of impairment, management considers the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. For collateral-dependent loans, the Company uses the fair value of collateral method to measure impairment. All other loans are measured for impairment based on the present value of future cash flows. Impairment is measured on a loan-by-loan basis for all loans in the portfolio.

A loan is considered a troubled debt restructured loan (“TDR”) when concessions have been made to the borrower and the borrower is in financial difficulty. These concessions include but are not limited to term extensions, rate reductions and principal reductions. Forgiveness of principal is rarely granted and modifications for all classes of loans are predominantly term extensions. TDR loans are also considered impaired.

Table of Contents

The following schedule summarizes impaired loans and specific reserves by loan class as of the periods indicated:

	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total Loans
Impaired Loans as of March 31, 2015:	(in thousands)							
Recorded Investment:								
Impaired loans with an allowance recorded	$3,237	$ 1,443	$ 2,854	$1,674	$ 21	$ 71	$ -	$9,300
Impaired loans with no allowance recorded	4,033	1,813	44	149	63	460	-	6,562
Total loans individually evaluated for impairment	7,270	3,256	2,898	1,823	84	531	-	15,862
Related Allowance for Credit Losses								
Impaired loans with an allowance recorded	428	15	50	183	-	10	-	686
Impaired loans with no allowance recorded	-	-	-	-	-	-	-	-
Total loans individually evaluated for impairment	428	15	50	183	-	10	-	686
Total impaired loans, net	$6,842	$ 3,241	$ 2,848	$1,640	$ 84	$ 521	$ -	$15,176

	Manufactured Housing	Commercial Real Estate	Commercial	SBA	HELOC	Single Family Real Estate	Consumer	Total Loans
Impaired Loans as of December 31, 2014:	(in thousands)							
Recorded Investment:								
Impaired loans with an allowance recorded	$4,717	$ 2,783	$ 3,122	$1,837	$ 86	$ 591	$ -	$13,136
Impaired loans with no allowance recorded	2,734	831	44	4	-	90	-	3,703
Total loans individually evaluated for impairment	7,451	3,614	3,166	1,841	86	681	-	16,839
Related Allowance for Credit Losses								
Impaired loans with an allowance recorded	399	77	241	104	1	32	-	854
Impaired loans with no allowance recorded	-	-	-	-	-	-	-	-
Total loans individually evaluated for impairment	399	77	241	104	1	32	-	854
Total impaired loans, net	$7,052	$ 3,537	$ 2,925	$1,737	$ 85	$ 649	$ -	$15,985

Total impaired loans continued to decline in the first quarter of 2015 by $1.0 million, or 5.8% compared to December 31, 2014. The majority of this decrease was in SBA 504 1st trust deed impaired loans which decreased by $0.3 million, net due to one payoff and one newly impaired and commercial impaired loans which decreased $0.3 million due to borrower payments. Impaired manufactured housing loans decreased by $0.2 million, net mostly as the result of borrower repayments net of new loans transferred to non-accrual. Single family impaired loans declined during the quarter due to the transfer of one loan to repossessed assets.

The accrual of interest is discontinued when substantial doubt exists as to collectibility of the loan; generally at the time the loan is 90 days delinquent. Any unpaid but accrued interest is reversed at that time. Thereafter, interest income is no longer recognized on the loan. Interest income may be recognized on impaired loans to the extent they are not past due by 90 days. Interest on nonaccrual loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Foregone interest on nonaccrual and troubled debt restructured loans for the three months ended March 31, 2015 and 2014 were $0.3 million and $0.4 million, respectively.

The following table summarizes the composite of nonaccrual loans net of SBA guarantee:

	At March 31, 2015			At December 31, 2014		
	Nonaccrual Balance	%	Percent of Total Loans	Nonaccrual Balance	%	Percent of Total Loans
	(dollars in thousands)					
Manufactured housing	$1,735	16.55 %	0.35 %	$1,480	13.42 %	0.30 %
Commercial real estate	3,611	34.45 %	0.73 %	3,972	36.03 %	0.80 %
Commercial	2,898	27.65 %	0.59 %	3,167	28.72 %	0.64 %
SBA	1,693	16.15 %	0.34 %	1,713	15.53 %	0.35 %
HELOC	85	0.81 %	0.02 %	86	0.78 %	0.02 %
Single family real estate	460	4.39 %	0.09 %	609	5.52 %	0.12 %
Total nonaccrual loans	$10,482	100.00%	2.12 %	$11,027	100.00%	2.23 %

Net nonaccrual loans decreased $0.5 million or 4.5%, from $11.0 million at December 31, 2014 to $10.5 million at March 31, 2015. The percentage of net nonaccrual loans to the total loan portfolio has decreased to 2.13% as of March 31, 2015 from 2.23% at December 31, 2014 and 3.25% at March 31, 2014.

CWB generally repurchases the guaranteed portion of SBA loans from investors when those loans become past due 120 days. After the foreclosure and collection process is complete, the SBA reimburses CWB for this principal balance. Therefore, although these balances do not earn interest during this period, they generally do not result in a loss of principal to CWB.

Table of Contents

Total gross troubled debt restructured loans ("TDR") have declined $0.2 million or 2.3% to $9.5 million at March 31, 2015 from $9.7 million at December 31, 2014. The Company recorded three new manufactured housing TDR loans with recorded investment of $0.2 million in the first quarter of 2015.

The following schedule summarizes the average investment in impaired loans by loan class and the interest income recognized:

	Three Months Ended March 31,			
	2015		2014	
	Average Investment in Impaired Loans	Interest Income	Average Investment in Impaired Loans	Interest Income
	(in thousands)			
Manufactured housing	$7,288	$ 115	$8,862	$ 59
Commercial real estate:				
Commercial real estate	2,269	-	2,728	-
SBA 504 1st trust deed	1,133	9	768	5
Land	-	-	140	-
Commercial	3,003	-	3,662	14
SBA	1,814	11	1,770	3
HELOC	85	-	597	5
Single family real estate	600	1	740	1
Total	$16,192	$ 136	$19,267	$ 87

41

Table of Contents

Allowance For Loan Losses

The following table summarizes the allocation of allowance for loan losses by loan type. However allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories:

	Three Months Ended March 31,	
	2015	2014
Allowance for loan losses:	(in thousands)	
Balance at beginning of period	$7,877	$12,208
Provisions charged to operating expenses:		
Manufactured housing	88	(30)
Commercial real estate	105	(907)
Commercial	(707)	(265)
SBA	(298)	(132)
HELOC	(90)	(30)
Single family real estate	(68)	(7)
Consumer	2	-
Total Provision	(968)	(1,371)
Recoveries of loans previously charged-off:		
Manufactured housing	49	36
Commercial real estate	13	639
Commercial	321	29
SBA	110	51
HELOC	3	15
Single family real estate	1	1
Consumer	-	-
Total recoveries	497	771
Loans charged-off:		
Manufactured housing	131	240
Commercial real estate	-	-
Commercial	-	-
SBA	-	12
HELOC	-	-
Single family real estate	-	-
Consumer	-	-
Total charged-off	131	252
Net charge-offs	(366)	(519)
Balance at end of period	$7,275	$11,356

42

Table of Contents

Potential Problem Loans

The Company classifies loans consistent with federal banking regulations. These loan grades are described in further detail in Footnote 1, "Summary of Significant Accounting Policies" of this Form 10-Q. The following table presents information regarding potential problem loans consisting of loans graded watch or worse, but still performing:

	March 31, 2015			
	Number of Loans	Loan Balance (1)	Percent	Percent of Total Loans
	(dollars in thousands)			
Manufactured housing	54	$3,213	12.63 %	0.65 %
Commercial real estate	14	17,861	70.21 %	3.62 %
Commercial	9	703	2.76 %	0.14 %
SBA	29	729	2.87 %	0.15 %
HELOC	9	2,747	10.80 %	0.56 %
Single family real estate	3	185	0.73 %	0.04 %
Total	118	$25,438	100.00 %	5.16 %

(1) Loan balance includes $4.7 million guaranteed by government agencies

	December 31, 2014			
	Number of Loans	Loan Balance (1)	Percent	Percent of Total Loans
	(dollars in thousands)			
Manufactured housing	93	$5,513	22.29 %	1.11 %
Commercial real estate	12	17,285	69.88 %	3.49 %
Commercial	9	484	1.96 %	0.10 %
SBA	26	632	2.56 %	0.13 %
HELOC	7	577	2.33 %	0.12 %
Single family real estate	4	243	0.98 %	0.05 %
Total	151	$24,734	100.00 %	5.00 %

(1) Loan balance includes $4.4 million guaranteed by government agencies

Investment Securities

Investment securities are classified at the time of acquisition as either held-to-maturity or available-for-sale based upon various factors, including asset/liability management strategies, liquidity and profitability objectives, and regulatory requirements. Held-to-maturity securities are carried at amortized cost, adjusted for amortization of premiums or accretion of discounts. Available-for-sale securities are securities that may be sold prior to maturity based upon asset/liability management decisions. Investment securities identified as available-for-sale are carried at fair value. Unrealized gains or losses on available-for-sale securities are recorded as accumulated other comprehensive income in stockholders' equity.

The investment securities portfolio of the Company is utilized as collateral for borrowings, required collateral for public deposits and to manage liquidity, capital, and interest rate risk.

Table of Contents

The carrying value of investment securities was as follows:

	March 31, 2015	December 31, 2014
	(in thousands)	
U.S. government agency notes	$9,332	$ 7,862
U.S. government agency mortgage backed securities ("MBS")	7,931	8,447
U.S. government agency collateralized mortgage obligations ("CMO")	13,735	14,271
Equity securities: Farmer Mac class A stock	56	61
	$31,054	$ 30,641

Other Assets Acquired Through Foreclosure

The following table represents the changes in other assets acquired through foreclosure:

	Three Months Ended March 31, 2015	2014
	(in thousands)	
Balance, beginning of period	$137	$3,811
Additions	222	403
Dispositions	(40)	(393)
Losses on sales, net	1	(40)
Balance, end of period	$320	$3,781

Other assets acquired through foreclosure consist primarily of properties acquired as a result of, or in-lieu-of, foreclosure. Properties or other assets (primarily manufactured housing) are classified as other real estate owned and other repossessed assets and are reported at fair value at the time of foreclosure less estimated costs to sell. Costs relating to development or improvement of the assets are capitalized and costs related to holding the assets are charged to expense. At March 31, 2015 and 2014, the Company had a valuation allowance on foreclosed assets of $5,000 and $0.4 million, respectively. At March 31, 2015, the Company had no mortgage loans in process of foreclosure.

Deposits

The following table provides the balance and percentage change in the Company's deposits:

	March 31, 2015	December 31, 2014	Increase (Decrease)	Percent Increase (Decrease)
	(dollars in thousands)			
Non-interest bearing demand deposits	$71,278	$57,364	$ 13,914	24.3 %
Interest-bearing demand deposits	265,000	275,631	(10,631)	(3.9)%
Savings	15,283	15,265	18	0.1 %
Certificates of deposit ($250,000 or more)	30,705	13,601	17,104	125.8 %
Other certificates of deposit	113,404	115,223	(1,819)	(1.6)%
Total deposits	$495,670	$477,084	$ 18,586	3.9 %

Total deposits increased to $495.7 million at March 31, 2015 from $477.1 million at December 31, 2014, an increase of $18.6 million. This increase was primarily from certificates of deposit and non-interest bearing demand deposits. Deposits are the primary source of funding the Company's asset growth. In addition, the Bank is a member of Certificate of Deposit Account Registry Service ("CDARS"). CDARS provides a mechanism for obtaining FDIC insurance for large deposits. At March 31, 2015 and December 31, 2014, the Company had $17.3 million and $14.5 million, respectively of CDARS deposits.

Table of Contents

Liquidity and Capital Resources

Liquidity Management

Liquidity is the ongoing ability to accommodate liability maturities and deposit withdrawals, fund asset growth and business operations, and meet contractual obligations through unconstrained access to funding at reasonable market rates. Liquidity management involves forecasting funding requirements and maintaining sufficient capacity to meet the needs and accommodate fluctuations in asset and liability levels due to changes in our business operations or unanticipated events.

The ability to have readily available funds sufficient to repay fully maturing liabilities is of primary importance to depositors, creditors and regulators. Our liquidity, represented by cash and amounts due from banks, federal funds sold and non-pledged marketable securities, is a result of our operating, investing and financing activities and related cash flows. To ensure funds are available when necessary, on at least a quarterly basis, we project the amount of funds that will be required, and we strive to maintain relationships with a diversified customer base. Liquidity requirements can also be met through short-term borrowings or the disposition of short-term assets.

The Company has established policies as well as analytical tools to manage liquidity. Proper liquidity management ensures that sufficient funds are available to meet normal operating demands in addition to unexpected customer demand for funds, such as high levels of deposit withdrawals or increased loan demand, in a timely and cost effective manner. The most important factor in the preservation of liquidity is maintaining public confidence that facilitates the retention and growth of core deposits. Ultimately, public confidence is gained through profitable operations, sound credit quality and a strong capital position. The Company’s liquidity management is viewed from a long-term and short-term perspective, as well as from an asset and liability perspective. Management monitors liquidity through regular reviews of maturity profiles, funding sources and loan and deposit forecasts to minimize funding risk.

The Company has asset and liability management committees (“ALCO”) at the Board and Bank management level to review asset and liability management and liquidity issues.

CWB has a blanket lien credit line with the Federal Home Loan Bank (“FHLB”). Advances are collateralized in the aggregate by CWB’s eligible loans and securities. Total FHLB advances were $5.0 million and $10.0 million at March 31, 2015 and December 31, 2014, respectively, borrowed at fixed rates. The Company also had a $50 million letter of credit with FHLB at March 31, 2015 to secure public funds. At March 31, 2015, CWB had pledged to the FHLB, $31.0 million of securities and $81.2 million of loans. At March 31, 2015, CWB had $100.7 million available for additional borrowing. At December 31, 2014, CWB had pledged to the FHLB, securities of $30.6 million at carrying value and $67.3 million of loans.

CWB has established a credit line with the Federal Reserve Bank (“FRB”). There were no outstanding FRB advances as of March 31, 2015 and December 31, 2014. CWB had $91.3 million and $88.0 million in borrowing capacity as of March 31, 2015 and December 31, 2014, respectively.

The Company has federal funds purchased lines with a total borrowing capacity of $30.0 million. There was no amount outstanding as of March 31, 2015 and December 31, 2014.

The Company continues to face strong competition for core deposits. The liquidity ratio of the Company was 21.4% and 19.4% at March 31, 2015 and December 31, 2014, respectively. The Company’s liquidity ratio fluctuates in conjunction with loan funding demands. The liquidity ratio consists of the sum of cash and due from banks, deposits in other financial institutions, available for sale investments, federal funds sold and loans held for sale, divided by total assets.

CWBC's routine funding requirements primarily consist of certain operating expenses and common and preferred stock dividends. Normally, CWBC obtains funding to meet its obligations from dividends collected from the Bank and has the capability to issue debt securities. Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval.

Capital Resources

The Company and CWB are subject to various regulatory capital adequacy requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's business and financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and CWB must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Effective January 1, 2015, CWB was subject to the new guidelines for determining regulatory capital known as "Basel III." These capital rules among other things implement capital reforms and introduce a minimum Common Equity Tier 1 (CET1) ratio of 4.5% and a capital conservation buffer of 2.5%. Phase-in of the capital conservation buffer requirements will begin on January 1, 2016.

Table of Contents

Effective March 31, 2015, CWBC met the requirements under the final rule changes to the Federal Reserve's Small Bank Holding Company Policy Statement for institutions with $500 million to $1 billion in total consolidated assets. Under the revised policy, CWBC is no longer subject to certain consolidated regulatory financial reporting requirements and is not subject to Basel III capital rules and reporting requirements.

As of March 31, 2015 and December 31, 2014, the Company and CWB met the minimum capital ratio requirements to be classified as well-capitalized, as defined by the banking agencies.

The Company's and CWB's capital amounts and ratios as of March 31, 2015 and December 31, 2014 are presented in the table below:

	Total Capital	Tier 1 Capital	Common Equity Tier 1 Capital	Risk-Weighted Assets	Adjusted Average Assets	Total Risk-Based Capital Ratio	Tier 1 Risk-Based Capital Ratio	Common Equity Tier 1 Ratio	Tier 1 Leverage Ratio
March 31, 2015	(dollars in thousands)								
CWB	$71,793	$66,082	$66,082	$455,301	$563,866	15.77 %	14.51 %	14.51 %	11.72 %
Well-capitalized ratios						10.00 %	8.00 %	6.50 %	5.00 %
Minimum capital ratios						8.00 %	6.00 %	4.50 %	4.00 %
December 31, 2014 (Under previous requirements)									
CWBC (Consolidated)	$72,569	$66,939	N/A	$448,199	$564,630	16.19 %	14.94 %	N/A	11.86 %
CWB	$71,303	$65,673	N/A	$448,118	$564,331	15.91 %	14.66 %	N/A	11.64 %
Well-capitalized ratios						10.00 %	6.00 %	N/A	5.00 %
Minimum capital ratios						8.00 %	4.00 %	N/A	4.00 %

Supervision and Regulation

Banking is a complex, highly regulated industry. The primary goals of the regulatory scheme are to maintain a safe and sound banking system, protect depositors and the Federal Deposition Insurance Corporation's ("FDIC") insurance fund, and facilitate the conduct of sound monetary policy. In furtherance of these goals, Congress and the states have created several largely autonomous regulatory agencies and enacted numerous laws that govern banks, bank holding companies and the financial services industry. Consequently, the growth and earnings performance of the Company can be affected not only by management decisions and general economic conditions, but also by the requirements of applicable state and federal statutes, regulations and the policies of various governmental regulatory authorities, including the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency ("OCC"), and FDIC.

The system of supervision and regulation applicable to financial services businesses governs most aspects of the business of CWBC and CWB, including: (i) the scope of permissible business; (ii) investments; (iii) reserves that must be maintained against deposits; (iv) capital levels that must be maintained; (v) the nature and amount of collateral that may be taken to secure loans; (vi) the establishment of new branches; (vii) mergers and consolidations with other financial institutions; and (viii) the payment of dividends.

From time to time laws or regulations are enacted which have the effect of increasing the cost of doing business, limiting or expanding the scope of permissible activities, or changing the competitive balance between banks and other financial and non-financial institutions. Proposals to change the laws and regulations governing the operations of banks and bank holding companies are frequently made in Congress and by various bank and other regulatory agencies. Future changes in the laws, regulations or policies that impact the Company cannot necessarily be predicted, but they may have a material effect on the Company’s business and earnings.

For a detailed discussion of the regulatory scheme governing the Company and CWB, please see the discussion in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operation – Supervision and Regulation."

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Certain qualitative and quantitative disclosures about market risk is set forth in Item 7A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. There has been no material change in these disclosures as previously disclosed in the Company’s Form 10-K. For further discussion of interest rate risk, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity Management - Interest Rate Risk.”

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, the Company's management, which includes the Company's Chief Executive Officer and the Chief Financial Officer, has concluded that, as of the end of the period covered by this report, disclosure controls and procedures are effective in ensuring that information relating to the Company (including its consolidated subsidiary) required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Disclosure controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving an entity's disclosure objectives. The likelihood of achieving such objectives is affected by limitations inherent in disclosure controls and procedures. These include the fact that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures such as simple errors or mistakes or intentional circumvention of the established process.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated whether there was any change in internal control over financial reporting that occurred during the quarter ended March 31, 2015 and determined that there was no change in internal control over financial reporting that occurred during the quarter ended March 31, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On or about December 16, 2013, CWB was served with the Summons and Complaint in the action entitled Residential Funding Company, LLC v. Community West Bank, N.A., United States District Court for the District of Minnesota, Case No. 0:13-CV-03468-JRT-JJK. The Summons was issued and Complaint filed on December 13, 2013 (the "Complaint"). Generally, Residential Funding Company, LLC ("RFC") seeks damages in excess of $75,000 for breach of contract and indemnification for certain unspecified residential mortgage loans originated by CWB and sold to RFC in accordance with an agreement. RFC alleges that some $22 million in loans were sold over the course of the agreement. RFC further alleges that CWB made certain representations and warranties with respect to the loans and that CWB failed to comply with such representations and warranties.

RFC alleges it placed the loans from CWB into residential mortgage backed securitizations trusts ("Trusts") and issued certificates in the Trusts to outside investors. The loans CWB sold to RFC were eventually included along with numerous other third party lender loans in approximately 30 different Trusts. RFC alleges that, over time, the loans defaulted or became delinquent and, from 2008 until May 14, 2012, RFC faced numerous claims and lawsuits stemming from the loans. RFC alleges that it had to file for bankruptcy protection to defend the claims. RFC claims all the lawsuits against RFC filed by investors in the Trusts allege that the securitizations were defective in a variety of ways, including borrower fraud, missing or inaccurate documentation, fraudulent appraisals and misrepresentations concerning occupancy. RFC alleges that CWB was responsible for the problems with the loans in this action and that numerous other lenders were responsible in the other actions RFC has filed. RFC also alleges that it was forced to settle many of the claims in the bankruptcy court but continues to litigate other claims. RFC alleges that under its agreement with CWB, CWB agreed to indemnify RFC for losses or repurchase the loans at RFC's option.

Since the Complaint was so vague and ambiguous concerning the "agreement", the specific loans in question and the circumstances surrounding the approval of such loans, CWB filed a Motion to Dismiss under Rule 12(b)(6) of the

Federal Rules of Civil Procedure or, in the alternative, a Motion for More Definite Statement under Rule 12(e). In response, RFC filed a First Amended Complaint seeking over $25 million in damages for breach of contract and indemnification ("FAC"). The FAC contains the same deficiencies as the original Complaint and, as such, on May 5, 2014, CWB filed a Motion to Dismiss under Rule 12(b)(6) and a Motion for More Definite Statement. On October 14, 2014, the Judge granted the motion in part and denied the motion in part. The Judge granted CWB's motion to dismiss on the contract claims as to all loans CWB sold to RFC before May 14, 2006 on the grounds that they were time barred. The Court denied CWB's motion claiming that the statute of limitations barred RFC's claim for indemnity as well, ruling that the indemnity claim does not begin until the plaintiff suffers a loss, and therefore may not be time barred.

On October 28, 2014, CWB served and filed its answer to the FAC, denying the material allegations of the FAC and asserting numerous defenses thereto. On March 18, 2015, defense counsel met with the magistrate judge to discuss the mediation process. On May 6, 2015, the court issued an Order for Settlement Conference in CWB's lawsuit. The court has a settlement conference for June 30, 2015, between CWB and RFC.

No firm trial date has been set and discovery is continuing.

It is CWB's position to vigorously defend this action and CWB knows of no evidence that would support RFC's allegations of wrongdoing by CWB. Due to the preliminary stage of the pleadings and without the benefit of discovery, it is not possible to predict the probable outcome. This action is just one of many filed by RFC against various banks pending in courts in New York and Minnesota, among others.

Table of Contents

The Company is involved in various other litigation matters of a routine nature that are being handled and defended in the ordinary course of the Company's business. In the opinion of Management, based in part on consultation with legal counsel, the resolution of these litigation matters will not have a material impact on the Company's financial position or results of operations.

ITEM 1A. RISK FACTORS

Investing in our common stock involves various risks which are particular to our Company, our industry and our market area. Several risk factors that may have a material adverse impact on our business, operating results and financial condition are discussed in Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2014. There has been no material change in the Company's risk factors as previously disclosed in the Company's Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable
.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following Exhibits are filed herewith.

Exhibit No.

31.1	Certification of Chief Executive Officer of the Registrant pursuant to Rule 13a-14(a) or Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer of the Registrant pursuant to Rule 13a-14(a) or Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer of the Registrant pursuant to Rule 13a-14(b) or Rule 15d-14(b), promulgated under the Securities Exchange Act of 1934, as Amended, and 18 U.S.C. 1350.
101INS –	XBRL Instance Document
101SCH –	XBRL Taxonomy Extension Schema Document
101CAL –	XBRL Taxonomy Calculation Linkbase Document

101DEF – XBRL Taxonomy Extension Definition Linkbase Document
101LAB – XBRL Taxonomy Label Linkbase Document
101PRE – XBRL Taxonomy Presentation Linkbase Document

* This certification is furnished to, but shall not be deemed filed, with the Commission. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Registrant specifically incorporates it by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMUNITY WEST BANCSHARES
(Registrant)

Date: May 7, 2015	BY:	/s/ Charles G. Baltuskonis
		Charles G. Baltuskonis
		Executive Vice President and
		Chief Financial Officer
		On Behalf of Registrant and as a Duly Authorized Officer
		and as Principal Financial and Accounting Officer

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description of Document
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32.1*	Certification of Chief Executive Officer and Chief Financial Officer of the Registrant pursuant to Rule 13a-14(b) or Rule 15d-14(b), promulgated under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. 1350.
101	101INS –XBRL Instance Document 101SCH –XBRL Taxonomy Extension Schema Document 101CAL –XBRL Taxonomy Calculation Linkbase Document 101DEF –XBRL Taxonomy Extension Definition Linkbase Document 101LAB –XBRL Taxonomy Label Linkbase Document 101PRE –XBRL Taxonomy Presentation Linkbase Document

* This certification is furnished to, but shall not be deemed filed, with the Commission. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Registrant specifically incorporates it by reference.