

Customers Bancorp, Inc.
Form 10-Q
May 08, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

Quarterly report pursuant Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2015

Transition report pursuant Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____
001-35542
(Commission File number)

(Exact name of registrant as specified in its charter)

Pennsylvania	27-2290659
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1015 Penn Avenue Suite 103 Wyomissing PA 19610	
(Address of principal executive offices)	
(610) 933-2000	
(Registrant's telephone number, including area code)	
N/A	
(Former name, former address and former fiscal year, if changed since last report)	

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller Reporting Company

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

On April 30, 2015, 26,828,600 shares of Voting Common Stock were issued and outstanding.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET — UNAUDITED
(amounts in thousands, except share and per share data)

	March 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	\$68,216	\$62,746
Interest-earning deposits	265,607	308,277
Cash and cash equivalents	333,823	371,023
Investment securities available for sale, at fair value	396,194	416,685
Loans held for sale (includes \$1,676,891 and \$1,335,668, respectively, at fair value)	1,758,084	1,435,459
Loans receivable	4,337,851	4,312,173
Allowance for loan losses	(33,566	) (30,932
Total loans receivable, net of allowance for loan losses	4,304,285	4,281,241
FHLB, Federal Reserve Bank, and other restricted stock	81,798	82,002
Accrued interest receivable	15,702	15,205
FDIC loss sharing receivable	3,427	2,320
Bank premises and equipment, net	11,061	10,810
Bank-owned life insurance	154,821	138,676
Other real estate owned	13,127	15,371
Goodwill and other intangibles	3,661	3,664
Other assets	57,242	52,914
Total assets	\$7,133,225	\$6,825,370
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand, non-interest bearing	\$670,771	\$546,436
Interest-bearing	4,222,550	3,986,102
Total deposits	4,893,321	4,532,538
FHLB advances	1,545,000	1,618,000
Other borrowings	88,250	88,250
Subordinated debt	110,000	110,000
Accrued interest payable and other liabilities	38,703	33,437
Total liabilities	6,675,274	6,382,225
Shareholders' equity:		
Preferred stock, no par value or as set by the board; 100,000,000 shares authorized, none issued	—	—
Common stock, par value \$1.00 per share; 200,000,000 shares authorized; 27,356,299 and 27,277,789 shares issued as of March 31, 2015 and December 31, 2014; 26,824,039; and 26,745,529 shares outstanding as of March 31, 2015 and December 31, 2014	27,356	27,278
Additional paid in capital	357,523	355,822
Retained earnings	82,373	68,421
Accumulated other comprehensive loss, net	(1,047	) (122
Treasury stock, at cost (532,260 shares as of March 31, 2015 and December 31, 2014)	(8,254) (8,254
Total shareholders' equity	457,951	443,145

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Total liabilities and shareholders' equity	\$7,133,225	\$6,825,370
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See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME — UNAUDITED
(amounts in thousands, except share data)

	Three Months Ended March 31,	
	2015	2014
Interest income:		
Loans receivable	\$43,093	\$28,355
Loans held for sale	10,900	5,083
Investment securities	2,363	3,040
Other	2,362	396
Total interest income	58,718	36,874
Interest expense:		
Deposits	7,526	5,415
Other borrowings	1,488	1,155
FHLB advances	1,689	496
Subordinated debt	1,685	16
Total interest expense	12,388	7,082
Net interest income	46,330	29,792
Provision for loan losses	2,964	4,368
Net interest income after provision for loan losses	43,366	25,424
Non-interest income:		
Mortgage warehouse transactional fees	2,273	1,759
Gain on sale of loans	1,231	—
Bank-owned life insurance	1,061	835
Deposit fees	179	214
Mortgage loan and banking income	151	409
Gain on sale of investment securities	—	2,832
Other	838	1,261
Total non-interest income	5,733	7,310
Non-interest expense:		
Salaries and employee benefits	13,952	9,351
FDIC assessments, taxes, and regulatory fees	3,278	2,131
Occupancy	3,078	2,637
Professional services	1,913	2,282
Technology, communications and bank operations	1,554	1,560
Other real estate owned	884	351
Advertising and promotion	347	414
Loan workout	269	441
Other	2,190	2,002
Total non-interest expense	27,465	21,169
Income before income tax expense	21,634	11,565
Income tax expense	7,682	3,429
Net income	\$13,952	\$8,136
Basic earnings per share (1)	\$0.52	\$0.30
Diluted earnings per share (1)	0.49	0.29

(1) Earnings per share amounts for the three months ended March 31, 2014 have been adjusted to reflect the 10% stock dividend declared on May 15, 2014 and issued on June 30, 2014.

See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME — UNAUDITED
 (amounts in thousands)

	Three Months Ended March 31,	
	2015	2014
Net income	\$13,952	\$8,136
Unrealized gains on securities:		
Unrealized holding gains on securities arising during the period (1)	459	9,121
Income tax effect (1)	(216	) (3,193
Less: reclassification adjustment for gains on securities included in net income	—	(2,832
Income tax effect	—	992
Net unrealized gains	243	4,088
Unrealized gains (losses) on cash flow hedges:		
Unrealized gains (losses) on cash flow hedges arising during the period	(1,946	) 664
Income tax effect	778	(232
Net unrealized gains (losses)	(1,168	) 432
Other comprehensive income (loss), net of tax	(925	) 4,520
Comprehensive income	\$13,027	\$12,656

(1) Includes immaterial gains or losses on foreign currency items.
 See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY — UNAUDITED
(amounts in thousands, except share data)

	Three Months Ended March 31, 2015						
	Shares of Common Stock Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, January 1, 2015	26,745,529	\$27,278	\$355,822	\$68,421	\$ (122)	\$(8,254)	\$443,145
Net income	—	—	—	13,952	—	—	13,952
Other comprehensive loss	—	—	—	—	(925)	—	(925)
Share-based compensation expense	—	—	1,170	—	—	—	1,170
Issuance of common stock under share-based compensation arrangements	78,510	78	531	—	—	—	609
Balance, March 31, 2015	26,824,039	\$27,356	\$357,523	\$82,373	\$ (1,047)	\$(8,254)	\$457,951
	Three Months Ended March 31, 2014						
	Shares of Common Stock Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, January 1, 2014	24,224,151	\$24,756	\$307,231	\$71,008	\$ (8,118)	\$(8,254)	\$386,623
Net income	—	—	—	8,136	—	—	8,136
Other comprehensive income	—	—	—	—	4,520	—	4,520
Share-based compensation expense	—	—	955	—	—	—	955
Issuance of common stock under share-based compensation arrangements	70,013	70	634	—	—	—	704
Balance, March 31, 2014	24,294,164	\$24,826	\$308,820	\$79,144	\$ (3,598)	\$(8,254)	\$400,938

See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS — UNAUDITED
(amounts in thousands)

	Three Months Ended	
	March 31,	
	2015	2014
Cash Flows from Operating Activities		
Net income	\$13,952	\$8,136
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses, net of change to FDIC receivable	2,964	4,368
Provision for depreciation and amortization	1,033	890
Share-based compensation	1,416	1,659
Deferred taxes	(1,540)	) 2,215
Net amortization of investment securities premiums and discounts	211	177
Gain on sale of investment securities	—	(2,832)
Gain on sale of mortgages and other loans	(1,266)	) (498)
Origination of loans held for sale	(6,627,070)	) (2,819,236)
Proceeds from the sale of loans held for sale	6,285,952	2,869,796
Increase in FDIC loss sharing receivable	(134)	) (990)
Amortization (accretion) of fair value discounts	32	(129)
Net loss on sales of other real estate owned	441	47
Valuation and other adjustments to other real estate owned	343	127
Earnings on investment in bank-owned life insurance	(1,061)	) (835)
(Increase) decrease in accrued interest receivable and other assets	(3,259)	) 1,552
Increase in accrued interest payable and other liabilities	3,574	14,858
Net Cash (Used In) Provided by Operating Activities	(324,412)	) 79,305
Cash Flows from Investing Activities		
Proceeds from maturities, calls and principal repayments of securities available for sale	20,739	10,264
Proceeds from sales of investment securities available for sale	—	187,891
Purchases of investment securities available for sale	—	(149,940)
Net increase in loans	(148,554)	) (608,672)
Purchase of loan portfolios	—	(288,253)
Proceeds from sales of loans	141,437	424
Purchases of bank-owned life insurance	(15,000)) —
Net proceeds from (purchases of) FHLB, Federal Reserve Bank, and other restricted stock	204	(8,006)
(Payments to) reimbursements from the FDIC on loss sharing agreements	(302)	) 1,297
Purchases of bank premises and equipment	(829)	) (207)
Proceeds from sales of other real estate owned	1,619	1,376
Net Cash Used In Investing Activities	(686)	) (853,826)
Cash Flows from Financing Activities		
Net increase in deposits	360,789	646,420
Net (decrease) increase in short-term borrowed funds	(98,000)	) 185,500
Proceeds from long-term FHLB borrowings	25,000	—
Proceeds from issuance of common stock	109	—
Net Cash Provided by Financing Activities	287,898	831,920
Net (Decrease) Increase in Cash and Cash Equivalents	(37,200)) 57,399

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Cash and Cash Equivalents – Beginning	371,023	233,068
Cash and Cash Equivalents – Ending	\$333,823	\$290,467

Supplementary Cash Flows Information

Interest paid	\$10,550	\$7,017
Income taxes paid	2,762	2,082
Non-cash items:		
Transfer of loans to other real estate owned	\$159	\$4,955

See accompanying notes to the unaudited consolidated financial statements.

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CUSTOMERS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 1 — DESCRIPTION OF THE BUSINESS

Customers Bancorp, Inc. (the “Bancorp” or “Customers Bancorp”) is a bank holding company engaged in banking activities through its wholly owned subsidiary, Customers Bank (the “Bank”). Customers Bancorp also has made certain equity investments through its wholly owned subsidiaries CB Green Ventures Pte Ltd. and CUBI India Ventures Pte Ltd.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”).

Customers Bancorp, Inc. and its wholly owned subsidiaries, Customers Bank and non-bank subsidiaries, serve residences and businesses in Southeastern Pennsylvania (Bucks, Berks, Chester, Philadelphia and Delaware Counties), Rye, New York (Westchester County), Hamilton, New Jersey (Mercer County), Boston, Massachusetts, Providence, Rhode Island and Manhattan, New York. In 2011, the Bancorp purchased Berkshire Bancorp, Inc. In 2010, Customers Bank acquired two banks, USA Bank and ISN Bank, in FDIC assisted transactions that expanded its footprint into central New Jersey and southeast New York. The Bank has 14 branches and provides commercial banking products, primarily loans and deposits. Customers Bank provides loan products to customers through its loan production offices in Boston, Massachusetts, Providence, Long Island, Manhattan, New York and Philadelphia, Pennsylvania. The Bancorp also provides liquidity to residential mortgage originators nationwide through commercial loans to mortgage companies. Customers Bank is subject to regulation of the Pennsylvania Department of Banking and Securities and the Federal Reserve Bank and is periodically examined by those regulatory authorities.

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Basis of Presentation

The interim unaudited consolidated financial statements of Customers Bancorp, Inc. and subsidiaries have been prepared pursuant to the rules and regulations of the SEC. These interim unaudited consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present a fair statement of the financial position and the results of operations and cash flows of Customers Bancorp and subsidiaries for the interim periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements have been omitted from these interim unaudited consolidated financial statements as permitted by SEC rules and regulations. The December 31, 2014 consolidated balance sheet presented in this report has been derived from Customers Bancorp’s audited 2014 consolidated financial statements. Management believes that the disclosures are adequate to present fairly the consolidated financial statements as of the dates and for the periods presented. These interim unaudited consolidated financial statements should be read in conjunction with the 2014 consolidated financial statements of Customers Bancorp and subsidiaries included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on February 27, 2015. That Form 10-K describes Customers Bancorp’s significant accounting policies, which include its policies on Principles of Consolidation; Cash and Cash Equivalents; Restrictions on Cash and Amounts Due from Banks; Investment Securities; Loan Accounting Framework; Allowance for Loan Losses; Goodwill; Investments in FHLB, Federal Reserve Bank, and other restricted stock; Other Real Estate Owned; FDIC Loss Sharing Receivable; Bank Owned Life Insurance; Bank Premises and Equipment; Treasury Stock; Income Taxes; Share-Based Compensation; Derivative Instruments and Hedging; Comprehensive Income; Earnings per Share; Segment Information; and Accounting Changes. Certain prior period amounts have been reclassified to conform to current period presentation. Results for interim periods are not necessarily indicative of those that may be expected for the fiscal year.

Recently Issued Accounting Standards

In April 2015, the FASB issued Accounting Standard Update (“ASU”) 2015-03, Simplifying the Presentation of Debt Issuance Costs. The guidance in this ASU is intended to simplify presentation of debt issuance costs, and require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The guidance in this ASU is effective for interim and annual periods beginning after December 15, 2015. The Bancorp does not expect this ASU to have a

significant impact on its financial condition or results of operations.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis. The guidance in this ASU is intended to amend the update, which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendments in this update affect the following areas:

1. Limited partnerships and similar legal entities

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2. Evaluating fees paid to a decision maker or a service provider as a variable interest
3. The effect of fee arrangements on the primary beneficiary determination
4. The effect of related parties on the primary beneficiary determination
5. Certain investment funds

The guidance in this ASU is effective for annual and interim periods beginning after December 15, 2015. The Bancorp does not expect this ASU to have a significant impact on its financial condition or results of operations. In November 2014, the FASB issued ASU 2014-16, Determining Whether the Host Contract in a Hybrid Financial Instrument in the Form of a Share is More Akin to Debt or to Equity. The guidance in this ASU requires entities that issue or invest in a hybrid financial instrument to separate an embedded derivative feature from a host contract and account for the feature as a derivative. In the case of derivatives embedded in a hybrid financial instrument that is issued in the form of a share, that criterion requires evaluating whether the nature of the host contract is more akin to debt or to equity and whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to the host contract. If the host contract is akin to equity, then equity-like features (for example, a conversion option) are considered clearly and closely related to the host contract and, thus, would not be separated from the host contract. If the host contract is akin to debt, then equity-like features are not considered clearly and closely related to the host contract. In the latter case, an entity may be required to separate the equity-like embedded derivative feature from the debt host contract if certain other criteria in Subtopic 815-15 are met. Similarly, debt-like embedded derivative features may require separate accounting from an equity-like host contract. The guidance in this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Bancorp does not expect this ASU to have a significant impact on its financial condition or results of operations.

In August 2014, the FASB issued ASU 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. The guidance in this ASU affects creditors that hold government-guaranteed mortgage loans, including those guaranteed by the FHA and the VA. It requires that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if the following conditions are met:

1. The loan has a government guarantee that is not separable from the loan before foreclosure.
2. At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim.
3. At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed.

Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The guidance in this ASU was effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The guidance may be applied using a prospective transition method in which a reporting entity applies the guidance to foreclosures that occur after the date of adoption, or a modified retrospective transition using a cumulative-effect adjustment (through a reclassification to a separate other receivable) as of the beginning of the annual period of adoption. Prior periods should not be adjusted. A reporting entity must apply the same method of transition as elected under ASU 2014-04. The adoption of this ASU did not have a significant impact on the Bancorp's financial condition or results of operations.

In August 2014, the FASB issued ASU 2014-13, Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity. The guidance in this ASU applies to a reporting entity that is required to consolidate a collateralized financing entity under the Variable Interest Entities guidance when: (1) the reporting entity measures all of the financial assets and the financial liabilities of that consolidated collateralized financing entity at fair value in the consolidated financial statements based on other Codification Topics; and (2) the changes in the fair values of those financial assets and financial liabilities are reflected in earnings. The guidance in this ASU is

effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted as of the beginning of an annual period. The Bancorp does not expect this ASU to have a significant impact on its financial condition or results of operations.

In June 2014, the FASB issued ASU 2014-12, Compensation-Stock Compensation. The guidance in this ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period is treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite period, the remaining

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unrecognized cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. As indicated in the definition of vest, the stated vesting period (which includes the period in which the performance target could be achieved) may differ from the requisite service period. The guidance in this ASU is effective for annual and interim periods beginning after December 15, 2015. The Bancorp does not expect this ASU to have a significant impact on its financial condition or results of operations.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing. The amendments in this update require that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty (a repurchase financing), which will result in secured borrowing accounting for the repurchase agreement. The amendments require an entity to disclose information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements, in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. In addition the amendments require disclosure of the types of collateral pledged in repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions and the tenor of those transactions. The guidance in this ASU was effective for annual and interim periods beginning after December 15, 2014. The adoption of this ASU did not have a significant impact on the Bancorp's financial condition or results of operations.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This ASU establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate and construction industries. The revenue standard's core principal is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) identify the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies the performance obligation. Three basic transition methods are available - full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the cumulative effect alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. The guidance in this ASU is effective for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2017. The Bancorp does not expect this ASU to have a significant impact on its financial condition or results of operations.

In January 2014, the FASB issued ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure, a consensus of the FASB Emerging Issues Task Force. The guidance in this ASU clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The ASU also requires additional related interim and annual disclosures. The guidance in this ASU was effective in the first quarter 2015. The adoption of this ASU did not have a significant impact on the Bancorp's financial condition or results of operations.

In January 2014, the FASB issued ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects, a consensus of the FASB Emerging Issues Task Force. This ASU provides guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The guidance in this ASU was effective for annual periods

and interim reporting periods beginning after December 15, 2014. The adoption of this ASU did not have a significant impact on the Bancorp's financial condition or results of operations.

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NOTE 3 — CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT (1)
The following tables present the changes in accumulated other comprehensive income (loss) by component for the three months ended March 31, 2015 and 2014.

(amounts in thousands)	Three Months Ended March 31, 2015		
	Unrealized Gains on Available-for-sale Securities (2)	Unrealized Loss on Cash Flow Hedges	Total
Beginning balance - January 1, 2015	\$1,142	\$(1,264)	\$(122)
Other comprehensive income (loss) before reclassifications	243	(1,168)	(925)
Amounts reclassified from accumulated other comprehensive loss to net income	—	—	—
Net current-period other comprehensive income (loss)	243	(1,168)	(925)
Ending balance - March 31, 2015	\$1,385	\$(2,432)	\$(1,047)
(amounts in thousands)	Three Months Ended March 31, 2014		
	Unrealized Gains and (Losses) on Available-for-sale Securities (2)	Unrealized Gain on Cash Flow Hedges	Total
Beginning balance - January 1, 2014	\$(8,118)	\$—	\$(8,118)
Other comprehensive income before reclassifications	5,929	432	6,361
Amounts reclassified from accumulated other comprehensive loss to net income (3)	(1,841)	—	(1,841)
Net current-period other comprehensive income	4,088	432	4,520
Ending balance - March 31, 2014	\$(4,030)	\$432	\$(3,598)

(1) All amounts are net of tax. Amounts in parentheses indicate reductions to accumulated other comprehensive income.

(2) Includes immaterial gains or losses on foreign currency items.

(3) Reclassification amounts are reported as gain on sale of investment securities on the Consolidated Statements of Income.

NOTE 4 — EARNINGS PER SHARE

The following are the components and results of the Bancorp's earnings per share calculation for the periods presented. Share and per share amounts for the three months ended March 31, 2014 have been adjusted to reflect the 10% stock dividend declared on May 15, 2014 and issued on June 30, 2014.

(amounts in thousands, except per share data)	Three Months Ended	
	March 31, 2015	2014
Net income available to common shareholders	\$13,952	\$8,136
Weighted-average number of common shares outstanding - basic	26,777,389	26,686,570
Share-based compensation plans	1,276,340	845,901
Warrants	284,074	242,560
Weighted-average number of common shares - diluted	28,337,803	27,775,031
Basic earnings per share	\$0.52	\$0.30
Diluted earnings per share	0.49	0.29

The following is a summary of securities that could potentially dilute basic earnings per share in future periods that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented. Share-based compensation awards and eligible warrants for the three months ended March 31,

2014 have been adjusted to reflect the 10% stock dividend declared on May 15, 2014 and issued on June 30, 2014.

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	Three Months Ended March 31,	
	2015	2014
Anti-dilutive securities:		
Share-based compensation awards	18,683	134,682
Warrants	52,242	118,745
Total anti-dilutive securities	70,925	253,427

NOTE 5 — INVESTMENT SECURITIES

The amortized cost and approximate fair value of investment securities as of March 31, 2015 and December 31, 2014 are summarized in the tables below:

	March 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(amounts in thousands)				
Available for Sale:				
Mortgage-backed securities (1)	\$355,904	\$4,075	\$(1,262)	) \$358,717
Corporate Bonds	15,000	172	—	) 15,172
Equity securities (2)	23,074	56	(825)	) 22,305
	\$393,978	\$4,303	\$(2,087)	) \$396,194
	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(amounts in thousands)				
Available for Sale:				
Mortgage-backed securities (1)	\$376,854	\$2,805	\$(2,348)	) \$377,311
Corporate notes	15,000	104	—	) 15,104
Equity securities (2)	23,074	1,197	(1)	) 24,270
	\$414,928	\$4,106	\$(2,349)	) \$416,685

(1) Comprised primarily of mortgage-backed securities issued by government-sponsored agencies, including FHLMC, FNMA, and GNMA.

(2) Comprised primarily of equity securities in a foreign entity.

The following table presents proceeds from the sale of available-for-sale investment securities and gross gains and gross losses realized on those sales for the three ended March 31, 2015 and 2014:

	Three Months Ended March 31,	
	2015	2014
(amounts in thousands)		
Proceeds from sale of available-for-sale securities	\$—	\$187,891
Gross gains	\$—	\$2,832
Gross losses	—	—
Net gains	\$—	\$2,832

These gains and losses were determined using the specific identification method and were reported as gains on sale of investment securities included in non-interest income.

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The following table presents available-for-sale debt securities by stated maturity. Debt securities backed by mortgages have expected maturities that differ from contractual maturities because borrowers have the right to call or prepay and are, therefore, classified separately with no specific maturity date:

	March 31, 2015	
	Amortized Cost	Fair Value
(amounts in thousands)		
Due in one year or less	\$—	\$—
Due after one year through five years	—	—
Due after five years through ten years	15,000	15,172
Due after ten years	—	—
Mortgage-backed securities	355,904	358,717
Total debt securities	\$370,904	\$373,889

The Bancorp's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(amounts in thousands)						
Available for Sale:						
Mortgage-backed securities (1)	\$23,331	\$(5)	\$78,848	\$(1,257)	\$102,179	\$(1,262)
Equity securities (2)	21,244	(824)	6	(1)	21,250	(825)
Total	\$44,575	\$(829)	\$78,854	\$(1,258)	\$123,429	\$(2,087)
	December 31, 2014					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(amounts in thousands)						
Available for Sale:						
Mortgage-backed securities (1)	\$60,388	\$(81)	\$80,426	\$(2,267)	140,814	\$(2,348)
Equity securities (2)	—	—	5	(1)	5	(1)
Total	\$60,388	\$(81)	\$80,431	\$(2,268)	\$140,819	\$(2,349)

(amounts in thousands)

Available for Sale:

Mortgage-backed securities (1)	\$60,388	\$(81)	\$80,426	\$(2,267)	140,814	\$(2,348)
Equity securities (2)	—	—	5	(1)	5	(1)
Total	\$60,388	\$(81)	\$80,431	\$(2,268)	\$140,819	\$(2,349)

(1) Comprised primarily of mortgage-backed securities issued by government-sponsored agencies, including FHLMC, FNMA, and GNMA.

(2) Comprised primarily of equity securities in a foreign entity.

At March 31, 2015, there were seven available-for-sale investment securities in the less-than-twelve-month category and eighteen available-for-sale investment securities in the twelve-month-or-more category. The unrealized losses on the mortgage-backed securities are guaranteed by government-sponsored entities and primarily relate to changes in market interest rates. All amounts are expected to be recovered when market prices recover or at maturity. The unrealized losses on the equity securities reflect decreases in market price. Customers evaluated the financial condition and capital strength of the issuer of these securities and concluded that the decline in fair value was temporary and would recover by way of increases in market price. The Company intends to hold these securities for the foreseeable future and does not intend to sell the securities before the price recovers. Customers considers it more likely than not that it will not be required to sell the securities. Accordingly, Customers has concluded that the securities are not other-than-temporarily impaired as of March 31, 2015.

At March 31, 2015 and December 31, 2014, Customers Bank had pledged investment securities aggregating \$358.3 million and \$376.9 million fair value, respectively, as collateral against its borrowings primarily with the FHLB and

an unused line of credit with another financial institution. These counterparties do not have the ability to sell or repledge these securities.

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NOTE 6 – LOANS HELD FOR SALE

The composition of loans held for sale as of March 31, 2015 and December 31, 2014 was as follows:

	March 31, 2015	December 31, 2014
(amounts in thousands)		
Commercial loans:		
Mortgage warehouse loans at fair value	\$1,674,014	\$1,332,019
Multi-family loans at lower of cost or fair value	81,193	99,791
Commercial loans held for sale	1,755,207	1,431,810
Consumer loans:		
Residential mortgage loans at fair value	2,877	3,649
Loans held for sale	\$1,758,084	\$1,435,459

NOTE 7 — LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

The following table presents loans receivable as of March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014
(amounts in thousands)		
Commercial:		
Multi-family	\$2,053,379	\$2,127,034
Commercial real estate	1,177,725	1,132,072
Commercial and industrial	606,091	540,430
Construction	62,430	56,669
Total commercial loans	3,899,625	3,856,205
Consumer:		
Residential real estate	277,167	285,003
Manufactured housing	121,622	126,731
Other	1,324	1,541
Total consumer loans	400,113	413,275
Total loans receivable not covered under FDIC loss sharing agreements	4,299,738	4,269,480
Commercial:		
Commercial real estate	16,347	17,585
Commercial and industrial	1,746	2,235
Construction	3,975	6,705
Multi-family	361	372
Total commercial loans	22,429	26,897
Consumer:		
Residential real estate	12,159	12,392
Other	2,777	2,892
Total consumer loans	14,936	15,284
Total loans receivable covered under FDIC loss sharing agreements	37,365	42,181
(1) Total loans receivable	4,337,103	4,311,661
Deferred (fees) costs and unamortized premiums/(discounts), net	748	512
Allowance for loan losses	(33,566)	(30,932)
Loans receivable, net	\$4,304,285	\$4,281,241

(1) Loans that were acquired in two FDIC-assisted transactions and are covered under loss sharing agreements with the FDIC are referred to as “covered” loans throughout these financial statements.

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Non-Covered Loans

The following tables summarize non-covered loans by loan type and performance status as of March 31, 2015 and December 31, 2014:

	March 31, 2015						
	30-89 Days Past Due (1)	90 Days Or More Past Due(1)	Total Past Due (1)	Non- Accrual	Current (2)	Purchased- Credit- Impaired Loans (3)	Total Loans (4)
(amounts in thousands)							
Commercial real estate	\$288	\$—	\$288	\$3,436	\$1,147,262	\$26,739	\$1,177,725
Multi-family	—	—	—	—	2,050,830	2,549	2,053,379
Commercial and industrial	—	—	—	2,307	602,407	1,377	606,091
Construction	—	—	—	—	62,343	87	62,430
Residential real estate	289	—	289	946	266,670	9,262	277,167
Other consumer	—	—	—	—	1,129	195	1,324
Manufactured housing (5)	3,896	4,546	8,442	1,047	108,258	3,875	121,622
Total	\$4,473	\$4,546	\$9,019	\$7,736	\$4,238,899	\$44,084	\$4,299,738

December 31, 2014

	30-89 Days Past Due (1)	90 Days Or More Past Due(1)	Total Past Due (1)	Non- Accrual	Current (2)	Purchased- Credit- Impaired Loans (3)	Total Loans (4)
(amounts in thousands)							
Commercial real estate	\$—	\$—	\$—	\$3,450	\$1,101,119	\$27,503	\$1,132,072
Multi-family	—	—	—	—	2,124,448	2,586	2,127,034
Commercial and industrial	366	—	366	2,257	536,326	1,481	540,430
Construction	—	—	—	—	56,510	159	56,669
Residential real estate	1,226	—	1,226	849	273,565	9,363	285,003
Other consumer	—	—	—	—	1,333	208	1,541
Manufactured housing (5)	6,324	4,388	10,712	931	111,072	4,016	126,731
Total	\$7,916	\$4,388	\$12,304	\$7,487	\$4,204,373	\$45,316	\$4,269,480

(1) Includes past due loans that are accruing interest because collection is considered probable.

(2) Loans where next payment due is less than 30 days from the report date.

Purchased-credit-impaired loans aggregated into a pool are accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, and the past due status of the pools, or that of the individual loans within the pools, is not meaningful. Because of the credit impaired nature of the loans, the loans

(3) are recorded at a discount reflecting estimated future cash flows and the Bank recognizes interest income on each pool of loans reflecting the estimated yield and passage of time. Such loans are considered to be performing.

Purchased-credit-impaired loans that are not in pools accrete interest when the timing and amount of their expected cash flows are reasonably estimable, and are reported as performing loans.

(4) Amounts exclude deferred costs and fees, unamortized premiums and discounts, and the allowance for loan losses.

Manufactured housing loans purchased in 2010 are subject to cash reserves held at the Bank that are used to fund

(5) past-due payments when the loan becomes 90 days or more delinquent. Subsequent purchases are subject to varying provisions in the event of borrowers' delinquencies.

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Covered Loans

The following tables summarize covered loans by loan type and performance status as of March 31, 2015 and December 31, 2014:

	March 31, 2015						
	30-89 Days Past Due (1)	90 Days Or More Past Due (1)	Total Past Due (1)	Non- Accrual	Current (2)	Purchased - Credit Impaired Loans (3)	Total Loans (4)
(amounts in thousands)							
Commercial and industrial	\$26	\$—	\$26	\$158	\$825	\$737	\$1,746
Multi-family	—	—	—	—	361	—	361
Commercial real estate	25	—	25	497	10,765	5,060	16,347
Construction	—	—	—	2,325	—	1,650	3,975
Residential real estate	294	—	294	1,006	10,255	604	12,159
Other consumer	136	—	136	73	2,529	39	2,777
Total	\$481	\$—	\$481	\$4,059	\$24,735	\$8,090	\$37,365

	December 31, 2014						
	30-89 Days Past Due (1)	90 Days Or More Past Due (1)	Total Past Due (1)	Non- Accrual	Current (2)	Purchased- Credit Impaired Loans (3)	Total Loans (4)
(amounts in thousands)							
Commercial and industrial	\$518	\$—	\$518	\$165	\$361	\$1,191	\$2,235
Multi-family	—	—	—	—	372	—	372
Commercial real estate	—	—	—	615	11,884	5,086	17,585
Construction	—	—	—	2,325	—	4,380	6,705
Residential real estate	—	—	—	1,006	10,782	604	12,392
Other consumer	147	—	147	135	2,570	40	2,892
Total	\$665	\$—	\$665	\$4,246	\$25,969	\$11,301	\$42,181

(1) Includes past due loans that are accruing interest because collection is considered probable.

(2) Purchased loans in FDIC assisted transactions with no evidence of credit deterioration since origination.

Purchased-credit-impaired loans aggregated into a pool are accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, and the past due status of the pools, or that of the individual loans within the pools, is not meaningful. Because of the credit impaired nature of the loans, the loans (3) are recorded at a discount reflecting estimated future cash flows and the Bank recognizes interest income on each pool of loans reflecting the estimated yield and passage of time. Such loans are considered to be performing.

Purchased-credit-impaired loans that are not in pools accrete interest when the timing and amount of their expected cash flows are reasonably estimable, and are reported as performing loans.

(4) Amounts exclude deferred costs and fees, unamortized premiums and discounts, and the allowance for loan losses.

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Allowance for Loan Losses and FDIC Loss Sharing Receivable

Losses incurred on covered loans are eligible for partial reimbursement by the FDIC. Subsequent to the purchase date, the expected cash flows on the covered loans are subject to evaluation. Decreases in the present value of expected cash flows on the covered loans are recognized by increasing the allowance for loan losses with a related charge to the provision for loan losses. At the same time, the FDIC indemnification asset is increased reflecting an estimated future collection from the FDIC, which is recorded as a reduction to the provision for loan losses. If the expected cash flows on the covered loans increase such that a previously recorded impairment can be reversed, the Bancorp records a reduction in the allowance for loan losses (with a related credit to the provision for loan losses) accompanied by a reduction in the FDIC receivable balance and a charge to the provision for loan losses. Increases in expected cash flows of covered loans and decreases in expected cash flows of the FDIC loss sharing receivable, when there are no previously recorded impairments, are considered together and recognized over the remaining life of the loans as interest income. The FDIC loss sharing receivable balance will be reduced through a charge to the provision for loan losses, with no offsetting reduction to the allowance for loan losses, as the FDIC loss sharing arrangements reach their contractual maturities and the estimated losses in the covered loans have not yet emerged or been realized in a final disposition event. The FDIC loss sharing arrangements for non-single family loans expire in third quarter 2015. The loss sharing arrangements for single family loans expire in third quarter 2020.

The following table presents changes in the allowance for loan losses and the FDIC loss sharing receivable for the three months ended March 31, 2015 and 2014.

(amounts in thousands)	Allowance for Loan Losses Three Months Ended March 31,	
	2015	2014
Beginning balance	\$30,932	\$23,998
Provision for loan losses (1)	3,635	2,901
Charge-offs	(1,144	) (536
Recoveries	143	341
Ending balance	\$33,566	\$26,704
(amounts in thousands)	FDIC Loss Sharing Receivable Three Months Ended March 31,	
	2015	2014
Beginning balance	\$2,320	\$10,046
Increased (decreased) estimated cash flows (2)	671	(1,467
Other activity, net (a)	134	990
Cash payments to/(from) FDIC	302	(1,297
Ending balance	\$3,427	\$8,272
(1) Provision for loan losses	\$3,635	\$2,901
(2) Effect attributable to FDIC loss share arrangements	(671	) 1,467
Net amount reported as provision for loan losses	\$2,964	\$4,368

(a) Includes external costs, such as legal fees, real estate taxes, and appraisal expenses, which qualify for reimbursement under loss sharing arrangements

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Loans Individually Evaluated for Impairment — Covered and Non-Covered

The following tables present the recorded investment (net of charge-offs), unpaid principal balance, and related allowance by loan type for loans that are individually evaluated for impairment as of March 31, 2015 and December 31, 2014 and the average recorded investment and interest income recognized for the three months ended March 31, 2015 and 2014. Purchased-credit-impaired loans are considered to be performing and are not included in the tables below.

	March 31, 2015			Three Months Ended March 31, 2015	
	Recorded Investment Net of Charge offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
(amounts in thousands)					
With no related allowance recorded:					
Commercial and industrial	\$6,922	\$8,376	\$—	\$10,374	\$164
Commercial real estate	11,496	11,641	—	15,237	191
Construction	2,325	3,594	—	2,325	—
Other consumer	20	20	—	21	—
Residential real estate	1,438	1,438	—	1,447	—
With an allowance recorded:					
Commercial and industrial	6,478	6,488	2,295	4,156	5
Commercial real estate	1,409	1,409	864	1,410	—
Construction	—	—	—	—	—
Other consumer	53	53	25	84	1
Residential real estate	362	362	185	364	—
Total	\$30,503	\$33,381	\$3,369	\$35,418	\$361
	December 31, 2014			Three Months Ended March 31, 2014	
	Recorded Investment Net of Charge offs	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
(amounts in thousands)					
With no related allowance recorded:					
Commercial and industrial	\$13,825	\$15,348	\$—	\$12,003	\$99
Commercial real estate	18,977	19,121	—	17,139	274
Construction	2,325	2,325	—	2,551	—
Other consumer	21	21	—	3	—
Residential real estate	1,455	3,697	—	2,391	13
With an allowance recorded:					
Commercial and industrial	1,833	1,833	818	1,653	8
Commercial real estate	1,410	1,410	304	2,350	1
Construction	—	—	—	1,350	15
Other consumer	114	114	32	64	1
Residential real estate	365	365	188	251	1
Total	\$40,325	\$44,234	\$1,342	\$39,755	\$412

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Troubled Debt Restructurings

At March 31, 2015 and 2014, there were \$5.2 million and \$5.1 million, respectively, in loans reported as troubled debt restructurings (“TDRs”). TDRs are reported as impaired loans in the calendar year of their restructuring and are evaluated to determine whether they should be placed on non-accrual status. In subsequent years, a TDR may be returned to accrual status if it satisfies a minimum six-month performance requirement; however, it will remain classified as impaired. Generally, the Bancorp requires sustained performance for nine months before returning a TDR to accrual status.

Modification of purchased-credit-impaired loans that are accounted for within loan pools in accordance with the accounting standards for purchased-credit-impaired loans do not result in the removal of these loans from the pool even if modifications would otherwise be considered a TDR. Accordingly, as each pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, modifications of loans within such pools are not considered TDRs.

The following is an analysis of loans modified in a troubled debt restructuring by type of concession for the three months ended March 31, 2015 and 2014. There were no modifications that involved forgiveness of debt.

	TDRs in Compliance with Their Modified Terms and Accruing Interest	TDRs in Compliance with Their Modified Terms and Not Accruing Interest	Total
(amounts in thousands)			
Three Months Ended March 31, 2015			
Extended under forbearance	\$—	\$—	\$—
Multiple extensions resulting from financial difficulty	—	—	—
Interest-rate reductions	198	207	405
Total	\$198	\$207	\$405
Three Months Ended March 31, 2014			
Extended under forbearance	\$—	\$—	\$—
Multiple extensions resulting from financial difficulty	—	—	—
Interest-rate reductions	247	127	374
Total	\$247	\$127	\$374

The following table provides, by loan type, the number of loans modified in troubled debt restructurings and the related recorded investment during the three months ended March 31, 2015 and 2014.

	TDRs in Compliance with Their Modified Terms and Accruing Interest		TDRs in Compliance with Their Modified Terms and Not Accruing Interest	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
(amounts in thousands)				
Three Months Ended March 31, 2015				
Commercial and industrial	—	\$—	—	\$—
Commercial real estate	—	—	—	—
Construction	—	—	—	—
Manufactured housing	—	—	2	207
Residential real estate	1	198	—	—
Other consumer	—	—	—	—
Total	1	\$198	2	\$207
Three Months Ended March 31, 2014				
Commercial and industrial	—	\$—	—	\$—

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Commercial real estate	—	—	—	—
Construction	—	—	—	—
Manufactured housing	1	47	2	127
Residential real estate	3	200	—	—
Other consumer	—	—	—	—
Total	4	\$247	2	\$127

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At March 31, 2015 and 2014, there were no commitments to lend additional funds to debtors whose terms have been modified in TDRs.

For the three months ended March 31, 2015 and 2014, the recorded investment of loans determined to be TDRs was \$0.4 million and \$0.4 million, respectively, both before and after restructuring. During the three month period ended March 31, 2015, two manufactured housing TDR loans defaulted with a recorded investment of \$0.2 million. There were two TDRs that defaulted in the three month period ended March 31, 2014, with a recorded investment of \$0.1 million.

Loans modified in troubled debt restructurings are evaluated for impairment. The nature and extent of impairment of TDRs, including those which have experienced a subsequent default, is considered in the determination of an appropriate level of allowance for credit losses. There were no specific allowances resulting from TDR modifications during the three months ended March 31, 2015 and 2014.

Credit Quality Indicators

Commercial and industrial, multi-family, commercial real estate, residential real estate and construction loans are rated based on an internally assigned risk rating system which is assigned at the time of loan origination and reviewed on a periodic or on an "as needed" basis. Consumer, mortgage warehouse and manufactured housing loans are evaluated based on the payment activity of the loan and are not assigned internal risk ratings.

To facilitate the monitoring of credit quality within the commercial and industrial, commercial real estate, construction, multi-family and residential real estate classes, and for purposes of analyzing historical loss rates used in the determination of the allowance for loan losses for the respective portfolio class, the Bank utilizes the following categories of risk ratings: pass/satisfactory (includes risk rating 1 through 6), special mention, substandard, doubtful, and loss. The risk rating categories, which are derived from standard regulatory rating definitions, are assigned upon initial approval of credit to borrowers and updated periodically thereafter. Pass/satisfactory ratings, which are assigned to those borrowers who do not have identified potential or well-defined weaknesses and for whom there is a high likelihood of orderly repayment, are updated periodically based on the size and credit characteristics of the borrower. All other categories are updated on a quarterly basis during the month preceding the end of the calendar quarter. While assigning risk ratings involves judgment, the risk-rating process allows management to identify riskier credits in a timely manner and allocate the appropriate resources to manage those loans.

The risk rating grades are defined as follows:

"1" – Pass/Excellent

Loans rated 1 represent a credit extension of the highest quality. The borrower's historic (at least five years) cash flows manifest extremely large and stable margins of coverage. Balance sheets are conservative, well capitalized, and liquid. After considering debt service for proposed and existing debt, projected cash flows continue to be strong and provide ample coverage. The borrower typically reflects broad geographic and product diversification and has access to alternative financial markets.

"2" – Pass/Superior

Loans rated 2 are those for which the borrower has a strong financial condition, balance sheet, operations, cash flow, debt capacity and coverage with ratios better than industry norms. The borrowers of these loans exhibit a limited leverage position, borrowers are virtually immune to local economies in stable growing industries, and where management is well respected and the company has ready access to public markets.

"3" – Pass/Strong

Loans rated 3 are those loans for which the borrower has above average financial condition and flexibility; more than satisfactory debt service coverage, balance sheet and operating ratios are consistent with or better than industry peers, have little industry risk, move in diversified markets and are experienced and competent in their industry. These borrowers' access to capital markets is limited mostly to private sources, often secured, but the borrower typically has access to a wide range of refinancing alternatives.

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“4” – Pass/Good

Loans rated 4 have a sound primary and secondary source of repayment. The borrower may have access to alternative sources of financing, but sources are not as widely available as they are to a higher grade borrower. These loans carry a normal level of risk, with very low loss exposure. The borrower has the ability to perform according to the terms of the credit facility. The margins of cash flow coverage are satisfactory but vulnerable to more rapid deterioration than the higher quality loans.

“5” – Satisfactory

Loans rated 5 are extended to borrowers who are determined to be a reasonable credit risk and demonstrate the ability to repay the debt from normal business operations. Risk factors may include reliability of margins and cash flows, liquidity, dependence on a single product or industry, cyclical trends, depth of management, or limited access to alternative financing sources. The borrower’s historical financial information may indicate erratic performance, but current trends are positive and the quality of financial information is adequate, but is not as detailed and sophisticated as information found on higher grade loans. If adverse circumstances arise, the impact on the borrower may be significant.

“6” – Satisfactory/Bankable with Care

Loans rated 6 are those for which the borrower has higher than normal credit risk; however, cash flow and asset values are generally intact. These borrowers may exhibit declining financial characteristics, with increasing leverage and decreasing liquidity and may have limited resources and access to financial alternatives. Signs of weakness in these borrowers may include delinquent taxes, trade slowness and eroding profit margins.

“7” – Special Mention

Loans rated Special Mention are credit facilities that may have potential developing weaknesses and deserve extra attention from the account manager and other management personnel. In the event that potential weaknesses are not corrected or mitigated, deterioration in the ability of the borrower to repay the debt in the future may occur. This grade is not assigned to loans that bear certain peculiar risks normally associated with the type of financing involved, unless circumstances have caused the risk to increase to a level higher than would have been acceptable when the credit was originally approved. Loans where significant actual, not potential, weaknesses or problems are clearly evident are graded in the category below.

“8” – Substandard

Loans are classified Substandard when the loans are inadequately protected by the current sound worth and payment capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the Company will sustain some loss if the weaknesses are not corrected.

“9” – Doubtful

The Bank assigns a doubtful rating to loans that have all the attributes of a substandard rating with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors that may work to the advantage of and strengthen the credit quality of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors may include a proposed merger or acquisition, liquidation proceeding, capital injection, perfecting liens on additional collateral or refinancing plans.

“10” – Loss

The Bank assigns a loss rating to loans considered uncollectible and of such little value that their continuance as an active asset is not warranted. Amounts classified as loss are immediately charged off.

Risk ratings are not established for home equity loans, consumer loans, and installment loans, mainly because these portfolios consist of a larger number of homogenous loans with smaller balances. Instead, these portfolios are evaluated for risk mainly based upon aggregate payment history through the monitoring of delinquency levels and trends and are classified as performing and nonperforming.

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The following tables present the credit ratings of the non-covered loan portfolio as of March 31, 2015 and December 31, 2014:

	March 31, 2015							
	Commercial and Industrial	Commercial Real Estate	Multi-family	Construction	Residential Real Estate	Other Consumer	Manufactured Housing	Total
(amounts in thousands)								
Pass/Satisfactory	\$592,072	\$1,160,583	\$2,053,379	\$62,430	\$275,426	\$—	\$—	\$4,143,890
Special Mention	11,484	10,608	—	—	—	—	—	22,092
Substandard	2,535	6,534	—	—	1,741	—	—	