FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, DC 20429

FORM 8-K

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

Date of Report (Date of earliest event reported):
May 2, 2019 (April 29, 2019)

OPUS BANK

(Exact name of registrant as specified in its charter)

California	**33-0564430**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

19900 MacArthur Blvd.,
12th Floor
Irvine, CA 92612
(Address, including zip code, of principal executive office)

Registrant's telephone number, including area code: (949) 250-9800

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 under the Securities Act (17 CFR 230.405) or Rule 12b-2 under the Exchange Act (17 CFR 240.12b-2).

Emerging growth company ☒

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

Item 7.01 Regulation FD Disclosure.

On April 29, 2019, Opus Bank (the "Company") hosted a conference call and webcast to discuss its financial results for the quarter ended March 31, 2019. The conference call transcript is attached hereto as Exhibit 99.1. A replay of the call is available and will be available until May 30, 2019. The details for accessing the call replay are available from the Events page within the Investor Relations section of the Company's website: www.opusbank.com.

Information contained herein, including Exhibit 99.1, shall not be deemed filed for the purposes of the Securities Exchange Act of 1934, nor shall such information and Exhibit be deemed incorporated by reference in any filing with the Federal Deposit Insurance Corporation, except as shall be expressly set forth by specific reference in such a filing. The furnishing of the transcript is not intended to constitute a representation that such furnishing is required by Regulation FD or that the transcript includes material investor information that is not otherwise publicly available.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
99.1	Opus Bank's First Quarter 2019 Conference Call Transcript

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.

Dated: May 2, 2019

Opus Bank

By: /s/ Kevin L. Thompson
Name: Kevin L. Thompson
Title: Executive Vice President, Chief Financial Officer

Exhibit No. 99.1

Opus Bank's First Quarter 2019 Conference Call Transcript

OPUS BANK

Moderator: Brett Villaume
April 29, 2019
11:00 a.m. ET

Operator: Good morning, my name is Ian, and I will be your conference operator today. And I would like to welcome everyone to the Opus Bank's First Quarter Earnings Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. At that time, if you would like to ask a question over the phone lines, please press "star" then the number "1" on your telephone keypad. To withdraw your question, press the "pound" key.

Thank you. Brett Villaume, Director of Investor Relations, you may begin your conference.

Brett Villaume: Thank you. Good morning, and welcome to Opus Bank's Investor Webcast Conference Call. Today, I'm joined by Paul Greig, Chairman of the Board, Interim Chief Executive Officer and President; Brian Fitzmaurice, Vice Chairman and Senior Chief Credit Officer; and Kevin Thompson, Executive Vice President and Chief Financial Officer.

Our discussion today will cover the company's performance during the first quarter of 2019 and information contained in the earnings press release issued earlier this morning. A slide show presentation that accompanies today's call is available on the Opus Bank investor Web Page at investor.opusbank.com.

Today's discussion may entail forward-looking statements, which are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. You'll find a discussion of these forward-looking statements in our recent FDIC filings and on Page 6 of this morning's release.

Today's call will include a question-and-answer session following the discussion. For listeners who are participating via WebEx, should you have any questions you may submit those using the Q&A feature located on the right-hand side of your WebEx window. The white triangle just to the left of the question mark and letters, Q&A, should be pointing down. Clicking on that triangle opens and closes the Q&A dialog box.

Now, I'll turn the call over to Paul Greig, Chairman, Interim CEO and President

Paul Greig: Thank you Brett, and good morning to everyone listening to our first quarter earnings conference call.

For the first quarter of 2019, Opus recorded net income of $10.9 million, or $0.28 per diluted share, compared to a net loss of $6.9 million, or $0.20 per diluted share, in the fourth quarter. As you may recall, last quarter we incurred a $20 million pretax restructuring charge that impacted our reported earnings per share by $0.47. This charge was related to initiatives and actions intended to make Opus more profitable and efficient over time.

Our first quarter earnings included approximately $1.4 million of expenses related to the settlement of a legacy legal matter that originated way back in January 2013 and was finally resolved, as well as a $489,000 charge related to the exiting of our broker-dealer, Opus Financial Partners. Opus Financial Partners has not achieved adequate performance results and is not considered an effective use of capital. Excluding these expenses, our first quarter earnings per share would have been $0.32, an improvement from an adjusted $0.27 in the prior quarter.

Our first quarter results saw core earnings growth driven by higher net interest income, solid loan growth, and continued improvement in our credit quality. Kevin Thompson, our CFO, and Brian Fitzmaurice, our Senior Chief Credit Officer, will go into details of our financials and credit statistics in a moment. Overall, I am pleased with the earnings results for our first quarter 2019.

Regarding the Board of Directors' efforts in finding a permanent Chief Executive Officer, we have made significant progress over the past few months. We have performed a thorough evaluation of a number of candidates and the process is now nearing completion. We plan to make an announcement about the hiring of a new CEO in the near future.

I will now turn the discussion over to Kevin Thompson to go into more detail on our financial performance. Kevin.

Kevin Thompson: Thank you, Paul.

Turning to slide four, loans increased $296 million from the prior quarter driven by new loan fundings of $538 million, offset by loan payoffs of $196 million. Our loan growth was primarily driven by growth in multifamily loans, which increased $324 million, and loan fundings were primarily weighted toward the end of the quarter.

Following the success we've experienced in reducing our exposure to Enterprise Value loans over the past couple of years, and with an optimistic view of Opus' strategic direction, we felt comfortable taking advantage of the opportunity to build upon our high-quality multifamily portfolio. Normally, our strongest quarter of loan production is the fourth quarter. In the fourth quarter, we had fewer fundings than expected due to market turmoil and saw some of those fundings move to the first quarter. We observed that some of our competition was not as active in the multifamily space in the first quarter. We redoubled our efforts on our loan retention program and were more successful than in the past. Loan prepayments were much lower than we've seen recently, although we do not necessarily expect this to be a trend. Finally, during the first quarter, we slightly adjusted our pricing from what I would characterize as high-middle of competitor rates, to the middle or lower-middle of the range. Small changes in our loan pricing can and did have a meaningful impact on our ability to attract and retain quality clients.

Our Commercial and Specialty Banking divisions originated $87 million of loans in the first quarter. We continue to see progress from the buildout of this important initiative that began in 2018. The number of new business relationships increased 30 percent from the prior quarter.

Total loan yield increased 11 basis points in the first quarter to 4.42 percent, primarily driven by the benefit from loan repricing, two fewer days, and higher interest recovered on nonaccrual loans during the quarter.

On slide five, we show the balance of cash and investment securities, which increased $179 million during the first quarter. The balance of investment securities increased $12 million and totaled $1.1 billion, while cash increased $167 million, largely due to FHLB borrowing that occurred near the end of the quarter.

The yield on investment securities increased 61 basis points to 3.16 percent, largely due to the benefit of repositioning our securities portfolio during the fourth quarter of 2018, as well as fewer prepayments in the quarter.

Turning to slide six, total deposits increased $125 million in the first quarter, or two percent, driven by growth in non-interest-bearing deposits, money market accounts, and time deposits. During the first quarter, we added $46 million in brokered deposits as rates moved favorably in this funding source, compared to some alternatives. Brokered CDs made up only 0.8 percent of total deposits at the end of the quarter, and inclusive of our FHLB borrowings, wholesale funding sources comprised less than six percent of total liabilities.

Our cost of deposits rose 13 basis points to 0.92 percent as we responded to continued competitive rates being offered by our peers. Also, with the backdrop of strong loan growth, we made pricing adjustments to certain deposit categories. We remain focused on developing our relationship approach to managed deposit pricing. We note that our cumulative cycle-to-date deposit beta is only 20 percent.

Our loan-to-deposit ratio increased to 89.9 percent at the end of the first quarter from 86.8 percent previously.

Turning to slide seven, net interest income increased 0.7 percent during the first quarter to $50.8 million, driven by higher interest income on both loans and investment securities, but largely offset by higher interest expense. Our loan interest income increased $1.3 million from the prior quarter, benefiting from higher average balances of interest-earning assets, the Fed rate increase in December, as well as higher interest recovered on nonaccrual loans. Securities saw a $1.6 million increase in interest income driven by higher yielding securities added in the fourth quarter and lower premium amortization due to fewer prepayments.

Net interest margin increased eight basis points from the prior quarter to 3.15 percent, as earning asset yields outpaced our funding costs.

Proceeding to slide eight, noninterest income was $11.1 million and included an impairment charge on a sublet property of $489,000, related to the exiting of Opus Financial Partners. Our diverse sources of noninterest income provided continued stable contributions, including $6.7 million in trust administrative fees from PENSCO and $1.4 million from our Escrow and Exchange division. Noninterest income comprised 18 percent of total revenues.

Turning to slide nine, our noninterest expense totaled $45.4 million. Included in noninterest expense was a $1.4 million legal segment mentioned earlier. Excluding the legal settlement this quarter and $10.5 million of expense related to the restructuring charge we incurred last quarter, noninterest expense increased two percent, and this was largely due to seasonally higher first quarter employer taxes.

Our efficiency ratio was 70.6 percent compared to 81.5 percent in the prior quarter. In the first quarter, we began calculating our efficiency ratio exclusive of amortization of other intangible assets and any sale related gains or losses and using tax equivalent net interest income, which is industry-standard. Adjusting for the legal settlement expense and lease impairment charge this quarter, our efficiency ratio would have been 67.9 percent, and adjusting for the restructuring-related charges in the fourth quarter, our efficiency ratio would have been 65 percent.

On slide 10, we show our regulatory capital ratios at quarter-end, including Tier 1 leverage, which increased to 9.86 percent, and our total risk-based capital ratio, which decreased slightly to 14.85 percent. Tangible book value per common share increased $0.19 to $17.96. Going forward, we will be reporting tangible book value per common share without considering the impact of convertible preferred stock, which is industry-standard.

Additionally, the Board has approved the payment of an $0.11 dividend per common share payable in second quarter, which is unchanged from the prior quarter.

On slide 11, we display some of our asset liability metrics which include the duration of key balance sheet items and our simulation of net interest income assuming an instantaneous parallel shift in interest rates. The anticipated duration of our assets and liabilities have increased slightly as a result of the changing interest rate environment. We continue to closely assess our position to determine the appropriate path given our balance sheet movement, our outlook for rates, and the market pricing of our loan and deposit offerings.

I will now turn the discussion over to Brian Fitzmaurice to go into more detail on our loan portfolio and credit metrics.

Brian Fitzmaurice: Thank you, Kevin.

This morning, I will review our first quarter credit performance, which I view favorably based on our reduction in Enterprise Value loans of $17 million, a $4.7 million, or 17 percent, decrease in nonaccrual loans, $1.6 million in net recoveries, and a $13.2 million, or 32 percent, decrease in special mention loans, which was tempered by a $15.4 million increase in substandard loans, resulting in a $2.2 million, or 1.5 percent, increase in total criticized loans.

We expect our Enterprise Value loan portfolio to continue to reduce over time. In fact, as of today, the EV portfolio has declined further to $97.4 million, compared to $122 million at the end of the fourth quarter, and please note, this decline was not achieved through charge-offs. This represents a 20 percent reduction from 2018 year-end levels. There were no new nonaccrual loans or charge-offs in the Enterprise Value loan portfolio during the first quarter, and total criticized classified EV loans were flat versus the prior quarter at $33.5 million, although the percentage increased as the size of the EV portfolio decreased.

Regarding the loan growth in the first quarter, which predominantly occurred in our multifamily portfolio, Kevin described our view of market conditions for the quarter. To assess the credit quality of the quarter's production, we compared the credit statistics of loans originated in the fourth quarter of 2018 to the first quarter of 2019. And the common underwriting metrics without exception were equal to or more favorable than the fourth quarter metrics. These metrics included the average debt service coverage ratio, average loan to value, percentage of loans with an interest-only period, and the percentage of recourse loans to total loan production, evidencing our continued disciplined approach to underwriting.

We recorded a provision for loan losses of $2.2 million, compared to $7.6 million provision expense last quarter. The material factors driving the provision this quarter were risk rating migration of $4.4 million, $3.4 million for changes in portfolio mix and quarterly new fundings, and additions to specific reserves of $945,000. These were partially offset by a decline in reserves due to loan exits of $4 million, net recoveries of $1.6 million, and a decrease of $786,000 due to lower loss factors.

As of March 31, 2019, our allowance for loan losses totaled $58.5 million, or 1.07 percent of total loans, an increase of $3.8 million, or one basis point, from the prior quarter. And we had $5.3 million of specific reserves, or 23 percent of nonaccrual loans, compared to $4.3 million, or 16 percent, in the fourth quarter of 2018. Along with general reserves on C&I loans of $29.9 million, the reserve coverage ratio was 3.62 percent of our total C&I portfolio at quarter-end.

I continue to be optimistic that our credit performance for fiscal year 2019 will be favorable to both 2017 and 2018, and that our credit metrics will continue over time to align with peer bank performance. Please remember that notwithstanding our continued reduction in Enterprise Value loans we could still incur losses in that portfolio.

I'll now hand the discussion back over to Kevin.

Kevin Thompson: Thank you, Brian.

On slide 14, we present a summary of our outlook for the future. We assume a continuation of the current economic and interest rate environment. The conditions in our markets remained solid despite some uncertainty in the overall economy.

Incorporating the loan growth we had in the first quarter into our modeling, we have adjusted our estimate of loan growth for the full year 2019 to a rate in the low double digits to mid-teens. This assumes solid growth for the remainder of the year, but also the expectation that loan prepayments and competitive pressure will return to the levels we've experienced over the past few years.

Deposit rates are expected to continue to increase largely due to competitive pressures in the near-term. We believe with the Federal Reserve potentially taking a pause, that deposit costs could moderate later in the year.

We estimate our net interest margin for the full year 2019 will be in the low-3s, revised from the previous estimate of 3.10 percent due to the impact of higher deposit costs and the lack of repricing benefits we would experience in our loan portfolio in an increasing rate environment. We continue to anticipate elevated prepayments, a flat yield curve and competitive deposit and loan pricing in the coming quarters.

We are very focused on disciplined expense management and revenue growth initiatives to increase our operating leverage. We expect that our efficiency ratio for the full year 2019 will be approximately 68 percent, with quarterly levels gradually decreasing throughout the year. We expect full year core operating expenses to be flat to those in 2018.

Regarding credit quality, we expect net charge-offs to decrease in 2019, and that credit metrics will be more aligned with peer bank performance in the coming year. We remain focused on maintaining a strong risk management infrastructure, including preparing for the implementation of CECL.

We anticipate that our effective tax rate will be approximately 24 percent for the full year 2019.

Finally, as stated previously, our Board of Directors approved the payment of a quarterly cash dividend of $0.11 per common share. We do not target a specific payout ratio but evaluate our dividend based on earnings, our risk profile, capital levels, and market conditions.

This concludes our prepared remarks. I'll now hand the floor back over to Brett.

Brett Villaume: Thank you, Kevin. And thank you, all, for joining our earnings conference call for today.

Operator, please open the call for questions.

Operator: At this time, if you would like to ask a question over the phone lines, please press "star" then the number "1" on your telephone keypad. We will pause for a moment to compile the Q&A roster.

Your first question comes from the line of a participant whose information could not be gathered. Please state your first and last name and company. Your line is open. If you have asked a question, please state your first and last name and company.

Matthew Clark: Matthew Clark, if this line's open? Piper Jaffray.

Brett Villaume: Hey, Matt.

Matthew Clark: Hey, wasn't sure if that was me.

Can you give us the contribution of lower premium amortization in the margin this quarter?

Kevin Thompson: Yes. If you actually turn to the slides that we've provided, slide number seven provides a roll forward for that so you can see that from a percentage basis -- I guess we didn't break that out specifically, but it is about $1 million incremental benefit quarter-over-quarter of less premium amortization.

Matthew Clark: OK. Great. And then how do you think about deposit growth this year relative to your updated loan growth expectations? Just trying to get a sense for where that loan-to-deposit ratio might go.

Kevin Thompson: We have a number of efficient sources of funding that we can tap into. And we have good client relationships. We have the commercial team growing deposits over time. We also have access to the wholesale markets and have done so on a limited basis this quarter due to the benefits of different durations and pricing at different points of time. So we feel that -- we feel we should not have a problem matching our loan growth. And I wouldn't say that our loan-to-deposit ratio will need to get too much higher.

Paul Greig: Deposit attraction is a very important initiative. Each line of business and each specialty unit has very specific deposit attraction goals. So we remain very focused on deposit growth from an organic perspective, core deposit growth.

Matthew Clark: OK. And then just on the loan yields on an organic basis, excluding the runoff of the acquired portfolio, do you happen to have that organic loan yield excluding interest income reversals and any purchase accounting?

Kevin Thompson: Yes. Excluding all those items, the organic WAIR on loans was 4.34 percent in the quarter.

Matthew Clark: OK. And then on the efficiency ratio guidance, is that on an adjusted basis excluding CDI amortization or is that including?

Kevin Thompson: It excludes.

Matthew Clark: OK. Thank you.

Kevin Thompson: Thank you.

Operator: Your next question comes from the line of Jacque Bohlen of KBW.

Jacque Bohlen: Hi, good morning, everyone.

Following up on Matthew's question, I'm looking at the adjusted efficiency ratio, the guidance of approximately 68 percent for the full year and then expecting it to gradually decrease. We were roughly there in the first quarter. So what events do you expect to impact that ratio for the remainder of the year?

Kevin Thompson: For the remainder of the year, we continue to face headwinds of prepayments. So we did have low prepayments in the quarter, and we're excited to see that, but we don't know that that is necessarily a trend yet. So we may have benefited from -- which we have seen in the past -- certain quarters have lower prepayments. Deposit cost pressure amongst our peers continues. And so we expect that to continue and hopefully moderate near the end of the year.

We don't have -- we're not expecting any Fed rate increases for the rest of the year. And with our asset-sensitive balance sheet, we do benefit from repricing in our portfolio when there's a Fed rate increase. So we don't expect that as well. So there is upside and downside in those metrics. But at this point, from a baseline perspective, that's what we expect.

Jacque Bohlen: OK. So it sounds like the net interest margin, it may be loan growth just based on what those prepayments will do -- will have the impact on forward earnings estimate internally?

Kevin Thompson: That's right, among other things. But yes, that's one of the biggest drivers.

Jacque Bohlen: OK. And then when I think about the NIM, which obviously performed very well in the quarter, and then look at that versus the roughly three percent guide for the full year, is that largely a function of deposits repricing without getting the benefit of loan yields?

And then as a follow-up on that, what impact does all the multifamily generation that had -- in the quarter -- have on forward loan yield, especially given how you changed pricing on that portfolio?

Kevin Thompson: Yes. And really, the answer is very similar to the last answer. The go-forward NIM impact is really based on prepayments, the impact of deposit costs, the lack of repricing during the year, all those of course go into our NIM.

And then when it comes to multifamily loan funding, yes, you're correct. Our pricing changed in the quarter, really mostly driven by the LIBOR curve. So our multifamily loans really on the West Coast, the pricing is highly correlated with the 3- to 5-year LIBOR rate. In the first quarter, the average 3- to 5-year LIBOR rate was down about 43 basis points, and that impacts our multifamily yield. So we told you in the call last quarter that we were -- that we were funding around the 4 60s and now we're funding more around in the 4 20s and 4 30s in the multi-portfolio, mostly driven by that LIBOR curve.

If this inverted to flat yield curve continues then we'd continue to see some compression in our net interest margin; when it right-sizes, there's a lot of upside as well.

Jacque Bohlen: OK. So most of it had more to do with yield curve than -- and I apologize if I misunderstood or misheard what you said in the prepared remarks -- but from the movement from the high-middle of competitive range to the low-middle, so that didn't have much of an impact?

Kevin Thompson: That had some impact, but your point, mostly driven by the LIBOR curve.

Paul Greig: And Jacque, customer behavior is surprisingly sensitive to just several basis points of pricing change.

Jacque Bohlen: OK. Understood. No, thank you, that's very helpful. I'll step back now.

Operator: Your next question comes from Christopher York of JMP Securities. Your line is open.

Chris York: Good morning, guys, and thanks for taking my questions. So I just wanted to focus on core fees this quarter as trust fees were down, I think it was about 4 percent year-over-year and then it's shown a little bit of softness over the past couple quarters. So could you describe what drove the decline? And then maybe step back and update us on the state of PENSCO, and the growth of assets under custody?

Kevin Thompson: No problem. Can you repeat your second part of the question?

Chris York: Yes. The second part was just an update on the state of PENSCO today and then the growth in assets under custody.

Kevin Thompson: You bet.

The first part of your question, the change in the noninterest income base, it's just there's no incremental thing happening with PENSCO; it continues as a great source of income for us. And that can be somewhat volatile. And so I would say there is no systemic process happening in an underlying basis. We do see some movements in the underlying number of accounts and that is the real driver of our fees, and that can change over time.

In terms of the assets under custody, that can change over time based on customers that come in or leave but also based on valuations and that these are self-directed IRAs that may have underlying sources such as private equity, real estate and other types of nontraditional IRA accounts. And the valuation of those over time can impact that amount.

Chris York: Right. So is it safe to maybe read between the lines to say that maybe the volume of clients was a driver to the year-over-year decline?

Kevin Thompson: In expense?

Chris York: In the fee side, the trust?

Kevin Thompson: No, I wouldn't say that. I would say it's timing, it's based on a number of factors and we don't expect it to continue declining over time. On average, we expect it to be very consistent.

Chris York: OK. Fair enough. And then commercial business loan fundings was one of the lowest on record despite the significant investment the bank made in growing out that business with hires over the last years. So could you explain what drove the light production there?

Paul Greig: Yes. Let me take that.

The thing that is very difficult to estimate quarter-to-quarter is the number of accounts that will come in in a quarter and whether or not those customers will be borrowers or significant borrowers. The actual number of accounts that are relationships that were generated by Commercial Banking as mentioned in the prepared remarks was up 30 percent quarter-over-quarter. A number of those relationships were very well-capitalized companies with credit extensions such as lines of credit that were not used.

We anticipate that the progress in this business is going to continue evolving over the next several quarters and that lines of credit will be utilized as time goes on.

Chris York: Great, that color is helpful. And clarification, I did hear the new yield on multifamily loans, was I think like 4 20 to 4 40. And forgive me if I missed this, but what was the weighted average yield on total new loan fundings for the quarter?

Kevin Thompson: Total loan fundings for the quarter was in the mid 4 30s.

Chris York: Four-thirties. OK. And then last question, and I'll step back. It's been I think maybe 5 months since Stephen resigned as CEO. And obviously, investors understand that the search process will take time and finding the right leader for Opus is incredibly important. So Paul, maybe can you elaborate on the health of the search process and maybe the type of experience the board is looking for to lead the bank forward?

Paul Greig: Yes. As I commented in my prepared comments, a lot of progress has been made. I made the comment that the process is nearing completion and that an announcement would be forthcoming shortly. Rather than talking about the characteristics of general candidates, I think it'd probably be better to wait for that announcement, and you'll see the characteristics of the chosen individual.

Chris York: Fair enough. Thanks, guys.

Operator: Your next question comes from the line of Timothy O'Brien of Sandler O'Neill + Partners.

Timothy O'Brien: Good morning. First question, just a little more color on multifamily growth outlook here going forward. Obviously, you guys had phenomenal production this quarter. As far as contribution to the overall loan book and percentage of total loans that might come to reflect, what are your thoughts there?

Kevin Thompson: Well, a lot of the loans funded near the end of the quarter. And so we'll see -- that's a onetime impact to the balance sheet -- and we'll see some benefits of that to the income statement over time. I don't necessarily see much of a change in mix going forward for the rest of the year from the first quarter's mix.

Timothy O'Brien: OK. Great. And then separately moving on to the P&L, compensation costs in the first quarter were $2.6875 million, and that included some seasonal accruals for payroll taxes and other -- and the like. Where do you see that number heading here through the remainder of the year?

Kevin Thompson: It was about $1 million higher than usual due to the payroll tax.

Timothy O'Brien: So it could dip down below 26 here pretty easily?

Kevin Thompson: Yes. It could. And that of course depends on a number of factors with loan fundings and the FAS 91 offsets, et cetera. But, that seems correct, yes.

Timothy O'Brien: So volatility in that line. And then last question, do you happen to have the FTE headcount at quarter end versus -- and also just for comparison's sake, what it was at the end of the year?

Kevin Thompson: Yes. It was 760 at quarter-end. At the end of the year, it was 794.

Timothy O'Brien: Is that -- is it possible that will move some more here? Obviously, it's going to move one. But beyond that, here in the second quarter and beyond in near term?

Kevin Thompson: Those numbers are really -- they're the initiatives we take but also as a result of attrition in the company. I don't expect that moving; I think we're at a really good spot when it comes to our workforce.

Timothy O'Brien: Great. Thanks for answering my questions.

Kevin Thompson: You bet. Thank you.

Operator: Your next question comes from the line of Kevin Swanson of FIG Partners.

Kevin Swanson: Hey, it's Kevin Swanson of Hovde Group. How are you?

Brian Fitzmaurice: Good morning.

Paul Greig: Good morning.

Kevin Swanson: Hey. The EV loans, I think, in the presentation just under $100 million. Obviously, that number has stepped down quickly over the past year. How do you see kind of the timeline for the last mile or the last full stretch of the loans there?

Brian Fitzmaurice: It's Brian.

I think they'll continue to decrease at a pretty good pace and then I think it will get to a point that it slows down. The -- we have criticized/classifieds, those are going to be harder to exit than those companies that are taking actions on their own. They're either refinancing or they're selling themselves or their next round of capital raise. And so we push hard on -- on the problem side and those companies will take whatever steps fit their business model.

Kevin Swanson: OK. And then obviously the asset quality, I mean in terms of problem loans to total loans it's more than half -- or less than half of what it was a year ago. Maybe just talk about broadly how you see that progressing and then maybe the current credit environment just in the -- in your current markets please?

Brian Fitzmaurice: Obviously, on the real estate side of the house, especially since we play in multifamily, that continues to be very strong. We're seeing increase in NOI. And over the last couple of years, we've obviously worked through a significant amount of our issues in the C&I. So in my -- I said in my comments, I see it favorably, we'll have problems that come and go. But we have virtually no inflow -- in fact, zero inflow -- in special mention this quarter. And so I think we'll just migrate to the norm of -- at points in time, customers have problems.

Paul Greig: The statistics Brian are mentioning suggests that the economy in our markets continues to be very strong; stable and strong.

Brian Fitzmaurice: Yes. I would say whenever we see a problem, it's a problem to a particular company. It's not driven by any -- it hasn't been driven by any macro event.

Kevin Swanson: OK. Thanks for taking my question.

Paul Greig: Yes. Sure.

Operator: Once again, if you'd like to ask a question over the phone lines, please press "star" then the number "1" on your telephone keypad.

Your next question comes from Matthew Clark of Piper Jaffray.

Matthew Clark: Hey. Brian, just curious with the increasing classified assets this quarter, the $15 million, what drove that just in terms of the types of credits underlying...?

Brian Fitzmaurice: Yes. Approximately 15 percent of that was simply the migration of an EV loan from special to sub. So that's 50 percent of it. And the other was a mixed bag of no correlated reason. In one case, for instance, it's an SBA 504, we get -- we get financials once a year. So it was -- it was, as I kind of indicated from the rest, just kind of event driven from company-specific clients. No macro reason.

Matthew Clark: OK. And then on the outlook for the margin beyond this year, just knowing that you guys are positioned to be asset sensitive still, are you guys doing anything to adjust the balance sheet to reduce that asset sensitivity assuming the Fed's on hold from here?

Kevin Thompson: We're watching that very closely. Yes, we are asset sensitive and the probability of rates coming down goes up every day as -- almost as much as rates going up. So we are very strategically looking at that and making sure that we're well positioned in the future for both upside and downside in Fed rate.

Matthew Clark: OK. Great. Thanks.

Operator: There are no further questions over the phone lines at this time. I turn the call back over to the presenters.

Brett Villaume: Thank you very much for joining today's conference call and we look forward to speaking with you again soon.

Operator: This concludes today's conference call. You may now disconnect.

END