PACIFIC PREMIER BANCORP INC
Form S-2
September 05, 2003

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As filed with the Securities and Exchange Commission on September 5, 2003.

Registration No.

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-2

**REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

PACIFIC PREMIER BANCORP, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**33-0743196** (I.R.S. Employer Identification No.)

**1600 Sunflower Avenue, 2nd Floor
Costa Mesa, California 92626
(714) 431-4000**
(Address, including Zip Code, and Telephone Number, including
Area Code, of Registrant's Principal Executive Offices)

**Steven R. Gardner
President and Chief Executive Officer
Pacific Premier Bancorp, Inc.
1600 Sunflower Avenue, 2nd Floor
Costa Mesa, California 92626
(714) 431-4000**
(Name, Address, including Zip Code, and Telephone Number, including Area Code, of Agent for Service)

With copies to:

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**Approximate Date of Commencement of Proposed Sale to the Public:
As Soon as Practicable after the Effective Date of this Registration Statement.**

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If the registrant elects to deliver its latest annual report to security holders, or a complete and legible facsimile thereof, pursuant to Item 11(a)(1) of this form, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If the delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, $.01 par value	3,565,000(1)	$7.34	$26,167,100.00(2)	$2,116.92

(1) Includes 465,000 shares issuable upon exercise of the underwriters' over-allotment option.

(2) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(c) and based on the aggregate market value on August 29, 2003.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that his registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this Prospectus is not complete and may be changed. We cannot sell these securities until the Securities and Exchange Commission declares our Registration Statement effective. This Prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER 5, 2003

Prospectus

3,100,000 Shares

PACIFIC PREMIER BANCORP, INC.

Common Stock

We are offering 3,100,000 shares of our common stock, par value $0.01 per share. We will receive all of the net proceeds from the sale of these shares. Our common stock is quoted on the Nasdaq SmallCap Market under the symbol "PPBI." On , 2003, the last reported sale price of our common stock was $ per share.

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 8 for a discussion of factors you should consider before buying shares of our common stock.

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to us	$	$

We have granted the underwriters an option for a period of 30 days to purchase up to 465,000 additional shares of our common stock at the public offering price to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

These securities are not savings or deposit accounts and are not insured by the Federal Deposit Insurance Corporation, Bank Insurance Fund, Savings Association Insurance Fund or any other governmental agency.

We expect the shares of our common stock will be ready for delivery to purchasers on or about , 2003.

FRIEDMAN BILLINGS RAMSEY

The date of this prospectus is , 2003

[MAP]

No dealer, salesperson or other person is authorized to give any information or to make any representation not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy the shares of common stock offered hereby to any person or by anyone in any jurisdiction in which it is unlawful to make such offer or solicitation. The information contained in this prospectus is current only as of its date.

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FORWARD LOOKING STATEMENTS

This prospectus contains or incorporates by reference certain forward-looking statements and we intend that such forward-looking statements be subject to the safe harbor provisions of the federal securities laws. When used, statements which are not historical in nature, including those containing words such as "anticipate," "estimate," "should," "expect," "believe," "intend," and similar expressions are intended to identify forward-looking statements. Statements regarding the following subjects are forward-looking by their nature:

- our business strategy;
- our understanding of our competition;
- market trends;
- projected sources and uses of funds from operations;
- potential liability with respect to legal proceedings;
- anticipated cash flows we will receive from contractual rights relating to previous sales of our residual securities; and
- use of the proceeds of this offering.

These forward-looking statements are subject to various risks and uncertainties, including those relating to:

- assumptions underlying our loan loss allowances;

an increase in the prepayment speed or default rate of our borrowers;

the effect of changes in interest rates;

the negative impact of economic slowdowns or recessions;

actual prepayment rates and credit losses as compared to prepayment rates and credit losses assumed by us for purpose of valuation of our contractual rights relating to previous sales of our residual securities;

the effect of the competitive pressures from other lenders or suppliers of credit in our market; and

Other risks, uncertainties and factors, including those discussed under "Risk Factors" in this prospectus, could cause our actual results to differ materially from those projected in any forward-looking statements we make. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

You should rely only on the information contained in or incorporated by reference into this prospectus. Neither we nor the underwriters have authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The information in this prospectus is current as of the date of this prospectus. Our business, financial conditions, results of operations and business prospects may have changed since that date.

SUMMARY

This summary contains basic information about us and this offering. Because it is a summary, it does not contain all of the information that you should consider before investing in us. You should read the entire prospectus carefully, including the section entitled "Risk Factors" and our financial statements and the accompanying notes, before making an investment decision. All references to "we," "us," or "our" mean Pacific Premier Bancorp, Inc. and our consolidated subsidiaries, including Pacific Premier Bank, our primary operating subsidiary. All references to "Bank" refer to Pacific Premier Bank. Unless otherwise specified in this prospectus, all information in this prospectus assumes no exercise of the underwriters' over-allotment option.

Our Company

We are a California-based community banking institution focused on full service banking to small businesses, real estate investors and consumers. Through our operating subsidiary, Pacific Premier Bank, we emphasize the delivery of depository products and services to our customers through our three branches in Orange and San Bernardino Counties in Southern California. Our lending is focused on income property loans and, to a lesser extent, on residential construction loans. Income property lending consists of originating multi-family residential loans (five units and more) and commercial real estate loans within Southern California. We began originating these loans in the second quarter of 2002 with a focus on small to medium-sized loans. Our average multi-family loan and commercial real estate loan originated since June 30, 2002 had balances at origination of $758,000 and $930,000, respectively. At June 30, 2003, we had consolidated total assets of $250.4 million, net loans of $180.9 million, total deposits of $202.5 million, consolidated total stockholders' equity of $11.9 million, and the Bank was considered a "well-capitalized" financial institution for regulatory capital purposes.

At June 30, 2003, an aggregate of 68.3% of our total loans consisted of income property loans, with multi-family loans and commercial real estate loans constituting 59.7% and 8.6%, respectively, of total loans. We generally target multi-family and commercial real estate loans in the $500,000 to $2.0 million range as management believes this market is underserved, especially in Southern California. Substantially all of the income property loans which we originate have adjustable interest rates thereby reducing our interest rate risk with respect to these loans. Income property loans are generally referred to us by mortgage brokers and bankers. In addition, commencing in the third quarter of 2003, we began to offer income property loans directly to real estate investors and through referrals from our retail branches; however, we anticipate the substantial majority of these loans will continue to be obtained through referrals from mortgage brokers and bankers. From time to time we may also obtain income property loans through whole loan purchases and through participations with other banks.

Residential construction lending consists of construction loans for one-to-four family homes, condominiums and small tracts of homes in existing communities. At June 30, 2003, approximately 3.5% of our loan portfolio consisted of construction loans. We generally target residential construction loans in the $500,000 to $1.5 million range. We have historically originated these loans through referrals from developers, builders, investors and our retail branches and will continue to do so in the future. Although we intend to continue to grow our residential construction lending, we currently intend to limit the total amount of these loans to no greater than 10% of our loan portfolio.

California-based multi-family lenders are currently benefiting from strong loan demand and historically high asset quality which provides us with an active market for our loan products and, management believes, a higher risk-adjusted rate of return compared to one-to-four family residential lending. According to 2000 U.S. Census Data and the National Multi Housing Council, California has the single largest collection of multi-family markets in the country, with Los Angeles the second largest market in the country and Orange County the 17th largest market. The Riverside-San Bernardino

market is also a significant multi-family market. Financial institutions currently enjoy strong asset quality in their multi-family lending portfolios, with recent data from the Federal Deposit Insurance Corporation ("FDIC") showing that as of March 31, 2003, multi-family loans originated by FDIC-insured institutions nationally reported the lowest rate of net charge-offs of any loan category at 0.01%. Since we started originating multi-family loans in the second quarter of 2002, we have experienced no delinquencies or charge-offs with respect to these loans.

In addition to an active market with a higher risk-adjusted rate of return, we benefit from the fact that the segmentation of the market for multi-family loans somewhat lessens our competition. The participants in the multi-family loan market can be broken down into three general categories: (i) the government sponsored entities ("GSEs") such as Fannie Mae and Freddie Mac; (ii) mortgage conduits who concentrate on the acquisition and securitization of larger-sized loans; and (iii) portfolio lenders such as ourselves which originate most smaller and medium-sized multi-family loans. The GSEs and mortgage conduits will typically package their loans into a pool structure for securitization, and small to medium-sized multi-family loans are often precluded from being in these pools due to the unique characteristics associated with these loans. Loans less than $2.0 million do not lend themselves to the level of conformity required to create highly efficient secondary market transactions. Accordingly, our competition in Southern California comes primarily from other portfolio lenders like ourselves. While a few larger lenders have a significant share of this market, many loans are originated by numerous other lenders, including community banking institutions like us. We believe this fragmentation in the markets allows for financial institutions such as ourselves, with multi-family lending expertise, knowledge of the local real estate markets, and an emphasis on customer service, to compete more effectively in this market. To a lesser extent, the market for commercial real estate loans is characterized by similar segmentation between large conduit lenders and portfolio lenders. The GSEs, such as Freddie Mac and Fannie Mae, do not acquire or pool commercial real estate loans, again somewhat lessening our competition with respect to these loans. Further, the overall strength and high demand for residential housing throughout Southern California continues to benefit our construction lending activity.

Our Recent Transition

Beginning in late 2000, our current management team, headed by Steven R. Gardner, our President and Chief Executive Officer, was retained and a new business plan was developed to lower the risk profile and recapitalize the Bank, and to oversee the transformation of the Bank to a community banking institution focused on income property loans. From 1994 through early 2000, we operated as a nationwide mortgage banking institution focused on subprime and high loan-to-value debt consolidation loans. By 1999, we began to experience significant problems, including low capital levels, significant problem assets and losses as a result of write-downs on our residual assets and the overall high operating costs associated with our nationwide operations. The business plan formulated by management in the fourth quarter of 2000 focuses on the origination of income property loans and retail branch banking.

In the fourth quarter of 2000, management ceased all subprime lending activities, exited the mortgage banking business, closed one underperforming branch and began disposing of nearly $200 million of high risk loans. During 2001, management continued the disposal of high risk loans, pursued the recapitalization of the Bank, reduced the Bank's interest rate risk and implemented enhanced internal controls. In 2002, we closed our final two underperforming branches, thereby further reducing noninterest expense, and closed on the private placement of a $12.0 million note and warrants which resulted in the recapitalization of the Bank. Since our new management team has assumed responsibility, it has focused on decreasing balance sheet risk through the sale and run off of subprime loans, the strengthening of loss mitigation and collection efforts, decreasing operating costs and reducing higher cost volatile deposits, thus reducing the overall size of our balance sheet. Further, in the second quarter of 2002, we began originating multi-family and commercial real estate loans, and by

June 30, 2003, 68.3% of our loan portfolio consisted of these income property loans. As a result of this strategy, we have already seen a decrease in our delinquent loans from $20.6 million at December 31, 2001 to $5.1 million at June 30, 2003, or a decrease of 75.2%, as well as a decrease in our net nonperforming loans from $14.7 million at December 31, 2001 to $3.3 million at June 30, 2003, or a decrease of 77.3%. In addition, our foreclosed real estate decreased 67.2% from $4.2 million at December 31, 2001 to $1.4 million at June 30, 2003.

During 2000, we ceased accepting brokered deposits and substantially reduced our reliance on wholesale borrowings in favor of a new emphasis on core deposits, consisting of transaction accounts (i.e., checking, money market and passbook accounts) and retail certificates of deposit under $100,000, thereby providing us with a substantially less volatile source of funding for our loans. Since implementing this strategy, we have seen an increase in our transaction accounts from $31.5 million at December 31, 2001 to $57.5 million at June 30, 2003, or an increase of 82.4%. Transaction accounts currently represent 28.4% of our total deposits.

On January 17, 2002, we completed a recapitalization through the private placement of a $12.0 million senior secured note due 2007 (the "Note") together with warrants to purchase 1,166,400 shares of common stock at an exercise price of $0.75 per share (the Warrants"). The recapitalization provided us with the resources to assemble a loan origination team experienced in income property lending in the markets which we serve, to invest in the infrastructure which we believe is capable of supporting our growth plans with respect to income property lending, and to fully implement the other aspects of our community banking business model. Following the recapitalization, the Bank qualified as a "well capitalized" institution under applicable banking regulations. See "Business Our History Our Recapitalization." Simultaneously with the closing of our recapitalization transaction, the Office of Thrift Supervision (the "OTS") notified us that it had terminated the Order to Cease and Desist issued on September 25, 2000, the Marketing Assistance Agreement and Consent to the Appointment of a Conservator or Receiver dated October 25, 2001 and the Supervisory Agreement issued on September 25, 2000. See "Business Our History Regulatory Matters."

Growth and Operating Strategies

Although we only completed the full implementation of our community banking business model during 2002, we are already realizing the results of our new strategy. In addition to achieving profitability in 2002, our loan and deposit profile has changed dramatically in the past year. The following are our growth and operating strategies:

Growth of our Loan Portfolio. We intend to continue to grow our loan portfolio by increasing our production of multi-family and commercial real estate loans as well as residential construction loans. In addition to our traditional methods of obtaining multi-family and commercial real estate loans through referrals from mortgage brokers and bankers, we also initiated in the third quarter of 2003 a retail origination channel for these loans. Our originators, who we recruited from other Southern California banks, have established relationships with mortgage brokers, bankers and real estate investors, which we intend to develop further to increase our market share of income property loans. We have grown our income property loan portfolio from $14.0 million at December 31, 2001 to $126.5 million at June 30, 2003.

Emphasis on Retail Branch Banking. We currently have three retail branch offices, one each in Huntington Beach and Seal Beach in Coastal Orange County, California and one in San Bernardino in San Bernardino County, California. We intend to expand the growth of our core deposits through an emphasis on relationship banking, thereby lowering our cost of funds and building franchise value. Funds for lending may also be generated, as needed, from Federal Home Loan Bank ("FHLB") and other borrowings.

Additional Retail Products and Services. We believe it is important to have multiple account relationships with our customers in order to retain their lower cost transaction accounts and maximize our fee income. As a result, we believe it is essential to be able to offer our customers a wide array of products and services. In this regard, management has introduced several new products and services to attract new deposit relationships and to expand the relationships with our existing customers. We have introduced the following new products and services: merchant services for small business handling the processing of credit and debit cards, payroll processing services, contract collections for investors and small business to process contract payments, courier services and group employee banking services for business owners. We are currently implementing an overdraft privilege product and an airline travel Visa card which is through a third party provider. We intend to launch these products and services in the third quarter of 2003. In addition, we offer our customers the convenience

of insurance and mutual fund products at our retail branches. Although we intend to continue to focus on our multi-family and commercial real estate lending, we will also continually monitor our customers' needs and will consider additional loan and deposit products in the future which are consistent with our community banking business model.

Reducing Risk. As we continue to originate higher quality income property loans, which we began originating in the second quarter of 2002, the amount of subprime loans remaining in our portfolio will continue to be proportionately reduced. Further, an internal asset review which we conducted in the fourth quarter of 2002 and first quarter of 2003 resulted in the write-down or charge-off of many of our loans 90 days or more past due which were concentrated in our one-to-four family loan portfolio, leaving us with approximately $9.6 and $7.3 million of subprime loans and high loan-to-value loans, respectively, in our portfolio at June 30, 2003. We may also sell additional subprime loans in the future. In addition to a reduction of risk in our loan portfolio, we also intend to continue to improve our interest rate risk profile through the continued origination of income property loans which we only originate on an adjustable-rate basis, thereby subjecting us to less interest rate risk, and through the growth of our core deposits.

General Information

Our executive offices are located at 1600 Sunflower Avenue, 2nd Floor, Costa Mesa, California 92626 and our telephone number is (714) 431-4000. Our internet address is www.pacificpremierbank.com. The information contained in our website, or in any websites linked by our website, is not a part of this prospectus and you should not rely on such information in deciding whether to invest in our company. Unless otherwise indicated, all information in this prospectus assumes that the underwriters have not exercised their over-allotment option.

The Offering

Shares offered	3,100,000 shares
Common stock to be outstanding after this offering	4,433,572 shares[(1)]
Use of proceeds	Our net proceeds from this offering are estimated to be approximately $ million. We intend to use an aggregate of $13.5 million of the net proceeds to pay off existing indebtedness, including the repayment of the $12.0 million Note and $1.5 million of subordinated debentures, with the remaining $ in net proceeds to be used to increase our capital base to support additional growth and for general corporate purposes.
Nasdaq SmallCap Symbol	PPBI

(1) The number of shares of our common stock that will be outstanding after this offering includes 1,333,572 shares outstanding as of August 31, 2003 and excludes the following shares:

122,372 shares of common stock underlying options which have been granted and are outstanding as of August 31, 2003, and 72,628 additional shares issuable upon exercise of stock options available for grant under our stock option plan at August 31, 2003.

Up to 1,166,400 shares of common stock issuable upon exercise of outstanding Warrants as of August 31, 2003, of which 233,280 Warrants are currently exercisable, 116,640 of which Warrants will become exercisable in January 2004 and all of which remaining Warrants will become exercisable in January 2005.

Summary Consolidated Financial Data

The summary financial information below as of the years ended December 31, 2002, December 31, 2001 and December 31, 2000, and for each of the three years ended December 31, 2002, is derived in part from our audited financial statements and related notes. Our audited financial statements as of the years ended December 31, 2002 and December 31, 2001, and for each of the three years ended December 31, 2002, are included elsewhere herein. The summary financial information as of June 30, 2003 and 2002 and for each of the six months then ended is derived in part from our unaudited financial statements and related notes, which are included elsewhere herein, and which, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of such periods. The summary information set forth below should be read in conjunction with, and is qualified in its entirety by, our historical consolidated financial statements, including the related notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein. Consolidated operating results for the six months ended June 30, 2003 are not necessarily indicative of results that may be expected for the entire year.

	As of and For the Six Months Ended June 30,		As of and For the Years Ended December 31,		
	2003	**2002**	**2002**	**2001**	**2000**
	(Dollars in thousands, except per share data)				
Operating Data:					
Interest income	$ 8,171	$ 10,225	$ 18,872	$ 24,442	$ 41,519
Interest expense	3,856	4,595	8,910	16,191	28,446
Net interest income	4,315	5,630	9,962	8,251	13,073
Provision for loan losses	681	191	1,133	3,313	2,910
Net interest income after provision for loans losses	3,634	5,439	8,829	4,938	10,163
Net gains (losses) from mortgage banking	207	(244)	(261)	402	(5,684)
Other noninterest income	1,163	933	2,130	3,590	3,548
Noninterest expense	4,796	5,505	10,165	14,340	25,806
Income (loss) before income tax provision (benefit)	208	623	533	(5,410)	(17,779)
Income tax (benefit) provision[1]	(398)	(18)	(2,345)	642	3,003
Net income (loss)	$ 606	$ 641	$ 2,878	$ (6,052)	$ (20,782)
Share Data:					
Net income (loss) per share:					
Basic	$ 0.45	$ 0.48	$ 2.16	$ (4.54)	$ (15.58)
Diluted	$ 0.24	$ 0.27	$ 1.16	$ (4.54)	$ (15.58)
Weighted average common shares outstanding:					
Basic	1,333,572	1,333,572	1,333,572	1,333,630	1,333,646
Diluted	2,552,066	2,411,119	2,476,648	1,333,630	1,333,646
Book value per share (basic)[2]	$ 8.90	$ 6.95	$ 8.72	$ 5.73	$ 10.42
Book value per share (diluted)[3]	$ 4.65	$ 3.85	$ 4.69	$ 5.73	$ 10.42
Balance Sheet Data:					
Total assets	$ 250,429	$ 246,381	$ 238,278	$ 243,667	$ 414,421
Securities	46,528	90,531	58,243	34,659	42,370
Loans held for sale, net[4]	1,816	2,737	1,866	4,737	

	As of and For the Six Months Ended June 30,		As of and For the Years Ended December 31,		
Loans held for investment, net[4]	179,114	126,670	156,365	182,439	316,724
Participation Contract	5,379	5,884	4,869	4,428	4,428
Allowance for loan losses	2,656	3,460	2,835	4,364	5,384
Total deposits	202,450	200,529	191,170	232,160	345,093
Borrowings	33,810	32,870	32,940	1,500	48,620
Total stockholders' equity	11,868	9,272	11,623	7,648	13,900

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Performance Ratios:[5]					
Return on average equity[6,7]	10.77%	15.26%	30.70%	(53.43)%	(66.44)%
Return on average assets[7,8]	0.51%	0.52%	1.18%	(1.92)%	(3.99)%
Average equity to average assets	4.72%	3.41%	3.85%	3.60%	6.01%
Equity to total assets at end of period	4.74%	3.76%	4.88%	3.14%	3.35%
Average interest rate spread[7,9]	3.98%	4.86%	4.44%	2.91%	2.82%
Net interest margin[7,10]	3.91%	4.82%	4.37%	2.81%	2.79%
Efficiency ratio[7,11]	83.47%	84.84%	85.19%	113.97%	230.57%
Average interest earning assets to average interest-bearing liabilities	97.88%	99.10%	98.45%	98.35%	99.56%
Capital Ratios:[12]					
Tier 1 capital to adjusted total assets	6.81%	6.65%	7.03%	5.06%	4.33%
Tier 1 capital to total risk-weighted assets	9.81%	13.42%	11.29%	5.37%	5.73%
Total capital to total risk-weighted assets	10.96%	14.68%	12.54%	6.62%	6.99%
Asset Quality Ratios:					
Nonperforming loans, net to total loans[13]	1.80%	4.45%	3.07%	7.54%	7.97%
Nonperforming assets, net as a percent of total assets[14]	1.88%	3.57%	3.12%	7.75%	6.85%
Net charge-offs to average total loans[7]	1.01%	1.29%	1.74%	1.76%	0.07%

Allowance for loan losses to total loans at period end	1.43%	2.56%	1.74%	2.24%	1.61%
Allowance for loan losses to nonperforming loans at period end(13)	68.11%	47.42%	50.35%	27.23%	19.87%

(1) In the six months ended June 30, 2003, and the year ended December 31, 2002, we reversed $400,000 and $2.0 million, respectively, of our deferred tax valuation allowance due to our improved financial outlook.

(2) Basic book value per share is based upon the shares outstanding at the end of each period, adjusted retroactively for the June 2001 1:5 reverse stock split.

(3) Diluted book value per share is based on the weighted average diluted shares outstanding at the end of each period, adjusted retroactively for the June 2001 1:5 reverse stock split.

(4) Loans are net of the allowance for loan losses and deferred fees.

(5) All average balances consist of average daily balances.

(6) Net income divided by average stockholders' equity.

(7) Ratios for the six months ended June 30, 2003 and 2002 have been annualized.

(8) Net income divided by average total assets.

(9) Represents the weighted average yield on interest-earning assets less the weighted average cost of interest-bearing liabilities.

(10) Represents net interest income as a percentage of average interest-earning assets.

(11) Represents the ratio of noninterest expense less (gain) loss on foreclosed real estate to the sum of net interest income before provision for loan losses and total noninterest income.

(12) Calculated with respect to the Bank. See "Regulation Federal Savings Institution Regulation Capital Requirements."

(13) Nonperforming loans consist of loans past due 90 days or more and foreclosures in process less than 90 days and still accruing interest.

(14) Nonperforming assets consist of nonperforming loans (see footnote 13 above) and foreclosed real estate owned.

RISK FACTORS

You should carefully consider the risks described below before making a decision to buy our common stock. If any of the following events or conditions actually occurs, our business could be harmed. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment. When determining whether to buy our common stock you should also refer to the other information in this prospectus, including our financial statements and the related notes.

We have a limited operating history under our new business strategy which makes it difficult to predict our future prospects and financial performance.

We had not substantially implemented our community-based banking model, including our new lending strategy focused on originating multi-family loans, commercial real estate loans and residential construction loans until 2002. We will continue to introduce new products consistent with this model in the future. We have only recently become profitable and there can be no assurance that our strategy will continue to be a profitable one for us. Although we realized net income of $606,000 and $2.9 million for the six months ended June 30, 2003 and the year ended December 31, 2002, respectively, we incurred losses of $6.1 million and $20.8 million for the years ended December 31, 2001 and 2000, respectively. We may not be able to sustain or increase our profitability in future periods. The failure to remain profitable may reduce the value of investment in our common stock.

Our multi-family residential and commercial real estate loans are relatively unseasoned, and defaults on such loans would adversely affect our financial condition and results of operations.

At June 30, 2003, our multi-family residential loans amounted to $110.6 million, or 59.7% of our total loans. At June 30, 2003, our commercial real estate loans amounted to $15.8 million, or 8.6% of our total loans. Our multi-family residential and commercial real estate loan portfolios consist primarily of loans originated after June 30, 2002 and are, consequently, unseasoned. In addition, such loans originated after June 30, 2002 had average loan balances at origination of $758,000 in the case of multi- family loans and $930,000 in the case of commercial real estate loans, so that a default on a multi-family or commercial real estate loan may have a greater impact on us than default on a single-family residential loan which is generally smaller in size. Further, the payment on multi-family and commercial real estate loans is typically dependent on the successful operation of the project, which is affected by the supply and demand for multi-family residential units and commercial property within the relevant market. If the market for multi-family units and commercial property experiences a decline in demand, multi-family and commercial borrowers may suffer losses on their projects and be unable to repay their loans. Defaults on these loans would negatively affect our financial condition, results of operations and financial prospects.

The estimation of the future cash flows under the Participation Contract may fluctuate decreasing our anticipated income.

Based on our analysis of the expected default rates, future loan prices, and prepayment speeds of the loans underlying the contract pursuant to which we sold our residual mortgage-backed securities retained from prior securitizations of subprime and high loan-to-value mortgage loans and related servicing rights on December 31, 1999 (the "Participation Contract"), we have estimated the total cash to be received by us in the future under the Participation Contract as of June 30, 2003 to be approximately $11 to $13 million over the next five years. Due to changing market conditions and other unforeseen events beyond our control, the actual default rates, future loan prices and prepayment speeds may vary considerably, thus changing the amount of cash proceeds received from the underlying loans, and thus reducing our anticipated cash flows from the Participation Contract. Further, the Participation Contract is recorded in our financial statements at June 30, 2003 at a value of $5.4 million. We have estimated this value using a cash flow model which determines the present value of the estimated expected cash flow from the contract. To the extent our anticipated cash flows are materially reduced, we may be required to reduce the carrying valve of the Participation Contract in

our financial statements. In addition, the income we recognized from the Participation Contract for the six months ended June 30, 2003 and the year ended December 31, 2002, was $1.6 million and $3.8 million, respectively, or 19.0% and 20.3% of our total interest income, respectively. Although we anticipate future cash flows from the Participation Contract over the next five years, the cash flows from the Participation Contract will cease when the underlying loans are paid off or sold, and income from the Participation Contract should not be viewed as a continuing source of future income. See "Business Our History Participation Contract."

We may be unable to successfully compete in our industry.

We face direct competition from a significant number of financial institutions, many with a state-wide or regional presence, and in some cases a national presence, in both originating loans and attracting deposits. Competition in originating loans comes primarily from other banks and mortgage companies that make loans in our primary market areas. We also face substantial competition in attracting deposits from other banking institutions, money market and mutual funds, credit unions and other investment vehicles. In addition banks with larger capitalizations and non-bank financial institutions that are not governed by bank regulatory restrictions have large lending limits and are better able to serve the needs of larger customers. Many of these financial institutions are also significantly larger and have greater financial resources than us, and have established customer bases and name recognition. We compete for loans principally on the basis of interest rates and loan fees, the types of loans which we originate and the quality of service which we provide to our borrowers. Our ability to attract and retain deposits requires that we provide customers with competitive investment opportunities with respect to rate of return, liquidity, risk and other factors. To effectively compete, we may have to pay higher rates of interest to attract deposits, resulting in reduced profitability. In addition, we rely upon local

promotional activities, personal relationships established by our officers, directors and employees and specialized services tailored to meet the individual needs of our customers in order to compete. If we are not able to effectively compete in our market area, our profitability may be negatively affected.

Loans to borrowers with subprime credit involve a higher risk of default, and although we no longer originate these loans, we still have a significant amount of such loans in our portfolio.

Subprime loans are loans to borrowers who generally do not satisfy the credit or underwriting standards prescribed by conventional mortgage lenders and loan buyers, such as Fannie Mae and Freddie Mac. At June 30, 2003, we still had $9.6 million of subprime loans which represented 5.2% of our total loans. While we believe that the underwriting procedures and appraisal processes employed with respect to such loans enabled us to somewhat reduce the risks inherent in loans made to these borrowers, we cannot assure you that such procedures or processes will afford adequate protection against such risks, and we could suffer additional losses as a result of these subprime loans.

Loans that are not fully secured involve a higher risk of loss, and although we no longer originate high loan-to-value loans, we still have a significant amount of such loans in our portfolio.

We no longer originate high loan-to-value junior real estate secured loans, where the amount of the loan, together with more senior loans secured by the real estate, exceeded the value of the real estate at origination. However, at June 30, 2003, we still had $7.3 million of these loans in our portfolio, which represented 3.9% of total loans. In the event of a default on such a loan by a borrower, there may be insufficient collateral to pay off the balance of the loan and, as holder of a junior lien on the property, we may lose all or a substantial portion of our investment.

The availability of our net operating loss carryforwards will be reduced as a result of this offering.

Section 382 of the Internal Revenue Code ("IRC") imposes a limitation on the use of net operating loss ("NOL") carryforwards if there has been an "ownership change." This offering will create an ownership change for purposes of Section 382 and therefore limit the amount of NOLs that

we may use in future years to offset our taxable income. At June 30, 2003, we had federal tax net operating loss carryforwards of approximately $24.3 million, with our first NOL carryforward occurring in the taxable year 2000. It is estimated that with the change of control which will result for purposes of Section 382 of the IRC as a result of this offering, that approximately $8.5 million of our NOLs will be disallowed for federal income tax purposes. We currently estimate the annual limitation on the use of our NOLs as a result of the application of Section 382 will be between $750,000 and $900,000. The use of NOLs for federal income tax purposes is limited in that they can be carried forward and deducted from taxable income for only the 20 succeeding taxable years after being incurred. In addition to a Federal tax NOL, we also have a California State tax NOL of approximately $12.8 million. We anticipate that a change of control would reduce our state tax NOL by approximately $8.5 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Change in Control and Net Operating Loss Carryforward."

Our origination of multi-family and commercial real estate loans is dependent on the mortgage brokers who refer these loans to us.

Our primary method of originating multi-family and commercial real estate loans is through referrals by mortgage brokers. Since we began originating these loans in the second quarter of 2002, one mortgage broker has referred to us approximately 43.2% of all the multi-family and commercial real estate loans in our loan portfolio and only five brokers account for a total of 68.4% of our loan volume. Although we have in-house account managers whom we have recently retained who have the responsibility of developing relationships with additional mortgage brokers which may refer us the types of loans we target, should we not be successful in developing relationships with additional mortgage brokers and should we lose referrals from one or more mortgage brokers on whom we depend for a large percentage of our multi-family and commercial real estate loans, our loan originations could be substantially less than we anticipate, thus reducing our anticipated income from these loans.

We face lending risks on our construction loans, and defaults on these loans would adversely affect our financial condition and results of operations.

At June 30, 2003, construction loans accounted for approximately 3.5% of our loan portfolio. Our construction loans are based upon estimates of costs and value associated with the completed projects. These estimates may be inaccurate. Construction lending involves additional risks when compared with permanent residential lending because funds are advanced upon the security of the project, which is of uncertain value prior to its completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed

project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. In addition, during the term of a construction loan, no payment from the borrower is required since the accumulated interest is added to the principal of the loan through an interest reserve. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or obtain permanent take-out financing, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss.

Interest rate fluctuations, which are out of our control, could harm profitability.

Our profitability depends to a large extent upon net interest income, which is the difference between interest income on interest-earning assets, such as loans and investments, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Any change in general market interest rates, whether as a result of changes in the monetary policy of the Federal Reserve or otherwise, may have a significant effect on net interest income. The assets and liabilities may react differently to changes in overall market rates or conditions. See "Management's Discussion and Analysis of Financial

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Condition and Results of Operations Interest Rate Risk." Moreover, in periods of rising interest rates, financial institutions typically originate fewer mortgage loans adversely effecting our interest income on loans. Further, if interest rates decline, our loans may be refinanced at lower rates or paid off and our investments may be prepaid earlier than expected. If that occurs, we may have to redeploy the loan or investment proceeds into lower yielding assets, which might also decrease our income.

We may experience loan losses in excess of our allowance for loan losses.

We try to limit the risk that borrowers will fail to repay loans by carefully underwriting the loans, nevertheless losses can and do occur. We create an allowance for estimated loan losses in our accounting records, based on estimates of the following:

- industry standards;
- historical experience with our loans;
- evaluation of economic conditions;
- regular reviews of the quality mix and size of the overall loan portfolio;
- regular reviews of delinquencies; and
- the quality of the collateral underlying our loans.

We maintain an allowance for loan losses at a level that we believe is adequate to absorb any specifically identified losses as well as any other losses inherent in our loan portfolio. However, changes in economic, operating and other conditions, including changes in interest rates, that are beyond our control, may cause our actual loan losses to exceed our current allowance estimates. If the actual loan losses exceed the amount reserved, it will hurt our business. In addition, the OTS, as part of its supervisory function, periodically reviews our allowance for loan losses. Such agency may require us to increase our provision for loan losses or to recognize further loan losses, based on their judgments, which may be different from those of our management. Any increase in the allowance required by the OTS could also hurt our business.

Upon exercise of the Warrant shareholders will experience significant dilution in their shares of common stock.

The holder of the Warrant has the right to purchase 1,166,400 shares of our common stock at an exercise price of $0.75 per share, which shares, once exercised, would represent approximately 20.8% of our issued and outstanding shares on a pro forma basis following this offering.

The Warrant is currently exercisable for an aggregate of 233,280 shares of our common stock, with warrants to purchase an additional 116,640 shares becoming exercisable in January 2004, and all of the shares underlying the Warrant becoming exercisable in January 2005. The trading price of our common stock has been significantly higher than $0.75 per share for the last two and one-half fiscal years and at , 2003, the closing price of our common stock was $ per share. Upon exercise of the Warrant, existing shareholders will experience significant dilution of the shares of our common stock which they hold.

You may have difficulty selling your shares in the future if a more active trading market in our common stock does not develop and if the Warrant is exercised.

Although our common stock is traded on the Nasdaq SmallCap Market, trading in our common stock has not been extensive and cannot be characterized as amounting to an active trading market. Further, following the exercise of the Warrant in full, which full exercise could occur in January 2005, an additional 1,166,400 shares of our stock would be issued and outstanding and would be eligible for sale in the public market upon registration thereof under the Securities Act of 1933, as amended. The availability of sale, as well as actual sale, of shares exercisable upon the exercise of the Warrant would likely depress the market price of our common stock.

Adverse outcomes of litigation against us could harm our business and results of operation.

We are currently involved in a securities class action lawsuit relating to our 1997 public offering of securities. Although the securities litigation is currently in settlement negotiations and we believe we have made an adequate reserve to pay any settlement amount we may be obligated to pay what is not covered by our insurance carrier, if the action should settle at an amount greater than our reserve and the amount covered by our insurance carrier, or if the action should not settle and should proceed to trial, a significant settlement amount or judgment against us could harm our business and results of operations. We are also currently involved in other litigation involving former subprime mortgage sales and other actions arising in the ordinary course of our business. We also anticipate that due to the consumer-oriented nature of the subprime mortgage industry in which we previously actively operated and uncertainties with respect to the application of various laws and regulations in some circumstances, we may be named from time to time as a defendant in litigation involving alleged violations of federal and state consumer lending or other similar laws and regulations. A