First PacTrust Bancorp, Inc

Moderator: Gregory Mitchell
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1:30 p.m. ET

Operator: Hello and welcome to First PacTrust Bank Corp Inc's April 27, 2011 first quarter 2011 earnings Investor conference call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question press the pound key. I now like to turn the conference over to Mr. James Sheehy Executive Vice President, Secretary and Treasurer for First PacTrust Bank Corp. Mr. Sheehy you may begin.

James Sheehy: Thank you. Good afternoon everyone and thanks for joining us for today's first quarter 2011 earnings investor conference call. With me on the call today are First PacTrust Bank Corp President and Chief Executive Officer Gregory A. Mitchell. Also here to assist Mr. Mitchell and answering our questions later during this teleconference is the company's Principal Accounting Officer Senior Vice President and Controller Reagan Lauer. The President and Chief Executive Officer of the company's wholly owned Pacific Trust Bank subsidiary Hans Ganz and the banks Executive Vice President and Chief Administrative Officer Richard Herrin.

Also joining us and available for answering questions if need be is the company's internal Asset Review Officer Phillip Lam. Today's conference call is being recorded for replay via phone and a copy of the recording and a transcript of the meeting will be available later on the company's investor relations website. Before I turn it over to Greg I want to remind everyone as

always elements of this presentation are forward looking and are based on our best view of the world in our businesses as we see them today. Those elements can change as the world changes, please interpret them in that light.

The forward-looking statements in today's first quarter earnings release and AK filing also apply to our comments today. Those documents are available on our firstpactrustcorp.com investor relations website. As our other AKs file regarding investor presentation materials and other matters. A PDF file of the investor presentation for the first quarter 2011 slide show for this earnings conference call can be found on the company's investor relations website under the link entitled annual reports and presentations. You will have time for questions and answers at the end of the presentation and now I'll turn it over to our President and CEO Greg Mitchell.

Gregory Mitchell: Thank you Jim and good afternoon everyone. I very much appreciate you all joining us for the first quarter earnings call for First PacTrust Bank Corp and very much appreciate your support of our company. This has been an amazing quarter and I'm very pleased to report the results not only from a financial perspective but also organizational perspective and hopefully lay out for you the groundwork that we have laid to continue to build a great community banking franchise here in San Diego County and ultimately throughout Southern California.

Now during our last call AK earnings announcement and many of my visits with the analysts that are now following Pacific Trust Bank, I talked about a strategy aimed at building a core franchise that began with a baseline assessment of our operations to understand what we really had here at Pacific Trust, what we needed to take it to the next level and then filling those needs with the resources that will help PacTrust realize it's long term vision.

I'm very pleased to report that that baseline assessment or initial review was completed and with that the bank has made tremendous progress in addressing a number of challenges while also improving the overall performance of the organization and I'll talk about some of the results of that later this morning.

While the results of these baseline assessments and rebuilding activities resulted in some level of noise in the bank's earnings and asset quality numbers, directionally I'm again very pleased with where they are. So before I jump into specific elements of the quarterly press release I want to talk about things from a macro regulatory perspective on my assessment of where we are and where we are going. Surely from a capital perspective the company continues to be strong far exceeding our regulatory performance in the OTS and ultimately the OCC in the Federal Reserve and will prepare to make that transition to those regulatory agencies in July of this year.

From an asset quality perspective I am generally pleased with improving trends from a delinquency perspective a classified asset perspective and a classified assets as a percent of capital plus reserves. While we had some delayed restructurings on a few loans that we expect to cure during Q2 directionally the portfolio looks pretty darn solid and I'm happy to provide additional color on that as we go through the call.

Management very pleased with the progress that's been made there. Since January, this bank has benefited from the work of Gaylin Anderson who is our new Executive Vice President and Director of Retail Banking at support staff that he has brought with him into the organization benefit greatly from the efforts of Chang Liu who was our new Director – excuse me Chief Lending Officer and Executive Vice President of the bank and who has been busy building a book, developing an infrastructure and recruiting great talent into the company benefited greatly from Matt Bonaccorso our Executive Vice President and Chief Credit Officer who has been busy better preparing the company to take advantage of growth opportunities, strategic initiatives, purchased asset activities and other programs that will benefit Pacific Trust Bank in the long term.

These folks between them have more than 75 years of collective experience operating community banks that are much larger than Pacific Trust Bank and will really be leaders as we take the company forward. Equally, I'm impressed with the way in which the employees of Pacific Trust Bank and Bank Corp have really rallied around the new direction and helped us in commencing the transformation of this organization. I'm heartened by the

hard work that's been put in by so many people and the way the employees of Pacific Trust Bank have embraced new direction to changes and I believe that spirit and that dedication will pay great dividends for us in future periods.

From a management – excuse me, from an earnings perspective the company generated $2 million in core earnings or roughly $0.20 per share during the first quarter. Earnings were – had two principal non-core items in them; one including a large OREO adjustment which I'll spend additional time explaining later and the second being roughly an $863,000 non-core accrual for certain change in control benefits do one of the senior officers of Pacific Trust Bank and I'll spend more time talking about that later as well.

After taking into consideration those non-core items net income available to common shareholders was $0.7 per share or just under $700,000 for the quarter. Importantly, some of the core fundamentals for earnings remain stable to improve in the first quarter. the banks cost of deposits decline significantly as we made great progress in continuing to shift the mix and a pricing structure of our deposit relationships while growing the core relationships that the market will value from a qualitative earnings perspective and shrinking single product institutional or really non-relationship deposits that really had no value to us as an organization.

We also made better progress in redeploying some of the excess cash that existed at the holding company into asset purchases from the thrift and purchases of additional securities. So while I certainly like to see enhancements to our net interest margin I think a combination of the work that was done in restructuring portfolios and the work that was done in building a stronger retail banking platform and stronger loan production platform will pay great dividends for Pacific Trust Bank and ultimately bank work and our shareholders in future periods.

From a liquidity perspective incredibly impressed with the progress made by our branch team in embracing change, embracing building excellence, embracing new branding initiatives that have gone on (inaudible) national and greatly improving the level of sales on an individual basis and on a daily basis throughout the organization. The mix will benefit Pacific Trust Bank for

many, many years – change in the mix will benefit Pacific Trust Bank for many, many years.

Then from an interest rate (substitivity) perspective we've continued to improve the bank's ability to manage rising interest rates. We've modeled our earnings forecast against the Bloomberg Forward Curve against (inaudible) and are comfortable with what we're seeing now and are comfortable with what we expect to see in future periods. And then a question that's also raised is how do the regulators view Pacific Trust Bank and I think the answer to that is generally positive.

Clearly with an extremely strong capital position with levels of classified assets and a percentage of assets that are sub 40 percent typical levels that are only seen in some of the strongest institutions of the country and stronger risk management and internal asset review functions, we think the regulators are pleased with the progress made by Pacific Trust Bank and First PacTrust Bank Corp. They're also quite pleased with the progress that we've made on strengthening our infrastructure in other areas.

As you might imagine that is important to us as we work to achieve our goals of strong organic growth while also positioning our company to be a consolidator or acquirer in Southern California so regulators are our friends, they truly are and we are bracing the change that is around us as a result of (inaudible).

Then finally with respect to capital markets and those of you who know me can take the sincerity of this, we really are humbled and honored by the interest that the analyst community has shown in Pacific Trust Bank and appreciate your trust and confidence in this organization and the way you've embraced the vision that we've set forward for the company and its shareholders. Obviously that's contributed to some price appreciation during the first quarter and we're hopeful that we'll continue to earn your trust and confidence in the quarters to follow.

So let's talk about some specific achievements out of the retail banking and lending area before I jump into numbers in greater details. For regional

banking we've completed evaluations of all staff, created a robust sales and service program, trained all managers in banking that moves people away from being order takers to really being sales oriented that will be a long term project but we've made very good progress there. we've launched and you've probably seen this in the AK and investor presentation of this file today, a new brand and a new look for Pacific Trust Bank now PacTrust Bank and First PacTrust Bank Corp that is modern and reflects new directions and new beginning while also honoring the legacy of a 70 plus year old institution serving the people of California. So we're pleased with that look and feel and again we're pleased with the way that's been received.

We also opened this quarter the La Jolla branch and I'm pleased to report that that branch has generated roughly $16 million in deposits in a little over a month and that's qualitative deposits with more than 65 percent of those deposits representing transactional accounts and core accounts versus, you know, hot money CDs that can acquired by any institution. So we're achieving qualitative growth and taking advantage of what the market has given us. We're also well on our way to opening the San Marcos branch, which we expect to open the second week of June and exploring our first expansions in the Los Angeles County that we expect to announce some specific locations in that county later this month or early next month.

We see great opportunity in that market and the ability to leverage some of the relationships that current management has in those communities and that should allow us to further diversify risk and take advantage of pre-existing relationships. So while the earnings we're not as strong as some of you may have liked. I think it's very consistent with our strategy of completing an assessment, preparing for the future, hiring the right people, doing the right leg work and ultimately positioning the company to do very well in future quarters.

So I'm going to stop on some of that background information and jump in very quickly to some of the data that was contained in the AK. As I mentioned earlier, excluding some of the non-core charges notably the extraordinary REO expense and the accrual for certain executive officer compensation related change controls $2 million in core earnings, net of those

charges $693,000 or $0.7 a share. During the quarter we repaid the (inaudible) and also paid a common stock dividend of 10.5 percent that caused a reduction in our tangible book value from 13.98 to 13.94 between the fourth quarter of 2010 and the first quarter of 2011.

We also made some good progress in disclosing of REO. Those of you who have been following us for a while knew that we had a couple of long term assets one of which was a single family home in Rancho, Santa Fe, California and the second was a luxury interval ownership project; a very complicated participation in construction project in Mammoth, California. During the fourth quarter we took certain charges on both of those assets with the belief that the level we've written them down to was the level necessary to clear the assets.

In connection with the disposition of our property in Rancho, Santa Fe we discovered through inspections some significant engineering defects that caused a reduction in the value of that asset, those are items that could not have been identified by an appraiser and were only identified as part of a sale process. We were obviously disappointed with that but clearly the asset needed to be fixed in order to be sold, we absorbed that cost in the first quarter; that asset is now cleared.

The second asset that's been languishing on the books of PacTrust was our luxury time share up in Mammoth. We expected that asset to clear in the second quarter. It is a participation loan with 17 different participants, many of which are under the control of the FDIC so as you might imagine that's been a challenging asset. We thought that asset would be clear to the first quarter and had negotiated a transaction which fell apart. As a result of that falling apart there were new economics in the follow on deal and we are comfortable with those economics and are comfortable with the reserve that we've established to clear that asset in the second quarter. Incidentally that asset will clear now at a value equal to about 20 percent of the original loan balance. So First PacTrust over the years has absorbed $8 million in losses in connection with that asset.

Also in connection with our efforts to improve the ratios and performance First PacTrust Bank Corp – excuse me – the Pacific Trust Bank that asset the (Taurus) asset as well as a new single family home in La Jolla that aggregate balance of $4 million were transferred from the bank to First PacTrust Bank Corp. In addition to that there were two long term and somewhat hairy and I know that's a scientific term, land loans that we transferred from the bank to the holding company.

We anticipate that one of those land loans will be cleared in the second quarter and the other land loans cleared in the third quarter. We believe based upon information available to us today that Bank Corp will be able clear those at levels at or better than its current carrying value. The removal of those four assets from the banks books resulted in substantial improvement of the level of classified assets to percentage of capital reserves, which is an important measure.

We went a little further this quarter and also transferred certain classified re-remix that are performing very well but are not particularly looked up on with fondness by regulators from the bank to Bank Corp. The aggregate of those asset sales, REO transfers and securities purchases contributed to the very substantial reduction of the level of classified assets to percentage of capital at better positioned FPTB for strong regulatory relations and exploitation of some strategic alternatives.

Earnings fundamentals, I think I discussed earlier is it related to changes in the company's net interest margin from allowance from low loss perspective to company absorbed a $1.7 million charge off on an SVA established on one of those large land loans. Because our FAS 5 analysis indicated that the bank was more than adequately reserved given changes in its risk composition Bank Corp felt very comfortable not increasing the provision or the allowance for loan losses in Q2.

We're now sitting at a reserve to loan lost at 1.75 percent with substantially all of the portfolio in performing single family residential loans with strong loan evalumetrics and a very limited exposure to land and other classified assets. As we've disclosed in the document the bank carries all TDRs and all

impaired assets at 90-91 percent of the most recent appraised value and as you know we received an updated appraisals on all of our single family homes at least every six months and many of our classified or impaired assets on a regular basis.

So structurally asset quality I was pleased with the trends and certainly pleased with the trends on delinquencies and classifieds. I think looking forward you'll see continued effort on the banks part to whittle down the level of nonperforming assets and clear that asset category so that we can further enhance the margin by converting nonearning assets into earning assets.

Balance sheet liquidity, I talked earlier about the progress made by a retail network in changing the mix and pricing on our liabilities. We were successful in paying off $10 million of Federal Home Loan bank advances during the first quarter and paid off an additional $5 million in Federal Home Loan bank advances earlier in the second quarter.

Other events as I discussed earlier, brought in new management, paid off the warrants held by treasury at a level to the (inaudible) or tangible book value purchase ability in San Marcos, brought in some great new directors to strengthen our board at the holding company. Tim Chrisman who has been a long term friend of mine, current chairman of the Federal Home Loan Bank at San Francisco and former chairman of the Federal Home Loan Bank system.

He's also affiliated with some broker dealers, very well respected individual. He's joined us as is Jeff Seabold both of whom have been great additions to our board. Interestingly Jeff is a very successful mortgage lender focusing on the production of single family residential loans and commercial residential loans and they're a significant producer for some large money setter banks here in California so they know the process, they know the markets and Jeff has already added great value as we have enhanced our green mortgage product and some altered documentation programs which should further drive loan product that will further enhance our margin in subsequent periods.

With that I'm going to stop on my prepared comments and respond to specific questions that may come from our shareholders or analysts now following

Pacific Trust Bank so operator if you would open the call I'd be happy to discuss the bank's first quarter performance and respond to other questions that you may have.

Operator: If you would like to ask a question please press star one on your telephone keypad. Your first question comes from (Brad Wallum).

(Brad Wallum): Good afternoon gentlemen.

Gregory Mitchell: Hey good afternoon Brad, thanks for calling in today.

(Brad Wallum): You bet. I wanted to ask about capital ratio at the bank following the security sales at the holding company. You had mentioned in the press release that that was intended to boost the capital levels at the bank. Do you have those numbers? Can you give them to me?

Gregory Mitchell: We do. The bank ratios, they're actually on the I guess fifth page of the press release. As of the end of section – excuse me, to the end of the first quarter tier I, tier I risk base and total risk base were 12.12, 16.02 and 17.27 as of March 31st.

(Brad Wallum): OK.

Gregory Mitchell: Also, and this is an important point, I'm glad you raised this or surfaced this Brad. In connection with the sale of securities between the bank and Bank Corp First PacTrust Bank Corp – excuse me – Pacific Trust Bank was able to record a gain on sale of its securities between the bank and the parent. That gain on sale was limited and consolidated earnings but the gain on sale also served to boost the net income for Pacific Trust Bank during the first quarter, so the bank itself generated $2 million of net income or one percent ROA for the first quarter. So it included in the bank's earnings our level of nonrecurring gains from sale of securities and between the bank and the holding company as well as the small nonrecurring gain from the sale of some of the re-remix into the open market.

(Brad Wallum): OK thanks. And then on the re-launch of the residential loan production, the -- I was hoping maybe you could just talk a little bit more about that and also

specifically if there were some compensation changes included in also the restructuring there.

Gregory Mitchell: Yes it's a great question. Yes and no short answer to your question. As it relates to the green mortgage because of the nature of that asset class Dodd Frank excludes that type of product from some of the restrictions for mortgage lenders. So, mortgage lenders in the market can generate a green type product for us or other lenders throughout the United States and have a fee structure not unlike what they charge prior to Dodd Frank.

Some of our traditional Stanley Freddie FHA (all dock) production is subject to the new broker compensation guidelines contained by Dodd Frank. What are the areas that we've leveraged (inaudible) because he's intermittently familiar with that and has helped advise the bank on how best to structure pricing and how to best to structure compensation to stimulate volume in that new arena.

(Brad Wallum): Thank you very much, I'll step back and maybe ask some questions later.

Gregory Mitchell: Thanks Brad.

Operator: Your next question comes from (Andrew Lesh).

Gregory Mitchell: Hey Andrew, how are you doing today?

(Andrew Lesh): Good, thanks. Question on loan balances seeing them come for several quarters in a row now. When do you think you expect to see them right.

Gregory Mitchell: This quarter.

(Andrew Lesh): This quarter?

Gregory Mitchell: Yes I think you'll see – if you think about it in the business of investment banking I use that as an example from (Sandler) is pretty successful (inaudible). It takes a period of time to get a deal going, get people agreeing, get term sheets out, get a definitive agreement done and ultimately get that closed. It's typically more than 90 days for that to happen.

(Andrew Lesh): Right.

Gregory Mitchell: So (inaudible) and the team came on in January before we got out of really laid out, you know, broker sheaves and exposed the market to our new product set. We wanted to make damn sure that we had good policies and procedures that controls and plays so they did a lot of that work earlier in the quarter and probably 45 days ago started to get in the market and develop deep relationships with their clients, the brokers community and get the Pacific Trust Bank name out in the market and that's been well received and I'm extracting obviously increased production in the second quarter with production ramping up further in the third and fourth quarter of 2011. I think previously you and others have identified some sort of production targets out of the bank for 2011 and, you know, we think we'll be fine in hitting those production targets. Does that respond to your question Andrew?

(Andrew Lesh): Yes absolutely, I'll step back.

Operator: Your next question comes from (Kevin Reynolds).

Gregory Mitchell: Hey Kevin how is Memphis?

(Kevin Reynolds): Well, we're still standing after several rounds of severe weather.

Gregory Mitchell: OK, that's a good thing.

(Kevin Reynolds): Well I wanted to ask you -– kind of get your thoughts on the acquisition opportunity out there and kind of, you know, I may have missed some of this because we're sort of all over the place this after, but timing on which you think you might be able to pull off.

I know you spent a lot of time talking about how you built the foundation for the organic transition of the business model but what about the inorganic part, do you think – are things going to come to a sooner than we thought or do they get pushed out and what's your spot, is it still the same.

Gregory Mitchell: Well I think, you know, this morning I delivered a presentation to a group of bankers, you know, community bankers, market participants and others about

my outlook for community banking in California and M&A activity in California and indicated that I thought that of the 128 institutions that are now at our market area there are some $500 million in assets; there might be 50 of those standing four years from now. And I think that I believe that for a lot of reasons. There are a lot of folks that, as you might imagine, have approached us to be potential suitor for them.

We're evaluating that stuff carefully. I can't predict when a transaction would close or can't predict and certainly can't disclose to when a transaction might be announced but I will tell you that there's been a fair amount of activity and a fair amount of work done on the strategic initiatives so we're running two parallel tracks. You know, we're running hard and I'm again very proud of the progress we've made on the organic side but we're also running hard on the strategic side to better position our self to be an early leader in that arena. I hope that's enough clarity for you Kevin; I can't really give you much more than that.

(Kevin Reynolds): Can't give us dates and times?

Gregory Mitchell: I know you'd love it.

(Kevin Reynolds): I'll let you off the hook, thanks.

Operator: Your next question is from (Don Worthington).

Gregory Mitchell: Hey Don thank you and congratulations for the new branding at now Raymond James.

(Don Worthington): Yes good afternoon Greg and others. A couple of things; I know the reserve level has come down in the last couple of quarter fairly significantly; would you expect any further reserve releases or you figure, you know, the 17 is a fairly good percentage of loans on the reserve?

Gregory Mitchell: I can't predict that part of what we struggle with from an accounting perspective and otherwise, is given changes in the risk characteristics of the portfolio; the falling off of longer term loss factors in our FAS 5 analysis to qualitative analysis of FAS 5, it looks like the level of unallocated GVAs will

rise somewhat significantly in future quarters. That will be absorbed in some part by new loan production out of our re-initiation of green initiatives and other residential mortgage initiatives as well as production of our commercial real estate initiatives under Chang Liu's leadership.

We're not budgeting or expecting to see that level of drop below the current levels but if -– I mean it's kind of what our accounts will -– ultimately what our accountants will let us do. If we get to a very large levels of unallocated reserves it will be hard for us to add more to keep the ratio at that level with a rising loan portfolio; you see the dilemma Don?

(Don Worthington): Yes. No I understand, good color. Then in terms of the new lending, how much would you expect to be originations versus purchases?

Gregory Mitchell: We expect at this stage all of it to be originations. One of the things that Matt and Chang and others have spent a fair amount of time on this past quarter in addition to their sort of blocking and tackling and building is turning over a lot of stones in the purchased asset arena because of the level of liquidity that's in the market; we're seeing people bid up, purchased asset pools at relatively ridiculous levels. We don't want to buy somebody else's originations at ridiculous prices so we'd rather at this stage pass on what I'll call less than optimally priced and less than optimally structured purchased asset pools and save that powder for organic production.

(Don Worthington): OK.

Gregory Mitchell: If, however, we see some good deals that make sense for us from a credit perspective and a yield perspective and we can really get comfortable with the underlying collateral, you know, we're certainly there.

(Don Worthington): OK. I guess my last question, in terms of the core expense run rate, you know, backing out the REO charges, would you expect that to be, you know, fairly where you want to be or are you looking at adding more staff as you go.

Gregory Mitchell: I think what we provided in earlier guidance was we anticipated that the investment in staff and real estate related to some of our branch expansion initiatives and building the franchise was about $4 million for the year. We

haven't hit that level yet so I think you'll see some additional expenses. One of the questions that's often raised in these calls is, you know, how are you coming on a potential CFO candidate. You know, you may see that as an expense factor coming in. At some point, you're not going to see others significant expense from an executive leadership perspective but you may see some additional staffing on the production side.

That said, we would expect that as the branch initiatives kick in and certainly as these lending initiatives kick in the additional NIM and it's the income coming out of those activities will more than offset the increased expense. So, as we've looked at this Don, we've assumed a – using Bernanke's terms earlier today, an intermediate horizon rise in the efficiency ratio, declining in the longer term and in our investor presentations we talk about a target efficiency ratio in the 50s and I think we'll get there.

(Don Worthington): OK thanks a lot Greg.

Gregory Mitchell: Thank you Don and again congratulations.

(Don Worthington): Thanks.

Operator: Your next question comes from (Gary Kinner).

Gregory Mitchell: Hey Gary, how is life up in the northwest?

(Gary Kinner): Oh, doing well guys, thanks very much. I just had -– I think most of my questions have been answered. I just had a question about the, you know, troubled debt restructuring bucket and I got on the call late so I apologize if you went over this earlier, but looks like just eyeballing it there may have been some TDRs that were early performing TDRs back last quarter that maybe fell out of performing status during the quarter, could you talk about that.

Gregory Mitchell: Yes, one of our – in the release we talked about a couple of delayed restructurings that we expect to cure in the second quarter. Two of those – there were actually two loans showing up in the TDR bucket that were performing and expected to stay back on performing. One was a multifamily

TDR, the second was a single family TDR essentially a second deed of trust on a very high quality property that cross collateralized this multifamily. That the restructuring of that loan was delayed so that caused that to fall out of performing and into nonperforming but again we expect that to be resolved this quarter.

(Gary Kinner): OK so those should come back on the performing TDR list?

Gregory Mitchell: Yes, I don't know if they'll come back on a performing TDR, if they'll come onto in the past as you may see, you know, totally new loans made on the multifamily and on the single family with a different borrowing structure.

(Gary Kinner): OK great, thank you very much.

Operator: Your final question comes from (Bryce Row).

Gregory Mitchell: Hey Bryce, how is Richmond.

(Bryce Row): Richmond is great, thanks Ray. How is it out there?

Gregory Mitchell: It's lovely. I've been in a lot of cities over the last 16 hours so a little tired; I'm sure you all are as well.

(Bryce Row): Yes rain season is fun. Yes, wanted to touch base on – you talked about the loan production and I think you've talked about this a little bit in the past but I was just wondering what the mix of that loan production might look like over the next nine months or so and then if you could talk about pricing on those new loans and what we should expect from a loan yield perspective over the rest of the year.

Gregory Mitchell: Well I think part of what – part of what we tried to give you some thoughts on rather than getting into individual pricing on loans because you're going to see different pricing levels for different credit risk (give that) a portfolio. For example you may see a commercial real estate asset with a pretty strong debt coverage ratio yielding 5.5 to 5.75 but a green mortgage that's 50 percent loan to value priced at I'm picking a number 4.5 so different risk characteristics and different pricing. We're expecting from a margin perspective that our

new lending initiatives will contribute in excess of four percent net interest margin against our funding cost I don't know if that gets you to the same place for purposes of your forecasting.

(Bryce Row): That's helpful and so from a mixed perspective I mean obviously Chang's in there and is rolling out a new product to First PacTrust just wondering what you think the mix will look like, you know, as we move through the year with –

Gregory Mitchell: Yes I would say for the balance of 2011 the mix this year will probably and I'm trying to –- I don't mean to evade this, I'm trying to sort of answer your question without over answering it. You all were forecasting I think more than $100 million in CRE production in 2011 and perhaps lower volumes of green mortgages; we think and again this is I think that we will meet the CRE goals and perhaps exceed the residential goals so that the production levels could be higher than what's contained in (many of your) forecast on a consolidated basis.

(Bryce Row): That's helpful and I guess one last question, any guidance on the tax rate, it was a little bit higher in the quarter wondering if that comes back down, if there's anything, you know, abnormal there?

Gregory Mitchell: No there's nothing abnormal in it, part of what's happened and I'm not a tax expert but I'll take a shot at this. Part of what's happened there is that the bank is coming out with an extended period of weak to negative earnings so it had some tax benefits to be able to utilize.

The tax rate is really a function of your future expected earnings and the facts that the Bank Corp expects a pretty decent earnings in 2011 has changed that rate and the ability to shield what little income the bank used to make through the utilization of the tax credit, you know, proportionally the tax credit absorbs a much smaller percentage of earnings than it used to. So, Reagan has had a good assessment there.

Female: That's a perfect answer.

Gregory Mitchell: OK.

(Bryce Row): All right, well that's all I've got Greg, thank you.

Gregory Mitchell: All right, thanks again Bryce.

Operator: There is a final question from the line of (Joe Gladys).

Gregory Mitchell: He Joe how are you today and how is Baltimore?

(Joe Gladys): Baltimore is good, how are you?

Gregory Mitchell: Good.

(Joe Gladys): I just wanted to I guess drill down a little bit on net interest margin and in terms of the, you know, repricing of – you know maturing of home loan bank advances and CDs, you just have an idea of, you know, what – how much of that is running off in the second quarter?

Gregory Mitchell: Jim do you want to speak to this?

(Jim): Yes we have another -– we've already paid off $5 million in the second quarter, we have a bunch more that matures in the June and July time period. We anticipate being down to $20 million (of each of) the advances by end of July.

(Joe Gladys): OK. And on the other side, I know this is probably tougher but, you know, the loan yields were down due to some, you know, repricing lower. Is that – is the progression of those fairly even throughout the year with a chunk of those in the first quarter that might be different in the second quarter and third.

Gregory Mitchell: Yes, it's pretty even; there are sort of two – there is sort of two elements and there's some lumpiness to this so I give you this as sort of general guidance, nothing beyond that. There are two drivers there, one is some volatility in nonperforming versus performing status and reversal of interest income that's affecting interest on loans. What we're seeing as a result of the repricing characteristics of our single family portfolio is a general reduction of five to seven basis points in the yield on the blended portfolio and that I think will level off here shortly because, you know, Libor is at an extremely low level

already and as the portfolio continues to season, you know, there's not a lot of room to continue to define.

You know, the plus side of having very low interest rate risk exposure is that in this type of rate environment, you know, as rates adjust, you know, you have some compression on that side. Fortunately, we've had pretty good expansion on the other side with the deposits and the borrowing so that's helped – helps protect their margin and I think in our – for the balance of 2011 as we continue to originate increasing volumes of loans, you know, the margins that I was sharing with Bryce a little bit ago, you'll start to see margin expansion again in the – clearly in the third and fourth quarter. I haven't quite drilled down yet to the level of second quarter so I don't want to provide any guidance as we enter the second quarter.

(Joe Gladys): OK and I guess you did touch on reversals a little bit. I guess in the press release you did mention that we're 212,000 of interest reversals in the first quarter; can you refresh my memory as to what that number was in the fourth quarter?

Gregory Mitchell: Don't know but will get that for you Joe.

(Joe Gladys): I will ask one final question just about the non-interest bearing deposits. I know it's coming off a small base but it had a very nice, you know, increase in the non-interest bearing deposits, is most of that just coming out of the new branch openings or how are you –

Gregory Mitchell: No it's really coming out of some of these, you know, growth initiatives, building excellence, sales and service initiatives coming out of the branches, you know, a key factoid and this is really to the credit of our great retail banking team. We were selling roughly 12 products a day out of our branch network at the beginning of the year that would be checking, debit card, you know, core accounts.

We're now selling 36 a day so there's a 300 percent increase in the sales efforts so as this blocking and tackling is done at the branch level and people are trained to not go beyond order taking, not to diminish the great work that

they were doing before that they were less aggressive before than they are today. Now that they are feeling great about the franchise, they're having better understanding on how to sell, they're asking for business and deepening the relationship, our staff is being rewarded for those efforts by getting a deeper share of the wallet of our customers.

So that's contributing to growth in that core bucket and if you all recall from our sort of general philosophy here we're about the creation of a qualitative franchise with lots of core deposits that are going to protect us from rising rate environments and also going to contribute to margin – excuse me, price earnings expansion as the market views the income stream coming out of the Pacific Trust Bank something that is stable and predictable and built on strong relationships versus the purchase and sale of commodities.

(Joe Gladys): All right great, that's all I had, thank you.

Gregory Mitchell: Thank you Joe.

Operator: There are no further questions at this time.

Gregory Mitchell: Well we thank you very much for your continued trust, confidence and support in Pacific Trust Bank. We hope that you shared the enthusiasm of our board and management and our great staff in the progress that's been made during this quarter. We are working hard to honor the trust that you've placed in us and to build a franchise that we can all be proud of and that allows Pacific Trust Bank and First PacTrust Bank Corp to realize its destiny and I believe that destiny is very bright and we thank you for joining us on the journey.

We look forward to chatting with you as we announce our second quarter earnings and we'll keep you updated on further developments between now and then. So thank you again and have a wonderful evening.

Operator: Thank you. This will conclude today's conference call, you may now disconnect your lines.

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