

First Foundation Inc.
Form 10-Q
May 09, 2018

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, 2018

OR

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

For the transition period from _____ to _____

Commission File Number 001-36461

FIRST FOUNDATION INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

20-8639702
(I.R.S. Employer
Identification Number)

18101 Von Karman Avenue, Suite 700 Irvine, CA 92612
(Address of principal executive offices)

92612
(Zip Code)

(949) 202-4160

(Registrant's telephone number, including area code)

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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 website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of May 7, 2018, there were 39,078,436 shares of registrant’s common stock outstanding.

FIRST FOUNDATION INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018

TABLE OF CONTENTS

	Page No.
<u>Part I. Financial Information</u>	
Item 1. <u>Financial Statements</u>	1
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	36
Item 4. <u>Controls and Procedures</u>	36
<u>Part II. Other Information</u>	
Item 1A <u>Risk Factors</u>	36
Item 6 <u>Exhibits</u>	37
<u>SIGNATURES</u>	S-1

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
FIRST FOUNDATION INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	March 31, 2018 (unaudited)	December 31, 2017
ASSETS		
Cash and cash equivalents	\$177,356	\$120,394
Securities available-for-sale (“AFS”)	513,067	519,364
Loans held for sale	148,266	154,380
Loans, net of deferred fees	3,914,970	3,663,727
Allowance for loan and lease losses (“ALLL”)	(20,000)	(18,400)
Net loans	3,894,970	3,645,327
Premises and equipment, net	6,716	6,581
Investment in FHLB stock	22,626	19,060
Deferred taxes	13,629	12,143
Real estate owned (“REO”)	2,165	2,920
Goodwill and intangibles	33,551	33,576
Other assets	29,836	27,440
Total Assets	\$4,842,182	\$4,541,185
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Liabilities:		
Deposits	\$3,636,192	\$3,443,527
Borrowings	769,000	678,000
Accounts payable and other liabilities	24,876	24,707
Total Liabilities	4,430,068	4,146,234
Commitments and contingencies	—	—
Shareholders’ Equity		

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Common Stock, par value \$.001: 70,000,000 shares authorized; 39,056,436 and 38,207,766 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	39	
Additional paid-in-capital	327,951	314,501
Retained earnings	94,479	85,503
Accumulated other comprehensive loss, net of tax	(10,355)	(5,091)
Total Shareholders' Equity	412,114	394,951
Total Liabilities and Shareholders' Equity	\$4,842,182	\$4,541,185

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED INCOME STATEMENTS - UNAUDITED

(In thousands, except share and per share amounts)

	For the Quarter Ended March 31,	
	2018	2017
Interest income:		
Loans	\$38,971	\$26,491
Securities	3,422	3,031
FHLB stock, fed funds sold and interest-bearing deposits	926	838
Total interest income	43,319	30,360
Interest expense:		
Deposits	5,872	3,192
Borrowings	3,179	1,110
Total interest expense	9,051	4,302
Net interest income	34,268	26,058
Provision for loan losses	1,688	69
Net interest income after provision for loan losses	32,580	25,989
Noninterest income:		
Asset management, consulting and other fees	7,181	6,215
Gain on sale of loans	545	300
Gain on sale of REO	—	104
Other income	1,256	1,164
Total noninterest income	8,982	7,783
Noninterest expense:		
Compensation and benefits	17,169	14,755
Occupancy and depreciation	4,171	3,414
Professional services and marketing costs	2,489	3,429
Customer service costs	2,771	693
Other expenses	2,388	2,418
Total noninterest expense	28,988	24,709
Income before taxes on income	12,574	9,063
Taxes on income	3,598	2,950
Net income	\$8,976	\$6,113
Net income per share:		
Basic	\$0.23	\$0.19

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Diluted	\$0.23	\$0.18
Shares used in computation:		
Basic	38,577,271	32,805,010
Diluted	39,124,732	33,961,220

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENT OF CHANGES

IN SHAREHOLDERS' EQUITY - Unaudited

(In thousands, except share amounts)

	Common Stock		Additional		Accumulated Other	
	Number of Shares	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Total
Balance: December 31, 2017	38,207,766	\$ 38	\$ 314,501	\$ 85,503	\$ (5,091)	\$ 394,951
Net income	—	—	—	8,976	—	8,976
Other comprehensive income	—	—	—	—	(5,264)	(5,264)
Stock based compensation	—	—	1,165	—	—	1,165
Issuance of common stock:						
Exercise of options	123,000	—	944	—	—	944
Stock grants – vesting of RSUs	99,940	—	—	—	—	—
Capital raise	625,730	1	11,341	—	—	11,342
Balance: March 31, 2018	39,056,436	\$ 39	\$ 327,951	\$ 94,479	\$ (10,355)	\$ 412,114

(See accompanying notes to the consolidated financial statements)

3

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME - UNAUDITED

(In thousands)

	For the Quarter Ended March 31,	
	2018	2017
Net income	\$ 8,976	\$ 6,113
Other comprehensive income:		
Unrealized holding gains (losses) on securities arising during the period	(7,440)	(778)
Other comprehensive income (loss) before tax	(7,440)	(778)
Income tax expense (benefit) related to items of other comprehensive income	(2,176)	(320)
Other comprehensive income (loss)	(5,264)	(458)
Less: Reclassification adjustment for (gains) losses included in net earnings	—	—
Income tax expense (benefit) related to reclassification adjustment	—	—
Reclassification adjustment for (gains) losses included in net earnings, net of tax	—	—
Other comprehensive income (loss), net of tax	(5,264)	(458)
Total comprehensive income	\$ 3,712	\$ 5,655

(See accompanying notes to the consolidated financial statements)

4

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(In thousands)

	For the Three Months	
	Ended March 31, 2018	2017
Cash Flows from Operating Activities:		
Net income	\$8,976	\$6,113
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,688	69
Stock-based compensation expense	1,165	442
Depreciation and amortization	664	553
Deferred tax expense	390	726
Amortization of core deposit intangible	325	55
Amortization of mortgage servicing rights – net	(234)	104
Amortization of discounts (premiums) on purchased loans – net	654	(77)
Gain on sale of loans	(545)	(300)
Gain on sale of REO	—	(104)
Increase in other assets	(1,868)	(1,498)
Increase (decrease) in accounts payable and other liabilities	169	(584)
Net cash provided by operating activities	11,384	5,499
Cash Flows from Investing Activities:		
Net increase in loans	(298,019)	(286,518)
Proceeds from sale of loans	52,376	20,985
Proceeds from sale of REO	755	438
Purchase of premises and equipment	(799)	(693)
Purchases of AFS securities	(20,000)	(1,654)
Maturities of AFS securities	18,880	16,544
Sale (purchases) of FHLB stock, net	(3,566)	16,424
Net cash used in investing activities	(250,373)	(234,474)
Cash Flows from Financing Activities:		
Increase in deposits	192,665	353,582
FHLB Advances – net increase (decrease)	111,000	(668,000)
Line of credit net change – borrowings (paydowns), net	(20,000)	20,000
Proceeds from sale of stock, net	12,286	1,419
Net cash provided by (used in) financing activities	295,951	(292,999)
Increase (decrease) in cash and cash equivalents	56,962	(521,974)
Cash and cash equivalents at beginning of year	120,394	597,946
Cash and cash equivalents at end of period	\$177,356	\$75,972

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$8,534	\$3,827
Income taxes	18	255
Noncash transactions:		
Transfer of loans to (from) loans held for sale	\$46,338	\$(44,521)
Mortgage servicing rights created from loan sales	317	113
Chargeoffs (recoveries) against allowance for loans losses	88	(231)
C1B acquisition reconciliation – goodwill/deferred taxes	300	—

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 - UNAUDITED

NOTE 1: BASIS OF PRESENTATION

The consolidated financial statements include First Foundation Inc. (“FFI”) and its wholly owned subsidiaries: First Foundation Advisors (“FFA”) and First Foundation Bank (“FFB” or the “Bank”) and the wholly owned subsidiaries of FFB, First Foundation Insurance Services (“FFIS”) and Blue Moon Management, LLC (collectively referred to as the “Company”). All inter-company balances and transactions have been eliminated in consolidation. The results of operations reflect any interim adjustments, all of which are of a normal recurring nature and which, in the opinion of management, are necessary for a fair presentation of the results for the interim period presented. The results for the 2018 interim periods are not necessarily indicative of the results expected for the full year.

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

The accompanying unaudited consolidated financial statements include all information and footnotes required for interim financial statement presentation. Those financial statements assume that readers of this Report have read the most recent Annual Report on Form 10-K which contains the latest available audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2017.

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the 2018 presentation.

New Accounting Guidance

In February 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-05 “Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets” which clarifies that the guidance in Accounting Standards Codification (“ASC”) 610-20 on accounting for derecognition of a nonfinancial asset and in-substance nonfinancial asset applies only when the asset (or asset group) does not meet the definition of a business and provides guidance for partial sales of nonfinancial assets. The guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within that period. The adoption of ASU No. 2017-05 did not have a material impact on the Company’s consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04 “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” which provides updated guidance on how an entity is required to test goodwill for impairment. This update is effective for the Company for annual periods beginning after December 15, 2019, and interim periods within those annual periods. The adoption of ASU No. 2017-04 is not expected to have a material impact on the Company’s consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13 “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” which introduces new guidance for the accounting for credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The new model, referred to as the current expected credit losses (CECL) model, will apply to financial assets subject to credit losses and measured at amortized cost, and certain off-balance sheet credit exposures. Upon initial recognition of the exposure, the CECL model requires an entity to estimate the credit losses expected over the life of an exposure. This update is effective for the Company for annual periods beginning after December 15, 2019, and interim periods within those annual periods. The Company has begun analyzing the data requirements needed to implement the adoption of ASU 2016-13 and we expect that the adoption of ASU 2016-13 may have a significant impact on the Company’s recording of its allowance for loan losses. The impact of the implementation of ASU 2016-13 is undeterminable at this time.

In February, 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, which is generally defined as a lease term of less than 12 months. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases accounted for as operating leases under current lease accounting guidance. The amendments in this update are effective for interim and annual periods beginning after December 15, 2018. We expect the adoption of ASU 2016-02 to impact the Company’s accounting for its building leases at each of its locations and the Company is evaluating the effects of the adoption of ASU 2016-02 on its financial statements and disclosures.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). The guidance affects the accounting for equity investments and adjusts the fair value disclosures for financial instruments carried at amortized cost such that the disclosed fair values represent an exit price as opposed to an entry price. ASU 2016-01 was effective for the Company on January 1, 2018 and resulted in separate classification of equity securities with changes in the fair value of the equity securities captured in the consolidated statements of income. The adoption of ASU 2016-01 did not have a material effect on the Company’s financial statements and disclosures.

In May, 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This update replaces most existing revenue recognition guidance in GAAP. The new standard was effective for the Company on January 1, 2018. Adoption of ASU 2014-09 did not have a material impact on the Company’s consolidated financial statements and related disclosures, as the Company’s primary sources of revenues are generated from financial instruments, such as loans and investment securities that are not within the scope of ASU 2014-09. Descriptions of our primary revenue-generating activities that are within the scope of this update, which are presented in our income statements as components of non-interest income are as follows:

Wealth management and trust fee income

Asset management fees are billed on a monthly or quarterly basis based on the amount of assets under management and the applicable contractual fee percentage. Asset management fees are recognized as revenue in the period in which they are billed and earned. Financial planning fees are due and billed at the completion of the planning project and are recognized as revenue at that time.

Service charges on deposit accounts

Service charges on deposit accounts represent general service fees for monthly account maintenance and activity or transaction-based fees. Revenue is recognized when our performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed. Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

Gains and Losses on Sales of REO

The new guidance requires judgment in evaluating if: (a) a commitment on the buyer’s part exists, (b) collection is probable in circumstances where the initial investment is minimal and (c) the buyer has obtained control of the asset, including the significant risks and rewards of the ownership. If there is no commitment on the buyer’s part, collection is not probable or the buyer has not obtained control of the asset, then a gain cannot be recognized. The initial investment requirement for the buyer along with the various methods for profit recognition are no longer applicable. The Company does not expect the new guidance to have a significant impact on the consolidated financial statements.

Other non-interest income includes revenue related to mortgage servicing activities and gains on sales of loans, which are not subject to the requirements of ASU 2014-09.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

NOTE 2: FAIR VALUE

Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets Measured at Fair Value on a Recurring Basis

Securities available for sale and effective with the adoption of ASU 2016-01 on January 1, 2018, investments in equity securities are measured at fair value on a recurring basis depending upon whether the inputs are Level 1, 2 or 3 as described above.

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

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	Total	Fair Value Measurement Level		
		Level 1	Level 2	Level 3
(dollars in thousands)				
March 31, 2018:				
Investment securities available for sale:				
US Treasury securities	\$493	\$493	\$—	\$—
Agency mortgage-backed securities	438,868	—	438,868	—
Corporate bonds	39,100	—	39,100	—
Beneficial interest – FHLMC securitization	34,606	—	—	34,606
Investment in equity securities	400	400	—	—
Total assets at fair value on a recurring basis	\$513,467	\$893	\$477,968	\$34,606
December 31, 2017:				
Investment securities available for sale:				
US Treasury securities	\$493	\$493	\$—	\$—
Agency mortgage-backed securities	464,019	—	464,019	—
Corporate bonds	19,000	—	19,000	—
Beneficial interest – FHLMC securitization	35,852	—	—	35,852
Total assets at fair value on a recurring basis	\$519,364	\$493	\$483,019	\$35,852

The decrease in level 3 assets from December 31, 2017 was due to Beneficial interest – FHLMC securitization maturities.

Assets Measured at Fair Value on a Nonrecurring Basis

Additionally, from time to time, we may be required to measure at fair value other assets on a nonrecurring basis. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

Impaired Loans. ASC 820-10 applies to loans measured for impairment in accordance with ASC 310-10, “Accounting by Creditors for Impairment of a Loan”, at the fair value of the loan’s collateral (if the loan is collateral dependent) less estimated selling costs. When the fair value of the collateral is based on an observable market price or a current appraised value, we measure the impaired loan at nonrecurring Level 2. When an appraised value is not available, or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price or a discounted cash flow has been used to determine the fair value, we measure the impaired loan at nonrecurring Level 3. The total collateral dependent impaired Level 3 loans were \$13.3 million and \$13.4 million at March 31, 2018 and December 31, 2017, respectively. There were no specific reserves related to these loans at March 31, 2018 and December 31, 2017.

Real Estate Owned. The fair value of real estate owned is based on external appraised values that include adjustments for estimated selling costs and assumptions of market conditions that are not directly observable, resulting in a Level 3 classification. As of March 31, 2018 and December 31, 2017, the fair value of real estate owned was \$2.2 million and \$2.9 million, respectively.

Fair Value of Financial Instruments

Fair value estimates are made at a discrete point in time based on relevant market information and other information about the financial instruments. Considerable judgment is required to interpret market data to develop estimates of fair value. These estimates are subjective in nature and invariably involve some inherent uncertainties. Additionally, unexpected changes in events or circumstances can occur that could require us to make changes to our assumptions and which, in turn, could significantly affect and require us to make changes to our previous estimates of fair value.

The methods of determining the fair value of assets and liabilities presented in this note as of March 31, 2018 are consistent with Note 3 of the Company’s 2017 Form 10-K except for the valuation of investment in equity securities. We refined the calculation used to determine the disclosed fair value of our investment in equity securities as part of adopting ASU 2016-01. The refined calculation did not have a significant impact on our fair value disclosures.

The carrying amounts and estimated fair values of financial instruments are as follows as of:

(dollars in thousands)	Carrying Value	Fair Value Measurement Level			Total
		1	2	3	
March 31, 2018:					
Assets:					
Cash and cash equivalents	\$177,356	\$177,356	\$—	\$—	\$177,356
Securities AFS	513,067	493	477,968	34,606	513,067
Loans held for sale	148,266	—	149,193	—	149,193
Loans, net	3,894,970	—	—	3,865,188	3,865,188
Investment in FHLB Stock	22,626	—	22,626	—	22,626

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Investment in equity securities	400	400	—	—	—
Liabilities:					
Deposits	3,636,192	2,598,821	1,038,615	—	3,637,436
Borrowings	769,000	—	739,000	30,000	769,000
December 31, 2017:					
Assets:					
Cash and cash equivalents	\$ 120,394	\$ 120,394	\$—	\$—	\$ 120,934
Securities AFS	519,364	493	483,019	35,852	519,364
Loans held for sale	154,380	—	155,345	—	154,380
Loans, net	3,645,327	—	—	3,617,060	3,617,060
Investment in FHLB Stock	19,060	—	19,060	—	19,060
Liabilities:					
Deposits	3,443,527	2,542,730	901,877	—	3,444,607
Borrowings	678,000	—	628,000	50,000	678,000

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

NOTE 3: SECURITIES

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

(dollars in thousands)	Amortized Cost	Gross Gains	Unrealized Losses	Estimated Fair Value
March 31, 2018:				
US Treasury securities	\$ 499	\$—	\$(6)	\$493
Agency mortgage-backed securities	453,596	—	(14,728)	438,868
Beneficial interests in FHLMC securitization	34,608	1,927	(1,929)	34,606
Corporate bonds	39,000	100	—	39,100
Total	\$ 527,703	\$2,027	\$(16,663)	\$513,067
December 31, 2017:				
US Treasury securities	\$ 499	\$—	\$(6)	\$493
Agency mortgage-backed securities	471,131	287	(7,399)	464,019
Corporate bonds	35,930	1,811	(1,889)	35,852
Beneficial interests in FHLMC securitization	19,000	—	—	19,000
Total	\$ 526,560	\$2,098	\$(9,294)	\$519,364

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

The table below indicates the gross unrealized losses and fair values of our investments, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, for the periods indicated:

(dollars in thousands)	Securities with Unrealized Loss at March 31, 2018					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
US Treasury securities	\$197	\$(2)	\$296	\$(4)	\$493	\$(6)
Agency mortgage backed securities	193,370	(4,542)	245,498	(10,186)	438,868	(14,728)
Beneficial interest – FHLMC securitization	—	—	8,235	(1,929)	8,235	(1,929)
Total temporarily impaired securities	\$193,567	\$(4,544)	\$254,029	\$(12,119)	\$447,596	\$(16,663)

(dollars in thousands)	Securities with Unrealized Loss at December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
US Treasury securities	\$197	\$ (2)	\$296	\$ (4)	\$493	\$ (6)
Agency mortgage backed securities	158,984	(1,394)	259,213	(6,005)	418,197	(7,399)
Beneficial interest – FHLMC securitization	—	—	8,738	(1,889)	8,738	(1,889)
Total temporarily impaired securities	\$159,181	\$ (1,396)	\$268,247	\$ (7,898)	\$427,428	\$ (9,294)

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

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

The scheduled maturities of securities AFS and the related weighted average yields were as follows for the periods indicated:

(dollars in thousands)	Less than 1 Year	1 Through 5 years	5 Through 10 Years	After 10 Years	Total
March 31, 2018					
Amortized Cost:					
US Treasury securities	\$ —	\$ 499	\$ —	\$ —	\$ 499
Corporate bonds	—	—	19,000	20,000	39,000
Total	—	499	19,000	20,000	39,499
Weighted average yield	— %	1.03 %	5.24 %	5.00 %	5.06 %
Estimated Fair Value:					
US Treasury securities	\$ —	\$ 493	\$ —	\$ —	\$ 493
Corporate bonds	—	—	19,000	20,100	39,100
Total	\$ —	\$ 493	\$ 19,000	\$ 20,100	\$ 39,593

(dollars in thousands)	Less than 1 Year	1 Through 5 years	5 Through 10 Years	After 10 Years	Total
December 31, 2017					
Amortized Cost:					
US Treasury securities	\$ —	\$ 499	\$ —	\$ —	\$ 499
Corporate bonds	—	—	19,000	—	19,000
Total	—	499	19,000	—	19,499
Weighted average yield	— %	1.03 %	5.24 %	— %	5.13 %
Estimated Fair Value:					
US Treasury securities	\$ —	\$ 493	\$ —	\$ —	\$ 493
Corporate bonds	—	—	19,000	—	19,000
Total	\$ —	\$ 493	\$ 19,000	\$ —	\$ 19,493

Agency mortgage backed securities and beneficial interests in FHLMC securitization are excluded from the above table because such securities are not due at a single maturity date. The weighted average yield of the agency mortgage backed securities and beneficial interests in FHLMC securitization as of March 31, 2018 was 2.56%.

NOTE 4: LOANS

The following is a summary of our loans as of:

(dollars in thousands)	March 31, 2018	December 31, 2017
Outstanding principal balance:		
Loans secured by real estate:		
Residential properties:		
Multifamily	\$2,124,719	\$1,935,429
Single family	674,651	645,816
Total real estate loans secured by residential properties	2,799,370	2,581,245
Commercial properties	708,458	696,748
Land	31,200	37,160
Total real estate loans	3,539,028	3,315,153
Commercial and industrial loans	337,295	310,779
Consumer loans	29,361	29,330
Total loans	3,905,684	3,655,262
Deferred expenses, net	9,286	8,465
Total	\$3,914,970	\$3,663,727

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

As of March 31, 2018 and December 31, 2017, the principal balances shown above are net of unaccreted discount related to loans acquired in an acquisition of \$3.4 million and \$4.0 million, respectively.

In 2015 and 2017 the Company purchased loans for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of these purchased credit impaired loans is as follows:

(dollars in thousands)	March 31, 2018	December 31, 2017
Outstanding principal balance:		
Loans secured by real estate:		
Commercial properties	\$976	\$ 1,525
Land	1,111	1,096
Total real estate loans	2,087	2,621
Commercial and industrial loans	2,716	2,774
Total loans	4,803	5,395
Unaccreted discount on purchased credit impaired loans	(1,448)	(1,638)
Total	\$3,355	\$ 3,757

Accretable yield, or income expected to be collected on purchased credit impaired loans, and the change in accretable yield is as follows for the periods indicated:

(dollars in thousands)	As of and for the Quarter ended March 31, 2018	As of and for the Year ended December 31, 2017
Beginning balance	\$ 850	\$ 289
Accretion of income	(74)	(108)
Reclassifications from nonaccretable difference	—	66
Acquisition	—	603
Disposals	(26)	—

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Ending balance	\$ 750	\$ 850
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12

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

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

(dollars in thousands)	Past Due and Still Accruing			Nonaccrual	Total Past Due and Nonaccrual	Current	Total
	30-59 Days	60-89 Days	90 Days or More				
March 31, 2018:							
Real estate loans:							
Residential properties	\$62	\$—	\$—	\$—	\$ 62	\$2,799,308	\$2,799,370
Commercial properties	752	—	1,312	1,918	3,982	704,476	708,458
Land	—	—	—	—	—	31,200	31,200
Commercial and industrial loans	—	138	302	9,342	9,782	327,513	337,295
Consumer loans	—	—	—	—	—	29,361	29,361
Total	\$814	\$138	\$1,614	\$11,260	\$13,826	\$3,891,858	\$3,905,684
Percentage of total loans	0.02%	0.00%	0.04%	0.29%	0.35%		
December 31, 2017:							
Real estate loans:							
Residential properties	\$78	\$—	\$—	\$—	\$ 78	\$2,581,167	\$2,581,245
Commercial properties	—	—	1,320	1,742	3,062	693,686	696,748
Land	—	—	—	—	—	37,160	37,160
Commercial and industrial loans	—	—	789	9,617	10,406	300,373	310,779
Consumer loans	—	—	—	—	—	29,330	29,330
Total	\$78	\$—	\$2,109	\$11,359	\$13,546	\$3,641,716	\$3,655,262
Percentage of total loans	0.00%	—%	0.06%	0.31%	0.37%		

As of March 31, 2018 and December 31, 2017, the Company had seven loans with a balance of \$4.4 million and seven loans with a balance of \$4.5 million, respectively, that were classified as troubled debt restructurings (“TDR”). All loans were classified as a TDR as a result of a reduction in required principal payments and an extension of the maturity date of the loans. These loans have been paying in accordance with the terms of their restructure.

The following table presents the composition of TDRs by accrual and nonaccrual status as of:

(dollars in thousands)	March 31, 2018			December 31, 2017		
	Accrual	Nonaccrual	Total	Accrual	Nonaccrual	Total
Commercial real estate loans	\$—	\$1,572	\$1,572	\$—	\$1,598	\$1,598

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Commercial and industrial loans	165	2,648	2,813	195	2,698	2,893
Total	165	4,220	4,385	195	4,296	4,491

No TDRs were modified in the first quarter of 2018. The following table provides information on loans that were modified as TDRs for the year ended December 31, 2017:

(dollars in thousands)	Number of loans	Outstanding Recorded Investment		Financial Impact
		Pre-Modification	Post-Modification	
Commercial real estate loans	1	\$ 1,598	\$ 1,598	\$ —
Commercial loans	1	218	218	—
Total	2	\$ 1,816	\$ 1,816	\$ —

NOTE 5: ALLOWANCE FOR LOAN LOSSES

The following is a roll forward of the Bank's allowance for loan losses for the quarters ended March 31:

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

(dollars in thousands)	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
2018:					
Real estate loans:					
Residential properties	\$ 9,715	\$ 193	\$ —	\$ —	\$ 9,908
Commercial properties	4,399	(9)	—	—	4,390
Land	395	(60)	—	—	335
Commercial and industrial loans	3,624	1,557	(88)	—	5,093
Consumer loans	267	7	—	—	274
Total	\$ 18,400	\$ 1,688	\$ (88)	\$ —	\$ 20,000
2017					
Real estate loans:					
Residential properties	\$ 6,669	\$ 1,748	\$ —	\$ —	\$ 8,417
Commercial properties	2,983	339	—	—	3,322
Land	233	30	—	—	263
Commercial and industrial loans	5,227	(2,057)	—	231	3,401
Consumer loans	288	9	—	—	297
Total	\$ 15,400	\$ 69	\$ —	\$ 231	\$ 15,700

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by impairment method as of:

(dollars in thousands)	Allowance for Loan Losses				Unaccrued
	Evaluated for		Purchased	Total	Credit
	Impairment	Collectively			
	Individual	Other			Other
March 31, 2018:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	\$—	\$9,908	\$—	\$9,908	\$229
Commercial properties	—	4,390	—	4,390	1,343
Land	—	335	—	335	5
Commercial and industrial loans	1,931	3,162	—	5,093	789
Consumer loans	—	274	—	274	25
Total	\$1,931	\$18,069	\$—	\$20,000	\$2,391
Loans:					
Real estate loans:					
Residential properties	\$—	\$2,799,370	\$—	\$2,799,370	\$26,407
Commercial properties	3,982	703,781	695	708,458	167,910
Land	—	30,372	828	31,200	531
Commercial and industrial loans	9,342	326,121	1,832	337,295	54,025
Consumer loans	—	29,361	—	29,361	2,686
Total	\$13,324	\$3,889,005	\$3,355	\$3,905,684	\$251,559
December 31, 2017:					
Allowance for loan losses:					
Real estate loans:					
Residential properties	\$—	\$9,715	\$—	\$9,715	\$248
Commercial properties	—	4,399	—	4,399	1,449
Land	—	395	—	395	4
Commercial and industrial loans	909	2,715	—	3,624	1,204
Consumer loans	—	267	—	267	100
Total	\$909	\$17,491	\$—	\$18,400	\$3,005
Loans:					
Real estate loans:					
Residential properties	\$—	\$2,581,245	\$—	\$2,581,245	\$26,605
Commercial properties	4,037	691,632	1,079	696,748	168,057
Land	—	36,323	837	37,160	167
Commercial and industrial loans	9,399	299,539	1,841	310,779	62,849
Consumer loans	—	29,330	—	29,330	2,899

Total	\$13,436	\$3,638,069	\$ 3,757	\$3,655,262	\$ 260,577
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The column labeled “Unaccreted Credit Component Other Loans” represents the amount of unaccreted credit component discount for the other loans acquired in a business combination, and the stated principal balance of the related loans. The discount is equal to 0.95% and 1.15% of the stated principal balance of these loans as of March 31, 2018 and December 31, 2017, respectively. In addition to this unaccreted credit component discount, an additional \$0.4 million and \$0.2 million of ALLL has been provided for these loans March 31, 2018 and December 31, 2017, respectively.

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes larger, non-homogeneous loans such as loans secured by multifamily or commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. The Bank uses the following definitions for risk ratings:

Pass: Loans classified as pass are strong credits with no existing or known potential weaknesses deserving of management’s close attention.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current 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 institution will sustain some loss if the deficiencies are not corrected.

Impaired: A loan is considered impaired, when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement.

Additionally, all loans classified as TDRs are considered impaired at the time they are restructured. Purchased credit impaired loans are not considered impaired loans for these purposes.

Loans listed as pass include larger non-homogeneous loans not meeting the risk rating definitions above and smaller, homogeneous loans not assessed on an individual basis.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows as of:

(dollars in thousands)	Pass	Special Mention	Substandard	Impaired	Total
March 31, 2018:					
Real estate loans:					
Residential properties	\$2,796,111	\$ 3,259	\$ —	\$ —	\$2,799,370
Commercial properties	693,082	5,885	5,509	3,982	708,458
Land	30,372	—	828	—	31,200
Commercial and industrial loans	325,731	160	2,062	9,342	337,295
Consumer loans	29,361	—	—	—	29,361
Total	\$3,874,657	\$ 9,304	\$ 8,399	\$ 13,324	\$3,905,684
December 31, 2017:					
Real estate loans:					
Residential properties	\$2,578,773	\$ 192	\$ 2,280	\$ —	\$2,581,245
Commercial properties	680,449	6,326	5,936	4,037	696,748
Land	36,321	—	839	—	37,160
Commercial and industrial loans	298,408	865	2,107	9,399	310,779
Consumer loans	29,330	—	—	—	29,330
Total	\$3,623,281	\$ 7,383	\$ 11,162	\$ 13,436	\$3,655,262

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2018 – UNAUDITED

Impaired loans evaluated individually and any related allowance are as follows as of:

(dollars in thousands)	With No Allowance		With an Allowance Recorded		
	Recorded Unpaid Principal Balance	Recorded Investment	Recorded Unpaid Principal Balance	Recorded Investment	Related Allowance
March 31, 2018:					
Real estate loans:					
Residential properties	\$—	\$ —	\$—	\$ —	\$ —
Commercial properties	3,982	3,982	—	—	—
Commercial and industrial loans	250	250	9,092	9,092	1,931
Total	\$4,232	\$ 4,232	\$9,092	\$ 9,092	\$ 1,931
December 31, 2017:					
Real estate loans:					
Residential properties	\$—	\$ —	\$—	\$ —	\$ —
Commercial properties	4,037	4,037	—	—	—
Commercial and industrial loans	250	250	9,149	9,149	909
Total	\$4,287	\$ 4,287	\$9,149	\$ 9,149	\$ 909

The weighted average annualized average balance of the recorded investment for impaired loans, beginning from when the loan became impaired, and any interest income recorded on impaired loans after they became impaired is as follows:

(dollars in thousands)	Three months Ended March 31, 2018		Year Ended December 31, 2017	
	Interest Average Income Recorded after Impairment	Investment	Interest Average Income Recorded after Impairment	Investment
Real estate loans:				
Residential properties	\$ —	\$ —	\$ 1,323	