BofI Holding, Inc.
Form 10-K
September 12, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2012
¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 000-51201

BofI HOLDING, INC.
(Exact name of registrant as specified in its charter)

Delaware	33-0867444
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
12777 High Bluff Drive, Suite 100, San Diego, CA	92130
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (858) 350-6200

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

Title of each class	Name of each exchange on which registered
Common stock, $.01 par value	NASDAQ National Global Select Market

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

Indicated by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No x
Indicated 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 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 Exchange Act 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 x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No ¨
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 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. ¨

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

Large accelerated file ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company o

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

Yes ¨ No x

The aggregate market value of the voting and non-voting stock held by non-affiliates of the Registrant, based upon the closing sales price of the common stock on the NASDAQ National Global Select Market of $16.25 on December 31, 2011 was $163,749,544.

The number of shares of the Registrant’s common stock outstanding as of August 26, 2012 was 11,545,895.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s definitive Proxy Statement for the period ended June 30, 2012 are incorporated by reference into Part III.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K may contain various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements include projections, statements of the plans, goals and objectives of management for future operations, statements of future economic performance, assumptions underlying these statements, and other statements that are not statements of historical facts. Words such as “anticipates,” “expects,” “intends,” “plans,” “predicts,” “potential,” “believes,” “seeks,” “estimates,” “should,” “may,” “will” and variations of or similar expressions are intended to identify forward-looking statements. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements.

Forward-looking statements are subject to significant business, economic and competitive risks, uncertainties and contingencies, many of which are difficult to predict and beyond the control of BofI Holding, Inc. (BofI). Our actual results may differ materially from the results expressed or implied in any forward-looking statements for the reasons, among others, discussed in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, under the heading “Factors that May Affect Our Performance.” Such factors include, but are not limited to, the following:

- The prevailing recession currently impacting the United States and worldwide economies;
- Competitive practices in the financial services industries;
- Operational and systems risks;
- General economic and capital market conditions, including fluctuations in interest rates;
- Economic conditions in certain geographic areas; and
- The impact of current and future laws, governmental regulations, accounting and other rulings and guidelines affecting the financial services industry in general and BofI operations particularly.

The forward-looking statements contained in this Annual Report are made on the basis of the views and assumptions of management regarding future events and business performance as of the date this Annual Report is filed with the Securities and Exchange Commission. We do not undertake any obligation to update these statements to reflect events or circumstances occurring after the date this report is filed.

References in this report to the “Company,” “us,” “we,” “our,” “BofI Holding,” or “BofI” are all to BofI Holding, Inc. on a consolidated basis. References in this report to “Bank of Internet,” the “Bank,” or “our bank” are to BofI Federal Bank, our consolidated subsidiary.

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PART I

ITEM 1. BUSINESS
Overview
Our company, BofI Holding, Inc., is the holding company for BofI Federal Bank, a diversified financial services company with approximately $2.4 billion in assets that provides innovative banking and lending products and services to more than 40,000 customers through our scalable, low-cost distribution channels. BofI Holding, Inc.'s common stock is listed on the NASDAQ Global Select Market and is a component of the Russell 3000 Index.

We operate our bank from a single location in San Diego, California, currently serving approximately 40,000 retail deposit and loan customers across all 50 states. At June 30, 2012, we had total assets of $2,386.8 million, loans of $1,799.7 million, mortgage-backed and other investment securities of $483.0 million, total deposits of $1,615.1 million and borrowings of $547.2 million. Because we do not incur the significantly higher fixed operating costs inherent in a branch-based distribution system, we are able to rapidly grow our deposits and assets by providing a better value to our customers and by expanding our low-cost distribution channels.
We distribute our deposit products through a wide range of retail distributions channels, and our deposits consist of demand, savings and time deposits accounts. We distribute our loan products through our retail, correspondent and wholesale channels, and the loans we retain are primarily first mortgages secured by single family real property and by multifamily real property. Our mortgage-backed securities consist primarily of mortgage pass-through securities issued by government-sponsored entities and non-agency collateralized mortgage obligations and pass-through mortgage-backed securities issued by private sponsors. We believe our flexibility to adjust our asset generation channels has been a competitive advantage allowing us to avoid markets and products where credit fundamentals are poor.

Our retail distribution channels for our deposit and lending products include:

- Multiple national online banking brands with tailored products targeted to specific consumer segments;
- Affinity groups where we gain access to the affinity group's members, and our exclusive relationships with financial advisory firms;
- A business banking division focused on providing deposit products and loans to specific nationwide industry verticals (e.g., apartment owners) and small and medium size businesses;
- A commission-based commercial lending sales force that operates from home offices focusing primarily on the origination of multifamily mortgage loans; and
- A call center that closes loans from self-generated internet leads, third-party purchase leads, and from our retention and cross-sell of our existing customer base.

Our business strategy is to grow our loan originations and our deposits to achieve increased economies of scale and reduce the cost of products and services to our customers by leveraging our distributions channels and technology. We have designed our branchless banking platform and our workflow processes to handle traditional banking functions with reduced paperwork and human intervention. Our charter allows us to operate in all 50 states, and our online presence allows us increased flexibility to target a large number of loan and deposit customers based on demographics, geography and price. We plan to expand our low-cost distributions channels to increase our core deposits and increase our loan originations by attracting new customers and developing new and innovative products and services.

Our current business plan includes the following principal objectives:

- Maintain an annualized return on average common stockholder's equity of 15.0% or better;
- Annually increase average interest-earning assets by 15% or more; and
- Reduce annualized efficiency ratio to a level 35% or lower.

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ASSET ORIGINATION AND FEE INCOME BUSINESSES

We have built diverse loan origination and fee income businesses that generate attractive financial returns through our branchless distribution channels. We believe the diversity of our businesses and our branchless distribution channels provide us with increased flexibility to manage through changing market and operating environments.

Single Family Mortgage Lending

We generate earning assets and fee income from our mortgage lending activities, which consist of originating and servicing mortgages secured by first liens on single family residential properties. We divide our single family mortgage originations between loans we retain and loans we sell. Our mortgage banking business generates fee income and gains from sales of those single family mortgage loans we sell. Our loan portfolio generates interest income and fees from loans we retain. We also provide single family mortgage warehouse lines for third-party mortgage companies.

We originate fixed and adjustable rate prime residential mortgage loans using a paperless loan origination system and centralized underwriting and closing process. We warehouse our mortgage banking loans and sell to investors prime conforming and jumbo residential mortgage loans. Our mortgage servicing business includes collecting loan payments, applying principal and interest payments to the loan balance, managing escrow funds for the payment of mortgage-related expenses, such as taxes and insurance, responding to customer inquiries, counseling delinquent mortgagors and supervising foreclosures.

We originate single family mortgage loans through multiple channels on a retail, wholesale and correspondent basis.

- Retail. We originate single family mortgage loans directly through i) our multiple national online banking brand websites, where our customers can view interest rates and loan terms, enter their loan applications and lock in interest rates directly over the internet, ii) our relationships with large affinity groups and iii) our call center which uses self-generated internet leads, third-party purchased leads, and cross-selling to existing customer base.
- Wholesale. We have developed relationships with independent mortgage companies, cooperatives and individual loan brokers and we manage these relationships and our wholesale loan pipeline through our originations systems and websites. Through our password-protected website, our approved brokers can compare programs, terms and pricing on a real time basis and communicate with our staff.
- Correspondent. We acquire closed loans from third-party mortgage companies that originate single family loans in accordance with our portfolio specifications or the specifications of our investors. We may purchase pools of seasoned, single-family loans originated by others during economic cycles when those loans have more attractive risk-adjusted returns than those we may originate.

Multifamily Mortgage Lending

We originate adjustable rate multifamily residential mortgage loans with interest rates that adjust based on U.S. Treasury security yields and LIBOR. Many of our loans have initial fixed rate periods (three, five or seven years) before starting a regular adjustment period (annually, semi-annually or monthly) as well as prepayment protection clauses, interest rate floors, ceilings and rate change caps.

We divide our multifamily residential mortgage originations between the loans we retain and the loans we sell. Our mortgage banking business generates gains from those multifamily mortgage loans we sell. Our loan portfolio generates interest income and fees from the loans we retain.

We originate multifamily mortgage loans using a commission-based commercial lending sales force that operates from home offices across the United States or from our headquarter location. Customers are targeted through traditional origination techniques such as direct mail marketing, personal sales efforts and print advertising. Loan applications are submitted electronically to centralized employee teams who underwrite, process and close loans. The sales force team members operate regionally both as retail originators for apartment owners and wholesale representatives to other mortgage brokers.

Commercial Lending

Our commercial lending is generally divided between mortgages secured by commercial real estate and commercial and industrial (C&I) lending based upon business cash flow and asset-backed financing. Historically, we have limited our exposure to commercial real estate and have primarily purchased seasoned mortgages on small commercial properties when they were offered as a part of a residential mortgage loan pool. If market conditions improve, we may consider increasing originations of commercial mortgages

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in the future.

We began our C&I lending in 2010 with a focus on fixed and floating rate financing of businesses engaged in the origination of niche mortgage products secured by residential or commercial real estate. We have recently hired experienced senior commercial lending managers to expand our corporate finance lending to include other select business types and to grow and diversify our C&I lending portfolio through participation in nationwide lending syndications.

Specialty Finance Lending

Our specialty finance group originates or purchases fixed rate loans to consumers secured by payments receivable on annuities or deferred payment contracts. These loans are generally secured by individual annuities issued by highly-rated life insurance companies or by payment contracts issued by state lottery programs. Our commission-based sales force originates loans on a retail basis from leads generated by our proprietary research. We expanded the retail sales force and the processing capabilities of the specialty lending group at end of the 2012 fiscal year.

Consumer and Home Equity Lending

Our consumer lending has consisted of closed-end home equity loans secured by second liens, prime loans to purchase new and used recreational vehicles (RV) and autos, and deposit-related overdraft lines of credit. In 2008, we elected to significantly decrease RV and auto lending and in 2009, we elected to significantly decrease new home equity loans. We hold all of the RV and home equity loans that we originated and perform the loan servicing functions for these loans. We may increase new home equity loan originations and auto lending in the future as home values continue to stabilize and the economy recovers.

We currently provide overdraft lines of credit for our qualifying deposit customers with checking accounts.

Portfolio Management

Our investment analysis capabilities are a core competency of our organization. We decide whether to hold originated assets for investment or to sell them in the capital markets based on our assessment of the yield and risk characteristics of these assets as compared to other available opportunities to deploy our capital. Because risk-adjusted returns available on acquisitions may exceed returns available through retaining assets from our origination channels, we have elected to purchase loans and securities (see discussion below) from time to time. Some of our loans and security acquisitions were purchased at discounts to par value, which enhance our effective yield through accretion into income in subsequent periods. Our flexibility to increase risk-adjusted returns by retaining originated assets or acquiring assets differentiates us from our competitors with regional lending constraints.

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The following table summarizes the amount funded, the number and size of certain loans originated and purchased for each of the last five fiscal years:

(Dollars in thousands)	For the Fiscal Years Ended June 30,				
Type of Loan	2012	2011	2010	2009	2008
Single Family (one to four units):					
Loans originated:					
Amount funded	$956,908	$518,633	$127,657	$84,045	$516
Number of loans	2,563	1,104	411	283	2
Average loan size	$373	$470	$311	$297	$258
Loans purchased:					
Amount funded	$—	$43,440	$126,446	$22,036	$95,667
Number of loans	—	113	450	89	209
Average loan size	$—	$384	$281	$248	$458
Home equity:					
Loans originated:					
Amount funded	$—	$—	$—	$7,363	$34,761
Number of loans	—	—	—	161	1,027
Average loan size	$—	$—	$—	$46	$34
Loans purchased:					
Amount funded	$—	$22,013	$—	$—	$—
Number of loans	—	1	—	—	—
Average loan size	$—	$22,013	$—	$—	$—
Multifamily (five or more units):					
Loans originated:					
Amount funded	$301,460	$275,027	$21,323	$1,750	$—
Number of loans	311	300	22	2	—
Average loan size	$969	$917	$969	$875	$—
Loans purchased:					
Amount funded	$—	$53,990	$58,461	$46,439	$87,113
Number of loans	—	34	120	31	81
Average loan size	$—	$1,588	$487	$1,498	$1,075
Commercial real estate and land:					
Loans originated:					
Amount funded	$—	$2,255	$4,129	$—	$85
Number of loans	—	1	3	—	1
Average loan size	$—	$2,255	$1,376	$—	$85
Loans purchased:					
Amount funded	$—	$5,897	$456	$—	$24,726
Number of loans	—	4	3	—	20
Average loan size	$—	$1,474	$152	$—	$1,236
Consumer—recreational vehicle and auto:					
Loans originated:					
Amount funded	$10	$—	$34	$3,772	$25,712
Number of loans	1	—	1	130	710
Average loan size	$10	$—	$34	$29	$36

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Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio in amounts and percentages by type of loan at the end of each fiscal year-end for the last five years:

	At June 30,									
	2012		2011		2010		2009		2008	
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Perce
Residential real estate loans:										
Single Family (one to four units)	$863,624	49.6 %	$517,637	38.7 %	$259,790	32.9 %	$165,405	26.3 %	$165,473	26.2
Home equity	29,167	1.7 %	36,424	2.7 %	22,575	2.9 %	32,345	5.1 %	41,977	6.6
Multifamily (five units or more)	687,661	39.5 %	647,381	48.4 %	370,469	46.9 %	326,938	52.0 %	330,778	52.2
Commercial real estate and land loans	35,174	2.0 %	37,985	2.8 %	33,553	4.3 %	30,002	4.8 %	33,731	5.3
Consumer—Recreational vehicle	24,324	1.4 %	30,406	2.3 %	39,842	5.0 %	50,056	8.0 %	56,968	9.0
Commercial secured and Other	100,549	5.8 %	66,582	5.1 %	62,875	8.0 %	23,872	3.8 %	4,439	0.7
Total loans held for investment	1,740,499	100.0%	1,336,415	100.0%	789,104	100.0%	628,618	100.0%	633,366	100.0
Allowance for loan losses	(9,636)		(7,419)		(5,893)		(4,754)		(2,710)	
Unamortized premiums/discounts, net of deferred loan fees	(10,300)		(3,895)		(8,312)		(8,401)		757	
Net loans held for investment	$1,720,563		$1,325,101		$774,899		$615,463		$631,413	

The following table sets forth the amount of loans maturing in our total loans held for investment based on the contractual terms to maturity:

	Term to Contractual Maturity				
(Dollars in thousands)	Less Than Three Months	Over Three Months Through One Year	Over One Year Through Five Years	Over Five Years	Total
June 30, 2012	$172	$5,601	$97,694	$1,637,032	$1,740,499

The following table sets forth the amount of our loans at June 30, 2012 that are due after June 30, 2013 and indicates whether they have fixed, floating or adjustable interest rate loans:

(Dollars in thousands)	Fixed	Floating or Adjustable	Total
Single family (one to four units)	$99,116	$764,338	$863,454
Home equity	28,021	1,106	29,127
Multifamily (five units or more)	35,752	650,893	686,645
Commercial real estate and land	6,206	27,187	33,393
Consumer—recreational vehicle	24,300	—	24,300
Commercial secured and Other	97,807	—	97,807
Total	$291,202	$1,443,524	$1,734,726

Our mortgage loans are secured by properties primarily located in the western United States. The following table shows the largest states and regions ranked by location of these properties:

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	At June 30, 2012				
	Percent of Loan Principal Secured by Real Estate Located in State				
State	Total Real Estate Loans	Single Family	Home Equity	Multifamily	Commercial and Land
California-south [1]	42.30 %	42.43 %	13.05 %	43.97 %	13.11 %
California-north[2]	13.14 %	13.67 %	11.19 %	12.36 %	17.05 %
Texas	5.28 %	1.52 %	— %	9.10 %	16.64 %
Washington	3.83 %	2.24 %	5.13 %	5.27 %	11.34 %
New York	6.93 %	10.41 %	4.38 %	2.69 %	12.71 %
Arizona	4.05 %	4.76 %	9.07 %	3.36 %	0.26 %
Florida	3.80 %	4.58 %	12.13 %	2.97 %	— %
Colorado	2.52 %	3.63 %	1.52 %	1.14 %	4.82 %
Utah	1.29 %	1.94 %	0.69 %	0.36 %	5.06 %
Illinois	1.38 %	1.32 %	4.73 %	1.46 %	— %
All other states	15.48 %	13.50 %	38.11 %	17.32 %	19.01 %
	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

[1] Consists of loans secured by real property in California with zip code ranges from 90000 to 92999.
[2] Consists of loans secured by real property in California with zip code ranges from 93000 to 96999.

The ratio of the loan amount to the value of the property securing the loan is called the loan-to-value ratio or LTV. The following table shows the LTVs of our loan portfolio on weighted average and median bases at June 30, 2012. The LTVs were calculated by dividing (a) the loan principal balance less principal repayments by (b) the appraisal value of the property securing the loan at the time of the funding or, for certain purchased seasoned loans, an adjusted appraised value based upon an independent review at the time of the purchase.

	Total Real Estate Loans	Single Family	Home Equity[1]	Multifamily	Commercial and Land
Weighted Average LTV	54.05 %	53.56 %	57.56 %	54.47 %	45.76 %
Median LTV	52.74 %	52.43 %	58.53 %	50.75 %	44.03 %

[1] Amounts represent combined loan to value calculated by adding the current balances of both the 1st and 2nd liens of the borrower and dividing that sum by an independent estimated value of the property at the time of origination.

We believe our weighted average LTV of 54.05%, at origination has resulted and will continue to result in the future, in lower average loan defaults and write-offs when compared to the real estate loan portfolios of other banks.

Lending Activities. The following table summarizes the volumes of loans originated, purchased, sold and repaid by loan group for each the last five fiscal years:

	For the Fiscal Years Ended June 30,				
(Dollars in thousands)	2012	2011	2010	2009	2008
Loans Held for Sale:					
Residential mortgages:					
Beginning balance	$20,110	$5,511	$3,190	$—	$—
Loan originations	664,662	216,868	114,842	83,741	516
Proceeds from sale of loans held for sale	(624,013)	(206,955)	(114,215)	(81,932)	(518)
Gains on sales of loans held for sale	17,523	4,337	1,694	1,381	2
Other	899	349	—	—	—
Ending balance	$79,181	$20,110	$5,511	$3,190	$—

Loan Portfolio:

Single family (one to four units):					
Beginning balance	$517,637	$259,790	$165,405	$165,473	$104,960
Loan originations	439,625	301,765	12,815	305	—
Loan purchases	—	43,440	126,446	22,036	95,667
Loans transferred to Held for Sale	49,737	(6,911)	—	—	—

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Principal repayments	(140,634)	(77,208)	(41,825)	(20,012)	(34,726)
Foreclosure and charge-offs	(2,741)	(3,239)	(3,051)	(2,397)	(428)
Ending balance	$863,624	$517,637	$259,790	$165,405	$165,473
Home equity:					
Beginning balance	$36,424	$22,575	$32,345	$41,977	$18,815
Loan originations	—	—	—	7,363	34,761
Loan purchases	—	22,013	—	—	—
Principal repayments	(6,882)	(8,060)	(9,653)	(16,681)	(11,599)
Foreclosure and charge-offs	(375)	(104)	(117)	(314)	—
Ending balance	$29,167	$36,424	$22,575	$32,345	$41,977
Multifamily (five units or more):					
Beginning balance	$647,381	$370,469	$326,938	$330,778	$325,880
Loan originations	162,816	275,027	21,323	1,750	—
Loan purchases	—	53,990	58,461	46,439	87,113
Loans transferred to Held for Sale	(46,066)	—	—	—	—
Principal repayments	(74,625)	(43,614)	(34,210)	(48,535)	(82,115)
Foreclosure and charge-offs	(1,845)	(8,491)	(2,043)	(3,494)	(100)
Ending balance	$687,661	$647,381	$370,469	$326,938	$330,778
Commercial real estate and land:					
Beginning balance	$37,985	$33,553	$30,002	$33,731	$11,256
Loan originations	—	2,547	4,129	—	85
Loan purchases	—	5,897	456	—	24,726
Principal repayments	(2,437)	(4,012)	(1,034)	(1,320)	(2,336)
Foreclosure and charge-offs	(374)	—	—	(2,409)	—
Ending balance	$35,174	$37,985	$33,553	$30,002	$33,731
Consumer—recreational vehicle and auto:					
Beginning balance	$30,406	$39,842	$50,056	$56,968	$42,327
Loan originations	10	—	34	3,772	25,712
Principal repayments	(3,809)	(4,625)	(5,468)	(7,662)	(10,617)
Repossession and charge-offs	(2,283)	(4,811)	(4,780)	(3,022)	(454)
Ending balance	$24,324	$30,406	$39,842	$50,056	$56,968
Commercial secured and Other:					
Beginning balance	$66,582	$62,875	$23,872	$4,439	$981
Loan originations	139,802	29,562	36,401	19,980	4,330
Loan purchases	—	—	4,200	—	—
Principal repayments	(105,828)	(25,829)	(1,598)	(534)	(866)
Charge-offs	(7)	(26)	—	(13)	(6)
Ending balance	$100,549	$66,582	$62,875	$23,872	$4,439
TOTAL LOANS HELD FOR INVESTMENT	$1,740,499	$1,336,415	$789,104	$628,618	$633,366
Allowance for loan losses	(9,636)	(7,419)	(5,893)	(4,754)	(2,710)
Unamortized premiums, unaccreted discounts, net of deferred loan fees	(10,300)	(3,895)	(8,312)	(8,401)	757
NET LOANS	$1,720,563	$1,325,101	$774,899	$615,463	$631,413

Loan Underwriting Process and Criteria. We individually underwrite the loans that we originate and all loans that we purchase. Our loan underwriting policies and procedures are written and adopted by our board of directors and our loan committee. Each loan, regardless of how it is originated, must meet underwriting criteria set forth in our lending policies and the requirements of applicable lending regulations of our federal regulators.

In the underwriting process we consider the borrower's credit score, credit history, documented income, existing and new debt obligations, the value of the collateral, and other internal and external factors. For all multifamily and commercial loans, we rely primarily on the cash flow from the underlying property as the expected source of repayment, but we also endeavor to obtain personal guarantees from all borrowers or substantial principals of the borrower. In evaluating multifamily and commercial loans, we review the value and condition of the underlying property, as well as the financial condition, credit history and qualifications

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of the borrower. In evaluating the borrower's qualifications, we consider primarily the borrower's other financial resources, experience in owning or managing similar properties and payment history with us or other financial institutions. In evaluating the underlying property, we consider primarily the net operating income of the property before debt service and depreciation, the ratio of net operating income to debt service and the ratio of the loan amount to the appraised value.

Lending Limits. As a savings association, we are generally subject to the same lending limit rules applicable to national banks. With limited exceptions, the maximum amount that we may lend to any borrower, including related entities of the borrower, at any one time may not exceed 15% of our unimpaired capital and surplus, plus an additional 10% of unimpaired capital and surplus for loans fully secured by readily marketable collateral. We are additionally authorized to make loans to one borrower in an amount not to exceed the lesser of $30.0 million or 30% of our unimpaired capital and surplus for the purpose of developing residential housing, if certain specified conditions are met. See "Regulation of BofI Federal Bank."

At June 30, 2012, the Bank's loans-to-one-borrower limit was $31.0 million, based upon the 15% of unimpaired capital and surplus measurement. At June 30, 2012, no single loan was larger than a $20.0 million line of credit, with an outstanding balance of $18.8 million drawn on the line, and our largest single lending relationship had an outstanding balance of $18.8 million.

Loan Quality and Credit Risk. After eight years of operating the Bank, we experienced our first mortgage loan foreclosure and consumer loan charge-off during fiscal 2008. Our loan charge-offs increased in fiscal 2009 and 2010. In fiscal 2012 and 2011, our charge-offs as a percentage of our average loan portfolio balance were 0.35% and 0.45%, respectively. We believe that our level of non-performing loans as a percentage of our loan portfolio is below the level of non-performing loans currently found at most banks with significant residential real estate lending portfolios. The economy and the mortgage and consumer credit markets have shown signs of stabilizing, but unemployment remains high. We expect additional loans to default or become non-performing and we provide an allowance for estimated loan losses. Non-performing assets are defined as non-performing loans and real estate acquired by foreclosure or deed-in-lieu thereof. Generally, non-performing loans are defined as nonaccrual loans and loans 90 days or more overdue. Troubled debt restructurings (TDRs) are defined as loans that we have agreed to modify by accepting below market terms either by granting interest rate concessions or by deferring principal or interest payments. Our policy with respect to non-performing assets is to place such assets on nonaccrual status when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual. When a loan is placed on nonaccrual status, previously accrued but unpaid interest will be deducted from interest income. Our general policy is to not accrue interest on loans past due 90 days or more, unless the individual borrower circumstances dictate otherwise.

See Management's Discussion and Analysis — "Asset Quality and Allowance for Loan Loss" for a history of non-performing assets and allowance for loan loss.

Investment Securities Portfolio

We invest available funds in high-grade mortgage-backed securities, fixed income securities and preferred securities of government-sponsored entities. Because risk-adjusted returns available on investment securities may exceed returns available through our origination channels, we may elect to purchase more securities from time to time. Our investment policy, as established by our board of directors, is designed to maintain liquidity and generate a favorable return on investment without incurring undue interest rate risk, credit risk or portfolio asset concentration risk. Under our investment policy, we are currently authorized to invest in agency mortgage-backed obligations issued or fully guaranteed by the United States government, non-agency mortgage-backed obligations, specific federal agency obligations, specific time deposits, negotiable certificates of deposit issued by commercial banks and other insured financial institutions, investment grade corporate debt securities and other specified investments. We also buy and sell securities to facilitate liquidity and to help manage our interest rate risk.

We classify each investment security according to our intent to hold the security to maturity, trade the security at fair value or make the security available-for-sale. We increased our purchases of mortgage-backed securities in fiscal 2005 through 2010 because we believed the mortgage-backed securities provided better risk adjusted yields than certain single family whole loan originations or whole loan pools. During fiscal 2008 and 2009, we sold U.S. agency mortgage-backed securities and replaced them with better risk adjusted non-agency securities.

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The following table sets forth the dollar amount of our securities portfolio by intent at the end of each of the last five fiscal years:

(Dollars in thousands)	Available-for-Sale	Held-to-maturity	Trading	
Fiscal year end	Fair Value	Carrying Amount	Fair Value	Total
June 30, 2012	$ 164,159	$313,032	$5,838	$483,029
June 30, 2011	145,671	370,626	5,053	521,350
June 30, 2010	242,430	320,807	4,402	567,639
June 30, 2009	265,807	350,898	5,445	622,150
June 30, 2008	209,119	300,895	—	510,014

The expected maturity distribution of our mortgage-backed securities and the contractual maturity distribution of our other debt securities and the weighted average yield for each range of maturities at June 30, 2012 were:

	For the Fiscal Year Ended June 30, 2012									
	Total Amount		Due Within One Year		Due After One but within Five Years		Due After Five but within Ten Years		Due After Ten Years	
(Dollars in thousands)	Amount	Yield[1]	Amount	Yield[1]	Amount	Yield[1]	Amount	Yield[1]	Amount	Yield[1]
Available-for-sale										
Mortgage-Backed Securities (RMBS):										
U.S. Agency[2]	$56,456	2.11%	$2,727	2.07%	$10,766	2.04%	$12,991	1.98%	$29,972	2.19 %
Non-Agency[3]	$75,755	8.92%	$24,511	8.04%	$27,006	8.84%	$13,594	9.25%	$10,644	10.72%
Total Mortgage-Backed Securities	$132,211	6.01%	$27,238	7.45%	$37,772	6.90%	$26,585	5.70%	$40,616	4.42 %
Other Debt Securities										
Agency	$10,033	0.41%	$2,699	0.41%	$7,334	0.41%	$—	— %	$—	— %
Non-Agency	$7,444	1.93%	$3,097	2.29%	$4,347	1.67%	$—	— %	$—	— %
Municipal	$5,749	2.22%	$5,749	2.22%	$—	— %	$—	— %	$—	— %
Total Other Debt Securities	$23,226	1.34%	$11,545	1.82%	$11,681	0.88%	$—	— %	$—	— %
Available-for-sale—Amortized Cost	$155,437	5.31%	$38,783	5.77%	$49,453	5.48%	$26,585	5.70%	$40,616	4.42 %
Available-for-sale—Fair Value	$164,159	5.31%	$39,930	5.77%	$52,292	5.48%	$28,601	5.70%	$43,336	4.42 %
Held-to-maturity										
Mortgage-backed securities (RMBS):										
U.S. Agency[2]	$67,037	3.74%	$2,513	3.30%	$9,671	3.31%	$11,041	3.33%	$43,812	3.97 %
Non-Agency[3]	$209,804	6.65%	$31,576	7.14%	$69,732	7.10%	$34,978	6.45%	$73,518	6.12 %
Total Mortgage-Backed Securities	$276,841	5.95%	$34,089	6.86%	$79,403	6.64%	$46,019	5.70%	$117,330	5.32 %
Other Debt Securities:										
Municipal	$36,191	6.16%	$—	— %	$108	6.17%	$1,791	6.55%	$34,292	6.14 %
Total Other Debt Securities	$36,191	6.16%	$—	— %	$108	6.17%	$1,791	6.55%	$34,292	6.14 %
Held-to-Maturity—Carrying Value	$313,032	5.97%	$34,089	6.86%	$79,511	6.64%	$47,810	5.73%	$151,622	5.50 %
Held-to-Maturity—Fair Value	$318,252	5.97%	$34,164	6.86%	$80,820	6.64%	$48,903	5.73%	$154,365	5.50 %
Trading										
Non-Agency—Fair Value[4]	$5,838	6.92%	$—	— %	$—	— %	$—	— %	$5,838	6.92 %
Total securities	$483,029	5.76%	$74,019	6.27%	$131,803	6.18%	$76,411	5.72%	$200,796	5.31 %

[1] Weighted average yield is based on amortized cost of the securities. Residential mortgage-backed security (RMBS) yields and maturities include impact of expected prepayments and other timing factors such as interest rate forward curve.

[2] U.S. government-backed or government sponsored enterprises including Fannie Mae, Freddie Mac and Ginny Mae.

[3] Private sponsors of securities collateralized primarily by pools of 1-4 family residential first mortgages . Primarily supersenior securities and secured by prime, Alt A or pay-option ARM mortgages.

[4] Collateralized debt obligations secured by pools of bank trust preferred.

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Our securities portfolio of $483.0 million at June 30, 2012 is composed of approximately 28.0% U.S. agency residential mortgage-backed securities (RMBS) and other debt securities issued by GSEs, primarily Freddie Mac and Fannie Mae; 2.6% Prime private-issue super senior, first-lien RMBS; 11.9% Alt-A, private-issue super senior, first-lien RMBS; 35.8% Pay-Option ARM, private-issue super senior first-lien RMBS; 8.6% Municipal securities and 13.1% other residential mortgage-backed, asset-backed and bank pooled trust preferred securities. We had no commercial mortgage-backed securities (CMBS) or Subprime RMBS at June 30, 2012.

We manage the credit risk of our non-agency RMBS by purchasing those AAA securities which we believe have the most favorable blend of historic credit performance and remaining credit enhancements including subordination, over collateralization, excess spread and purchase discounts. Substantially all of our non-agency RMBS are super senior tranches protected against realized loss by subordinated tranches. The amount of structural subordination available to protect each of our securities (expressed as a percent of the current face value) is known as credit enhancement. At June 30, 2012, the weighted-average credit enhancement in our entire non-agency RMBS portfolio was 35.5%. The credit enhancement levels for our Alt-A and Pay-option ARM portions of the portfolio were 55.2% and 27.8%, respectively. The credit enhancement percent and the rating agency grade (e.g., "AA") do not consider the additional credit protection available to the Bank (if needed) from its purchase price discounts. We have experienced RMBS personnel monitor the performance and measure the securities for impairment. The rating agency grade does not completely reflect the probability of impairment. The credit enhancement level when you consider the remaining purchase discount at June 30, 2012 equals 40.1% for approximately 57.0% of our securities that have been downgraded from their respective AAA ratings at acquisition to below investment grade. Substantially all of those securities that were downgraded were included in our Bank of Internet Re-securitization Trust (BIRT) which restructured their discounts into a new series of securities that can be pledged by the Bank for liquidity. For financial reporting purposes, the BIRT securities are not reflected in the consolidated financial statements of the Company. The underlying securities in the BIRT Trust are reported in the Company's consolidated financial statements and the BIRT securities are eliminated in consolidation. See Management's Discussion and Analysis—"Critical Accounting Policies—Securities."

The following table sets forth changes in our securities portfolio for each of the last five fiscal years:

(Dollars in thousands)	2012	2011	2010	2009	2008
Securities at beginning of period[1]	$521,350	$567,639	$622,150	$510,014	$357,970
Purchases	78,367	284,033	223,754	310,559	493,183
Sales	—	(14,103)	(14,081)	(95,297)	(210,618)
Repayments, prepayments and amortization of premium/accretion of discounts	(107,232)	(306,971)	(260,451)	(97,625)	(132,661)
Trading securities mark-to-market	785	651	(1,039)	(2,055)	—
Transition impact of adopting SFAS 159	—	—	—	(3,504)	—
Impairment charged to the income statement	(2,803)	(1,541)	(6,038)	(1,454)	(1,000)
(Decrease) increase in unrealized gains/losses on available-for-sale securities, net of impairment charged	(7,438)	(8,358)	3,344	1,512	3,140
Securities at end of period[1]	$483,029	$521,350	$567,639	$622,150	$510,014

[1] Includes trading, available-for-sale and held-to-maturity portfolios.

DEPOSIT GENERATION

We offer a full line of deposit products we source through our branchless distribution channels using an operating platform and marketing strategies that emphasize low operating costs and are flexible and scalable for our business. Our full featured products, customer service and our affinity relationships result in customer accounts with strong retention characteristics.

At June 30, 2012, we had $1,615.1 million in deposits of which $678.8 million, or 43.8% were demand and savings accounts and $923.8 million, or 56.2% were time deposits. We generate deposit customer relationships through our retail distribution channels including online websites, financial advisory firms and lending businesses which generate escrow deposits and other operating funds. Our retail distribution channels include:

- Multiple national online banking brands with tailored products targeted to specific consumer segments. For example, our Bank of Internet brand, America's Oldest and Most Trusted Internet Bank is designed for customers who are looking for full-featured demand accounts and very competitive fees and interest rates. We use traditional Internet marketing strategies and plan to add more brands addressing different consumer segments in the future.

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- Financial advisory firms who introduce their customers to our deposit products;
- Relationship with affinity groups where we gain access to the affinity group's members;
- BofI Federal's business banking division, which focuses on providing deposit products nationwide to industry verticals (e.g., apartment owners) through a business banking commissioned sales force;
- A call center that opens accounts through self-generated internet leads, third-party purchase leads, and our retention and cross-sell efforts to our existing customer base.

Our online accounts are full-featured requiring only one sign-in with quick access to activity, statements and other features including:

Purchase Rewards. Customers can earn cash back simply by using their VISA® Debit Card.

Mobile Banking. Customers can review account balances, transfer funds and pay bills from the convenience of their mobile phone.

Mobile Deposit. Deposit checks instantly using an iPhone or Android phone.

FinanceWorks™. A financial management solution that provides customers with a complete and easy way to budget.

Online Bill Payment Service. Customers can pay their bills online automatically from their account.

Popmoney. An easy and convenient way for customers to send and receive money through email or text messaging.

My Deposit. A remote deposit solution that enables customers to scan checks from their computer and have the scanned images electronically transmitted for deposit directly to their account.

Text Message Banking. Customers can view their account balances and transactions as well as transfer fund funds between their accounts and set up alerts using their mobile phone.

Unlimited ATM reimbursements. With our Rewards Checking account customers are reimbursed for any fees incurred using the ATM (excludes international ATM transactions).

Secure Email. Customers can send and receive secure email without concern for the security of their information.

InterBank Transfer. Customers can transfer money to accounts they own at other financial institutions.

ATM Cards or VISA® Debit Cards. Each customer may choose to receive a free ATM card or VISA® debit card upon opening an account. Customers can access their accounts at ATMs and any other locations worldwide that accept VISA® debit cards.

Overdraft Protection. Overdraft protection, in the form of an overdraft line of credit, is available to all checking account customers who request this service and qualify.

Our deposit operations are conducted through a centralized, scalable operating platform which supports all of our distribution channels. The integrated nature of our systems and our ability to efficiently scale our operations create competitive advantages that support our value proposition to customers. Additionally, the features described above such as online account opening and online bill-pay promote self-service and further reduce our operating expenses. We believe our deposit franchise will continue to provide lower all-in funding costs with greater scalability than branch-intensive banking models because the traditional branch model with high fixed operating costs will experience continued declines in consumer traffic due to the decline in paper check deposits and due to growing consumer preferences to bank online.

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The number of deposit accounts at the end of each of the last five fiscal years is set forth below:

	At June 30,				
	2012	2011	2010	2009	2008
Checking and savings accounts	19,931	16,105	17,192	10,685	9,415
Time deposits	12,341	16,793	10,554	12,757	15,490
Total number of deposit accounts	32,272	32,898	27,746	23,442	24,905

Deposit Composition. The following table sets forth the dollar amount of deposits by type and weighted average interest rates at the end of each of the last five fiscal years:

	At June 30,									
	2012		2011		2010		2009		2008	
(Dollars in thousands)	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]
Non-interest-bearing	$12,439	—	$7,369	—	$5,441	—	$3,509	—	$5,509	—
Interest-bearing:										
Demand	94,888	0.52%	76,793	0.75%	63,962	0.85%	59,151	1.22%	61,616	3.22%
Savings	583,955	0.72%	268,384	0.93%	358,293	0.91%	192,781	1.94%	56,202	3.38%
Total demand and savings	678,843	0.69%	345,177	0.89%	422,255	0.90%	251,932	1.77%	117,818	3.30%
Time deposits:										
Under $100	224,140	1.85%	337,937	2.24%	200,859	3.23%	191,021	4.39%	268,747	4.84%
$100 or more	699,666	1.75%	649,842	2.15%	339,625	2.95%	202,062	3.85%	178,630	4.91%
Total time deposits	923,806	1.78%	987,779	2.18%	540,484	3.05%	393,083	4.11%	447,377	4.87%
Total interest-bearing	1,602,649	1.32%	1,332,956	1.85%	962,739	2.11%	645,015	3.20%	565,195	4.54%
Total deposits	$1,615,088	1.31%	$1,340,325	1.84%	$968,180	2.10%	$648,524	3.18%	$570,704	4.50%

[1] Based on weighted average stated interest rates at the end of the period.

The following tables set forth the average balance, the interest expense and the average rate paid on each type of deposit at the end of each of the last five fiscal years:

At June 30,

	2012			2011			2010		
(Dollars in thousands)	Average Balance	Interest Expense	Avg. Rate Paid	Average Balance	Interest Expense	Avg. Rate Paid	Average Balance	Interest Expense	Avg. Rate Paid
Demand	$74,044	$593	0.81 %	$61,181	$488	0.80 %	$57,779	$595	1.03 %
Savings	430,791	3,795	0.88 %	283,783	2,508	0.92 %	389,526	5,779	1.48 %
Time deposits	1,003,728	20,500	2.04 %	776,638	19,280	2.48 %	413,999	14,880	3.59 %
Total interest-bearing deposits	$1,508,563	$24,888	1.65 %	$1,121,602	$22,276	2.01 %	$861,304	$21,254	2.47 %
Total deposits	$1,522,359	$24,888	1.63 %	$1,127,415	$22,276	2.00 %	$866,837	$21,254	2.45 %

At June 30,

	2009			2008		
(Dollars in thousands)	Average Balance	Interest Expense	Avg. Rate Paid	Average Balance	Interest Expense	Avg. Rate Paid
Demand	$70,882	$1,722	2.43 %	$47,405	$1,670	3.52 %
Savings	115,427	2,861	2.48 %	28,623	1,056	3.69 %
Time deposits	433,410	19,400	4.48 %	506,761	25,632	5.06 %
Total interest-bearing deposits	$619,719	$23,983	3.87 %	$582,789	$28,358	4.87 %
Total deposits	$623,889	$23,983	3.84 %	$585,933	$28,358	4.84 %

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The following table shows the maturity dates of our certificates of deposit at the end of each of the last five fiscal years:

At June 30,					
(Dollars in thousands)	2012	2011	2010	2009	2008
Within 12 months	$482,615	$568,827	$259,026	$237,920	$233,767
13 to 24 months	128,149	184,029	106,733	49,796	81,156
25 to 36 months	97,238	66,541	52,174	64,743	33,343
37 to 48 months	47,388	33,500	11,922	38,559	61,744
49 months and thereafter	168,416	134,882	110,629	2,065	37,367
Total	$923,806	$987,779	$540,484	$393,083	$447,377

The following table shows maturities of our time deposits having principal amounts of $100,000 or more at the end of each of the last five fiscal years:

	Term to Maturity				
(Dollars in thousands)	Within Three Months	Over Three Months to Six Months	Over Six Months to One Year	Over One Year	Total
Time deposits with balances of $100,000 or more at June 30,					
2012	$144,621	$93,502	$90,947	$370,596	$699,666
2011	$41,322	$144,907	$161,940	$301,673	$649,842
2010	$13,213	$84,823	$48,624	$192,965	$339,625
2009	$30,256	$49,126	$57,527	$65,153	$202,062
2008	$29,916	$26,919	$34,284	$87,511	$178,630

Borrowings. In addition to deposits, we have historically funded our asset growth through advances from the Federal Home Loan Bank of San Francisco (FHLB). Our bank can borrow up to 40.0% of its total assets from the FHLB, and borrowings are collateralized by mortgage loans and mortgage-backed securities pledged to the FHLB. At June 30, 2012, the Company had $451.6 million available immediately and an additional $38.1 million available with additional collateral, for advances from the FHLB for terms up to ten years.

The Bank has federal funds lines of credit with two major banks totaling $20.0 million. At June 30, 2012, the Bank had no outstanding balance on either line.

The Bank can also borrow from the Federal Reserve Bank of San Francisco (FRB), and borrowings are collateralized by consumer loans and mortgage-backed securities pledged to the FRB. Based on loans and securities pledged at June 30, 2012, we had a total borrowing capacity of approximately $74.2 million, none of which was outstanding. The Bank has additional unencumbered collateral that could be pledged to the FRB Discount Window to increase borrowing liquidity.

The Company has sold securities under various agreements to repurchase for total proceeds of $120.0 million. The repurchase agreements have fixed interest rates between 3.24% and 4.75% and scheduled maturities between October 2012 and December 2017. Pursuant to these agreements, under certain conditions, the Company may be required to repay the $120.0 million and repurchase its securities before the scheduled maturity if the issuer requests repayment on scheduled quarterly call dates. As of June 30, 2012, the weighted-average remaining contractual maturity period was 2.22 years and the weighted average remaining period before such repurchase agreements could be called was 0.23 years.

On December 16, 2004, we completed a transaction in which we formed a trust and issued $5.0 million of trust-preferred securities. The net proceeds from the offering were used to purchase approximately $5.2 million of junior subordinated debentures of our company with a stated maturity date of February 23, 2035. The debentures are the sole assets of the trust. The trust preferred securities are mandatorily redeemable upon maturity, or upon earlier redemption as provided in the indenture. We have the right to redeem the debentures in whole (but not in part) on or after specific dates, at a redemption price specified in the indenture plus any accrued but unpaid interest through the redemption date. Interest accrues at the rate of three-month LIBOR plus 2.4%, which was 2.87% at June 30, 2012, and is paid quarterly.

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The table below sets forth the amount of our borrowings, the maximum amount of borrowings in each category during any month-end during each reported period, the approximate average amounts outstanding during each reported period and the approximate weighted average interest rate thereon at or for the last five fiscal years:

	At or For The Fiscal Years Ended June 30,				
(Dollars in thousands)	2012	2011	2010	2009	2008
Advances from the FHLB[1]:					
Average balance outstanding	$333,866	$226,005	$199,288	$333,327	$270,022
Maximum amount outstanding at any month-end during the period	422,000	309,000	225,988	392,973	398,966
Balance outstanding at end of period	422,000	305,000	182,999	262,984	398,966
Average interest rate at end of period	1.42 %	2.07 %	3.59 %	3.34 %	3.77 %
Average interest rate during period	1.78 %	2.77 %	3.88 %	3.42 %	4.23 %
Securities sold under agreements to repurchase:					
Average balance outstanding	$125,820	$130,000	$130,000	$130,000	$118,497
Maximum amount outstanding at any month-end during the period	130,000	130,000	130,000	130,000	130,000
Balance outstanding at end of period	120,000	130,000	130,000	130,000	130,000
Average interest rate at end of period	4.34 %	4.35 %	4.35 %	4.32 %	4.23 %
Average interest rate during period	4.41 %	4.41 %	4.40 %	4.37 %	4.34 %
Federal Reserve Discount Window borrowing					
Average balance outstanding	$—	$—	$38,986	$38,524	$—
Maximum amount outstanding at any month-end during the period	—	—	140,000	160,000	—
Balance outstanding at end of period	—	—	—	160,000	—
Average interest rate at end of period	—	—	—	—	—
Average interest rate during period	—	—	0.25 %	—	—
Junior subordinated debentures:					