UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2019
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 001-38317

Luther Burbank Corporation

(Exact name of registrant as specified in its charter)

California	**68-0270948**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
520 Third St, Fourth Floor, Santa Rosa, California	**95401**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(844) 446-8201**

Securities Registered Under Section 12(b) of the Act

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common stock, no par value	LBC	The Nasdaq Stock Market LLC

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 twelve 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 x NO o

Indicate by checkmark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES x NO o

Indicate by checkmark 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 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	o	Accelerated filer	x
Non-accelerated filer	o	Smaller Reporting Company	x
		Emerging Growth Company	x

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. o

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

As of August 2, 2019, there were 56,146,949 shares of the registrant’s common stock, no par value, outstanding.

Table of Contents

		Page
	PART I - FINANCIAL INFORMATION	
Item 1.	Financial Statements	3
	Consolidated Statements of Financial Condition	3
	Unaudited Consolidated Statements of Income	4
	Unaudited Consolidated Statements of Comprehensive Income	5
	Unaudited Consolidated Statements of Changes in Stockholders' Equity	6
	Unaudited Consolidated Statements of Cash Flows	8
	Notes to Unaudited Consolidated Financial Statements	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	57
Item 4.	Controls and Procedures	59
	PART II - OTHER INFORMATION	
Item 1.	Legal Proceedings	61
Item 1A.	Risk Factors	61
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	61
Item 3.	Defaults Upon Senior Securities	61
Item 4.	Mine Safety Disclosures	61
Item 5.	Other Information	62
Item 6.	Exhibits	62
	Signatures	64

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

This Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. You can find many (but not all) of these statements by looking for words such as “approximates,” “believes,” “expects,” “anticipates,” “estimates,” “intends,” “plans,” “would,” “may” and other similar expressions in this Quarterly Report on Form 10-Q. With respect to any such forward-looking statements, the Company claims the protection of the safe harbor provided for in the Private Securities Litigation Reform Act of 1995, as amended. The Company cautions investors that any forward-looking statements presented in this Quarterly Report on Form 10-Q, or those that the Company may make orally or in writing from time to time, are based on the beliefs of, assumptions made by, and information available to, management at the time such statements are first made. Actual outcomes will be affected by known and unknown risks, trends, uncertainties and factors that are beyond the Company’s control or ability to predict. Although the Company believes that management’s beliefs and assumptions are reasonable, they are not guarantees of future performance and some will inevitably prove to be incorrect. As a result, the Company’s actual future results can be expected to differ from management’s expectations, and those differences may be material and adverse to the Company’s business, results of operations and financial condition. Accordingly, investors should use caution in placing any reliance on forward-looking statements to anticipate future results or trends.

Some of the risks and uncertainties that may cause the Company’s actual results, performance or achievements to differ materially from those expressed include, but are not limited to, the following: the risk that the impact of changes in interest rates; political instability; changes in the monetary policies of the U.S. Government; a decline in economic conditions; deterioration in the value of West Coast real estate, both residential and commercial; an increase in the level of non-performing assets and charge-offs; further increased competition among financial institutions; the Company’s ability to continue to attract deposits and quality loan customers; further government regulation, including regulations regarding capital requirements, and the implementation and costs associated with the same; internal and external fraud and cyber-security threats including the loss of bank or customer funds, loss of system functionality or the theft or loss of data; management’s ability to successfully manage the Company’s operations; and the other risks set forth in the Company’s reports filed with the U.S. Securities and Exchange Commission. For further discussion of these and other factors, see “Item 1A. Risk Factors” in Part II of this Quarterly Report on Form 10-Q and the Company’s 2018 Annual Report on Form 10-K.

Any forward-looking statements in this Quarterly Report on Form 10-Q and all subsequent written and oral forward-looking statements attributable to the Company or any person acting on behalf of the Company are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. The Company does not undertake any obligation to release publicly any revisions to forward-looking statements to reflect events or circumstances after the date such forward-looking statements are made, and hereby specifically disclaims any intention to do so, unless required by law.

PART I.

Item 1. Financial Statements

LUTHER BURBANK CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollar amounts in thousands)

	June 30, 2019 (unaudited)	December 31, 2018
ASSETS		
Cash and cash equivalents	$ 93,912	$ 91,697
Available for sale debt securities, at fair value	638,245	608,528
Held to maturity debt securities, at amortized cost (fair value of $11,276 and $11,625 at June 30, 2019 and December 31, 2018, respectively)	11,203	11,860
Equity securities, at fair value	11,749	11,438
Loans held for sale	10,555	—
Loans receivable, net of allowance for loan losses of $35,221 and $34,314 as of June 30, 2019 and December 31, 2018, respectively	6,231,537	6,096,316
Accrued interest receivable	21,947	20,220
Federal Home Loan Bank ("FHLB") stock, at cost	32,668	31,823
Premises and equipment, net	20,051	20,981
Goodwill	3,297	3,297
Prepaid expenses and other assets	39,173	41,052
Total assets	$ 7,114,337	$ 6,937,212
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 5,234,490	$ 5,001,040
FHLB advances	1,068,817	1,143,132
Junior subordinated deferrable interest debentures	61,857	61,857
Senior debt		
$95,000 face amount, 6.5% interest rate, due September 30, 2024 (less debt issuance costs of $645 and $707 at June 30, 2019 and December 31, 2018, respectively)	94,355	94,293
Accrued interest payable	5,002	4,307
Other liabilities and accrued expenses	52,349	51,438
Total liabilities	6,516,870	6,356,067
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, no par value; 5,000,000 shares authorized; none issued and outstanding at June 30, 2019 and December 31, 2018	—	—
Common stock, no par value; 100,000,000 shares authorized; 55,982,491 and 56,379,066 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	449,825	456,378
Retained earnings	146,514	129,806
Accumulated other comprehensive gain (loss), net of taxes	1,128	(5,039)
Total stockholders' equity	597,467	581,145
Total liabilities and stockholders' equity	$ 7,114,337	$ 6,937,212

See accompanying notes to unaudited consolidated financial statements

LUTHER BURBANK CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(Dollar amounts in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Interest and fee income:				
Loans	$ 61,015	$ 51,343	$ 122,068	$ 97,906
Investment securities	4,118	2,901	8,043	5,372
Cash and cash equivalents	522	442	922	689
Total interest and fee income	65,655	54,686	131,033	103,967
Interest expense:				
Deposits	26,471	14,560	50,759	26,492
FHLB advances	6,410	6,823	13,182	11,643
Junior subordinated deferrable interest debentures	632	567	1,283	1,054
Senior debt	1,574	1,577	3,149	3,154
Total interest expense	35,087	23,527	68,373	42,343
Net interest income before provision for loan losses	30,568	31,159	62,660	61,624
Provision for loan losses	450	1,300	750	2,800
Net interest income after provision for loan losses	30,118	29,859	61,910	58,824
Noninterest income:				
Gain on sale of loans	197	—	530	—
FHLB dividends	552	509	1,047	1,103
Other income	739	308	1,291	739
Total noninterest income	1,488	817	2,868	1,842
Noninterest expense:				
Compensation and related benefits	8,614	9,199	18,666	18,818
Deposit insurance premium	487	467	985	899
Professional and regulatory fees	457	503	898	901
Occupancy	1,399	1,304	2,789	2,600
Depreciation and amortization	664	694	1,329	1,408
Data processing	945	807	1,864	1,595
Marketing	1,071	561	2,225	774
Other expenses	1,072	1,387	2,202	2,640
Total noninterest expense	14,709	14,922	30,958	29,635
Income before provision for income taxes	16,897	15,754	33,820	31,031
Provision for income taxes	5,239	4,528	10,152	8,703
Net income	$ 11,658	$ 11,226	$ 23,668	$ 22,328
Basic earnings per common share	$ 0.21	$ 0.20	$ 0.42	$ 0.40
Diluted earnings per common share	$ 0.21	$ 0.20	$ 0.42	$ 0.39
Dividends per common share	$ 0.06	$ 0.06	$ 0.12	$ 0.17

See accompanying notes to unaudited consolidated financial statements

LUTHER BURBANK CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(Dollar amounts in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income	$ 11,658	$ 11,226	$ 23,668	$ 22,328
Other comprehensive income (loss):				
Unrealized gain (loss) on available for sale debt securities:				
Unrealized holding gain (loss) arising during the period	5,469	(941)	7,973	(3,912)
Tax effect	(1,585)	272	(2,309)	1,115
Net of tax	3,884	(669)	5,664	(2,797)
Unrealized gain on cash flow hedge:				
Unrealized holding gain arising during the period	—	192	147	373
Tax effect	—	(55)	(43)	(107)
Net of tax	—	137	104	266
Total other comprehensive income (loss)	3,884	(532)	5,768	(2,531)
Comprehensive income	$ 15,542	$ 10,694	$ 29,436	$ 19,797

See accompanying notes to unaudited consolidated financial statements

LUTHER BURBANK CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
(Dollar amounts in thousands, except per share data)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive (Loss) Income (Net of Taxes)		Total Stockholders' Equity
	Shares	Amount		Available for Sale Securities	Cash Flow Hedge	
Balance, March 31, 2018	56,561,055	$ 455,251	$ 105,750	$ (6,813)	$ (437)	$ 553,751
Comprehensive income:						
Net income	—	—	11,226	—	—	11,226
Other comprehensive (loss) income	—	—	—	(669)	137	(532)
Restricted stock forfeitures	(1,400)	(2)	—	—	—	(2)
Stock based compensation expense	—	1,040	—	—	—	1,040
Cash dividends ($0.06 per share)	—	—	(3,303)	—	—	(3,303)
Balance, June 30, 2018	56,559,655	$ 456,289	$ 113,673	$ (7,482)	$ (300)	$ 562,180
Balance, March 31, 2019	56,351,781	$ 452,931	$ 138,123	$ (2,756)	$ —	$ 588,298
Comprehensive income:						
Net income	—	—	11,658	—	—	11,658
Other comprehensive income	—	—	—	3,884	—	3,884
Issuance of restricted stock awards	24,121	—	—	—	—	—
Settled restricted stock units	9,677	—	—	—	—	—
Shares withheld to pay taxes on stock based compensation	(3,119)	(33)	—	—	—	(33)
Restricted stock forfeitures	(33,268)	(129)	9	—	—	(120)
Stock based compensation expense	—	805	—	—	—	805
Shares repurchased	(366,701)	(3,749)	—	—	—	(3,749)
Cash dividends ($0.06 per share)	—	—	(3,276)	—	—	(3,276)
Balance, June 30, 2019	55,982,491	$ 449,825	$ 146,514	$ 1,128	$ —	$ 597,467

See accompanying notes to unaudited consolidated financial statements

LUTHER BURBANK CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
(Dollar amounts in thousands, except per share data)

	Common Stock			Accumulated Other Comprehensive (Loss) Income (Net of Taxes)		
	Shares	Amount	Retained Earnings	Available for Sale Securities	Cash Flow Hedge	Total Stockholders' Equity
Balance, December 31, 2017	56,422,662	$ 454,287	$ 102,459	$ (6,214)	$ (787)	$ 549,745
Comprehensive income:						
Net income	—	—	22,328	—	—	22,328
Other comprehensive (loss) income	—	—	—	(2,797)	266	(2,531)
Reclassification of prior year tax benefit related to re-measuring deferred taxes on items recorded to other comprehensive income	—	—	(1,750)	1,529	221	—
Issuance of restricted stock awards	131,140	—	—	—	—	—
Settled restricted stock units	12,710	—	—	—	—	—
Shares withheld to pay taxes on stock based compensation	(4,057)	(49)	—	—	—	(49)
Restricted stock forfeitures	(2,800)	(3)	—	—	—	(3)
Stock based compensation expense	—	2,054	—	—	—	2,054
Cash dividends ($0.17 per share)	—	—	(9,364)	—	—	(9,364)
Balance, June 30, 2018	56,559,655	$ 456,289	$ 113,673	$ (7,482)	$ (300)	$ 562,180
Balance, December 31, 2018	56,379,066	$ 456,378	$ 129,806	$ (4,935)	$ (104)	$ 581,145
Cumulative effect of change in accounting principal (1)	—	—	(399)	399	—	—
Comprehensive income:						
Net income	—	—	23,668	—	—	23,668
Other comprehensive income	—	—	—	5,664	104	5,768
Issuance of restricted stock awards	321,784	—	—	—	—	—
Settled restricted stock units	121,979	—	—	—	—	—
Shares withheld to pay taxes on stock based compensation	(44,641)	(437)	—	—	—	(437)
Restricted stock forfeitures	(35,996)	(131)	10	—	—	(121)
Stock based compensation expense	—	1,645	—	—	—	1,645
Shares repurchased	(759,701)	(7,630)	—	—	—	(7,630)
Cash dividends ($0.12 per share)	—	—	(6,571)	—	—	(6,571)
Balance, June 30, 2019	55,982,491	$ 449,825	$ 146,514	$ 1,128	$ —	$ 597,467

(1) Represents the impact of adopting Accounting Standards Update ("ASU") 2016-01. See Note 1 to the unaudited consolidated financial statements for further information.

See accompanying notes to unaudited consolidated financial statements

LUTHER BURBANK CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Dollar amounts in thousands)

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Cash flows from operating activities:		
Net income	$ 23,668	$ 22,328
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,329	1,408
Provision for loan losses	750	2,800
Amortization of deferred loan costs, net	6,563	4,634
Amortization of premiums on investment securities, net	658	1,060
Gain on sale of loans	(530)	—
Stock based compensation expense, net of forfeitures	1,514	2,051
Change in fair value of mortgage servicing rights	463	387
Change in fair value of equity securities	(311)	—
Other items, net	(370)	(34)
Effect of changes in:		
Accrued interest receivable	(1,727)	(3,409)
Accrued interest payable	695	1,523
Prepaid expenses and other assets	(200)	504
Other liabilities and accrued expenses	876	(10,575)
Net cash provided by operating activities	33,378	22,677
Cash flows from investing activities:		
Proceeds from maturities and paydowns of available for sale debt securities	32,322	40,422
Proceeds from maturities and paydowns of held to maturity debt securities	643	273
Purchases of available for sale debt securities	(54,712)	(125,126)
Purchases of held to maturity debt securities	—	(5,375)
Net increase in loans receivable	(194,233)	(719,333)
Proceeds from loans held for sale previously classified as portfolio loans	51,606	—
Purchase of loan	(10,052)	—
Purchase of FHLB stock, net	(845)	(5,262)
Purchase of premises and equipment	(399)	(826)
Net cash used in investing activities	(175,670)	(815,227)
Cash flows from financing activities:		
Net increase in customer deposits	233,450	640,917
Proceeds from long-term FHLB advances	200,000	425,000
Repayment of long-term FHLB advances	(125,015)	(14)
Net change in short-term FHLB advances	(149,300)	(263,500)
Shares withheld for taxes on vested restricted stock	(437)	(49)
Shares repurchased	(7,630)	—
Cash paid for dividends	(6,561)	(9,364)
Net cash provided by financing activities	144,507	792,990
Increase in cash and cash equivalents	2,215	440
Cash and cash equivalents, beginning of period	91,697	75,578
Cash and cash equivalents, end of period	$ 93,912	$ 76,018
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 67,678	$ 40,820
Income taxes	$ 10,916	$ 10,994
Non-cash investing activity:		
Loans transferred to held for sale	$ 61,751	$ 21,575

See accompanying notes to unaudited consolidated financial statements

LUTHER BURBANK CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

Organization

Luther Burbank Corporation (the ‘‘Company’’), a California corporation headquartered in Santa Rosa, is the bank holding company for its wholly-owned subsidiary, Luther Burbank Savings (the "Bank"), and its wholly-owned subsidiary, Burbank Investor Services. The Company also owns Burbank Financial Inc., a real estate investment company, and all the common interests in Luther Burbank Statutory Trusts I and II, entities created to issue trust preferred securities.

The Bank conducts its business from its headquarters in Manhattan Beach, California. It has nine full service branches in California located in Sonoma, Marin, Santa Clara, and Los Angeles Counties and one full service branch in Washington located in King County. Additionally, there are seven loan production offices located throughout California, as well as a loan production office in Clackamas County, Oregon.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all footnotes as would be necessary for a fair presentation of financial position, results of operations and comprehensive income, changes in stockholders’ equity and cash flows in conformity with accounting principles generally accepted in the United States of America (“GAAP”). However, these interim unaudited consolidated financial statements reflect all adjustments (consisting solely of normal recurring adjustments and accruals) which, in the opinion of management, are necessary for a fair presentation of financial position, results of operations and comprehensive income, changes in stockholders’ equity and cash flows for the interim periods presented. These unaudited consolidated financial statements have been prepared on a basis consistent with, and should be read in conjunction with, the audited consolidated financial statements as of and for the year ended December 31, 2018, and the notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC, under the Securities and Exchange Act of 1934, (the “Exchange Act”). The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated.

The results of operations for the three and six months ended June 30, 2019 are not necessarily indicative of the results of operations that may be expected for any other interim period or for the year ending December 31, 2019.

The Company’s accounting and reporting policies conform to GAAP and to general practices within the banking industry.

Use of Estimates

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions affect the amounts reported in the unaudited consolidated financial statements and the disclosures provided, and actual results could differ.

Reclassifications

Certain prior balances in the unaudited consolidated financial statements have been reclassified to conform to current year presentation. These reclassifications had no effect on prior year net income or stockholders’ equity.

Earnings Per Share ("EPS")

Basic earnings per common share represents the amount of earnings for the period available to each share of common stock outstanding during the reporting period. Basic EPS is computed based upon net income divided by the weighted average number of common shares outstanding during the year. In determining the weighted average number of shares outstanding, vested restricted stock units are included. Diluted EPS represents the amount of earnings for the period available to each share of common stock outstanding including common stock that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during each reporting period. Diluted EPS is computed based upon net income divided by the weighted average number of common shares outstanding during each period, adjusted for the effect of dilutive potential common shares, such as restricted stock awards and units, calculated using the treasury stock method.

(Dollars in thousands, except per share amounts)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2019	**2018**	**2019**	**2018**
Net income	$ 11,658	$ 11,226	$ 23,668	$ 22,328
Weighted average basic common shares outstanding	56,108,618	56,190,970	56,314,213	56,190,970
Add: Dilutive effects of assumed vesting of restricted stock	182,770	629,106	192,829	596,645
Weighted average diluted common shares outstanding	56,291,388	56,820,076	56,507,042	56,787,615
Income per common share:				
Basic EPS	$ 0.21	$ 0.20	$ 0.42	$ 0.40
Diluted EPS	$ 0.21	$ 0.20	$ 0.42	$ 0.39
Anti-dilutive shares not included in calculation of diluted earnings per share	5,762	—	6,701	—

New Financial Accounting Standards

FASB ASU 2016-01

In January 2016, the FASB issued ASU 2016-01 which provided guidance to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. This update contains several provisions, including but not limited to (1) requiring equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income; (2) simplifying the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (3) eliminating the requirement to disclose the method(s) and significant assumptions used to estimate fair value; and (4) requiring separate presentation of financial assets and liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements. The update also changes certain financial statement disclosure requirements, including requiring disclosures of the fair value of financial instruments be made on the basis of exit price. The update was effective for public business entities ("PBEs") for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. As an emerging growth company, the Company was permitted to adopt this guidance on January 1, 2019 and, as a result, reclassified $399 thousand of unrealized losses on equity securities from other comprehensive income to retained earnings. Additionally, $11.4 million of equity securities were reclassified from available for sale securities to equity securities. Subsequent changes in the unrealized gain or loss on equity securities will be recorded through other noninterest income. See Note 2 to the unaudited consolidated financial statements for further discussion.

FASB ASU 2017-12

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities”, which changes the recognition and presentation requirements of hedge accounting, including: eliminating the requirement to separately measure and report hedge ineffectiveness;

and presenting all items that affect earnings in the same income statement line item as the hedged item. The ASU also provides new alternatives for applying hedge accounting to additional hedging strategies; measuring the hedged item in fair value hedges of interest rate risk; reducing the cost and complexity of applying hedge accounting by easing the requirements for effectiveness testing, hedge documentation and application of the critical terms match method; and reducing the risk of material error correction if a company applies the shortcut method inappropriately. ASU 2017-12 was effective for PBEs for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. As an emerging growth company, the Company had the option to adopt this guidance on December 31, 2020, but has elected to early adopt effective April 1, 2019. The guidance did not have a material impact on the Company's operating results or financial condition on the date of adoption; however, during the quarter ended June 30, 2019, the Company entered into a fair value hedge to hedge certain fixed rate loans held for investment. The hedge is expected to be highly effective in offsetting changes in the fair value of the hedged loans. The related hedging relationship is designated as a fair value hedge under the "last-of-layer" method, a new approach provided by ASU 2017-12. Gains and losses on the derivative instrument designated as a fair value hedge, as well as changes in fair value on the hedged items, are recorded in interest income for loans, net in the unaudited consolidated statements of income. See Note 10 to the unaudited consolidated financial statements for further discussion.

2. INVESTMENT SECURITIES

Available for Sale

The following tables summarize the amortized cost and the estimated fair value of available for sale debt securities as of the dates indicated:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
At June 30, 2019:				
Government and Government Sponsored Entities:				
Residential mortgage backed securities and collateralized mortgage obligations ("MBS and CMOs")	$ 170,089	$ 304	$ (819)	$ 169,574
Commercial MBS and CMOs	330,917	3,693	(1,045)	333,565
Agency bonds	134,641	34	(570)	134,105
U.S. Treasury	1,007	—	(6)	1,001
Total available for sale debt securities	$ 636,654	$ 4,031	$ (2,440)	$ 638,245
At December 31, 2018:				
Government and Government Sponsored Entities:				
Residential MBS and CMOs	$ 194,297	$ 339	$ (2,523)	$ 192,113
Commercial MBS and CMOs	294,276	979	(2,304)	292,951
Agency bonds	125,329	7	(2,848)	122,488
U.S. Treasury	1,008	—	(32)	976
Total available for sale debt securities	$ 614,910	$ 1,325	$ (7,707)	$ 608,528

Net unrealized gains (losses) on available for sale investment securities are recorded as accumulated other comprehensive income (loss) within stockholders' equity and totaled \$1.1 million and \$(4.9) million, net of \$(463) thousand and \$2.0 million in tax (liabilities) assets at June 30, 2019 and December 31, 2018, respectively. With the exception of the adoption of ASU 2016-01 as discussed in Note 1 to the unaudited consolidated financial statements, there were no sales or transfers of available for sale investment securities and no realized gains or losses on these securities during the three or six months ended June 30, 2019 and 2018.

The following tables summarize the gross unrealized losses and fair value of available for sale debt securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	June 30, 2019					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government and Government Sponsored Entities:						
Residential MBS and CMOs	$ 25,920	$ (92)	$ 77,642	$ (727)	$ 103,562	$ (819)
Commercial MBS and CMOs	31,754	(227)	106,257	(818)	138,011	(1,045)
Agency bonds	9,822	(12)	106,847	(558)	116,669	(570)
U.S. Treasury	—	—	1,001	(6)	1,001	(6)
Total available for sale debt securities	$ 67,496	$ (331)	$ 291,747	$ (2,109)	$ 359,243	$ (2,440)

At June 30, 2019, the Company held 77 residential MBS and CMOs of which 49 were in a loss position and 32 had been in a loss position for twelve months or more. The Company held 39 commercial MBS and CMOs of which 17 were in a loss position and 12 had been in a loss position for twelve months or more. The Company held 15 agency bonds of which 12 were in a loss position and had been for twelve months or more. The Company held 1 U.S. Treasury note at June 30, 2019. This note was in a loss position for greater than 12 months.

	December 31, 2018					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government and Government Sponsored Entities:						
Residential MBS and CMOs	$ 31,728	$ (304)	$ 102,503	$ (2,219)	$ 134,231	$ (2,523)
Commercial MBS and CMOs	58,725	(432)	114,159	(1,872)	172,884	(2,304)
Agency bonds	4,906	(18)	114,575	(2,830)	119,481	(2,848)
U.S. Treasury	—	—	976	(32)	976	(32)
Total available for sale debt securities	$ 95,359	$ (754)	$ 332,213	$ (6,953)	$ 427,572	$ (7,707)

At December 31, 2018, the Company held 82 residential MBS and CMOs of which 45 were in a loss position and 40 had been in a loss position for twelve months or more. The Company held 34 commercial MBS and CMOs of which 23 were in a loss position and 16 had been in a loss position for twelve months or more. The Company held 14 agency bonds of which 13 were in a loss position and 12 had been in a loss position for twelve months or more. The Company held 1 U.S. Treasury note at December 31, 2018. This note was in a loss position for greater than 12 months.

The unrealized losses on the Company's investments were caused by interest rate changes. In addition, the contractual cash flows of these investments are guaranteed by the U.S. government or agencies sponsored by the U.S. government. Accordingly, it is expected that the securities will not be settled at a price less than amortized cost. Because the decline in market value is attributable to changes in interest rates but not credit quality, and because the Company has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2019 and December 31, 2018.

As of June 30, 2019 and December 31, 2018, there were no holdings of securities of any one issuer in an amount greater than 10% of stockholders' equity, other than the U.S. government and its agencies.

Held to Maturity

The following tables summarize the amortized cost and estimated fair value of held to maturity investment securities as of the dates indicated:

(Dollars in thousands)	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
As of June 30, 2019:				
Government Sponsored Entities:				
Residential MBS	$ 11,117	$ 120	$ (47)	$ 11,190
Other investments	86	—	—	86
Total held to maturity investment securities	$ 11,203	$ 120	$ (47)	$ 11,276
As of December 31, 2018:				
Government Sponsored Entities:				
Residential MBS	$ 11,593	$ 27	$ (262)	$ 11,358
Other investments	267	—	—	267
Total held to maturity investment securities	$ 11,860	$ 27	$ (262)	$ 11,625

The following tables summarize the gross unrecognized losses and fair value of held to maturity investment securities, aggregated by investment category and length of time that individual securities have been in a continuous unrecognized loss position:

	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
As of June 30, 2019:						
Government Sponsored Entities:						
Residential MBS	$ —	$ —	$ 2,795	$ (47)	$ 2,795	$ (47)
As of December 31, 2018:						
Government Sponsored Entities:						
Residential MBS	$ 6,481	$ (111)	$ 3,739	$ (151)	$ 10,220	$ (262)

At June 30, 2019, the Company had 7 held to maturity residential MBS of which 2 were in a loss position and had been for twelve months or more. At December 31, 2018, the Company held 7 held to maturity residential MBS of which 6 were in a loss position and 3 had been in a loss position for twelve months or more.

The unrecognized losses on the Company’s held to maturity investments were caused by interest rate changes. In addition, the contractual cash flows of these investments are guaranteed by agencies sponsored by the U.S. government. Accordingly, it is expected that the securities will not be settled at a price less than amortized cost. Because the decline in market value is attributable to changes in interest rates but not credit quality, and because the Company has the ability and intent to hold those investments until maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2019 and December 31, 2018.

The following table summarizes the scheduled maturities of available for sale and held to maturity investment securities as of June 30, 2019:

	June 30, 2019	
(Dollars in thousands)	**Amortized Cost**	**Fair Value**
Available for sale debt securities		
One to five years	$ 118,412	$ 117,851
Five to ten years	4,402	4,407
Beyond ten years	12,834	12,848
MBS and CMOs	501,006	503,139
Total available for sale debt securities	$ 636,654	$ 638,245
Held to maturity investments securities		
Beyond ten years	$ 86	$ 86
MBS	11,117	11,190
Total held to maturity debt securities	$ 11,203	$ 11,276

The amortized cost and fair value of debt securities are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. As such, mortgage backed securities and collateralized mortgage obligations are not included in the maturity categories above and instead are shown separately. No securities were pledged as of June 30, 2019 and December 31, 2018.

Equity Securities

Equity securities consist of investments in the CRA Qualified Investment Fund. At June 30, 2019 and December 31, 2018, the fair value of equity securities totaled $11.7 million and $11.4 million, respectively. Prior to January 1, 2019, equity securities were included with available for sale investment securities and stated at fair value with unrealized gains and losses reported in other comprehensive income. As of January 1, 2019, $399 thousand of unrealized losses on equity securities were reclassified from other comprehensive income to retained earnings. Subsequent changes in fair value are recognized in other noninterest income and totaled $166 thousand and $311 thousand during the three and six months ended June 30, 2019, respectively. There were no sales of equity securities during the three and six months ended June 30, 2019.

3. LOANS

Loans consist of the following:

(Dollars in thousands)	June 30, 2019	December 31, 2018
Permanent mortgages on:		
Multifamily residential	$ 3,919,621	$ 3,671,069
Single family residential	2,127,733	2,262,811
Commercial real estate	199,125	184,039
Construction and land loans	20,179	12,611
Non-Mortgage (“NM”) loans	100	100
Total	6,266,758	6,130,630
Allowance for loan losses	(35,221)	(34,314)
Loans held for investment, net	$ 6,231,537	$ 6,096,316

Certain loans have been pledged to secure borrowing arrangements (see Note 7).

The following table summarizes activity in and the allocation of the allowance for loan losses by portfolio segment:

(Dollars in thousands)	Multifamily Residential	Single Family Residential	Commercial Real Estate	Land, Construction and NM	Total
Three months ended June 30, 2019					
Allowance for loan losses:					
Beginning balance allocated to portfolio segments	$ 22,046	$ 9,889	$ 2,278	$ 479	$ 34,692
Provision for (reversal of) loan losses	699	(454)	134	71	450
Charge-offs	—	—	—	—	—
Recoveries	—	4	—	75	79
Ending balance allocated to portfolio segments	$ 22,745	$ 9,439	$ 2,412	$ 625	$ 35,221
Three months ended June 30, 2018					
Allowance for loan losses:					
Beginning balance allocated to portfolio segments	$ 19,833	$ 9,214	$ 1,887	$ 1,046	$ 31,980
Provision for (reversal of) loan losses	727	881	(46)	(262)	1,300
Charge-offs	—	—	—	—	—
Recoveries	—	3	—	75	78
Ending balance allocated to portfolio segments	$ 20,560	$ 10,098	$ 1,841	$ 859	$ 33,358
Six months ended June 30, 2019					
Allowance for loan losses:					
Beginning balance allocated to portfolio segments	$ 21,326	$ 10,125	$ 2,441	$ 422	$ 34,314
Provision for (reversal of) loan losses	1,419	(693)	(29)	53	750
Charge-offs	—	—	—	—	—
Recoveries	—	7	—	150	157
Ending balance allocated to portfolio segments	$ 22,745	$ 9,439	$ 2,412	$ 625	$ 35,221
Six months ended June 30, 2018					
Allowance for loan losses:					
Beginning balance allocated to portfolio segments	$ 18,588	$ 9,044	$ 1,734	$ 946	$ 30,312
Provision for (reversal of) loan losses	1,972	1,048	17	(237)	2,800
Charge-offs	—	—	—	—	—
Recoveries	—	6	90	150	246
Ending balance allocated to portfolio segments	$ 20,560	$ 10,098	$ 1,841	$ 859	$ 33,358

The following tables summarize the allocation of the allowance for loan losses by impairment methodology:

(Dollars in thousands)	Multifamily Residential	Single Family Residential	Commercial Real Estate	Land, Construction and NM	Total
As of June 30, 2019:					
Ending allowance balance allocated to:					
Loans individually evaluated for impairment	$ —	$ 25	$ —	$ —	$ 25
Loans collectively evaluated for impairment	22,745	9,414	2,412	625	35,196
Ending balance	$ 22,745	$ 9,439	$ 2,412	$ 625	$ 35,221
Loans:					
Ending balance: individually evaluated for impairment	$ 7,124	$ 8,055	$ —	$ —	$ 15,179
Ending balance: collectively evaluated for impairment	3,912,497	2,119,678	199,125	20,279	6,251,579
Ending balance	$ 3,919,621	$ 2,127,733	$ 199,125	$ 20,279	$ 6,266,758
As of December 31, 2018:					
Ending allowance balance allocated to:					
Loans individually evaluated for impairment	$ —	$ 25	$ —	$ —	$ 25
Loans collectively evaluated for impairment	21,326	10,100	2,441	422	34,289
Ending balance	$ 21,326	$ 10,125	$ 2,441	$ 422	$ 34,314
Loans:					
Ending balance: individually evaluated for impairment	$ 564	$ 5,881	$ —	$ —	$ 6,445
Ending balance: collectively evaluated for impairment	3,670,505	2,256,930	184,039	12,711	6,124,185
Ending balance	$ 3,671,069	$ 2,262,811	$ 184,039	$ 12,711	$ 6,130,630

The Company assigns a risk rating to all loans and periodically performs detailed reviews of all such loans to identify credit risks and to assess the overall collectability of the portfolio. During these internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, as well as the financial performance and other characteristics of loan collateral. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into six major categories, defined as follows:

Pass assets are those which are performing according to contract and have no existing or known weaknesses deserving of management's close attention. The basic underwriting criteria used to approve the loans are still valid, and all payments have essentially been made as planned.

Watch assets are expected to have an event occurring in the next 90 to 120 days that will lead to a change in risk rating with the change being either favorable or unfavorable. These assets require heightened monitoring of the event by management.

Special mention assets have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Special mention assets are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard assets are inadequately protected by the current net worth and/or paying capacity of the obligor or by the collateral pledged. These assets have well-defined weaknesses: the primary source of repayment is gone or severely impaired (i.e., bankruptcy or loss of employment) and/or there has been a deterioration in collateral value. In addition, there is the distinct possibility that the Company will sustain some loss, either directly or indirectly (i.e., the cost of monitoring), if the deficiencies are not corrected. A deterioration in collateral value alone does not mandate that an asset be adversely classified if such

factor does not indicate that the primary source of repayment is in jeopardy.

Doubtful assets have the weaknesses of those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable based on current facts, conditions and values.

Loss assets are considered uncollectible and of such little value that their continuance as assets, without establishment of a specific valuation allowance or charge-off, is not warranted. This classification does not necessarily mean that an asset has absolutely no recovery or salvage value; but rather, it is not practical or desirable to defer writing off a basically worthless asset (or portion thereof) even though partial recovery may be affected in the future.

The following tables summarize the loan portfolio allocated by management's internal risk ratings at June 30, 2019 and December 31, 2018:

(Dollars in thousands)	Multifamily Residential	Single Family Residential	Commercial Real Estate	Land, Construction and NM	Total
As of June 30, 2019:					
Grade:					
Pass	$ 3,827,703	$ 2,098,295	$ 191,761	$ 17,266	$ 6,135,025
Watch	68,019	12,702	7,364	—	88,085
Special mention	15,050	6,304	—	3,013	24,367
Substandard	8,849	10,432	—	—	19,281
Total	$ 3,919,621	$ 2,127,733	$ 199,125	$ 20,279	$ 6,266,758
As of December 31, 2018:					
Grade:					
Pass	$ 3,601,279	$ 2,236,394	$ 180,655	$ 10,174	$ 6,028,502
Watch	65,222	20,505	1,895	—	87,622
Special mention	2,631	380	1,489	2,537	7,037
Substandard	1,937	5,532	—	—	7,469
Total	$ 3,671,069	$ 2,262,811	$ 184,039	$ 12,711	$ 6,130,630

The following tables summarize an aging analysis of the loan portfolio by the time past due at June 30, 2019 and December 31, 2018:

(Dollars in thousands)	30 Days	60 Days	90+ Days	Non-accrual	Current	Total
As of June 30, 2019:						
Loans:						
Multifamily residential	$ 4,060	$ —	$ —	$ 7,124	$ 3,908,437	$ 3,919,621
Single family residential	5,325	—	—	4,555	2,117,853	2,127,733
Commercial real estate	—	—	—	—	199,125	199,125
Land, construction and NM	—	—	—	—	20,279	20,279
Total	$ 9,385	$ —	$ —	$ 11,679	$ 6,245,694	$ 6,266,758
As of December 31, 2018:						
Loans:						
Multifamily residential	$ —	$ —	$ —	$ 564	$ 3,670,505	$ 3,671,069
Single family residential	362	2,212	—	1,448	2,258,789	2,262,811
Commercial real estate	—	—	—	—	184,039	184,039
Land, construction and NM	—	—	—	—	12,711	12,711
Total	$ 362	$ 2,212	$ —	$ 2,012	$ 6,126,044	$ 6,130,630

The following table summarizes information related to impaired loans at June 30, 2019 and December 31, 2018:

(Dollars in thousands)	As of June 30, 2019 Recorded Investment	As of June 30, 2019 Unpaid Principal Balance	As of June 30, 2019 Related Allowance	As of December 31, 2018 Recorded Investment	As of December 31, 2018 Unpaid Principal Balance	As of December 31, 2018 Related Allowance
With no related allowance recorded:						
Multifamily residential	$ 7,124	$ 7,180	$ —	$ 564	$ 635	$ —
Single family residential	7,132	7,492	—	4,945	5,333	—
	14,256	14,672	—	5,509	5,968	—
With an allowance recorded:						
Single family residential	923	919	25	936	933	25
	923	919	25	936	933	25
Total:						
Multifamily residential	7,124	7,180	—	564	635	—
Single family residential	8,055	8,411	25	5,881	6,266	25
	$ 15,179	$ 15,591	$ 25	$ 6,445	$ 6,901	$ 25

The following tables summarize information related to impaired loans for the three and six months ended June 30, 2019 and 2018:

	Three Months Ended June 30,					
	2019			2018		
(Dollars in thousands)	Average Recorded Investment	Interest Income	Cash Basis Interest	Average Recorded Investment	Interest Income	Cash Basis Interest
With no related allowance recorded:						
Multifamily residential	$ 2,195	$ 9	$ 9	$ 1,553	$ —	$ —
Single family residential	4,715	59	25	7,643	38	—
Commercial real estate	—	—	—	218	—	—
	6,910	68	34	9,414	38	—
With an allowance recorded:						
Single family residential	1,475	12	—	954	10	—
	1,475	12	—	954	10	—
Total:						
Multifamily residential	2,195	9	9	1,553	—	—
Single family residential	6,190	71	25	8,597	48	—
Commercial real estate	—	—	—	218	—	—
	$ 8,385	$ 80	$ 34	$ 10,368	$ 48	$ —

(Dollars in thousands)	Six months ended June 30, 2019 Average Recorded Investment	2019 Interest Income	2019 Cash Basis Interest	2018 Average Recorded Investment	2018 Interest Income	2018 Cash Basis Interest
With no related allowance recorded:						
Multifamily residential	$ 1,494	$ 12	$ 12	$ 1,847	$ —	$ —
Single family residential	4,518	95	25	7,711	75	—
Commercial real estate	—	—	—	403	—	—
	6,012	107	37	9,961	75	—
With an allowance recorded:						
Single family residential	1,242	24	—	1,390	27	—
	1,242	24	—	1,390	27	—
Total:						
Multifamily residential	1,494	12	12	1,847	—	—
Single family residential	5,760	119	25	9,101	102	—
Commercial real estate	—	—	—	403	—	—
	$ 7,254	$ 131	$ 37	$ 11,351	$ 102	$ —

The following table summarizes the recorded investment related to troubled debt restructurings at June 30, 2019 and December 31, 2018:

(Dollars in thousands)	June 30, 2019	December 31, 2018
Troubled debt restructurings:		
Single family residential	$ 3,501	$ 4,434

The Company has allocated $25 thousand of allowances for loans modified in troubled debt restructurings at both June 30, 2019 and December 31, 2018. The Company does not have commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings. There were no new troubled debt restructurings during the three and six months ended June 30, 2019 and 2018.

The Company had no troubled debt restructurings with a subsequent payment default within twelve months following the modification during the three and six months ended June 30, 2019 and 2018. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

4. NONPERFORMING ASSETS

Nonperforming assets include nonperforming loans plus real estate owned. The Company's nonperforming assets at June 30, 2019 and December 31, 2018 are indicated below:

(Dollars in thousands)	June 30, 2019	December 31, 2018
Non-accrual loans:		
Multifamily residential	$ 7,124	$ 564
Single family residential	4,555	1,448
Total non-accrual loans	11,679	2,012
Real estate owned	—	—
Total nonperforming assets	$ 11,679	$ 2,012

Interest income is subsequently recognized on a cash basis as long as the remaining unpaid principal amount of a non-accrual loan is deemed to be fully collectible. If there's doubt regarding the collectability of the loan, then any interest payments received are applied to principal. Interest income was recognized on a cash basis on three non-accrual loans during the three and six months ended June 30, 2019 totaling $34 thousand and $37 thousand, respectively. No interest income was recognized on non-accrual loans during the three and six months ended June 30, 2018. Contractual interest not accrued on nonperforming loans during the

three and six months ended June 30, 2019 totaled $34 thousand and $56 thousand, respectively, compared with $62 thousand and $153 thousand for the three and six months ended June 30, 2018, respectively.

Generally, nonperforming loans are considered impaired, because the repayment of the loan will not be made in accordance with the original contractual agreement.

5. MORTGAGE SERVICING RIGHTS

Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors, and conducting foreclosure proceedings. Loan servicing income is recorded on the accrual basis and includes servicing fees from investors and certain charges collected from borrowers. Mortgage loans serviced for others are not reported as assets. The principal balances of these loans are as follows:

(Dollars in thousands)	June 30, 2019	December 31, 2018
Mortgage loans serviced for:		
Federal Home Loan Mortgage Corporation ("Freddie Mac")	$ 456,617	$ 497,950
Other financial institutions	144,193	139,558
Total mortgage loans serviced for others	$ 600,810	$ 637,508

Custodial account balances maintained in connection with serviced loans totaled $9.8 million and $10.1 million at June 30, 2019 and December 31, 2018, respectively.

Activity for mortgage servicing rights are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2019	2018	2019	2018
Beginning balance	$ 3,472	$ 4,124	$ 3,463	$ 4,255
Additions	—	—	155	—
Disposals	—	—	—	—
Change in fair value due to changes in assumptions	—	—	—	—
Other changes in fair value	(317)	(256)	(463)	(387)
Ending balance	$ 3,155	$ 3,868	$ 3,155	$ 3,868

Fair value as of June 30, 2019 was determined using a discount rate of 10%, prepayment speeds ranging from 6.0% to 58.7%, depending on the stratification of the specific right, and a weighted average default rate of 5%. The weighted average prepayment speed at June 30, 2019 was 23.1%. Fair value as of December 31, 2018 was determined using a discount rate of 10%, prepayment speeds ranging from 6.0% to 70.4%, depending on the stratification of the specific right, and a weighted average default rate of 5%. The weighted average prepayment speed at December 31, 2018 was 23.3%.

6. DEPOSITS

A summary of deposits at June 30, 2019 and December 31, 2018 is as follows:

(Dollars in thousands)	June 30, 2019	December 31, 2018
Certificates of deposit	$ 3,594,455	$ 3,297,433
Money market savings	1,277,941	1,335,246
Interest bearing demand	195,176	179,272
Money market checking	119,446	123,119
Non-interest bearing demand	47,472	65,970
Total	$ 5,234,490	$ 5,001,040

The Company had certificates of deposit with a denomination of $100 thousand or more totaling $2.5 billion

and $2.4 billion at June 30, 2019 and December 31, 2018, respectively.

The Company had certificates of deposit that meet or exceed the FDIC Insurance limit of $250 thousand of $1.3 billion and $1.2 billion at June 30, 2019 and December 31, 2018, respectively.

The Company utilizes brokered deposits as an additional source of funding. The Company had brokered deposits of $611.3 million and $467.5 million at June 30, 2019 and December 31, 2018, respectively.

Maturities of the Company's certificates of deposit at June 30, 2019 are summarized as follows (dollars in thousands):

July 1 - December 31, 2019	$	1,550,513
Year ending December 31, 2020		1,658,866
Year ending December 31, 2021		329,205
Year ending December 31, 2022		50,533
Year ending December 31, 2023		5,098
Thereafter		240
Total	$	3,594,455

7. FEDERAL HOME LOAN BANK AND FEDERAL RESERVE BANK ADVANCES

The Bank may borrow from the FHLB, on either a short-term or long-term basis, up to 40% of its assets provided that adequate collateral has been pledged. As of June 30, 2019 and December 31, 2018, the Bank had pledged various mortgage loans totaling approximately $2.4 billion and $2.1 billion, respectively, as well as the FHLB stock held by the Bank to secure these borrowing arrangements.

The Bank has access to the Loan and Discount Window of the Federal Reserve Bank of San Francisco ("FRB"). Advances under this window are subject to the Bank providing qualifying collateral. Various mortgage loans totaling approximately $427.6 million and $406.6 million as of June 30, 2019 and December 31, 2018, respectively, secure this borrowing arrangement. There were no borrowings outstanding with the FRB as of June 30, 2019 and December 31, 2018.

The following table discloses the Bank's outstanding advances from the FHLB of San Francisco:

	Outstanding Balances		As of June 30, 2019			
(Dollars in thousands)	June 30, 2019	December 31, 2018	Minimum Interest Rate	Maximum Interest Rate	Weighted Average Rate	Maturity Dates
Fixed rate short-term	$ 16,700	$ 166,000	2.52%	2.52%	2.52%	July 2019
Fixed rate long-term	1,002,117	877,132	1.18%	7.69%	2.32%	September 2019 to August 2032
Variable rate long-term	50,000	100,000	2.32%	2.32%	2.32%	January 2020
	$ 1,068,817	$ 1,143,132				

The Bank's available borrowing capacity based on pledged loans to the FRB and the FHLB totaled $977.0 million and $681.5 million at June 30, 2019 and December 31, 2018, respectively. As of June 30, 2019 and December 31, 2018, the Bank pledged as collateral a $62.6 million FHLB letter of credit related to our multifamily securitization reimbursement obligation. In addition, the Bank pledged as collateral a $50.0 million FHLB letter of credit in connection with a time deposit with the State of California Treasurer's Office at June 30, 2019.

Short-term borrowings are borrowings with original maturities of 90 days or less. During the three months ended June 30, 2019, there was a maximum amount of short-term borrowings outstanding of $78.0 million and an average amount outstanding of $52.3 million with a weighted average interest rate of 2.57%.

The following table summarizes principal payments on FHLB advances over the next five years as of June 30, 2019 (dollars in thousands):

July 1 - December 31, 2019	$	166,700
Year ending December 31, 2020		150,000
Year ending December 31, 2021		275,600
Year ending December 31, 2022		75,000
Year ending December 31, 2023		400,750
Thereafter		767
	$	1,068,817

8. JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

The Company formed two wholly-owned trust companies (the ‘‘Trusts’’) which issued guaranteed preferred beneficial interests (the "Trust Securities") in the Company’s junior subordinated deferrable interest debentures (the "Notes"). The Company is not considered the primary beneficiary of the Trusts and therefore, the Trusts are not consolidated in the Company’s financial statements, but rather the junior subordinated debentures are shown as a liability. The Company’s investment in the common securities of the Trusts, totaling $1.9 million, is included in other assets on the unaudited consolidated statements of financial condition. The sole asset of the Trusts are the Notes that they hold.

The Trusts have invested the proceeds of such Trust Securities in the Notes. Each of the Notes has an interest rate equal to the corresponding Trust Securities distribution rate. The Company has the right to defer payment of interest on the Notes at any time or from time to time for a period not exceeding five years provided that no extension period may extend beyond the stated maturity of the relevant Notes. During any such extension period, distributions on the Trust Securities will also be deferred, and the Company’s ability to pay dividends on its common stock will be restricted.

The Company has entered into contractual arrangements which, taken collectively, fully and unconditionally guarantee payment of: (i) accrued and unpaid distributions required to be paid on the Trust Securities; (ii) the redemption price with respect to any Trust Securities called for redemption by the Trusts; and (iii) payments due upon a voluntary or involuntary dissolution, winding up or liquidation of the Trusts. The Trust Securities are mandatorily redeemable upon maturity of the Notes, or upon earlier redemption as provided in the indenture. The Company has the right to redeem the Notes purchased by the Trusts, in whole or in part, on or after the redemption date. As specified in the indenture, if the Notes are redeemed prior to maturity, the redemption price will be the principal amount and any accrued but unpaid interest.

The following table is a summary of the outstanding Trust Securities and Notes at June 30, 2019 and December 31, 2018 (dollars in thousands):

	June 30, 2019		December 31, 2018		Date	Maturity	Rate Index
Issuer	**Amount**	**Rate**	**Amount**	**Rate**	**Issued**	**Date**	**(Quarterly Reset)**
Luther Burbank Statutory Trust I	$ 41,238	3.79%	$ 41,238	4.17%	3/1/2006	6/15/2036	3 month LIBOR + 1.38%
Luther Burbank Statutory Trust II	$ 20,619	4.03%	$ 20,619	4.41%	3/1/2007	6/15/2037	3 month LIBOR + 1.62%

9. SENIOR DEBT

In September 2014, the Company issued $95 million in senior unsecured term notes to qualified institutional investors. The following table summarizes information on these notes as of June 30, 2019 and December 31, 2018:

	June 30, 2019		December 31, 2018			
(Dollars in thousands)	**Principal**	**Unamortized Debt Issuance Costs**	**Principal**	**Unamortized Debt Issuance Costs**	**Maturity Date**	**Fixed Interest Rate**
Senior Unsecured Term Notes	$ 95,000	$ 645	$ 95,000	$ 707	9/30/2024	6.50%

10. DERIVATIVES AND HEDGING ACTIVITIES

From time to time, the Company utilizes interest rate swaps and other derivative financial instruments as part of its asset liability management strategy to manage interest rate risk positions.

Fair Value Hedges of Interest Rate Risk

In June 2019, the Company entered into a two-year interest rate swap with a total notional amount of $500.0 million to hedge the interest rate risk related to certain hybrid multifamily loans which are currently in their fixed rate period. The swap is designated as a fair value hedge and involves the payment of a fixed rate amount to a counterparty in exchange for the Company receiving a variable rate payment over the life of the swap without the exchange of the underlying notional amount. The gain or loss on this derivative, as well as the offsetting loss or gain on the hedged items attributable to the hedged risk are recognized in interest income for loans.

For the three and six months ended June 30, 2019, the fixed rate payment related to the net settlement of the interest rate swap was less than the the floating rate received. As such, interest income for loans was increased by $113 thousand, net, for both the three and six months ended June 30, 2019. The Company did not have any derivative financial instruments that were designated as fair value hedges as of or for the three and six months ended June 30, 2018.

The following table presents the effect of the Company's interest rate swap on the unaudited consolidated statements of income for the three and six months ended June 30, 2019:

	June 30, 2019	
(Dollars in thousands)	**For the Three Months Ended**	**For the Six Months Ended**
Derivative - interest rate swap:		
Interest income	$ 114	$ 114
Hedged items - loans:		
Interest income	(1)	(1)
Net effect on interest income	$ 113	$ 113

The following table presents the fair value of the Company's interest rate swap, as well as its classification on the unaudited consolidated statements of financial condition as of June 30, 2019:

		Fair Values of Derivative Instruments			
		Asset Derivatives		Liability Derivatives	
(Dollars in thousands)	**Notional Amount**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments:					
Interest Rate Swaps	$ 500,000	Prepaid Expenses and Other Assets	$ —	Other Liabilities and Accrued Expenses	$ 13

As of June 30, 2019, the following amounts were recorded in the unaudited consolidated statement of financial condition related to cumulative basis adjustments for its fair value hedge.

Line Item in the Consolidated Statement of Financial Condition in Which the Hedged Items are Included	Carrying Amount of the Hedged Assets	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets
(Dollars in thousands)		
Loans receivable, net (1)	$ 500,126	$ 126

(1) These amounts include the amortized cost basis of closed portfolio loans used to designate hedging relationships in which the hedged items are the last layer expected to be remaining at the end of the hedging relationship. At June 30, 2019, the amortized cost basis of the closed portfolio loans used in these hedging relationships was $1.5 billion; the cumulative basis adjustments associated with these hedging relationships were $126 thousand and the amount of the designated hedged items were $500.1 million.

As of June 30, 2019, the Company had not posted or received any collateral in connection with its interest rate swap.

11. STOCK BASED COMPENSATION

The Company's stock based compensation consists of restricted stock awards ("RSAs") and restricted stock units ("RSUs") granted under the Luther Burbank Corporation Omnibus Equity and Incentive Compensation Plan ("Omnibus Plan"). In connection with its initial public offering ("IPO") in December 2017, the Company granted RSAs and RSUs to employees and nonemployee directors which all vest ratably over three years. At the same time, the Company granted RSUs in exchange for unvested phantom stock awards held by employees and all vested and unvested phantom stock awards held by nonemployee directors on a per share basis. The RSUs were subjected to the same vesting schedule and deferral elections that existed for the original phantom stock awards.

Awards granted subsequent to the IPO vest ratably over one year for nonemployee directors and ratably over three to four years for employees.

All RSAs and RSUs were granted at the fair value of the common stock at the time of the award. The RSAs and RSUs are considered fixed awards as the number of shares and fair value are known at the date of grant and the fair value at the grant date is amortized over the vesting and/or service period.

Non-cash stock compensation expense recognized for RSAs and RSUs for the three and six months ended June 30, 2019 totaled $676 thousand and $1.5 million, respectively, compared with $1.0 million and $2.1 million for the three and six months ended June 30, 2018, respectively. The fair value of RSAs and RSUs that vested during the six months ended June 30, 2019 and 2018 totaled $5.7 million and $1.5 million, respectively. No RSAs and RSUs vested during the three months ended June 30, 2019 and 2018.

As of June 30, 2019 and December 31, 2018, there was $5.4 million and $4.3 million of unrecognized compensation expense related to 734,994 and 985,869 unvested RSAs and RSUs, respectively, which amounts are expected to be expensed over a weighted average period of 1.96 years and 1.91 years, respectively. As of June 30, 2019 and December 31, 2018, 512,787 and 169,490 shares, respectively, of RSUs were vested and remain unsettled per the original deferral elections.

The following table summarizes share information about restricted stock awards and restricted stock units:

	Six Months Ended June 30,			
	2019		2018	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Beginning of the period balance	1,155,359	$ 10.97	1,319,700	$ 10.75
Shares granted	321,784	9.80	131,140	12.77
Shares settled	(179,325)	11.40	(53,059)	10.75
Shares forfeited	(50,037)	10.69	(2,800)	10.75
End of the period balance	1,247,781	$ 10.62	1,394,981	$ 10.97

Under its Omnibus Plan, the Company reserved 3,360,000 shares of common stock for new awards. At June 30, 2019 and December 31, 2018, there were 2,296,172 and 2,581,960 shares, respectively, of common stock reserved and available for grant through restricted stock or other awards under the Omnibus Plan. During the three and six months ended June 30, 2019, there were 14,041 shares of forfeited RSU awards that were initially issued to replace unvested phantom stock awards under the Luther Burbank Corporation Phantom Stock Plan. These awards were excluded from the shares reserved and available for grant under the Omnibus Plan.

12. FAIR VALUE MEASUREMENTS

Fair Value Measurements

Fair Value Hierarchy

The Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 - Quoted market prices for identical instruments traded in active exchange markets.

Level 2 - Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 - Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Company’s estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

Because broadly traded markets do not exist for most of the Company’s financial instruments, the fair value calculations attempt to incorporate the effect of current market conditions at a specific time. These determinations are subjective in nature, involve uncertainties and matters of significant judgment and do not include tax ramifications; therefore, the results cannot be determined with precision, substantiated by comparison to independent markets and may not be realized in an actual sale or immediate settlement of the instruments. There may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results. For all of these reasons, the aggregation of the fair value calculations presented herein do not represent, and should not be construed to represent, the underlying value of the Company.

Management monitors the availability of observable market data to assess the appropriate classification of assets and liabilities within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities, or total earnings.

The following methods and assumptions were used to estimate the fair value of financial instruments:

For cash and cash equivalents, accrued interest receivable and payable, demand deposits and short-term borrowings, the carrying amount is estimated to be fair value. The fair value of accrued interest receivable/payable balances are determined using inputs and fair value measurements commensurate with the asset or liability from which the accrued interest is generated.

Fair values for available for sale and held to maturity debt securities, which include primarily debt securities issued by U.S. government sponsored agencies, are based on quoted market prices for similar securities.

Fair values for equity securities, which consist of investments in the CRA Qualified Investment Fund, are based on quoted market prices for similar securities.

Loans are valued using the exit price notion. The fair value is estimated using market quotes for similar assets or the present value of future cash flows, discounted using a market rate for similar products and giving consideration to estimated prepayment risk and credit risk. The fair value of loans is determined utilizing estimates resulting in a Level 3 classification.

Impaired loans are measured for impairment based on the present value of expected future cash flows discounted at the loans' effective interest rate, except that as a practical expedient, the Company may measure impairment based on a loan’s observable market price, or the fair value of the collateral (net of estimated costs to sell) if the loan is collateral dependent. The fair value of impaired loans is determined utilizing estimates resulting in a Level 3 classification.

It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability.

The fair value of servicing rights is determined using a valuation model that utilizes interest rate, prepayment speed, and default rate assumptions that market participants would use in estimating future net servicing income and that can be validated against available market data.

The fair values of derivatives are based on valuation models using observable market data as of the measurement date.

Fair values for fixed-rate certificates of deposit are estimated using discounted cash flow analyses using interest rates offered at each reporting date by the Company for certificates with similar remaining maturities. For deposits with no contractual maturity, the fair value is assumed to equal the carrying value.

The fair value of FHLB advances is estimated based on discounting the future cash flows using the market rate currently offered for similar terms.

The fair value of subordinated debentures is based on an indication of value provided by a third-party broker.

For senior debt, the fair value is based on an indication of value provided by a third-party broker.

Fair Value of Financial Instruments

The carrying and estimated fair values of the Company's financial instruments are as follows:

			Fair Level Measurements Using		
(Dollars in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
As of June 30, 2019:					
Financial assets:					
Cash and cash equivalents	$ 93,912	$ 93,912	$ 93,912	$ —	$ —
Debt securities:					
Available for sale	638,245	638,245	1,001	637,244	—
Held to maturity	11,203	11,276	—	11,276	—
Equity securities	11,749	11,749	—	11,749	—
Loans held for sale	10,555	10,555	—	10,555	—
Loans receivable, net	6,231,537	6,332,132	—	—	6,332,132
Accrued interest receivable	21,947	21,947	70	2,121	19,756
FHLB stock	32,668	N/A	N/A	N/A	N/A
Financial liabilities:					
Deposits	$ 5,234,490	$ 5,258,794	$ 1,490,035	$ 3,768,759	$ —
FHLB advances	1,068,817	1,090,281	—	1,090,281	—
Junior subordinated deferrable interest debentures	61,857	58,116	—	58,116	—
Senior debt	94,355	103,484	—	103,484	—
Accrued interest payable	5,002	5,002	—	5,002	—
Interest rate swap	13	13	—	13	—
As of December 31, 2018:					
Financial assets:					
Cash and cash equivalents	$ 91,697	$ 91,697	$ 91,697	$ —	$ —
Debt securities:					
Available for sale	608,528	608,528	976	607,552	—
Held to maturity	11,860	11,625	—	11,625	—
Equity securities	11,438	11,438	—	11,438	—
Loans receivable, net	6,096,316	6,092,885	—	—	6,092,885
Accrued interest receivable	20,220	20,220	62	1,739	18,419
FHLB stock	31,823	N/A	N/A	N/A	N/A
Financial liabilities:					
Deposits	$ 5,001,040	$ 4,957,054	$ 1,703,607	$ 3,253,447	$ —
FHLB advances	1,143,132	1,144,326	—	1,144,326	—
Junior subordinated deferrable interest debentures	61,857	56,596	—	56,596	—
Senior debt	94,293	99,673	—	99,673	—
Accrued interest payable	4,307	4,307	—	4,307	—

These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

Assets and Liabilities Recorded at Fair Value

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of June 30, 2019 and December 31, 2018.

Recurring Basis

The Company is required or permitted to record the following assets and liabilities at fair value on a recurring basis (dollars in thousands):

Description	Fair Value	Level 1	Level 2	Level 3
As of June 30, 2019:				
Financial Assets:				
Available for sale debt securities:				
Government and Government Sponsored Entities:				
Residential MBS and CMOs	$ 169,574	$ —	$ 169,574	$ —
Commercial MBS and CMOs	333,565	—	333,565	—
Agency bonds	134,105	—	134,105	—
U.S. Treasury	1,001	1,001	—	—
Total available for sale debt securities	$ 638,245	$ 1,001	$ 637,244	$ —
Equity securities	$ 11,749	$ —	$ 11,749	$ —
Mortgage servicing rights	$ 3,155	$ —	$ —	$ 3,155
Financial Liabilities:				
Interest rate swap	$ 13	$ —	$ 13	$ —
As of December 31, 2018:				
Financial Assets:				
Available for sale debt securities:				
Government and Government Sponsored Entities:				
Residential MBS and CMOs	$ 192,113	$ —	$ 192,113	$ —
Commercial MBS and CMOs	292,951	—	292,951	—
Agency bonds	122,488	—	122,488	—
U.S. Treasury	976	976	—	—
Total available for sale debt securities	$ 608,528	$ 976	$ 607,552	$ —
Equity securities	$ 11,438	$ —	$ 11,438	$ —
Mortgage servicing rights	$ 3,463	$ —	$ —	$ 3,463

There were no transfers between Level 1 and Level 2 during the three and six months ended June 30, 2019 and 2018.

Non-recurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring basis. The fair value of impaired, collateral dependent loans is estimated at the fair value of the underlying collateral, less estimated selling costs. These loans are categorized as level 3. The Company held no real estate owned at June 30, 2019 and December 31, 2018.

As of June 30, 2019, the Company reported loans held for sale of $10.6 million which were measured at fair value. The Company recognized a loss of $39 thousand in noninterest income related to these loans. For the three and six months ended June 30, 2018, there were no assets or liabilities measured at fair value on a non-recurring basis.

13. VARIABLE INTEREST ENTITIES ("VIE")

The Company is involved with VIEs through its loan securitization activities. The Company evaluated its association with VIEs for consolidation purposes. Specifically, a VIE is to be consolidated by its primary beneficiary, the entity that has both the power to direct the activities that most significantly impact the VIE and a variable interest that could potentially be significant to the VIE. A variable interest is a contractual, ownership or other interest whose value fluctuates with the changes in the value of the VIE's assets and liabilities. The assessment includes an evaluation of the Company's continuing involvement with the VIE and the nature and significance of its variable interests.

Multifamily loan securitization

With respect to the securitization transaction with Freddie Mac which settled September 27, 2017, the Company's variable interests reside with a reimbursement agreement entered into with Freddie Mac that obligates the Bank to reimburse Freddie Mac for any defaulted contractual principal and interest payments identified after the ultimate resolution of the defaulted loans. Such reimbursement obligations are not to exceed 10% of the original principal amount of the loans comprising the securitization pool. As part of the securitization transaction, the Bank released all servicing obligations and rights to Freddie Mac who was designated as the Master Servicer. As Master Servicer, Freddie Mac appointed the Bank with sub-servicing obligations, which include obligations to collect and remit payments of principal and interest, manage payments of taxes and insurance, and otherwise administer the underlying loans. The servicing of defaulted loans and foreclosed loans was assigned to a separate third party entity, independent of the Bank and Freddie Mac. Freddie Mac, in its capacity as Master Servicer, can terminate the Bank in its role as sub-servicer and direct such responsibilities accordingly. In evaluating the variable interests and continuing involvement in the VIE, the Company determined that it does not have the power to make significant decisions or direct the activities that most significantly impact the economic performance of the VIE's assets and liabilities. As sub-servicer of the loans, the Bank does not have the authority to make significant decisions that influence the value of the VIE's net assets and therefore, is not the primary beneficiary of the VIE. Therefore, the Company determined that the VIE associated with the multifamily securitization should not be included in the consolidated financial statements of the Bank.

The Company believes its maximum exposure to loss as a result of involvement with the VIE associated with the securitization under the reimbursement agreement executed with Freddie Mac is 10% of the original principal amount of the loans comprising the securitization pool, or $62.6 million. The reserve for estimated losses with respect to the reimbursement obligation totaled $1.3 million and $1.4 million as of June 30, 2019 and December 31, 2018, respectively, based upon an analysis of quantitative and qualitative data over the underlying loans included in the securitization pool. No disbursements have been made in connection with the reimbursement obligation.

14. LOAN SALE AND SECURITIZATION ACTIVITIES

The Company sells originated and acquired loans as part of its business operations and overall management of liquidity, assets and liabilities, and financial performance. The transfer of loans is executed in securitization or sale transactions. With respect to sale transactions, the Company's continuing involvement may or may not include ongoing servicing responsibilities and general representations and warranties. With respect to securitization sales, the Company executed its first and only transaction on September 27, 2017 with Freddie Mac. The transaction involved the sale of $626 million in originated multifamily loans through a Freddie Mac sponsored transaction. The Company's continuing involvement includes sub-servicing responsibilities, general representations and warranties, and a limited reimbursement obligation.

As sub-servicer for Freddie Mac, the Bank is required to maintain a minimum net worth in accordance with GAAP of not less than $2.0 million. If Luther Burbank Savings' capital were to fall below this threshold, Freddie Mac would have the authority to terminate and assume the Bank's sub-servicing duties. At June 30, 2019, the Bank's net worth was $734.6 million.

General representations and warranties associated with loan sales and securitization sales require the Bank to uphold various assertions that pertain to the underlying loans at the time of the transaction, including, but not limited to, compliance with relevant laws and regulations, absence of fraud, enforcement of liens, no environmental damages, and maintenance of relevant environmental insurance. Such representations and warranties are limited to those that do not meet the quality represented at the transaction date and do not

pertain to a decline in value or future payment defaults. In circumstances where the Bank breaches its representations and warranties, the Bank would generally be required to cure such instances through a repurchase or substitution of the subject loan(s).

With respect to the securitization transaction, the Bank also has continuing involvement through a reimbursement agreement executed with Freddie Mac. To the extent the ultimate resolution of defaulted loans results in contractual principal and interest payments that are deficient, the Bank is obligated to reimburse Freddie Mac for such amounts, not to exceed 10% of the original principal amount of the loans comprising the securitization pool at the closing date of September 27, 2017.

The following table provides cash flows associated with the Company's loan sale activities:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2019	2018	2019	2018
Proceeds from loan sales	$ 51,606	$ —	$ 51,606	$ —
Servicing fees	334	396	668	804

The following table provides information about the loans transferred through sales or securitization and not recorded on the unaudited consolidated statements of financial condition, for which the Company's continuing involvement includes sub-servicing or servicing responsibilities and/or reimbursement obligations:

(Dollars in thousands)	Single Family Residential	Multifamily Residential
As of June 30, 2019:		
Principal balance of loans	$ 25,300	$ 579,042
Loans 90+ days past due	—	—
Charge-offs, net	—	—
As of December 31, 2018:		
Principal balance of loans	26,200	611,308
Loans 90+ days past due	—	—
Charge-offs, net	—	—

15. COMMITMENTS AND CONTINGENCIES

Financial Instruments With Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments represent commitments to originate fixed and variable rate loans and loans in process, and involve, to varying degrees, credit risk and interest rate risk in excess of the amount recognized in the Company’s consolidated statements of financial condition. The Company’s exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and lines of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments to originate loans as it does for on-balance sheet instruments. As it relates to interest rate risk, the Company's exposure is generally limited to increases in interest rates that may result during the short period of time between the commitment and funding of fixed rate credit facilities.

Commitments to fund loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have expiration dates or other termination clauses. In addition, external market forces may impact the probability of commitments being exercised; therefore, total commitments outstanding do not necessarily represent future cash requirements.

At June 30, 2019 and December 31, 2018, the Company had outstanding commitments of approximately $120.7 million and $70.9 million, respectively, for loans. Unfunded loan commitment reserves totaled $26 thousand and $52 thousand at June 30, 2019 and December 31, 2018, respectively.

Operating Leases

The Company leases various office premises under long-term operating lease agreements. These leases expire between 2019 and 2029, with certain leases containing either three, five or ten year renewal options. At June 30, 2019, minimum commitments under these non-cancellable leases before considering renewal options are (dollars in thousands):

July 1 - December 31, 2019	$	2,633
Year ending December 31, 2020		4,100
Year ending December 31, 2021		3,635
Year ending December 31, 2022		2,682
Year ending December 31, 2023		1,417
Thereafter		1,493
Total	$	15,960

Rent expense under operating leases was $1.3 million and $2.7 million for the three and six months ended June 30, 2019, compared with $1.3 million and $2.6 million for the three and six months ended June 30, 2018, respectively. Sublease income earned was $189 thousand and $365 thousand for the three and six months ended June 30, 2019, respectively, compared with $214 thousand and $415 thousand for the three and six months ended June 30, 2018, respectively.

Contingencies

At present, there are no pending or threatened proceedings against the Company which, if determined adversely, would have a material effect on the Company's business, financial position, results of operations, cash flows or stock price. In the ordinary course of operations, the Company may be party to various legal proceedings.

Correspondent Banking Agreements

The Company maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. At June 30, 2019 and December 31, 2018, the Company had $27.3 million and $736 thousand, respectively, in uninsured cash balances. The Company periodically monitors the financial condition of these correspondent banks.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of our financial condition at June 30, 2019 and December 31, 2018 and our results of operations for the three and six months ended June 30, 2019 and 2018, and should be read in conjunction with our audited consolidated financial statements set forth in our Annual Report on Form 10-K for the year ended December 31, 2018 that was filed with the Securities and Exchange Commission (the “SEC”) on March 4, 2019 (our “Annual Report”) and with the accompanying unaudited notes to consolidated financial statements set forth in this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019 (this “Report”). Because we conduct all of our material business operations through our bank subsidiary, Luther Burbank Savings, the discussion and analysis relates to activities primarily conducted by the Bank.

Overview

We are a bank holding company headquartered in Santa Rosa, California, and the parent company of Luther Burbank Savings, a California-chartered commercial bank headquartered in Manhattan Beach, California with $7.1 billion in assets at June 30, 2019. Our principal business is providing high-value, relationship-based banking products and services to our customers, which include real estate investors, professionals, entrepreneurs, high net worth individuals and commercial businesses. We generate most of our revenue from interest on loans and investments. Our primary source of funding for our loans is retail deposits and we place secondary reliance on wholesale funding, primarily borrowings from the FHLB and brokered deposits. Our largest expenses are interest on deposits and borrowings along with salaries and related employee benefits. Our principal lending products are real estate secured loans, consisting primarily of multifamily residential properties and jumbo single family residential properties on the West Coast.

Selected Financial Data

The following table sets forth the Company’s selected historical consolidated financial data for the periods and as of the dates indicated. You should read this information together with the Company’s audited consolidated financial statements reported on Form 10-K and the unaudited consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. The selected historical consolidated financial data as of and for the three and six months ended June 30, 2019 and 2018 are derived from our unaudited consolidated financial statements, which are included elsewhere in this Quarterly Report on Form 10-Q. The selected historical consolidated financial data as of or for the three months ended March 31, 2019 (except as otherwise noted below) are derived from our unaudited consolidated financial statements included in our previously filed Quarterly Report on Form 10-Q. The Company’s historical results for any prior period are not necessarily indicative of future performance.

(Dollars in thousands, except per share data)	As of or For the Three Months Ended June 30, 2019	March 31, 2019	June 30, 2018	As of or For the Six Months Ended June 30, 2019	June 30, 2018
Statements of Income and Financial Condition Data					
Net Income	$ 11,658	$ 12,010	$ 11,226	$ 23,668	$ 22,328
Pre-tax, pre-provision net earnings (1)	$ 17,347	$ 17,223	$ 17,054	$ 34,570	$ 33,831
Total assets	$ 7,114,337	$ 6,992,016	$ 6,510,233	$ 7,114,337	$ 6,510,233
Per Common Share					
Diluted earnings per share	$ 0.21	$ 0.21	$ 0.20	$ 0.42	$ 0.39
Book value per share	$ 10.67	$ 10.44	$ 9.94	$ 10.67	$ 9.94
Tangible book value per share (1)	$ 10.61	$ 10.38	$ 9.88	$ 10.61	$ 9.88
Selected Ratios					
Return on average:					
Assets	0.66%	0.69%	0.71%	0.68%	0.73%
Stockholders' equity	7.83%	8.19%	8.00%	8.00%	7.99%
Dividend payout ratio	28.02%	27.43%	29.41%	27.72%	41.93%
Net interest margin	1.75%	1.86%	2.00%	1.81%	2.05%
Efficiency ratio (1)	45.89%	48.55%	46.67%	47.24%	46.69%
Noninterest expense to average assets	0.84%	0.93%	0.95%	0.88%	0.97%
Loan to deposit ratio	119.72%	120.91%	124.89%	119.72%	124.89%
Credit Quality Ratios					
Allowance for loan losses to loans	0.56%	0.56%	0.58%	0.56%	0.58%
Allowance for loan losses to nonperforming loans	301.58%	2,583.17%	718.92%	301.58%	718.92%
Nonperforming assets to total assets	0.16%	0.02%	0.07%	0.16%	0.07%
Net recoveries to average loans	0.01%	0.01%	0.01%	0.01%	0.01%
Capital Ratios					
Tier 1 leverage ratio	9.30%	9.32%	9.93%	9.30%	9.93%
Total risk-based capital ratio	17.11%	17.26%	17.31%	17.11%	17.31%

(1) Considered a non-GAAP financial measure. See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - ‘‘Non-GAAP Financial Measures’’ for a reconciliation of our non-GAAP measures to the most directly comparable GAAP financial measure. Pre-tax, pre-provision net earnings is defined as income before taxes and provision for loan losses. Tangible book value is defined as total assets less goodwill and total liabilities. Efficiency ratio is defined as the ratio of noninterest expense to net interest income plus noninterest income.

Critical Accounting Policies and Estimates

Our unaudited consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and with general practices within the financial services industry. Application of these principles requires management to make complex and subjective estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under current circumstances. These assumptions form the basis for our judgments about the carrying values of assets and liabilities that are not readily available from independent, objective sources. We evaluate our estimates on an ongoing basis. Use of alternative assumptions may have resulted in significantly different estimates. Actual results may differ from these estimates.

Our most significant accounting policies are described in Note 1 to our audited Financial Statements for the year ended December 31, 2018, included on Form 10-K. We have identified the following accounting policies and estimates that, due to the difficult, subjective or complex judgments and assumptions inherent in those policies and estimates and the potential sensitivity of our financial statements to those judgments and assumptions, are critical to an understanding of our financial condition and results of operations. We believe that the judgments, estimates and assumptions used in the preparation of our financial statements are reasonable and appropriate.

Pursuant to the JOBS Act, as an emerging growth company, we can elect to opt out of the extended transition period for adopting any new or revised accounting standards. We have elected not to opt out of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, we may adopt the standard for the private company.

We have elected to take advantage of the scaled disclosures and other relief under the JOBS Act, and we may take advantage of some or all of the reduced regulatory and reporting requirements that will be available to us under the JOBS Act, so long as we qualify as an emerging growth company.

Allowance for Loan Losses

The allowance for loan losses is provided for probable incurred credit losses inherent in the loan portfolio at the statement of financial condition date. The allowance is increased by a provision charged to expense and reduced by loan principal charge-offs, net of recoveries. Where management determines that the allowance for loan losses is more than adequate to absorb the probable incurred credit losses in the portfolio, the allowance is reduced by recapturing provisions and a credit is made to the expense account. The allowance is based on management's assessment of various factors including, but not limited to, the nature of the loan portfolio, previous loss experience, known and inherent risks in the portfolio, the estimated value of underlying collateral, information that may affect a borrower's ability to repay, current economic conditions and the results of our ongoing reviews of the portfolio.

While we use available information, including independent appraisals for collateral, to estimate the extent of probable incurred loan losses within the loan portfolio, inherent uncertainties in the estimation process make it reasonably possible that ultimate losses may vary significantly from our original estimates. Generally, loans are partially or fully charged off when it is determined that the unpaid principal balance exceeds the current fair value of the collateral with no other likely source of repayment.

Fair Value Measurement

We use estimates of fair value in applying various accounting standards for our unaudited consolidated financial statements. Fair value is defined as the exit price at which an asset may be sold or a liability may be transferred in an orderly transaction between willing and able market participants. When available, fair value is measured by looking at observable market prices for identical assets and liabilities in an active market. When these are not available, other inputs are used to model fair value such as prices of similar instruments, yield curves, prepayment speeds and credit spreads. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable.

Changes in the fair value of debt securities available for sale and derivatives designated as effective cash flow hedges are recorded in our unaudited consolidated statements of financial condition and comprehensive income (loss) while changes in the fair value of equity securities, loans held for sale and other derivatives are recorded in the unaudited consolidated statements of financial condition and in the unaudited consolidated statements of income.

Investment Securities Impairment

We assess on a quarterly basis whether there have been any events or economic circumstances to indicate that a security in which we have an unrealized loss is impaired on an other-than-temporary basis. In any instance, we would consider many factors, including the severity and duration of the impairment, the portion of any unrealized loss attributable to a decline in the credit quality of the issuer, our intent and ability to hold the security for a period of time sufficient for a recovery in value, recent events specific to the issuer or industry, and, for debt securities, external credit ratings and recent downgrades. Securities with respect to which there is an unrealized loss that is deemed to be other-than-temporary are written down to fair value.

Non-GAAP Financial Measures

Some of the financial measures discussed in this Quarterly Report on Form 10-Q are ''non-GAAP financial measures.'' In accordance with SEC rules, we classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles as in effect from time to time in the United States in our unaudited consolidated statements of income, statements of financial condition or statements of cash flows.

Pre-tax, pre-provision net earnings is defined as income before taxes and provision for loan losses. We believe the most directly comparable GAAP financial measure is income before taxes. Disclosure of this measure enables you to compare our operations to those of other banking companies before consideration of taxes and provision expense. Efficiency ratio is defined as noninterest expenses divided by operating revenue, which is equal to net interest income plus noninterest income. Tangible book value per share is defined as tangible stockholders' equity divided by period end shares outstanding. We believe that these non-GAAP financial measures provide useful information to management and investors that is supplementary to our statements of financial condition, results of income and cash flows computed in accordance with GAAP. However, we acknowledge that our non-GAAP financial measures have a number of limitations. As such, you should not view these disclosures as a substitute for results determined in accordance with GAAP, and they are not necessarily comparable to non-GAAP financial measures that other banking companies use. Other banking companies may use names similar to those we use for the non-GAAP financial measures we disclose, but may calculate them differently. You should understand how we and other companies each calculate their non-GAAP financial measures when making comparisons.

The following reconciliation table provides a more detailed analysis of these non-GAAP financial measures:

	As of or For the Three Months Ended			As of or For the Six Months Ended	
(Dollars in thousands)	**June 30, 2019**	**March 31, 2019**	**June 30, 2018**	**June 30, 2019**	**June 30, 2018**
Pre-tax, Pre-provision Net Earnings					
Income before taxes	$ 16,897	$ 16,923	$ 15,754	$ 33,820	$ 31,031
Plus: Provision for loan losses	450	300	1,300	750	2,800
Pre-tax, pre-provision net earnings	$ 17,347	$ 17,223	$ 17,054	$ 34,570	$ 33,831
Efficiency Ratio					
Noninterest expense (numerator)	$ 14,709	$ 16,249	$ 14,922	$ 30,958	$ 29,635
Net interest income	30,568	32,092	31,159	62,660	61,624
Noninterest income	1,488	1,380	817	2,868	1,842
Operating revenue (denominator)	$ 32,056	$ 33,472	$ 31,976	$ 65,528	$ 63,466
Efficiency ratio	45.89%	48.55%	46.67%	47.24%	46.69%

(Dollars in thousands except per share data)	**June 30, 2019**	**March 31, 2019**	**June 30, 2018**
Tangible Book Value Per Share			
Total assets	$ 7,114,337	$ 6,992,016	$ 6,510,233
Less: Goodwill	(3,297)	(3,297)	(3,297)
Tangible assets	7,111,040	6,988,719	6,506,936
Less: Total liabilities	(6,516,870)	(6,403,718)	(5,948,053)
Tangible stockholders' equity (numerator)	$ 594,170	$ 585,001	$ 558,883
Period end shares outstanding (denominator)	55,982,491	56,351,781	56,559,655
Tangible book value per share	$ 10.61	$ 10.38	$ 9.88

Results of Operations - Three Months Ended June 30, 2019 and 2018

Overview

For the three months ended June 30, 2019, our net income was $11.7 million as compared to $11.2 million for the same period last year. The increase of $432 thousand, or 3.8%, was attributed primarily to a decrease of $850 thousand in provision for loan losses, an increase in noninterest income of $671 thousand and a decrease in noninterest expense of $213 thousand, partially offset by an increase of $711 thousand in income tax expense and a decrease of $591 thousand in net interest income. Pre-tax, pre-provision net earnings increased by $293 thousand, or 1.7%, for the three months ended June 30, 2019 as compared to the same period last year.

Net Interest Income

Net interest income decreased by $591 thousand, or 1.9%, to $30.6 million for the three months ended June 30, 2019

from $31.2 million for the same period last year primarily due to an increase in the average balance and cost of deposits of $860.2 million and 68 basis points, respectively. This was partially offset by growth in the average balance and yield of our loan portfolio of $654.4 million and 23 basis points, respectively, an increase in the average balance of investments and yield on investments of $95.0 million and 44 basis points, respectively, and a decrease in the average balance of FHLB advances of $171.1 million compared to the same period last year. Our net interest margin of 1.75% for the three months ended June 30, 2019 decreased from our net interest margin of 2.00% for the same period last year. The decline in net interest margin from the same period last year primarily relates to our rising cost of funds which has generally outpaced the increases in yields on our interest earning assets caused by short-term interest rate increases, as well as the inversion in the yield curve, which commenced during the first quarter of 2019 and became more pronounced during the current quarter.

Average balance sheet, interest and yield/rate analysis. The following table presents average balance sheet information, interest income, interest expense and the corresponding average yield earned and rates paid for the three months ended June 30, 2019 and 2018. The average balances are daily averages.

	For the Three Months Ended June 30,					
	2019			2018		
(Dollars in thousands)	Average Balance	Interest Inc/Exp	Yield/Rate	Average Balance	Interest Inc/Exp	Yield/Rate
Interest-Earning Assets						
Multifamily residential	$ 3,860,863	$ 39,384	4.08%	$ 3,249,423	$ 30,758	3.79%
Single family residential	2,142,027	19,040	3.56%	2,132,806	18,664	3.50%
Commercial real estate	194,775	2,347	4.82%	141,811	1,607	4.53%
Construction, land and NM	12,948	244	7.56%	32,204	314	3.90%
Total Loans (1)	6,210,613	61,015	3.93%	5,556,244	51,343	3.70%
Investment securities	665,174	4,118	2.48%	570,146	2,901	2.04%
Cash and cash equivalents	92,154	522	2.27%	102,891	442	1.72%
Total interest-earning assets	6,967,941	65,655	3.77%	6,229,281	54,686	3.51%
Noninterest-earning assets (2)	76,137			80,806		
Total assets	$ 7,044,078			$ 6,310,087		
Interest-Bearing Liabilities						
Transaction accounts	$ 203,362	701	1.36%	$ 182,867	382	0.84%
Money market demand accounts	1,385,957	4,835	1.38%	1,404,954	3,217	0.92%
Time deposits	3,512,838	20,935	2.36%	2,654,169	10,961	1.65%
Total deposits	5,102,157	26,471	2.05%	4,241,990	14,560	1.37%
FHLB advances	1,093,160	6,410	2.35%	1,264,250	6,823	2.16%
Junior subordinated debentures	61,857	632	4.10%	61,857	567	3.67%
Senior debt	94,335	1,574	6.67%	94,206	1,577	6.70%
Total interest-bearing liabilities	6,351,509	35,087	2.19%	5,662,303	23,527	1.65%
Noninterest-bearing deposit accounts	40,086			34,071		
Other noninterest-bearing liabilities	56,553			52,752		
Total liabilities	6,448,148			5,749,126		
Total stockholders' equity	595,930			560,961		
Total liabilities and stockholders' equity	$ 7,044,078			$ 6,310,087		
Net interest spread (3)			1.58%			1.86%
Net interest income/margin (4)		$ 30,568	1.75%		$ 31,159	2.00%

(1) Non-accrual loans are included in total loan balances. No adjustment has been made for these loans in the calculation of yields. Interest income on loans includes amortization of deferred loan costs, net of deferred loan fees. Net deferred loan cost amortization totaled $3.9 million and $2.3 million for the three months ended June 30, 2019 and 2018, respectively.
(2) Noninterest-earning assets includes the allowance for loan losses.

(3) Net interest spread is the average yield on total interest-earning assets minus the average rate on total interest-bearing liabilities.
(4) Net interest margin is net interest income divided by total interest-earning assets.

Interest rates and operating interest differential. Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest rates. The following table shows the effect that these factors had on the interest earned from our interest-earning assets and interest incurred on our interest-bearing liabilities during the periods indicated. The effect of changes in volume is determined by multiplying the change in volume by the prior period's average rate. The effect of rate changes is calculated by multiplying the change in average rate by the prior period's volume. The change in interest due to both rate and volume has been allocated to rate and volume changes in proportion to the relationship of the absolute dollar amounts of the changes in each.

	Three Months Ended June 30, 2019 vs 2018		
	Variance Due To		
(Dollars in thousands)	**Volume**	**Yield/Rate**	**Total**
Interest-Earning Assets			
Multifamily residential	$ 6,132	$ 2,494	$ 8,626
Single family residential	76	300	376
Commercial real estate	632	108	740
Construction, land and NM	(257)	187	(70)
Total Loans	6,583	3,089	9,672
Investment securities	529	688	1,217
Cash and cash equivalents	(50)	130	80
Total interest-earning assets	**7,062**	**3,907**	**10,969**
Interest-Bearing Liabilities			
Transaction accounts	48	271	319
Money market demand accounts	(43)	1,661	1,618
Time deposits	4,281	5,693	9,974
Total deposits	4,286	7,625	11,911
FHLB advances	(979)	566	(413)
Junior subordinated debentures	—	65	65
Senior debt	2	(5)	(3)
Total interest-bearing liabilities	**3,309**	**8,251**	**11,560**
Net Interest Income	**$ 3,753**	**$ (4,344)**	**$ (591)**

Total interest income increased by $11.0 million, or 20.1%, for the three months ended June 30, 2019 as compared to the same period last year. Interest income from loans accounted for $9.7 million of that amount as the average daily balance of loans increased by $654.4 million, or 11.8%. The interest income increase from greater average loan balances was further enhanced by a 23 basis point increase in loan yield. The increase in yield compared to the same period last year was the result of the rate on new loan originations exceeding the rate on loan payoffs since early 2017. The volume of new loans originated totaled $447.4 million and $636.4 million for the three months ended June 30, 2019 and 2018, respectively. The decreased originations compared to the same period last year is due to a slowing in demand for hybrid real estate loans, as a result of the inversion in the yield curve. The weighted average rate on new loans for the three months ended June 30, 2019 was 4.44% as compared to 4.65% for the same period last year. The decline in the average coupon on originations was due to a recent decrease in the interest rate on five year U.S. Treasuries, as well as competitive pricing pressures. Loan prepayment speeds were 17.72% and 12.89% during the three months ended June 30, 2019 and 2018, respectively. The weighted average rate on loan payoffs/curtailments during the three months ended June 30, 2019 was 4.33% as compared to 3.87% for the same period last year. Additionally, interest income on investments increased by $1.2 million due to an increase in the average daily balance and yield on investment securities of $95.0 million and 44 basis points, respectively.

Total interest expense increased $11.6 million to $35.1 million for the three months ended June 30, 2019 from $23.5

million for the same period last year. Interest expense on deposits increased $11.9 million to $26.5 million for the three months ended June 30, 2019 from $14.6 million for the same period of last year. This increase is due to the cost of interest-bearing deposits increasing to 2.05% for the three months ended June 30, 2019, from 1.37% for the same period last year, as well as average daily deposit balances increasing by $860.2 million, or 20.3%, from period to period. The increase in the cost of our deposits primarily relates to repricing in our time deposit portfolio, which has been impacted by rising short-term interest rates in the prior year and competitive pricing pressures. Interest expense on advances from the FHLB decreased by $413 thousand due to a $171.1 million decrease in the average daily balance of those advances, partially offset by a 19 basis point increase in the cost of those advances as compared to the same period last year. The increase in the cost of FHLB advances was caused by rising short-term interest rates and an extension in the duration of the portfolio during the quarter ended June 30, 2019 compared to the same period last year, which increased to a weighted average remaining maturity of 2.4 years at June 30, 2019 compared to 1.9 years at June 30, 2018. We use both deposits and FHLB advances to fund net loan growth. We also use FHLB advances, with or without embedded interest rate caps, as a hedge of interest rate risk, as we can strategically control the duration of those funds. A discussion of instruments used to mitigate interest rate risk can be found under Part I - Financial Information, Item 3. ‘‘Quantitative and Qualitative Disclosures About Market Risk.’’

Provision for Loan Losses

Provision for loan losses totaled $450 thousand for the three months ended June 30, 2019 as compared to $1.3 million for the same period last year. The lower loan loss provisions recorded during the current quarter compared to the same period last year were primarily due to the sustained credit performance of our loan portfolio and slower net loan growth. Nonperforming loans totaled $11.7 million, or 0.19% of total loans, at June 30, 2019, compared to $2.0 million, or 0.03% of total loans, at December 31, 2018. Our allowance for loan losses as a percentage of total loans was 0.56% at June 30, 2019 as compared to 0.58% and 0.56% at June 30, 2018 and December 31, 2018, respectively.

While loans in our portfolio occasionally become impaired, the loans, as individually analyzed and measured, often do not require a charge-off or reserve for loss. Nonperforming loans as a percentage of total loans increased from 0.08% to 0.19% from June 30, 2018 to June 30, 2019. The increase during the three months ended June 30, 2019 was due to three loans being placed on nonaccrual status during the current quarter. These loans have a weighted average loan to value of 69.6% and no losses are anticipated. By dollar balance, 23.4% of our nonperforming loans were current and paying as agreed at June 30, 2019.

Noninterest Income

Noninterest income increased by $671 thousand to $1.5 million for the three months ended June 30, 2019 from $817 thousand for the same period last year.

The following table presents the major components of our noninterest income:

	For the Three Months Ended June 30,			
(Dollars in thousands)	**2019**	**2018**	**$ Increase (Decrease)**	**% Increase (Decrease)**
Noninterest Income				
Gain on sale of loans	$ 197	$ —	$ 197	N/A
FHLB dividends	552	509	43	8.4 %
Fee income	63	182	(119)	(65.4)%
Other	676	126	550	436.5 %
Total noninterest income	$ 1,488	$ 817	$ 671	82.1 %

The increase in noninterest income for the quarter ended June 30, 2019 compared to the quarter ended June 30, 2018, was primarily attributable to a $550 thousand increase in other noninterest income and a $197 thousand gain on sale of loans during the current quarter, partially offset by a $119 thousand decrease in fee income. The increase in other noninterest income was primarily attributable to a non-recurring recovery of $384 thousand recorded during the current quarter in connection with an equipment writedown during the prior year and an increase in the fair value of equity securities of $166 thousand in the current quarter. The decrease in fee income is primarily due to a $99 thousand decrease in servicing fee income related to a general decline in the portfolio of serviced loans, as well as elevated actual and estimated prepayments on serviced loans that decreased the fair value of our mortgage servicing rights.

Noninterest Expense

Noninterest expense decreased $213 thousand, or 1.4%, to $14.7 million for the three months ended June 30, 2019 from $14.9 million for the three months ended June 30, 2018.

The following table presents the components of our noninterest expense for the three months ended June 30, 2019 and 2018:

	For the Three Months Ended June 30,			
(Dollars in thousands)	2019	2018	$ Increase (Decrease)	% Increase (Decrease)
Noninterest Expense				
Compensation and related benefits	$ 8,614	$ 9,199	$ (585)	(6.4)%
Deposit insurance premium	487	467	20	4.3 %
Professional and regulatory fees	457	503	(46)	(9.1)%
Occupancy	1,399	1,304	95	7.3 %
Depreciation and amortization	664	694	(30)	(4.3)%
Data processing	945	807	138	17.1 %
Marketing	1,071	561	510	90.9 %
Other expenses	1,072	1,387	(315)	(22.7)%
Total noninterest expense	$ 14,709	$ 14,922	$ (213)	(1.4)%

The decrease in noninterest expense during the three months ended June 30, 2019 was primarily attributable to a decrease in compensation and related benefits of $585 thousand and a decline in the provision for unfunded commitments of $236 thousand included in other expenses, partially offset by an increase of $510 thousand in marketing expenses related to deposit gathering efforts.

Income Tax Expense

For the three months ended June 30, 2019, we recorded income tax expense of $5.2 million as compared to $4.5 million for the same period last year with effective tax rates of 31.0% and 28.7%, respectively. The increase in our tax provision was primarily related to the vesting and settlement of stock awards.

Results of Operations - Six Months Ended June 30, 2019 and 2018

Overview

For the six months ended June 30, 2019 our net income was $23.7 million as compared to $22.3 million for the six months ended June 30, 2018. The increase of $1.3 million, or 6.0%, was primarily attributable to a $2.1 million decrease in the provision for loan losses, an increase of $1.0 million in net interest income and an increase of $1.0 million in noninterest income, partially offset by an increase of $1.4 million in the provision for income taxes and an increase of $1.3 million in noninterest expense as compared to the same period last year. Pre-tax, pre-provision net earnings increased by $739 thousand, or 2.2%, for the six months ended June 30, 2019 as compared to the six months ended June 30, 2018.

Net Interest Income

Net interest income increased by $1.0 million, or 1.7%, to $62.7 million for the six months ended June 30, 2019 from $61.6 million for the same period last year primarily related to growth in the average balance and yield of our loan and investment portfolios. During the six months ended June 30, 2019, the average balance and yield of loans increased by $827.9 million and 29 basis points, respectively, and the average balance and yield of investment securities increased by $104.0 million and 51 basis points, respectively, compared to the same period last year. This increase was partially offset by growth in the average balance of our deposits of $941.1 million and an increase in the cost of our interest-bearing deposits of 71 basis points. Our net interest margin of 1.81% for the six months ended June 30, 2019 decreased from our net interest margin of 2.05% for the same period last year. The decline in net interest margin from the same period last year primarily relates to our rising cost of funds which has generally outpaced the increases in yields on our interest earning assets caused by short-term interest rate increases, as well as the inversion in the yield curve during the six months ended June 30, 2019.

Average balance sheet, interest and yield/rate analysis. The following table presents average balance sheet information, interest income, interest expense and the corresponding average yield earned and rates paid for the six months ended June 30, 2019 and 2018. The average balances are daily averages.

(Dollars in thousands)	For the Six Months Ended June 30, 2019 Average Balance	2019 Interest Inc/Exp	2019 Yield/Rate	2018 Average Balance	2018 Interest Inc/Exp	2018 Yield/Rate
Interest-Earning Assets						
Multifamily residential	$ 3,789,106	$ 77,185	4.07%	$ 3,125,430	$ 58,688	3.76%
Single family residential	2,196,050	39,881	3.63%	2,071,408	35,470	3.42%
Commercial real estate	192,144	4,603	4.79%	129,752	3,070	4.73%
Construction, land and NM	12,468	399	6.45%	35,294	678	3.84%
Total Loans (1)	6,189,768	122,068	3.94%	5,361,884	97,906	3.65%
Investment securities	656,538	8,043	2.45%	552,503	5,372	1.94%
Cash and cash equivalents	82,967	922	2.24%	86,557	689	1.59%
Total interest-earning assets	6,929,273	131,033	3.78%	6,000,944	103,967	3.47%
Noninterest-earning assets (2)	76,949			79,749		
Total assets	$ 7,006,222			$ 6,080,693		
Interest-Bearing Liabilities						
Transaction accounts	$ 211,747	1,422	1.34%	$ 188,046	790	0.84%
Money market demand accounts	1,369,041	8,833	1.28%	1,456,000	6,531	0.90%
Time deposits	3,469,932	40,504	2.32%	2,465,542	19,171	1.56%
Total deposits	5,050,720	50,759	2.00%	4,109,588	26,492	1.29%
FHLB advances	1,108,629	13,182	2.40%	1,167,705	11,643	1.99%
Junior subordinated debentures	61,857	1,283	4.18%	61,857	1,054	3.41%
Senior debt	94,319	3,149	6.68%	94,190	3,154	6.70%
Total interest-bearing liabilities	6,315,525	68,373	2.16%	5,433,340	42,343	1.55%
Noninterest-bearing deposit accounts	40,743			32,738		
Other noninterest-bearing liabilities	58,552			55,792		
Total liabilities	6,414,820			5,521,870		
Total stockholders' equity	591,402			558,823		
Total liabilities and stockholders' equity	$ 7,006,222			$ 6,080,693		
Net interest spread (3)			1.62%			1.92%
Net interest income/margin (4)		$ 62,660	1.81%		$ 61,624	2.05%

(1) Non-accrual loans and loans held for sale are included in total loan balances. No adjustment has been made for these loans in the calculation of yields. Interest income on loans includes amortization of deferred loan costs, net of deferred loan fees. Net deferred loan cost amortization totaled $6.6 million and $4.6 million for the six months ended June 30, 2019 and 2018, respectively.
(2) Noninterest-earning assets includes the allowance for loan losses.
(3) Net interest spread is the average yield on total interest-earning assets minus the average rate on total interest-bearing liabilities.
(4) Net interest margin is net interest income divided by total interest-earning assets.

Interest rates and operating interest differential. Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest rates. The following table shows the effect that these factors had on the interest earned from our interest-earning assets and interest incurred on our interest-bearing liabilities during the periods indicated.

(Dollars in thousands)	Six Months Ended June 30, 2019 vs 2018		
	Variance Due To		
	Volume	Yield/Rate	Total
Interest-Earning Assets			
Multifamily residential	$ 13,324	$ 5,173	$ 18,497
Single family residential	2,183	2,228	4,411
Commercial real estate	1,494	39	1,533
Construction, land and NM	(585)	306	(279)
Total Loans	16,416	7,746	24,162
Investment securities	1,122	1,549	2,671
Cash and cash equivalents	(31)	264	233
Total interest-earning assets	**17,507**	**9,559**	**27,066**
Interest-Bearing Liabilities			
Transaction accounts	111	521	632
Money market demand accounts	(400)	2,702	2,302
Time deposits	9,715	11,618	21,333
Total deposits	9,426	14,841	24,267
FHLB advances	(641)	2,180	1,539
Junior subordinated debentures	—	229	229
Senior debt	4	(9)	(5)
Total interest-bearing liabilities	**8,789**	**17,241**	**26,030**
Net Interest Income	**$ 8,718**	**$ (7,682)**	**$ 1,036**

Total interest income increased by $27.1 million, or 26.0%, for the six months ended June 30, 2019 as compared to the same period last year. The increase was primarily due to a $24.2 million increase in interest income earned on loans resulting from growth in the average daily balance of loans, which increased by $827.9 million, or 15.4%, as compared to the same period last year, as well as a 29 basis point increase in our loan yield. The increase in yield compared to the same period last year was the result of the rate on new loan originations exceeding the rate on loan payoffs since early 2017. The volume of new loans originated totaled $759.0 million and $1.1 billion for the six months ended June 30, 2019 and 2018, respectively. The decreased originations were primarily due to a slowing in demand for hybrid real estate loans, as a result of an inversion in the yield curve. The weighted average rate on new loans for the six months ended June 30, 2019 was 4.51% as compared to 4.50% for the same period last year. Loan prepayment speeds were 15.71% and 12.96% during the six months ended June 30, 2019 and 2018, respectively. The weighted average rate on loan payoffs during the six months ended June 30, 2019 was 4.27% as compared to 3.89% for the same period last year. Additionally, interest income on investments increased by $2.7 million due to an increase in the average daily balance and yield on investment securities of $104.0 million and 51 basis points, respectively.

Total interest expense increased $26.0 million to $68.4 million for the six months ended June 30, 2019 from $42.3 million for the same period last year. Interest expense on deposits increased $24.3 million to $50.8 million for the six months ended June 30, 2019 from $26.5 million for the same period last year. This increase is due to the cost of interest-bearing deposits increasing 71 basis points, as well as the average daily deposit balances increasing by $941.1 million, or 22.9%, from period to period. The increase in the cost of our deposits primarily relates to repricing in our time deposit portfolio, which has been impacted by rising short-term interest rates in the prior twelve months and competitive pricing pressures. Interest expense on advances from the FHLB increased by $1.5 million during the six months ended June 30, 2019 compared to the same period last year. This increase was primarily attributable to a 41 basis point increase in the cost of those advances compared to the same period last year. The increase in the cost of FHLB advances was caused by rising short-term interest rates and an extension in the duration of the portfolio during the six months ended June 30, 2019, compared to the same period last year, which increased to a weighted average remaining maturity of 2.4 years at June 30, 2019 compared to 1.9 years at June 30, 2018. We use both deposits and FHLB advances to fund net loan growth. We also use FHLB advances, with or without embedded interest rate caps, as a hedge of interest rate risk, as we can strategically control the duration of those funds. A discussion of instruments

used to mitigate interest rate risk can be found under Part I - Financial Information, Item 3. "Quantitative and Qualitative Disclosures About Market Risk."

Provision for Loan Losses

Provision for loan losses totaled $750 thousand for the six months ended June 30, 2019 as compared to $2.8 million for the same period last year. The lower loan loss provisions were primarily due to the sustained performance of our loan portfolio and slower loan growth as compared to the same period last year. Our allowance for loan losses as a percentage of total loans was 0.56% at June 30, 2019 as compared to 0.58% and 0.56% at June 30, 2018 and December 31, 2018, respectively.

Noninterest Income

Noninterest income increased by $1.0 million, or 55.7%, to $2.9 million for the six months ended June 30, 2019 from $1.8 million for the same period last year.

The following table presents the major components of our noninterest income:

	For the Six Months Ended June 30,			
(Dollars in thousands)	**2019**	**2018**	**$ Increase (Decrease)**	**% Increase (Decrease)**
Noninterest Income				
Gain on sale of loans	$ 530	$ —	$ 530	N/A
FHLB dividends	1,047	1,103	(56)	(5.1)%
Fee income	348	496	(148)	(29.8)%
Other	943	243	700	288.1 %
Total noninterest income	$ 2,868	$ 1,842	$ 1,026	55.7 %

The increase in noninterest income for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 was primarily attributable to the gain on sale of loans of $530 thousand and an increase in other noninterest income of $700 thousand, partially offset by a $148 thousand decrease in fee income. The increase in other noninterest income includes a non-recurring recovery of $384 thousand recorded during the current quarter in connection with an equipment writedown during the prior year and an increase in the fair value of equity securities of $311 thousand in the current year. The decrease in fee income is primarily due to a $185 thousand decrease in servicing fee income related to a general decline in the portfolio of serviced loans, as well as elevated actual and estimated prepayments on serviced loans that decreased the fair value of our mortgage servicing rights.

Noninterest Expense

Noninterest expense increased $1.3 million, or 4.5%, to $31.0 million for the six months ended June 30, 2019 from $29.6 million for the same period last year.

The following table presents the components of our noninterest expense for the six months ended June 30, 2019 and 2018:

(Dollars in thousands)	For the Six Months Ended June 30,			
	2019	2018	$ Increase (Decrease)	% Increase (Decrease)
Noninterest Expense				
Compensation and related benefits	$ 18,666	$ 18,818	$ (152)	(0.8)%
Deposit insurance premium	985	899	86	9.6 %
Professional and regulatory fees	898	901	(3)	(0.3)%
Occupancy	2,789	2,600	189	7.3 %
Depreciation and amortization	1,329	1,408	(79)	(5.6)%
Data processing	1,864	1,595	269	16.9 %
Marketing	2,225	774	1,451	187.5 %
Other expenses	2,202	2,640	(438)	(16.6)%
Total noninterest expense	$ 30,958	$ 29,635	$ 1,323	4.5 %

The increase in noninterest expense during the six months ended June 30, 2019 was primarily attributed to increases of $1.5 million in marketing expenses. Marketing expense increased due to costs associated with deposit gathering efforts.

Income Tax Expense

For the six months ended June 30, 2019, we recorded income tax expense of $10.2 million as compared to income tax expense of $8.7 million for the same period last year with effective tax rates of 30.0% and 28.0%, respectively. The variance in effective rates was primarily due to the vesting and settlement of stock awards recorded during the six months ended June 30, 2019, as well as tax benefits recognized during the six months ended June 30, 2018 related to true-ups in connection with our 2017 tax returns.

Financial Condition - As of June 30, 2019 and December 31, 2018

Total assets at June 30, 2019 were $7.1 billion, an increase of $177.1 million, or 2.6%, from December 31, 2018. The increase was primarily due to a $136.1 million, or 2.2%, increase in loans held for investment and a $29.7 million, or 4.9%, increase in our available for sale debt securities. Absent loan sales of $51.1 million and transfers of loans to held for sale of $10.6 million during the six months ended June 30, 2019, loan growth would have been $197.8 million, or 3.2%. Total liabilities increased $160.8 million, or 2.5%, to $6.5 billion at June 30, 2019 from December 31, 2018. The increase in total liabilities was primarily attributable to growth in our deposits of $233.5 million, or 4.7%, partially offset by a decrease in FHLB advances of $74.3 million, or 6.5%, compared to December 31, 2018.

Loan Portfolio Composition

Our loan portfolio is our largest class of earning assets and typically provides higher yields than other types of earning assets. Associated with the higher yields is an inherent amount of credit risk which we attempt to mitigate with strong underwriting. As of June 30, 2019 and December 31, 2018, our total loans held for investment amounted to $6.3 billion and $6.1 billion, respectively. The following table presents the balance and associated percentage of each major product type within our portfolio as of the dates indicated.

(Dollars in thousands)	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
Real estate loans held for investment				
Multifamily residential	$ 3,897,531	62.7%	$ 3,650,967	60.1%
Single family residential	2,098,968	33.8%	2,231,802	36.7%
Commercial real estate	198,458	3.2%	183,559	3.0%
Construction and land	20,248	0.3%	12,656	0.2%
Non-mortgage	100	—%	100	—%
Total loans before deferred items	6,215,305	100.0%	6,079,084	100.0%
Deferred loan costs, net	51,453		51,546	
Total loans held for investment	6,266,758		6,130,630	
Real estate loans held for sale				
Single family residential	$ 10,368	100.0%	$ —	—%
Deferred loan costs, net	187		—	
Total loans held for sale	$ 10,555		$ —	

Over the past few years, we have experienced significant growth in our loan portfolio, although the relative composition of the portfolio has not changed significantly. Our primary focus remains multifamily real estate lending, which constitutes 63% and 60% of our portfolio at June 30, 2019 and December 31, 2018, respectively. Single family residential lending is our secondary lending emphasis and represents 34% and 37% of our portfolio at June 30, 2019 and December 31, 2018, respectively.

We recognize that these two loan products represent concentrations within our balance sheet. Multifamily loan balances as a percentage of risk-based capital were 566.8% and 540.0% as of June 30, 2019 and December 31, 2018, respectively. Our single family loans as a percentage of risk-based capital were 307.7% and 332.8% as of the same dates. Additionally, our loans are geographically concentrated with borrowers and collateral properties on the West Coast. At June 30, 2019, 60%, 27% and 11% of our real estate loans were collateralized by properties in southern California counties, northern California counties and Washington, respectively, compared to 59%, 28% and 12%, respectively, at December 31, 2018.

Our lending strategy has been to focus on products and markets where we have significant expertise. Given our concentrations, we have established strong risk management practices including risk-based lending standards, self-established product and geographical limits, annual evaluations of income property loans and semi-annual stress testing. We expect to continue growing our loan portfolio. We have placed more recent focus on originating non-residential commercial real estate loans in our core markets, while we have continued to further our geographic expansion of single family and multifamily products into strategically selected West Coast markets.

We have a small portfolio of construction loans with commitments (funded and unfunded) totaling $22.0 million and $20.3 million at June 30, 2019 and December 31, 2018, respectively. As a result of the California fires impacting our local communities, and our desire to help rebuild homes in the affected areas, we re-established our construction lending program and we are actively pursuing opportunities to finance residential construction throughout our lending area.

The following table presents the activity in our loan portfolio for the periods shown:

(Dollars in thousands)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Loan Inflows:				
Multifamily residential	$ 259,948	$ 352,665	$ 458,333	$ 594,425
Single family residential	154,105	252,561	258,326	467,809
Commercial real estate	20,200	29,587	29,130	50,382
Construction and land	13,187	1,623	13,187	1,623
Non-mortgage	—	—	—	50
Purchases	10,052	—	10,052	—
Total loans originated	457,492	636,436	769,028	1,114,289
Loan Outflows:				
Loan principal reductions and payoffs	(322,752)	(210,650)	(569,968)	(410,766)
Portfolio loan sales (1)	2,402	—	(50,447)	—
Other (2)	(4,097)	4,298	(1,930)	11,422
Total loan outflows	(324,447)	(206,352)	(622,345)	(399,344)
Net increase in total loan portfolio	$ 133,045	$ 430,084	$ 146,683	$ 714,945

(1) Portfolio loan sales for the three months ended June 30, 2019 includes a return of $2.4 million of loans sold in the first quarter of 2019 that did not qualify for mortgage insurance. Portfolio loans sales were sold without recourse.

(2) Other changes in loan balances primarily represent the net change in disbursements on unfunded commitments and deferred loan costs and, to the extent applicable, may include foreclosures, charge-offs and negative amortization.

Multifamily residential loans. We provide multifamily residential loans for the purchase or refinance of apartment buildings of five units or more, with the financed properties serving as collateral for the loan. Our multifamily lending is built around three core principles: market selection, deal selection and sponsor selection. We focus on markets with a high barrier to entry for new development, where there is a limited supply of new housing and where there is a high variance between the cost to rent and the cost to own. We typically lend on stabilized and seasoned assets and focus on older, smaller properties with rents at or below market levels, catering to low and middle income renters. Our customers are generally experienced real estate professionals who desire regular income/cash flow streams and are focused on building wealth steadily over time. We have instituted strong lending policies to mitigate credit and concentration risk. At June 30, 2019, our multifamily real estate portfolio had an average loan balance of $1.6 million, an average unit count of 15.4 units, a weighted average loan to value of 56.9% and a weighted average debt service coverage ratio of 1.48, as compared to an average loan balance of $1.6 million, an average unit count of 15.9 units, a weighted average loan to value of 57.1% and a weighted average debt service coverage ratio of 1.53 at December 31, 2018.

Single family residential loans. We provide permanent financing on single family residential properties primarily located in our market areas, which are both owner-occupied and investor owned. We conduct this business primarily through a network of third party mortgage brokers with the intention of retaining these loans in our portfolio. The majority of our originations are for purchase transactions, but we also provide refinancings. Our underwriting criteria focuses on debt ratios, credit scores, liquidity of the borrower and the borrower's cash reserves. At June 30, 2019, our single family residential real estate portfolio had an average loan balance of $902 thousand, a weighted average loan to value of 64.6% and a weighted average credit score at origination/refreshed of 749. At December 31, 2018, our single family residential real estate portfolio had an average loan balance of $889 thousand, a weighted average loan to value of 65.2% and a weighted average credit score at origination/refreshed of 751.

Commercial real estate loans. While not a large part of our portfolio during any period presented, we also lend on non-residential commercial real estate. Our commercial real estate loans are generally used to finance the purchase of established multi-tenant industrial, office and retail sites. At June 30, 2019, our commercial real estate portfolio had an average loan balance of $2.1 million, a weighted average loan to value of 56.4% and a weighted average debt service coverage ratio of 1.54, as compared to an average loan balance of $2.1 million, a weighted average loan to value of 57.0% and a weighted average debt service coverage ratio of 1.55 at December 31, 2018. We intend to

continue to emphasize this product through marketing and cross-selling efforts; however, we do not anticipate that the composition of our loan portfolio will materially change as a result of these efforts.

Other. Other categories of loans included in our portfolio include construction loans and non-mortgage loans. Construction loans currently consist primarily of single family construction projects. The non-mortgage loans in our portfolio were provided in support of community investment efforts.

The following table sets forth the contractual maturity distribution of our loan portfolio:

(Dollars in thousands)	**Due in 1 year or less**	**Due after 1 year through 5 years**	**Due after 5 years**	**Total**
As of June 30, 2019:				
Loans				
Real estate mortgage loans:				
Multifamily residential	$ 2	$ 1,380	$ 3,896,149	$ 3,897,531
Single family residential	1,444	1,352	2,096,172	2,098,968
Commercial real estate	60	1,637	196,761	198,458
Construction and land	20,128	120	—	20,248
Non-mortgage	—	—	100	100
Total loans	$ 21,634	$ 4,489	$ 6,189,182	$ 6,215,305
Fixed interest rates	$ —	$ 407	$ 27,230	$ 27,637
Floating or adjustable rates	21,634	4,082	6,161,952	6,187,668
Total loans	$ 21,634	$ 4,489	$ 6,189,182	$ 6,215,305
As of December 31, 2018:				
Loans				
Real estate mortgage loans:				
Multifamily residential	$ 31	$ 1,387	$ 3,649,549	$ 3,650,967
Single family residential	1,434	1,029	2,229,339	2,231,802
Commercial real estate	893	553	182,113	183,559
Construction and land	5,932	2,585	4,139	12,656
Non-mortgage	—	—	100	100
Total loans	$ 8,290	$ 5,554	$ 6,065,240	$ 6,079,084
Fixed interest rates	$ —	$ 458	$ 59,736	$ 60,194
Floating or adjustable rates	8,290	5,096	6,005,504	6,018,890
Total loans	$ 8,290	$ 5,554	$ 6,065,240	$ 6,079,084

Our fixed interest rate loans are primarily secured by single family residential properties in conjunction with our efforts to provide affordable housing to low-to-moderate income individuals. Our floating/adjustable rate loans are largely hybrid interest rate programs that provide an initial fixed term of 3 to 10 years and then convert to quarterly or semi-annual adjustments thereafter. As of June 30, 2019 and December 31, 2018, $3.8 billion and $3.6 billion, respectively, of our floating rate loans were at their floor rates. The weighted average minimum interest rate on these loans was 4.11% and 4.05% at June 30, 2019 and December 31, 2018, respectively. Hybrid adjustable rate loans still within their initial fixed term totaled $5.5 billion and $5.4 billion at June 30, 2019 and December 31, 2018, respectively. These loans had a weighted average term to first repricing date of 3.57 years and 3.79 years at June 30, 2019 and December 31, 2018, respectively.

Asset Quality

Our primary objective is to maintain a high level of asset quality in our loan portfolio. We believe our underwriting practices and policies, established by experienced professionals, appropriately govern the risk profile for our loan portfolio. These policies are continually evaluated and updated as necessary. All loans are assessed and assigned a risk classification at origination based on underlying characteristics of the transaction such as collateral type, collateral cash flow, collateral coverage and borrower strength. We believe that we have a comprehensive methodology to proactively monitor our credit quality after origination. Particular emphasis is placed on our commercial portfolio where risk assessments are re-evaluated as a result of reviewing commercial property operating statements and borrower financials on at least an annual basis. Single family residential loans are subject to an annual credit score refresh. On an ongoing basis, we also monitor payment performance, delinquencies, and tax and property insurance compliance. We believe our practices facilitate the early detection and remediation of problems within our loan portfolio. Assigned risk classifications are an integral part of management assessing the adequacy of our allowance for loan losses. We periodically employ the use of an outside independent consulting firm to evaluate our underwriting and risk assessment process. Like other financial institutions, we are subject to the risk that our loan portfolio will be exposed to increasing pressures from deteriorating borrower credit due to general economic conditions.

Nonperforming assets. Our nonperforming assets consist of nonperforming loans and foreclosed real estate, if any. It is our policy to place a loan on non-accrual status in the event that the borrower is 90 days or more delinquent, unless the loan is well secured and in the process of collection, or earlier if the timely collection of contractual payments appears doubtful. Cash payments subsequently received on non-accrual loans are recognized as income only where the future collection of the remaining principal is considered by management to be probable. Loans are restored to accrual status only when the loan is less than 90 days delinquent and not in foreclosure, and the borrower has demonstrated the ability to make future payments of principal and interest.

Troubled debt restructures. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings ("TDRs"). Concessions could include reductions of interest rates, extension of the maturity date at a rate lower than current market rate for a new loan with similar risk, reduction of accrued interest, principal forgiveness, forbearance, or other material modifications. The assessment of whether a borrower is experiencing or will likely experience financial difficulty and whether a concession has been granted is highly subjective in nature, and management's judgment is required when determining whether a modification is classified as a TDR.

The following table provides details of our nonperforming and restructured assets as of the dates presented and certain other related information:

(Dollars in thousands)	**June 30, 2019**	**December 31, 2018**
Non-accrual loans		
Multifamily residential portfolio	$ 7,124	$ 564
Single family residential portfolio	4,555	1,448
Commercial real estate	—	—
Construction and land	—	—
Non-mortgage	—	—
Total non-accrual loans	11,679	2,012
Real estate owned	—	—
Total nonperforming assets	$ 11,679	$ 2,012
Performing troubled debt restructurings	$ 3,500	$ 4,434
Allowance for loan losses to period end nonperforming loans	301.58%	1705.47%
Nonperforming loans to period end loans	0.19%	0.03%
Nonperforming assets to total assets	0.16%	0.03%
Nonperforming loans plus performing TDRs to total loans	0.24%	0.11%

When assessing whether a loan should be placed on non-accrual status because contractual payment appears doubtful, consideration is given to the information we collect on an annual basis from multifamily and commercial real estate borrowers to substantiate their future ability to repay principal and interest due on their loans as contractually agreed.

For the three and six months ended June 30, 2019, $34 thousand and $37 thousand, respectively, in interest income was recognized subsequent to a loan's classification as non-accrual. For the three and six months ended June 30, 2018, no interest income was recognized subsequent to a loan's classification as non-accrual. For the three and six months ended June 30, 2019, the Company recorded $46 thousand and $94 thousand, respectively, of interest income related to performing TDR loans, compared to $48 thousand and $102 thousand, respectively, for the three and six months ended June 30, 2018. Gross interest income that would have been recorded on non-accrual loans had they been current in accordance with their original terms was $34 thousand and $56 thousand during the three and six months ended June 30, 2019, respectively, compared to $62 thousand and $153 thousand during the three and six months ended June 30, 2018, respectively.

Allowance for loan losses. Our allowance for loan losses is maintained at a level management believes is adequate to account for probable incurred credit losses in the loan portfolio as of the reporting date. We determine the allowance based on a quarterly evaluation of risk. That evaluation gives consideration to the nature of the loan portfolio, historical loss experience, known and inherent risks in the portfolio, the estimated value of any underlying collateral, adverse situations that may affect a borrower's ability to repay, current economic and environmental conditions and risk assessments assigned to each loan as a result of our ongoing reviews of the loan portfolio. This process involves a considerable degree of judgment and subjectivity.

Our allowance is established through charges to the provision for loan losses. Loans, or portions of loans, deemed to be uncollectible are charged against the allowance. Recoveries of previously charged-off amounts are credited to our allowance for loan losses. The allowance is decreased by the reversal of prior provisions when the total allowance balance is deemed excessive for the risks inherent in the portfolio. The allowance for loan losses balance is neither indicative of the specific amounts of future charge-offs that may occur, nor is it an indicator of any future loss trends.

The following table provides information on the activity within the allowance for loan losses as of and for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Allowance for loan losses at beginning of period	$ 34,692	$ 31,980	$ 34,314	$ 30,312
Charge-offs:				
Total charge-offs	—	—	—	—
Recoveries:				
Single family residential	4	3	7	6
Commercial real estate	—	—	—	90
Construction and land	75	75	150	150
Total recoveries	79	78	157	246
Net recoveries	79	78	157	246
Provision for loan losses	450	1,300	750	2,800
Allowance for loan losses at period end	$ 35,221	$ 33,358	$ 35,221	$ 33,358
Allowance for loan losses to period end loans held for investment	0.56%	0.58%	0.56%	0.58%
Annualized net recoveries to average loans	0.01%	0.01%	0.01%	0.01%

Investment Portfolio

Our investment portfolio is generally comprised of government agency securities which are high-quality liquid investments under Basel III. The portfolio is primarily maintained to serve as a contingent, on-balance sheet source of liquidity and as such, is kept unencumbered. We manage our investment portfolio according to written investment policies approved by our board of directors. Our investment strategy aims to maximize earnings while maintaining liquidity in securities with minimal credit risk and interest rate risk which is reflective in the yields obtained on those securities. Most of our securities are classified as available for sale, although we occasionally purchase long-term fixed rate mortgage backed securities or municipal securities for community reinvestment purposes and classify those as held to maturity. In addition, we have equity securities which consist of investments in the CRA Qualified Investment Fund.

The following table presents the book value of our investment portfolio as of the dates indicated:

	June 30, 2019		December 31, 2018	
(Dollars in thousands)	**Book Value**	**% of Total**	**Book Value**	**% of Total**
Available for sale debt securities (at fair value):				
Government and Government Sponsored Entities:				
Residential mortgage backed securities and collateralized mortgage obligations ("MBS and CMOs")	$ 169,574	25.65%	$ 192,113	30.41%
Commercial MBS and CMOs	333,565	50.45%	292,951	46.37%
Agency bonds	134,105	20.28%	122,488	19.39%
U.S. Treasury	1,001	0.15%	976	0.15%
Total available for sale debt securities	638,245	96.53%	608,528	96.32%
Held to maturity (at amortized cost):				
Government Sponsored Entities:				
Residential MBS	11,117	1.68%	11,593	1.83%
Other investments	86	0.01%	267	0.04%
Total held to maturity debt securities	11,203	1.69%	11,860	1.87%
Equity securities (at fair value)	11,749	1.78%	11,438	1.81%
Total investment securities	$ 661,197	100.00%	$ 631,826	100.00%

At June 30, 2019, there was no issuer, other than U.S. government agencies where the aggregate book value or market value of such issuer's securities held by the Company exceeded 10% of our stockholders' equity.

Liabilities

Total liabilities increased $160.8 million, or 2.5%, to $6.5 billion at June 30, 2019 from December 31, 2018. The increase in total liabilities was primarily attributable to growth in our deposits of $233.5 million, or 4.7%, partially offset by a decrease in FHLB advances of $74.3 million, or 6.5%, compared to December 31, 2018.

Deposits

Representing 80.3% of our total liabilities as of June 30, 2019, deposits are our primary source of funding for our business operations. We believe we will maintain and grow our deposit customer base in the current rate environment based on our strong customer relationships, evidenced in part by increased deposits over recent years, as well as our reputation as a safe, sound, secure, "well-capitalized" institution and our commitment to excellent customer service. We are focused on growing our deposits by deepening our relationships with our existing loan and deposit customers and looking to expand our traditional product footprint with newer emphasis placed on specialty, business and online affiliations, and transactional deposits. When competitively priced and/or for asset liability management purposes, we will supplement our deposits with wholesale deposits from deposit brokers.

Total deposits increased by $233.5 million, or 4.7%, to $5.2 billion at June 30, 2019 from $5.0 billion as of December 31,

2018. Wholesale deposits increased $193.8 million and retail deposits increased $39.7 million. As we have focused on deposit pricing, we have supplemented our fundings with wholesale deposits. The proportion of time deposits in the total deposit portfolio has grown over the past year with our efforts to extend maturities, as well as customer preference for time deposits in the current rate environment. Given our consistently high retention rate at renewal and average tenure of our deposit relationships, we consider all our retail deposits, including time deposits, to be core deposits.

Our loan to deposit ratio was 119.72% and 122.59% at June 30, 2019 and December 31, 2018, respectively. It is common for us to operate with a loan to deposit ratio exceeding those commonly seen at other banks. Our higher than average ratio is attributed to our use of FHLB borrowings to supplement loan growth, as well as our preference to maintain a large proportion of our assets in real estate loans which generally provide a better yield than high-quality liquid investments.

The following table summarizes our deposit composition by average deposits and average rates paid for the periods indicated:

	Three Months Ended June 30,					
	2019			2018		
(Dollars in thousands)	Average Amount	Weighted average rate paid	Percent of total deposits	Average Amount	Weighted average rate paid	Percent of total deposits
Noninterest-bearing transaction accounts	$ 40,086	—%	0.8%	$ 34,071	—%	0.8%
Interest-bearing transaction accounts	203,362	1.36%	4.0%	182,867	0.84%	4.3%
Money market demand accounts	1,385,957	1.38%	27.0%	1,404,954	0.92%	32.9%
Time deposits	3,512,838	2.36%	68.2%	2,654,169	1.65%	62.0%
Total	$ 5,142,243	2.05%	100.0%	$ 4,276,061	1.37%	100.0%

	Six Months Ended June 30,					
	2019			2018		
(Dollars in thousands)	Average Amount	Weighted average rate paid	Percent of total deposits	Average Amount	Weighted average rate paid	Percent of total deposits
Noninterest-bearing transaction accounts	$ 40,743	—%	0.8%	$ 32,738	—%	0.8%
Interest-bearing transaction accounts	211,747	1.34%	4.2%	188,046	0.84%	4.5%
Money market demand accounts	1,369,041	1.28%	26.9%	1,456,000	0.90%	35.1%
Time deposits	3,469,932	2.32%	68.1%	2,465,542	1.56%	59.6%
Total	$ 5,091,463	2.00%	100.0%	$ 4,142,326	1.29%	100.0%

The following table sets forth the maturity of time deposits as of June 30, 2019:

(Dollars in thousands except for column headings)	Under $100,000	$100,000 and greater
Remaining maturity:		
Three months or less	$ 675,656	$ 398,790
Over three through six months	69,675	402,223
Over six through twelve months	211,265	1,173,240
Over twelve months	113,319	550,287
Total	$ 1,069,915	$ 2,524,540
Percent of total deposits	20.44%	48.23%

The Company had certificates of deposit that meet or exceed the FDIC Insurance limit of $250 thousand of $1.3 billion and $1.2 billion at June 30, 2019 and December 31, 2018, respectively. At the same dates, the Company had $611.3 million and $467.5 million, respectively, of brokered deposits.

FHLB Advances and Other Borrowings

In addition to deposits, we utilize short and long-term collateralized FHLB borrowings to fund our loan growth. FHLB advances can, at times, have attractive rates and we have commonly used them to strategically extend the duration of our liabilities as part of our interest rate risk management. Total FHLB advances decreased $74.3 million, or 6.5%, to $1.1 billion at June 30, 2019 compared to December 31, 2018. As of June 30, 2019 and December 31, 2018, the Bank pledged as collateral a $62.6 million FHLB letter of credit related to our multifamily securitization reimbursement obligation. In addition, the Bank pledged as collateral a $50.0 million FHLB letter of credit in connection with a time deposit with the State of California Treasurer's Office at June 30, 2019.

Historically, we have utilized other instruments such as trust preferred securities and senior debt at the bank holding company level as a source of capital for our Bank to support asset growth. We have established two trusts (the "Trusts") of which we own all the common securities, that have issued trust preferred securities, ("Trust Securities"), to investors in private placement transactions. The proceeds of the securities qualify as Tier 1 capital under the final Dodd Frank regulations for community banks with total assets less than $15 billion. In accordance with GAAP, the Trusts are not consolidated in our unaudited consolidated statements of financial condition but rather the common securities are included in our other assets and the junior subordinated debentures ("Notes") issued to the Trusts are shown as a liability. The following table is a summary of our outstanding Trust Securities and related Notes as of the dates indicated (dollars in thousands):

	June 30, 2019		December 31, 2018		Date	Maturity	Rate Index
Issuer	Amount	Rate	Amount	Rate	Issued	Date	(Quarterly Reset)
Luther Burbank Statutory Trust I	$ 41,238	3.79%	$ 41,238	4.17%	3/1/2006	6/15/2036	3 month LIBOR + 1.38%
Luther Burbank Statutory Trust II	$ 20,619	4.03%	$ 20,619	4.41%	3/1/2007	6/15/2037	3 month LIBOR + 1.62%

We have the right to defer payment of interest on the Notes at any time or from time to time for a period not exceeding five years provided that no extension period may extend beyond the stated maturity of the relevant Note. During any such extension period, distributions on the Trust Securities will also be deferred, and our ability to pay dividends on our common stock will be restricted.

We have entered into contractual arrangements which, taken collectively, fully and unconditionally guarantee payment of: (i) accrued and unpaid distributions required to be paid on the Trust Securities; (ii) the redemption price with respect to any Trust Securities called for redemption by the Trusts; and (iii) payments due upon a voluntary or involuntary dissolution, winding up or liquidation of the Trusts. The Trust Securities are mandatorily redeemable upon maturity of the Notes, or upon earlier redemption as provided in the indenture. We have the right to redeem the Notes purchased by the Trusts, in whole or in part, on or after the redemption date. As specified in the indenture, if the Notes are redeemed prior to maturity, the redemption price will be the principal amount and any accrued but unpaid interest.

In 2014, we issued senior debt totaling $95.0 million to qualified institutional investors. These senior notes are unsecured, carry a fixed interest coupon of 6.5%, pay interest only on a quarterly basis and mature on September 30, 2024. The senior debt is redeemable at any time prior to August 31, 2024, at a redemption price equal to the greater of (i) 100% of the principal amount, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the redemption date on a semi-annual basis at the calculated rate for a U. S. Treasury security having a comparable remaining maturity plus 30 basis points, plus in each case accrued and unpaid interest. On or after September 1, 2024, the senior debt may be redeemed at 100% of the principal amount plus accrued and unpaid interest.

The following table presents information regarding our FHLB advances and other borrowings as of and for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2019	2018	2019	2018
FHLB advances				
Average amount outstanding during the period	$ 1,093,160	$ 1,264,250	$ 1,108,629	$ 1,167,705
Maximum amount outstanding at any month-end during the period	1,052,125	1,366,851	1,052,120	1,366,851
Balance outstanding at end of period	1,068,817	1,150,746	1,068,817	1,150,746
Weighted average maturity (in years)	2.4	1.9	2.4	1.9
Weighted average interest rate at end of period	2.32%	2.23%	2.32%	2.23%
Weighted average interest rate during the period	2.35%	2.16%	2.40%	1.99%
Junior subordinated deferrable interest debentures				
Balance outstanding at end of period	$ 61,857	$ 61,857	$ 61,857	$ 61,857
Weighted average maturity (in years)	17.6	18.6	17.6	18.6
Weighted average interest rate at end of period	3.87%	3.80%	3.87%	3.80%
Weighted average interest rate during the period	4.10%	3.67%	4.18%	3.41%
Senior unsecured term notes				
Balance outstanding at end of period	$ 94,355	$ 94,228	$ 94,355	$ 94,228
Weighted average maturity (in years)	5.3	6.3	5.3	6.3
Weighted average interest rate at end of period	6.67%	6.70%	6.67%	6.70%
Weighted average interest rate during the period	6.67%	6.70%	6.68%	6.70%

Our level of FHLB advances can fluctuate on a daily basis depending on our funding needs and the availability of other sources of funds to satisfy those needs. Short-term advances allow us flexibility in funding particularly when planned transactions will yield an immediate large inflow of cash.

The following table sets forth the amount of short-term borrowings outstanding, comprised entirely of FHLB advances, as well as the weighted average interest rate thereon, as of the dates indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2019	2018	2019	2018
Outstanding at period end	$ 16,700	$ 148,100	$ 16,700	$ 148,100
Average amount outstanding	52,303	325,887	97,388	387,981
Maximum amount outstanding at any month end	78,000	489,200	209,700	495,700
Weighted average interest rate:				
During period	2.57%	1.89%	2.57%	1.69%
End of period	2.52%	2.08%	2.52%	2.08%

Stockholders’ Equity

Stockholders’ equity totaled $597.5 million and $581.1 million at June 30, 2019 and December 31, 2018, respectively. The increase in stockholders' equity is primarily related to net income of $23.7 million, less dividends paid of $6.6 million and stock repurchases of $7.6 million during the six months ended June 30, 2019.

During the quarter and six months ended June 30, 2019, the Company repurchased 366,701 and 759,701 shares, respectively, in connection with its stock repurchase program at an average price of $10.22 and $10.04 per share, respectively, and a total cost of $3.7 million and $7.6 million, respectively.

Off-Balance Sheet Arrangements

In the normal course of business, we enter into various transactions that are not included in our unaudited consolidated statements of financial condition in accordance with GAAP. These transactions include commitments to extend credit in the ordinary course of business including commitments to fund new loans and undisbursed construction funds. While these commitments represent contractual cash requirements, a portion of these commitments to extend credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The following is a summary of our off-balance sheet commitments outstanding as of the dates presented.

(Dollars in thousands)	June 30, 2019	December 31, 2018
Commitments to fund loans held for investment	$ 120,672	$ 70,858

In connection with our Freddie Mac multifamily loan securitization, we entered into a reimbursement agreement pursuant to which we may be required to reimburse Freddie Mac for the first losses in the underlying loan portfolio, not to exceed 10% of the unpaid principal amount at settlement, or approximately $62.6 million. A $62.6 million letter of credit with the FHLB is pledged as collateral in connection with this reimbursement agreement. We have recorded a reserve for estimated losses with respect to the reimbursement obligation of $1.3 million and $1.4 million as of June 30, 2019 and December 31, 2018, respectively, which is included in other liabilities and accrued expenses on the unaudited consolidated statements of financial condition.

We guarantee the distributions and payments for redemption or liquidation of the Trust Securities issued by the Trusts to the extent of funds held by the Trusts. Although this guarantee is not separately recorded, the obligation underlying the guarantee is fully reflected on our unaudited consolidated statements of financial condition as junior subordinated debentures held by the Trusts. The junior subordinated debentures currently qualify as Tier 1 capital under the Federal Reserve capital adequacy guidelines. With the exception of our obligations in connection with its Trust Securities and the items detailed above, we have no other off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources, that is material to investors.

Contractual Obligations

The following table presents, as of June 30, 2019, our significant contractual obligations to third parties on debt and lease agreements and service obligations. For more information about our contractual obligations, see Part I, Item 1, "Financial Statements and Supplementary Data", Note 15. ‘‘Commitments and Contingencies,’’ in the notes to our unaudited consolidated financial statements.

		Payments Due by Period			
(Dollars in thousands)	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
Contractual Cash Obligations					
Time deposits (1)	$ 3,594,455	$ 2,930,849	$ 652,514	$ 11,092	$ —
FHLB advances (1)	1,068,817	316,700	350,600	400,750	767
Senior debt (1)	95,000	—	—	—	95,000
Junior subordinated debentures (1)	61,857	—	—	—	61,857
Operating leases	15,960	4,798	6,989	2,942	1,231
Significant contract (2)	3,115	1,677	1,438	—	—
Total	$ 4,839,204	$ 3,254,024	$ 1,011,541	$ 414,784	$ 158,855

(1) Amounts exclude interest

(2) We have one significant, long-term contract for core processing services which expires May 9, 2021. The actual obligation is unknown and dependent on certain factors including volume and activities. For purposes of this disclosure, future obligations are estimated using our current year to date average monthly expense extrapolated over the remaining life of the contract.

We believe that will we be able to meet our contractual obligations as they come due. Adequate cash levels are expected through profitability, repayments from loans and securities, deposit gathering activity, access to borrowing sources and periodic loan sales.

Liquidity Management and Capital Adequacy Liquidity Management

Liquidity refers to our capacity to meet our cash obligations at a reasonable cost. Our cash obligations require us to have cash flow that is adequate to fund loan growth and maintain on-balance sheet liquidity while meeting present and future obligations of deposit withdrawals, borrowing maturities and other contractual cash obligations. In managing our cash flows, management regularly confronts situations that can give rise to increased liquidity risk. These include funding mismatches, market constraints in accessing sources of funds and the ability to convert assets into cash. Changes in economic conditions or exposure to credit, market, operational, legal and reputational risks also could affect the bank's liquidity risk profile and are considered in the assessment of liquidity management.

We continually monitor our liquidity position to ensure that our assets and liabilities are managed in a manner to meet all reasonably foreseeable short-term, long-term and strategic liquidity demands. Management has established a comprehensive management process for identifying, measuring, monitoring and controlling liquidity risk. Because of its critical importance to the viability of the Bank, liquidity risk management is fully integrated into our risk management processes. Critical elements of our liquidity risk management include: effective corporate governance consisting of oversight by the board of directors and active involvement by management; appropriate strategies, policies, procedures, and limits used to manage and mitigate liquidity risk; comprehensive liquidity risk measurement and monitoring systems including stress tests that are commensurate with the complexity of our business activities; active management of intraday liquidity and collateral; an appropriately diverse mix of existing and potential future funding sources; adequate levels of highly liquid marketable securities free of legal, regulatory, or operational impediments, that can be used to meet liquidity needs in stressful situations; comprehensive contingency funding plans that sufficiently address potential adverse liquidity events and emergency cash flow requirements; and internal controls and internal audit processes sufficient to determine the adequacy of the Bank's liquidity risk management process.

Our liquidity position is supported by management of our liquid assets and liabilities and access to alternative sources of funds. Our liquidity requirements are met primarily through our deposits, FHLB advances and the principal and interest payments we receive on loans and investment securities. Cash on hand, cash at third party banks, investments available for sale and maturing or prepaying balances in our investment and loan portfolios are our most liquid assets. Other sources of liquidity that are routinely available to us include funds from retail and wholesale deposits, advances from the FHLB and proceeds from the sale of loans. Less commonly used sources of funding include borrowings from the FRB discount window, draws on established federal funds lines from unaffiliated commercial banks and the issuance of debt or equity securities. We believe we have ample liquidity resources to fund future growth and meet other cash needs as necessary.

Our total deposits at June 30, 2019 and December 31, 2018 were $5.2 billion and $5.0 billion, respectively. Based on the values of loans pledged as collateral, we had $810.9 million of additional borrowing capacity with the FHLB at June 30, 2019. Based on the values of loans pledged as collateral, we had $166.1 million of borrowing capacity with the FRB at June 30, 2019. There were no outstanding advances with the FRB at June 30, 2019. In addition to the liquidity provided by the FHLB and FRB described above, we have established federal funds lines of credit with unaffiliated banks totaling $50.0 million at June 30, 2019, none of which was advanced at that date. In the ordinary course of business, we maintain correspondent bank accounts with unaffiliated banks which are used for normal business activity including ordering cash for our branch network, the purchase of investment securities and the receipt of principal and interest on those investments. Cash balances at correspondent banks, including amounts at the FRB, totaled $93.9 million at June 30, 2019.

The Company is a corporation separate and apart from our Bank and, therefore, must provide for its own liquidity, including liquidity required to meet its debt service requirements on its senior notes and junior subordinated debentures. The Company's main source of cash flow is dividends declared and paid to it by the Bank. There are statutory and regulatory limitations that affect the ability of our Bank to pay dividends to the Company. We believe that these limitations will not impact our ability to meet our ongoing short-term cash obligations. For contingency purposes, the Company typically maintains a minimum level of cash to fund one year's projected operating cash flow needs.

Capital Adequacy

We are subject to various regulatory capital requirements administered by the federal and state banking regulators. Our capital management consists of providing equity to support our current operations and future growth. Failure to meet minimum regulatory capital requirements may result in mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and off-balance sheet items as calculated under regulatory accounting policies. As of June 30, 2019 and December 31, 2018, we were in compliance with all applicable regulatory capital requirements, including the capital conservation buffer, and the Bank qualified as ''well-capitalized'' for purposes of the FDIC's prompt corrective action regulations. At June 30, 2019, the capital conservation buffer was 2.50%.

The vast majority of our multifamily residential loans and single family residential loans are eligible for 50% risk-weighting for purposes of calculating our regulatory capital levels. To the extent that we increase our levels of commercial real estate lending collateralized by real estate other than multifamily residential properties, which loans would generally be 100% risk weighted, we would expect that our risk-based capital ratios would decline. Our leverage ratio is not impacted by the composition of our assets.

The following table presents our regulatory capital ratios as of the dates presented, as well as the regulatory capital ratios that are required by FDIC regulations to maintain ''well-capitalized'' status:

			Minimum Required					
	Actual		For Capital Adequacy Purposes		Plus Capital Conservation Buffer		For Well- Capitalized Institution	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Luther Burbank Corporation								
As of June 30, 2019								
Tier 1 Leverage Ratio	$ 654,899	9.30%	$ 281,806	4.00%	N/A	N/A	N/A	N/A
Common Equity Tier 1 Risk-Based Ratio	593,042	14.67%	181,899	4.50%	$ 282,954	7.00%	N/A	N/A
Tier 1 Risk-Based Capital Ratio	654,899	16.20%	242,532	6.00%	343,587	8.50%	N/A	N/A
Total Risk-Based Capital Ratio	691,586	17.11%	323,376	8.00%	424,431	10.50%	N/A	N/A
As of December 31, 2018								
Tier 1 Leverage Ratio	$ 644,344	9.42%	$ 273,544	4.00%	N/A	N/A	N/A	N/A
Common Equity Tier 1 Risk-Based Ratio	582,487	14.74%	177,873	4.50%	$ 251,986	6.38%	N/A	N/A
Tier 1 Risk-Based Capital Ratio	644,344	16.30%	237,164	6.00%	311,277	7.88%	N/A	N/A
Total Risk-Based Capital Ratio	679,841	17.20%	316,218	8.00%	390,332	9.88%	N/A	N/A
Luther Burbank Savings								
As of June 30, 2019								
Tier 1 Leverage Ratio	$ 730,191	10.37%	$ 281,699	4.00%	N/A	N/A	$ 352,124	5.00%
Common Equity Tier 1 Risk-Based Ratio	730,191	18.08%	181,740	4.50%	$ 282,706	7.00%	262,513	6.50%
Tier 1 Risk-Based Capital Ratio	730,191	18.08%	242,320	6.00%	343,286	8.50%	323,093	8.00%
Total Risk-Based Capital Ratio	766,878	18.99%	323,093	8.00%	424,059	10.50%	403,866	10.00%
As of December 31, 2018								
Tier 1 Leverage Ratio	$ 728,414	10.65%	$ 273,469	4.00%	N/A	N/A	$ 341,836	5.00%
Common Equity Tier 1 Risk-Based Ratio	728,414	18.43%	177,820	4.50%	$ 251,912	6.38%	256,851	6.50%
Tier 1 Risk-Based Capital Ratio	728,414	18.43%	237,094	6.00%	311,185	7.88%	316,125	8.00%
Total Risk-Based Capital Ratio	763,911	19.33%	316,125	8.00%	390,217	9.88%	395,156	10.00%

Impact of Inflation and Changing Prices

Our unaudited consolidated financial statements and related notes have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars, without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of operations. Unlike most industrial companies, nearly all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods or services.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the exposure to unanticipated changes in net interest earnings or loss due to changes in the market value of assets and liabilities as a result of fluctuations in interest rates. As a financial institution, our primary market risk is interest rate risk. Interest rate risk is the risk to earnings and value arising from volatility in market interest rates. Interest rate risk arises from timing differences in the repricings and maturities of interest-earning assets and interest-bearing liabilities (reprice risk), changes in the expected maturities of assets and liabilities arising from embedded options, such as borrowers' ability to prepay loans at any time and depositors' ability to redeem certificates of deposit before maturity (option risk), changes in the shape of the yield curve where interest rates increase or decrease in a nonparallel fashion (yield curve risk), and changes in spread relationships between different yield curves, such as U.S. Treasuries and LIBOR (basis risk).

We manage market risk though our Asset Liability Council ("ALCO") which is comprised of senior management who are responsible for ensuring that board approved strategies, policy limits, and procedures for managing interest rate risk are appropriately executed within the designated lines of authority and responsibility. The ALCO meets monthly to review, among other things, the composition of our assets and liabilities, the sensitivity of our assets and liabilities to interest rate changes, our actual and forecasted liquidity position, investment activity and our interest rate hedging transactions. The ALCO reports regularly to our board of directors. Our board reviews all policies impacting asset and liability management and establishes risk tolerance limits for business operations on at least an annual basis.

Interest rate risk management is an active process that encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective management of interest rate risk begins with understanding the dynamic characteristics of assets and liabilities and determining the appropriate interest rate risk posture given business forecasts, management objectives, market expectations, and policy constraints. In recognition of this, we actively manage our assets and liabilities to maximize our net interest income and return on equity, while managing our risk exposure and maintaining adequate liquidity and capital positions.

Given the nature of our loan and deposit activities, we are liability sensitive to volatility in interest rates. A liability sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate lower net interest income, as rates paid on our interest-bearing liabilities would reprice upward more quickly than rates earned on our interest-earning assets, thus compressing our net interest margin. Conversely, an asset sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate higher net interest income, as rates earned on our interest-earning assets would reprice upward more quickly than rates paid on our interest-bearing liabilities, thus expanding net interest margin.

We use two primary modeling techniques to assess our exposure to interest rates that simulate the earnings and valuation effects of variations in interest rates: Net Interest Income at Risk ("NII at Risk") and the Economic Value of Equity ("EVE"). These models require that we use numerous assumptions, including asset and liability pricing and repricing, future growth, prepayment rates, non-maturity deposit sensitivity and decay rates. These assumptions are inherently uncertain and, as a result, the models cannot precisely predict the fluctuations in market interest rates or precisely measure the impact of future changes in interest rates. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

Stress testing the balance sheet and net interest income using instantaneous parallel shock movements in the yield curve of -200 to 400 basis points is a regulatory and banking industry practice. However, these stress tests may not represent a realistic forecast of future interest rate movements in the yield curve.

Instantaneous parallel interest rate shock modeling is not a predictor of actual future performance of earnings. It is a financial metric used to manage interest rate risk, implement hedging transactions if the metric rises above policy limits

for interest rate risk, and track the movement of the bank's interest rate risk position over a historical time frame for comparison purposes.

Our earnings are a function of collecting both a credit risk premium on our loans and an interest rate risk premium on our balance sheet position. The purpose of these premiums being to diversify our earnings position with both credit risk and interest rate risk, which tend to be negatively correlated historically for the Bank. During weak economic times, such as the financial crisis of 2007-2008, our loan losses are higher than normal, but the Federal Reserve will generally reduce short-term interest rates in an attempt to stimulate the economy and add liquidity. As a result, our interest rate spread will generally increase during those periods. During strong economic times, when the Federal Reserve raises short-term interest rates to dampen economic activity, the Bank's interest rate spread decreases. These periods are often indicative of inflation and real property value increases. As such, the decrease in net interest income is typically somewhat offset by declining loan losses in our loan portfolio. There is no guarantee, however, that the past countercyclical nature of our loan losses and our net interest spread declines will continue in the future.

On a quarterly basis, we measure and report NII at Risk to isolate the change in income related solely to interest-earning assets and interest-bearing liabilities. The following table illustrates the results of our NII at Risk analysis to determine the extent to which our net interest income over the following 12 months would change if prevailing interest rates increased or decreased by the specified amounts at June 30, 2019. It models instantaneous parallel shifts in market interest rates, implied by the forward yield curve over the next one year period.

Interest Rate Risk to Earnings (NII)
June 30, 2019
(Dollars in millions)

Change in Interest Rates (basis points)	$ Change NII	% Change NII
+400 BP	$(27.5)	(19.1)%
+300 BP	(18.3)	(12.7)%
+200 BP	(10.7)	(7.4)%
+100 BP	(5.2)	(3.6)%
-100 BP	5.2	3.6%
-200 BP	10.0	6.9%

The NII at Risk reported at June 30, 2019 reflects that our earnings are in a liability sensitive position in which an increase in interest rates is expected to generate lower net interest income. All NII stress tests measures were within our board established limits.

EVE measures the period end market value of assets minus the market value of liabilities and the change in this value as rates change. The EVE results included in the table below reflect the analysis reviewed monthly by management. It models instantaneous parallel shifts in market interest rates, implied by the forward yield curve. The EVE model calculates the market value of capital by taking the present value of all asset cash flows less the present value of all liability cash flows.

Interest Rate Risk to Capital (EVE)
June 30, 2019
(Dollars in millions)

Change in Interest Rates (basis points)	$ Change EVE	% Change EVE
+400 BP	$(235.8)	(38.3)%
+300 BP	(149.1)	(24.2)%
+200 BP	(83.0)	(13.5)%
+100 BP	(36.0)	(5.9)%
-100 BP	45.3	7.4%
-200 BP	82.8	13.5%

The EVE at Risk reported at June 30, 2019 reflects that our market value of capital is in a liability sensitive position in which an increase in interest rates is expected to generate lower market values of capital. All EVE stress tests measures were within our board established limits.

Certain shortcomings are inherent in the NII and EVE analyses presented above. Both the NII and EVE simulations include assumptions regarding balances, asset prepayment speeds, deposit repricing and runoff and interest rate relationships among balances that we believe to be reasonable for the various interest rate environments. Differences in actual occurrences from these assumptions, as well as nonparallel changes in the yield curve, may change our market risk exposure. Simulated results are not intended to be used as a forecast of the actual effect of changes in market interest rates on our results, but rather as a means to better plan and execute appropriate interest rate risk strategies.

Hedge Positions

In managing our market risk, our board of directors has authorized the ALCO to utilize interest rate caps and swaps to mitigate on-balance sheet interest rate risk in accordance with regulations and our internal policy. We use or expect to use interest rate caps and swaps as macro hedges against inherent rate sensitivity in our loan portfolio, other interest-earning assets and our interest-bearing liabilities. Positions for hedging purposes are undertaken as mitigation to exposure primarily from mismatches between assets and liabilities.

We typically utilize FHLB advances with embedded interest rate caps to hedge our liability sensitive interest rate risk position. The interest rate caps embedded in FHLB advances do not qualify as derivative contracts. The cost of these contracts is inseparable from the cost of the advances and, as such, is included in interest expense in our unaudited consolidated statements of income. In addition, we entered into a two-year interest rate swap with a total notional amount of $500.0 million to hedge the interest rate risk related to certain hybrid multifamily loans which are currently in their fixed rate period. The swap is designated as a fair value hedge and involves the payment of a fixed rate amount to a counterparty in exchange for the Company receiving a variable rate payment over the life of the swap without the exchange of the underlying notional amount. The gain or loss on this derivative, as well as the offsetting loss or gain on the hedged items attributable to the hedged risk are recognized in interest income for loans.

The following table summarizes FHLB borrowings with embedded caps and the one derivative instrument utilized by us as interest rate risk hedge positions as of June 30, 2019:

(Dollars in thousands)				Fair Value	
Hedging Instrument	Hedge Accounting Type	Months to Maturity	Notional	Other Assets	Other Liabilities
FHLB fixed rate advance	With embedded cap	3	$ 75,000	$ —	$ —
FHLB fixed rate advance	With embedded cap	4	30,000	—	—
FHLB fixed rate advance	With embedded cap	4	45,000	—	—
FHLB fixed rate advance	With embedded cap	8	50,000	—	—
FHLB fixed rate advance	With embedded cap	10	50,000	—	—
FHLB fixed rate advance	With embedded cap	20	100,000	—	—
FHLB fixed rate advance	With embedded cap	20	50,000	—	—
Interest rate swap	Fair value hedge	24	500,000	—	13
			$ 900,000	$ —	$ 13

Counterparty Credit Risk

Derivative contracts involve the risk of dealing with institutional derivative counterparties and their ability to meet contractual terms. Our policies require that counterparties must be approved by our ALCO and all positions over and above the minimum transfer amounts are secured by marketable securities or cash.

Item 4. Controls and Procedures

Management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness as of June 30, 2019, of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15(d)-15(e) under the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2019 in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management of the Company as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, such controls.

PART II.

Item 1. Legal Proceedings

From time to time, we are party to legal actions that are routine and incidental to our business. Given the nature, scope and complexity of the extensive legal and regulatory landscape applicable to our business, we, like all banking organizations, are subject to heightened regulatory compliance and legal risk. However, based on available information, management does not expect the ultimate disposition of any or a combination of these actions to have a material adverse effect on our business, financial condition and results of operation.

Item 1A. Risk Factors

There were no material changes from the risks disclosed in the Risk Factors section of the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

None.

Purchases of Equity Securities

The table below summarizes the Company's monthly repurchases of equity securities during the three months ended June 30, 2019 (dollars in thousands, except per share data):

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Program (1)
April 1-30, 2019	3,500	$ 10.21	3,500	$ 9,589
May 1-31, 2019	238,400	10.21	238,400	7,155
June 1-30, 2019	124,801	10.26	124,801	5,875
Total	366,701	$ 10.22	366,701	$ 5,875

(1) In August 2018, the Company's Board of Directors authorized the purchase of up to $15.0 million of the Company's common stock from August 17, 2018 through December 31, 2019 (the "Repurchase Program"), which was announced by press release and Current Report on Form 8-K on August 16, 2018 and August 17, 2018, respectively. Under the Repurchase Program, the Company may acquire its common stock in the open market or in privately negotiated transactions, including 10b5-1 plans. The Repurchase Program may be modified, suspended or terminated by the Board of Directors at any time without notice. In December 2018, the Company adopted a systematic stock repurchase plan in accordance with, and as part of, the Repurchase Program. The plan was effective from December 17, 2018 until two days following the Company's release of its 2018 year-end financial results and was announced by press release and Current Report on Form 8-K on December 14, 2018. In January 2019, the Company adopted a systematic stock repurchase plan in accordance with, and as part of, the Repurchase Program. The plan is effective from January 31, 2019 until December 31, 2019 and was announced by Current Report on Form 8-K on February 1, 2019. These plans were adopted under the guidelines specified by Rule 10b5-1 and under Rule 10b-18 under the Securities Exchange Act of 1934, as amended, and the Company's Insider Trading Policy.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description	Filed Herewith	Incorporated by Reference Form	File No.	Exhibit	Filing Date
3.1	Amended and Restated Articles of Incorporation of Luther Burbank Corporation		S-1	333-221455	3.1	11/9/2017
3.2	Amended and Restated Bylaws of Luther Burbank Corporation		S-1	333-221455	3.2	11/9/2017
4.1	Specimen Certificate for Common Stock		S-1	333-221455	4.1	11/9/2017
4.2	Indenture, dated as of March 30, 2006 between Luther Burbank Corporation and Wilmington Trust Company, as trustee (1)					
4.3	Amended and Restated Declaration of Trust, dated as of March 30, 2006, between Luther Burbank Corporation and Wilmington Trust Company, as trustee, and the named Administrators (1)					
4.4	Guarantee Agreement dated as of March 30, 2006, between Luther Burbank Corporation and Wilmington Trust Company, as trustee (1)					
4.5	Indenture, dated as of March 30, 2007, between Luther Burbank Corporation and Wilmington Trust Company, as trustee (1)					
4.6	Amended and Restated Declaration of Trust, dated as of March 30, 2007, between Luther Burbank Corporation and Wilmington Trust Company, as trustee, and the named Administrators (1)					
4.7	Guarantee Agreement dated as of March 30, 2007, between Luther Burbank Corporation and Wilmington Trust Company, as trustee (1)					
10.1	Employment Agreement, dated as of November 6, 2017 between Luther Burbank Corporation and John G. Biggs		S-1	333-221455	10.2	11/9/2017
10.2	Employment Agreement, dated as of August 1, 2016, between Luther Burbank Savings and Laura Tarantino		S-1	333-221455	10.3	11/9/2017
10.3	Employment Agreement, dated as of August 1, 2016, between Luther Burbank Savings and Liana Prieto		S-1	333-221455	10.4	11/9/2017
10.4	Amended and Restated Salary Continuation Agreement, dated as of April 25, 2006, between Luther Burbank Savings and Victor S. Trione		S-1	333-221455	10.5	11/9/2017
10.5	First Amendment to Amended and Restated Salary Continuation Agreement, dated as of December 5, 2008, between Luther Burbank Savings and Victor S. Trione		S-1	333-221455	10.6	11/9/2017
10.6	Second Amendment to Amended and Restated Salary Continuation Agreement, dated as of May 2, 2016, between Luther Burbank Savings and Victor S. Trione		S-1	333-221455	10.7	11/9/2017
10.7	Amended and Restated Salary Continuation Agreement, dated as of January 1, 2005, between Luther Burbank Savings and John G. Biggs		S-1	333-221455	10.8	11/9/2017
10.8	First Amendment to Amended and Restated Salary Continuation Agreement, dated as of December 5, 2008, between Luther Burbank Savings and John G. Biggs		S-1	333-221455	10.9	11/9/2017
10.9	Salary Continuation Agreement, dated as of April 25, 2006, between Luther Burbank Savings and Laura Tarantino		S-1	333-221455	10.10	11/9/2017
10.10	First Amendment to Salary Continuation Agreement, dated as of December 5, 2008, between Luther Burbank Savings and Laura Tarantino		S-1	333-221455	10.11	11/9/2017

Exhibit Number	Description	Filed Herewith	Incorporated by Reference			
			Form	File No.	Exhibit	Filing Date
10.11	Form of Indemnification Agreement, dated November 11, 2011, between Luther Burbank Corporation and each of John G. Biggs, Bradley M. Shuster and Victor S. Trione, and dated August 28, 2014 between Luther Burbank Corporation and Anita Gentle Newcomb		S-1	333-221455	10.12	11/9/2017
10.12	Form of Indemnification Agreement, dated as of November 17, 2011 between Luther Burbank Savings and John G. Biggs, Bradley M. Shuster and Victor S. Trione, and dated August 28, 2014 between Luther Burbank Savings and Anita Gentle Newcomb		S-1	333-221455	10.13	11/9/2017
10.13	Form of Indemnification Agreement between Luther Burbank Savings and each of Laura Tarantino (dated March 15, 2012), John Cardamone (dated April 24, 2014) and Liana Prieto (dated August 2, 2014)		S-1	333-221455	10.14	11/9/2017
10.14	Luther Burbank Corporation Executive Change in Control Severance Plan		S-1	333-221455	10.15	11/9/2017
10.15	Form of Senior Note Purchase Agreement dated September 29, 2014		S-1	333-221455	10.16	11/9/2017
10.16	Form of Senior Note due September 30, 2024		S-1	333-221455	10.17	11/9/2017
10.17	S Corp Termination and Tax Sharing Agreement		10-K	001-38317	10.17	3/16/2018
10.18	Luther Burbank Corporation Omnibus Equity and Incentive Compensation Plan		S-1	333-221455	10.19	11/9/2017
10.19	Second Amendment to Amended and Restated Salary Continuation Agreement, dated as of November 6, 2017 between Luther Burbank Savings and John G. Biggs		S-1	333-221455	10.21	11/9/2017
10.20	Retirement and Consulting Agreement and General Release of Claims by and between Luther Burbank Corporation and John G. Biggs, dated November 30, 2018		8-K	001-38317	10.1	12/6/2018
10.21	Employment Agreement by and between Luther Burbank Corporation and Simone Lagomarsino, dated November 30, 2018		8-K	001-38317	10.2	12/6/2018
10.22	Amended and Restated Employment Agreement by and between Luther Burbank Corporation and Laura Tarantino, dated November 30, 2018		8-K	001-38317	10.3	12/6/2018
10.23	Amended and Restated Employment Agreement by and between Luther Burbank Corporation and Liana Prieto, dated November 30, 2018		8-K	001-38317	10.4	12/6/2018
10.24	Second Amendment to the Salary Continuation Agreement between Luther Burbank Savings and Laura Tarantino, dated November 30, 2018		8-K	001-38317	10.5	12/6/2018
31.1	Rule 13a-14(a) Certification of Chief Executive Officer*	X				
31.2	Rule 13a-14(a) Certification of Chief Financial Officer*	X				
32.1	Section 1350 Certification of Chief Executive Officer*	X				
32.2	Section 1350 Certification of Chief Financial Officer*	X				
101	Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2019 is formatted in XBRL (Extensible Business Reporting Language) interactive data files: (i) the Consolidated Statements of Financial Condition (Unaudited), (ii) the Consolidated Statements of Income (Unaudited), (iii) the Consolidated Statements of Comprehensive Income (Unaudited), (iv) the Consolidated Statements of Changes in Stockholders' Equity (Unaudited), (v) the Consolidated Statements of Cash Flows (Unaudited), and (vi) the Notes to Unaudited Condensed Consolidated Financial Statements.	X				

(1) Not filed in accordance with the provision of Item 601(b)(4)(v) of Regulation S-K. The Company agrees to provide a copy of these documents to the Commission upon request.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		LUTHER BURBANK CORPORATION
DATED:	AUGUST 9, 2019	By: /s/ Simone Lagomarsino Simone Lagomarsino President and Chief Executive Officer
DATED:	AUGUST 9, 2019	By: /s/ Laura Tarantino Laura Tarantino Executive Vice President and Chief Financial Officer

EXHIBIT 31.1

LUTHER BURBANK CORPORATION

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934.

I, Simone Lagomarsino, certify that:

1. I have reviewed this report on Form 10-Q of Luther Burbank Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a- 15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2019

By: /s/ Simone Lagomarsino

Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

LUTHER BURBANK CORPORATION

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934.**

I, Laura Tarantino, certify that:

1. I have reviewed this report on Form 10-Q of Luther Burbank Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a- 15(f) and 15d-15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2019

By: /s/ Laura Tarantino

Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

LUTHER BURBANK CORPORATION

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

I, Simone Lagomarsino, state and attest that:

1. I am the Chief Executive Officer of Luther Burbank Corporation (the "Corporation").
2. I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

   - The Quarterly Report on Form 10-Q of the Corporation for the quarter ended June 30, 2019 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

   - The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation as of, and for, the periods presented.

Date: August 9, 2019

By: /s/ Simone Lagomarsino

Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

LUTHER BURBANK CORPORATION

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

I, Laura Tarantino, state and attest that:

1. I am the Chief Financial Officer of Luther Burbank Corporation (the "Corporation").

2. I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

   - The Quarterly Report on Form 10-Q of the Corporation for the quarter ended June 30, 2019 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

   - The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation as of, and for, the periods presented.

Date: August 9, 2019

By: /s/ Laura Tarantino

Chief Financial Officer
(Principal Financial Officer)