PACWEST BANCORP
Form 10-Q
November 08, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

OR

o **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: 00-30747

PACWEST BANCORP

(Exact name of registrant as specified in its charter)

DELAWARE	**33-0885320**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
10250 Constellation Blvd., Suite 1640 Los Angeles, California	**90067**
(Address of principal executive offices)	(Zip Code)

(310) 286-1144
(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 ý No o

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 ý No o

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

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

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

As of November 1, 2011, there were 35,495,962 shares of the registrant's common stock outstanding, excluding 1,762,870 shares of unvested restricted stock.

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PACWEST BANCORP AND SUBSIDIARIES

SEPTEMBER 30, 2011 FORM 10-Q

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PART I FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements (Unaudited)

PACWEST BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Par Value Data)

(Unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Cash and due from banks	$ 94,112	$ 82,170
Interest-earning deposits in financial institutions	73,209	26,382
Total cash and cash equivalents	167,321	108,552
Securities available-for-sale, at fair value ($47,213 and $50,437 covered by FDIC loss sharing at September 30, 2011 and December 31, 2010, respectively)	1,261,776	874,016
Federal Home Loan Bank stock, at cost	48,342	55,040
Total investment securities	1,310,118	929,056
Non-covered loans, net of unearned income	2,893,637	3,161,055
Allowance for loan losses	(90,110)	(98,653)
Non-covered loans, net	2,803,527	3,062,402
Covered loans, net	761,059	908,576
Total loans	3,564,586	3,970,978
Other real estate owned, net ($32,301 and $55,816 covered by FDIC loss sharing at September 30, 2011 and December 31, 2010, respectively)	80,561	81,414
Premises and equipment, net	22,919	22,578
FDIC loss sharing asset	89,197	116,352
Cash surrender value of life insurance	67,004	66,182
Core deposit and customer relationship intangibles, net	19,251	25,843
Goodwill	39,141	47,301
Other assets	133,793	160,765
Total assets	$ 5,493,891	$ 5,529,021
LIABILITIES		
Noninterest-bearing deposits	$ 1,628,253	$ 1,465,562
Interest-bearing deposits	2,926,143	3,184,136
Total deposits	4,554,396	4,649,698
Borrowings	225,000	225,000

Subordinated debentures		129,347		129,572
Accrued interest payable and other liabilities		45,680		45,954
Total liabilities		4,954,423		5,050,224
Commitments and contingencies (Note 8)				
STOCKHOLDERS' EQUITY				
Preferred stock, $0.01 par value; authorized 5,000,000 shares; none issued and outstanding				
Common stock, $0.01 par value; authorized 75,000,000 shares; 37,489,011 shares issued at September 30, 2011 and 36,880,225 at December 31, 2010 (includes 1,762,870 and 1,230,582 shares of unvested restricted stock, respectively)		375		369
Additional paid-in capital		1,090,280		1,085,364
Accumulated deficit		(570,221)		(607,042)
Treasury stock, at cost 230,179 and 207,796 shares at September 30, 2011 and December 31, 2010, respectively		(4,290)		(3,863)
Accumulated other comprehensive income		23,324		3,969
Total stockholders' equity		539,468		478,797
Total liabilities and stockholders' equity	$	5,493,891	$	5,529,021

See "Notes to Condensed Consolidated Financial Statements."

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PACWEST BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

(Dollars in Thousands, Except Per Share Data)

(Unaudited)

	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2011	June 30, 2011	September 30, 2010	2011	2010
Interest income:					
Loans	$ 63,347	$ 68,331	$ 68,480	$ 198,459	$ 194,539
Investment securities	9,077	8,782	6,519	25,678	17,342
Deposits in financial institutions	94	83	131	234	505
Total interest income	72,518	77,196	75,130	224,371	212,386
Interest expense:					
Deposits	5,072	5,518	6,375	16,546	20,209
Borrowings	1,782	1,763	2,129	5,289	7,013
Subordinated debentures	1,223	1,226	1,459	3,668	4,357
Total interest expense	8,077	8,507	9,963	25,503	31,579
Net interest income	64,441	68,689	65,167	198,868	180,807
Provision for credit losses:					
Non-covered loans		5,500	17,050	13,300	143,677
Covered loans	348	5,890	6,500	9,148	34,600
Total provision for credit losses	348	11,390	23,550	22,448	178,277
Net interest income after provision for credit losses	64,093	57,299	41,617	176,420	2,530
Noninterest income:					
Service charges on deposit accounts	3,545	3,400	2,861	10,503	8,256
Other commissions and fees	2,052	1,980	1,760	5,752	5,395
Other-than-temporary impairment loss on securities			(874)		(874)
Increase in cash surrender value of life insurance	359	368	353	1,106	1,120
FDIC loss sharing income, net	963	5,316	5,506	5,109	27,257
Other income	224	176	279	702	632
Total noninterest income	7,143	11,240	9,885	23,172	41,786
Noninterest expense:					
Compensation	21,557	21,717	23,060	65,203	63,539
Occupancy	7,423	7,142	6,872	21,548	20,406
Data processing	2,228	2,129	2,121	6,832	5,982
Other professional services	2,239	2,505	2,694	7,040	6,734
Business development	548	595	571	1,712	1,893
Communications	678	834	811	2,371	2,410
Insurance and assessments	1,641	1,603	2,431	5,581	7,316
Non-covered other real estate owned, net	2,293	2,300	2,151	5,296	11,217
Covered other real estate owned expense (income), net	4,813	1,205	(319)	3,440	1,761
Intangible asset amortization	1,977	2,308	2,434	6,592	7,282
Other expense	3,190	4,200	3,348	10,909	10,977

Total noninterest expense		48,587		46,538		46,174		136,524		139,517
Earnings (loss) before income taxes		22,649		22,001		5,328		63,068		(95,201)
Income tax (expense) benefit		(9,345)		(9,160)		(1,828)		(26,247)		40,873
Net earnings (loss)	$	13,304	$	12,841	$	3,500	$	36,821	$	(54,328)
Earnings (loss) per share:										
Basic	$	0.36	$	0.35	$	0.10	$	0.99	$	(1.55)
Diluted	$	0.36	$	0.35	$	0.10	$	0.99	$	(1.55)
Dividends declared per share	$	0.01	$	0.01	$	0.01	$	0.03	$	0.03

See "Notes to Condensed Consolidated Financial Statements."

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PACWEST BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In Thousands)

(Unaudited)

	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2011	June 30, 2011	September 30, 2010	2011	2010
Net earnings (loss)	$ 13,304	$ 12,841	$ 3,500	$ 36,821	$ (54,328)
Other comprehensive income, net of related income taxes:					
Unrealized holding gains on securities available-for-sale arising during the period	12,886	5,785	2,869	19,355	11,514
Comprehensive income (loss)	$ 26,190	$ 18,626	$ 6,369	$ 56,176	$ (42,814)

See "Notes to Condensed Consolidated Financial Statements."

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PACWEST BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in Thousands, Except Share Data)

(Unaudited)

	Nine Months Ended September 30, 2011						
	Common Stock						
	Shares	Par Value	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2011	36,672,429	$ 369	$ 1,085,364	$ (607,042)	$ (3,863)	$ 3,969	$ 478,797
Net earnings				36,821			36,821
Tax effect from vesting of restricted stock			(497)				(497)
Restricted stock awarded and earned stock compensation, net of shares forfeited	608,786	6	6,502				6,508
Restricted stock surrendered	(22,383)				(427)		(427)
Cash dividends paid ($0.03 per share)			(1,089)				(1,089)
Other comprehensive income increase in net unrealized gain on securities available-for-sale, net of tax effect of $14.0 million						19,355	19,355
Balance, September 30, 2011	37,258,832	$ 375	$ 1,090,280	$ (570,221)	$ (4,290)	$ 23,324	$ 539,468

See "Notes to Condensed Consolidated Financial Statements."

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PACWEST BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Cash flows from operating activities:		
Net earnings (loss)	$ 36,821	$ (54,328)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation and amortization	13,721	4,190
Provision for credit losses	22,448	178,277
Gain on sale of other real estate owned	(8,334)	(4,044)
Provision for losses on other real estate owned	15,011	14,777
Gain on sale of premises and equipment	(23)	(14)
Impairment loss on securities		874
Restricted stock amortization	6,508	6,563
Tax effect included in stockholders' equity of restricted stock vesting	497	1,427
Decrease in accrued and deferred income taxes, net	(3,689)	(41,718)
Decrease in FDIC loss sharing asset	27,155	40,470
Decrease in other assets	15,989	13,579
Decrease in accrued interest payable and other liabilities	(2,406)	(8,991)
Net cash provided by operating activities	123,698	151,062
Cash flows from investing activities:		
Resolution of goodwill matter with FDIC	7,636	
Net cash acquired in Los Padres Bank acquisition		171,366
Net decrease in loans	324,823	26,393
Proceeds from sale of loans	2,495	204,164
Securities available-for-sale:		
Proceeds from maturities and paydowns	137,622	135,295
Purchases	(495,341)	(448,856)
Net redemptions of FHLB stock	6,698	3,744
Proceeds from sales of other real estate owned	52,823	61,560
Capitalized costs to complete other real estate owned		(638)
Purchases of premises and equipment, net	(4,397)	(2,481)
Proceeds from sales of premises and equipment	27	28
Net cash provided by investing activities	32,386	150,575
Cash flows from financing activities:		
Net increase (decrease) in deposits:		
Noninterest-bearing	162,691	131,166
Interest-bearing	(257,993)	(177,006)
Net proceeds from issuance of common stock		26,587
Restricted stock surrendered	(427)	(836)
Tax effect included in stockholders' equity of restricted stock vesting	(497)	(1,427)
Net decrease in borrowings		(330,000)
Cash dividends paid	(1,089)	(1,084)
Net cash used in financing activities	(97,315)	(352,600)

Net increase (decrease) in cash and cash equivalents	58,769	(50,963)
Cash and cash equivalents, beginning of period	108,552	211,048
Cash and cash equivalents, end of period	$ 167,321	$ 160,085
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 26,273	$ 32,163
Cash paid for income taxes	29,969	810
Loans transferred to other real estate owned	57,266	45,669

See "Notes to Condensed Consolidated Financial Statements."

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

PacWest Bancorp is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Our principal business is to serve as a holding company for our banking subsidiary, Pacific Western Bank, which we refer to as Pacific Western or the Bank. When we say "we", "our" or the "Company", we mean the Company on a consolidated basis with the Bank. When we refer to "PacWest" or to the holding company, we are referring to the parent company on a stand-alone basis.

Pacific Western is a full-service commercial bank offering a broad range of banking products and services including: accepting demand, money market, and time deposits; originating loans, including commercial, real estate construction, SBA-guaranteed and consumer loans; and providing other business-oriented products. Our operations are primarily located in Southern California and extend from California's Central Coast to San Diego County. The Bank focuses on conducting business with small to medium-sized businesses in our marketplace and the owners and employees of those businesses. The majority of our loans are secured by the real estate collateral of such businesses. We also operate three banking offices in the San Francisco Bay area and one office in Arizona, all of which were acquired through FDIC-assisted acquisitions. Our asset-based lending function operates in Arizona, California, Texas, and the Pacific Northwest.

We generate our revenue primarily from interest received on loans and, to a lesser extent, from interest received on investment securities, and fees received in connection with deposit services, extending credit and other services offered, including foreign exchange services. Our major operating expenses are the interest paid by the Bank on deposits and borrowings, compensation and general operating expenses. The Bank relies on a foundation of locally generated and relationship-based deposits. The Bank has a relatively low cost of funds due to a high percentage of noninterest-bearing and low cost deposits.

We completed 22 acquisitions since May 2000.

Basis of Presentation

The accounting and reporting policies of the Company are in accordance with U.S. generally accepted accounting principles, which we may refer to as GAAP. All significant intercompany balances and transactions have been eliminated.

Our financial statements reflect all adjustments that are, in the opinion of management, necessary to present a fair statement of the results for the interim periods presented. Certain information and note disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The interim operating results are not necessarily indicative of operating results for the full year.

Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period to prepare these consolidated financial statements in conformity with GAAP. Actual results could differ from those estimates. Material estimates subject to change in the near term include,

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 1 BASIS OF PRESENTATION (Continued)

among other items, the allowances for credit losses, the carrying value of other real estate owned, the carrying value of intangible assets, the carrying value of the FDIC loss sharing asset and the realization of deferred tax assets.

In August 2010, Pacific Western acquired assets and assumed liabilities of the former Los Padres Bank ("Los Padres") in an FDIC-assisted transaction, which we refer to as the Los Padres acquisition. The acquired assets and assumed liabilities were measured at their estimated fair values. Management made significant estimates and exercised significant judgment in estimating fair values and accounting for the acquired assets and assumed liabilities in the Los Padres acquisition.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period's presentation format. During the second quarter of 2011, we reclassified recoveries on covered loans such that recoveries now reduce the credit loss provision for covered loans rather than increase FDIC loss sharing income. Such reclassifications had no effect on reported net earnings or losses.

NOTE 2 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill arises from business combinations and represents the excess of the purchase price over the fair value of the net assets and other identifiable intangible assets acquired. Goodwill and other intangible assets deemed to have indefinite lives generated from purchase business combinations are not subject to amortization and are instead tested for impairment no less than annually. Impairment is determined in accordance with ASC 350, "*Intangibles Goodwill and Other*" and is based on the reporting unit. Impairment exists when the carrying value of goodwill exceeds its implied fair value. An impairment loss would be recognized in an amount equal to that excess and would be included in noninterest expense in the consolidated statement of earnings (loss). Our annual impairment test of goodwill resulted in no impact on our results of operations and financial condition.

Goodwill in the amount of $46.8 million was recorded in the Los Padres acquisition. During the second quarter of 2011, we reduced goodwill by $7.6 million as the matter with the FDIC regarding settlement accounting for a wholly-owned subsidiary in the Los Padres acquisition was resolved. A receivable for such amount was included in the FDIC loss sharing asset at June 30, 2011 and the cash was received during the third quarter of 2011.

Our intangible assets with definite lives are core deposit intangibles, or CDI, and customer relationship intangibles, or CRI. These intangible assets are amortized over their useful lives to their estimated residual values and reviewed for impairment at least quarterly. The amortization expense represents the estimated decline in the value of the underlying deposits or loan customers acquired.

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 2 GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

The following table presents the changes in CDI and CRI and the related accumulated amortization for the periods indicated:

	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2011	June 30, 2011	September 30, 2010	2011	2010
			(In thousands)		
Gross amount of CDI and CRI:					
Balance, beginning of period	$ 73,629	$ 76,319	$ 75,911	$ 76,319	$ 75,911
Additions			2,427		
Fully amortized portion	(6,529)	(2,690)		(9,219)	2,427
Balance, end of period	67,100	73,629	78,338	67,100	78,338
Accumulated amortization:					
Balance, beginning of period	(52,401)	(52,783)	(47,463)	(50,476)	(42,615)
Amortization	(1,977)	(2,308)	(2,434)	(6,592)	(7,282)
Fully amortized portion	6,529	2,690		9,219	
Balance, end of period	(47,849)	(52,401)	(49,897)	(47,849)	(49,897)
Net CDI and CRI, end of period	$ 19,251	$ 21,228	$ 28,441	$ 19,251	$ 28,441

The aggregate amortization expense related to the intangible assets is expected to be $8.4 million for 2011. The estimated aggregate amortization expense related to these intangible assets for each of the subsequent four years is $6.1 million for 2012, $4.5 million for 2013, $2.9 million for 2014, and $2.7 million for 2015.

NOTE 3 INVESTMENT SECURITIES

Securities Available-for-Sale

The amortized cost, gross unrealized gains and losses and estimated fair values of securities available-for-sale are presented in the tables below as of the dates indicated. The private label collateralized mortgage obligations were acquired in the FDIC-assisted acquisition of Affinity Bank ("Affinity") in August 2009 and are covered by a FDIC loss sharing agreement. Other securities include

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 3 INVESTMENT SECURITIES (Continued)

an investment in overnight money market funds at a financial institution. See Note 9, *Fair Value Measurements*, for information on fair value measurements and methodology.

	September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Residental mortgage-backed securities:				
Government and government-sponsored entity pass through securities	$ 984,907	$ 33,046	$ (347)	$ 1,017,606
Government and government-sponsored entity collateralized mortgage obligations	84,783	2,001	(4)	86,780
Covered private label collateralized mortgage obligations	42,328	6,687	(1,802)	47,213
Municipal securities	92,422	1,060	(255)	93,227
Corporate debt securities	14,813	23	(194)	14,642
Other securities	2,308			2,308
Total securities available-for-sale	$ 1,221,561	$ 42,817	$ (2,602)	$ 1,261,776

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Government-sponsored entity debt securities	$ 10,014	$ 15	$	$ 10,029
Residental mortgage-backed securities:				
Government and government-sponsored entity pass through securities	754,149	9,282	(7,366)	756,065
Government and government-sponsored entity collateralized mortgage obligations	47,416	565	(352)	47,629
Covered private label collateralized mortgage obligations	45,867	6,653	(2,083)	50,437
Municipal securities	7,437	129		7,566
Other securities	2,290			2,290
Total securities available-for-sale	$ 867,173	$ 16,644	$ (9,801)	$ 874,016

Mortgage-backed securities have contractual terms to maturity and require periodic payments to reduce principal. In addition, expected maturities may differ from contractual maturities because obligors and/or issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 3 INVESTMENT SECURITIES (Continued)

The following table presents the contractual maturity distribution of our available-for-sale securities portfolio based on amortized cost and fair value as of the date indicated:

	September 30, 2011	
	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 2,308	$ 2,308
Due after one year through five years	8,790	9,083
Due after five years through ten years	38,956	40,646
Due after ten years	1,171,507	1,209,739
Total securities available-for-sale	$ 1,221,561	$ 1,261,776

At September 30, 2011, the estimated fair value of debt securities and residential mortgage-backed debt securities issued by the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") was approximately $1.0 billion. We do not own any equity securities issued by Fannie Mae or Freddie Mac.

As of September 30, 2011, securities available-for-sale with an estimated fair value of $77.2 million were pledged as collateral for borrowings, public deposits and other purposes as required by various statutes and agreements.

The following tables present the estimated fair values and the gross unrealized losses on securities by length of time the securities have been in an unrealized loss position as of the dates indicated:

	September 30, 2011					
	Less Than 12 Months		12 months or Longer		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(In thousands)					
Residential mortgage-backed securities:						
Government and government-sponsored entity pass through securities	$ 72,233	$ (346)	$ 24	$ (1)	$ 72,257	$ (347)
Government and government-sponsored entity collateralized mortgage obligations			1,651	(4)	1,651	(4)
Covered private label collateralized mortgage obligations	5,255	(396)	4,514	(1,406)	9,769	(1,802)
Municipal securities	34,584	(255)			34,584	(255)

Corporate debt securities		10,098		(194)						10,098		(194)
Total	$	122,170	$	(1,191)	$	6,189	$	(1,411)	$	128,359	$	(2,602)

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 3 INVESTMENT SECURITIES (Continued)

	December 31, 2010					
	Less Than 12 Months		12 months or Longer		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(In thousands)					
Residential mortgage-backed securities:						
Government and government-sponsored entity pass through securities	$ 321,537	$ (7,366)	$	$	$ 321,537	$ (7,366)
Government and government-sponsored entity collateralized mortgage obligations	15,690	(327)	1,553	(25)	17,243	(352)
Covered private label collateralized mortgage obligations	1,579	(472)	4,980	(1,611)	6,559	(2,083)
Total	$ 338,806	$ (8,165)	$ 6,533	$ (1,636)	$ 345,339	$ (9,801)

We reviewed the securities that were in a continuous loss position less than 12 months and longer than 12 months at September 30, 2011, and concluded that their losses were a result of the level of market interest rates relative to the types of securities and not a result of the underlying issuers' abilities to repay. Accordingly, we determined that the securities were temporarily impaired. Additionally, we have no plans to sell these securities and believe that it is more likely than not we would not be required to sell these securities before recovery of their amortized cost. Therefore, we did not recognize the temporary impairment in the consolidated statements of earnings (loss).

FHLB Stock

At September 30, 2011, the Company had a $48.3 million investment in Federal Home Loan Bank of San Francisco (FHLB) stock carried at cost. In January 2009, the FHLB announced that it suspended excess FHLB stock redemptions and dividend payments. Since this announcement, the FHLB has declared and paid cash dividends in 2010 and 2011, though at rates less than that paid in the past, and repurchased certain amounts of our excess stock. We evaluated the carrying value of our FHLB stock investment at September 30, 2011 and determined that it was not impaired. Our evaluation considered the long-term nature of the investment, the current financial and liquidity position of the FHLB, the actions being taken by the FHLB to address its regulatory situation, and our intent and ability to hold this investment for a period of time sufficient to recover our recorded investment.

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 4 LOANS

Non-Covered Loans

When we refer to non-covered loans we are referring to loans not covered by our FDIC loss sharing agreements.

The following table presents the composition of non-covered loans by portfolio segment as of the dates indicated:

Loan Segment	September 30, 2011	December 31, 2010
	(In thousands)	
Real estate mortgage	$ 2,031,893	$ 2,274,733
Real estate construction	152,411	179,479
Commercial	671,963	663,557
Consumer	20,621	25,058
Foreign	20,932	22,608
Total gross non-covered loans	2,897,820	3,165,435
Less:		
Unearned income	(4,183)	(4,380)
Allowance for loan losses	(90,110)	(98,653)
Total net non-covered loans	$ 2,803,527	$ 3,062,402

The following tables present a summary of the activity in the allowance for loan losses on non-covered loans by portfolio segment for the periods indicated:

	Three Months Ended September 30, 2011					
	Real Estate Mortgage	Real Estate Construction	Commercial	Consumer	Foreign	Total
	(In thousands)					
Allowance for Loan Losses on Non-Covered Loans:						
Balance, beginning of period	$ 53,540	$ 11,185	$ 28,259	$ 2,910	$ 533	$ 96,427
Charge-offs	(4,293)		(2,237)	(54)		(6,584)
Recoveries	225	33	235	74		567
Provision	2,341	(885)	(925)	(642)	(189)	(300)
Balance, end of period	$ 51,813	$ 10,333	$ 25,332	$ 2,288	$ 344	$ 90,110

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 4 LOANS (Continued)

	Nine Months Ended September 30, 2011					
	Real Estate Mortgage	Real Estate Construction	Commercial	Consumer	Foreign	Total
	(In thousands)					
Allowance for Loan Losses on Non-Covered Loans:						
Balance, beginning of period	$ 51,657	$ 8,766	$ 33,229	$ 4,652	$ 349	$ 98,653
Charge-offs	(9,859)	(5,838)	(7,967)	(1,379)		(25,043)
Recoveries	349	1,021	1,160	1,375	45	3,950
Provision	9,666	6,384	(1,090)	(2,360)	(50)	12,550
Balance, end of period	$ 51,813	$ 10,333	$ 25,332	$ 2,288	$ 344	$ 90,110
The ending balance of the allowance is composed of amounts applicable to loans:						
Individually evaluated for impairment	$ 6,399	$ 3,363	$ 7,035	$ 2	$	$ 16,799
Collectively evaluated for impairment	$ 45,414	$ 6,970	$ 18,297	$ 2,286	$ 344	$ 73,311
Non-Covered Loan Balances:						
Ending balance	$ 2,031,893	$ 152,411	$ 671,963	$ 20,621	$ 20,932	$ 2,897,820
The ending balance of the non-covered loan portfolio is composed of loans:						
Individually evaluated for impairment	$ 91,495	$ 32,621	$ 21,692	$ 565	$	$ 146,373
Collectively evaluated for impairment	$ 1,940,398	$ 119,790	$ 650,271	$ 20,056	$ 20,932	$ 2,751,447

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 4 LOANS (Continued)

	Year Ended December 31, 2010					
	Real Estate Mortgage	Real Estate Construction	Commercial	Consumer	Foreign	Total
	(In thousands)					
Allowance for Loan Losses on Non-Covered Loans:						
Balance, January 1, 2010	$ 58,241	$ 39,934	$ 17,710	$ 2,021	$ 811	$ 118,717
Charge-offs	(117,029)	(63,590)	(18,548)	(3,749)	(306)	(203,222)
Recoveries	1,222	708	1,652	565	133	4,280
Provision	109,223	31,714	32,415	5,815	(289)	178,878
Balance, December 31, 2010	$ 51,657	$ 8,766	$ 33,229	$ 4,652	$ 349	$ 98,653
The ending balance of the allowance is composed of amounts applicable to loans:						
Individually evaluated for impairment	$ 3,893	$ 1,125	$ 8,911	$ 1,049	$	$ 14,978
Collectively evaluated for impairment	$ 47,764	$ 7,641	$ 24,318	$ 3,603	$ 349	$ 83,675
Non-Covered Loan Balances:						
Ending balance	$ 2,274,733	$ 179,479	$ 663,557	$ 25,058	$ 22,608	$ 3,165,435
The ending balance of the non-covered loan portfolio is composed of loans:						
Individually evaluated for impairment	$ 94,171	$ 47,350	$ 39,820	$ 1,951	$ 163	$ 183,455
Collectively evaluated for impairment	$ 2,180,562	$ 132,129	$ 623,737	$ 23,107	$ 22,445	$ 2,981,980

The following table presents the credit risk rating categories for non-covered loans by portfolio segment and class as of the dates indicated. Nonclassified loans are those with a credit risk rating of either pass or special mention, while classified loans are those with a credit risk rating of either substandard or doubtful.

Our federal and state banking regulators, as an integral part of their examination process, periodically review the Company's loan risk rating classifications. Our regulators may require the Company to recognize rating downgrades based on their judgments related to information available to

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 4 LOANS (Continued)

them at the time of their examinations. Risk rating downgrades generally result in higher provisions for credit losses.

	September 30, 2011			December 31, 2010		
	Nonclassified	Classified	Total	Nonclassified	Classified	Total
		(In thousands)				
Real estate mortgage:						
Hospitality	$ 124,346	$ 21,437	$ 145,783	$ 137,952	$ 18,700	$ 156,652
SBA 504	51,838	7,386	59,224	55,774	13,513	69,287
Other	1,749,840	77,046	1,826,886	1,956,905	91,889	2,048,794
Total real estate mortgage	1,926,024	105,869	2,031,893	2,150,631	124,102	2,274,733
Real estate construction:						
Residential	16,908	3,398	20,306	39,644	25,399	65,043
Commercial	98,819	33,286	132,105	82,291	32,145	114,436
Total real estate construction	115,727	36,684	152,411	121,935	57,544	179,479
Commercial:						
Collateralized	396,393	17,133	413,526	342,607	15,820	358,427
Unsecured	65,214	5,967	71,181	119,326	10,417	129,743
Asset-based	157,270	48	157,318	141,813	1,354	143,167
SBA 7(a)	18,716	11,222	29,938	29,557	2,663	32,220
Total commercial	637,593	34,370	671,963	633,303	30,254	663,557
Consumer	19,799	822	20,621	22,949	2,109	25,058
Foreign	20,932		20,932	22,608		22,608
Total non-covered loans	$ 2,720,075	$ 177,745	$ 2,897,820	$ 2,951,426	$ 214,009	$ 3,165,435

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PACWEST BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 4 LOANS (Continued)

The following tables present an aging analysis of our non-covered loans by portfolio segment and class as of the dates indicated:

	September 30, 2011					
	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total
	(In thousands)					
Real estate mortgage:						
Hospitality	$	$	$	$	$ 145,783	$ 145,783
SBA 504	3,168	896		4,064	55,160	59,224
Other	13,351	1,939	13,652	28,942	1,797,944	1,826,886
Total real estate mortgage	16,519	2,835	13,652	33,006	1,998,887	2,031,893
Real estate construction:						
Residential					20,306	20,306
Commercial	1,553		2,719	4,272	127,833	132,105
Total real estate construction	1,553		2,719	4,272	148,139	152,411
Commercial:						
Collateralized		396	2,614	3,010	410,516	413,526
Unsecured		113	2,003	2,116	69,065	71,181