

PROVIDENT FINANCIAL HOLDINGS INC
Form 10-K/A
May 15, 2008

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

FORM 10-K/A

(Mark one) (Amendment No. 1)

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

For the fiscal year ended June 30, 2007

OR

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

Commission File Number: 000-28304

PROVIDENT FINANCIAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

33-0704889
(I.R.S. Employer Identification Number)

3756 Central Avenue, Riverside, California
(Address of principal executive offices)

92506
(Zip Code)

Registrant's telephone number, including area code: (951) 686-6060

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$.01 per share
(Title of Each Class)

The Nasdaq Stock Market LLC
(Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the 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 NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether 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 other information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

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

Large accelerated filer Accelerated filer

Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2).

YES NO

As of September 5, 2007, there were 6,297,318 shares of the Registrant's common stock issued and outstanding. The Registrant's common stock is listed on the Nasdaq Global Market of The Nasdaq Stock Market LLC under the symbol "PROV." The aggregate market value of the common stock held by nonaffiliates of the Registrant, based on the closing sales price of the Registrant's common stock as quoted on The Nasdaq Stock Market LLC on December 29, 2006, was \$203.7 million.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Shareholders are incorporated by reference into Part II.
2. Portions of the definitive Proxy Statement for the fiscal 2007 Annual Meeting of Shareholders ("Proxy Statement") are incorporated by reference into Part III.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (“Form 10-K/A”) to our Annual Report on Form 10-K for the fiscal year ended June 30, 2007, initially filed with the Securities and Exchange Commission (“SEC”) on September 12, 2007 (“Original Form 10-K”) is being filed to reflect the restatement of our Consolidated Statements of Financial Condition as of June 30, 2007 and 2006, the related Consolidated Statements of Operations, Consolidated Statements of Stockholders’ Equity and Consolidated Statements of Cash Flows for the fiscal years ended June 30, 2007, 2006 and 2005, and the notes related thereto. For a more detailed description of the restatement, see Note 21, “Restatement of Consolidated Financial Statements” to the accompanying consolidated financial statements, and the section entitled “Restatement of Consolidated Financial Statements” under Item 7 of Part II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contained in this Form 10-K/A.

On April 22, 2008, the Corporation’s Audit Committee determined that the financial statements should be restated after concluding that an error occurred in the accounting for the Corporation sponsored Employee Stock Ownership Plan (“ESOP”). The error consisted of releasing fewer shares of common stock than was required to be released commensurate with the repayment of the ESOP loan. The restated financial statements reflect the additional compensation expense required as a result of releasing more shares. For a description of the changes made in connection with the restatement (“Restatement”) see Item 7 of Part II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Restatement of Consolidated Financial Statements” and Note 21, “Restatement of Consolidated Financial Statements” to the accompanying consolidated financial statements contained in this report.

This Form 10-K/A only amends and restates Item 1 of Part I and Items 6, 7, 8, and 9A of Part II, in each case as a result of, and to reflect, the restatement of the Original Form 10-K. In addition, pursuant to the rules of the SEC, Item 15 of Part IV of the Original Form 10-K has been amended to contain the consent of our independent registered public accounting firm and currently dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. Except for the forgoing amended information, this Form 10-K/A continues to speak as of the date of the Original Form 10-K and we have not updated the disclosure contained herein to reflect events that have been or will be addressed in our quarterly reports on Form 10-Q for the quarters ended September 30, 2007 and December 31, 2007, as amended, and our current reports on Form 8-K filed subsequent to the Original Form 10-K and any reports filed with the SEC subsequent to the date of this filing.

PROVIDENT FINANCIAL HOLDINGS, INC.
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PART I

Item 1. Business

General

Provident Financial Holdings, Inc. (the “Corporation”), a Delaware corporation, was organized in January 1996 for the purpose of becoming the holding company for Provident Savings Bank, F.S.B. (the “Bank”) upon the Bank’s conversion from a federal mutual to a federal stock savings bank (“Conversion”). The Conversion was completed on June 27, 1996. At June 30, 2007, the Corporation had total assets of \$1.6 billion, total deposits of \$998.6 million and stockholders’ equity of \$128.8 million. The Corporation has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this Annual Report on Form 10-K/A (“Form 10-K/A”), including financial statements and related data, relates primarily to the Bank and its subsidiaries.

The Bank, founded in 1956, is a federally chartered stock savings bank headquartered in Riverside, California. The Bank is regulated by the Office of Thrift Supervision (“OTS”), its primary federal regulator, and the Federal Deposit Insurance Corporation (“FDIC”), the insurer of its deposits. The Bank’s deposits are federally insured up to applicable limits by the FDIC. The Bank has been a member of the Federal Home Loan Bank (“FHLB”) – San Francisco since 1956.

The Bank is a financial services company committed to serving consumers and small to mid-sized businesses in the Inland Empire region of Southern California. The Bank conducts its business operations as Provident Bank, Provident Bank Mortgage (“PBM”), a division of the Bank, and through its subsidiary, Provident Financial Corp. The business activities of the Bank consist of community banking, mortgage banking, investment services and trustee services. Financial information regarding the Corporation’s two operating segments, Provident Bank and PBM, is contained in Note 17 to the Corporation’s audited consolidated financial statements included in Item 8 of this Form 10-K/A.

The Bank’s community banking operations primarily consist of accepting deposits from customers within the communities surrounding its full service offices and investing those funds in single-family, multi-family, commercial real estate, construction, commercial business, consumer and other loans. Mortgage banking activities consist of the origination of single-family mortgage loans (including second mortgages and equity lines of credit) for sale and for investment. Through its subsidiary, Provident Financial Corp, the Bank conducts trustee services for the Bank’s real estate transactions and has in the past held, and may in the future hold, real estate for investment. The Bank now offers investment and insurance services directly, rather than through its subsidiary. See “Subsidiary Activities” on page 31 of this Form 10-K/A. The Bank’s revenues are derived principally from interest earned on its loan and investment portfolios, and fees generated through its community banking and mortgage banking activities.

On June 22, 2006, the Bank established the Provident Savings Bank Charitable Foundation (“Foundation”) in order to further its commitment to the local community. The specific purpose of the Foundation is to promote and provide for the betterment of youth, education, housing and the arts in the Bank’s primary market areas of Riverside and San Bernardino Counties. The Foundation was funded with a \$500,000 charitable contribution made by the Bank in the fourth quarter of fiscal 2006. No additional funds were contributed by the Bank to the Foundation during fiscal 2007.

Subsequent Events:

Cash dividend

On July 26, 2007, the Corporation announced a cash dividend of \$0.18 per share on the Corporation’s outstanding shares of common stock for shareholders of record at the close of business on August 20, 2007, which was paid on

September 10, 2007.

Market Area

The Bank is headquartered in Riverside, California and operates 12 full-service banking offices in Riverside County and one full-service banking office in San Bernardino County. Management considers Riverside and Western San Bernardino Counties to be the Bank's primary market for deposits. Through the operations of PBM, the Bank has expanded its retail lending market to include a large portion of Southern California and a small portion of Northern California. As of June 30, 2007, there were nine PBM loan production offices located in southern California (primarily in Los Angeles, Riverside, San Bernardino and San Diego Counties) and one PBM loan production office in northern California. PBM's loan production offices include three wholesale loan offices through which the Bank maintains a network of loan correspondents. Most of the Bank's business is conducted in the communities surrounding its full-service branches and loan production offices.

The large geographic area encompassing Riverside and San Bernardino Counties is referred to as the "Inland Empire." According to 2000 Census Bureau population statistics, Riverside and San Bernardino Counties have the sixth and fifth largest county populations in California, respectively. The Bank's market area consists primarily of suburban and urban communities. Western Riverside and San Bernardino Counties are relatively densely populated and are within the greater Los Angeles metropolitan area. The Inland Empire has enjoyed economic strength over the past several years. Many corporations are moving their offices and warehouses to the Inland Empire, which offers more affordable sites and more affordable housing for their employees. This trend has resulted in a significant improvement in real estate property values over the past several years. However, recent slowdowns in the real estate market have affected property values nationwide, including the Inland Empire. The unemployment rate in the Inland Empire in June 2007 was 5.6%, compared to 5.2% in California and 4.5% nationwide, according to U.S. Department of Labor, Bureau of Labor Statistics.

Competition

The Bank faces significant competition in its market area in originating real estate loans and attracting deposits. The rapid population growth in the Inland Empire has attracted numerous financial institutions to the Bank's market area. The Bank's primary competitors are large regional and super-regional commercial banks as well as other community-oriented banks and savings institutions. The Bank also faces competition from credit unions and a large number of mortgage companies that operate within its market area. Many of these institutions are significantly larger than the Bank and therefore have greater financial and marketing resources than the Bank. The Bank's mortgage banking operations also face strong competition from mortgage bankers, brokers and other financial institutions. This competition may limit the Bank's growth and profitability in the future.

Personnel

As of June 30, 2007, the Bank had 315 full-time equivalent employees, which consisted of 256 full-time, 59 prime-time and 31 part-time employees. The employees are not represented by a collective bargaining unit and the Bank believes that its relationship with employees is good.

Segment Reporting

Financial information regarding the Corporation's operating segments is contained in Note 17 to the audited consolidated financial statements included in Item 8 of this report.

Internet Website

The Corporation maintains a website at www.myprovident.com. The information contained on that website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K/A. Other than an investor's

own internet access charges, the Corporation makes available free of charge through that website the Corporation's Annual Report on Form 10-K, Form 10-K/A (if any), quarterly reports on Form 10-Q, Form 10-Q/A (if any) and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after these materials have been electronically filed with, or furnished to, the Securities and Exchange Commission.

Lending Activities

General. The lending activity of the Bank is predominately comprised of the origination of conventional mortgage loans secured by single-family residential properties for investment (predominantly adjustable rate) and sale (predominantly fixed rate). The Bank also originates multi-family, commercial real estate, construction, commercial business, consumer and other loans to be held for investment. The Bank's net loans held for investment were \$1.35 billion at June 30, 2007, representing approximately 81.9% of consolidated total assets. This compares to \$1.26 billion, or 77.8% of consolidated total assets, at June 30, 2006.

Loans Held For Investment Analysis. The following table sets forth the composition of the Bank's loans held for investment at the dates indicated.

	2007		2006		At June 30, 2005		2004		2003	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars In Thousands)										
Mortgage loans:										
Single-family	\$ 826,249	59.68%	\$ 828,091	61.16%	\$ 808,732	65.56%	\$ 620,087	65.48%	\$ 531,255	64.89%
Multi-family	330,231	23.85	219,072	16.18	119,715	9.70	68,804	7.27	49,699	6.07
Commercial real estate	147,545	10.66	127,342	9.41	122,354	9.92	99,919	10.55	89,666	10.95
Construction	60,571	4.37	149,517	11.05	155,975	12.65	136,265	14.39	118,784	14.51
Total mortgage loans	1,364,596	98.56	1,324,022	97.80	1,206,776	97.83	925,075	97.69	789,404	96.42
Commercial business loans	10,054	0.73	12,911	0.95	15,268	1.24	13,770	1.45	22,489	2.75
Consumer loans	509	0.04	734	0.05	778	0.06	730	0.08	1,086	0.13
Other loans	9,307	0.67	16,244	1.20	10,767	0.87	7,371	0.78	5,724	0.70
Total loans held for investment	1,384,466	100.00%	1,353,911	100.00%	1,233,589	100.00%	946,946	100.00%	818,703	100.00%
Undisbursed loan funds	(25,484)		(84,024)		(95,162)		(78,137)		(67,868)	
Deferred loan costs	5,152		3,417		2,693		1,340		602	
Allowance for loan losses	(14,845)		(10,307)		(9,215)		(7,614)		(7,218)	
Total loans held for investment, net	\$ 1,349,289		\$ 1,262,997		\$ 1,131,905		\$ 862,535		\$ 744,219	
Loans held for sale, at lower of cost or market	\$ 1,337		\$ 4,713		\$ 5,691		\$ 20,127		\$ 4,247	

Maturity of Loans Held for Investment. The following table sets forth information at June 30, 2007 regarding the dollar amount of principal payments becoming contractually due during the periods indicated for loans held for investment. Demand loans, loans having no stated schedule of principal payments, loans having no stated maturity, and overdrafts are reported as becoming due within one year. The table does not include any estimate of prepayments, which can significantly shorten the average life of loans held for investment and may cause the Bank's actual principal payment experience to differ materially from that shown below.

	Within One Year	After One Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years	Beyond 10 Years	Total
(In Thousands)						
Mortgage loans:						
Single-family	\$ 1,720	\$ 526	\$ 1,988	\$ 5,665	\$ 816,350	\$ 826,249
Multi-family	1,446	2,292	3,068	103,643	219,782	330,231
Commercial real estate	4,718	1,767	10,726	119,851	10,483	147,545
Construction	54,590	-	-	-	5,981	60,571
Commercial business loans	3,420	3,784	2,025	825	-	10,054
Consumer loans	503	6	-	-	-	509
Other loans	8,755	552	-	-	-	9,307
Total loans held for investment	\$ 75,152	\$ 8,927	\$ 17,807	\$ 229,984	\$ 1,052,596	\$ 1,384,466

The following table sets forth the dollar amount of all loans held for investment due after June 30, 2008 which have fixed and floating or adjustable interest rates.

	Fixed-Rate	Floating or Adjustable Rate
(In Thousands)		
Mortgage loans:		
Single-family	\$ 11,714	\$ 812,815
Multi-family	15,546	313,239
Commercial real estate	17,529	125,298
Construction	-	5,981
Commercial business loans	2,932	3,702
Consumer loans	6	-
Other loans	552	-
Total loans held for investment	\$ 48,279	\$ 1,261,035

Scheduled contractual principal payments of loans do not reflect the actual life of such assets. The average life of loans is substantially less than their contractual terms because of prepayments. In addition, due-on-sale clauses generally give the Bank the right to declare loans immediately due and payable in the event, among other things, the borrower sells the real property subject to the mortgage. The average life of mortgage loans tends to increase, however, when current market interest rates are substantially higher than the interest rates on existing loans held for investment and, conversely, decrease when the interest rates on existing loans held for investment are substantially

higher than current market interest rates.

Single-Family Mortgage Loans. The Bank's predominant lending activity is the origination by PBM of loans secured by first mortgages on owner-occupied, single-family (one to four units) residences in the communities where the Bank has established full service branches and loan production offices. At June 30, 2007, total single-family loans held for investment decreased to \$826.2 million, or 59.7% of the total loans held for investment from

\$828.1 million, or 61.2% of the total loans held for investment at June 30, 2006. The decrease in the single-family loans in fiscal 2007 was primarily attributable to loan prepayments, partly offset by \$204.4 million of new loan originations.

The Bank's residential mortgage loans are generally underwritten and documented in accordance with guidelines established by major Wall Street firms, institutional loan buyers, Freddie Mac and Fannie Mae (collectively, "the secondary market"). All government insured loans are generally underwritten and documented in accordance with the guidelines established by the Department of Housing and Urban Development ("HUD") and the Veterans' Administration ("VA"). Loans are normally classified as either conforming (meeting agency criteria) or non-conforming (meeting an investor's criteria). These non-conforming loans are additionally classified as "A" or "Alt-A". The "A" loans are typically those that exceed agency loan limits but closely mirror agency underwriting criteria. The "Alt-A" loans are underwritten to expanded guidelines allowing a borrower with good credit a broader range of product choices. The "Alt-A" criteria includes interest-only loans, stated-income loans and greater than 30-year amortization loans. Given the current market environment, the production of these non-conforming loans is expected to decrease.

The Bank offers closed-end, fixed-rate home equity loans that are secured by the borrower's primary residence. These loans do not exceed 100% of the appraised value of the residence and have terms of up to 15 years requiring monthly payments of principal and interest. At June 30, 2007, home equity loans amounted to \$6.6 million, or 0.8% of single-family loans as compared to \$2.0 million, or 0.2% of single-family loans at June 30, 2006. The Bank also offers secured lines of credit, which are generally secured by a second mortgage on the borrower's primary residence. Secured lines of credit have an interest rate that is typically one to two percentage points above the prime lending rate. As of June 30, 2007 and 2006, the outstanding secured lines of credit were \$886,000 and \$1.3 million, respectively.