COMMUNITY WEST BANCSHARES /
Form 10-K
March 26, 2010

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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009
Commission File Number: 000-23575

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

California	77-0446957
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
445 Pine Avenue, Goleta, California	93117
(Address of principal executive offices)	(Zip code)

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

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
Common Stock, No Par Value	Nasdaq Global Market

Securities registered under Section 12(g) of the Exchange Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x   No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer (Do not check if smaller reporting company) o	Smaller reporting company x

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

The aggregate market value of common stock, held by non-affiliates of the registrant as of June 30, 2009, was $7,304,531 based on a closing price of $2.10 for the common stock, as reported on the Nasdaq Global Market. For purposes of the foregoing computation, all executive officers, directors and 5 percent beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such executive officers, directors or 5 percent beneficial owners are, in fact, affiliates of the registrant.

As of March 25, 2010, 5,915,130 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the 2010 Annual Meeting of Shareholders to be held on or about May 27, 2010 are incorporated by reference into Part III of this Report. The proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year ended December 31, 2009.

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PART I

ITEM 1. BUSINESS

GENERAL

Community West Bancshares ("CWBC") was incorporated in the State of California on November 26, 1996, for the purpose of forming a bank holding company. On December 31, 1997, CWBC acquired a 100% interest in Community West Bank, National Association ("CWB" or "Bank"). Effective that date, shareholders of CWB became shareholders of CWBC in a one-for-one exchange. The acquisition was accounted at historical cost in a manner similar to pooling-of-interests. CWBC and CWB are referred to herein as the "Company".

Community West Bancshares is a bank holding company. During the fiscal year, CWB was the sole bank subsidiary of CWBC. CWBC provides management and shareholder services to CWB.

PRODUCTS AND SERVICES

CWB offers a range of commercial and retail financial services to professionals, small to mid-sized businesses and individual households. These services include various loan and deposit products. CWB also offers other financial services.

Relationship Banking – Relationship banking is conducted at the community level through five full-service branch offices on the Central Coast of California stretching from Santa Maria to Westlake Village. The primary customers are small to mid-sized businesses in these communities and their owners and managers. CWB's goal is to provide the highest quality service and the most diverse products to meet the varying needs of this highly sought customer base.

CWB offers a range of commercial and retail financial services, including the acceptance of demand, savings and time deposits, and the origination of commercial, real estate, construction, home improvement, home equity lines of credit and other installment and term loans. Its customers are also provided with the choice of a range of cash management services, merchant credit card processing, courier service and online banking. In addition to the traditional financial services offered, CWB offers remote deposit capture, automated clearinghouse origination, electronic data interchange and check imaging. CWB continues to investigate products and services that it believes address the growing needs of its customers and to analyze new markets for potential expansion opportunities.

One of CWB's key strengths and a fundamental difference that the Company believes enables it to stand apart from the competition is the depth of experience of personnel in commercial lending and business development. These individuals develop business, structure and underwrite the credit and manage the customer relationship. This provides a competitive advantage as CWB's competitors for the most part, have a centralized lending function where developing business, underwriting credit and managing the relationship is split between multiple individuals.

Small Business Administration Lending - CWB has been a preferred lender/servicer of loans guaranteed by the Small Business Administration ("SBA") since 1990. The Company originates SBA loans which are sometimes sold into the secondary market. The Company continues to service these loans after sale and is required under the SBA programs to retain specified amounts. The two primary SBA loan programs that CWB offers are the basic 7(a) Loan Guaranty and the Certified Development Company ("CDC"), a Section 504 ("504") program.

The 7(a) serves as the SBA's primary business loan program to help qualified small businesses obtain financing when they might not be eligible for business loans through normal lending channels. Loan proceeds under this program can be used for most business purposes including working capital, machinery and equipment, furniture and fixtures, land and building (including purchase, renovation and new construction), leasehold improvements and debt refinancing. Loan maturity is generally up to 10 years for working capital and up to 25 years for fixed assets. The 7(a) loan is approved and funded by a qualified lender, guaranteed by the SBA and subject to applicable regulations. In general, the SBA guarantees up to 85% of the loan amount depending on loan size. A recent extension of the SBA Recovery Act temporarily increases the guarantee to 90%. The Company is required by the SBA to retain a contractual minimum of 5% on all SBA 7(a) loans. The SBA 7(a) loans are always variable interest rate loans. The servicing spread is a minimum of 1% on the majority of loans. Income recognized by the Company on the sales of the guaranteed portion of these loans and the ongoing servicing income received have in the past been significant revenue sources for the Company.

The 504 program is an economic development-financing program providing long-term, low downpayment loans to expanding businesses. Typically, a 504 project includes a loan secured from a private-sector lender with a senior lien, a loan secured from a CDC (funded by a 100% SBA-guaranteed debenture) with a junior lien covering up to 40% of the total cost, and a contribution of at least 10% equity from the borrower. Debenture limits are $1.5 million for regular 504 loans, $2 million for those 504 loans that meet a public policy goal and $4 million for manufacturing entities.

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CWB also offers Business & Industry ("B & I") loans. These loans are similar to the SBA product, except they are guaranteed by the U.S. Department of Agriculture. The guaranteed amount is generally 80%. B&I loans are made to businesses in designated rural areas and are generally larger loans to larger businesses than the 7(a) loans. Similar to the SBA 7(a) product, they can be sold into the secondary market.

CWB also originates conventional and investor loans which are funded by our secondary-market partners for which the Bank receives a premium.

CWB originates SBA loans in the states of California, Colorado, Oregon, Utah and Washington. The SBA has designated CWB as a "Preferred Lender", such status being awarded on a national basis. As a Preferred Lender, CWB has been delegated the loan approval, closing and most servicing and liquidation authority responsibility from the SBA.

CWB made the decision to discontinue as of April 1, 2009 SBA lending east of the Rocky Mountains.

Mortgage Lending - CWB has a Wholesale and Retail Mortgage Loan Center. The Mortgage Loan Division originates residential real estate loans primarily in the California counties of Santa Barbara, Ventura and San Luis Obispo. Some retail loans not fitting CWB's wholesale lending criteria are brokered to other lenders. After wholesale origination, most of the real estate loans are sold into the secondary market.

Manufactured Housing - CWB has a financing program for manufactured housing to provide affordable home ownership generally to low to moderate-income families that are purchasing or refinancing their manufactured house. These loans are offered in CWB's primary lending areas of Santa Barbara, Ventura and San Luis Obispo counties and the secondary areas of Los Angeles, Orange, San Diego, Sacramento and surrounding Northern California counties. The manufactured homes are located in approved mobile home parks. The parks must meet specific criteria and have amenities such as clubhouses, pools, common areas and be maintained in good to excellent condition. The manufactured housing loans are retained in CWB's loan portfolio.

CWB's business is not seasonal in nature nor is CWB's business reliant on just a few major clients.

COMPETITION AND SERVICE AREA

The financial services industry is highly competitive with respect to both loans and deposits. Overall, the industry is dominated by a relatively small number of major banks with many offices operating over a wide geographic area. In the markets where the Company's banking branches are present, several de novo banks have increased competition. Some of the major commercial banks operating in the Company's service areas offer types of services that are not offered directly by the Company. Some of these services include leasing, trust and investment services and international banking. The Company has taken several approaches to minimize the impact of competitors' numerous branch offices and varied products. First, CWB provides courier services to business clients, thus discounting the need for multiple branches in one market. Second, through strategic alliances and correspondents, the Company provides a full complement of competitive services. Finally, one of CWB's strategic initiatives is to establish full-service branches or loan production offices in areas where there is a high demand for its lending products. In addition to loans and deposit services offered by CWB's five branches located in Goleta, Ventura, Santa Maria, Santa Barbara and Westlake Village, California, a loan production office currently exists in Roseville, California and a SBA loan production office in the San Francisco Bay area. The Company also maintains SBA loan production offices in the states of Colorado, Oregon, Utah, and Washington. The remote deposit capture product was put in place to better compete for deposits in areas not serviced by a branch.

Competition may adversely affect the Company’s performance. The financial services business in the Company’s markets is highly competitive and becoming increasingly more so due to changing regulations, technology and strategic consolidations amongst other financial service providers. Other banks, credit unions and specialty financial services companies may have more capital than the Company and can offer trust services, leasing and other financial products to the Company’s customer base. When new competitors seek to enter one of the Company’s markets, or when existing market participants seek to increase their market share, they sometimes undercut the pricing or credit terms prevalent in that market. Increasing levels of competition in the banking and financial services businesses may reduce the Company’s market share or cause the prices to fall for which the Company can charge for products and services.

Competition may also be impacted by overall economic conditions. Most economists seem to believe the economy appears to be coming out of the recession, which is generally believed to have begun in the fourth quarter of 2007. The depth and length of the recession raised concerns about immediate economic growth, unemployment, oil prices and consumer confidence. While there are signs of modest improvement, economic activity remains at low levels with a difficult job market, declining demand for loans and demand for commercial and industrial space still trying to find a bottom.

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EMPLOYEES

As of December 31, 2009, the Company had 122 full-time and 8 part-time employees. The Company's employees are not represented by a union or covered by a collective bargaining agreement. Management of the Company believes that, in general, its employee relations are good.

GOVERNMENT POLICIES

The Company's operations are affected by various state and federal legislative changes and by regulations and policies of various regulatory authorities, including those of the states in which it operates and the U.S. government. These laws, regulations and policies include, for example, statutory maximum legal lending rates, domestic monetary policies by the Board of Governors of the Federal Reserve System which impact interest rates (as evidenced by the dramatic downward interest rate pressure in 2008 and continuing into 2009), U.S. fiscal policy, anti-terrorism and money laundering legislation and capital adequacy and liquidity constraints imposed by bank regulatory agencies. Changes in these laws, regulations and policies may greatly affect our operations. See "Item 1A Risk Factors – Curtailment of Government Guaranteed Loan Programs Could Affect a Segment of the Company's Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Supervision and Regulation."

ITEM 1A. RISK FACTORS

Investing in our common stock involves various risks which are particular to our Company, our industry and our market area. Several risk factors regarding investing in our common stock are discussed below. The following should not be considered as an all-inclusive discussion of the risk factors facing the Company. If any of the following risks were to occur, we may not be able to conduct our business as currently planned and our financial condition or operating results could be negatively impacted.

Recession and changes in domestic and foreign financial markets have had, and may continue to have, a material negative impact on our results of operations and financial condition.

The recession, which is generally believed to have begun in the fourth quarter of 2007, continued impacting the economy throughout 2009. While there are signs of modest improvement, economic activity remains at low levels with a difficult job market, declining demand for loans and demand for commercial and industrial space still losing momentum.

In addition, in the past year, the domestic and foreign financial markets, securities trading markets and economies generally have experienced significant turmoil including, without limitation, government takeovers of troubled institutions, government brokered mergers of such firms to avoid bankruptcy or failures, bankruptcies of securities trading firms and insurance companies, failures of financial institutions and securities brokerage firms, significant declines in real property values, and wide fluctuations in energy prices, all of which have contributed to reduced availability of credit for businesses and consumers, significant levels of foreclosures on residential and commercial properties, falling home prices, reduced liquidity and a lack of stability across the entire financial sector. These recent events and the corresponding uncertainty and decline in financial markets are likely to continue for the foreseeable future. The full extent of the repercussions to our nation's economy in general and our business in particular are not fully known at this time. Such events are likely to have a negative effect on (i) our ability to service our existing customers and attract new customers, (ii) the ability of our borrowers to operate their business as successfully as in the past, (iii) the financial security and net worth of our customers, and (iv) the ability of our customers to repay their

loans with us in accordance with the terms thereof. Even though we have enhanced our total shareholders’ equity with the proceeds of the $15.6 million we received in funds from the Treasury under its Troubled Asset Relief Program – Capital Purchase Program (“TARP-CPP”) (discussed below), such developments could have a material negative impact on our results of operations and financial condition.

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Legislative and regulatory initiatives to address difficult market and economic conditions may not stabilize the U.S. banking system.

The Emergency Economic Stabilization Act ("EESA"), the Financial Stability Plan ("FSP"), the American Recovery and Reinvestment Act ("ARRA") and the Homeowner Affordability and Stabilization Plan ("HASP"), and the numerous actions by the Board of Governors of the Federal Reserve System, the Treasury, the Federal Deposit Insurance Corporation ("FDIC"), the Securities and Exchange Commission ("SEC") and others are intended to address the liquidity and credit crisis, and to stabilize the U.S. banking, financial securities and housing markets. These measures include homeowner relief that encourage loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide "back-stop" liquidity to commercial paper issuers; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector. The EESA and the other regulatory initiatives described above may not have their desired effects. If the volatility in the markets continues and economic conditions fail to improve or worsen, our business, financial condition and results of operations could be materially and adversely affected.

Current levels of market volatility are unprecedented.

The capital and credit markets have been experiencing volatility and disruption for more than a year. In recent months, the volatility and disruption has reached unprecedented levels. The markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

We are subject to certain executive compensation and corporate governance restrictions as a result of our participation in the TARP-CPP.

As a result of our participation in the TARP-CPP, we must adopt the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds an equity position acquired under the TARP-CPP. These standards generally apply to our Chief Executive Officer, our Chief Financial Officer, our Chief Credit Officer and up to the two next most highly compensated executive officers (collectively, the "senior executive officers") and with respect to certain requirements, to some or all of the Company's other employees. The standards include, without limitation: (i) ensuring that incentive compensation for senior executive officers does not encourage unnecessary and excessive risks that threaten the value of our Company, (ii) requiring the Company's compensation committee to conduct an assessment at least once every six months of the Company's compensation programs in relation to excessive risk taking and earnings manipulations, (iii) prohibiting the payment of any bonus, retention or incentive compensation to the most-highly compensated employee which may include a senior executive officer; (iv) requiring clawback of any bonus, retention or incentive compensation paid to any senior executive officer or any of the next twenty most highly-compensated employees based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate, (v) prohibiting golden parachute payments to a senior executive officer, and the next five most-highly compensated employees including severance payments for any reason, (vi) prohibiting payment of any tax gross-ups with respect to any severance payments, perquisites or any other form of compensation for the senior executive officers and the next twenty highly compensated employees and (vii) our agreement not to deduct for tax purposes compensation to a senior executive officer in excess of $500,000. In particular, the change to the deductibility limit on executive compensation may increase the overall cost of our compensation programs in

future periods or impact our ability to attract and retain quality executive personnel. We will be subject to the executive compensation and corporate governance restrictions for so long as the Treasury holds any equity securities issued as a result of our participation in TARP-CPP. This period could be more than ten years.

Reserve for credit losses may not be adequate to cover actual loan losses.

The risk of nonpayment of loans is inherent in all lending activities, and nonpayment, if it occurs, may have an adverse effect on our financial condition and/or results of operation. We maintain a reserve for credit losses to absorb estimated probable credit losses inherent in the loan and commitment portfolios as of the balance sheet date. After a provision of $18.7 million for the year, as of December 31, 2009, our allowance for loan losses was $13.7 million or 2.67% of loans held for investment. In addition, as of December 31, 2009, we had $40,265,000 in loans on nonaccrual, $24,088,000 of which are SBA guaranteed, and $17,686,000 in loans 30 to 90 days past due with interest accruing. In determining the level of the reserve for credit losses, our management makes various assumptions and judgments about the loan portfolio. We rely on an analysis of our loan portfolio based on historical loss experience, volume and types of loans, trends in classifications, volume and trends in delinquencies and non-accruals, national and local economic conditions and other pertinent information known at the time of the analysis. If management's assumptions are incorrect, the reserve for credit losses may not be sufficient to cover losses, which could have a material adverse effect on our financial condition and/or results of operations. While the allowance was determined to be adequate at December 31, 2009, based on the information available to us at the time, there can be no assurance that the allowance will be adequate in the future.

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All of our lending involves underwriting risks.

As of December 31, 2009, commercial business loans represented 10.0% of our total loan portfolio; real estate loans represented 32.7% of our total loan portfolio; SBA loans represented 22.6% of our total loan portfolio and manufactured housing loans represented 31.7% of our total portfolio. All such lending, even when secured by the assets of a business, involves considerable risk of loss in the event of failure of the business. To reduce such risk, we typically take additional security interests in other collateral of the borrower, such as real property, certificates of deposit or life insurance, and/or obtain personal guarantees. In light of the economic downturn, our efforts to reduce risk of loss may not prove sufficient as the value of the additional collateral or personal guarantees may be significantly reduced. There can be no assurances that we have taken sufficient collateral or the values thereof will be sufficient to repay loans in accordance with their terms.

Our dependence on real estate concentrated in the State of California.

As of December 31, 2009, approximately $202.4 million, or 32.8%, of our loan portfolio is secured by various forms of real estate, including residential and commercial real estate. A further decline in current economic conditions or rising interest rates could have an adverse effect on the demand for new loans, the ability of borrowers to repay outstanding loans and the value of real estate and other collateral securing loans. The real estate securing our loan portfolio is concentrated in California. The decline in real estate values could harm the financial condition of our borrowers and the collateral for our loans will provide less security and we would be more likely to suffer losses on defaulted loans.

Curtailment of government guaranteed loan programs could affect a segment of our business.

A major segment of our business consists of originating and periodically selling government guaranteed loans, in particular those guaranteed by the Small Business Administration. From time to time, the government agencies that guarantee these loans reach their internal limits and cease to guarantee loans. In addition, these agencies may change their rules for loans or Congress may adopt legislation that would have the effect of discontinuing or changing the loan programs. Non-governmental programs could replace government programs for some borrowers, but the terms might not be equally acceptable. Therefore, if these changes occur, the volume of loans to small business, industrial and agricultural borrowers of the types that now qualify for government guaranteed loans could decline. Also, the profitability of these loans could decline. As the funding of the guaranteed portion of 7(a) loans is a major portion of our business, the long-term resolution to the funding for the 7(a) loan program may have an unfavorable impact on our future performance and results of operations.

Our small business customers may lack the resources to weather a downturn in the economy.

One of the primary focal points of our business development and marketing strategy is serving the banking and financial services needs of small- and medium-sized businesses and professional organizations. Small businesses generally have fewer financial resources in terms of capital or borrowing capacity than do larger entities. If economic conditions are generally unfavorable in our service areas, the businesses of our lending clients and their ability to repay outstanding loans may be negatively affected. As a consequence, our results of operations and financial condition may be adversely affected.

Environmental laws could force the Company to pay for environmental problems.

When a borrower defaults on a loan secured by real property, we generally purchase the property in foreclosure or accept a deed to the property surrendered by the borrower. We may also take over the management of commercial properties when owners have defaulted on loans. While we have guidelines intended to exclude properties with an unreasonable risk of contamination, hazardous substances may exist on some of the properties that we own, manage or occupy and unknown hazardous risks could impact the value of real estate collateral. We face the risk that environmental laws could force us to clean up the properties at our expense. It may cost much more to clean a property than the property is worth. We could also be liable for pollution generated by a borrower's operations if we took a role in managing those operations after default. Resale of contaminated properties may also be difficult.

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Fluctuations in interest rates may reduce profitability.

Changes in interest rates affect interest income, the primary component of our gross revenue, as well as interest expense. Our earnings depend largely on the relationship between the cost of funds, primarily deposits and borrowings, and the yield on earning assets, primarily loans and investment securities. This relationship, known as the interest rate spread, is subject to fluctuation and is affected by the monetary policies of the Federal Reserve Board, the shape of the yield curve, the international interest rate environment, as well as by economic, regulatory and competitive factors which influence interest rates, the volume and mix of interest-earning assets and interest-bearing liabilities, and the level of nonperforming assets. Many of these factors are beyond our control. Fluctuations in interest rates may affect the demand of customers for products and services. As interest rates change, we expect to periodically experience "gaps" in the interest rate sensitivities of its assets and liabilities. This means that either interest-bearing liabilities will be more sensitive to changes in market interest rates than interest-earning assets, or vice versa. In either event, changes in market interest rates may have a negative impact on our earnings.

Responding to economic sluggishness and recession concerns, the Federal Reserve Board, through its Federal Open Market Committee ("FOMC"), cut the target federal funds rate beginning in September 2007 to historically low levels. The actions of the Federal Reserve Board, while designed to help the economy overall, may negatively impact the Bank's earnings.

Changes in the level of interest rates also may negatively affect our ability to originate loans, the value of loans and the ability to realize gains from the sale of loans, all of which ultimately affect earnings. A decline in the market value of our assets may limit our ability to borrow additional funds. As a result, we could be required to sell some of our loans and investments under adverse market conditions, under terms that are not favorable, to maintain liquidity. If those sales are made at prices lower than the amortized costs of the investments, losses may be incurred.

Risks due to economic conditions and environmental disasters in the regions we serve may adversely affect our operations.

The Company serves two primary regions: the Tri-Counties region which consists of San Luis Obispo, Santa Barbara and Ventura counties in the state of California and the SBA Region where the Bank originates SBA loans (California, Oregon, Colorado, Utah and Washington). The current economic slowdown in those regions as well as natural disasters such as hurricanes, floods, fires and earthquakes could result in the following consequences, any of which could hurt our business:

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- demand for our products and services may decline; and
- collateral for loans made by us, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with our existing loans.

Competition with other banking institutions could adversely affect profitability.

The banking industry is highly competitive. We face increased competition not only from other financial institutions within the markets we serve, but deregulation has resulted in competition from companies not typically associated

with financial services as well as companies accessed through the internet. As a community bank, the Bank attempts to combat this increased competition by developing and offering new products and increased quality of services. Ultimately, competition can drive down the Bank's interest margins and reduce profitability and make it more difficult to increase the size of the loan portfolio and deposit base.

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Regulatory considerations may adversely affect our operations.

As a bank holding company under the Bank Holding Company Act, we are regulated, supervised and examined by the Board of Governors of the Federal Reserve System, or Federal Reserve Board. This regulatory framework is intended primarily for the protection of depositors and the federal deposit insurance funds and not for the protection of our shareholders. As a result of this regulatory framework, our earnings are affected by actions of the Federal Reserve Board, the Office of the Comptroller of the Currency (the "Comptroller"), which regulates the Bank, and the FDIC, which insures the deposits of the Bank within certain limits.

In addition, there are numerous governmental requirements and regulations that affect our business activities. A change in applicable statutes, regulations or regulatory policy may have a material effect on our business. Depository institutions, like the Bank, are also affected by various federal laws, including those relating to consumer protection and similar matters.

The holding company is a legal entity separate and distinct from the Bank. However, our principal source of cash revenues is the payment of dividends from the Bank. There are various legal and regulatory limitations on the extent to which the Bank can finance or otherwise supply funds to us.

As a national bank, the prior approval of the Comptroller is required if the total of all dividends declared and paid to the Bank in any calendar year exceeds the Bank's net earnings for that year combined with their retained net earnings less dividends paid for the preceding two calendar years.

Government agencies regulations also dictate the following:

- the amount of capital we must maintain;
- the types of activities in which we can engage;
- the types and amounts of investments we can make;
- the locations of our offices;
- insurance of our deposits and the premiums paid for the insurance; and
- how much cash we must set aside as reserves for deposits.

Regulations impose limitations on operations and may be changed at any time, possibly causing future results to vary significantly from past results. Regulations can significantly increase the cost of doing business such as increased deposit insurance premiums imposed by the FDIC to be paid in 2010. Moreover, certain of these regulations contain significant punitive sanctions for violations, including monetary penalties and limitations on a bank's ability to implement components of its business plan. In addition, changes in regulatory requirements may act to add costs associated with compliance efforts. Furthermore, government policy and regulation, particularly as implemented through the Federal Reserve System, significantly affect credit conditions.

Operational risks may result in losses.

Operational risk represents the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside the Company, the execution of unauthorized transactions by employees, transaction processing errors and breaches of internal control system and compliance requirements. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation and customer attrition due to potential negative publicity.

Operational risks are inherent in all business activities and the management of these risks is important to the achievement of our objectives. In the event of a breakdown in the internal control system, improper operation of systems or improper employee actions, we could suffer financial loss, face regulatory action and suffer damage to our reputation. We manage operational risks through a risk management framework and our internal control processes. While we believe that we have designed effective methods to minimize operational risks, there is no absolute assurance that business disruption or operational losses would not occur in the event of disaster.

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An information systems interruption or breach in security might result in loss of customers.

We rely heavily on communications and information systems to conduct business. In addition, we rely on third parties to provide key components of information system infrastructure, including loan, deposit and general ledger processing, internet connections, and network access. Any disruption in service of these key components could adversely affect our ability to deliver products and services to customers and otherwise to conduct operations. Furthermore, any security breach of information systems or data, whether managed by the Company or by third parties, could harm our reputation or cause a decrease in the number of our customers.

We may depend on technology and technological improvements.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to providing better service to customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Many of our competitors have substantially greater resources to invest in technological improvements. We face the risk of having to keep up with the rapid technological changes.

Loss of key management personnel may adversely affect our operations.

The Bank is operated by key management personnel in each department of the Bank, including executive, lending, finance, operations and retail banking. Many of these key staff members have been employed by the Bank for a number of years and, accordingly, have developed expertise and a loyal customer following. In the event that a key management member were to terminate employment with the Bank, the effect may be to impair the Bank's ability to operate as effectively as it does at the present time, or in the case of a former employee being hired by a competitor, may result in a loss of customers to a competitor. In addition, the loss of services of any of our executive officers, or their failure to adequately perform their management functions, would make it difficult for us to continue to grow our business, obtain and retain customers, and set up and maintain appropriate internal controls for our operations. If any member of our executive officers does not perform up to expectations, our results of operations could suffer. Finally, if any of our executive officers decides to leave, it may be difficult to replace her or him and we would lose the benefit of the knowledge she or he gained during her or his tenure with us.

Changes in accounting policies may adversely affect the reported results of operations.

The financial statements prepared by the Company are subject to various guidelines and requirements promulgated by the Financial Accounting Standards Board, the Securities and Exchange Commission and bank regulatory agencies. The adoption of new or revised accounting standards may adversely affect the reported results of operation.

Litigation risks may have a material impact on our assets or results of operations.

We are involved in various matters of litigation in the ordinary course of business which, historically, have not been material to our assets or results of operations. No assurances can be given that future litigation may not have a material impact on our assets or results of operations.

Geopolitical concerns and the heightened risk of terrorism have negatively affected the stock market and the global economy.

Stock prices domestically and around the world have been and continue to be adversely affected by geopolitical concerns and the heightened risk of terrorism. In addition to negatively affecting the stock markets, the geopolitical concerns and the heightened risk of terrorism have adversely affected, and may continue to adversely affect, the national and global economy because of the uncertainties that exist as to the instabilities in the Middle East and elsewhere, and as to how the U.S. and other countries will respond to terrorist threats or actions. All of these uncertainties may contribute to a global slowdown in economic activity. An overall weakened economy may have the effect of decreasing loan demand, increasing loan delinquencies and generally causing our results of operations and our financial condition to suffer.

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Certain restrictions will affect our ability to declare or pay dividends and repurchase our shares as a result of our decision to participate in the TARP-CPP.

As a result of our participation in the TARP-CPP, our ability to declare or pay dividends on any of our common stock will be limited. Specifically, we will not be able to declare dividends payments on common, junior preferred or pari passu preferred shares if we are in arrears on the dividends on the shares of fixed rate cumulative perpetual preferred stock, Series A (the "Series A Preferred Stock"). Further, while we are permitted to pay stock dividends, effectuate stocks splits and reverse stock splits, we will not be permitted to declare or pay cash dividends on our common stock without the Treasury's approval until the third anniversary of the Closing of the sale of the Series A Preferred Stock to Treasury unless the Series A Preferred Stock has been redeemed or transferred. In addition, our ability to repurchase our shares will be restricted. Treasury consent generally will be required for us to make any stock repurchases until the third anniversary of the Closing of the sale of the Series A Preferred Stock to Treasury unless the Series A Preferred Stock has been redeemed or transferred. Further, common, junior preferred or pari passu preferred shares may not be repurchased if we are in arrears on the Series A Preferred Stock dividends to the Treasury. For more information regarding our Series A Preferred Stock, including the rights, preferences, privileges and restrictions of the Series A Preferred Stock that may affect the holders of our common Stock, please refer to the Company's Current Reports on Form 8-K as filed with the SEC on December 18, 2008 and December 24, 2008, the Certificate of Determination of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, filed as Exhibit 3.2 to the Company's Current Report on Form 8-K as filed with the SEC on December 18, 2008, and the Form of Certificate for the Fixed Rate Cumulative Perpetual Preferred Stock, Series A, filed as Exhibit 4.3 to the Company's Registration Statement on Form S-3.

The Series A Preferred Stock impacts net income available to our common shareholders and earnings per common share and the Warrant we issued to the Treasury may be dilutive to holders of our Common Stock.

The dividends on the Series A Preferred Stock will reduce the net income available to common shareholders and our earnings per common share. The Series A Preferred Stock will also receive preferential treatment in the event of liquidation, dissolution or winding up of the Company. Additionally, the ownership interest of the existing holders of our common stock will be diluted to the extent the warrant we issued to the Treasury (the "Warrant") in conjunction with the sale to the Treasury of the Series A Preferred Stock is exercised. The shares of common stock underlying the Warrant represent approximately 8.8% of the shares of our common stock outstanding as of December 31, 2009 (including the shares issuable upon exercise of the Warrant in total shares outstanding). Although the Treasury has agreed not to vote any of the shares of common stock it receives upon exercise of the Warrant, a transferee of any portion of the Warrant or of any shares of common stock acquired upon exercise of the Warrant is not bound by this restriction.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Company owns the property on which the CWB full-service branch office is located in Goleta, California. All other properties are leased by the Company, including the principal executive office in Goleta. This facility houses the Company's corporate offices, comprised of various departments, including executive management, electronic business services, finance, human resources, information technology, loan operations, marketing, the mortgage loan division, SBA administration, risk management and special assets.

The Company continually evaluates the suitability and adequacy of the Company's offices and has a program of relocating or remodeling them as necessary to maintain efficient and attractive facilities. Management believes that the Company has sufficient insurance to cover its interests in its properties, both owned and leased, and that its existing facilities are adequate for its present purposes. There are no material capital expenditures anticipated.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various litigation matters of a routine nature that are being handled and defended in the ordinary course of the Company's business. In the opinion of Management, based in part on consultation with legal counsel, the resolution of these litigation matters will not have a material impact on the Company's financial position or results of operations. There are no pending legal proceedings to which the Company or any of its directors, officers, employees or affiliates, or any principal security holder of the Company or any associate of any of the foregoing, is a party or has an interest adverse to the Company, or of which any of the Company's properties are subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted for a vote by the shareholders during the fourth quarter of 2009.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information, Holders and Dividends

The Company's common stock is traded on the Nasdaq Global Market ("NASDAQ") under the symbol CWBC. The following table sets forth the high and low sales prices on a per share basis for the Company's common stock as reported by NASDAQ for the period indicated:

	2009 Quarters				2008 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Stock Price Range:								
High	$3.25	$2.83	$3.15	$4.02	$5.50	$7.65	$9.52	$10.25
Low	2.26	1.49	2.00	1.59	3.00	3.50	6.49	7.05
Common Dividends								
Declared	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$.06	$.06

As of March 24, 2010 the year to date high and low stock sales prices were $3.15 and $2.75, respectively. As of March 24, 2010, the last reported sale price per share for the Company's common stock was $3.05.

As of March 24, 2010, the Company had 325 stockholders of record of its common stock.

Preferred Stock Dividends

On December 19, 2008, as part of TARP-CPP, in exchange for an aggregate purchase price of $15,600,000, the Company issued 15,600 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value, with a liquidation preference of $1,000 per share which pays cumulative dividends at a rate of 5% per year for the first five years and 9% per year thereafter. The Series A Preferred Stock has no maturity date and ranks senior to the common stock with respect to the payment of dividends and distributions. Preferred dividends are paid quarterly in accordance with the terms of The Series A Preferred Stock. During 2009, the Company recorded $780,000 for dividends and $266,000 in amortization of the discount on preferred stock, for a total of $1,046,000 preferred stock dividends. Actual preferred stock dividends paid was $706,000 in 2009 and $0 in 2008. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources – TARP-CPP."

Common Stock Dividends

It is the Company's intention to review its dividend policy on a quarterly basis. The Company's last declared dividend was in April 2008. The sources of funds for dividends paid to shareholders are the Company's capital and dividends received from its subsidiary bank, CWB. CWB's ability to pay dividends to the Company is limited by California law and federal banking law. In addition, as a result of the Company's participation in the TARP-CPP, the Company's ability to declare or pay dividends on its common stock will be limited. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources –– TARP-CPP" and see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Supervision and Regulation -CWBC - Limitations on Dividend Payments."

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Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes the securities authorized for issuance as of December 31, 2009:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Plans approved by shareholders	467,063	$7.36	306,400
Plans not approved by shareholders			
Total	467,063	$7.36	306,400

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data have been derived from the Company's consolidated financial condition and results of operations, as of and for the years ended December 31, 2009, 2008, 2007, 2006 and 2005, and should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this report.

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(in thousands, except per share data and ratios)				
INCOME STATEMENT:					
Interest income	$40,903	$45,532	$46,841	$39,303	$29,778
Interest expense	14,945	22,223	22,834	16,804	10,347
Net interest income	25,958	23,309	24,007	22,499	19,431
Provision for loan losses	18,678	5,264	1,297	489	566
Net interest income after provision for loan losses	7,280	18,045	22,710	22,010	18,865
Non-interest income	4,418	5,081	4,845	5,972	7,310
Non-interest expenses	21,479	20,516	21,000	18,832	18,160
(Loss) income before income taxes	(9,781)	2,610	6,555	9,150	8,015
(Benefit) provision for income taxes	(4,018)	1,129	2,766	3,822	2,373
NET (LOSS) INCOME	$(5,763)	$1,481	$3,789	$5,328	$5,642
Preferred stock dividends	1,046	35	-	-	-
NET (LOSS) INCOME APPLICABLE TO COMMON STOCKHOLDERS	$(6,809)	$1,446	$3,789	$5,328	$5,642
PER COMMON SHARE DATA:					
(Loss) income per share – Basic	$(1.15)	$0.24	$0.65	$0.92	$0.98
Weighted average shares used in income per share calculation – Basic	5,915	5,913	5,862	5,785	5,744
(Loss) income per share – Diluted	$(1.15)	$0.24	$0.63	$.89	$0.95
Weighted average shares used in income per share calculation – Diluted	5,915	5,941	6,022	6,001	5,931
Book value per share	$7.74	$8.84	$8.51	$8.05	$7.34
BALANCE SHEET:					
Net loans	$603,440	$581,075	$539,165	$451,572	$381,517
Total assets	684,216	656,981	609,850	516,615	444,354
Total deposits	531,392	475,439	433,739	368,747	334,238
Total liabilities	623,909	590,363	559,691	469,795	402,119
Total stockholders' equity	60,307	66,618	50,159	46,820	42,235
OPERATING AND CAPITAL RATIOS:					
Return on average equity	(9.24)%	2.85 %	7.72 %	11.88 %	14.16 %
Return on average assets	(0.85)	0.23	0.67	1.12	1.43
Dividend payout ratio	-	49.07	36.92	24.97	19.39
Equity to assets ratio	8.81	10.14	8.22	9.06	9.50
Tier 1 leverage ratio	8.81	10.28	8.39	9.21	9.80
Tier 1 risk-based capital ratio	10.93	12.45	9.87	10.57	11.21

Total risk-based capital ratio	12.20	13.70	10.74	11.45	12.26

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is designed to provide insight into management's assessment of significant trends related to the consolidated financial condition, results of operations, liquidity, capital resources and interest rate risk for Community West Bancshares ("CWBC") and its wholly-owned subsidiary, Community West Bank ("CWB" or "Bank"). Unless otherwise stated, "Company" refers to CWBC and CWB as a consolidated entity. The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto and the other financial information appearing elsewhere in this 2009 Annual Report on Form 10-K.

Forward-Looking Statements

This 2009 Annual Report on Form 10-K contains statements that constitute 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. Those forward-looking statements include statements regarding the intent, belief or current expectations of the Company and its management. Any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those projected in the forward-looking statements.

Overview of Earnings Performance

Net loss applicable to common shareholders of the Company was $6.8 million, or $(1.15) per basic and diluted common share, for 2009 compared to net income available to common shareholders of $1.4 million, or $0.24 per basic and diluted common share for 2008. The Company's earnings performance was impacted in 2009 by:

The provision for loan losses increased to $18.7 million for 2009 compared to $5.3 million for 2008. Charge-offs of $12.3 million continued to impact the loan portfolio.

The decline in rates paid on deposits and borrowing contributed to an improvement in the margin which increased to 3.91% for 2009 compared to 3.72% for 2008.

The decline in interest income from $45.5 million in 2008 to $40.9 million in 2009 continued to reflect the target fed funds rate which has been maintained at a range of 0% to .25% since the reduction from 4.25% at December 31, 2007 to a range of 0% to .25% as of December 31, 2008.

Interest expense declined $7.3 million to $14.9 million for 2009 compared to $22.2 million for 2008. This improvement resulted from a decline in rates paid on deposits and borrowings to 2.60% for 2009 compared to 4.05% for 2008.

The strategic decision in the first quarter 2009 to discontinue SBA lending east of the Rocky Mountains contributed to a decline in salaries and employee benefits to $11.9 million 2009 from $13.4 million for 2008 and in occupancy expenses which declined to $2.1 million for 2009 from $2.3 million for 2008.

An increase of $1.2 million in the FDIC assessment for 2009 compared to 2008 resulting from higher assessment rates and a special assessment of $306,000.

The impact to the Company from these items, and others of both a positive and negative nature, will be discussed in more detail as they pertain to the Company's overall comparative performance for the year ended December 31, 2009 throughout the analysis sections of this Annual Report.

2009 Economic Environment

The recession, which is generally believed to have begun in the fourth quarter of 2007, continued impacting the economy throughout 2009. While there are signs of modest improvement, economic activity remains at low levels with a difficult job market, declining demand for loans and demand for commercial and industrial space still losing momentum.

The struggling economy continues to negatively impact the credit quality of our loan portfolio. The stress businesses and consumers have experienced has resulted in higher level of bankruptcies, foreclosures and delinquencies and losses in our portfolio. The Company has increased its allowance for loan losses – see "Provision for Loan Losses" below.

The Company did not have subprime lending exposure or exposure in its investment securities' portfolio as all issues are guaranteed directly or indirectly by a government agency or government sponsored entity.

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Critical Accounting Policies

The Company's accounting policies are more fully described in Note 1 of the Consolidated Financial Statements. As disclosed in Note 1, the preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ significantly from those estimates. The Company believes that the following discussion addresses the Company's most critical accounting policies, which are those that are most important to the portrayal of the Company's financial condition and results of operations and require management's most difficult, subjective and complex judgments.

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

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

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

SBA – A migration analysis and various portfolio specific factors are used to determine the required allowance for all non-impaired loans. In addition, the migration results are adjusted based upon qualitative factors. Qualitative factors include, but are not limited to, adjustments for existing economic conditions, past due trends and concentration exposure. Impaired loans are assigned a specific reserve based upon the individual characteristics of the loan.

Relationship Banking – Primarily includes commercial, commercial real estate and construction loans. A migration analysis and various portfolio specific factors are used to calculate the required allowance for all non-impaired loans. In addition, the migration results are adjusted based upon qualitative factors. Qualitative factors include, but are not limited to, adjustments for existing economic conditions, past due trends and concentration exposure. Impaired loans are assigned a specific reserve based upon the individual characteristics of the loan.

Manufactured Housing – The allowance is calculated on the basis of loss history and risk rating, which is primarily a function of delinquency. In addition, the loss history is adjusted based upon qualitative factors similar to those used for SBA loans.

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

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

In 2009, the Bank centralized the appraisal management process that tracks and monitors appraisal, appraisal reviews and other valuations. The centralization focus is to ensure the use of qualified and independent appraisers capable of providing reliable real estate values in the context of ever changing market conditions. The review process is monitored to ensure application of the appropriate appraisal methodology, agreement with the interpretation of market data and the resultant real estate value. The process also provides the means of tracking the performance quality of the appraisers on the Bank's approved appraiser list. Any loan evaluation that results in the Bank determining that elevated credit risk and/or default risk exists and also exhibits a lack of a timely valuation of the collateral or apparent collateral value deterioration is reappraised and reevaluated to determine the current extent of any change in collateral value and credit risk. A similar review process is conducted quarterly on all classified and criticized real estate credits to determine the timeliness and adequacy of the real estate collateral value. A detection of non-compliance is then addressed through a new appraisal or reappraisal and review.

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

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

Changes in Interest Income and Interest Expense

The Company primarily earns income from the management of its financial assets and from charging fees for services it provides. The Company's income from managing assets consists of the difference between the interest income received from its loan portfolio and investments and the interest expense paid on its funding sources, primarily interest paid on deposits. This difference or spread is net interest income. The amount by which interest income will exceed interest expense depends on the volume or balance of interest-earning assets compared to the volume or balance of interest-bearing deposits and liabilities and the interest rate earned on those interest-earning assets compared to the interest rate paid on those interest-bearing liabilities.

Net interest income, when expressed as a percentage of average total interest-earning assets, is referred to as net interest margin on interest-earning assets. The Company's net interest income is affected by the change in the level and the mix of interest-earning assets and interest-bearing liabilities, referred to as volume changes. The Company's net yield on interest-earning assets is also affected by changes in the yields earned on assets and rates paid on liabilities, referred to as rate changes. Interest rates charged on the Company's loans are affected principally by the demand for such loans, the supply of money available for lending purposes, competitive factors and general economic conditions such as federal economic policies, legislative tax policies and governmental budgetary matters. To maintain its net interest margin, the Company must manage the relationship between interest earned and paid.

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The following table sets forth, for the period indicated, the increase or decrease in dollars and percentages of certain items in the consolidated income statements as compared to the prior periods:

	Year Ended December 31,			
	2009 vs. 2008		2008 vs. 2007	
	Amount of Increase (decrease)	Percent of Increase (decrease)	Amount of Increase (decrease)	Percent of Increase (decrease)
	(dollars in thousands)			
INTEREST INCOME				
Loans	$(3,987)	(9.3)%	$(1,099)	(2.5)%
Investment securities	(439)	(20.1)%	227	11.6%
Other	(203)	(74.6)%	(437)	(61.6)%
Total interest income	(4,629)	(10.2)%	(1,309)	(2.8)%
INTEREST EXPENSE				
Deposits	(5,985)	(34.7)%	(583)	(3.3)%
Other borrowings	(1,293)	(25.9)%	(28)	(0.6)%
Total interest expense	(7,278)	(32.7)%	(611)	(2.7)%
NET INTEREST INCOME	2,649	11.4%	(698)	(2.9)%
Provision for loan losses	13,414	254.8%	3,967	305.9%
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	(10,765)	(59.7)%	(4,665)	(20.5)%
NON-INTEREST INCOME				
Other loan fees	(211)	(10.0)%	(634)	(23.2)%
Gains from loan sales, net	(655)	(64.3)%	216	26.9%
Document processing fees, net	85	11.8%	(32)	(4.3)%
Loan servicing fees, net	285	58.4%	484	-
Service charges	22	5.1%	(8)	(1.8)%
Other	(189)	(59.2)%	210	192.7%
Total non-interest income	(663)	(13.0)%	236	4.9%
NON-INTEREST EXPENSES				
Salaries and employee benefits	(1,494)	(11.2)%	(622)	(4.4)%
Occupancy and equipment expenses	(229)	(9.8)%	252	12.1%
FDIC Assessment	1,227	332.5%	139	60.4%
Professional services	113	14.3%	(108)	(12.1)%
Advertising and marketing	(77)	(18.3)%	(330)	(43.9)%
Depreciation	(27)	(5.2)%	2	0.4%
Loss on sale and write-down of other assets acquired through foreclosure	615	-	(29)	(100)%
Data processing	79	14.6%	41	8.2%
Other	756	35.2%	171	8.6%
Total non-interest expenses	963	4.7%	(484)	(2.3)%
(Loss) income before provision for income taxes	(12,391)		(3,945)	
(Benefit) provision for income taxes	(5,147)		(1,637)	
NET (LOSS) INCOME	$(7,244)		$(2,308)	
Preferred stock dividends	1,011		35	
	$(8,255)		$(2,343)	

NET (LOSS) INCOME APPLICABLE TO COMMON
STOCKHOLDERS

Comparison of 2009 to 2008

Net interest income increased by $2.6 million, or 11.4%, for 2009 compared to 2008.

Total interest income declined by $4.6 million, or 10.2%, from $45.5 million in 2008 to $40.9 million in 2009. Of this decline, $6.7 million was due to changes in rates and is reflective of the targeted fed funds rate range of 0.00% to 0.25% following 400 to 425 basis point reduction in the targeted Fed funds rate between December 2007 and December 2008. The $4.6 million decline was offset by $2.0 million increase in interest income due to the growth of interest earning assets. Average loan balances increased by $36.9 million for 2009 compared to 2008. Yields on interest earning assets declined to 6.17% for 2009 compared to 7.27% for 2008.

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Total interest expense decreased by $7.3 million, or 32.7%, in 2009 compared to 2008. Resulting from lower rates paid on deposits and borrowings, interest expense on deposits declined $6.0 million while the interest expense on other borrowings declined $1.3 million. Rates paid on interest bearing liabilities declined to 2.60% for 2009 from 4.05% for 2008.

The combination of the decline in rates paid on deposits and borrowings and the decline in yields on interest bearing assets resulted in a margin improvement of 0.19% from 3.72% for 2008 to 3.91% for 2009.

Comparison of 2008 to 2007

Net interest income declined by $698,000, or 2.9%, for 2008 compared to 2007.

Total interest income declined by $1.3 million, or 2.8%, from $46.8 million in 2007 to $45.5 million in 2008. Of this decline, $7.1 million was due to changes in rates and is reflective of the 400 to 425 basis point reduction in the targeted Fed funds rate between December 2007 and December 2008. The $7.1 million decline was offset by $5.8 million increase in interest income due to the growth of interest earning assets. Average loan balances increased by $75.0 million for 2008 compared to 2007.

Total interest expense decreased by $611,000, or 2.7%, in 2008 compared to 2007. Interest expense on deposits declined $583,000 while the interest expense on other borrowings declined $28,000. Of these declines, $3.9 million was due to lower rates paid on deposits and borrowings. These rate declines were partially offset by $3.3 million increase in interest expense due to growth in interest bearing liabilities.

Declines in interest income for the commercial, real estate commercial and construction and SBA portfolios of $1.2 million, $1.0 million and $559,000, respectively, were partially offset by an increase of $1.8 million for the manufactured housing portfolio.

While the decline in interest income was partly offset by the decline in interest expense, margins continued to suffer compression. Yields on interest earning assets declined from 8.55% for 2007 to 7.27% for 2008. This decline was partly offset by a reduction in the rates paid on interest bearing liabilities from 4.81% for 2007 to 4.05% for 2008. The rapid decline in interest rates due to the actions of the Federal Reserve impacted rates on interest earning assets more quickly than the rates paid on interest bearing liabilities. Generally, rates paid on deposits and borrowings have declined, but at a slower pace than the rates earned on loans. The net effect was a 66 basis point decline in the margin from 4.38% to 3.72%. As deposit and borrowing rates continue to decline, this margin compression may ease in coming periods.

The following table sets forth the changes in interest income and expense attributable to changes in rate and volume:

	Year Ended December 31,					
	2009 versus 2008			2008 versus 2007		
	Total	Change due to		Total	Change due to	
	change	Rate	Volume	change	Rate	Volume
	(in thousands)					
Interest earning deposits in other financial institutions (including time deposits)	$(4)	$(7)	$3	$(7)	$(9)	$2
Federal funds sold	(199)	(196)	(3)	(430)	(400)	(30)
Investment securities	(439)	(467)	28	227	8	219

Loans, net	(3,987)	(6,001)	2,014	(1,099)	(6,722)	5,623
Total interest-earning assets	(4,629)	(6,671)	2,042	(1,309)	(7,123)	5,814
Interest-bearing demand	976	(108)	1,084	(1,224)	(1,091)	(133)
Savings	(56)	(105)	49	(53)	(31)	(22)
Time certificates of deposit	(6,905)	(5,879)	(1,026)	694	(2,526)	3,220
Other borrowings	(1,293)	(1,348)	55	(28)	(304)	276
Total interest-bearing liabilities	(7,278)	(7,440)	162	(611)	(3,952)	3,341
Net interest income	$2,649	$769	$1,880	$(698)	$(3,171)	$2,473

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The following table presents the net interest income and net interest margin for the three years indicated:

	Year Ended December 31,		
	2009	2008	2007
	(dollars in thousands)		
Interest income	$40,903	$45,532	$46,841
Interest expense	14,945	22,223	22,834
Net interest income	$25,958	$23,309	$24,007
Net interest margin	3.91 %	3.72 %	4.38 %

Provision for Loan Losses

The provision for loan losses increased $13.4 million to $18.7 million for 2009 compared to $5.3 million for 2008 reflecting the detailed evaluation of its loan portfolio in the context of the overall challenging economic environment which has persisted for the last two years. While a substantial part of the deterioration and downgrades to specific loans in the portfolio was recognized in the first quarter 2009, there continues to be certain ongoing credit issues primarily relating to business loans. This has elevated the component of the allowance calculation related to historical loan losses. In general, the Company has experienced elevated levels of loan losses over the past year thereby resulting in a significantly higher allowance requirement. The migration of the losses through the loan portfolio resulted in a calculated increase in the allowance from $7.3 million at December 31, 2008 to $13.7 million at December 31, 2009, increasing the allowance for loans held for investment from 1.61% at December 31, 2008 to 2.67% at December 31, 2009. This increase is directly related to the effect of historical loan losses on our estimate of losses inherent in the portfolio as of the balance sheet dates and does not necessarily reflect expected future losses.

The following schedule summarizes the provision, charge-offs and recoveries for the year ended December 31, 2009 by loan category:

	(in thousands)					
	Allowance 12/31/08	Provision	Charge-offs	Recoveries	Net Charge-offs	Allowance 12/31/09
Real estate	$ 1,583	$ 3,555	$ (2,133)	$ 7	$ (2,126)	$ 3,012
Manufactured housing	1,659	2,170	(1,574)	-	(1,574)	2,255
Commercial	1,428	5,584	(3,609)	45	(3,564)	3,448
SBA	2,556	7,153	(5,004)	96	(4,908)	4,801
Other installment	115	216	(117)	3	(114)	217
Total	$ 7,341	$ 18,678	$ (12,437)	$ 151	$ (12,286)	$ 13,733

Included in the Company's held-to-maturity portfolio is the category "Other installment" which consists primarily of home equity lines of credit ("HELOC") loans. Recent guidance issued by the SEC characterized these types of loans as higher-risk. The HELOC portfolio of $17.9 million consists of credits secured by residential real estate in Santa Barbara and Ventura counties. In 2009, there were no actual loan losses in this portfolio. As of December 31, 2009, 0.6% of the portfolio is past due and 2.2% is on non-accrual status. The allowance for loan losses for this portfolio is $124,000, or 0.69%. The Company believes that, overall, this portfolio is adequately supported by real estate collateral.

The percentage of net non-accrual loans to the total loan portfolio has remained relatively steady, declining modestly to 2.62% as of December 31, 2009 from 2.87% at December 31, 2008. The allowance for loan losses compared to net

non-accrual loans has increased to 85% as of December 31, 2009 from 43% as of December 31, 2008.

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Non-Interest Income

The following table summarizes the Company's non-interest income for the three years indicated:

Non-interest income	Year Ended December 31, 2009	2008	2007
	(in thousands)		
Other loan fees	$1,893	$2,104	$2,738
Gains from loan sales, net	363	1,018	802
Document processing fees, net	803	718	750
Loan servicing fees, net	773	488	4
Service charges	456	434	442
Other	130	319	109
Total non-interest income	$4,418	$5,081	$4,845

Comparison of 2009 to 2008

Non-interest income declined by $663,000 to $4.4 million for 2009 compared to $5.1 million for 2008. Gain on loan sales declined $655,000 for 2009 compared to 2008. No SBA loans were sold in 2009 compared to $19.7 million guaranteed loans sales in 2008. Other loan fees have declined $211,000, primarily related to lower referral fees received on SBA 504 loans. Partly offsetting these declines was an increase of $285,000 in loan servicing.

Comparison of 2008 to 2007

Non-interest income increased by $236,000 for 2008 over 2007, primarily due to an increase of $484,000 in loan servicing, $216,000 in gains on loans sales and the net gain on the sale of other foreclosed assets of $205,000 included in other income. The Company sold $19.7 million in guaranteed SBA loans and $1.7 million in unguaranteed SBA loans during 2008 compared to $5.3 million in guaranteed and $3.5 million in unguaranteed for 2007. The gain due to the increased volume of loans sold was negatively impacted by a decline in the premiums received on the sale of the guaranteed portion of SBA loans. The increase in loan servicing income benefited from lower amortization of the servicing asset and I/O strip as prepayment speeds on SBA loans have slowed. These increases were partly offset by the decline in other loan fees of $634,000 resulting from a decline in both loan origination fees and referral fees on 504 SBA loans.

Non-Interest Expenses

The following table summarizes the Company's non-interest expenses for the three years indicated:

Non-interest expenses	Year Ended December 31, 2009	2008	2007
	(in thousands)		
Salaries and employee benefits	$11,896	$13,390	$14,012
Occupancy and equipment expenses	2,112	2,341	2,089
FDIC assessment	1,596	369	230
Professional services	901	788	896
Advertising and marketing	344	421	751
Depreciation	491	518	516

Loss on sale and write-down of other assets acquired through foreclosure	615	-	29
Data processing	620	541	500
Other	2,904	2,148	1,977
Total non-interest expenses	$21,479	$20,516	$21,000

Comparison of 2009 to 2008

Non-interest expenses increased $963,000, from $20.5 million for 2008 to $21.5 million for 2009. The FDIC assessment increased $1.2 million due to higher rates and a special assessment in June 2009 of $306,000 and loss on the sale of other assets acquired through foreclosure increased $615,000. Other expenses increased $756,000, primarily due to an increase in the reserve on undisbursed loans of $380,000, and higher collection and foreclosed asset related expenses of $346,000. Partly offsetting these increases was a reduction in salaries and employee benefits of $1.5 million, primarily resulting from the discontinuation of SBA lending east of the Rocky Mountains. Occupancy expense also declined $229,000 for 2009 compared to 2008.

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Comparison of 2008 to 2007

Total non-interest expenses experienced a modest decline of 2.3% for 2008 compared to 2007. This decline was focused principally in the areas of salaries and benefits, which was reduced by $622,000 or 4.4% and advertising and marketing, which declined by $330,000 or 43.9%. The savings in the area of salary and benefits was achieved through a reduction in staffing levels beginning in the first quarter of 2008. Increases in occupancy related expense and other expenses partly offset these declines.

The following table compares the various elements of non-interest expenses as a percentage of average assets and the efficiency ratio which is the ratio of non-interest expense to the total of net interest income and non-interest income:

Year Ended December 31, (dollars in thousands)	Average Assets	Total Non-Interest Expenses	Salaries and Employee Benefits	Occupancy and Depreciation Expenses	Efficiency Ratio
2009	$ 675,672	3.18 %	1.76 %	0.39 %	71 %
2008	$ 640,993	3.20 %	2.09 %	0.45 %	72 %
2007	$ 563,493	3.73 %	2.49 %	0.46 %	73 %

Income Taxes

The provision for income taxes was a benefit of $4.0 million for 2009 compared to expense of $1.1 million in 2008 and $2.8 million in 2007. The effective income tax rate was 41.1%, 43.3%, and 42.2% for 2009, 2007 and 2007, respectively. See Note 11, “Income Taxes”, in the notes to the Consolidated Financial Statements.

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Schedule of Average Assets, Liabilities and Stockholders' Equity

As of the dates indicated below, the following schedule shows the average balances of the Company's assets, liabilities and stockholders' equity accounts and, for each balance, the percentage of average total assets:

	December 31,								
	2009			2008			2007		
	Amount	%		Amount	%		Amount	%	
	(dollars in thousands)								
ASSETS									
Cash and due from banks	$4,949	0.7	%	$4,419	0.7	%	$4,374	0.8	%
Time and interest-earning deposits in other financial institutions	1,081	0.2	%	997	0.2	%	935	0.2	%
Federal funds sold	10,751	1.6	%	11,488	1.8	%	12,938	2.3	%
Investment securities available-for-sale	14,178	2.1	%	6,889	1.1	%	19,929	3.5	%
Investment securities held-to-maturity	24,619	3.6	%	31,319	4.9	%	14,741	2.6	%
Federal Reserve Bank & Federal Home Loan Bank stock	6,781	1.0	%	6,634	1.0	%	5,657	1.0	%
Loans held for sale, net	100,823	14.9	%	120,339	18.7	%	92,867	16.5	%
Loans held for investment, net	493,016	73.0	%	442,908	69.1	%	396,863	70.4	%
Servicing rights	1,086	0.2	%	1,161	0.2	%	1,580	0.3	%
Other assets acquired through foreclosure, net	2,496	0.4	%	540	0.1	%	499	0.1	%
Premises and equipment, net	3,506	0.5	%	3,814	0.6	%	3,007	0.5	%
Other assets	12,386	1.8	%	10,485	1.6	%	10,103	1.8	%
TOTAL ASSETS	$675,672	100.0	%	$640,993	100.0	%	$563,493	100.0	%
LIABILITIES									
Deposits:									
Non-interest-bearing demand	$37,408	5.5	%	$35,618	5.5	%	$34,172	6.0	%
Interest-bearing demand	119,923	17.8	%	58,893	9.2	%	65,687	11.7	%
Savings	16,807	2.5	%	14,989	2.3	%	15,642	2.8	%
Time certificates of $100,000 or more	149,291	22.1	%	88,385	13.8	%	155,156	27.5	%
Other time certificates	178,744	26.4	%	278,510	43.5	%	135,831	24.1	%
Total deposits	502,173	74.3	%	476,395	74.3	%	406,488	72.1	%
Other borrowings	109,767	16.3	%	108,141	16.9	%	102,167	18.2	%
Other liabilities	1,379	0.2	%	4,562	0.7	%	5,785	1.0	%
Total liabilities	613,319	90.8	%	589,098	91.9	%	514,440	91.3	%
STOCKHOLDERS' EQUITY									
Preferred stock	14,407	2.1	%	464	0.1	%	-	-	
Common stock	33,097	4.9	%	31,808	4.9	%	31,210	5.5	%
Retained earnings	14,763	2.2	%	19,630	3.1	%	17,953	3.2	%
Accumulated other comprehensive loss	86	-		(7)	-		(110)	-	
Total stockholders' equity	62,353	9.2	%	51,895	8.1	%	49,053	8.7	%
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$675,672	100.0	%	$640,993	100.0	%	$563,493	100.0	%

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Interest Rates and Differentials

The following table illustrates average yields on interest-earning assets and average rates paid on interest-bearing liabilities for the years indicated. These average yields and rates are derived by dividing interest income by the average balances of interest-earning assets and by dividing interest expense by the average balances of interest-bearing liabilities for the years indicated. Amounts outstanding are averages of daily balances during the period.

	Year Ended December 31,		
Interest-earning assets:	2009	2008	2007
	(dollars in thousands)		
Time and interest earning deposits in other financial institutions:			
Average outstanding	$1,081	$997	$935
Interest income	32	36	43
Average yield	2.95 %	3.66 %	4.57 %
Federal funds sold:			
Average outstanding	$10,751	$11,488	$12,938
Interest income	37	236	666
Average yield	0.34 %	2.05 %	5.15 %
Investment securities:			
Average outstanding	$45,578	$44,841	$40,326
Interest income	1,740	2,179	1,952
Average yield	3.82 %	4.86 %	4.84 %
Gross loans:			
Average outstanding	$605,741	$568,861	$493,903
Interest income	39,094	43,081	44,180
Average yield	6.45 %	7.57 %	8.95 %
Total interest-earning assets:			
Average outstanding	$663,151	$626,187	$548,102
Interest income	40,903	45,532	46,841
Average yield	6.17 %	7.27 %	8.55 %

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Interest-bearing liabilities:	Year Ended December 31, 2009	2008	2007
	(dollars in thousands)		
Interest-bearing demand deposits:			
Average outstanding	$119,923	$58,893	$65,687
Interest expense	2,130	1,153	2,378
Average effective rate	1.78 %	1.96 %	3.62 %
Savings deposits:			
Average outstanding	$16,807	$14,989	$15,642
Interest expense	451	507	560
Average effective rate	2.68 %	3.39 %	3.58 %
Time certificates of deposit:			
Average outstanding	$328,035	$366,895	$290,987
Interest expense	8,659	15,565	14,870
Average effective rate	2.64 %	4.24 %	5.11 %
Other borrowings:			
Average outstanding	$109,767	$108,141	$102,167
Interest expense	3,705	4,998	5,026
Average effective rate	3.38 %	4.62 %	4.92 %
Total interest-bearing liabilities:			
Average outstanding	$574,532	$548,918	$474,483
Interest expense	14,945	22,223	22,834
Average effective rate	2.60 %	4.05 %	4.81 %
Net interest income	$25,958	$23,309	$24,007
Net interest spread	3.57 %	3.22 %	3.74 %
Average net margin	3.91 %	3.72 %	4.38 %

Nonaccrual loans are included in the average balance of loans outstanding.

Loan Portfolio

The Company's largest categories of loans held in the portfolio are commercial, commercial real estate and construction, SBA and manufactured housing loans. Loans are carried at face amount, net of payments collected, the allowance for loan loss and deferred loan fees/costs. Interest on all loans is accrued daily, primarily on a simple interest basis. It is the Company's policy to place a loan on nonaccrual status when the loan is 90 days past due. Thereafter, previously recorded interest is reversed and interest income is typically recognized on a cash basis.

The rates charged on variable rate loans are set at specific increments. These increments vary in relation to the Company's published prime lending rate or other appropriate indices. At December 31, 2009 and 2008, approximately 64.6% and 59.1%, respectively, of the Company's loan portfolio was comprised of variable interest rate loans. Management monitors the maturity of loans and the sensitivity of loans to changes in interest rates.

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The following table sets forth, as of the dates indicated, the amount of gross loans outstanding based on the remaining scheduled repayments of principal, which could either be repriced or remain fixed until maturity, classified by scheduled principal payments:

	December 31, 2009		2008		2007		2006		2005	
In Years					(in thousands)					
	Fixed	Variable	Fixed	Variable	Fixed	Variable	Fixed	Variable	Fixed	V
Less than One	$20,571	$81,132	$16,405	$78,005	$16,445	$83,356	$16,442	$76,509	$19,797	$4
One to Five	87,062	130,364	87,034	82,298	79,549	67,549	65,083	50,931	39,081	5
Over Five	111,243	187,200	137,632	187,525	129,335	167,878	103,242	144,136	88,086	1
Total	$218,876	$398,696	$241,071	$347,828	$225,329	$318,783	$184,767	$271,576	$146,964	$2
	35.4 %	64.6 %	40.9 %	59.1 %	41.4 %	58.6 %	40.5 %	59.5 %	38.0 %	6

Distribution of Loans

The distribution of total loans by type of loan, as of the dates indicated, is shown in the following table:

	December 31, 2009	2008	2007	2006	2005
	(dollars in thousands)				
	Loan Balance	Loan Balance	Loan Balance	Loan Balance	Loan Balance
Commercial	$61,810	$74,895	$72,470	$53,725	$44,957
Real estate	190,942	164,660	162,645	154,352	129,363
SBA	139,541	132,707	116,963	84,911	82,792
Manufactured housing	195,656	190,838	172,938	142,804	101,336
Other installment	18,189	15,793	10,027	8,301	11,355
Single family	4,538	5,645	7,507	10,104	14,858
Mortgage loans held for sale	6,896	4,361	1,562	2,146	2,377
Gross Loans	617,572	588,899	544,112	456,343	387,038
Less:					
Allowance for loan losses	13,733	7,341	4,412	3,926	3,954
Deferred fees/costs	(228)	(326)	(48)	43	181
Discount on SBA loans	627	809	583	802	1,386
Net Loans	$603,440	$581,075	$539,165	$451,572	$381,517
Percentage to Gross Loans:					
Commercial	10.0 %	12.7 %	13.3 %	11.8 %	11.6 %
Real estate	30.9	28.0	29.9	33.9	33.4
SBA	22.6	22.5	21.5	18.6	21.4
Manufactured housing	31.7	32.4	31.8	31.3	26.2

Other installment	3.0		2.7		1.8		1.8		2.9	
Single family	0.7		1.0		1.4		2.2		3.9	
Mortgage loans held for sale	1.1		.7		.3		.4		.6	
	100.0	%	100.0	%	100.0	%	100.0	%	100.0	%

Commercial Loans

In addition to traditional term commercial loans made to business customers, CWB grants revolving business lines of credit. Under the terms of the revolving lines of credit, CWB grants a maximum loan amount, which remains available to the business during the loan term. Generally, as part of the loan requirements, the business agrees to maintain its primary banking relationship with CWB. CWB does not extend material loans of this type in excess of two years.

Commercial Real Estate and Construction Loans

Commercial real estate and construction loans are primarily made for the purpose of purchasing, improving or constructing single-family residences, commercial or industrial properties.

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A substantial portion of CWB's real estate construction loans are first and second trust deeds on the construction of owner-occupied single family dwellings. CWB also makes real estate construction loans on commercial properties. These consist of first and second trust deeds collateralized by the related real property. Construction loans are generally written with terms of six to eighteen months and usually do not exceed a loan to appraised value of 80%.

Commercial and industrial real estate loans are secured by nonresidential property. Office buildings or other commercial property primarily secure these loans. Loan to appraised value ratios on nonresidential real estate loans are generally restricted to 80% of appraised value of the underlying real property if occupied by the owner or owner's business; otherwise, these loans are generally restricted to 75% of appraised value of the underlying real property.

SBA Loans

The SBA loans consist of 7(a), 504, conventional, investor and Business and Industry loans ("B&I"). The 7(a) loan proceeds are used for working capital, machinery and equipment purchases, land and building purposes, leasehold improvements and debt refinancing. In general, the SBA guarantees up to 85% of the loan amount depending on loan size. A recent extension of the SBA Recovery Act temporarily increases the guarantee to 90%. Under the SBA 7(a) loan program, the Company is required to retain a minimum of 5% of the principal balance of each loan it sells into the secondary market.

The 504 loans are made in conjunction with Certified Development Companies. These loans are granted to purchase or construct real estate or acquire machinery and equipment. The loan is structured with a conventional first trust deed provided by a private lender and a second trust deed which is funded through the sale of debentures. The predominant structure is terms of 10% down payment, 50% conventional first loan and 40% debenture. Conventional and investor loans are funded by our secondary-market partners and CWB receives a premium for these transactions.

B&I loans are guaranteed by the U.S. Department of Agriculture. The guaranteed amount is generally 80%. B&I loans are similar to the 7(a) loans but are made to businesses in designated rural areas. These loans can also be sold into the secondary market.

CWB made the decision to discontinue as of April 1, 2009 SBA lending east of the Rocky Mountains.

Real Estate Loans

The mortgage loans consist of first and second mortgage loans secured by trust deeds on one to four family homes. These loans are made to borrowers for purposes such as purchasing a home, refinancing an existing home, interest rate reduction, home improvement, or debt consolidation. These loans are underwritten to specific investor guidelines and are committed for sale to that investor. A majority of these loans are sold servicing released into the secondary market.

Manufactured Housing Loans

The mortgage loan division originates loans secured by manufactured homes located in mobile home parks along the California coast and in the Sacramento area. The loans are serviced internally and are originated under one of two programs: Fixed rate loans written for terms of 7 to 15 years with balloon payments ranging from 7 to 15 years; adjustable rate loans written for a term of 30 years with the initial interest rates fixed for the first five years and then adjusting annually subject to caps and floors.

Other Installment Loans

Installment loans consist of automobile, small home equity lines of credit and general-purpose loans made to individuals. These loans are primarily fixed rate.

Off-Balance Sheet Arrangements

The Bank has various “off-balance sheet” arrangements that might have an impact on its financial condition, liquidity or result of operations. The Bank’s primary source of funds for its lending is its deposits. If necessary to meet the demand of deposit withdrawals or loan fundings, the Bank could obtain funding through federal funds lines of credit, advances from the Federal Home Loan Bank (“FHLB”), Fed discount window borrowing or issuance of deposits through brokers. The Bank has continuous lines of credit with correspondent banks providing for federal funds lines of credit up to a maximum of $23.5 million. Of the $23.5 million in borrowing capacity, two of the lines for a total of $10.0 million require the Company to furnish acceptable collateral. The Bank has availability under agreements with the Fed discount window and the FHLB for additional borrowing capacity of $89.7 million and $35.9 million, respectively, at December 31, 2009. There were no borrowings outstanding on the federal funds facilities at December 31, 2009. As of December 31, 2009, the Bank had advances from the FHLB in the amount of $68.0 million and borrowings from the Fed discount window of $21.0 million.

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At December 31, 2009, the Bank had outstanding commitments to fund existing loans of approximately $32.3 million pursuant to credit availability terms in the loan agreements, including standby letters of credit of $543,000. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. If needed to fund these outstanding commitments, the Bank has the ability to liquidate federal funds sold or securities available-for-sale or, on a short-term basis, to borrow and purchase federal funds from other financial institutions, to obtain advances from the FHLB or the Fed discount window and to issue new certificates of deposit through the money desk or brokers.

Total loan commitments outstanding at the dates indicated are summarized below:

	December 31,				
	2009	2008	2007	2006	2005
	(in thousands)				
Commercial	$16,065	$17,940	$21,612	$24,431	$22,327
Real estate	6,595	4,376	8,649	18,839	19,323
SBA	1,133	6,526	9,453	5,508	3,408
Installment loans	7,996	8,333	10,503	9,662	9,330
Standby letters of credit	543	552	518	847	1,499
Total commitments	$32,332	$37,727	$50,735	$59,287	$55,887

Loan Concentrations

The Company makes loans to borrowers in a number of different industries. Loans collateralized by manufactured housing comprise over 10% of the Company's loan portfolio. This concentration is somewhat mitigated by the fact that the portfolio consists of over 1,900 individual borrowers with diverse income sources. Commercial, commercial real estate, construction and SBA loans also comprised over 10% of the Company's loan portfolio as of December 31, 2009 and 2008. The Bank analyzes these concentrations on a quarterly basis and reports the risk related to concentrations to the Board of Directors. Management believes the systems in place coupled with the diversity of the portfolios are adequate to mitigate concentration risk.

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Allowance for Loan Losses

The following table summarizes the activity in the allowance for loan losses for the periods indicated:

	Year Ended December 31,				
	2009	2008	2007	2006	2005
			(in thousands)		
Average gross loans, held for investment,	$504,918	$448,522	$401,036	$348,161	$288,049
Gross loans at end of year, held for investment	514,599	456,630	433,162	379,703	324,965
Allowance for loan losses, beginning of year	$7,341	$4,412	$3,926	$3,954	$3,894
Loans charged off:					
Commercial (including SBA)	8,613	1,499	775	459	228
Real estate	1,972	263	-	-	8
Manufactured housing	1,574	298	-	-	-
Installment	117	27	-	-	-
Single family	161	372	142	341	831
Total	12,437	2,459	917	800	1,067
Recoveries of loans previously charged off					
Commercial (including SBA)	141	106	45	93	20
Real estate	-	-	-	-	89
Manufactured housing	-	2	-	-	-
Installment	3	-	-	-	-
Single family	7	16	61	190	452
Total	151	124	106	283	561
Net loans charged off	12,286	2,335	811	517	506
Provision for loan losses	18,678	5,264	1,297	489	566
Allowance for loan losses, end of year	$13,733	$7,341	$4,412	$3,926	$3,954
Ratios:					
Net loan charge-offs to average loans	2.43 %	0.52 %	0.20 %	0.15 %	0.18 %
Net loan charge-offs to loans at end of period	2.39 %	0.51 %	0.19 %	0.14 %	0.16 %
Allowance for loan losses to loans held for investment at end of period	2.67 %	1.61 %	1.02 %	1.03 %	1.22 %
Net loan charge-offs to allowance for loan losses at beginning of period	167.4 %	52.92 %	20.66 %	13.08 %	12.99 %
Net loan charge-offs to provision for loan losses	65.8 %	44.46 %	62.53 %	105.73 %	89.40 %

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The following table summarizes the allowance for loan losses:

	December 31,									
	2009		2008		2007		2006		2005	
	(dollars in thousands)									
Balance at end of period applicable to:	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
SBA	$4,801	22.6 %	$2,850	28.4 %	$1,810	26.3 %	$1,365	22.6 %	$1,409	24.6 %
Manufactured housing	2,256	31.7 %	1,659	32.4 %	610	31.8 %	786	31.3 %	563	26.2 %
Single family	126	.7 %	107	1.0 %	322	1.4 %	351	2.2 %	628	3.9 %
All other loans	6,550	45.0 %	2,725	38.2 %	1,670	40.5 %	1,424	43.9 %	1,354	45.3 %
Total	$13,733	100.0 %	$7,341	100.0 %	$4,412	100.0 %	$3,926	100.0 %	$3,954	100.0 %

Total allowance for loan losses ("ALL") increased by $6.4 million from December 31, 2008 to December 31, 2009.

In management's opinion, the balance of the allowance for loan losses was sufficient to absorb known and inherent probable losses in the portfolio as of December 31, 2009.

Nonaccrual, Past Due and Restructured Loans

A loan is considered impaired when, based on current information and events, it is determined that the Company will be unable to collect the scheduled payments of principal or interest under the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments. Loans that experience insignificant payment delays or payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis. When determining the possibility of impairment, management considers the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. For collateral-dependent loans, the Company uses the fair value of collateral method to measure impairment. All other loans are measured for impairment based on the present value of future cash flows.

The recorded investment in loans that are considered to be impaired is as follows:

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(in thousands)				
Impaired loans without specific valuation allowances	$13,699	$8,043	$7,509	$754	$77
Impaired loans with specific valuation allowances	716	523	8,992	4,454	3,406
	(622)	(151)	(966)	(641)	(473)

Specific valuation allowance related to impaired loans					
Impaired loans, net	$13,793	$8,415	$15,535	$4,567	$3,010
Average investment in impaired loans	$9,058	$9,612	$9,386	$4,074	$3,716

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The following schedule reflects recorded investment at the dates indicated in certain types of loans:

	Year Ended December 31,				
	2009	2008	2007	2006	2005
			(in thousands)		
Nonaccrual loans	$40,265	$28,821	$15,341	$7,417	$6,797
SBA guaranteed portion of loans included above	(24,088)	(11,918)	(5,695)	(4,256)	(4,332)
Nonaccrual loans, net	$16,177	$16,903	$9,646	$3,161	$2,465
Troubled debt restructured loans	$7,013	$5,408	$7,255	$68	$75
Loans 30 through 90 days past due with interest accruing					