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

FORM 10-Q

(Mark One)

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

For the quarterly period ending June 30, 2021

OR

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

For the transition period from __________________ to __________________

Commission file number 001-39123

SILVERGATE CAPITAL CORPORATION
(Exact name of registrant as specified in its charter)

Maryland	**33-0227337**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4250 Executive Square, Suite 300, La Jolla, CA 92037
(Address of principal executive offices, including zip code)
(858) 362-6300
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value $0.01 per share	SI	New York Stock Exchange
Depositary Shares, Each Representing a 1/40th Interest in a Share of 5.375% Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A	SIPrA	New York Stock Exchange

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 the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐	Emerging growth company	☒
Non-accelerated Filer	☒	Smaller reporting company	☒		

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

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

As of August 3, 2021, the registrant had 26,520,621 shares of Class A voting common stock outstanding.

SILVERGATE CAPITAL CORPORATION
FORM 10-Q
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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

SILVERGATE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In Thousands, Except Par Value Amounts)
(Unaudited)

	June 30, 2021	December 31, 2020
ASSETS		
Cash and due from banks	$ 52,859	$ 16,405
Interest earning deposits in other banks	4,415,458	2,945,682
Cash and cash equivalents	4,468,317	2,962,087
Trading securities, at fair value	26,998	—
Securities available-for-sale, at fair value	6,176,778	939,015
Loans held-for-sale, at lower of cost or fair value	748,577	865,961
Loans held-for-investment, net of allowance for loan losses of $6,916 at June 30, 2021 and December 31, 2020	740,155	746,751
Federal home loan and federal reserve bank stock, at cost	29,460	14,851
Accrued interest receivable	24,505	8,698
Premises and equipment, net	1,604	2,072
Derivative assets	39,454	31,104
Other assets	33,628	15,696
Total assets	$ 12,289,476	$ 5,586,235
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing demand accounts	$ 11,290,638	$ 5,133,579
Interest bearing accounts	80,918	114,447
Total deposits	11,371,556	5,248,026
Subordinated debentures, net	15,838	15,831
Accrued expenses and other liabilities	31,575	28,079
Total liabilities	11,418,969	5,291,936
Commitments and contingencies		
Preferred stock, $0.01 par value—authorized 10,000 shares; no shares issued or outstanding at June 30, 2021 and December 31, 2020	—	—
Class A common stock, $0.01 par value—authorized 125,000 shares; 26,508 and 18,770 shares issued and outstanding at June 30, 2021 and December 31, 2020, respectively	265	188
Class B non-voting common stock, $0.01 par value—authorized 25,000 shares; 0 and 64 shares issued and outstanding at June 30, 2021 and December 31, 2020, respectively	—	1
Additional paid-in capital	697,070	129,726
Retained earnings	151,993	118,348
Accumulated other comprehensive income	21,179	46,036
Total shareholders' equity	870,507	294,299
Total liabilities and shareholders' equity	$ 12,289,476	$ 5,586,235

See accompanying notes to unaudited consolidated financial statements

SILVERGATE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Interest income				
Loans, including fees	$ 17,158	$ 11,710	$ 33,755	$ 24,831
Taxable securities	8,324	4,123	11,916	10,171
Tax-exempt securities	3,123	1,577	4,818	1,625
Other interest earning assets	1,599	405	2,878	1,129
Dividends and other	466	200	609	321
Total interest income	30,670	18,015	53,976	38,077
Interest expense				
Deposits	35	1,652	81	5,703
Federal home loan bank advances	—	44	—	271
Subordinated debentures and other	252	267	497	573
Total interest expense	287	1,963	578	6,547
Net interest income before provision for loan losses	30,383	16,052	53,398	31,530
Provision for loan losses	—	222	—	589
Net interest income after provision for loan losses	30,383	15,830	53,398	30,941
Noninterest income				
Mortgage warehouse fee income	753	450	1,707	832
Service fees related to off-balance sheet deposits	—	7	—	77
Deposit related fees	11,308	2,438	18,432	4,204
Gain on sale of securities, net	—	2,556	—	3,753
(Loss) gain on sale of loans, net	—	(56)	—	450
Gain on extinguishment of debt	—	—	—	925
Other income	8	39	20	124
Total noninterest income	12,069	5,434	20,159	10,365
Noninterest expense				
Salaries and employee benefits	10,260	9,002	21,250	17,957
Occupancy and equipment	599	894	1,213	1,801
Communications and data processing	1,796	1,313	3,417	2,574
Professional services	2,594	1,105	4,311	2,090
Federal deposit insurance	3,844	182	6,140	305
Correspondent bank charges	812	347	1,309	720
Other loan expense	280	99	454	221
Other general and administrative	1,334	1,030	3,031	2,179
Total noninterest expense	21,519	13,972	41,125	27,847
Income before income taxes	20,933	7,292	32,432	13,459
Income tax (benefit) expense	(2)	1,826	(1,213)	3,600
Net income	$ 20,935	$ 5,466	$ 33,645	$ 9,859
Basic earnings per share	$ 0.81	$ 0.29	$ 1.40	$ 0.53
Diluted earnings per share	$ 0.80	$ 0.29	$ 1.37	$ 0.52
Weighted average shares outstanding:				
Basic	25,707	18,672	24,114	18,670
Diluted	26,102	19,106	24,565	19,112

See accompanying notes to unaudited consolidated financial statements

SILVERGATE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net income	$ 20,935	$ 5,466	$ 33,645	$ 9,859
Other comprehensive income (loss):				
Change in net unrealized (loss) gain on available-for-sale securities	(4,438)	25,190	(17,872)	15,877
Less: Reclassification adjustment for net gain included in net income	—	(2,556)	—	(3,753)
Income tax effect	1,251	(6,475)	4,941	(3,468)
Unrealized (loss) gain on available-for-sale securities, net of tax	(3,187)	16,159	(12,931)	8,656
Change in net unrealized (loss) gain on derivative assets	(8,074)	2,731	(15,534)	26,197
Less: Reclassification adjustment for net gain included in net income	(510)	(510)	(1,014)	(681)
Income tax effect	2,433	(636)	4,622	(7,303)
Unrealized (loss) gain on derivative instruments, net of tax	(6,151)	1,585	(11,926)	18,213
Other comprehensive (loss) income	(9,338)	17,744	(24,857)	26,869
Total comprehensive income	$ 11,597	$ 23,210	$ 8,788	$ 36,728

See accompanying notes to unaudited consolidated financial statements

SILVERGATE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In Thousands, Except Share Data)
(Unaudited)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance at January 1, 2020	17,775,160	$ 178	892,836	$ 9	$ 132,138	$ 92,310	$ 6,401	$ 231,036
Total comprehensive income, net of tax	—	—	—	—	—	4,393	9,125	13,518
Conversion of Class B common stock to Class A common stock	596,000	6	(596,000)	(6)	—	—	—	—
Stock-based compensation	—	—	—	—	199	—	—	199
Exercise of stock options, net of shares withheld for employee taxes	134	—	—	—	(1)	—	—	(1)
Balance at March 31, 2020	18,371,294	184	296,836	3	132,336	96,703	15,526	244,752
Total comprehensive income, net of tax	—	—	—	—	—	5,466	17,744	23,210
Stock-based compensation	—	—	—	—	201	—	—	201
Exercise of stock options, net of shares withheld for employee taxes	7,569	—	—	—	(58)	—	—	(58)
Balance at June 30, 2020	18,378,863	$ 184	296,836	$ 3	$ 132,479	$ 102,169	$ 33,270	$ 268,105

SILVERGATE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Continued)
(In Thousands, Except Share Data)
(Unaudited)

	Class A Common Stock Shares	Class A Common Stock Amount	Class B Common Stock Shares	Class B Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at January 1, 2021	18,769,771	$ 188	64,197	$ 1	$ 129,726	$ 118,348	$ 46,036	$ 294,299
Total comprehensive income (loss), net of tax	—	—	—	—	—	12,710	(15,519)	(2,809)
Net proceeds from stock issuance	5,860,858	58	—	—	423,482	—	—	423,540
Conversion of Class B common stock to Class A common stock	64,197	1	(64,197)	(1)	—	—	—	—
Stock-based compensation	—	—	—	—	290	—	—	290
Exercise of stock options and issuance of share-based awards, net of shares withheld for employee taxes	125,142	1	—	—	(1,700)	—	—	(1,699)
Balance at March 31, 2021	24,819,968	248	—	—	551,798	131,058	30,517	713,621
Total comprehensive income, net of tax	—	—	—	—	—	20,935	(9,338)	11,597
Net proceeds from stock issuance	1,496,461	15	—	—	143,990	—	—	144,005
Stock-based compensation	—	—	—	—	496	—	—	496
Exercise of stock options and issuance of share-based awards, net of shares withheld for employee taxes	191,226	2	—	—	786	—	—	788
Balance at June 30, 2021	26,507,655	$ 265	—	$ —	$ 697,070	$ 151,993	$ 21,179	$ 870,507

See accompanying notes to unaudited consolidated financial statements

SILVERGATE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Unaudited)

	Six Months Ended June 30,	
	2021	2020
Cash flows from operating activities		
Net income	$ 33,645	$ 9,859
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,277	1,570
Amortization of securities premiums and discounts, net	9,668	1,969
Amortization of loan premiums and discounts and deferred loan origination fees and costs, net	310	517
Stock-based compensation	786	400
Provision for loan losses	—	589
Originations/purchases of loans held-for-sale	(6,424,745)	(2,265,109)
Proceeds from sales of loans held-for-sale	6,542,129	2,308,940
Other gains, net	(1,892)	(6,383)
Other, net	882	734
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	(45,838)	(2,402)
Accrued expenses and other liabilities	7,179	384
Net cash provided by operating activities	123,401	51,068
Cash flows from investing activities		
Purchases of securities available-for-sale	(5,363,805)	(278,641)
Proceeds from sale of securities available-for-sale	—	216,355
Proceeds from paydowns and maturities of securities available-for-sale	87,583	21,482
Loan originations/purchases and payments, net	6,286	(155,778)
Proceeds from sale of loans held-for-sale previously classified as held-for-investment	—	36,400
Purchase of federal home loan and federal reserve bank stock, net	(14,610)	(3,235)
Purchase of premises and equipment	(176)	(665)
(Payments for) proceeds from derivative contracts, net	(22,613)	14,260
Other, net	—	109
Net cash used in investing activities	(5,307,335)	(149,713)
Cash flows from financing activities		
Net change in noninterest bearing deposits	6,157,059	219,469
Net change in interest bearing deposits	(33,529)	(363,215)
Net change in federal home loan bank advances	—	311,925
Payments made on notes payable	—	(3,714)
Proceeds from common stock issuance, net	567,545	—
Proceeds from stock option exercise	1,232	—
Taxes paid related to net share settlement of equity awards	(2,143)	(59)
Other, net	—	79
Net cash provided by financing activities	6,690,164	164,485
Net increase in cash and cash equivalents	1,506,230	65,840
Cash and cash equivalents, beginning of period	2,962,087	133,604
Cash and cash equivalents, end of period	$ 4,468,317	$ 199,444
Supplemental cash flow information:		
Cash paid for interest	$ 593	$ 6,785
Income taxes paid, net	3,347	3,076
Supplemental noncash disclosures:		
Loans held-for-investment transferred to loans held-for-sale	$ —	$ 30,792
Loans held-for-sale transferred to loans held-for-investment	—	5,098
Loans transferred to other real estate owned	—	51
Right-of-use assets obtained in exchange for new operating lease liabilities	77	—

See accompanying notes to unaudited consolidated financial statements

SILVERGATE CAPITAL CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Nature of Business and Summary of Significant Accounting Policies

Nature of Business

The accompanying consolidated financial statements include the accounts of Silvergate Capital Corporation, a Maryland corporation and its wholly-owned subsidiary, Silvergate Bank (the "Bank"), collectively referred to as (the "Company" or "Silvergate").

The Company's assets consist primarily of its investment in the Bank and its primary activities are conducted through the Bank. The Bank was incorporated in 1987 and commenced business in 1988 under the California Financial Code as an industrial bank. In February 2009 the Bank converted its charter to a California commercial bank, which gave it the added authority to accept demand deposits. The Company is a registered bank holding company that is subject to supervision by the Board of Governors of the Federal Reserve ("Federal Reserve"). The Bank is subject to regulation by the California Department of Financial Protection and Innovation, Division of Financial Institutions ("DFPI"), and, as a Federal Reserve member bank since 2012, the Federal Reserve Bank of San Francisco ("FRB"). The Bank's deposits are insured up to legal limits by the Federal Deposit Insurance Corporation ("FDIC").

On January 26, 2021, the Company completed its underwritten public offering of 4,563,493 shares of Class A common stock at a price of $63.00 per share, including 595,238 shares of Class A common stock upon the exercise in full by the underwriters of their option to purchase additional shares. The aggregate gross proceeds of the offering were $287.5 million and net proceeds to the Company were $272.4 million after deducting underwriting discounts and offering expenses.

On March 9, 2021, the Company entered into an equity distribution agreement pursuant to which the Company could issue and sell, from time to time, up to an aggregate gross sales price of $300.0 million of the Company's shares of Class A common stock through an "at-the-market" equity offering program, or ATM Offering. As of June 30, 2021, the Company had completed the ATM Offering with a total of 2,793,826 shares of Class A common stock sold at an average price of $107.38. The transactions resulted in net proceeds to the Company of $295.1 million after deducting commissions and expenses.

Financial Statement Preparation and Presentation

The accompanying interim consolidated financial statements have been prepared by the Company, without an audit, in accordance with the instructions to the Quarterly Report on Form 10-Q, and Rule 10-01 of Regulation S-X promulgated by the United States Securities and Exchange Commission (the "SEC") and, therefore, do not include all information and footnotes necessary for a fair presentation of its consolidated financial statements in accordance with accounting principles generally accepted in the United States ("GAAP").

In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments, consisting of only normal and recurring adjustments, necessary for a fair statement of the Company's consolidated financial statements. These consolidated statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2020, included in the Company's Annual Report on Form 10-K dated March 8, 2021. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

The consolidated financial statements include the accounts of the Company and all other entities in which it has a controlling financial interest. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless the context requires otherwise, all references to the Company include its wholly owned subsidiaries. The accounting and reporting policies of the Company are based upon GAAP and conform to predominant practices within the financial services industry.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the Company's financial statements and the accompanying notes. We evaluate estimates on an ongoing basis including the economic impact of Coronavirus Disease 2019 (or "COVID-19"). Actual results could materially differ from those estimates.

Recently issued accounting pronouncements not yet effective

In June 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update (or "ASU") 2016-13, Financial Instruments-Credit Losses (Topic 326) to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (or "CECL") model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held to maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. These amendments were initially effective for fiscal years beginning after December 15, 2019 for SEC registrants and after December 15, 2020, for Public Business Entities, or PBEs. In November 2019, the FASB issued ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates, which finalized the delay of the effective date for smaller reporting companies, such as the Company to apply the standards related to CECL, until fiscal years beginning after December 15, 2022. For debt securities with other than temporary impairment (OTTI), the guidance will be applied prospectively and for existing purchased credit impaired (PCI) assets will be grandfathered and classified as purchased credit deteriorated (PCD) assets at the date of adoption. The asset will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance. For all other assets with the scope of CECL, the cumulative effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective. In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, which clarify that receivables arising from operating leases are not within the scope of Subtopic 326-20. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with Topic 842, Leases. The Company formed a CECL implementation committee in 2018 which prepared a project plan to migrate towards the adoption date. As part of the project plan, the Company contracted a third-party vendor to assist in the application and analysis of ASU 2016-13 as well as a third party vendor to perform an independent model validation. As part of this process, the Company has determined preliminary loan pool segmentation under CECL, as well as evaluated the key economic loss drivers for each segment. The Company operationalized an initial CECL model during the second quarter of 2019 and is running this preliminary CECL model alongside the existing incurred loss methodology. The Company intends to continue to refine and run the model until the expected adoption date on January 1, 2023. The Company continues to evaluate the effects of ASU 2016-13 on its financial statements and disclosures.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting (or “ASU 2020-04”), which provides temporary, optional guidance to ease the potential burden in accounting for, or recognizing the effects of, the transition away from the London Interbank Offered Rate (or “LIBOR”) or other interbank offered rate (reference rates) on financial reporting. In the fourth quarter of 2020 the Office of the Comptroller of the Currency, amongst others, announced that the overnight and one, three, six and twelve month USD LIBOR will be discontinued on June 30, 2023. It was originally expected that LIBOR would be discontinued by the end of 2021. To help with the transition to new reference rates, the ASU provides optional expedients and exceptions for applying GAAP to affected contract modifications and hedge accounting relationships. The guidance is applicable only to contracts or hedge accounting relationships that reference LIBOR or another reference rate expected to be discontinued. The expedients and exceptions in this update are available to all entities starting March 12, 2020 through December 31, 2022. In January 2020, the FASB issued ASU 2021-01, Reference Rate Reform (Topic 848), which clarifies the scope of Topic 848 to include derivative instruments impacted by discounting transition. The Company has created a subcommittee of the Asset Liability Management Committee to address the LIBOR transition and phase-out issues. The Company has identified its LIBOR-based contracts that will be impacted by the transition away from of LIBOR, and is incorporating fallback language in negotiated contracts and incorporating non-LIBOR reference rate and/or fallback language in new contracts to prepare for these changes. The Company is evaluating the impact that ASU 2020-04 will have on those financial assets where LIBOR is used as an index rate.

Except for the updated standards discussed above, there have been no new accounting pronouncements not yet effective that have significance, or potential significance, to the Company’s consolidated financial statements.

Note 2—Securities

Trading

The Company engages in trading activities for its own account. Securities that are held principally for resale in the near term are recorded at fair value with changes in fair value included in earnings. Trading securities consists of U.S. Treasury Bills which had a fair value of $27.0 million at June 30, 2021. The carrying values of trading securities included an immaterial amount of net unrealized losses at June 30, 2021.

Available-for-sale

The fair value of available-for-sale securities and their related gross unrealized gains and losses at the dates indicated are as follows:

	Available-for-sale securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
June 30, 2021				
U.S. Treasuries	$ 331,154	$ 59	$ (118)	$ 331,095
U.S. agency securities - excluding mortgage-backed securities	578,524	4,210	(3,448)	579,286
Residential mortgage-backed securities:				
Government agency mortgage-backed securities	1,327,557	180	(7,921)	1,319,816
Government agency collateralized mortgage obligation	1,620,012	875	(7,225)	1,613,662
Private-label collateralized mortgage obligation	1,721	23	(22)	1,722
Commercial mortgage-backed securities:				
Government agency mortgage-backed securities	291,814	430	(1,306)	290,938
Government agency collateralized mortgage obligation	192,930	159	(168)	192,921
Private-label collateralized mortgage obligation	233,145	12,997	(423)	245,719
Municipal bonds:				
Tax-exempt	979,706	26,097	(2,064)	1,003,739
Taxable	356,291	1,901	(1,703)	356,489
Asset backed securities:				
Government sponsored student loan pools	241,532	402	(543)	241,391
	$ 6,154,386	$ 47,333	$ (24,941)	$ 6,176,778

	Available-for-sale securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
December 31, 2020				
Residential mortgage-backed securities:				
Government agency mortgage-backed securities	$ 5,701	$ 18	$ (55)	$ 5,664
Government agency collateralized mortgage obligation	197,978	371	(298)	198,051
Private-label collateralized mortgage obligation	20,544	399	(256)	20,687
Commercial mortgage-backed securities:				
Private-label collateralized mortgage obligation	164,214	18,322	—	182,536
Municipal bonds:				
Tax-exempt	246,159	24,200	—	270,359
Taxable	15,307	695	—	16,002
Asset backed securities:				
Government sponsored student loan pools	248,848	17	(3,149)	245,716
	$ 898,751	$ 44,022	$ (3,758)	$ 939,015

There were no investment securities pledged for borrowings or for other purposes as required or permitted by law as of June 30, 2021 and December 31, 2020.

Securities with unrealized losses as of the dates indicated, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Available-for-sale securities					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
June 30, 2021						
U.S. Treasuries	$ 109,685	$ (118)	$ —	$ —	$ 109,685	$ (118)
U.S. agency securities - excluding mortgage-backed securities	150,827	(3,448)	—	—	150,827	(3,448)
Residential mortgage-backed securities:						
Government agency mortgage-backed securities	1,140,512	(7,921)	72	—	1,140,584	(7,921)
Government agency collateralized mortgage obligation	834,135	(6,920)	149,922	(305)	984,057	(7,225)
Private-label collateralized mortgage obligation	—	—	699	(22)	699	(22)
Commercial mortgage-backed securities:						
Government agency mortgage-backed securities	159,881	(1,306)	—	—	159,881	(1,306)
Government agency collateralized mortgage obligation	124,052	(168)	—	—	124,052	(168)
Private-label collateralized mortgage obligation	35,539	(295)	7,839	(128)	43,378	(423)
Municipal bonds:						
Tax-exempt	325,553	(2,064)	—	—	325,553	(2,064)
Taxable	222,587	(1,703)	—	—	222,587	(1,703)
Asset backed securities:						
Government sponsored student loan pools	63,415	(85)	58,513	(458)	121,928	(543)
	$ 3,166,186	$ (24,028)	$ 217,045	$ (913)	$ 3,383,231	$ (24,941)

	Available-for-sale securities					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
December 31, 2020						
Residential mortgage-backed securities:						
Government agency mortgage-backed securities	$ 5,165	$ (55)	$ —	$ —	$ 5,165	$ (55)
Government agency collateralized mortgage obligation	120,912	(172)	56,976	(126)	177,888	(298)
Private-label collateralized mortgage obligation	290	(7)	9,950	(249)	10,240	(256)
Asset backed securities:						
Government sponsored student loan pools	—	—	240,825	(3,149)	240,825	(3,149)
	$ 126,367	$ (234)	$ 307,751	$ (3,524)	$ 434,118	$ (3,758)

As indicated in the tables above, as of June 30, 2021, the Company's investment securities had gross unrealized losses totaling approximately $24.9 million, compared to approximately $3.8 million at December 31, 2020. The Company analyzes all of its securities with an unrealized loss position. For each security, the Company analyzed the credit quality and performed a projected cash flow analysis. In analyzing the credit quality, management may consider whether the securities are issued by the federal government, its agencies or its sponsored entities, or non-governmental entities, whether downgrades by bond rating agencies have occurred, and if credit quality has deteriorated. When performing a cash flow analysis, the Company uses models that project prepayments, default rates, and loss severities on the collateral supporting the security, based on underlying loan level borrower and loan characteristics and interest rate assumptions. Based on these analyses and reviews conducted by the Company, and assisted by independent third parties, the Company determined that none of its securities required an other-than-temporary impairment charge at June 30, 2021. Management continues to expect to recover the adjusted amortized cost basis of these bonds.

As of June 30, 2021, the Company had 160 securities whose estimated fair value declined 0.73% from the Company's amortized cost; at December 31, 2020, the Company had 30 securities whose estimated fair value declined 0.86% from the Company's amortized cost. The Company's securities that have unrealized losses are due to widened credit spreads and changes in market interest rates since their purchase dates. Current unrealized losses are expected to recover as the securities approach their respective maturity dates. Management believes it will more than likely not be required to sell before recovery of the amortized cost basis.

There were no sales or calls of available-for-sale securities for the three and six months ended June 30, 2021. For the three months ended June 30, 2020 the Company received $202.3 million in proceeds and recognized a $3.5 million gain and $0.9 million loss on sales of available-for-sale securities. For the six months ended June 30, 2020 the Company received $216.4 million in proceeds and recognized a $4.7 million gain and $0.9 million loss on sales and calls of securities.

There were no credit losses associated with our securities portfolio recognized in earnings for the three and six months ended June 30, 2021 and 2020.

The amortized cost and estimated fair value of investment securities as of the periods presented by contractual maturity are shown below. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. For purposes of the following table, the entire outstanding balance of residential and commercial mortgage-backed securities is categorized based on the final maturity date.

	June 30, 2021		December 31, 2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Available-for-sale securities				
Within one year	$ —	$ —	$ —	$ —
After one year through five years	3,032	2,951	—	—
After five years through ten years	832,483	833,641	14,021	15,694
After ten years	5,318,871	5,340,186	884,730	923,321
Total	$ 6,154,386	$ 6,176,778	$ 898,751	$ 939,015

Note 3—Loans

The following disclosure reports the Company's loan portfolio segments and classes. Segments are groupings of similar loans at a level in which the Company has adopted systematic methods of documentation for determining its allowance for loan and credit losses. Classes are a disaggregation of the portfolio segments. The Company's loan portfolio segments are:

Real estate. Real estate loans includes loans for which the Company holds one-to-four family, multi-family, commercial and construction real property as collateral. Commercial real estate lending activity is primarily focused on investor properties that are owned by customers with a current banking relationship. The primary risks of real estate mortgage loans include the borrower's inability to pay, material decreases in the value of the real estate that is being held as collateral and significant increases in interest rates, which may make the real estate mortgage loan unprofitable. Real estate loans also may be adversely affected by conditions in the real estate markets or in the general economy.

Commercial and industrial. Commercial and industrial loans consist of loans and lines of credit to businesses that are generally collateralized by accounts receivable, inventory, equipment, loan and lease receivables, digital currency assets such as bitcoin and other commercial assets, and may be supported by other credit enhancements such as personal guarantees. Risks may arise from differences between expected and actual cash flows and/or liquidity levels of the borrowers, as well as the type of collateral securing these loans and the reliability of the conversion thereof to cash. Currently, commercial and industrial loans consist primarily of asset based loans. In January 2020, the Company began offering a new lending product called SEN Leverage, which allows Silvergate customers to obtain U.S. dollar loans collateralized by bitcoin held at select digital currency exchanges and other custodians. The outstanding balance of SEN Leverage loans was $203.4 million and $77.2 million at June 30, 2021 and December 31, 2020, respectively.

Reverse mortgage and other. From 2012 to 2014, the Company purchased home equity conversion mortgage ("HECM") loans (also known as reverse mortgage loans) which are a special type of home loan, for homeowners aged 62 years or older, that requires no monthly mortgage payments and allows the borrower to receive payments from the lender. Reverse mortgage loan insurance is provided by the U.S. Federal Housing Administration through the HECM program which protects lenders from losses due to non-repayment of the loans when the outstanding loan balance exceeds collateral value at the time the loan is required to be repaid. Other loans consist of consumer loans and loans secured by personal property.

Mortgage warehouse. The Company's mortgage warehouse lending division provides short-term interim funding for single-family residential mortgage loans originated by mortgage bankers or other lenders. The Company holds legal title to such loans from the date they are funded by the Company until the loans are sold to secondary market investors pursuant to pre-existing take out commitments, generally within a few weeks of origination, with loan sale proceeds applied to pay down Company funding. The Company's mortgage warehouse loans may either be held-for-investment or held-for-sale depending on the underlying contract. At June 30, 2021 and December 31, 2020, gross mortgage warehouse loans were approximately $798.5 million and $963.9 million, respectively.

A summary of loans as of the periods presented are as follows:

	June 30, 2021	December 31, 2020
	(Dollars in thousands)	
Real estate loans:		
One-to-four family	$ 144,247	$ 187,855
Multi-family	67,704	77,126
Commercial	272,948	301,901
Construction	5,481	6,272
Commercial and industrial	204,279	78,909
Reverse mortgage and other	1,364	1,495
Mortgage warehouse	49,897	97,903
Total gross loans held-for-investment	745,920	751,461
Deferred fees, net	1,151	2,206
Total loans held-for-investment	747,071	753,667
Allowance for loan losses	(6,916)	(6,916)
Total loans held-for-investment, net	$ 740,155	$ 746,751
Total loans held-for-sale(1)	$ 748,577	$ 865,961

(1) Loans held-for-sale are comprised entirely of mortgage warehouse loans for all periods presented.

At June 30, 2021 and December 31, 2020, approximately $491.7 million and $574.5 million, respectively, of the Company's gross loans held-for-investment was collateralized by various forms of real estate. A significant percentage of such loans are collateralized by properties located in California. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The Company monitors and manages concentrations of credit risk by making loans that are diversified by collateral type, placing limits on the amounts of various categories of loans relative to total Company capital, and conducting quarterly reviews of its portfolio by collateral type, geography, and other characteristics.

Recorded investment in loans excludes accrued interest receivable, loan origination fees, net and unamortized premium or discount, net due to immateriality. Accrued interest on loans held-for-investment totaled approximately $3.1 million and $2.7 million and deferred fees totaled approximately $1.2 million and $2.2 million at June 30, 2021 and December 31, 2020, respectively.

Allowance for Loan Losses

During the three months ended March 31, 2021, the Company updated the allowance for loan loss model to remove historical loss data which is no longer relevant for the commercial and industrial loan segment, reflecting the growth of digital collateralized loans that are now the majority of the loan segment balance. In addition, the Company added a COVID-19 loan modification qualitative factor adjustment to the commercial and one-to-four family real estate loan segments to recognize the modifications granted over the previous twelve months and additional risks of default in these loan segments.

The following tables present the allocation of the allowance for loan losses, as well as the activity in the allowance by loan class, and recorded investment in loans held-for-investment as of and for the periods presented:

	Three Months Ended June 30, 2021							
	One-to -Four Family	Multi-Family	Commercial Real Estate	Construction	Commercial and Industrial	Reverse Mortgage and Other	Mortgage Warehouse	Total
	(Dollars in thousands)							
Balance, March 31, 2021	$ 1,634	$ 828	$ 3,251	$ 493	$ 360	$ 18	$ 332	$ 6,916
Charge-offs	—	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—	—	—
Provision for loan losses	(375)	(85)	(313)	19	885	(7)	(124)	—
Balance, June 30, 2021	$ 1,259	$ 743	$ 2,938	$ 512	$ 1,245	$ 11	$ 208	$ 6,916

	Three Months Ended June 30, 2020							
	One-to -Four Family	Multi-Family	Commercial Real Estate	Construction	Commercial and Industrial	Reverse Mortgage and Other	Mortgage Warehouse	Total
	(Dollars in thousands)							
Balance, March 31, 2020	$ 1,971	$ 689	$ 2,957	$ 258	$ 426	$ 39	$ 218	$ 6,558
Charge-offs	(17)	—	—	—	—	—	—	(17)
Recoveries	—	—	—	—	—	—	—	—
Provision for loan losses	(440)	133	(1,010)	760	337	1	441	222
Balance, June 30, 2020	$ 1,514	$ 822	$ 1,947	$ 1,018	$ 763	$ 40	$ 659	$ 6,763

	Six Months Ended June 30, 2021							
	One-to -Four Family	Multi-Family	Commercial Real Estate	Construction	Commercial and Industrial	Reverse Mortgage and Other	Mortgage Warehouse	Total
	(Dollars in thousands)							
Balance, December 31, 2020	$ 1,245	$ 878	$ 1,810	$ 590	$ 1,931	$ 39	$ 423	$ 6,916
Charge-offs	—	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—	—	—
Provision for loan losses	14	(135)	1,128	(78)	(686)	(28)	(215)	—
Balance, June 30, 2021	$ 1,259	$ 743	$ 2,938	$ 512	$ 1,245	$ 11	$ 208	$ 6,916

	Six Months Ended June 30, 2020							
	One-to -Four Family	Multi-Family	Commercial Real Estate	Construction	Commercial and Industrial	Reverse Mortgage and Other	Mortgage Warehouse	Total
	(Dollars in thousands)							
Balance, December 31, 2019	$ 2,051	$ 653	$ 2,791	$ 96	$ 312	$ 38	$ 250	$ 6,191
Charge-offs	(17)	—	—	—	—	—	—	(17)
Recoveries	—	—	—	—	—	—	—	—
Provision for loan losses	(520)	169	(844)	922	451	2	409	589
Balance, June 30, 2020	$ 1,514	$ 822	$ 1,947	$ 1,018	$ 763	$ 40	$ 659	$ 6,763

	June 30, 2021							
	One-to -Four Family	Multi-Family	Commercial Real Estate	Construction	Commercial and Industrial	Reverse Mortgage and Other	Mortgage Warehouse	Total
	(Dollars in thousands)							
Amount of allowance attributed to:								
Specifically evaluated impaired loans	$ 11	$ —	$ —	$ —	$ —	$ —	$ —	$ 11
General portfolio allocation	1,248	743	2,938	512	1,245	11	208	6,905
Total allowance for loan losses	$ 1,259	$ 743	$ 2,938	$ 512	$ 1,245	$ 11	$ 208	$ 6,916
Loans evaluated for impairment:								
Specifically evaluated	$ 7,302	$ —	$ 9,941	$ —	$ 199	$ 884	$ —	$ 18,326
Collectively evaluated	136,945	67,704	263,007	5,481	204,080	480	49,897	727,594
Total gross loans held-for-investment	$ 144,247	$ 67,704	$ 272,948	$ 5,481	$ 204,279	$ 1,364	$ 49,897	$ 745,920

	December 31, 2020							
	One-to -Four Family	Multi-Family	Commercial Real Estate	Construction	Commercial and Industrial	Reverse Mortgage and Other	Mortgage Warehouse	Total
	(Dollars in thousands)							
Amount of allowance attributed to:								
Specifically evaluated impaired loans	$ 11	$ —	$ —	$ —	$ —	$ 29	$ —	$ 40
General portfolio allocation	1,234	878	1,810	590	1,931	10	423	6,876
Total allowance for loan losses	$ 1,245	$ 878	$ 1,810	$ 590	$ 1,931	$ 39	$ 423	$ 6,916
Loans evaluated for impairment:								
Specifically evaluated	$ 5,780	$ —	$ 9,722	$ —	$ 274	$ 869	$ —	$ 16,645
Collectively evaluated	182,075	77,126	292,179	6,272	78,635	626	97,903	734,816
Total gross loans held-for-investment	$ 187,855	$ 77,126	$ 301,901	$ 6,272	$ 78,909	$ 1,495	$ 97,903	$ 751,461

Impaired Loans

The following tables provide a summary of the Company’s investment in impaired loans as of and for the periods presented:

	June 30, 2021		
	Unpaid Principal Balance	Recorded Investment	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded:			
Real estate loans:			
One-to-four family	$ 7,958	$ 7,239	$ —
Commercial	9,941	9,941	—
Commercial and industrial	199	199	—
Reverse mortgage and other	884	884	—
	18,982	18,263	—
With an allowance recorded:			
Real estate loans:			
One-to-four family	63	63	11
	63	63	11
Total impaired loans	$ 19,045	$ 18,326	$ 11

	December 31, 2020		
	Unpaid Principal Balance	Recorded Investment	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded:			
Real estate loans:			
One-to-four family	$ 6,432	$ 5,716	$ —
Commercial	9,723	9,722	—
Commercial and industrial	274	274	—
Reverse mortgage and other	523	523	—
	16,952	16,235	—
With an allowance recorded:			
Real estate loans:			
One-to-four family	64	64	11
Reverse mortgage and other	346	346	29
	410	410	40
Total impaired loans	$ 17,362	$ 16,645	$ 40

	Three Months Ended June 30,			
	2021		2020	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
With no related allowance recorded:				
Real estate loans:				
One-to-four family	$ 6,931	$ 63	$ 3,390	$ 71
Commercial	9,904	133	1,941	22
Commercial and industrial	212	4	2,043	31
Reverse mortgage and other	880	—	515	—
	17,927	200	7,889	124
With an allowance recorded:				
Real estate loans:				
One-to-four family	365	2	65	2
Reverse mortgage and other	—	—	340	—
	365	2	405	2
Total impaired loans	$ 18,292	$ 202	$ 8,294	$ 126

	Six Months Ended June 30,			
	2021		2020	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
With no related allowance recorded:				
Real estate loans:				
One-to-four family	$ 5,955	$ 140	$ 3,560	$ 97
Commercial	9,849	261	1,941	43
Commercial and industrial	230	9	2,186	72
Reverse mortgage and other	748	—	513	—
	16,782	410	8,200	212
With an allowance recorded:				
Real estate loans:				
One-to-four family	215	3	65	3
Reverse mortgage and other	129	—	340	—
	344	3	405	3
Total impaired loans	$ 17,126	$ 413	$ 8,605	$ 215

For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs. Cash basis interest income is not materially different than interest income recognized.

Nonaccrual and Past Due Loans

Nonperforming loans include individually evaluated impaired loans, loans for which the accrual of interest has been discontinued and loans 90 days or more past due and still accruing interest.

The following tables present by loan class the aging analysis based on contractual terms, nonaccrual loans, and the Company's recorded investment in loans held-for-investment as of the periods presented:

	June 30, 2021							
	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Current	Total	Nonaccruing	Loans Receivable > 89 Days and Accruing
	(Dollars in thousands)							
Real estate loans:								
One-to-four family	$ 2,202	$ 360	$ 5,047	$ 7,609	$ 136,638	$ 144,247	$ 6,624	$ —
Multi-family	1,984	—	—	1,984	65,720	67,704	—	—
Commercial	—	—	—	—	272,948	272,948	—	—
Construction	—	—	—	—	5,481	5,481	—	—
Commercial and industrial	—	—	—	—	204,279	204,279	—	—
Reverse mortgage and other	—	—	—	—	1,364	1,364	884	—
Mortgage warehouse	—	—	—	—	49,897	49,897	—	—
Total gross loans held-for-investment	$ 4,186	$ 360	$ 5,047	$ 9,593	$ 736,327	$ 745,920	$ 7,508	$ —

	December 31, 2020							
	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Current	Total	Nonaccruing	Loans Receivable > 89 Days and Accruing
	(Dollars in thousands)							
Real estate loans:								
One-to-four family	$ 992	$ 85	$ 3,820	$ 4,897	$ 182,958	$ 187,855	$ 4,113	$ —
Multi-family	206	—	—	206	76,920	77,126	—	—
Commercial	—	—	—	—	301,901	301,901	—	—
Construction	—	—	—	—	6,272	6,272	—	—
Commercial and industrial	—	—	—	—	78,909	78,909	—	—
Reverse mortgage and other	—	—	—	—	1,495	1,495	869	—
Mortgage warehouse	—	—	—	—	97,903	97,903	—	—
Total gross loans held-for-investment	$ 1,198	$ 85	$ 3,820	$ 5,103	$ 746,358	$ 751,461	$ 4,982	$ —

Troubled Debt Restructurings

A loan is identified as a troubled debt restructuring ("TDR") when a borrower is experiencing financial difficulties and, for economic or legal reasons related to these difficulties, the Company grants a concession to the borrower in the restructuring that it would not otherwise consider. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. The Company has granted a concession when, as a result of the restructuring, it does not expect to collect all amounts due or within the time periods originally due under the original contract, including one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a temporary forbearance with regard to the payment of principal or interest. All troubled debt restructurings are reviewed for potential impairment. Generally, a nonaccrual loan that is restructured remains on nonaccrual status for a minimum period of six months to demonstrate that the borrower can perform under the restructured terms. If the borrower's performance under the new terms is not reasonably assured, the loan remains classified as a nonaccrual loan. Loans classified as TDRs are reported as impaired loans.

As of June 30, 2021 and December 31, 2020, the Company had a recorded investment in TDRs of $1.4 million and $1.5 million, respectively. The Company has allocated $11,000 of specific allowance for those loans at June 30, 2021 and $11,000 December 31, 2020. The Company has not committed to lend additional amounts to these TDRs. No loans were modified as TDRs during the three and six months ended June 30, 2021 or 2020.

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms. There were no loans modified as TDRs for which there was a payment default within twelve months during the three and six months ended June 30, 2021 or 2020. There was no provision for loan loss or charge-offs for TDR's that subsequently defaulted during the three and six months ended June 30, 2021 or 2020.

COVID-19 Related Modifications

In March 2020, Section 4013 of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") addressed COVID-19 related modifications and specified that such modifications made on loans that were current as of December 31, 2019 are not TDRs. In December 2020, CARES Act was extended to allow eligible loan modifications until the earlier of January 1, 2022 or the date that is 60 days after the termination date of the national emergency. In accordance with interagency guidance issued in April 2020, short-term modifications made to a borrower affected by the COVID-19 pandemic and governmental shutdown orders, such as payment deferrals, fee waivers and extensions of repayment terms, do not need to be identified as TDRs if the loans were current at the time a modification plan was implemented. The Company elected to adopt the provisions of the CARES Act for modifications that meet the requirements described above.

In April 2020, the Company implemented a short-term loan modification program for customers impacted financially by the COVID-19 pandemic to provide temporary relief to certain borrowers who meet the program's qualifications. The program was offered to borrowers to modify their existing loans to temporarily defer principal and/or interest payments for a specified period of time, extend loan maturity dates and/or waive certain loan covenants. Deferred payments may be extended for continued hardship, on a case by case basis, where COVID-19 related issues continue to persist. Due to the fluid nature of COVID-19, this program has been evolving in order to provide maximum relief to bank borrowers. The majority of short-term loan modifications for commercial real estate loan borrowers consist of deferred payments which may include principal, interest and escrow. Deferred interest is capitalized to the loan balance and deferred principal is added to the maturity or payoff date. For one-to-four family residential real estate loans, the majority of short-term modifications consist of deferring full monthly payment of principal, interest and escrow, with deferred payments due at maturity or payoff of the loan. Loans qualifying for these modifications are not required to be reported as a TDR, delinquent, nonaccrual, impaired or criticized solely as a result of a COVID-19 loan modification for the months of payment deferrals. Borrowers considered current are those that are less than 30 days past due on their modified contractual payments. None of the modified loans met the criteria of a TDR under the CARES Act or the related interagency statement.

As of June 30, 2021, loans representing $23.4 million in loan balances, or 3.1% of total gross loans held-for-investment, were still under modification, deferring a portion or all of the contractual payments.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. This analysis typically includes larger, nonhomogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. The Company uses the following definitions for risk ratings:

Pass:	Loans in all classes that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. Management believes that there is a low likelihood of loss related to those loans that are considered pass.
Special mention:	Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
Substandard:	Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.
Doubtful:	Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.
Loss:	Credits rated as loss are charged-off. Management has no expectation of the recovery of any payments in respect of credits rated as loss.

The following tables present by portfolio class the Company's internal risk grading system as well as certain other information concerning the credit quality of the Company's recorded investment in loans held-for-investment as of the periods presented. No assets were classified as loss or doubtful during the periods presented.

	Credit Risk Grades				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
June 30, 2021					
Real estate loans:					
One-to-four family	$ 136,208	$ 1,415	$ 6,624	$ —	$ 144,247
Multi-family	67,704	—	—	—	67,704
Commercial	250,448	14,514	7,986	—	272,948
Construction	5,481	—	—	—	5,481
Commercial and industrial	204,080	—	199	—	204,279
Reverse mortgage and other	480	—	884	—	1,364
Mortgage warehouse	49,897	—	—	—	49,897
Total gross loans held-for-investment	$ 714,298	$ 15,929	$ 15,693	$ —	$ 745,920

	Credit Risk Grades				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
December 31, 2020					
Real estate loans:					
One-to-four family	$ 180,458	$ 3,284	$ 4,113	$ —	$ 187,855
Multi-family	77,126	—	—	—	77,126
Commercial	288,309	5,825	7,767	—	301,901
Construction	6,272	—	—	—	6,272
Commercial and industrial	78,635	—	274	—	78,909
Reverse mortgage and other	626	—	869	—	1,495
Mortgage warehouse	97,903	—	—	—	97,903
Total gross loans held-for-investment	$ 729,329	$ 9,109	$ 13,023	$ —	$ 751,461

Related Party Loans

The Company had related party loans with an outstanding balance of $5.0 million as of June 30, 2021 and December 31, 2020. During the six months ended June 30, 2021, the Company advanced $2.0 million of related party loans and received $2.0 million in principal payments.

Note 4—FHLB Advances and Other Borrowings

Federal Home Loan Bank ("FHLB") Advances

The following table sets forth certain information on our FHLB advances during the period presented:

	Six Months Ended June 30, 2021	Year Ended December 31, 2020
	(Dollars in thousands)	
Amount outstanding at period-end	$ —	$ —
Weighted average interest rate at period-end	—	—
Maximum month-end balance during the period	$ —	$ 360,000
Average balance outstanding during the period	$ —	$ 68,522
Weighted average interest rate during the period	—	0.50 %

FHLB advances are secured with eligible collateral consisting of certain real estate loans. Advances from the FHLB are subject to the FHLB's collateral and underwriting requirements, and as of June 30, 2021 and December 31, 2020, were limited in the aggregate to 35% of the Company's total assets. Loans with carrying values of approximately $1.2 billion and $1.5 billion were pledged to the FHLB as of June 30, 2021 and December 31, 2020, respectively. Unused borrowing capacity based on the lesser of the percentage of total assets and pledged collateral was approximately $730.2 million and $893.0 million as of June 30, 2021 and December 31, 2020, respectively.

FRB Advances

The Company is also approved to borrow through the Discount Window of the Federal Reserve Bank of San Francisco on a collateralized basis without any fixed dollar limit. Loans with a carrying value of approximately $6.2 million and $6.3 million were pledged to the FRB at June 30, 2021 and December 31, 2020, respectively. The Company's borrowing capacity under the Federal Reserve's discount window program was approximately $5.0 million and $4.8 million as of June 30, 2021 and December 31, 2020, respectively. At June 30, 2021 and December 31, 2020, there were no borrowings outstanding under any of these lines.

Federal Funds Purchased

The Company may borrow up to an aggregate $108.0 million, overnight on an unsecured basis, from two of its correspondent banks. Access to these funds is subject to liquidity availability, market conditions and any negative material change in the Company's credit profile. As of June 30, 2021 and December 31, 2020, the Company had no outstanding balance of federal funds purchased.

Note 5—Subordinated Debentures, Net

A trust formed by the Company issued $12.5 million of floating rate trust preferred securities in July 2001 as part of a pooled offering of such securities. The Company issued subordinated debentures to the trust in exchange for its proceeds from the offering. The debentures and related accrued interest represent substantially all of the assets of the trust. The subordinated debentures bear interest at six-month LIBOR plus 375 basis points, which adjusts every six months in January and July of each year. Interest is payable semiannually. At June 30, 2021, the interest rate for the Company's next scheduled payment was 3.98%, based on six-month LIBOR of 0.23%. On any January 25 or July 25 the Company may redeem the 2001 subordinated debentures at 100% of principal amount plus accrued interest. The 2001 subordinated debentures mature on July 25, 2031.

A second trust formed by the Company issued $3.0 million of trust preferred securities in January 2005 as part of a pooled offering of such securities. The Company issued subordinated debentures to the trust in exchange for its proceeds from the offering. The debentures and related accrued interest represent substantially all of the assets of the trust. The subordinated debentures bear interest at three-month LIBOR plus 185 basis points, which adjusts every three months. Interest is payable quarterly. At June 30, 2021, the interest rate for the Company's next scheduled payment was 1.97%, based on three-month LIBOR of 0.12%. On the 15th day of any March, June, September, or December, the Company may redeem the 2005 subordinated debentures at 100% of principal amount plus accrued interest. The 2005 subordinated debentures mature on March 15, 2035.

The Company also retained a 3% minority interest in each of these trusts which is included in subordinated debentures. The balance of the equity in the trusts is comprised of mandatorily redeemable preferred securities. The subordinated debentures may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The Company has the right to defer interest payments on the subordinated debentures from time to time for a period not to exceed five years.

The outstanding balance of the subordinated debentures was $15.8 million, net of $0.1 million unamortized debt issuance cost as of June 30, 2021 and $15.8 million, net of $0.1 million unamortized debt issuance costs as of December 31, 2020.

Note 6—Derivative and Hedging Activities

The Company is exposed to certain risks relating to its ongoing business operations. The Company utilizes interest rate derivatives as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the derivative does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual derivative agreements. In accordance with accounting guidance, changes in the fair value of derivatives designated and that qualify as cash flow hedges are initially recorded in other comprehensive income ("OCI"), reclassified into earnings in the same period or periods during which the hedged transaction affects earnings and is presented in the same income statement line item as the earnings effect of the hedged item. The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transactions. For cash flow and fair value hedges, the initial fair value of hedge components excluded from the assessment of effectiveness is recognized in earnings under a systematic and rational method over the life of the hedging instrument and is presented in the same income statement line item as the earnings effect of the hedged item. Any difference between the change in the fair value of the hedge components excluded from the assessment of effectiveness and the amounts recognized in earnings is recorded as a component of other comprehensive income. For a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. The changes in fair value of the hedged item is recorded as a basis adjustment to the hedged assets or liabilities. The amount included as basis adjustments would be reclassified to current earnings on a straight-line basis over the original life of the hedged item should the hedges no longer be considered effective.

Interest rate swaps. In 2020, the Company entered into two pay-fixed/receive floating rate interest rate swaps (the "Swap Agreements") for a notional amount of $14.3 million that were designated as fair value hedges of certain available-for-sale securities. The Swap Agreements were determined to be fully effective during the periods presented and therefore no amount of ineffectiveness has been included in net income. The Swap Agreements are based on three-month LIBOR and expire in 2030 and 2031. The Company expects the Swap Agreements to remain effective during the remaining term of the Swap Agreements. The Company may receive collateral or may be required to post collateral based upon the market valuation. As of June 30, 2021, the Company held $0.3 million in cash collateral posted by the counterparty.

Interest rate floors. In 2019, the Company entered into 20 interest rate floor agreements (the "Floor Agreements") for a total notional amount of $400.0 million to hedge cash flow receipts on cash and securities or loans, if needed. The original Floor Agreements expire on various dates in April 2024 and July 2029. The Company utilizes one-month LIBOR and three-month LIBOR interest rate floors as hedges against adverse changes in cash flows on the designated cash, securities or loans attributable to fluctuations in the federal funds rate or three-month LIBOR below 2.50% or 2.25%, as applicable. The Floor Agreements were determined to be fully effective during all periods presented and, as such, no amount of ineffectiveness has been included in net income. The upfront fee paid to the counterparty in entering into these Floor Agreements was approximately $20.8 million. During the three months ended March 31, 2020, the Company sold $200.0 million of its total $400.0 million notional amount of interest rate floors for $13.0 million, which resulted in a net gain of $8.4 million, to be recognized over the weighted average remaining term of 4.1 years. The remaining agreements are one-month LIBOR floors with a strike price of 2.25% and expire in July 2029.

Interest rate caps. In 2021, the Company entered into 26 interest rate cap agreements with a total notional amount of $552.8 million ("Federal Funds Rate Cap Agreements"). The Federal Funds Rate Cap Agreements are designated as fair value hedges against changes in the fair value of certain fixed rate tax-exempt municipal bonds. The Company utilizes the interest rate caps as hedges against adverse changes in interest rates on the designated securities attributable to fluctuations in the federal funds rate above 2.00%, as applicable. An increase in the benchmark interest rate hedged reduces the fair value of these assets. The Federal Funds Rate Cap Agreements expire on various dates from 2027 to 2032. The upfront fee paid to the counterparties was approximately $24.7 million. The Company expects the Federal Funds Rate Cap Agreements to remain effective during the remaining term of the respective agreements.

In 2012, the Company entered into a $12.5 million and a $3.0 million notional forward interest rate cap agreement (the "LIBOR Cap Agreements") to hedge its variable rate subordinated debentures. The LIBOR Cap Agreements expire July 25, 2022 and March 15, 2022, respectively. The Company utilizes interest rate caps as hedges against adverse changes in cash flows on the designated preferred trusts attributable to fluctuations in three-month LIBOR beyond 0.50% for the $3.0 million subordinated debenture and six-month LIBOR beyond 0.75% for the $12.5 million subordinated debenture. The Cap Agreements were determined to be fully effective during all periods presented and, as such, no amount of ineffectiveness has been included in net income. The upfront fee paid to the counterparty in entering into these LIBOR Cap Agreements was approximately $2.5 million.

The table below presents the fair value of the Company's derivative financial instruments as well as the classification within the consolidated statements of financial condition.

	June 30, 2021		December 31, 2020	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(Dollars in thousands)			
Derivatives designated as hedging instruments:				
Cash flow hedge interest rate floor	Derivative assets	$ 22,889	Derivative assets	$ 30,766
Cash flow hedge interest rate cap	Derivative assets	—	Derivative assets	—
Fair value hedge interest rate swap	Derivative assets	923	Derivative assets	338
Fair value hedge interest rate cap	Derivative assets	15,642	Derivative assets	—

The following table presents the cumulative basis adjustments on hedged items designated as fair value hedges and the related amortized cost of those items as of the periods presented.

	Carrying Amount of the Hedged Asset (Liability)		Cumulative Amount of Fair Value Hedging Adjustments Included in the Carrying Amount of Hedged Assets/(Liabilities)	
	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
	(Dollars in thousands)			
Line Item in the Statement of Financial Condition of Hedged Item:				
Securities available-for-sale	$ 696,769	$ 15,367	$ (923)	$ (278)

The following table summarizes the effects of derivatives in cash flow and fair value hedging relationships designated as hedging instruments on the Company's OCI and consolidated statements of operations for the periods presented.

	Amount of Gain (Loss) Recognized in OCI		Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income	
	Three Months Ended June 30,			Three Months Ended June 30,	
	2021	2020		2021	2020
			(Dollars in thousands)		
Derivatives designated as hedging instruments:					
Cash flow hedge interest rate floor	$ 305	$ 638	Interest income - Other interest earning assets	$ 140	$ 350
Cash flow hedge interest rate floor	1,221	2,552	Interest income - Taxable securities	1,073	671
Cash flow hedge interest rate cap	—	(13)	Interest expense - Subordinated debentures	(101)	(65)
Fair value hedge interest rate cap(1)	(8,998)	—			

	Amount of Gain (Loss) Recognized in OCI		Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income	
	Six Months Ended June 30,			Six Months Ended June 30,	
	2021	2020		2021	2020
			(Dollars in thousands)		
Derivatives designated as hedging instruments:					
Cash flow hedge interest rate floor	$ (1,145)	$ 6,734	Interest income - Other interest earning assets	$ 276	$ 475
Cash flow hedge interest rate floor	(4,579)	20,218	Interest income - Taxable securities	2,125	788
Cash flow hedge interest rate cap	—	(293)	Interest expense - Subordinated debentures	(200)	(120)
Fair value hedge interest rate cap(1)	(8,623)	—			

(1) Represents amounts excluded from the assessment of effectiveness for which the difference between changes in fair value and periodic amortization is recorded in other comprehensive income.

The Company estimates that approximately $4.8 million of net derivative gain for cash flow hedges included in OCI will be reclassified into earnings within the next 12 months. No gain or loss was reclassified from OCI into earnings as a result of forecasted transactions that failed to occur during the periods presented.

The following table presents the effect of fair value hedge accounting on the Company's consolidated statements of operations for the periods presented.

	Location and Amount of Gain or (Loss) Recognized in Income on Fair Value Hedging Relationships			
	Three Months Ended June 30,			
	2021		2020	
	Interest income - Taxable securities	Interest income - Tax-exempt securities	Interest income - Taxable securities	Interest income - Tax-exempt securities
	(Dollars in thousands)			
Total interest income presented in the statement of operations in which the effects of fair value hedges are recorded	$ 8,324	$ 3,123	$ 4,123	$ 1,577
Effects of fair value hedging relationships				
Interest rate contracts:				
Hedged items	$ 487	$ 743	$ —	$ —
Derivatives designated as hedging instruments	(496)	(743)	—	—
Amount excluded from effectiveness testing recognized in earnings based on amortization approach	—	(454)	—	—

	Location and Amount of Gain or (Loss) Recognized in Income on Fair Value Hedging Relationships			
	Six Months Ended June 30,			
	2021		2020	
	Interest income - Taxable securities	Interest income - Tax-exempt securities	Interest income - Taxable securities	Interest income - Tax-exempt securities
	(Dollars in thousands)			
Total interest income presented in the statement of operations in which the effects of fair value hedges are recorded	$ 11,916	$ 4,818	$ 10,171	$ 1,625
Effects of fair value hedging relationships				
Interest rate contracts:				
Hedged items	$ (585)	$ —	$ —	$ —
Derivatives designated as hedging instruments	557	—	—	—
Amount excluded from effectiveness testing recognized in earnings based on amortization approach	—	(479)	—	—

Note 7—Income Taxes

Comparison of the federal statutory income tax rates to the Company's effective income tax rates for the periods presented are as follows:

	Three Months Ended June 30,			
	2021		2020	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
Statutory federal tax	$ 4,396	21.0 %	$ 1,531	21.0 %
State tax, net of federal benefit	341	1.6 %	613	8.4 %
Tax credits	(16)	(0.1)%	(67)	(0.9)%
Tax-exempt income	(405)	(1.9)%	(247)	(3.4)%
Excess tax benefit from stock-based compensation	(4,046)	(19.3)%	(20)	(0.3)%
Other items, net	(272)	(1.3)%	16	0.2 %
Actual tax (benefit) expense	$ (2)	0.0 %	$ 1,826	25.0 %

	Six Months Ended June 30,					
	2021			2020		
		Amount	Rate		Amount	Rate
		(Dollars in thousands)				
Statutory federal tax	$	6,811	21.0 %	$	2,826	21.0 %
State tax, net of federal benefit		(110)	(0.3)%		1,107	8.2 %
Tax credits		(57)	(0.2)%		(123)	(0.9)%
Tax-exempt income		(752)	(2.3)%		(247)	(1.8)%
Excess tax benefit from stock-based compensation		(7,049)	(21.7)%		(20)	(0.2)%
Other items, net		(56)	(0.2)%		57	0.4 %
Actual tax (benefit) expense	$	(1,213)	(3.7)%	$	3,600	26.7 %

Income tax benefit was $2,000 for the three months ended June 30, 2021 compared to an expense of $1.8 million for the three months ended June 30, 2020. The effective tax rates for the three months ended June 30, 2021 and 2020 were zero and 25.0%, respectively. Income tax benefit was $1.2 million for the six months ended June 30, 2021 compared to an expense of $3.6 million for the six months ended June 30, 2020. The effective tax rates for the six months ended June 30, 2021 and 2020 were (3.7)% and 26.7%, respectively. The decreases in the income tax expense and the Company's effective tax rate were primarily related to excess tax benefit from stock-based compensation and tax-exempt income earned on certain municipal bonds.

The deferred tax liability balance as of June 30, 2021 was $6.4 million compared to $15.4 million as of December 31, 2020. The primary change in balance was due to the decrease in unrealized gains on available-for-sale securities portfolio and derivative assets.

Note 8 —Commitments and Contingencies

Off-Balance Sheet Items

In the normal course of business, the Company enters into various transactions, which, in accordance with GAAP, are not included in the consolidated statements of financial condition. The Company enters into these transactions to meet the financing needs of its customers. These transactions include commitments to extend credit and issue letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk exceeding the amounts recognized on the consolidated statements of financial condition. The Company's exposure to credit loss is represented by the contractual amounts of these commitments. The same credit policies and procedures are used in making these commitments as for on-balance sheet instruments. The Company is not aware of any accounting loss to be incurred by funding these commitments, however, an allowance for off-balance sheet credit risk is recorded in other liabilities on the statements of financial condition. The allowance for these commitments amounted to approximately $0.3 million and $0.1 million at June 30, 2021 and December 31, 2020, respectively.

The Company's commitments associated with outstanding letters of credit and commitments to extend credit expiring by period as of the date indicated are summarized below. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

		June 30, 2021		December 31, 2020
		(Dollars in thousands)		
Unfunded lines of credit	$	100,394	$	49,487
Letters of credit		425		133
Total credit extension commitments	$	100,819	$	49,620

Unfunded lines of credit represent unused credit facilities to the Company's current borrowers that represent no change in credit risk that exist in the Company's portfolio. Lines of credit generally have variable interest rates. Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. In the event of nonperformance by the customer in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, the Company would be entitled to seek recovery from the client from the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, bitcoin, cash and/or marketable securities. The Company's policies generally require that letter of credit arrangements contain security and debt covenants like those contained in loan agreements and our credit risk associated with issuing letters of credit is essentially the same as the risk involved in extending loan facilities to customers.

The Company minimizes its exposure to loss under letters of credit and credit commitments by subjecting them to the same credit approval and monitoring procedures used for on-balance sheet instruments. The effect on the Company's revenue, expenses, cash flows and liquidity of the unused portions of these letters of credit commitments cannot be precisely predicted because there is no guarantee that the lines of credit will be used.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract, for a specific purpose. Commitments generally have variable interest rates, fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company is based on management's credit evaluation of the customer.

Litigation

The Company is involved in various matters of litigation which have arisen in the ordinary course of its business. In the opinion of management, the disposition of such pending litigation will not have a material adverse effect on the Company's financial statements.

Note 9—Stock-based Compensation

In June 2018, the Company adopted the 2018 Equity Compensation Plan, or 2018 Plan, that permits the Compensation Committee, in its sole discretion, to grant various forms of incentive awards. Under the 2018 Plan, the Compensation Committee has the power to grant stock options, stock appreciation rights, or SARs, restricted stock and restricted stock units. The number of shares that may be issued pursuant to awards under the 2018 Plan is 1,596,753.

In accordance with authoritative guidance for stock-based compensation, compensation expense is recognized only for those shares expected to vest, based on the Company's historical experience and future expectations. The Company has elected a policy of estimating expected forfeitures.

Total stock-based compensation expense was $0.5 million and $0.2 million for the three months ended June 30, 2021 and 2020, respectively. Total stock-based compensation expense was $0.8 million and $0.4 million for the six months ended June 30, 2021 and 2020, respectively.

A summary of stock option activity as of June 30, 2021 and changes during the six months ended June 30, 2021 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2021	595,303	$ 8.01		
Granted	18,585	127.56		
Exercised	(335,956)	4.60		
Forfeited or expired	(6,932)	16.09		
Outstanding at June 30, 2021	271,000	$ 14.03	6.6 years	$ 25,491
Exercisable at June 30, 2021	135,427	$ 9.11	4.7 years	$ 14,113
Vested or Expected to Vest at June 30, 2021	257,836	$ 19.77	6.5 years	$ 24,363

As of June 30, 2021, there was $1.3 million of total unrecognized compensation cost related to nonvested stock options which is expected to be recognized over a weighted-average period of 2.6 years.

Restricted Stock Units

A summary of the status of the Company's nonvested restricted stock unit awards as of June 30, 2021, and changes during the six months ended June 30, 2021, is presented below:

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested at January 1, 2021	58,690	$ 15.61
Granted	31,788	$ 121.61
Vested	(14,686)	$ 14.60
Forfeited	(2,999)	$ 42.26
Nonvested at June 30, 2021	72,793	$ 61.00

At June 30, 2021, there was approximately $3.4 million of total unrecognized compensation expense related to nonvested restricted stock unit awards, which is expected to be recognized over a weighted-average period of 2.5 years.

Note 10—Regulatory Capital

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. As of January 1, 2019, the capital conservation buffer had fully phased in to 2.50%. Inclusive of the fully phased-in capital conservation buffer, the common equity tier 1 capital ratio, tier 1 risk-based capital ratio and total risk-based capital ratio minimums are 7.00%, 8.50% and 10.50%, respectively. The net unrealized gain or loss on available for sale securities and derivatives are not included in computing regulatory capital. Management believes, as of June 30, 2021, the Company and the Bank met all capital adequacy requirements to which they were subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. For the periods presented, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual capital amounts and ratios for the Company and the Bank as of June 30, 2021 and December 31, 2020, are presented in the following tables:

	Actual		Minimum capital adequacy(1)		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
June 30, 2021						
The Company						
Tier 1 leverage ratio	$ 864,828	7.91 %	$ 437,250	4.00 %	N/A	N/A
Common equity tier 1 capital ratio	849,328	46.75 %	81,747	4.50 %	N/A	N/A
Tier 1 risk-based capital ratio	864,828	47.61 %	108,995	6.00 %	N/A	N/A
Total risk-based capital ratio	871,996	48.00 %	145,327	8.00 %	N/A	N/A
The Bank						
Tier 1 leverage ratio	858,796	7.88 %	436,015	4.00 %	$ 545,018	5.00 %
Common equity tier 1 capital ratio	858,796	47.29 %	81,715	4.50 %	118,033	6.50 %
Tier 1 risk-based capital ratio	858,796	47.29 %	108,953	6.00 %	145,271	8.00 %
Total risk-based capital ratio	865,964	47.69 %	145,271	8.00 %	181,589	10.00 %

	Actual		Minimum capital adequacy(1)		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
December 31, 2020						
The Company						
Tier 1 leverage ratio	$ 263,763	8.29 %	$ 127,338	4.00 %	N/A	N/A
Common equity tier 1 capital ratio	248,263	21.53 %	51,882	4.50 %	N/A	N/A
Tier 1 risk-based capital ratio	263,763	22.88 %	69,176	6.00 %	N/A	N/A
Total risk-based capital ratio	270,803	23.49 %	92,234	8.00 %	N/A	N/A
The Bank						
Tier 1 leverage ratio	261,791	8.22 %	127,344	4.00 %	$ 159,180	5.00 %
Common equity tier 1 capital ratio	261,791	22.71 %	51,869	4.50 %	74,923	6.50 %
Tier 1 risk-based capital ratio	261,791	22.71 %	69,159	6.00 %	92,212	8.00 %
Total risk-based capital ratio	268,831	23.32 %	92,212	8.00 %	115,265	10.00 %

(1) Minimum capital adequacy for common equity tier 1 capital ratio, tier 1 risk-based capital ratio and total risk-based capital ratio excludes the capital conservation buffer.

The Bank is restricted as to the amount of dividends that it can pay to the Company. Dividends declared in excess of the lesser of the Bank's undivided profits or the Bank's net income for its last three fiscal years less the amount of any distribution made to the Bank's shareholder during the same period must be approved by the California DFPI. Also, the Bank may not pay dividends that would result in capital levels being reduced below the minimum requirements shown above.

Note 11—Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This standard's fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1—Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2—Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3—Significant unobservable inputs that reflect a Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Financial Instruments Required To Be Carried At Fair Value

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Securities. The fair values of securities available-for-sale and trading securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1) or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2).

Derivatives. The Company's derivative assets and liabilities are carried at fair value as required by GAAP. The estimated fair values of the derivative assets and liabilities are based on current market prices for similar instruments. Given the meaningful level of secondary market activity for derivative contracts, active pricing is available for similar assets and accordingly, the Company classifies its derivative assets and liabilities as Level 2.

Impaired loans (collateral-dependent). The Company does not record impaired loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect (1) partial write-downs, through charge-offs or specific allowances, that are based on the current appraised or market-quoted value of the underlying collateral or (2) the full charge-off of the loan carrying value. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for collateral-dependent impaired loans are obtained from real estate brokers or other third-party consultants. These appraisals may utilize a single valuation approach or a combination of approaches, which generally include various Level 3 inputs. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available and such adjustments are typically significant. Appraisals may be adjusted by management for qualitative factors such as economic factors and estimated liquidation expenses. The range of these possible adjustments may vary. Impaired loans presented in the table below as of the periods presented include impaired loans with specific allowances as well as impaired loans that have been partially charged-off.

Other real estate owned. Fair value estimates for foreclosed real estate are obtained from real estate brokers or other third-party consultants (Level 3). When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value as a result of known changes in the market or the collateral and there is no observable market price, such valuation inputs result in a fair value measurement that is categorized as a Level 3 measurement. To the extent a negotiated sales price or reduced listing price represents a significant discount to an observable market price, such valuation input would result in a fair value measurement that is also considered a Level 3 measurement.

The following tables provide the hierarchy and fair value for each class of assets and liabilities measured at fair value at June 30, 2021 and December 31, 2020.

As of June 30, 2021 and December 31, 2020, assets and liabilities measured at fair value on a recurring basis are as follows:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
June 30, 2021				
Assets				
Trading securities	$ 26,998	$ —	$ —	$ 26,998
Securities available-for-sale	—	6,176,778	—	6,176,778
Derivative assets	—	39,454	—	39,454
	$ 26,998	$ 6,216,232	$ —	$ 6,243,230

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
December 31, 2020				
Assets				
Securities available-for-sale	$ —	$ 939,015	$ —	$ 939,015
Derivative assets	—	31,104	—	31,104
	$ —	$ 970,119	$ —	$ 970,119

There were no assets measured at fair value on a nonrecurring basis as of June 30, 2021. As of December 31, 2020, assets measured at fair value on a non-recurring basis are summarized as follows:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
December 31, 2020				
Assets				
Impaired loans:				
Reverse mortgage	$ —	$ —	$ 317	$ 317

Quantitative Information about Level 3 Fair Value Measurements

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a nonrecurring basis as of the date indicated:

	Fair Value	Valuation Technique(s)	Significant Unobservable Inputs	Range	Weighted Average[(1)]
	(Dollars in thousands)				
December 31, 2020					
Collateral-dependent impaired loans	$ 317	Market comparable properties	Marketability discount	10.0 %	10.0 %
			Selling cost	8.0 %	8.0 %

(1) Unobservable inputs were weighted by the relative fair value of the instruments.

Financial Instruments Not Required To Be Carried At Fair Value

FASB ASC Topic 825, *Financial Instruments*, requires the disclosure of the estimated fair value of financial instruments. The Company's estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts the Company could have realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following tables present information about the Company's assets and liabilities that are not measured at fair value in the consolidated statements of financial condition as of the dates presented:

	Carrying Amount	Fair Value Measurements Using Level 1	Level 2	Level 3	Total
			(Dollars in thousands)		
June 30, 2021					
Financial assets:					
Cash and due from banks	$ 52,859	$ 52,859	$ —	$ —	$ 52,859
Interest earning deposits	4,415,458	4,415,458	—	—	4,415,458
Loans held-for-sale	748,577	—	748,577	—	748,577
Loans held-for-investment, net	740,155	—	—	741,916	741,916
Accrued interest receivable	24,505	248	7,546	16,711	24,505
Financial liabilities:					
Deposits	$ 11,371,556	$ —	$ 11,400,300	$ —	$ 11,400,300
Subordinated debentures, net	15,838	—	15,437	—	15,437
Accrued interest payable	246	—	246	—	246

	Carrying Amount	Fair Value Measurements Using Level 1	Level 2	Level 3	Total
			(Dollars in thousands)		
December 31, 2020					
Financial assets:					
Cash and due from banks	$ 16,405	$ 16,405	$ —	$ —	$ 16,405
Interest earning deposits	2,945,682	2,945,682	—	—	2,945,682
Loans held-for-sale	865,961	—	865,961	—	865,961
Loans held-for-investment, net	746,751	—	—	751,165	751,165
Accrued interest receivable	8,698	8	2,630	6,060	8,698
Financial liabilities:					
Deposits	$ 5,248,026	$ —	$ 5,458,900	$ —	$ 5,458,900
Subordinated debentures, net	15,831	—	15,231	—	15,231
Accrued interest payable	260	—	260	—	260

Note 12—Earnings Per Share

The computation of basic and diluted earnings per share is shown below.

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
		(In thousands, except per share data)		
Basic				
Net income	$ 20,935	$ 5,466	$ 33,645	$ 9,859
Weighted average common shares outstanding	25,707	18,672	24,114	18,670
Basic earnings per common share	$ 0.81	$ 0.29	$ 1.40	$ 0.53
Diluted				
Net income	$ 20,935	$ 5,466	$ 33,645	$ 9,859
Weighted average common shares outstanding for basic earnings per common share	25,707	18,672	24,114	18,670
Add: Dilutive effects of stock-based awards	395	434	451	442
Average shares and dilutive potential common shares	26,102	19,106	24,565	19,112
Dilutive earnings per common share	$ 0.80	$ 0.29	$ 1.37	$ 0.52

Stock-based awards for 44,000 and 238,000 shares of common stock for the three months ended June 30, 2021 and 2020, respectively, and 44,000 and 237,000 shares of common stock for the six months ended June 30, 2021 and 2020, respectively, were excluded from the computation of diluted earnings per share, because they were anti-dilutive.

Note 13—Subsequent Events

On August 4, 2021, the Company issued and sold 8,000,000 depositary shares (the “Depositary Shares”), each representing a 1/40th interest in a share of 5.375% Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A, par value $0.01 per share (the “Series A Preferred Stock”), with a liquidation preference of $1,000 per share of Series A Preferred Stock, equivalent to $25 per Depositary Share. The aggregate gross proceeds of the offering were $200.0 million and net proceeds to the Company were approximately $193.9 million after deducting underwriting discounts and offering expenses. When, as and if declared by our board of directors, or a duly authorized committee, of the Company, dividends will be payable from the date of issuance, quarterly in arrears, beginning on November 15, 2021. The Company may redeem the Series A Preferred Stock at its option, subject to regulatory approval, on or after August 15, 2026.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is intended as a review of significant factors affecting the Company's financial condition and results of operations for the periods indicated. This discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and the related notes and the Company's Annual Report on Form 10-K, which contains audited financial statements of the Company as of and for the year ended December 31, 2020, previously filed with the Securities and Exchange Commission ("SEC"). Results for the three and six months ended June 30, 2021 are not necessarily indicative of results for the year ending December 31, 2021 or any future period.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "project," "projection," "forecast," "goal," "target," "would," "aim" and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry and management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. The inclusion of these forward-looking statements should not be regarded as a representation by us or any other person that such expectations, estimates and projections will be achieved. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. New risks and uncertainties may emerge from time to time, and it is not possible for us to predict their occurrence. In addition, we cannot assess the impact of each risk and uncertainty on our business or the extent to which any risk or uncertainty, or combination of risks and uncertainties, may cause actual results to differ materially from those contained in any forward-looking statements. Further, given its ongoing and dynamic nature, it is difficult to predict the full impact of the Coronavirus Disease 2019 (or "COVID-19") outbreak on our business. The extent of such impact will depend on future developments, which are highly uncertain, including when the coronavirus can be controlled and abated and when and how the economy may be fully reopened. As the result of the COVID-19 pandemic and the related adverse local and national economic consequences, we could be subject to any of the following risks, any of which could have a material, adverse effect on our business, financial condition, liquidity, and results of operations: the demand for our products and services may decline, making it difficult to grow assets and income; if the economy is unable to fully reopen as planned, and high levels of unemployment continue for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income; collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase; our allowance for loan losses may increase if borrowers experience financial difficulties, which will adversely affect our net income; the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us; as the result of the decline in the Federal Reserve Board's ("Federal Reserve") target federal funds rate to near 0%, the yield on our assets may decline to a greater extent than the decline in our cost of interest-bearing liabilities, reducing our net interest margin and spread and reducing net income; our cybersecurity risks are increased as the result of an increase in the number of employees working remotely; and FDIC premiums may increase if the agency experiences additional resolution costs.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Quarterly Report on Form 10-Q and other reports and registration statements filed by us with the SEC. For information on the factors that could cause actual results to differ from the expectations stated in the forward- looking statements, see "Risk Factors" under Part I, Item 1A of our 2020 Form 10-K as filed with the SEC.

Any forward-looking statement speaks only as of the date of this report, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether because of new information, future developments or otherwise, except as required by law.

Overview

Silvergate Capital Corporation is the holding company for our wholly-owned subsidiary, Silvergate Bank, which we believe is the leading provider of innovative financial infrastructure solutions and services to participants in the nascent and expanding digital currency industry. Key to our leadership position and growth strategy is the Silvergate Exchange Network ("SEN"), our proprietary, virtually instantaneous payment network for participants in the digital currency industry which serves as a platform for the development of additional products and services. The SEN has a powerful network effect that makes it more valuable as participants and utilization increase. The SEN has enabled us to significantly grow our noninterest bearing deposits from digital currency industry participants, which has provided the majority of our funding over the last three years. This unique source of funding is a distinctive advantage over most traditional financial institutions and allows us to generate revenue from a conservative portfolio of investments in cash, short term securities and certain types of loans that we believe generate attractive risk-adjusted returns. In addition, use of the SEN has resulted in an increase in noninterest income that we believe will become a valuable source of additional revenue as we develop and deploy fee-based solutions in connection with our digital currency initiative. We are also evaluating additional products or product enhancements specifically targeted at providing further financial infrastructure solutions to our customers and strengthening SEN network effects.

The Company is a Maryland corporation whose assets consist primarily of its investment in the Bank and its primary activities are conducted through the Bank. The Company is a registered bank holding company that is subject to supervision by the Board of Governors of the Federal Reserve ("Federal Reserve"). The Bank is subject to supervision by the California Department of Financial Protection and Innovation, Division of Financial Institutions ("DFPI") and, as a Federal Reserve member bank since 2012, the Federal Reserve Bank of San Francisco ("FRB"). The Bank's deposits are insured up to legal limits by the Federal Deposit Insurance Corporation ("FDIC").

The Bank provides financial services that include commercial banking, commercial and residential real estate lending, mortgage warehouse lending and commercial business lending. Our client base is diverse and consists of business and individual clients in California and other states and includes digital currency-related customers in the United States and internationally. Following the Bank's 2009 conversion from an industrial bank to a commercial bank we began introducing an expanded array of relationship-oriented business products and services, which in the past five years has been significantly augmented by our digital currency initiative. While our commercial real estate lending activities are concentrated in California, we have a broader, nationwide focus on deposit and cash management services for digital currency related businesses, as well as mortgage warehouse lending. Beginning in July 2020, we ceased issuing purchase commitments for residential real estate loans through our former correspondent lending unit, but will continue to service existing loans currently on our balance sheet.

Digital Currency Initiative

We leverage the SEN and our management team's expertise in the digital currency industry to develop, implement and maintain critical financial infrastructure solutions and services for many of the largest U.S. digital currency exchanges and global investors, as well as other digital currency infrastructure providers that utilize the Company as a foundational layer for their products. The SEN is a central element of the operations of our digital currency related customers, which enables us to grow with our existing customers and to attract new customers who can benefit from our innovative solutions and services. We believe that our vision and advanced approach to compliance complement the SEN and empower us to extend our leadership position in the industry by developing additional infrastructure solutions and services that will facilitate growth in our business.

We began exploring the digital currency industry in 2013 based on market dynamics which we believed were highly attractive:

- **Significant and Growing Industry:** Digital currency presented a revolutionary model for executing financial transactions with substantial potential for growth.
- **Infrastructure Needs:** In order to become widely adopted, digital currency would need to rely on many traditional elements of financial services, including those services that support funds transfers, customer account controls and other security measures.
- **Regulatory Complexity as a Barrier to Entry:** Providing infrastructure solutions and services to the digital currency industry would require specialized compliance capabilities and a management team with a deep understanding of both the digital currency and the financial services industries.

These insights have been proven correct and we believe they remain true today. In fact, we believe that the market opportunity for digital currencies, the need for infrastructure solutions and services and the regulatory complexity have all expanded significantly since 2013. Our ability to address these market dynamics over the past seven years has provided us with a first-mover advantage within the digital currency industry that is the cornerstone of our leadership position today.

Digital Currency Customers

Our customer base has grown rapidly, as many customers proactively approach us due to our reputation as the leading provider of innovative financial infrastructure solutions and services to participants in the digital currency industry, which includes our unique technology solutions. As of June 30, 2021, we had over 200 prospective digital currency customer leads in various stages of our customer onboarding process and pipeline, which includes extensive regulatory compliance diligence and integrating of the customer's technology stack for those new digital currency customers interested in using our proprietary, cloud-based application programming interface ("API").

The following list sets forth summary information regarding the types of market participants that are our primary customers:

- **Digital Currency Exchanges:** Exchanges through which digital currencies are bought and sold; includes over-the-counter, or OTC, trading desks.

- **Institutional Investors:** Hedge funds, venture capital funds, private equity funds, family offices and traditional asset managers, that are investing in digital currencies as an asset class.
- **Other Customers:** Companies developing new protocols, platforms and applications; mining operations; and providers of other services.

Our customers include some of the largest U.S. exchanges and global investors in the digital currency industry. These market participants generally hold either or both of two distinct types of funds: (i) those funds that market participants use for digital currency investment activities, which we refer to as investor funds, and (ii) those funds that market participants use for business operations, which we refer to as operating funds.

Our customer ecosystem also includes software developers, digital currency miners, custodians and general industry participants that need our solutions and services.

Silvergate Exchange Network

The following table presents the number of transactions and the U.S. dollar volume of transactions that occurred on the SEN for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
	(Dollars in millions)			
# of SEN Transactions	137,947	40,286	304,719	71,691
$ of Volume of SEN Transfers	$ 239,589	$ 22,423	$ 406,095	$ 39,795

Recent Developments

In May 2021, we announced that Silvergate Bank had been named as the exclusive issuer of Diem USD. Diem has built a blockchain-based payment system to support financial inclusion and responsible financial services innovation. In this partnership, we will issue a U.S. dollar (“USD”) backed stablecoin, known as Diem USD, the first asset ever issued on the Diem payment system, which will enable the conversion of fiat USD to and from the stablecoin through a process known as “minting” and “burning.” The stablecoins can then be used by virtual asset service providers (“VASPs”) for a variety of use cases, which includes commerce between consumers and merchants, as well as cross-border payments. We believe stablecoins present a massive and unique opportunity, and with the development of an appropriate regulatory framework have the potential to become an alternative payment rail for customers around the world.

Financial Results

The following table presents the components of results of operations, performance ratios and share data for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(In thousands, except per share data)			
Statement of Operations Data:				
Interest income	$ 30,670	$ 18,015	$ 53,976	$ 38,077
Interest expense	287	1,963	578	6,547
Net interest income	30,383	16,052	53,398	31,530
Provision for loan losses	—	222	—	589
Net interest income after provision	30,383	15,830	53,398	30,941
Noninterest income	12,069	5,434	20,159	10,365
Noninterest expense	21,519	13,972	41,125	27,847
Income before income taxes	20,933	7,292	32,432	13,459
Income tax (benefit) expense	(2)	1,826	(1,213)	3,600
Net income	$ 20,935	$ 5,466	$ 33,645	$ 9,859
Financial Ratios(1):				
Return on average assets (ROAA)	0.77 %	1.02 %	0.75 %	0.90 %
Return on average equity (ROAE)	10.40 %	8.72 %	10.15 %	7.94 %
Net interest margin(2)	1.16 %	3.14 %	1.23 %	3.00 %
Noninterest income to average assets	0.44 %	1.01 %	0.45 %	0.95 %
Noninterest expense to average assets	0.79 %	2.60 %	0.91 %	2.55 %
Efficiency ratio(3)	50.69 %	65.03 %	55.91 %	66.47 %
Loan yield(4)	4.46 %	4.67 %	4.39 %	4.91 %
Cost of deposits	0.00 %	0.37 %	0.00 %	0.62 %
Cost of funds	0.01 %	0.42 %	0.01 %	0.68 %
Share Data:				
Basic earnings per share	$ 0.81	$ 0.29	$ 1.40	$ 0.53
Diluted earnings per share	$ 0.80	$ 0.29	$ 1.37	$ 0.52
Basic weighted average shares outstanding	25,707	18,672	24,114	18,670
Diluted weighted average shares outstanding	26,102	19,106	24,565	19,112

(1) Data has been annualized except for efficiency ratio.

(2) Net interest margin is a ratio calculated as annualized net interest income, on a fully taxable equivalent basis for interest income on tax-exempt securities using the federal statutory tax rate of 21.0%, divided by average interest earning assets for the same period.

(3) Efficiency ratio is calculated by dividing noninterest expenses by net interest income plus noninterest income.

(4) Includes nonaccrual loans and loans 90 days and more past due.

The following table presents the components of financial condition and ratios at the dates indicated:

	June 30, 2021	December 31, 2020
	(Dollars in thousands, except per share data)	
Statement of Financial Condition Data:		
Cash and cash equivalents	$ 4,468,317	$ 2,962,087
Securities available-for-sale, at fair value	6,176,778	939,015
Loans held-for-sale	748,577	865,961
Loans held-for-investment, net	740,155	746,751
Other	155,649	72,421
Total assets	$ 12,289,476	$ 5,586,235
Deposits	$ 11,371,556	$ 5,248,026
Borrowings	15,838	15,831
Other liabilities	31,575	28,079
Total liabilities	11,418,969	5,291,936
Total shareholders’ equity	870,507	294,299
Total liabilities and shareholders' equity	$ 12,289,476	$ 5,586,235
Nonperforming Assets:		
Nonperforming loans	$ 7,508	$ 4,982
Troubled debt restructurings	$ 1,437	$ 1,525
Other real estate owned, net	—	—
Nonperforming assets	$ 7,508	$ 4,982
Asset Quality Ratios:		
Nonperforming assets to total assets	0.06 %	0.09 %
Nonperforming loans to gross loans[(1)]	1.01 %	0.66 %
Nonperforming assets to gross loans and other real estate owned[(1)]	1.01 %	0.66 %
Net charge-offs to average total loans[(1)]	0.00 %	0.00 %
Allowance for loan losses to gross loans[(1)]	0.93 %	0.92 %
Allowance for loan losses to nonperforming loans	92.12 %	138.82 %
Company Capital Ratios:		
Tier 1 leverage ratio	7.91 %	8.29 %
Common equity tier 1 capital ratio	46.75 %	21.53 %
Tier 1 risk-based capital ratio	47.61 %	22.88 %
Total risk-based capital ratio	48.00 %	23.49 %
Total shareholders’ equity to total assets	7.08 %	5.27 %
Book value per share	$ 32.84	$ 15.63
Bank Capital Ratios:		
Tier 1 leverage ratio	7.88 %	8.22 %
Common equity tier 1 capital ratio	47.29 %	22.71 %
Tier 1 risk-based capital ratio	47.29 %	22.71 %
Total risk-based capital ratio	47.69 %	23.32 %
Other:		
Total headcount	221	218

(1) Loans exclude loans held-for-sale at each of the dates presented.

Critical Accounting Policies and Estimates

The accompanying management's discussion and analysis of results of operations and financial condition is based upon our unaudited interim consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements in accordance with GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under current circumstances, results of which form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily available from other sources. We evaluate our estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions. Other than ongoing uncertainty related to COVID-19, there have been no significant changes during the six months ended June 30, 2021 to the items that we disclosed as our critical accounting policies and estimates in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K filed with the SEC on March 8, 2021.

Accounting policies, as described in detail in the notes to our consolidated financial statements, included in the Company's Annual Report on Form 10-K, are an integral part of our financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial position. We believe that those critical accounting policies and estimates require us to make difficult, subjective or complex judgments about matters that are inherently uncertain. Changes in these estimates, which are likely to occur from period to period, or use of different estimates that we could have reasonably used in the current period, would have a material impact on our financial position, results of operations or liquidity.

Results of Operations

Net Income

The following table sets forth the principal components of net income for the periods indicated.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	**2020**	**% Increase/ (Decrease)**	**2021**	**2020**	**% Increase/ (Decrease)**
			(Dollars in thousands)			
Interest income	$ 30,670	$ 18,015	70.2 %	$ 53,976	$ 38,077	41.8 %
Interest expense	287	1,963	(85.4) %	578	6,547	(91.2) %
Net interest income	30,383	16,052	89.3 %	53,398	31,530	69.4 %
Provision for loan losses	—	222	N/M	—	589	N/M
Net interest income after provision	30,383	15,830	91.9 %	53,398	30,941	72.6 %
Noninterest income	12,069	5,434	122.1 %	20,159	10,365	94.5 %
Noninterest expense	21,519	13,972	54.0 %	41,125	27,847	47.7 %
Income before income taxes	20,933	7,292	187.1 %	32,432	13,459	141.0 %
Income tax (benefit) expense	(2)	1,826	(100.1) %	(1,213)	3,600	(133.7) %
Net income	$ 20,935	$ 5,466	283.0 %	$ 33,645	$ 9,859	241.3 %

N/M—Not meaningful

Net income for the three months ended June 30, 2021 was $20.9 million, an increase of $15.5 million or 283.0% from net income of $5.5 million for the three months ended June 30, 2020. The increase was primarily due to a $14.3 million increase in net interest income, a $6.6 million increase in noninterest income and a $1.8 million decrease in income tax expense, offset by a $7.5 million increase in noninterest expense, all as described below.

Net income for the six months ended June 30, 2021 was $33.6 million, an increase of $23.8 million or 241.3% from net income of $9.9 million for the six months ended June 30, 2020. The increase was primarily due to a $21.9 million increase in net interest income, a $9.8 million increase in noninterest income and a $4.8 million decrease in income tax expense, offset by a $13.3 million increase in noninterest expense, all as described below.

Net Interest Income and Net Interest Margin Analysis (Taxable Equivalent Basis)

We analyze our ability to maximize income generated from interest earning assets and control the interest expenses of our liabilities, measured as net interest income, through our net interest margin and net interest spread. Net interest income is the difference between the interest and fees earned on interest earning assets, such as loans, interest earning deposits in other banks and securities, and the interest expense incurred on interest bearing liabilities, such as deposits and borrowings, which are used to fund those assets.

Changes in market interest rates and the interest rates we earn on interest earning assets or pay on interest bearing liabilities, as well as in the volume and types of interest earning assets, interest bearing and noninterest bearing liabilities and shareholders' equity, are usually the largest drivers of periodic changes in net interest income, net interest margin and net interest spread. Fluctuations in market interest rates are driven by many factors, including governmental monetary policies, inflation, deflation, macroeconomic developments, changes in unemployment, the money supply, political and international conditions and conditions in domestic and foreign financial markets. Periodic changes in the volume and types of loans in our loan portfolio are affected by, among other factors, economic and competitive conditions in the Southern California region, developments affecting the real estate, technology, hospitality, tourism and financial services sectors within our target markets and throughout the Southern California region and mortgage banker relationships. Our ability to respond to changes in these factors by using effective asset-liability management techniques is critical to maintaining the stability of our net interest income and net interest margin as our primary sources of earnings.

The following tables show the average outstanding balance of each principal category of our assets, liabilities and shareholders' equity, together with the average yields on our assets and the average costs of our liabilities for the periods indicated. Such yields and cost are calculated by dividing income or expense by the average daily balances of the associated assets or liabilities for the same period.

Tax-exempt income from securities is calculated on a taxable equivalent basis. Net interest income, net interest spread and net interest margin are presented on a taxable equivalent basis to consistently reflect income from taxable securities and tax-exempt securities based on the federal statutory tax rate of 21.0%.

AVERAGE BALANCE SHEET AND NET INTEREST ANALYSIS

	Three Months Ended June 30,					
	2021			2020		
	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate
	(Dollars in thousands)					
Assets						
Interest earning assets:						
Interest earning deposits in other banks	$ 5,603,397	$ 1,599	0.11 %	$ 168,297	$ 405	0.97 %
Taxable securities	2,937,659	8,324	1.14 %	690,810	4,123	2.40 %
Tax-exempt securities[1]	698,149	3,953	2.27 %	231,232	1,996	3.47 %
Loans[2][3]	1,541,373	17,158	4.46 %	1,008,242	11,710	4.67 %
Other	29,394	466	6.36 %	13,224	200	6.08 %
Total interest earning assets	10,809,972	31,500	1.17 %	2,111,805	18,434	3.51 %
Noninterest earning assets	121,288			51,776		
Total assets	$ 10,931,260			$ 2,163,581		
Liabilities and Shareholders' Equity						
Interest bearing liabilities:						
Interest bearing deposits	$ 97,463	$ 35	0.14 %	$ 190,394	$ 1,652	3.49 %
FHLB advances and other borrowings	44	—	0.00 %	78,266	44	0.23 %
Subordinated debentures	15,836	252	6.38 %	15,821	267	6.79 %
Total interest bearing liabilities	113,343	287	1.02 %	284,481	1,963	2.78 %
Noninterest bearing liabilities:						
Noninterest bearing deposits	9,980,680			1,611,972		
Other liabilities	29,586			15,070		
Shareholders' equity	807,651			252,058		
Total liabilities and shareholders' equity	$ 10,931,260			$ 2,163,581		
Net interest spread[4]			0.15 %			0.73 %
Net interest income, taxable equivalent basis		$ 31,213			$ 16,471	
Net interest margin[5]			1.16 %			3.14 %
Reconciliation to reported net interest income:						
Adjustments for taxable equivalent basis		(830)			(419)	
Net interest income, as reported		$ 30,383			$ 16,052	

	Six Months Ended June 30,					
	2021			2020		
	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate
	(Dollars in thousands)					
Assets						
Interest earning assets:						
Interest earning deposits in other banks	$ 5,029,939	$ 2,878	0.12 %	$ 201,326	$ 1,129	1.13 %
Taxable securities	1,899,874	11,916	1.26 %	796,487	10,171	2.57 %
Tax-exempt securities(1)	485,611	6,099	2.53 %	118,922	2,057	3.48 %
Loans(2)(3)	1,550,630	33,755	4.39 %	1,016,612	24,831	4.91 %
Other	22,401	609	5.48 %	11,985	321	5.39 %
Total interest earning assets	8,988,455	55,257	1.24 %	2,145,332	38,509	3.61 %
Noninterest earning assets	96,857			50,542		
Total assets	$ 9,085,312			$ 2,195,874		
Liabilities and Shareholders' Equity						
Interest bearing liabilities:						
Interest bearing deposits	$ 107,291	$ 81	0.15 %	$ 316,038	$ 5,703	3.63 %
FHLB advances and other borrowings	22	—	—	71,126	271	0.77 %
Subordinated debentures and other	15,834	497	6.33 %	17,441	573	6.61 %
Total interest bearing liabilities	123,147	578	0.95 %	404,605	6,547	3.25 %
Noninterest bearing liabilities:						
Noninterest bearing deposits	8,263,160			1,524,017		
Other liabilities	30,244			17,485		
Shareholders' equity	668,761			249,767		
Total liabilities and shareholders' equity	$ 9,085,312			$ 2,195,874		
Net interest spread(4)			0.29 %			0.36 %
Net interest income, taxable equivalent basis		$ 54,679			$ 31,962	
Net interest margin(5)			1.23 %			3.00 %
Reconciliation to reported net interest income:						
Adjustments for taxable equivalent basis		(1,281)			(432)	
Net interest income, as reported		$ 53,398			$ 31,530	

(1) Interest income on tax-exempt securities is presented on a taxable equivalent basis using the federal statutory tax rate of 21.0% for all periods presented.

(2) Loans include nonaccrual loans and loans held-for-sale, net of deferred fees and before allowance for loan losses.

(3) Interest income includes amortization of deferred loan fees, net of deferred loan costs.

(4) Net interest spread is the difference between interest rates earned on interest earning assets and interest rates paid on interest bearing liabilities.

(5) Net interest margin is a ratio calculated as annualized net interest income, on a taxable equivalent basis, divided by average interest earning assets for the same period.

Information regarding the dollar amount of changes in interest income and interest expense for the periods indicated for each major component of interest earning assets and interest bearing liabilities and distinguishes between the changes attributable to changes in volume and changes attributable to changes in interest rates. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been proportionately allocated to both volume and rate.

ANALYSIS OF CHANGES IN NET INTEREST INCOME

	For the Three Months Ended June 30, 2021 Compared to 2020			For the Six Months Ended June 30, 2021 Compared to 2020		
	Change Due To		Interest Variance	Change Due To		Interest Variance
	Volume	Rate		Volume	Rate	
	(Dollars in thousands)					
Interest Income:						
Interest earning deposits in other banks	$ 1,857	$ (663)	$ 1,194	$ 3,640	$ (1,891)	$ 1,749
Taxable securities	7,312	(3,111)	4,201	8,812	(7,067)	1,745
Tax-exempt securities[(1)]	2,901	(944)	1,957	4,805	(763)	4,042
Loans	5,953	(505)	5,448	11,868	(2,944)	8,924
Other	256	10	266	283	5	288
Total interest income	18,279	(5,213)	13,066	29,408	(12,660)	16,748
Interest Expense:						
Interest bearing deposits	(1,573)	(44)	(1,617)	(2,304)	(3,318)	(5,622)
FHLB advances and other borrowings	(44)	—	(44)	(135)	(136)	(271)
Subordinated debentures	—	(15)	(15)	(1)	(75)	(76)
Total interest expense	(1,617)	(59)	(1,676)	(2,440)	(3,529)	(5,969)
Net interest income, taxable equivalent basis	$ 19,896	$ (5,154)	$ 14,742	$ 31,848	$ (9,131)	$ 22,717

(1) Interest income on tax-exempt securities is presented on a taxable equivalent basis using the federal statutory tax rate of 21.0% for all periods presented.

Net interest income on a taxable equivalent basis increased $14.7 million to $31.2 million for the three months ended June 30, 2021, compared to $16.5 million for the three months ended June 30, 2020, due to an increase of $13.1 million in interest income and a decrease of $1.7 million in interest expense.

Average total interest earning assets increased $8.7 billion or 411.9% for the three months ended June 30, 2021, compared to the same period in 2020, due to an increase in noninterest bearing deposits and equity, which resulted in higher levels of interest earning deposits in other banks and securities. In addition, average loans increased by 52.9% driven by increased mortgage refinance activity driving increases in mortgage warehouse loans as well as SEN Leverage lending, which was launched in the first quarter of 2020. The average annualized yield on total interest earning assets decreased from 3.51% for the three months ended June 30, 2020, to 1.17% for the three months ended June 30, 2021, primarily due to interest earning deposits in other banks being a greater percentage of interest earning assets, and lower yields being realized on interest earning deposits, securities and loans. The lower yields were due to declines in federal funds rate and LIBOR, which were partially offset by the impact of the interest rate floors. In February 2020, the Company sold $200.0 million of its total $400.0 million notional amount of interest rate floors, which resulted in a net gain of $8.4 million, which is being recognized over the weighted average remaining term, at the time of the sale, of 4.1 years. The sale of the floors secured the benefit of lower interest rates at the time of the sale.

Average interest bearing liabilities decreased $171.1 million or 60.2% for the three months ended June 30, 2021, compared to the same period in 2020, due to calling the remaining balance of brokered certificates of deposit in the second quarter of 2020 as well as reducing FHLB borrowings in 2021. The average annualized rate on total interest bearing liabilities decreased from 2.78% for the three months ended June 30, 2020 to 1.02% for the three months ended June 30, 2021, primarily due to the impact of calling the remaining balance of brokered certificates of deposits during the three months ended June 30, 2020, which included $1.2 million of accelerated premium expense in addition to $0.3 million of coupon interest expense for the three months ended June 30, 2020.

For the three months ended June 30, 2021, the net interest spread was 0.15% and the net interest margin was 1.16%, compared to 0.73% and 3.14%, respectively, for the comparable period in 2020. The decrease in the net interest spread from the three months ended June 30, 2020 was primarily due to lower yields on interest earning deposits and securities due to a declining interest rate environment. The net interest margin decrease from the three months ended June 30, 2020 was primarily due to a higher proportion of interest earning deposits in other banks as a percentage of total interest earning assets, as well as lower yields on interest earning deposits and securities due to a declining interest rate environment partially offset by lower interest expense as a result of calling the outstanding brokered certificates of deposits in the second quarter of 2020.

Net interest income on a taxable equivalent basis increased $22.7 million to $54.7 million for the six months ended June 30, 2021, compared to $32.0 million for the six months ended June 30, 2020, due to an increase of $16.7 million in interest income and a decrease of $6.0 million in interest expense.

Average total interest earning assets increased $6.8 billion or 319.0% for the six months ended June 30, 2021, compared to the same period in 2020, primarily due to an increase in interest earning deposits in other banks and securities. The average annualized yield on total interest earning assets decreased from 3.61% for the six months ended June 30, 2020, to 1.24% for the six months ended June 30, 2021, primarily due to interest earning deposits in other banks being a greater percentage of interest earning assets, and lower yields on interest earning deposits and securities.

Average interest bearing liabilities decreased $281.5 million or 69.6% for the six months ended June 30, 2021, compared to the same period in 2020, primarily due to calling the remaining balance of brokered certificates of deposit in the second quarter of 2020 and lower FHLB advances and other borrowings. The average annualized rate on total interest bearing liabilities decreased to 0.95% for the six months ended June 30, 2021, compared to 3.25% for the same period in 2020, primarily due to the impact of calling the remaining balance of brokered certificates of deposits in the first half of 2020, which included $3.4 million of accelerated premium expense in addition to $1.9 million of coupon interest expense for the six months ended June 30, 2020.

For the six months ended June 30, 2021, the net interest spread was 0.29% and the net interest margin was 1.23%, compared to 0.36% and 3.00%, respectively, for the comparable period in 2020. The decrease in the net interest spread and net interest margin in the six months ended June 30, 2021 compared to the six months ended June 30, 2020 was primarily due to lower yields on interest earning deposits and securities due to a declining interest rate environment. The decrease in the net interest margin was also due to a greater proportion of lower yielding cash and cash equivalents as a percentage of total interest earning assets, which was driven by the increase in noninterest bearing digital currency customer deposits.

Provision for Loan Losses

The provision for loan losses is a charge to income to bring our allowance for loan losses to a level deemed appropriate by management. For a description of the factors considered by our management in determining the allowance for loan losses see "—Financial Condition—Allowance for Loan Losses".

We recorded no additional provision for loan losses for the three and six months ended June 30, 2021, compared to a provision of $0.2 million and $0.6 million for the three and six months ended June 30, 2020, respectively. The allowance for loan losses to total gross loans held-for-investment was 0.93% at June 30, 2021, compared to 0.85% at June 30, 2020. Management determined that no provision for the three and six months ended June 30, 2021 was necessary based on our historically strong credit quality and minimal loan charge-offs, and the loan-to-value ratios in the low- to mid-50% range in our commercial, multi-family and one-to-four family residential real estate held-for-investment loan portfolios as of June 30, 2021.

Noninterest Income

The following table presents, for the periods indicated, the major categories of noninterest income:

NONINTEREST INCOME

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	% Increase/ (Decrease)	2021	2020	% Increase/ (Decrease)
	(Dollars in thousands)					
Noninterest income:						
Mortgage warehouse fee income	$ 753	$ 450	67.3 %	$ 1,707	$ 832	105.2 %
Service fees related to off-balance sheet deposits	—	7	N/M	—	77	N/M
Deposit related fees	11,308	2,438	363.8 %	18,432	4,204	338.4 %
Gain on sale of securities, net	—	2,556	N/M	—	3,753	N/M
(Loss) gain on sale of loans, net	—	(56)	N/M	—	450	N/M
Gain on extinguishment of debt	—	—	—	—	925	N/M
Other income	8	39	(79.5) %	20	124	(83.9) %
Total noninterest income	$ 12,069	$ 5,434	122.1 %	$ 20,159	$ 10,365	94.5 %

N/M—Not meaningful

Noninterest income increased $6.6 million or 122.1% for the three months ended June 30, 2021, compared to the three months ended June 30, 2020. This increase was primarily due to an increase of $8.9 million in deposit related fees, substantially all of which are fees from our digital currency customers, and a $0.3 million increase in mortgage warehouse fee income, partially offset by a $2.6 million decrease in gain on sale of securities. The increase in deposit related fees was primarily due to increases in cash management, foreign exchange, and SEN related fees associated with our digital currency initiative.

Noninterest income increased $9.8 million or 94.5% for the six months ended June 30, 2021, compared to the six months ended June 30, 2020. This increase was primarily due to an increase of $14.2 million in deposit related fees and a $0.9 million increase in mortgage warehouse fee income, partially offset by a $3.8 million decrease in gain on sale of securities, a $0.9 million decrease in gain on extinguishment of debt, and a $0.1 million decrease in gain on sale of loans due to the exit of our correspondent lending division in March 2020.

Noninterest Expense

The following table presents, for the periods indicated, the major categories of noninterest expense:

NONINTEREST EXPENSE

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	% Increase/ (Decrease)	2021	2020	% Increase/ (Decrease)
	(Dollars in thousands)					
Noninterest expense:						
Salaries and employee benefits	$ 10,260	$ 9,002	14.0 %	$ 21,250	$ 17,957	18.3 %
Occupancy and equipment	599	894	(33.0) %	1,213	1,801	(32.6) %
Communications and data processing	1,796	1,313	36.8 %	3,417	2,574	32.8 %
Professional services	2,594	1,105	134.8 %	4,311	2,090	106.3 %
Federal deposit insurance	3,844	182	N/M	6,140	305	N/M
Correspondent bank charges	812	347	134.0 %	1,309	720	81.8 %
Other loan expense	280	99	182.8 %	454	221	105.4 %
Other general and administrative	1,334	1,030	29.5 %	3,031	2,179	39.1 %
Total noninterest expense	$ 21,519	$ 13,972	54.0 %	$ 41,125	$ 27,847	47.7 %

N/M—Not meaningful

Noninterest expense increased $7.5 million or 54.0% for the three months ended June 30, 2021, compared to the three months ended June 30, 2020, primarily due to increases in salaries and employee benefits, professional services and federal deposit insurance. The increase of $1.3 million or 14.0% in salaries and employee benefits was primarily due to an increase in cost per full-time equivalent employee, as well a slight increase in headcount. The Company's average full-time equivalent employees increased from 211 for the three months ended June 30, 2020 to 219 for the three months ended June 30, 2021. In addition, salaries and benefits expense increased due to stock based compensation and taxes related to option exercises. Occupancy and equipment decreased $0.3 million or 33.0%, due to a reduction in costs related to our leased office space and fixed assets no longer in use that were written off during the three months ended December 31, 2020. Communications and data processing increased $0.5 million or 36.8% primarily due to continued investment in scalable cloud-based software solutions and to a lesser extent additional core processing expense due to higher transaction volumes. We continue to invest in technology to expand our banking platform with solutions to complement our API-enabled SEN. Professional services increased $1.5 million or 134.8% due primarily to legal and consulting fees for projects related to our strategic growth initiatives, including expenses related to our stablecoin project. Federal deposit insurance expense increased $3.7 million due to a rate increase driven by the significant growth in deposits. Correspondent bank charges increased $0.5 million or 134.0% due to increased wire volumes and expanded correspondent relationships to enhance our foreign exchange services. Other general and administrative expense increased $0.3 million or 29.5% due to an increase for expanded coverage of insurance.

Noninterest expense increased $13.3 million or 47.7% for the six months ended June 30, 2021, compared to the six months ended June 30, 2020, primarily due to increases in salaries and employee benefits, professional services, federal deposit insurance and other general and administrative expense. The increase of $3.3 million or 18.3% in salaries and employee benefits was primarily due to an increase in cost per full-time equivalent employee. The Company's average full-time equivalent employees increased from 210 for the six months ended June 30, 2020 to 219 for the six months ended June 30, 2021. In addition, salaries and benefits expense increased due to stock based compensation and taxes related to option exercises. Occupancy and equipment decreased $0.6 million or 32.6%, due to a reduction in costs related to our leased office space and fixed assets no longer in use that were written off during the three months ended December 31, 2020. Communications and data processing increased $0.8 million or 32.8% primarily due to continued investment in scalable cloud-based software solutions, additional core processing expense due to higher transaction volumes and investments in compliance software to support our digital currency related customers. Professional services increased $2.2 million or 106.3% due primarily to consulting and legal fees for projects related to our strategic growth initiatives, including expenses related to our stablecoin project. Federal deposit insurance expense increased $5.8 million due to a rate increase driven by the significant growth in deposits. Correspondent bank charges increased $0.6 million or 81.8% due to increased wire volumes and expanded correspondent relationships. Other general and administrative expense increased $0.9 million or 39.1% due to increases for expanded coverage of insurance, marketing, a legal settlement and an increase in the provision for unfunded commitments related to the increase in SEN Leverage loans total lines of credit.

Income Tax Expense (Benefit)

Income tax benefit was $2,000 for the three months ended June 30, 2021, compared to an expense of $1.8 million for the three months ended June 30, 2020. Our effective tax rates for the three months ended June 30, 2021 and 2020 were zero and 25.0%, respectively. The decrease in income tax expense and our effective tax rate were primarily related to significant tax benefits recognized on the exercise of stock options and the impact of tax-exempt income.

Income tax benefit was $1.2 million for the six months ended June 30, 2021, compared to an expense of $3.6 million for the six months ended June 30, 2020. Our effective tax rates for the six months ended June 30, 2021 and 2020 were (3.7)% and 26.7%, respectively. The decrease in income tax expense and our effective tax rate were primarily related to significant tax benefits recognized on the exercise of stock options and the impact of tax-exempt income.

Financial Condition

As of June 30, 2021, our total assets increased to $12.3 billion compared to $5.6 billion as of December 31, 2020. Shareholders' equity increased $576.2 million, or 195.8%, to $870.5 million at June 30, 2021, compared to $294.3 million at December 31, 2020. A summary of the individual components driving the changes in total assets, total liabilities and shareholders' equity is set forth below.

Interest Earning Deposits in Other Banks

Interest earning deposits in other banks increased from $2.9 billion at December 31, 2020 to $4.4 billion at June 30, 2021. The majority of the Company's interest earning deposits in other banks is cash held at the Federal Reserve Bank. The increase in interest earning deposits is due to growth in total deposits exceeding growth in total loans and securities.

Securities Available-for-sale

We use our securities portfolio to provide a source of liquidity, provide an appropriate return on funds invested, manage interest rate risk, meet collateral requirements and meet regulatory capital requirements.

Management classifies investment securities primarily as either held-to-maturity or available-for-sale based on our intentions and the Company's ability to hold such securities until maturity. In determining such classifications, securities that management has the positive intent and the Company has the ability to hold until maturity are classified as held to maturity and carried at amortized cost. All other securities are designated as available-for-sale and carried at estimated fair value with unrealized gains and losses included in shareholders' equity on an after-tax basis. For the periods presented, substantially all securities were classified as available-for-sale.

Our securities available-for-sale increased $5.2 billion, or 557.8%, from $939.0 million at December 31, 2020 to $6.2 billion at June 30, 2021. To supplement interest income earned on our loan portfolio, we invest in high quality mortgage-backed securities, collateralized mortgage obligations, other asset backed securities and municipal bonds. During the six months ended June 30, 2021, we purchased $5.4 billion of securities, including $2.8 billion of agency residential mortgage-backed securities, $1.1 billion of municipal bonds, $588.2 million of U.S. agency securities, $333.2 million of U.S. Treasury securities, $488.8 million of agency commercial mortgage-backed securities, and $52.7 million of private-label commercial mortgage-backed securities.

At June 30, 2021, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

The following tables summarize the contractual maturities and weighted-average yields of investment securities at June 30, 2021 and the amortized cost and carrying value of those securities as of the indicated dates. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Residential and commercial mortgage-backed securities are classified below based on the final maturity date, however these are amortizing securities with expected average lives primarily less than ten years.

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SECURITIES

	One Year or Less		More Than One Year Through Five Years		More Than Five Years Through 10 Years		More Than 10 Years		Total		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)										
June 30, 2021											
Securities Available-for-Sale:											
U.S. Treasuries	$ —	—	$ —	—	$ 331,154	0.83 %	$ —	—	$ 331,154	$ 331,095	0.83 %
U.S. agency securities - excluding mortgage-backed securities	—	—	3,032	0.87 %	138,848	0.44 %	436,644	0.25 %	578,524	579,286	0.30 %
Residential mortgage-backed securities:											
Government agency mortgage-backed securities	—	—	—	—	—	—	1,327,557	1.36 %	1,327,557	1,319,816	1.36 %
Government agency collateralized mortgage obligation	—	—	—	—	112	1.31 %	1,619,900	0.49 %	1,620,012	1,613,662	0.49 %
Private-label collateralized mortgage obligation	—	—	—	—	—	—	1,721	2.42 %	1,721	1,722	2.42 %
Commercial mortgage-backed securities:											
Government agency mortgage-backed securities	—	—	—	—	—	—	291,814	0.43 %	291,814	290,938	0.43 %
Government agency collateralized mortgage obligation	—	—	—	—	192,930	0.43 %	—	—	192,930	192,921	0.43 %
Private-label collateralized mortgage obligation	—	—	—	—	—	—	233,145	2.80 %	233,145	245,719	2.80 %
Municipal bonds:											
Tax-exempt	—	—	—	—	13,727	3.15 %	965,979	1.99 %	979,706	1,003,739	2.01 %
Taxable	—	—	—	—	155,712	1.66 %	200,579	2.21 %	356,291	356,489	1.97 %
Asset backed securities:											
Government sponsored student loan pools	—	—	—	—	—	—	241,532	0.74 %	241,532	241,391	0.74 %
Total securities	$ —	—	$ 3,032	0.87 %	$ 832,483	0.86 %	$ 5,318,871	1.14 %	$ 6,154,386	$ 6,176,778	1.10 %

	June 30, 2021		December 31, 2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Securities Available-for-Sale:				
U.S. Treasuries	$ 331,154	$ 331,095	$ —	$ —
U.S. agency securities - excluding mortgage-backed securities	578,524	579,286	—	—
Residential mortgage-backed securities:				
Government agency mortgage-backed securities	1,327,557	1,319,816	5,701	5,664
Government agency collateralized mortgage obligation	1,620,012	1,613,662	197,978	198,051
Private-label collateralized mortgage obligation	1,721	1,722	20,544	20,687
Commercial mortgage-backed securities:				
Government agency mortgage-backed securities	291,814	290,938	—	—
Government agency collateralized mortgage obligation	192,930	192,921	—	—
Private-label collateralized mortgage obligation	233,145	245,719	164,214	182,536
Municipal bonds:				
Tax-exempt	979,706	1,003,739	246,159	270,359
Taxable	356,291	356,489	15,307	16,002
Asset backed securities:				
Government sponsored student loan pools	241,532	241,391	248,848	245,716
Total securities	$ 6,154,386	$ 6,176,778	$ 898,751	$ 939,015

Loan Portfolio

Our primary source of income is derived from interest earned on loans. Our loan portfolio consists primarily of loans secured by real estate and, as discussed further below, loans secured by bitcoin which are included in the commercial and industrial loan segment. Our loan customers primarily consist of small- to medium-sized businesses, professionals, real estate investors, small residential builders and individuals. Our owner-occupied and investment commercial real estate loans, multi-family loans and commercial and industrial loans provide us with higher risk-adjusted returns, relatively shorter maturities and more sensitivity to interest rate fluctuations, and are complemented by our relatively lower risk residential real estate loans to individuals. Our commercial real estate, multi-family real estate, and construction lending activities are primarily directed to our market area of Southern California. Our one-to-four family residential loans and warehouse loans are sourced throughout the United States.

In 2020, we began offering a new lending product called SEN Leverage, which allows Silvergate customers to obtain U.S. dollar loans collateralized by bitcoin held at select digital currency exchanges and other custodians. Our SEN Leverage product enables our digital currency customers to borrow U.S. dollars directly from the Bank to purchase bitcoin using bitcoin as the collateral for these loans, which we refer to as SEN Leverage direct lending. In the SEN Leverage direct lending structure, a Bank exchange customer, acting as custodian, holds the borrower's bitcoin and the Bank uses the SEN to fund the loan directly to the borrower's account at the exchange. In addition to providing SEN Leverage direct lending, the Bank also provides loans collateralized with bitcoin to certain third-party digital currency industry lenders for loans to their customers, which we refer to as SEN Leverage indirect lending. In the SEN Leverage indirect lending structure, the lender uses bitcoin to collateralize its loan with the Bank and the funding of the loan and liquidation of the collateral may or may not occur via the SEN. The Bank uses a custodian to custody the bitcoin collateral and a separate digital currency service provider to monitor the bitcoin collateral coverage ratio and, if necessary, to liquidate the bitcoin collateral. We believe our SEN Leverage product is unique in the digital currency industry, creating both deeper relationships with our clients and an attractive source of potential future revenue growth. The outstanding balance of SEN Leverage loans was $203.4 million and $77.2 million at June 30, 2021 and December 31, 2020, respectively, and is included in the commercial and industrial loan segment.

The following table summarizes our loan portfolio by loan segment as of the dates indicated:

COMPOSITION OF LOAN PORTFOLIO

	June 30, 2021		December 31, 2020	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Real estate:				
One-to-four family	$ 144,247	19.3 %	$ 187,855	25.0 %
Multi-family	67,704	9.1 %	77,126	10.3 %
Commercial	272,948	36.6 %	301,901	40.2 %
Construction	5,481	0.7 %	6,272	0.8 %
Commercial and industrial	204,279	27.4 %	78,909	10.5 %
Reverse mortgage and other	1,364	0.2 %	1,495	0.2 %
Mortgage warehouse	49,897	6.7 %	97,903	13.0 %
Total gross loans held-for-investment	745,920	100.0 %	751,461	100.0 %
Deferred fees, net	1,151		2,206	
Total loans held-for-investment	747,071		753,667	
Allowance for loan losses	(6,916)		(6,916)	
Total net loans held-for-investment	$ 740,155		$ 746,751	
Loans held-for-sale[(1)]	$ 748,577		$ 865,961	

(1) Loans held-for-sale are comprised entirely of mortgage warehouse loans for all periods presented.

The repayment of loans is a source of additional liquidity for the Bank. The following table details maturities and sensitivity to interest rate changes for our loans held-for-investment at June 30, 2021:

LOAN MATURITY AND SENSITIVITY TO CHANGES IN INTEREST RATES

	June 30, 2021			
	Due in One Year or Less	Due in One to Five Years	Due After Five Years	Total
	(Dollars in thousands)			
Real estate:				
One-to-four family	$ 10	$ 646	$ 143,591	$ 144,247
Multi-family	7,047	33,109	27,548	67,704
Commercial	37,778	160,332	74,838	272,948
Construction	2,836	2,645	—	5,481
Commercial and industrial	204,279	—	—	204,279
Reverse mortgage and other	4	—	1,360	1,364
Mortgage warehouse	49,897	—	—	49,897
Total gross loans held-for-investment	$ 301,851	$ 196,732	$ 247,337	$ 745,920
Amounts with fixed rates	$ 178,506	$ 178,672	$ 22,367	$ 379,545
Amounts with floating rates	$ 123,345	$ 18,060	$ 224,970	$ 366,375

Nonperforming Assets

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether such loans are actually past due. In general, we place loans on nonaccrual status when they become 90 days past due. We also place loans on nonaccrual status if they are less than 90 days past due if the collection of principal or interest is in doubt. When interest accrual is discontinued, all unpaid accrued interest is reversed from income. Interest income is subsequently recognized only to the extent cash payments received exceed principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are, in management's opinion, reasonably assured. Any loan which the Bank deems to be uncollectible, in whole or in part, is charged off to the extent of the anticipated loss. Loans that are past due for 180 days or more are charged off unless the loan is well secured and in the process of collection.

We believe our disciplined lending approach and focused management of nonperforming assets has resulted in sound asset quality and timely resolution of problem assets. We have several procedures in place to assist us in maintaining the overall quality of our loan portfolio. We have established underwriting guidelines to be followed by our loan officers, and we also monitor our delinquency levels for any negative or adverse trends. There can be no assurance, however, that our loan portfolio will not become subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

Nonperforming loans increased to $7.5 million, or 1.01% of total loans, at June 30, 2021, compared to $5.0 million, or 0.66% of total loans, at December 31, 2020. The increase in nonperforming loans during the six months ended June 30, 2021 was due primarily to an increase in one-to-four family real estate loans.

Total nonperforming assets were $7.5 million and $5.0 million at June 30, 2021 and December 31, 2020, respectively, or 0.06% and 0.09%, respectively, of total assets.

The following table presents information regarding nonperforming assets at the dates indicated:

NONPERFORMING ASSETS

	June 30, 2021	December 31, 2020
	(Dollars in thousands)	
Nonaccrual loans		
Real estate:		
One-to-four family	$ 6,624	$ 4,113
Reverse mortgage and other	884	869
Accruing loans 90 or more days past due	—	—
Total gross nonperforming loans	7,508	4,982
Other real estate owned, net	—	—
Total nonperforming assets	$ 7,508	$ 4,982
Ratio of nonperforming loans to total loans(1)	1.01 %	0.66 %
Ratio of nonperforming assets to total assets	0.06 %	0.09 %
Troubled debt restructurings		
Restructured loans-nonaccrual	$ 559	$ 564
Restructured loans-accruing	878	961
Total troubled debt restructurings	$ 1,437	$ 1,525

(1) Total loans exclude loans held-for-sale at each of the dates presented.

COVID-19 Update

At June 30, 2021, our gross loans held-for-investment portfolio was $745.9 million, with its largest segments consisting of commercial real estate loans, commercial and industrial loans and one-to-four-family residential real estate loans. Although there is uncertainty in the current economic environment due to the impact of the COVID-19 pandemic, our relatively low to moderate loan-to-value ratios provide a lower probability of loss in the event of defaults in our loan portfolio. We will continue to monitor trends in our loan portfolio segments for any known or probable adverse conditions.

Additional information at June 30, 2021 related to our loan segments, including the weighted average loan-to-values for our real estate portfolio, is set forth below. Weighted average loan-to-value ratios are based on current loan balances and appraised values obtained either at loan origination or based on a more current updated appraisal.

	June 30, 2021		
Loan Segment:	Loan Balance At Period End	Weighted Average Loan-to-Value	Percentage of Gross Loans Held-for-Investment
	(Dollars in thousands)		
Real estate loans:			
One-to-four family	$ 144,247	53 %	19.3 %
Multi-family	67,704	50 %	9.1 %
Commercial industry sectors:			
Retail	78,289	53 %	10.5 %
Hospitality	46,515	44 %	6.2 %
Office	47,386	65 %	6.4 %
Industrial	50,860	58 %	6.8 %
Other	49,898	43 %	6.7 %
Total commercial	272,948	53 %	36.6 %
Construction	5,481	60 %	0.7 %
Other	255,540	N/A	34.3 %
Total gross loans held-for-investment	$ 745,920	N/A	100.0 %

In March 2020, Section 4013 of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") addressed COVID-19 related modifications and specified that such modifications made on loans that were current as of December 31, 2019 are not troubled debt restructurings ("TDRs"). In December 2020, CARES Act was extended to allow eligible loan modifications until the earlier of January 1, 2022 or the date that is 60 days after the termination date of the national emergency. In accordance with interagency guidance issued in April 2020, short-term modifications made to a borrower affected by the COVID-19 pandemic and governmental shutdown orders, such as payment deferrals, fee waivers and extensions of repayment terms, do not need to be identified as TDRs if the loans were current at the time a modification plan was implemented. The Company elected to adopt the provisions of the CARES Act for modifications that meet the requirements described above. None of the modified loans met the criteria of a TDR under the CARES Act or the related interagency statement.

In April 2020, the Company implemented a short-term loan modification program for customers impacted financially by the COVID-19 pandemic to provide temporary relief to certain borrowers who meet the program's qualifications. Due to the fluid nature of COVID-19, this program has been evolving in order to provide maximum relief to bank borrowers. As of June 30, 2021, the remaining loans in deferral due to COVID-19 are as follows:

COVID-19 related modifications:	Loan Balance At Period End	Percentage of Gross Loans Held-for-Investment
	(Dollars in thousands)	
Real estate loans:		
One-to-four family	$ 245	0.0 %
Commercial industry sectors:		
Retail	10,620	1.4 %
Hospitality	4,562	0.6 %
Office	7,985	1.1 %
Total commercial	23,167	3.1 %
Total modifications outstanding	$ 23,412	3.1 %

Loans Grading

From a credit risk standpoint, we grade watchlist and problem loans into one of five categories: pass, special mention, substandard, doubtful or loss. The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. We review the ratings on credits regularly. Ratings are adjusted regularly to reflect the degree of risk and loss that our management believes to be appropriate for each credit. Our methodology is structured so that specific reserve allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss). The Bank uses the following definitions for risk ratings:

- *Pass*. Loans in all classes that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. Management believes that there is a low likelihood of loss related to those loans that are considered pass.
- *Special Mention*. A special mention loan has potential weaknesses deserving of management's close attention. If uncorrected, such weaknesses may result in deterioration of the repayment prospects for the asset or in our credit position at some future date.
- *Substandard*. A substandard loan is inadequately protected by the current financial condition and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that we will sustain some loss if deficiencies are not corrected.
- *Doubtful*. A doubtful loan has all weaknesses inherent in one classified as substandard, with the added characteristic that weaknesses make collection or liquidation in full, on the basis of existing facts, conditions, and values, highly questionable and improbable.
- *Loss*. Credits rated as loss are charged-off. We have no expectation of the recovery of any payments in respect of credits rated as loss.

The following table presents the loan balances by segment as well as risk rating. No assets were classified as loss during the periods presented.

LOAN CLASSIFICATION

	Credit Risk Grades				
	Pass	**Special Mention**	**Substandard**	**Doubtful**	**Total**
	(Dollars in thousands)				
June 30, 2021					
Real estate loans:					
One-to-four family	$ 136,208	$ 1,415	$ 6,624	$ —	$ 144,247
Multi-family	67,704	—	—	—	67,704
Commercial	250,448	14,514	7,986	—	272,948
Construction	5,481	—	—	—	5,481
Commercial and industrial	204,080	—	199	—	204,279
Reverse mortgage and other	480	—	884	—	1,364
Mortgage warehouse	49,897	—	—	—	49,897
Total gross loans held-for-investment	$ 714,298	$ 15,929	$ 15,693	$ —	$ 745,920

	Credit Risk Grades				
	Pass	**Special Mention**	**Substandard**	**Doubtful**	**Total**
	(Dollars in thousands)				
December 31, 2020					
Real estate loans:					
One-to-four family	$ 180,458	$ 3,284	$ 4,113	$ —	$ 187,855
Multi-family	77,126	—	—	—	77,126
Commercial	288,309	5,825	7,767	—	301,901
Construction	6,272	—	—	—	6,272
Commercial and industrial	78,635	—	274	—	78,909
Reverse mortgage and other	626	—	869	—	1,495
Mortgage warehouse	97,903	—	—	—	97,903
Total gross loans held-for-investment	$ 729,329	$ 9,109	$ 13,023	$ —	$ 751,461

Loan Reviews and Problem Loan Management

Our credit administration staff conducts meetings at least four times a year to review asset quality and loan delinquencies. The Bank's Loan Portfolio Management Procedure prescribes loan review frequency and scope through a risk-based approach that considers loan amount, type, risk rating and payment status. Individual loan reviews encompass a loan's payment status and history, current and projected paying capacity of the borrower and/or guarantor(s), current condition and estimated value of any collateral, sufficiency of credit and collateral documentation, and compliance with Bank and regulatory lending standards. Loan reviewers assign an overall loan risk rating from one of the Bank's loan rating categories and prepare a written report summarizing the review.

Once a loan is identified as a problem loan or a loan requiring a workout, the Bank makes an evaluation and develops a plan for handling the loan. In developing such a plan, management reviews all relevant information from the loan file and any loan review reports. We have a conversation with the borrower and update current and projected financial information (including borrower global cash flows when possible) and collateral valuation estimates. Following analysis of all available relevant information, management adopts an action plan from the following alternatives: (a) continuation of loan collection efforts on their existing terms, (b) a restructure of the loan's terms, (c) a sale of the loan, (d) a charge off or partial charge off, (e) foreclosure on pledged collateral, or (f) acceptance of a deed in lieu of foreclosure.

Impaired Loans and TDRs. Impaired loans also include certain loans that have been modified as TDRs. As of June 30, 2021, the Company held seven loans totaling $1.4 million that were TDRs, compared to seven loans totaling to $1.5 million at December 31, 2020.

A loan is identified as a TDR when a borrower is experiencing financial difficulties and, for economic or legal reasons related to these difficulties, the Company grants a concession to the borrower in the restructuring that it would not otherwise consider. The Company has granted a concession when, as a result of the restructuring, it does not expect to collect all amounts due or within the time periods originally due under the original contract, including one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a temporary forbearance with regard to the payment of principal or interest. All TDRs are reviewed for potential impairment. Generally, a nonaccrual loan that is restructured remains on nonaccrual status for a minimum period of six months to demonstrate that the borrower can perform under the restructured terms. If the borrower's performance under the new terms is not reasonably assured, the loan remains classified as a nonaccrual loan. Loans classified as TDRs are reported as impaired loans.

Allowance for Loan Losses

We maintain an allowance for loan losses that represents management's best estimate of the loan losses and risks inherent in our loan portfolio. The amount of the allowance for loan losses should not be interpreted as an indication that charge-offs in future periods will necessarily occur in those amounts, or at all. In determining the allowance for loan losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of the allowance for loan losses is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature of our loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates.

In reviewing our loan portfolio, we consider risk elements attributable to particular loan types or categories in assessing the quality of individual loans. Some of the risk elements we consider include:

- For residential mortgage loans, the borrower's ability to repay the loan, including a consideration of the debt-to-income ratio and employment and income stability, the loan-to-value ratio, and the age, condition and marketability of the collateral;
- For commercial and multi-family mortgage loans, the debt service coverage ratio, operating results of the owner in the case of owner-occupied properties, the loan-to-value ratio, the age and condition of the collateral and the volatility of income, property value and future operating results typical of properties of that type;
- For construction loans, the perceived feasibility of the project including the ability to sell improvements constructed for resale, the quality and nature of contracts for presale, if any, experience and ability of the builder, loan-to-cost ratio and loan-to-value ratio;
- For commercial and industrial loans, risks related to new product offerings such as loans secured by bitcoin and the volatility of this particular collateral type, nature, volume and terms of the loan portfolio, concentration risk, factors such as competition, legal and regulatory requirements as well as external factors that could impact the value of bitcoin; and

- For mortgage warehouse loans held-for-investment, despite our negligible loss history, we provide a loss allowance factor subject to quarterly adjustment. Mortgage warehouse loans held-for-sale are not subject to any loan loss allowance and are recorded at lower of cost or fair market value.

The following table presents a summary of changes in the allowance for loan losses for the periods and dates indicated:

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

	Six Months Ended June 30,	
	2021	2020
	(Dollars in thousands)	
Allowance for loan losses at beginning of period	$ 6,916	$ 6,191
Charge-offs:		
Real estate:		
One-to-four family	—	17
Total charge-offs	—	17
Total recoveries	—	—
Net charge-offs	—	17
Provision for loan losses	—	589
Allowance for loan losses at period end	$ 6,916	$ 6,763
Total gross loans outstanding (end of period)	$ 745,920	$ 797,249
Average loans outstanding	$ 761,435	$ 694,751
Allowance for loan losses to period end loans	0.93 %	0.85 %
Net charge-offs to average loans	0.00 %	0.00 %

Our allowance for loan losses at June 30, 2021 and June 30, 2020 was $6.9 million and $6.8 million, respectively, or 0.93% and 0.85% of loans held-for-investment for each respective period-end. The overall level of the allowance was based on Silvergate’s historically strong credit quality and minimal loan charge-offs, and the loan-to-value ratios in the low- to mid-50% range, based on last required appraisal value, in the Company's commercial, multi-family and one-to-four family real estate loans as of June 30, 2021. The increase in the ratio of the allowance for loan losses to gross loans held-for-investment from June 30, 2020 was due to changes in loan product and segment mix.

We had no charge-offs and no recoveries for the six months ended June 30, 2021 and June 30, 2020.

Although we believe that we have established our allowance for loan losses in accordance with GAAP and that the allowance for loan losses was adequate to provide for known and inherent losses in the portfolio at all times shown above, future provisions for loan losses will be subject to ongoing evaluations of the risks in our loan portfolio.

The following table shows the allocation of the allowance for loan losses among loan categories and certain other information as of the dates indicated. The total allowance is available to absorb losses from any loan category.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

	June 30, 2021		December 31, 2020	
	Amount	Percent[(1)]	Amount	Percent[(1)]
	(Dollars in thousands)			
Real estate:				
One-to-four family	$ 1,259	0.17 %	$ 1,245	0.17 %
Multi-family	743	0.10 %	878	0.12 %
Commercial	2,938	0.39 %	1,810	0.24 %
Construction	512	0.07 %	590	0.08 %
Commercial and industrial	1,245	0.17 %	1,931	0.24 %
Reverse mortgage and other	11	0.00 %	39	0.01 %
Mortgage warehouse	208	0.03 %	423	0.06 %
Total allowance for loan losses	$ 6,916	0.93 %	$ 6,916	0.92 %

(1) Loan amount as a percentage of total gross loans.

Deposits

Deposits are the major source of funding for the Company. We offer a variety of deposit products including interest and noninterest bearing demand accounts, money market and savings accounts and certificates of deposit, all of which we market at competitive pricing. We generate deposits from our customers on a relationship basis and through the efforts of our commercial lending officers. Deposits increased $6.1 billion, or 116.7% to $11.4 billion at June 30, 2021, compared to $5.2 billion at December 31, 2020. Noninterest bearing deposits totaled $11.3 billion, representing approximately 99.3% of total deposits at June 30, 2021, compared to $5.1 billion, representing approximately 97.8% of total deposits at December 31, 2020.

At June 30, 2021, deposits by foreign depositors amounted to $3.1 billion or 27.1% of total deposits, compared to $1.4 billion, or 27.6% of total deposits, at December 31, 2020. The increase in total deposits from the prior year end was driven by an increase in deposits from digital currency exchanges, institutional investors in digital assets and other fintech related customers, with elevated client activity evidenced by the record volume of SEN transactions during the quarter. The Bank's 10 largest depositors accounted for $5.3 billion in deposits, or approximately 46.7% of total deposits at June 30, 2021 compared to $2.5 billion in deposits, or approximately 47.5% of total deposits at December 31, 2020, substantially all of which are customers operating in the digital currency industry.

Our continued growth has been accompanied by significant fluctuations in the level of our deposits, in particular our deposits from customers in the digital currency industry, as our customers in this industry typically carry higher balances over the weekend to take advantage of the 24/7 availability of the SEN, and carry lower balances during the business week. The Bank's average total digital currency deposits during the three months ended June 30, 2021 amounted to $9.9 billion, the high and low daily total digital currency deposit levels during such time were $11.8 billion and $6.8 billion, respectively.

Demand for new deposit accounts is generated by the Company's banking platform for innovators that includes the SEN, which is enabled through Silvergate's proprietary API, and other cash management solutions. These tools enable Silvergate's clients to grow their business and scale operations. The following table presents a breakdown of our digital currency customer base and the deposits held by such customers at the dates noted below:

	June 30, 2021			December 31, 2020		
	Number of Customers		Total Deposits(1)	Number of Customers		Total Deposits(1)
	(Dollars in millions)					
Digital currency exchanges	93	$	5,395	76	$	2,479
Institutional investors	771		3,986	607		1,811
Other customers	360		1,734	286		749
Total	1,224	$	11,114	969	$	5,039

(1) Total deposits may not foot due to rounding.

Our cost of total deposits and our cost of funds was 0.00% and 0.01%, respectively, for the six months ended June 30, 2021, compared to 0.62% and 0.68%, respectively, for the six months ended June 30, 2020. The decrease in the weighted average cost of deposits compared to the prior period was driven by the absence of any interest expense associated with brokered certificates of deposit, which were called in the second quarter of 2020, and due to higher balances of noninterest bearing deposits.

The following table presents the average balances and average rates paid on deposits for the periods indicated:

COMPOSITION OF DEPOSITS

	Six Months Ended June 30, 2021			Year Ended December 31, 2020		
		Average Balance	Average Rate		Average Balance	Average Rate
	(Dollars in thousands)					
Noninterest bearing demand accounts	$	8,263,160	—	$	1,931,310	—
Interest bearing accounts:						
Interest bearing demand accounts		34,709	0.13 %		44,991	0.14 %
Money market and savings accounts		71,909	0.16 %		71,432	0.46 %
Certificates of deposit:						
Brokered certificates of deposit		—	—		95,611	5.65 %
Other		673	0.60 %		1,311	0.92 %
Total interest bearing deposits		107,291	0.15 %		213,345	2.72 %
Total deposits	$	8,370,451	0.00 %	$	2,144,655	0.27 %

The following table presents the maturities of our certificates of deposit as of June 30, 2021:

MATURITIES OF CERTIFICATES OF DEPOSIT

		Three Months or Less		Over Three Through Six Months		Over Six Through Twelve Months		Over Twelve Months		Total
	(Dollars in thousands)									
$100,000 or more	$	—	$	—	$	—	$	306	$	306
Less than $100,000		53		—		141		111		305
Total	$	53	$	—	$	141	$	417	$	611

Borrowings

We primarily utilize short-term and long-term borrowings to supplement deposits to fund our lending and investment activities, each of which is discussed below.

FHLB Advances. The FHLB allows us to borrow up to 35% of the Bank's assets on a blanket floating lien status collateralized by certain securities and loans. At June 30, 2021, approximately $1.2 billion in real estate loans were pledged as collateral for our FHLB borrowings. We utilize these borrowings to meet liquidity needs and to fund certain fixed rate loans in our portfolio. At June 30, 2021, we had no outstanding FHLB advances and had an additional $730.2 million in available borrowing capacity from the FHLB.

The following table sets forth certain information on our FHLB borrowings during the periods presented:

FHLB ADVANCES

	Six Months Ended June 30, 2021	Year Ended December 31, 2020
	(Dollars in thousands)	
Amount outstanding at period-end	$ —	$ —
Weighted average interest rate at period-end	—	—
Maximum month-end balance during the period	$ —	$ 360,000
Average balance outstanding during the period	$ —	$ 68,522
Weighted average interest rate during the period	—	0.50 %

Federal Reserve Bank of San Francisco. The FRB has an available borrower in custody arrangement that allows us to borrow on a collateralized basis. The Company's borrowing capacity under the Federal Reserve's discount window program was $5.0 million as of June 30, 2021. Certain commercial loans are pledged under this arrangement. We maintain this borrowing arrangement to meet liquidity needs pursuant to our contingency funding plan. No advances were outstanding under this facility as of June 30, 2021.

The Company has also issued subordinated debentures and has access to borrow federal funds or lines of credit with correspondent banks. At June 30, 2021, these borrowings amounted to $15.8 million.

Subordinated Debentures. A trust formed by the Company issued $12.5 million of floating rate trust preferred securities in July 2001 as part of a pooled offering of such securities. The Company issued subordinated debentures to the trust in exchange for its proceeds from the offering. The debentures and related accrued interest represent substantially all the assets of the trust. The subordinated debentures bear interest at six-month LIBOR plus 375 basis points, which adjusts every six months in January and July of each year. Interest is payable semiannually. At June 30, 2021, the interest rate for the Company's next scheduled payment was 3.98%, based on six-month LIBOR of 0.23%. On any January 25 or July 25 the Company may redeem the 2001 subordinated debentures at 100% of principal amount plus accrued interest. The 2001 subordinated debentures mature on July 25, 2031.

A second trust formed by the Company issued $3.0 million of trust preferred securities in January 2005 as part of a pooled offering of such securities. The Company issued subordinated debentures to the trust in exchange for its proceeds from the offering. The debentures and related accrued interest represent substantially all the assets of the trust. The subordinated debentures bear interest at three-month LIBOR plus 185 basis points, which adjusts every three months. Interest is payable quarterly. At June 30, 2021, the interest rate for the Company's next scheduled payment was 1.97%, based on three-month LIBOR of 0.12%. On the 15th day of any March, June, September, or December, the Company may redeem the 2005 subordinated debentures at 100% of principal amount plus accrued interest. The 2005 subordinated debentures mature on March 15, 2035.

The Company also retained a 3% minority interest in each of these trusts which is included in subordinated debentures. The balance of the equity in the trusts is comprised of mandatorily redeemable preferred securities. The subordinated debentures may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The Company has the right to defer interest payments on the subordinated debentures from time to time for a period not to exceed five years.

Other Borrowings. At June 30, 2021, the Company had no outstanding balance of federal funds purchased and had available lines of credit of $108.0 million with other correspondent banks.

Liquidity and Capital Resources

Liquidity

Liquidity is defined as the Bank's capacity to meet its cash and collateral obligations at a reasonable cost. Maintaining an adequate level of liquidity depends on the Bank's ability to meet both expected and unexpected cash flows and collateral needs efficiently without adversely affecting either daily operations or the financial condition of the Bank. Liquidity risk is the risk that we will be unable to meet our obligations as they become due because of an inability to liquidate assets or obtain adequate funding. The Bank's obligations, and the funding sources used to meet them, depend significantly on our business mix, balance sheet structure and the cash flow profiles of our on- and off-balance sheet obligations. In managing our cash flows, management regularly confronts situations that can give rise to increased liquidity risk. These include funding mismatches, market constraints on the ability to convert assets into cash or in accessing sources of funds (i.e., market liquidity) and contingent liquidity events. Changes in economic conditions or exposure to credit, market, operation, legal and reputational risks also could affect the Bank's liquidity risk profile and are considered in the assessment of liquidity and asset/liability management.

We maintain high levels of liquidity for our customers who operate in the digital currency industry, as these deposits are subject to potentially dramatic fluctuations due to certain factors that may be outside of our control. As a result, our investment portfolio is comprised primarily of mortgage-backed securities backed by government-sponsored entities, collateralized mortgage obligations, municipal bonds and asset-backed securities.

Management has established a comprehensive management process for identifying, measuring, monitoring and controlling liquidity risk. Because of its critical importance to the viability of the Bank, liquidity risk management is fully integrated into our risk management processes. Critical elements of our liquidity risk management include: effective corporate governance consisting of oversight by the board of directors and active involvement by management; appropriate strategies, policies, procedures, and limits used to manage and mitigate liquidity risk; comprehensive liquidity risk measurement and monitoring systems (including assessments of the current and prospective cash flows or sources and uses of funds) that are commensurate with the complexity and business activities of the Bank; active management of intraday liquidity and collateral; an appropriately diverse mix of existing and potential future funding sources; adequate levels of highly liquid marketable securities free of legal, regulatory or operational impediments, that can be used to meet liquidity needs in stressful situations; comprehensive contingency funding plans that sufficiently address potential adverse liquidity events and emergency cash flow requirements; and internal controls and internal audit processes sufficient to determine the adequacy of the institution's liquidity risk management process.

The movement of funds on our balance sheet among different SEN deposit customers does not reduce the Bank's deposits and thus does not result in liquidity issues or require any borrowing by the Company or the Bank. In addition, to the extent that SEN participants fully withdraw funds from the Bank, no material liquidity issues or borrowing needs would arise since the majority of SEN participants deposits are held in liquid assets, such as available-for-sale securities and cash, or used to fund short-term mortgage warehouse loans.

We expect funds to be available from basic banking activity sources, including the core deposit base, the repayment and maturity of loans and investment security cash flows. Other potential funding sources include borrowings from the FHLB, the FRB, other lines of credit and brokered certificates of deposit. At June 30, 2021, we had $730.2 million of available borrowing capacity from the FHLB, $5.0 million of available borrowing capacity from the FRB and available lines of credit of $108.0 million with other correspondent banks. Cash and cash equivalents at June 30, 2021 were $4.5 billion. Accordingly, our liquidity resources were at sufficient levels to fund loans and meet other cash needs as necessary.

Capital Resources

Shareholders' equity increased $576.2 million to $870.5 million at June 30, 2021, compared to $294.3 million at December 31, 2020. The increase in shareholders' equity was primarily due to two equity offerings, which resulted in the issuance of a total of 7,357,319 shares of Class A common stock for aggregate gross proceeds of $587.5 million and net proceeds of $567.5 million after deducting underwriting discounts, commissions and offering expenses, as applicable, in addition to net income for the six months ended June 30, 2021, which amounted to $33.6 million, partially offset by a decrease in accumulated other comprehensive income of $24.9 million.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios of common equity Tier 1, Tier 1, and total capital as a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 1,250%. The Bank is also required to maintain capital at a minimum level based on quarterly average assets, which is known as the leverage ratio.

As of June 30, 2021, the Bank was in compliance with all applicable regulatory capital requirements to which it was subject, and was classified as "well capitalized" for purposes of the prompt corrective action regulations. As we deploy our capital and continue to grow our operations, our regulatory capital levels may decrease depending on our level of earnings. However, we intend to monitor and control our growth to remain in compliance with all regulatory capital standards applicable to us.

The following table presents the regulatory capital ratios for the Company and the Bank as of the dates indicated:

	Actual		Minimum capital adequacy[1]		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
June 30, 2021						
The Company						
Tier 1 leverage ratio	$ 864,828	7.91 %	$ 437,250	4.00 %	N/A	N/A
Common equity tier 1 capital ratio	849,328	46.75 %	81,747	4.50 %	N/A	N/A
Tier 1 risk-based capital ratio	864,828	47.61 %	108,995	6.00 %	N/A	N/A
Total risk-based capital ratio	871,996	48.00 %	145,327	8.00 %	N/A	N/A
The Bank						
Tier 1 leverage ratio	858,796	7.88 %	436,015	4.00 %	$ 545,018	5.00 %
Common equity tier 1 capital ratio	858,796	47.29 %	81,715	4.50 %	118,033	6.50 %
Tier 1 risk-based capital ratio	858,796	47.29 %	108,953	6.00 %	145,271	8.00 %
Total risk-based capital ratio	865,964	47.69 %	145,271	8.00 %	181,589	10.00 %

	Actual		Minimum capital adequacy[1]		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
December 31, 2020						
The Company						
Tier 1 leverage ratio	$ 263,763	8.29 %	$ 127,338	4.00 %	N/A	N/A
Common equity tier 1 capital ratio	248,263	21.53 %	51,882	4.50 %	N/A	N/A
Tier 1 risk-based capital ratio	263,763	22.88 %	69,176	6.00 %	N/A	N/A
Total risk-based capital ratio	270,803	23.49 %	92,234	8.00 %	N/A	N/A
The Bank						
Tier 1 leverage ratio	261,791	8.22 %	127,344	4.00 %	$ 159,180	5.00 %
Common equity tier 1 capital ratio	261,791	22.71 %	51,869	4.50 %	74,923	6.50 %
Tier 1 risk-based capital ratio	261,791	22.71 %	69,159	6.00 %	92,212	8.00 %
Total risk-based capital ratio	268,831	23.32 %	92,212	8.00 %	115,265	10.00 %

(1) Minimum capital adequacy for common equity tier 1 capital ratio, tier 1 risk-based capital ratio and total risk-based capital ratio excludes the capital conservation buffer.

Off-Balance Sheet Items

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated statements of financial condition. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and issue letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk exceeding the amounts recognized in our consolidated statements of financial condition. Our exposure to credit loss is represented by the contractual amounts of these commitments. The same credit policies and procedures are used in making these commitments as for on-balance sheet instruments. We are not aware of any accounting loss to be incurred by funding these commitments; however, we maintain an allowance for off-balance sheet credit risk which is recorded in other liabilities on the consolidated statements of financial condition. For details of our commitments to extend credit, and commercial and standby letters of credit, please refer to “Note 8—Commitments and Contingencies—Off-Balance Sheet Items” of the “Notes to Unaudited Consolidated Financial Statements” under Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our Asset Liability Management Policy sets forth guidelines for effective funds management and establishes an approach for measuring and monitoring our net interest rate sensitivity.

Interest rate risk is the probability of an increase or decline in the value of an asset or liability due to fluctuations in interest rates. These fluctuations have an impact on both the level of interest income and interest expense as well as the market value of all interest earning assets and liabilities. The objective is to measure the impact that different interest rate scenarios have on net interest income and ensure that the results are within policy limits while maximizing income. The results can be reflected as an increase or decrease of future net interest income or an increase or decrease of current fair market value.

Exposure to interest rates is managed by structuring the balance sheet in a ‘business as usual’ or ‘base case’ scenario. We do not enter into instruments such as leveraged derivatives, financial options or financial future contracts for the purpose of reducing interest rate risk. We hedge interest rate risk by utilizing interest rate floors, interest rate caps and interest rate swaps. The interest rate floors hedge our cash and securities, the interest rate caps hedge our securities and subordinated debentures and the interest rate swaps hedge our taxable municipal bonds. Based on the nature of our operations, we are not subject to foreign exchange or commodity price risk.

Exposure to interest rate risk is managed by the Bank’s Asset Liability Management Committee in accordance with policies approved by the board of directors. The committee formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the committee considers the impact on earnings and capital under the current interest rate outlook, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The committee meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans, and the maturities of investments and borrowings. Additionally, the committee reviews liquidity, cash flow flexibility, maturities of deposits, and consumer and commercial deposit activity. Management employs methodologies to manage interest rate risk that include an analysis of relationships between interest earning assets and interest-bearing liabilities as well as utilizing an interest rate simulation model where various rate scenarios can be analyzed.

The following table indicates that, for periods less than one year, rate-sensitive assets exceed rate-sensitive liabilities, resulting in an asset-sensitive position. For a bank with an asset-sensitive position, or positive gap, rising interest rates would generally be expected to have a positive effect on net interest income, and falling interest rates would generally be expected to have the opposite effect. Due to our asset sensitive position, we have implemented a hedging strategy to reduce our interest rate risk exposure in a declining rate environment.

INTEREST SENSITIVITY GAP

	Within One Month	After One Month Through Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year or Non -Sensitive	Total
	(Dollars in thousands)					
June 30, 2021						
Assets						
Interest earning assets						
Loans[(1)]	$ 1,048,733	$ 44,092	$ 156,848	$ 1,249,673	$ 245,975	$ 1,495,648
Securities[(2)]	2,330,962	62,992	186,287	2,580,241	3,652,995	6,233,236
Interest earning deposits in other banks	4,411,177	—	135	4,411,312	4,146	4,415,458
Total earning assets	$ 7,790,872	$ 107,084	$ 343,270	$ 8,241,226	$ 3,903,116	$ 12,144,342
Liabilities						
Interest bearing liabilities						
Interest bearing deposits	$ 79,982	$ —	$ —	$ 79,982	$ 325	$ 80,307
Certificates of deposit	—	53	141	194	417	611
Total interest bearing deposits	79,982	53	141	80,176	742	80,918
Total interest bearing liabilities	$ 79,982	$ 53	$ 141	$ 80,176	$ 742	$ 80,918
Period gap	$ 7,710,890	$ 107,031	$ 343,129	$ 8,161,050	$ 3,902,374	$ 12,063,424
Cumulative gap	$ 7,710,890	$ 7,817,921	$ 8,161,050	$ 8,161,050	$ 12,063,424	
Ratio of cumulative gap to total earning assets	63.49 %	64.38 %	67.20 %	67.20 %	99.33 %	

(1) Includes loans held-for-sale.

(2) Includes trading and available-for-sale securities, FHLB and FRB stock.

We use quarterly Interest Rate Risk, or IRR, simulations to assess the impact of changing interest rates on our net interest income and net income under a variety of scenarios and time horizons. These simulations utilize both instantaneous and parallel changes in the level of interest rates, as well as non-parallel changes such as changing slopes and twists of the yield curve. Static simulation models are based on current exposures and assume a constant balance sheet with no new growth. Dynamic simulation models are also utilized that rely on detailed assumptions regarding changes in existing lines of business, new business, and changes in management and client behavior.

We also use economic value-based methodologies to measure the degree to which the economic values of the Bank's positions change under different interest rate scenarios. The economic-value approach focuses on a longer-term time horizon and captures all future cash flows expected from existing assets and liabilities. The economic value model utilizes a static approach in that the analysis does not incorporate new business; rather, the analysis shows a snapshot in time of the risk inherent in the balance sheet.

Many assumptions are used to calculate the impact of interest rate fluctuations on our net interest income, such as asset prepayments, non-maturity deposit price sensitivity and decay rates, and key rate drivers. Because of the inherent use of these estimates and assumptions in the model, our actual results may, and most likely will, differ from our static IRR results. In addition, static IRR results do not include actions that our management may undertake to manage the risks in response to anticipated changes in interest rates or client behavior. For example, as part of our asset/liability management strategy, management can increase asset duration and decrease liability duration to reduce asset sensitivity, or to decrease asset duration and increase liability duration in order to increase asset sensitivity.

The following table summarizes the results of our IRR analysis in simulating the change in net interest income and fair value of equity over a 12-month horizon as of June 30, 2021:

IMPACT ON NET INTEREST INCOME UNDER A STATIC BALANCE SHEET, PARALLEL INTEREST RATE SHOCK

Earnings at Risk as of:	-100 bps	Flat	+100 bps	+200 bps	+300 bps
June 30, 2021	(15.25)%	0.00 %	51.89 %	104.12 %	159.32 %

Utilizing an economic value of equity, or EVE, approach, we analyze the risk to capital from the effects of various interest rate scenarios through a long-term discounted cash flow model. This measures the difference between the economic value of our assets and the economic value of our liabilities, which is a proxy for our liquidation value. While this provides some value as a risk measurement tool, management believes IRR is more appropriate in accordance with the going concern principle.

The following table illustrates the results of our EVE analysis as of June 30, 2021.

ECONOMIC VALUE OF EQUITY ANALYSIS UNDER A STATIC BALANCE SHEET, PARALLEL INTEREST RATE SHOCK

As of:	-100 bps	Flat	+100 bps	+200 bps	+300 bps
June 30, 2021	(0.07)%	0.00 %	(4.52)%	(5.88)%	(7.25)%

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company’s management, including the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company’s disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of the end of the period covered by this report. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of June 30, 2021.

Changes in Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently subject to any material legal proceedings. We are from time to time subject to claims and litigation arising in the ordinary course of business. These claims and litigation may include, among other things, allegations of violation of banking and other applicable regulations, competition law, labor laws and consumer protection laws, as well as claims or litigation relating to intellectual property, securities, breach of contract and tort. We intend to defend ourselves vigorously against any pending or future claims and litigation.

In the current opinion of management, the likelihood is remote that the impact of such proceedings, either individually or in the aggregate, would have a material adverse effect on our results of operations, financial condition or cash flows. However, one or more unfavorable outcomes in any claim or litigation against us could have a material adverse effect for the period in which they are resolved. In addition, regardless of their merits or their ultimate outcomes, such matters are costly, divert management's attention and may materially adversely affect our reputation, even if resolved in our favor.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, as filed with the SEC on March 8, 2021.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Number	Description
3.1	Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
3.3	Articles Supplementary of 5.375% Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A (incorporated by reference to Exhibit 3.1 to Silvergate Capital Corporation's Current Report on Form 8-K filed on August 4, 2021)
10.1	Executive Employment Agreement, effective August 7, 2020, by and among Silvergate Bank, Silvergate Capital Corporation and Alan J. Lane (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020).
10.2	Executive Employment Agreement, effective August 7, 2020, by and among Silvergate Bank, Silvergate Capital Corporation and Benjamin C. Reynolds (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020).
10.3	Executive Employment Agreement, effective August 7, 2020, by and among Silvergate Bank, Silvergate Capital Corporation and Kathleen E. Fraher (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2021).
31.1	Rule 13a-14(a) Certification of the Principal Executive Officer.
31.2	Rule 13a-14(a) Certification of the Principal Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SILVERGATE CAPITAL CORPORATION

Date:	August 10, 2021	By:	/s/ Alan J. Lane
			Alan J. Lane
			President and Chief Executive Officer (Principal Executive Officer)
Date:	August 10, 2021	By:	/s/ Antonio Martino
			Antonio Martino
			Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Alan J. Lane, certify that:

1. I have reviewed this periodic report on Form 10-Q of Silvergate Capital Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this reports;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
   (d) disclosed in this Report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the Audit Committee of the Registrant’s Board of Directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

SILVERGATE CAPITAL CORPORATION

Date: August 10, 2021

By: /s/ Alan J. Lane
Alan J. Lane
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Antonio Martino, certify that:

1. I have reviewed this periodic report on Form 10-Q of Silvergate Capital Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this reports;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
   (d) disclosed in this Report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the Audit Committee of the Registrant’s Board of Directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

SILVERGATE CAPITAL CORPORATION

Date:	August 10, 2021	By:	/s/ Antonio Martino
			Antonio Martino
			Chief Financial Officer

Exhibit 32.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the periodic report of Silvergate Capital Corporation (the "Company") on Form 10-Q for the period ended June 30, 2021, as filed with the Securities and Exchange Commission (the “Report”), each of the undersigned, in his respective capacities indicated below, hereby certifies as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the undersigned's best knowledge and belief:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This Certification has not been, and shall not be deemed, “filed” with the Securities and Exchange Commission.

SILVERGATE CAPITAL CORPORATION

Date:	August 10, 2021	By:	/s/ Alan J. Lane
			Alan J. Lane
			President and Chief Executive Officer
Date:	August 10, 2021	By:	/s/ Antonio Martino
			Antonio Martino
			Chief Financial Officer