

COMMUNITY WEST BANCSHARES /  
Form 10-Q  
November 13, 2009

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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 September 30, 2009

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-23575

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

California  
(State or other jurisdiction of incorporation or organization)

77-0446957  
(I.R.S. Employer Identification No.)

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

93117  
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☐ YES ☒ NO

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

Large accelerated filer   Accelerated filer o

o

Non-accelerated filer   Smaller reporting  
o                                  company T

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

Number of shares of common stock of the registrant outstanding as of November 13, 2009: 5,915,130 shares

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

COMMUNITY WEST BANCSHARES  
CONSOLIDATED BALANCE SHEETS

	September 30, 2009 (unaudited)	December 31, 2008
(dollars in thousands)		
<b>ASSETS</b>		
Cash and due from banks	\$5,299	\$4,151
Federal funds sold	3,380	8,102
Cash and cash equivalents	8,679	12,253
Time deposits in other financial institutions	832	812
Investment securities available-for-sale, at fair value; amortized cost of \$18,306 at September 30, 2009 and \$6,871 at December 31, 2008	18,483	6,783
Investment securities held-to-maturity, at amortized cost; fair value of \$22,731 at September 30, 2009 and \$31,574 at December 31, 2008	21,928	31,192
Federal Home Loan Bank stock, at cost	5,660	5,660
Federal Reserve Bank stock, at cost	1,129	902
<b>Loans:</b>		
Loans held for sale, at lower of cost or fair value	99,611	131,786
Loans held for investment, net of allowance for loan losses of \$13,274 at September 30, 2009 and \$7,341 at December 31, 2008	493,561	449,289
Total loans	593,172	581,075
Servicing rights	1,052	1,161
Other assets acquired through foreclosure	3,281	1,146
Premises and equipment, net	3,373	3,718
Other assets	16,763	12,279
<b>TOTAL ASSETS</b>	<b>\$674,352</b>	<b>\$656,981</b>
<b>LIABILITIES</b>		
<b>Deposits:</b>		
Non-interest-bearing demand	\$38,569	\$35,080
Interest-bearing demand	160,925	57,474
Savings	16,507	14,718
Time certificates	313,696	368,167
Total deposits	529,697	475,439
Other borrowings	80,000	110,000
Other liabilities	4,331	4,924
Total liabilities	614,028	590,363
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, no par value; 10,000,000 shares authorized; 15,600 shares issued and outstanding of Fixed Rate Cumulative Perpetual Preferred Stock, Series A with a liquidation preference of \$1,000 per share, net of discount	14,473	14,300
Common stock, no par value; 10,000,000 shares authorized; 5,915,130 shares issued and outstanding	33,103	33,081
Retained earnings	12,644	19,288
Accumulated other comprehensive income (loss), net	104	(51 )
Total stockholders' equity	60,324	66,618

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$674,352	\$656,981
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See accompanying notes.

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Three Months Ended		Nine Months Ended	
September 30,		September 30,	
2009	2008	2009	2008
(dollars in thousands, except per share amounts)			

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Basic weighted average number of common shares  
outstanding

Diluted weighted average number of common shares  
outstanding

5,915

5,918

5,915

5,955

See accompanying notes.

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COMMUNITY WEST BANCSHARES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(Unaudited)

	Preferred Stock	Common Stock Shares (in thousands)	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCES AT JANUARY 1, 2009	\$ 14,300	5,915	\$ 33,081	\$ 19,288	\$ (51 )	\$ 66,618
Preferred stock related costs	(26 )					(26 )
Stock option expense, recognized in earnings			22			22
Comprehensive income:						
Net loss				(5,860 )		(5,860 )
Change in unrealized gain (loss) on securities available-for-sale, net					155	155
Comprehensive loss						(5,705 )
Dividends:						
Preferred	199			(784 )		(585 )
BALANCES AT SEPTEMBER 30, 2009	\$ 14,473	5,915	\$ 33,103	\$ 12,644	\$ 104	\$ 60,324



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COMMUNITY WEST BANCSHARES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30, 2009          2008 (in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (5,860 )	\$ 1,420
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	15,890	3,856
Depreciation and amortization	372	391
Stock-based compensation	22	109
Net amortization of discounts and premiums for investment securities	(29 )	(59 )
(Gain) loss on:		
Sale of other assets acquired through foreclosure	288	(198 )
Sale of loans held for sale	(251 )	(1,007 )
Loan originated for sale and principal collections, net	3,081	354
Changes in:		
Servicing rights, net of amortization	109	2
Other assets	(4,739 )	(904 )
Other liabilities	(438 )	753
Net cash provided by operating activities	8,445	4,717
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of held-to-maturity securities	(1,233 )	(12,899 )
Purchase of available-for-sale securities	(13,433 )	-
Purchase of Federal Home Loan Bank and Federal Reserve stock, net of redemptions	(227 )	102
Federal Home Loan Bank stock dividends	-	(245 )
Principal pay downs and maturities of available-for-sale securities	2,008	7,689
Principal pay downs and maturities of held-to-maturity securities	10,515	5,631
Loan originations and principal collections, net	(35,523 )	(27,085 )
Proceeds from sale of other assets acquired through foreclosure	2,274	692
Net (increase) decrease in time deposits in other financial institutions	(20 )	118
Purchase of premises and equipment, net	(27 )	(925 )
Net cash used in investing activities	(35,666 )	(26,922 )
CASH FLOWS FROM FINANCING ACTIVITIES:		
Preferred stock dividends	(784 )	-
Amortization of discount on preferred stock, net of additional costs	173	-
Exercise of stock options	-	105
Cash dividends paid on common stock	-	(709 )
Net increase (decrease) in demand deposits and savings accounts	108,729	(20,825 )
Net increase (decrease) in time certificates of deposit	(54,471 )	69,981
Proceeds from Federal Home Loan Bank and FRB advances	88,000	9,000
Repayment of Federal Home Loan Bank and FRB advances	(118,000 )	(29,500 )
Net cash provided by financing activities	23,647	28,052
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,574 )	5,847
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,253	9,289
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 8,679	\$ 15,136
Supplemental Disclosure of Cash Flow Information:		

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Cash paid for interest	\$12,630	\$14,703
Cash paid for income taxes	86	2,538
Supplemental Disclosure of Noncash Investing Activity:		
Transfers to other assets acquired through foreclosure	\$4,706	\$784

See accompanying notes.

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COMMUNITY WEST BANCSHARES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the results of operations and financial condition for the interim period. The unaudited consolidated financial statements include Community West Bancshares ("CWBC") and its wholly-owned subsidiary, Community West Bank, N.A. ("CWB" or "Bank"). CWBC and CWB are referred to herein as "the Company". The accompanying unaudited condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair statement have been reflected in the financial statements. However, the results of operations for the nine-month period ended September 30, 2009 are not necessarily indicative of the results to be expected for the full year.

These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Community West Bancshares included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Provision and Allowance for Loan Losses – The Company maintains a detailed, systematic analysis and procedural discipline to determine the amount of the allowance for loan losses ("ALL"). The ALL is based on estimates and is intended to be adequate to provide for probable losses inherent in the loan portfolio. This process involves deriving probable loss estimates that are based on individual loan loss estimation, migration analysis/historical loss rates and management's judgment.

The Company employs several methodologies for estimating probable losses. Methodologies are determined based on a number of factors, including type of asset, risk rating, concentrations, collateral value and the input of the Special Assets group, functioning as a workout unit.

The ALL calculation for the different major loan types is as follows:

- SBA – A migration analysis and various portfolio specific factors are used to calculate the required allowance for all non-impaired loans. In addition, the migration results are adjusted based upon qualitative factors. Qualitative factors include, but are not limited to, adjustments for existing economic conditions, past due trends and concentration exposure. Impaired loans are assigned a specific reserve based upon the individual characteristics of the loan.
- Relationship Banking – Primarily includes commercial, commercial real estate and construction loans. A migration analysis and various portfolio specific factors are used to calculate the required allowance for all non-impaired loans. In addition, the migration results are adjusted based upon qualitative factors. Qualitative factors include, but are not limited to, adjustments for existing economic conditions, past due trends and concentration exposure. Impaired loans are assigned a specific reserve based upon the individual characteristics of the loan.
- Manufactured Housing – The allowance is calculated on the basis of loss history and risk rating, which is primarily a function of delinquency. In addition, the loss history is adjusted based upon qualitative factors similar to those used

for SBA loans.

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

The Company's ALL is maintained at a level believed adequate by management to absorb known and inherent probable losses on existing loans. A provision for loan losses is charged to expense. The allowance is charged for losses when management believes that full recovery on the loan is unlikely. Generally, the Company charges off any loan classified as a "loss"; portions of loans which are deemed to be uncollectible; overdrafts which have been outstanding for more than 90 days; and, all other unsecured loans past due 120 or more days. Subsequent recoveries, if any, are credited to the ALL.

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Other Assets Acquired through Foreclosure – Other assets acquired through foreclosure includes real estate and other repossessed assets and the collateral property is recorded at fair value at the time of foreclosure less estimated costs to sell. Any excess of loan balance over the fair value less costs to sell of the other assets is charged-off against the allowance for loan losses. Subsequent to the legal ownership date, management periodically performs a new valuation and the asset is carried at the lower of carrying amount or fair value. Operating expenses or income, and gains or losses on disposition of such properties, are recorded in current operations.

Servicing Rights – The guaranteed portion of certain SBA loans can be sold into the secondary market. Servicing rights are recognized as separate assets when loans are sold with servicing retained. Servicing rights are amortized in proportion to, and over the period of, estimated future net servicing income. The Company uses industry prepayment statistics and its own prepayment experience in estimating the expected life of the loans. Management evaluates its servicing rights for impairment quarterly. Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Fair value is determined using discounted future cash flows calculated on a loan-by-loan basis and aggregated by predominated risk characteristics. The initial servicing rights and resulting gain on sale are calculated based on the difference between the best actual par and premium bids on an individual loan basis.

Recent Accounting Pronouncements – The Financial Accounting Standards Board Accounting Standards Codification system (FASB ASC) is now the official authoritative source for nongovernmental generally accepted accounting principles (GAAP). Rules and interpretative releases of the U.S. Securities and Exchange Commission (SEC) also remain sources of authoritative GAAP for SEC registrants. The codification is effective for financial statements issued after September 15, 2009 and supersedes previously existing non-SEC accounting and reporting standards.

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## 2. INVESTMENT SECURITIES

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

September 30, 2009

		(in thousands)		
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
Available-for-sale securities				
U.S. Government agency: MBS	\$10,608	\$202	\$-	\$10,810
U.S. Government agency: CMO	7,698	18	(43 )	7,673
Total	\$18,306	\$220	\$(43 )	\$18,483
Held-to-maturity securities				
U.S. Government agency: MBS	\$21,928	\$809	\$(6 )	\$22,731
U.S. Government agency: CMO	-	-	-	-
Total	\$21,928	\$809	\$(6 )	\$22,731

December 31, 2008

		(in thousands)		
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
Available-for-sale securities				
U.S. Government agency: MBS	\$5,371	\$1	\$(88 )	\$5,284
U.S. Government agency: CMO	1,500	3	(4 )	1,499
Total	\$6,871	\$4	\$(92 )	\$6,783
Held-to-maturity securities				
U.S. Government agency: MBS	\$25,750	\$459	\$(21 )	\$26,188
U.S. Government agency: CMO	5,442	-	(56 )	5,386
Total	\$31,192	\$459	\$(77 )	\$31,574

At September 30, 2009, \$40.4 million of securities, at carrying value, was pledged to the Federal Home Loan Bank, San Francisco, as collateral for current and future advances.

The maturity periods and weighted average yields of investment securities at September 30, 2009 are as follows:

	Total Amount		Less than One Year		One to Five Years		Five to Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(dollars in thousands)							
Available-for-sale securities								
U. S. Government:								
Agency: MBS	\$10,810	3.2 %	\$-	-	\$3,087	3.5 %	\$7,723	2.9 %
Agency: CMO	7,673	2.2 %	722	4.9 %	6,951	1.9 %	-	-
Total	\$18,483	2.8 %	\$722	4.9 %	\$10,038	2.38 %	\$7,723	2.9 %