HomeStreet, Inc.
Form 10-Q
November 05, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: September 30, 2015
Commission file number: 001-35424

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

Washington	91-0186600
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)

601 Union Street, Suite 2000
Seattle, Washington 98101
(Address of principal executive offices)
(Zip Code)
(206) 623-3050
(Registrant’s telephone number, including area code)

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large Accelerated Filer	o	Accelerated Filer	x
Non-accelerated Filer	o	Smaller Reporting Company	o

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

The number of outstanding shares of the registrant's common stock as of November 2, 2015 was 22,076,533.6.

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Unless we state otherwise or the content otherwise requires, references in this Form 10-Q to “HomeStreet,” “we,” “our,” “us” or the “Company” refer collectively to HomeStreet, Inc., a Washington corporation, HomeStreet Bank (“Bank”), HomeStreet Capital Corporation and other direct and indirect subsidiaries of HomeStreet, Inc.

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

HOMESTREET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

(in thousands, except share data)	September 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents (including interest-earning instruments of $11,363 and $10,271)	$ 37,303	$ 30,502
Investment securities (includes $570,082 and $427,326 carried at fair value)	602,018	455,332
Loans held for sale (includes $860,800 and $610,350 carried at fair value)	882,319	621,235
Loans held for investment (net of allowance for loan losses of $26,922 and $22,021; includes $23,755 and $0 carried at fair value)	3,012,943	2,099,129
Mortgage servicing rights (includes $132,701 and $112,439 carried at fair value)	146,080	123,324
Other real estate owned	8,273	9,448
Federal Home Loan Bank stock, at cost	44,652	33,915
Premises and equipment, net	60,544	45,251
Goodwill	11,945	11,945
Other assets	169,576	105,009
Total assets	$ 4,975,653	$ 3,535,090
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Liabilities:		
Deposits	$ 3,307,693	$ 2,445,430
Federal Home Loan Bank advances	1,025,745	597,590
Federal funds purchased and securities sold under agreements to repurchase	—	50,000
Accounts payable and other liabilities	119,900	77,975
Long-term debt	61,857	61,857
Total liabilities	4,515,195	3,232,852
Commitments and contingencies (Note 8)		
Shareholders’ equity:		
Preferred stock, no par value, authorized 10,000 shares, issued and outstanding, 0 shares and 0 shares	—	—
Common stock, no par value, authorized 160,000,000, issued and outstanding, 22,061,702 shares and 14,856,611 shares	511	511
Additional paid-in capital	222,047	96,615
Retained earnings	236,207	203,566
Accumulated other comprehensive income	1,693	1,546
Total shareholders' equity	460,458	302,238
Total liabilities and shareholders' equity	$ 4,975,653	$ 3,535,090

See accompanying notes to interim consolidated financial statements (unaudited).

HOMESTREET, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(in thousands, except share data)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Interest income:				
Loans	$41,012	$25,763	$111,603	$71,865
Investment securities	2,754	2,565	8,426	8,199
Other	224	150	647	449
	43,990	28,478	120,676	80,513
Interest expense:				
Deposits	3,069	2,364	8,656	7,080
Federal Home Loan Bank advances	958	509	2,476	1,366
Federal funds purchased and securities sold under agreements to repurchase	—	6	8	7
Long-term debt	278	271	815	851
Other	51	20	123	42
	4,356	3,170	12,078	9,346
Net interest income	39,634	25,308	108,598	71,167
Provision (reversal of provision) for credit losses	700	—	4,200	(1,500)
Net interest income after provision for credit losses	38,934	25,308	104,398	72,667
Noninterest income:				
Net gain on mortgage loan origination and sale activities	57,885	37,642	189,746	104,946
Mortgage servicing income	4,768	6,155	10,896	24,284
Income (loss) from WMS Series LLC	380	(122)	1,428	(69)
Gain (loss) on debt extinguishment	—	2	—	(573)
Depositor and other retail banking fees	1,701	944	4,239	2,676
Insurance agency commissions	477	256	1,183	892
Gain on sale of investment securities available for sale (includes unrealized gain reclassified from accumulated other comprehensive income of $1,002 and $480 for the three months ended September 30, 2015 and 2014, and $1,002 and $1,173 for the nine months ended September 30, 2015 and 2014, respectively)	1,002	480	1,002	1,173
Bargain purchase gain	796	—	7,345	—
Other	459	456	(11)	841
	67,468	45,813	215,828	134,170
Noninterest expense:				
Salaries and related costs	60,991	42,604	180,238	118,681
General and administrative	14,869	10,326	42,532	31,593
Legal	868	630	1,912	1,571
Consulting	166	628	6,544	2,182
Federal Deposit Insurance Corporation assessments	504	682	1,890	1,874
Occupancy	6,077	4,935	18,024	14,042
Information services	8,159	4,220	21,993	13,597
Net cost (income) from operation and sale of other real estate owned	392	133	710	(320)

	92,026	64,158	273,843	183,220
Income before income taxes	14,376	6,963	46,383	23,617
Income tax expense (includes reclassification adjustments of $351 and $168 for the three months ended September 30, 2015 and 2014, and $351 and $411 for the nine months ended September 30, 2015 and 2014, respectively)	4,415	1,988	13,742	6,979
NET INCOME	$9,961	$4,975	$32,641	$16,638
Basic income per share	$0.45	$0.34	$1.60	$1.12
Diluted income per share	$0.45	$0.33	$1.58	$1.11
Dividends paid on common stock per share	$—	$—	$—	$0.11
Basic weighted average number of shares outstanding	22,035,317	14,805,780	20,407,386	14,797,019
Diluted weighted average number of shares outstanding	22,291,810	14,968,238	20,646,540	14,957,034

See accompanying notes to interim consolidated financial statements (unaudited).

HOMESTREET, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Net income	$9,961	$4,975	$32,641	$16,638
Other comprehensive income, net of tax:				
Unrealized gain on investment securities available for sale:				
Unrealized holding gain arising during the period (net of tax expense of $1,576 and $501 for the three months ended September 30, 2015 and 2014 and $430 and $6,579 for the nine months ended September 30, 2015 and 2014, respectively)	2,926	930	798	12,218
Reclassification adjustment included in net income (net of tax expense of $351 and $168 for the three months ended September 30, 2015 and 2014, and $351 and $411 for the nine months ended September 30, 2015 and 2014, respectively)	(651)	(312)	(651)	(762)
Other comprehensive income	2,275	618	147	11,456
Comprehensive income	$12,236	$5,593	$32,788	$28,094

See accompanying notes to interim consolidated financial statements (unaudited).

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HOMESTREET, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

(in thousands, except share data)	Number of shares	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2014	14,799,991	$511	$94,474	$182,935	$ (11,994)	$265,926
Net income	—	—	—	16,638	—	16,638
Dividends ($0.11 per share)	—	—	—	(1,628)	—	(1,628)
Share-based compensation expense	—	—	1,867	—	—	1,867
Common stock issued	52,980	—	309	—	—	309
Other comprehensive income	—	—	—	—	11,456	11,456
Balance, September 30, 2014	14,852,971	$511	$96,650	$197,945	$ (538)	$294,568
Balance, January 1, 2015	14,856,611	$511	$96,615	$203,566	$ 1,546	$302,238
Net income	—	—	—	32,641	—	32,641
Share-based compensation expense	—	—	986	—	—	986
Common stock issued	7,205,091	—	124,446	—	—	124,446
Other comprehensive income	—	—	—	—	147	147
Balance, September 30, 2015	22,061,702	$511	$222,047	$236,207	$ 1,693	$460,458

See accompanying notes to interim consolidated financial statements (unaudited).

HOMESTREET, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in thousands)	Nine Months Ended September 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$32,641	$16,638
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion	10,700	13,293
Provision (reversal of provision) for credit losses	4,200	(1,500)
Fair value adjustment of loans held for sale	(3,797)	(11,320)
Fair value adjustment of loans held for investment	1,797	—
Origination of mortgage servicing rights	(58,158)	(32,726)
Change in fair value of mortgage servicing rights	34,949	26,075
Net gain on sale of investment securities	(1,002)	(1,173)
Net gain on sale of loans originated as held for investment	—	(4,586)
Net fair value adjustment, gain on sale and provision for losses on other real estate owned	290	(641)
Loss on early retirement of long-term debt	—	573
Loss on disposal of fixed assets	89	—
Net deferred income tax expense (benefit)	11,491	(13,502)
Share-based compensation expense	783	1,100
Bargain purchase gain	(7,345)	—
Origination of loans held for sale	(5,599,978)	(2,840,050)
Proceeds from sale of loans originated as held for sale	5,349,444	2,459,748
Cash used by changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable and other assets	(32,025)	25,486
Increase in accounts payable and other liabilities	22,550	9,959
Net cash (used in) operating activities	(233,371)	(352,626)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(177,535)	(45,179)
Proceeds from sale of investment securities	28,080	75,599
Principal repayments and maturities of investment securities	25,835	32,040
Proceeds from sale of other real estate owned	4,953	6,019
Proceeds from sale of loans originated as held for investment	—	271,409
Proceeds from sale of mortgage servicing rights	3,825	39,004
Mortgage servicing rights purchased from others	(9)	(8)
Origination of loans held for investment and principal repayments, net	(260,404)	(389,196)
Purchase of property and equipment	(16,961)	(13,904)
Net cash acquired from Simplicity acquisition	112,196	—
Net cash used in investing activities	(280,020)	(24,216)

(in thousands)	Nine Months Ended September 30, 2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits, net	$212,710	$214,637
Proceeds from Federal Home Loan Bank advances	7,332,200	4,619,927
Repayment of Federal Home Loan Bank advances	(6,969,700)	(4,467,927)
Federal funds purchased and proceeds from securities sold under agreements to repurchase	73,004	58,308
Repayment of securities sold under agreements to repurchase	(123,004)	(44,083)
Proceeds from Federal Home Loan Bank stock repurchase	90,565	1,017
Purchase of Federal Home Loan Bank stock	(95,783)	—
Repayment of long-term debt	—	(3,527)
Dividends paid	—	(1,628)
Proceeds from stock issuance, net	177	130
Excess tax benefit related to the exercise of stock options	23	767
Net cash provided by financing activities	520,192	377,621
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,801	779
CASH AND CASH EQUIVALENTS:		
Beginning of year	30,502	33,908
End of period	$37,303	$34,687
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest paid	$12,021	$10,785
Federal and state income taxes paid, net of (refunds)	16,533	(10,642)
Non-cash activities:		
Loans held for investment foreclosed and transferred to other real estate owned	4,095	3,647
Loans transferred from held for investment to held for sale	32,421	310,455
Loans transferred from held for sale to held for investment	25,668	17,095
Ginnie Mae loans recognized with the right to repurchase, net	3,345	649
Simplicity acquisition:		
Assets acquired, excluding cash acquired	738,279	—
Liabilities assumed	718,916	—
Bargain purchase gain	7,345	—
Common stock issued	$124,214	$—

See accompanying notes to interim consolidated financial statements (unaudited).

HomeStreet, Inc. and Subsidiaries
Notes to Interim Consolidated Financial Statements (Unaudited)

NOTE 1–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

HomeStreet, Inc. and its wholly owned subsidiaries (the "Company") is a diversified financial services company serving customers primarily in the Pacific Northwest, California and Hawaii. The Company is principally engaged in real estate lending, including mortgage banking activities, and commercial and consumer banking. The consolidated financial statements include the accounts of HomeStreet, Inc. and its wholly owned subsidiaries, HomeStreet Capital Corporation and HomeStreet Bank (the "Bank"), and the Bank's subsidiaries, HomeStreet/WMS, Inc., HomeStreet Reinsurance, Ltd., Continental Escrow Company and Union Street Holdings LLC. HomeStreet Bank was formed in 1986 and is a state-chartered savings bank.

The Company's accounting and financial reporting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP). Inter-company balances and transactions have been eliminated in consolidation. In preparing the consolidated financial statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and revenues and expenses during the reporting periods and related disclosures. These estimates that require application of management's most difficult, subjective or complex judgments often result in the need to make estimates about the effect of matters that are inherently uncertain and may change in future periods. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. Management has made significant estimates in several areas, including the fair value of assets acquired and liabilities assumed in business combinations (Note 2, Business Combinations), allowance for credit losses (Note 4, Loans and Credit Quality), valuation of residential mortgage servicing rights and loans held for sale (Note 7, Mortgage Banking Operations), loans held for investment (Note 4, Loans and Credit Quality), investment securities (Note 3, Investment Securities) and derivatives (Note 6, Derivatives and Hedging Activities). Certain amounts in the financial statements from prior periods have been reclassified to conform to the current financial statement presentation.

These unaudited interim financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q. The results of operations in the interim financial statements do not necessarily indicate the results that may be expected for the full year. The interim financial information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission ("2014 Annual Report on Form 10-K").

Recent Accounting Developments

On September 25, 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. The ASU was issued to simplify the accounting for measurement period adjustments for business combinations. The amendments in the ASU require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is required to also record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The Company will adopt this ASU for the first interim period

beginning after December 15, 2015 and will apply prospectively to adjustments to provisional amounts which occur after the effective date of this ASU.

On April 7, 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. The ASU was issued to simplify the presentation of debt issuance costs. This guidance requires that debt issuance costs related to a recognized debt liability be presented on the statement of financial condition as a direct deduction from the carrying amount of that debt liability, consistent with the presentation of debt discounts. This guidance becomes effective for the Company for the interim and annual periods beginning after December 15, 2015, and early adoption is permitted for financial statements that have not been previously issued. The guidance is required to be applied on a retrospective basis to each individual period presented on the statement of financial condition. The adoption of this guidance will result in a reclassification of debt issuance costs from other assets to consolidated obligations on the statement of financial condition. The Company is in the process of evaluating the effect of this guidance on the financial statements but the impact is not expected to be material.

On April 15, 2015, the FASB issued ASU 2015-05, Customer’s Accounting for Fees Paid in Cloud Computing Arrangement. The ASU was issued to clarify a customer's accounting for fees paid in a cloud computing arrangement. The amendments provide guidance to customers in determining whether a cloud computing arrangement includes a software license that should be accounted for as internal-use software. If the arrangement does not contain a software license, it would be accounted for as a service contract. This guidance becomes effective for the Company for the interim and annual periods beginning after December 15, 2015, early adoption is permitted. The Company can elect to adopt the amendments either (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. The Company is in the process of evaluating this guidance and its effect on the financial statements but the impact is not expected to be material.

In February 2015, the FASB issued ASU 2015-02, Consolidation. The ASU provides an additional requirement for a limited partnership or similar entity to qualify as a voting interest entity, amending the criteria for consolidating such an entity and eliminating the deferral provided under previous guidance for investment companies. In addition, the new guidance amends the criteria for evaluating fees paid to a decision maker or service provider as a variable interest and amends the criteria for evaluating the effect of fee arrangements and related parties on a VIE primary beneficiary determination. This guidance is effective for interim and annual reporting periods beginning after December 15, 2015. The Company is currently evaluating this guidance to determine the impact on its consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon foreclosure. The ASU clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2014 and can be applied with a modified retrospective transition method or prospectively. The prospective adoption of ASU 2014-04 did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU clarifies the principles for recognizing revenue from contracts with customers. The new accounting guidance, which does not apply to financial instruments, is effective on a retrospective basis beginning on January 1, 2017. The adoption of ASU 2014-09 is not expected to have a material impact on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to Maturity Transactions, Repurchase Financings, and Disclosures. The ASU applies to all entities that enter into repurchase-to-maturity transactions or repurchase financings. The amendments in this ASU require that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty (a repurchase financing), which will result in secured borrowing accounting for the repurchase agreement. The amendments require an entity to disclose information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements, in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. In addition the amendments require disclosure of the types of collateral pledged in repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions and the tenor of those transactions. The amendments in this ASU are effective for public business entities for the first

interim or annual period beginning after December 15, 2014. The application of this guidance required enhanced disclosures of the Company's repurchase agreements, but had no impact on the Company's consolidated financial statements.

In August 2014, the FASB issued ASU 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. The ASU clarifies the classification of certain foreclosed mortgage loans held by creditors that are either fully or partially guaranteed under government programs. The ASU requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. The separate other receivable should be measured based on the amount of the loan balance expected to be recovered from the guarantor. The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2014 and can be applied with a modified retrospective transition method or prospectively. The prospective adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

NOTE 2–BUSINESS COMBINATIONS:

On March 1, 2015, the Company completed its acquisition of Simplicity Bancorp, Inc., a Maryland corporation (“Simplicity”) and Simplicity’s wholly owned subsidiary, Simplicity Bank. Simplicity’s principal business activities prior to the merger were attracting retail deposits from the general public, originating or purchasing loans, primarily loans secured by first mortgages on owner-occupied, one-to-four family residences and multi-family residences located in Southern California and, to a lesser extent, commercial real estate, automobile and other consumer loans; and the origination and sale of fixed-rate, conforming, one-to-four family residential real estate loans in the secondary market, usually with servicing retained. The primary objective for this acquisition is to grow our Commercial and Consumer Banking segment by expanding the business of the former Simplicity branches by offering additional banking and lending products to former Simplicity customers as well as new customers. The acquisition was accomplished by the merger of Simplicity with and into HomeStreet, Inc. with HomeStreet, Inc. as the surviving corporation, followed by the merger of Simplicity Bank with and into HomeStreet Bank with HomeStreet Bank as the surviving subsidiary. The results of operations of Simplicity will be included in the consolidated results of operations from the date of acquisition.

At the closing, there were 7,180,005 shares of Simplicity common stock, par value $0.01, outstanding, all of which were cancelled and exchanged for an equal number of shares of HomeStreet common stock, no par value, issued to Simplicity’s stockholders. In connection with the merger, all outstanding options to purchase Simplicity common stock were cancelled in exchange for a cash payment equal to the difference between a calculated price of HomeStreet common stock and the exercise price of the option, provided, however, that any options that were out-of-the-money at the time of closing were cancelled for no consideration. The calculated price of $17.53 was determined by averaging the closing price of HomeStreet common stock for the 10 trading days prior to but not including the 5th business day before the closing date. The aggregate consideration paid by us in the Simplicity acquisition was approximately $471 thousand in cash and 7,180,005 shares of HomeStreet common stock with a fair value of approximately $124.2 million as of the acquisition date. We used current liquidity sources to fund the cash consideration.

The acquisition was accounted for under the acquisition method of accounting pursuant to ASC 805, Business Combinations. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of acquisition date. The Company made significant estimates and exercised significant judgment in estimating the fair values and accounting for such acquired assets and assumed liabilities. The valuation of acquired loans, mortgage servicing rights, premises and equipment, core deposit intangibles, deferred taxes, deposits, Federal Home Loan Bank advances and any contingent liabilities that arise as a result of the transaction are considered preliminary and such fair value estimates are subject to adjustment for up to one year after the acquisition date or when additional information relative to the closing date fair values becomes available and such information is considered final, whichever is earlier.

A summary of the consideration paid, the assets acquired and liabilities assumed in the merger are presented below:

(in thousands)	March 1, 2015	
Fair value consideration paid to Simplicity shareholders:		
Cash paid (79,399 stock options, consideration based on intrinsic value at a calculated price of $17.53)		$471
Fair value of common shares issued (7,180,005 shares at $17.30 per share)		124,214
Total purchase price		$124,685
Fair value of assets acquired:		
Cash and cash equivalents	112,667	
Investment securities	26,845	
Acquired loans	664,148	
Mortgage servicing rights	980	
Federal Home Loan Bank stock	5,520	
Premises and equipment	2,966	
Bank-owned life insurance	14,501	
Core deposit intangibles	7,450	
Accounts receivable and other assets	15,869	
Total assets acquired	850,946	
Fair value of liabilities assumed:		
Deposits	651,202	
Federal Home Loan Bank advances	65,855	
Accounts payable and accrued expenses	1,859	
Total liabilities assumed	718,916	
Net assets acquired		$132,030
Preliminary bargain purchase (gain)		$(7,345)

The provisional application of the acquisition method of accounting resulted in a bargain purchase gain of $7.3 million which was reported as a component of noninterest income on our consolidated statements of operations. A substantial portion of the assets acquired from Simplicity were mortgage-related assets, which generally decrease in value as interest rates rise and increase in value as interest rates fall. The bargain purchase gain was driven largely by a substantial decline in long-term interest rates between the period shortly after our announcement of the Simplicity acquisition and its closing, which resulted in an increase in the fair value of the acquired mortgage assets and the overall net fair value of assets acquired. In addition, the Company believes it was able to acquire Simplicity for less than the fair value of its net assets due to Simplicity’s stock trading below its book value for an extended period of time prior to the announcement of the acquisition. The Company negotiated a purchase price per share for Simplicity that was above the prevailing stock price thereby representing a premium to the shareholders. The stock consideration transferred was based on a 1:1 stock conversion ratio. The price of the Company’s shares declined between the time the deal was announced and when it closed which also attributed to the bargain purchase gain. The acquisition of Simplicity by the Company was approved by Simplicity’s shareholders. For tax purposes, the bargain purchase gain is a non-taxable event.

The operations of Simplicity are included in the Company's operating results as of the acquisition date of March 1, 2015 through the period ended September 30, 2015. Acquisition-related costs were expensed as incurred in noninterest expense as merger and integration costs.

The following table provides a breakout of merger-related expense for the nine months ended September 30, 2015 and for the year ended December 31, 2014:

(in thousands)	Nine Months Ended September 30, 2015	Year Ended December 31, 2014
Noninterest expense		
Salaries and related costs	$7,669	$23
General and administrative	1,256	179
Legal	530	245
Consulting	5,539	388
Occupancy	335	4
Information services	481	50
Total noninterest expense	$15,810	$889

The $664.1 million estimated fair value of loans acquired from Simplicity was determined by utilizing a discounted cash flow methodology considering credit and interest rate risk. Cash flows were determined by estimating future credit losses and the rate of prepayments. Projected monthly cash flows were then discounted to present value based on the Company’s weighted average cost of capital. The discount for acquired loans from Simplicity was $16.6 million as of the acquisition date.

A core deposit intangible (“CDI”) of $7.5 million was recognized related to the core deposits acquired from Simplicity. A discounted cash flow method was used to estimate the fair value of the certificates of deposit. The CDI is amortized over its estimated useful life of approximately ten years using an accelerated method and will be reviewed for impairment quarterly.

The fair value of savings and transaction deposit accounts was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. A discounted cash flow method was used to estimate the fair value of the certificates of deposit. A premium, which will be amortized over the contractual life of the deposits, of $4.0 million was recorded for certificates of deposit.

The fair value of Federal Home Loan Bank advances was estimated using a discounted cash flow method. A premium, which will be amortized over the contractual life of the advances, of $855 thousand was recorded for the Federal Home Loan Bank advances.

The Company determined that the disclosure requirements related to the amounts of revenues and earnings of the acquiree included in the consolidated statements of operations since the acquisition date is impracticable. The financial activity and operating results of the acquiree were commingled with the Company’s financial activity and operating results as of the acquisition date.

Unaudited Pro Forma Results of Operations

The following table presents our unaudited pro forma results of operations for the periods presented as if the Simplicity acquisition had been completed on January 1, 2014. The unaudited pro forma results of operations include the historical accounts of Simplicity and pro forma adjustments as may be required, including the amortization of intangibles with definite lives and the amortization or accretion of any premiums or discounts arising from fair value adjustments for assets acquired and liabilities assumed. The unaudited pro forma information is intended for informational purposes only and is not necessarily indicative of our future operating results or operating results that would have occurred had the Simplicity acquisition been completed at the beginning of 2014. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except share data)	2015	2014	2015	2014
Net interest income	$39,603	$33,182	$113,190	$95,140
Provision (reversal of provision) for credit losses	700	(350)	4,200	(2,250)
Total noninterest income	66,676	47,207	209,239	145,702
Total noninterest expense	91,557	71,014	266,243	218,437
Net income	$9,756	$6,471	$35,355	$20,430
Basic income per share	$0.44	$0.30	$1.60	$0.94
Diluted income per share	$0.44	$0.30	$1.59	$0.93
Basic weighted average number of shares outstanding	22,035,317	21,551,126	22,034,201	21,749,352
Diluted weighted average number of shares outstanding	22,291,810	21,735,713	22,207,764	21,934,050

NOTE 3–INVESTMENT SECURITIES:

The following table sets forth certain information regarding the amortized cost and fair values of our investment securities available for sale.

	At September 30, 2015			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential	$91,562	$216	$(774)	$91,004
Commercial	23,824	331	(90)	24,065
Municipal bonds	184,160	3,350	(427)	187,083
Collateralized mortgage obligations:				
Residential	88,459	119	(789)	87,789

Commercial	55,849	468	(71)	56,246
Corporate debt securities	84,304	307	(1,729)	82,882
U.S. Treasury securities	40,991	22	—	41,013
	$569,149	$4,813	$(3,880)	$570,082

(in thousands)	At December 31, 2014 Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential	$107,624	$509	$(853)	$107,280
Commercial	13,030	641	—	13,671
Municipal bonds	119,744	2,847	(257)	122,334
Collateralized mortgage obligations:				
Residential	44,254	161	(1,249)	43,166
Commercial	20,775	—	(289)	20,486
Corporate debt securities	80,214	296	(1,110)	79,400
U.S. Treasury securities	40,976	13	—	40,989
	$426,617	$4,467	$(3,758)	$427,326

Mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMO") represent securities issued by government sponsored enterprises ("GSEs"). Each of the MBS and CMO securities in our investment portfolio are guaranteed by Fannie Mae, Ginnie Mae or Freddie Mac. Municipal bonds are comprised of general obligation bonds (i.e., backed by the general credit of the issuer) and revenue bonds (i.e., backed by revenues from the specific project being financed) issued by various municipal corporations. As of September 30, 2015 and December 31, 2014, all securities held, including municipal bonds and corporate debt securities, were rated investment grade based upon external ratings where available and, where not available, based upon internal ratings which correspond to ratings as defined by Standard and Poor's Rating Services ("S&P") or Moody's Investors Services ("Moody's"). As of September 30, 2015 and December 31, 2014, substantially all securities held had ratings available by external ratings agencies.

Investment securities available for sale that were in an unrealized loss position are presented in the following tables based on the length of time the individual securities have been in an unrealized loss position.

(in thousands)	At September 30, 2015 Less than 12 months		12 months or more		Total	
	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
Mortgage-backed securities:						
Residential	$(344)	$28,158	$(430)	$21,833	$(774)	$49,991
Commercial	(90)	16,431	—	—	(90)	16,431
Municipal bonds	(281)	41,334	(147)	5,815	(428)	47,149
Collateralized mortgage obligations:						
Residential	(191)	37,565	(597)	27,618	(788)	65,183
Commercial	—	—	(71)	4,698	(71)	4,698
Corporate debt securities	(631)	29,482	(1,098)	27,152	(1,729)	56,634
	$(1,537)	$152,970	$(2,343)	$87,116	$(3,880)	$240,086

(in thousands)	At December 31, 2014 Less than 12 months Gross unrealized losses	Fair value	12 months or more Gross unrealized losses	Fair value	Total Gross unrealized losses	Fair value
Mortgage-backed securities:						
Residential	$—	$—	$(853)	$57,242	$(853)	$57,242
Municipal bonds	(11)	2,339	(246)	17,155	(257)	19,494
Collateralized mortgage obligations:						
Residential	—	—	(1,249)	31,021	(1,249)	31,021
Commercial	(29)	5,037	(260)	15,449	(289)	20,486
Corporate debt securities	(56)	13,140	(1,054)	40,997	(1,110)	54,137
	$(96)	$20,516	$(3,662)	$161,864	$(3,758)	$182,380

The Company has evaluated securities available for sale that are in an unrealized loss position and has determined that the decline in value is temporary and is related to the change in market interest rates since purchase. The decline in value is not related to any issuer- or industry-specific credit event. The Company has not identified any expected credit losses on its debt securities as of September 30, 2015 and December 31, 2014. In addition, as of September 30, 2015 and December 31, 2014, the Company had not made a decision to sell any of its debt securities held, nor did the Company consider it more likely than not that it would be required to sell such securities before recovery of their amortized cost basis.

The following tables present the fair value of investment securities available for sale by contractual maturity along with the associated contractual yield for the periods indicated below. Contractual maturities for mortgage-backed securities and collateralized mortgage obligations as presented exclude the effect of expected prepayments. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations before the underlying mortgages mature. The weighted-average yield is computed using the contractual coupon of each security weighted based on the fair value of each security and does not include adjustments to a tax equivalent basis.

(in thousands)	At September 30, 2015 Within one year Fair Value	Weighted Average Yield	After one year through five years Fair Value	Weighted Average Yield	After five years through ten years Fair Value	Weighted Average Yield	After ten years Fair Value	Weighted Average Yield	Total Fair Value	Weighted Average Yield
Mortgage-backed securities:										
Residential	$—	— %	$4	0.40 %	$3,425	1.60 %	$87,575	1.86 %	$91,004	1.85 %
Commercial	—	—	—	—	18,239	2.21	5,826	4.88	24,065	2.83
Municipal bonds	516	2.10	7,812	3.41	35,836	3.39	142,919	4.04	187,083	3.88
Collateralized mortgage obligations:										
Residential	—	—	—	—	161	0.91	87,628	1.64	87,789	1.64
Commercial	—	—	5,461	1.90	40,649	2.28	10,136	2.03	56,246	2.20
	—	—	13,298	2.61	38,947	3.24	30,637	3.70	82,882	3.31

Corporate debt securities														
U.S. Treasury securities	40,013	0.35		1,000	0.64		—	—		—	—		41,013	0.35	
Total available for sale	$40,529	0.37	%	$27,575	2.62	%	$137,257	2.81	%	$364,721	2.83	%	$570,082	2.64	%

(in thousands)	At December 31, 2014									
	Within one year		After one year through five years		After five years through ten years		After ten years		Total	
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
Mortgage-backed securities:										
Residential	$—	— %	$—	— %	$6,949	1.72 %	$100,331	1.75 %	$107,280	1.75 %
Commercial	—	—	—	—	—	—	13,671	4.75	13,671	4.75
Municipal bonds	—	—	604	4.10	23,465	3.55	98,265	4.21	122,334	4.09
Collateralized mortgage obligations:										
Residential	—	—	—	—	—	—	43,166	1.84	43,166	1.84
Commercial	—	—	—	—	9,776	1.96	10,710	1.99	20,486	1.97
Corporate debt securities	—	—	9,000	2.21	38,487	3.35	31,913	3.73	79,400	3.37
U.S. Treasury securities	25,998	0.28	14,991	0.46	—	—	—	—	40,989	0.35
Total available for sale	$25,998	0.28 %	$24,595	1.19 %	$78,677	3.09 %	$298,056	2.92 %	$427,326	2.69 %

Sales of investment securities available for sale were as follows.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Proceeds	$28,080	$9,753	$28,080	$75,599
Gross gains	1,002	480	1,002	1,375
Gross losses	—	—	—	(201)

There were $113.7 million and $44.3 million in investment securities pledged to secure advances from the Federal Home Loan Bank of Des Moines ("FHLB") at September 30, 2015 and December 31, 2014, respectively. At September 30, 2015 and December 31, 2014, there were $33.1 million and $33.4 million, respectively, of securities pledged to secure derivatives in a liability position.

The Company assesses the creditworthiness of the counterparties that hold the pledged collateral and has determined that these arrangements have little risk. There were no securities pledged under repurchase agreements at September 30, 2015 and December 31, 2014.

Tax-exempt interest income on securities available for sale totaling $968 thousand and $856 thousand for the three months ended September 30, 2015 and 2014, respectively, and $2.6 million for the nine months ended September 30, 2015 and 2014, respectively, was recorded in the Company's consolidated statements of operations.

NOTE 4–LOANS AND CREDIT QUALITY:

For a detailed discussion of loans and credit quality, including accounting policies and the methodology used to estimate the allowance for credit losses, see Note 1, Summary of Significant Accounting Policies and Note 5, Loans and Credit Quality within our 2014 Annual Report on Form 10-K.

The Company's portfolio of loans held for investment is divided into two portfolio segments, consumer loans and commercial loans, which are the same segments used to determine the allowance for loan losses. Within each portfolio segment, the Company monitors and assesses credit risk based on the risk characteristics of each of the following loan classes: single family and home equity and other loans within the consumer loan portfolio segment and commercial real estate, multifamily, construction/land development and commercial business loans within the commercial loan portfolio segment.
Loans held for investment consist of the following:

(in thousands)	At September 30, 2015		At December 31, 2014	
Consumer loans				
Single family	$1,171,967	[1]	$896,665	
Home equity and other	237,491		135,598	
	1,409,458		1,032,263	
Commercial loans				
Commercial real estate	563,241		523,464	
Multifamily	382,392		55,088	
Construction/land development	529,871		367,934	
Commercial business	158,135		147,449	
	1,633,639		1,093,935	
	3,043,097		2,126,198	
Net deferred loan fees, costs and discounts	(3,232	)	(5,048	)
	3,039,865		2,121,150	
Allowance for loan losses	(26,922	)	(22,021	)
	$3,012,943		$2,099,129	

(1) Includes $23.8 million of loans where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

Loans in the amount of $1.74 billion and $1.06 billion at September 30, 2015 and December 31, 2014, respectively, were pledged to secure borrowings from the FHLB as part of our liquidity management strategy. Additionally, loans totaling $593.1 million and $487.2 million at September 30, 2015 and December 31, 2014, respectively, were pledged to secure borrowings from the Federal Reserve Bank. The FHLB and Federal Reserve Bank do not have the right to sell or re-pledge these loans.

Credit Risk Concentration
Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

Loans held for investment are primarily secured by real estate located in the Pacific Northwest, Oregon, California and Hawaii. At September 30, 2015, we had concentrations representing 10% or more of the total portfolio by state

and property type for the loan classes of single family, commercial real estate and construction/land development within the state of Washington, which represented 19.3%, 15.2% and 11.5% of the total portfolio, respectively. Additionally, we had a concentration representing 10% or more by state and property type for the single family loan class within the state of California, which represented 13.5% of the total portfolio. At December 31, 2014 we had concentrations representing 10% or more of the total portfolio by state and property type for the loan classes of single family, commercial real estate and construction/land development within the state of Washington, which represented 28.0% and 20.7% and 13.7% of the total portfolio, respectively.

Credit Quality

Management considers the level of allowance for loan losses to be appropriate to cover credit losses inherent within the loans held for investment portfolio as of September 30, 2015. In addition to the allowance for loan losses, the Company maintains a separate allowance for losses related to unfunded loan commitments, and this amount is included in accounts payable and other liabilities on the consolidated statements of financial condition. Collectively, these allowances are referred to as the allowance for credit losses.

For further information on the policies that govern the determination of the allowance for loan losses levels, see Note 1, Summary of Significant Accounting Policies within our 2014 Annual Report on Form 10-K.

Activity in the allowance for credit losses was as follows.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Allowance for credit losses (roll-forward):				
Beginning balance	$26,448	$22,168	$22,524	$24,089
Provision (reversal of provision) for credit losses	700	—	4,200	(1,500)
(Charge-offs), net of recoveries	739	(57)	1,163	(478)
Ending balance	$27,887	$22,111	$27,887	$22,111
Components:				
Allowance for loan losses	$26,922	$21,847	$26,922	$21,847
Allowance for unfunded commitments	965	264	965	264
Allowance for credit losses	$27,887	$22,111	$27,887	$22,111

Activity in the allowance for credit losses by loan portfolio and loan class was as follows.

	Three Months Ended September 30, 2015				
(in thousands)	Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$8,997	$(232)	$250	$(298)	$8,717
Home equity and other	3,882	(255)	84	541	4,252
	12,879	(487)	334	243	12,969
Commercial loans					
Commercial real estate	5,046	—	—	(355)	4,691
Multifamily	780	(150)	—	153	783
Construction/land development	5,943	—	1,033	435	7,411
Commercial business	1,800	(14)	23	224	2,033
	13,569	(164)	1,056	457	14,918
Total allowance for credit losses	$26,448	$(651)	$1,390	$700	$27,887

(in thousands)	Three Months Ended September 30, 2014 Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$9,111	$(226)	$65	$(72)	$8,878
Home equity and other	3,517	(135)	94	87	3,563
	12,628	(361)	159	15	12,441
Commercial loans					
Commercial real estate	4,063	—	275	(357)	3,981
Multifamily	887	—	—	(174)	713
Construction/land development	2,418	—	123	146	2,687
Commercial business	2,172	(304)	51	370	2,289
	9,540	(304)	449	(15)	9,670
Total allowance for credit losses	$22,168	$(665)	$608	$—	$22,111

(in thousands)	Nine Months Ended September 30, 2015 Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$9,447	$(232)	$496	$(994)	$8,717
Home equity and other	3,322	(456)	225	1,161	4,252
	12,769	(688)	721	167	12,969
Commercial loans					
Commercial real estate	3,846	(16)	37	824	4,691
Multifamily	673	(150)	—	260	783
Construction/land development	3,818	—	1,132	2,461	7,411
Commercial business	1,418	(23)	150	488	2,033
	9,755	(189)	1,319	4,033	14,918
Total allowance for credit losses	$22,524	$(877)	$2,040	$4,200	$27,887

(in thousands)	Nine Months Ended September 30, 2014 Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$11,990	$(509)	$106	$(2,709)	$8,878
Home equity and other	3,987	(694)	420	(150)	3,563
	15,977	(1,203)	526	(2,859)	12,441
Commercial loans					
Commercial real estate	4,012	(23)	431	(439)	3,981
Multifamily	942	—	—	(229)	713
Construction/land development	1,414	—	185	1,088	2,687
Commercial business	1,744	(592)	198	939	2,289
	8,112	(615)	814	1,359	9,670
Total allowance for credit losses	$24,089	$(1,818)	$1,340	$(1,500)	$22,111

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The following table disaggregates our allowance for credit losses and recorded investment in loans by impairment methodology.

(in thousands)	At September 30, 2015 Allowance: collectively evaluated for impairment	Allowance: individually evaluated for impairment	Total	Loans: collectively evaluated for impairment	Loans: individually evaluated for impairment	Total	
Consumer loans							
Single family	$8,475	$242	$8,717	$1,070,100	$ 78,112	$1,148,212	
Home equity and other	4,173	79	4,252	235,914	1,577	237,491	
	12,648	321	12,969	1,306,014	79,689	1,385,703	
Commercial loans							
Commercial real estate	4,691	—	4,691	555,648	7,593	563,241	
Multifamily	733	50	783	377,924	4,468	382,392	
Construction/land development	7,411	—	7,411	525,539	4,332	529,871	
Commercial business	1,494	539	2,033	152,411	5,724	158,135	
	14,329	589	14,918	1,611,522	22,117	1,633,639	
Total loans evaluated for impairment	26,977	910	27,887	2,917,536	101,806	3,019,342	
Loans held for investment carried at fair value						23,755	(1)
Total loans held for investment	$26,977	$910	$27,887	$2,917,536	$ 101,806	$3,043,097	

(1) Comprised of single family loans where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

(in thousands)	At December 31, 2014 Allowance: collectively evaluated for impairment	Allowance: individually evaluated for impairment	Total	Loans: collectively evaluated for impairment	Loans: individually evaluated for impairment	Total
Consumer loans						
Single family	$8,743	$704	$9,447	$818,783	$77,882	$896,665
Home equity and other	3,165	157	3,322	132,937	2,661	135,598
	11,908	861	12,769	951,720	80,543	1,032,263
Commercial loans						
Commercial real estate	3,806	40	3,846	496,685	26,779	523,464
Multifamily	312	361	673	52,011	3,077	55,088
Construction/land development	3,818	—	3,818	362,487	5,447	367,934
Commercial business	974	444	1,418	144,071	3,378	147,449
	8,910	845	9,755	1,055,254	38,681	1,093,935
Total	$20,818	$1,706	$22,524	$2,006,974	$119,224	$2,126,198

The Company recorded $700 thousand of provision for credit losses in the third quarter of 2015. The credit loss provision recorded in the quarter was the result of overall growth in the loans held for investment portfolio.

Impaired Loans

The following tables present impaired loans by loan portfolio segment and loan class.

(in thousands)	At September 30, 2015		
	Recorded investment [1]	Unpaid principal balance [2]	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	$76,317	$78,609	$—
Home equity and other	917	989	—
	77,234	79,598	—
Commercial loans			
Commercial real estate	7,593	8,861	—
Multifamily	3,768	4,197	—
Construction/land development	4,332	11,382	—
Commercial business	4,038	4,622	—
	19,731	29,062	—
	$96,965	$108,660	$—
With an allowance recorded:			
Consumer loans			
Single family	$1,795	$1,946	$242
Home equity and other	660	660	79
	2,455	2,606	321
Commercial loans			
Multifamily	700	850	50
Commercial business	1,686	1,763	539
	2,386	2,613	589
	$4,841	$5,219	$910
Total:			
Consumer loans			
Single family[3]	$78,112	$80,555	$242
Home equity and other	1,577	1,649	79
	79,689	82,204	321
Commercial loans			
Commercial real estate	7,593	8,861	—
Multifamily	4,468	5,047	50
Construction/land development	4,332	11,382	—
Commercial business	5,724	6,385	539
	22,117	31,675	589
Total impaired loans	$101,806	$113,879	$910

(1) Includes partial charge-offs and nonaccrual interest paid and purchase discounts and premiums.

(2) Unpaid principal balance does not include partial charge-offs, purchase discounts and premiums or nonaccrual interest paid. Related allowance is calculated on net book balances not unpaid principal balances.

(3) Includes $74.4 million in performing troubled debt restructurings ("TDRs").

(in thousands)	At December 31, 2014		
	Recorded investment [1]	Unpaid principal balance [2]	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	$48,104	$50,787	$—
Home equity and other	1,824	1,850	—
	49,928	52,637	—
Commercial loans			
Commercial real estate	25,540	27,205	—
Multifamily	508	508	—
Construction/land development	5,447	14,532	—
Commercial business	1,302	3,782	—
	32,797	46,027	—
	$82,725	$98,664	$—
With an allowance recorded:			
Consumer loans			
Single family	$29,778	$29,891	$704
Home equity and other	837	837	157
	30,615	30,728	861
Commercial loans			
Commercial real estate	1,239	1,399	40
Multifamily	2,569	2,747	361
Commercial business	2,076	2,204	444
	5,884	6,350	845
	$36,499	$37,078	$1,706
Total:			
Consumer loans			
Single family[3]	$77,882	$80,678	$704
Home equity and other	2,661	2,687	157
	80,543	83,365	861
Commercial loans			
Commercial real estate	26,779	28,604	40
Multifamily	3,077	3,255	361
Construction/land development	5,447	14,532	—
Commercial business	3,378	5,986	444
	38,681	52,377	845
Total impaired loans	$119,224	$135,742	$1,706

(1) Includes partial charge-offs and nonaccrual interest paid.

(2) Unpaid principal balance does not include partial charge-offs, purchase discounts and premiums or nonaccrual interest paid. Related allowance is calculated on net book balances not unpaid principal balances.

(3) Includes $73.6 million in single family performing TDRs.

The following table provides the average recorded investment in impaired loans by portfolio segment and class.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Consumer loans				
Single family	$78,432	$72,840	$78,358	$72,508
Home equity and other	1,872	2,457	2,184	2,524
	80,304	75,297	80,542	75,032
Commercial loans				
Commercial real estate	15,797	31,209	20,328	31,638
Multifamily	4,590	3,114	4,022	3,134
Construction/land development	4,466	5,768	4,968	5,898
Commercial business	5,883	3,664	4,691	3,250
	30,736	43,755	34,009	43,920
	$111,040	$119,052	$114,551	$118,952

Credit Quality Indicators

Management regularly reviews loans in the portfolio to assess credit quality indicators and to determine appropriate loan classification and grading in accordance with applicable bank regulations. The Company's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The Company differentiates its lending portfolios into homogeneous loans and non-homogeneous loans.

The 10 risk rating categories can be generally described by the following groupings for non-homogeneous loans:

Pass. We have five pass risk ratings which represent a level of credit quality that ranges from no well-defined deficiency or weakness to some noted weakness, however the risk of default on any loan classified as pass is expected to be remote. The five pass risk ratings are described below:

Minimal Risk. A minimal risk loan, risk rated 1-Exceptional, is to a borrower of the highest quality. The borrower has an unquestioned ability to produce consistent profits and service all obligations and can absorb severe market disturbances with little or no difficulty.

Low Risk. A low risk loan, risk rated 2-Superior, is similar in characteristics to a minimal risk loan. Balance sheet and operations are slightly more prone to fluctuations within the business cycle; however, debt capacity and debt service coverage remains strong. The borrower will have a strong demonstrated ability to produce profits and absorb market disturbances.

Modest Risk. A modest risk loan, risk rated 3-Excellent, is a desirable loan with excellent sources of repayment and no currently identifiable risk associated with collection. The borrower exhibits a very strong capacity to repay the loan in accordance with the repayment agreement. The borrower may be susceptible to economic cycles, but will have cash reserves to weather these cycles.

Average Risk. An average risk loan, risk rated 4-Good, is an attractive loan with sound sources of repayment and no material collection or repayment weakness evident. The borrower has an acceptable capacity to pay in accordance with the agreement. The borrower is susceptible to economic cycles and more efficient competition, but should have modest reserves sufficient to survive all but the most severe downturns or major setbacks.

Acceptable Risk. An acceptable risk loan, risk rated 5-Acceptable, is a loan with lower than average, but still acceptable credit risk. These borrowers may have higher leverage, less certain but viable repayment sources, have limited financial reserves and may possess weaknesses that can be adequately mitigated through collateral, structural or credit enhancement. The borrower is susceptible to economic cycles and is less resilient to negative market forces or financial events. Reserves may be insufficient to survive a modest downturn.

Watch. A watch loan, risk rated 6-Watch, is still pass-rated, but represents the lowest level of acceptable risk due to an emerging risk element or declining performance trend. Watch ratings are expected to be temporary, with issues resolved or manifested to the extent that a higher or lower rating would be appropriate. The borrower should have a plausible plan, with reasonable certainty of success, to correct the problems in a short period of time. Borrowers rated watch are characterized by elements of uncertainty, such as:

- The borrower may be experiencing declining operating trends, strained cash flows or less-than anticipated performance. Cash flow should still be adequate to cover debt service, and the negative trends should be identified as being of a short-term or temporary nature.
- The borrower may have experienced a minor, unexpected covenant violation.
- Companies who may be experiencing tight working capital or have a cash cushion deficiency.
- A loan may also be a watch if financial information is late, there is a documentation deficiency, the borrower has experienced unexpected management turnover, or if they face industry issues that, when combined with performance factors create uncertainty in their future ability to perform.
- Delinquent payments, increasing and material overdraft activity, request for bulge and/or out- of-formula advances may be an indicator of inadequate working capital and may suggest a lower rating.
- Failure of the intended repayment source to materialize as expected, or renewal of a loan (other than cash/marketable security secured or lines of credit) without reduction are possible indicators of a watch or worse risk rating.

Special Mention. A special mention loan, risk rated 7-Special Mention, has potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loans or the institutions credit position at some future date. They contain unfavorable characteristics and are generally undesirable. Loans in this category are currently protected but are potentially weak and constitute an undue and unwarranted credit risk, but not to the point of a substandard classification. A special mention loan has potential weaknesses, which if not checked or corrected, weaken the loan or inadequately protect the Company’s position at some future date. Such weaknesses include:

- Performance is poor or significantly less than expected. There may be a temporary debt-servicing deficiency or inadequate working capital as evidenced by a cash cushion deficiency, but not to the extent that repayment is compromised. Material violation of financial covenants is common.
- Loans with unresolved material issues that significantly cloud the debt service outlook, even though a debt servicing deficiency does not currently exist.
- Modest underperformance or deviation from plan for real estate loans where absorption of rental/sales units is necessary to properly service the debt as structured. Depth of support for interest carry provided by owner/guarantors may mitigate and provide for improved rating
- This rating may be assigned when a loan officer is unable to supervise the credit properly, an inadequate loan agreement, an inability to control collateral, failure to obtain proper documentation, or any other deviation from prudent lending practices.
- Unlike a substandard credit, there should be a reasonable expectation that these temporary issues will be corrected within the normal course of business, rather than liquidation of assets, and in a reasonable period of time.

Substandard. A substandard loan, risk rated 8-Substandard, is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the loan. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual loans classified substandard. Loans are classified as substandard when they have unsatisfactory characteristics causing unacceptable levels of risk. A substandard loan normally has one or more well-defined weaknesses that could jeopardize repayment of the loan. The likely need to liquidate assets to correct the problem, rather than repayment from successful operations is the key distinction between special mention and substandard. The following are examples of well-defined weaknesses:

-

Cash flow deficiencies or trends are of a magnitude to jeopardize current and future payments with no immediate relief. A loss is not presently expected, however the outlook is sufficiently uncertain to preclude ruling out the possibility.

- The borrower has been unable to adjust to prolonged and unfavorable industry or economic trends.

- Material underperformance or deviation from plan for real estate loans where absorption of rental/sales units is necessary to properly service the debt and risk is not mitigated by willingness and capacity of owner/guarantor to support interest payments.
- Management character or honesty has become suspect. This includes instances where the borrower has become uncooperative.
- Due to unprofitable or unsuccessful business operations, some form of restructuring of the business, including liquidation of assets, has become the primary source of loan repayment. Cash flow has deteriorated, or been diverted, to the point that sale of collateral is now the Company's primary source of repayment (unless this was the original source of repayment). If the collateral is under the Company's control and is cash or other liquid, highly marketable securities and properly margined, then a more appropriate rating might be special mention or watch.
- The borrower is involved in bankruptcy proceedings where collateral liquidation values are expected to fully protect the Company against loss.
- There is material, uncorrectable faulty documentation or materially suspect financial information.

Doubtful. Loans classified as doubtful, risk rated 9-Doubtful, have all the weaknesses inherent in one classified 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. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work towards strengthening of the loan, classification as a loss (and immediate charge-off) is deferred until more exact status may be determined. Pending factors include proposed merger, acquisition, liquidation procedures, capital injection, and perfection of liens on additional collateral and refinancing plans. In certain circumstances, a doubtful rating will be temporary, while the Company is awaiting an updated collateral valuation. In these cases, once the collateral is valued and appropriate margin applied, the remaining un-collateralized portion will be charged-off. The remaining balance, properly margined, may then be upgraded to substandard, however must remain on non-accrual.

Loss. Loans classified as loss, risk rated 10-Loss, are considered un-collectible and of such little value that the continuance as an active Company asset is not warranted. This rating does not mean that the loan has no recovery or salvage value, but rather that the loan should be charged-off now, even though partial or full recovery may be possible in the future.

Impaired. Loans are classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal and interest when due, in accordance with the terms of the original loan agreement, without unreasonable delay. This generally includes all loans classified as nonaccrual and troubled debt restructurings. Impaired loans are risk rated for internal and regulatory rating purposes, but presented separately for clarification.

Homogeneous loans maintain their original risk rating until they are greater than 30 days past due, and risk rating reclassification is based primarily on the past due status of the loan. The risk rating categories can be generally described by the following groupings for commercial and commercial real estate homogeneous loans:

Watch. A homogeneous watch loan, risk rated 6, is 30-59 days past due from the required payment date at month-end.

Special Mention. A homogeneous special mention loan, risk rated 7, is 60-89 days past due from the required payment date at month-end.

Substandard. A homogeneous substandard loan, risk rated 8, is 90-179 days past due from the required payment date at month-end.

Loss. A homogeneous loss loan, risk rated 10, is 180 days and more past due from the required payment date. These loans are generally charged-off in the month in which the 180 day time period elapses.

The risk rating categories can be generally described by the following groupings for residential and home equity and other homogeneous loans:

Watch. A homogeneous retail watch loan, risk rated 6, is 60-89 days past due from the required payment date at month-end.

Substandard. A homogeneous retail substandard loan, risk rated 8, is 90-180 days past due from the required payment date at month-end.

Loss. A homogeneous retail loss loan, risk rated 10, becomes past due 180 cumulative days from the contractual due date. These loans are generally charged-off in the month in which the 180 day period elapses.

Residential and home equity loans modified in a troubled debt restructure are not considered homogeneous. The risk rating classification for such loans are based on the non-homogeneous definitions noted above.

The following tables summarize designated loan grades by loan portfolio segment and loan class.

	At September 30, 2015				
(in thousands)	Pass	Watch	Special mention	Substandard	Total
Consumer loans					
Single family	$1,135,079 [(1)]	$4,835	$20,755	$11,298	$1,171,967
Home equity and other	235,406	156	298	1,631	237,491
	1,370,485	4,991	21,053	12,929	1,409,458
Commercial loans					
Commercial real estate	483,325	62,221	8,362	9,333	563,241
Multifamily	357,985	20,370	2,146	1,891	382,392
Construction/land development	511,358	14,395	2,234	1,884	529,871
Commercial business	122,045	30,263	1,543	4,284	158,135
	1,474,713	127,249	14,285	17,392	1,633,639
	$2,845,198	$132,240	$35,338	$30,321	$3,043,097

(1) Includes $23.8 million of loans where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

	At December 31, 2014				
(in thousands)	Pass	Watch	Special mention	Substandard	Total
Consumer loans					
Single family	$865,641	$361	$21,714	$8,949	$896,665
Home equity and other	133,338	82	652	1,526	135,598
	998,979	443	22,366	10,475	1,032,263
Commercial loans					
Commercial real estate	441,509	67,434	13,066	1,455	523,464
Multifamily	50,495	1,516	3,077	—	55,088
Construction/land development	361,167	2,830	1,261	2,676	367,934
Commercial business	115,665	25,724	3,690	2,370	147,449
	968,836	97,504	21,094	6,501	1,093,935
	$1,967,815	$97,947	$43,460	$16,976	$2,126,198

As of September 30, 2015 and December 31, 2014, none of the Company's loans were rated Doubtful or Loss. For a detailed discussion on credit quality, see Note 6, Loans and Credit Quality within our 2014 Annual Report on Form 10-K.

Nonaccrual and Past Due Loans

Loans are placed on nonaccrual status when the full and timely collection of principal and interest is doubtful, generally when the loan becomes 90 days or more past due for principal or interest payment or if part of the principal balance has been charged off. Loans whose repayments are insured by the Federal Housing Authority ("FHA") or guaranteed by the Department of Veterans' Affairs ("VA") are generally maintained on accrual status even if 90 days or more past due.

The following table presents an aging analysis of past due loans by loan portfolio segment and loan class.

	At September 30, 2015						
(in thousands)	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total loans	90 days or more past due and accruing[(2)]
Consumer loans							
Single family	$6,431	$7,764	$45,591	$59,786	$1,112,181 (1)	$1,171,967	$35,152 (2)
Home equity and other	1,294	157	1,608	3,059	234,432	237,491	—
	7,725	7,921	47,199	62,845	1,346,613	1,409,458	35,152
Commercial loans							
Commercial real estate	1,714	—	2,540	4,254	558,987	563,241	—
Multifamily	—	—	1,449	1,449	380,943	382,392	—
Construction/land development	715	—	—	715	529,156	529,871	—
Commercial business	202	—	3,434	3,636	154,499	158,135	—
	2,631	—	7,423	10,054	1,623,585	1,633,639	—
	$10,356	$7,921	$54,622	$72,899	$2,970,198	$3,043,097	$35,152

	At December 31, 2014						
(in thousands)	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total loans	90 days or more past due and accruing[(2)]
Consumer loans							
Single family	$7,832	$2,452	$43,105	$53,389	$843,276	$896,665	$34,737 (2)
Home equity and other	371	81	1,526	1,978	133,620	135,598	—
	8,203	2,533	44,631	55,367	976,896	1,032,263	34,737
Commercial loans							
Commercial real estate	—	—	4,843	4,843	518,621	523,464	—
Multifamily	—	—	—	—	55,088	55,088	—
Construction/land development	—	1,261	—	1,261	366,673	367,934	—
Commercial business	611	3	1,527	2,141	145,308	147,449	250
	611	1,264	6,370	8,245	1,085,690	1,093,935	250
	$8,814	$3,797	$51,001	$63,612	$2,062,586	$2,126,198	$34,987

(1) Includes $23.8 million of loans at September 30, 2015 where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

(2) FHA-insured and VA-guaranteed single family loans that are 90 days or more past due are maintained on accrual status if they are determined to have little to no risk of loss.

The following tables present performing and nonperforming loan balances by loan portfolio segment and loan class.

(in thousands)	At September 30, 2015 Accrual	Nonaccrual	Total
Consumer loans			
Single family	$1,161,528 [1]	$10,439	$1,171,967
Home equity and other	235,883	1,608	237,491
	1,397,411	12,047	1,409,458
Commercial loans			
Commercial real estate	560,701	2,540	563,241
Multifamily	380,943	1,449	382,392
Construction/land development	529,871	—	529,871
Commercial business	154,701	3,434	158,135
	1,626,216	7,423	1,633,639
	$3,023,627	$19,470	$3,043,097

(1) Includes $23.8 million of loans at September 30, 2015 where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

(in thousands)	At December 31, 2014 Accrual	Nonaccrual	Total
Consumer loans			
Single family	$888,297	$8,368	$896,665
Home equity and other	134,072	1,526	135,598
	1,022,369	9,894	1,032,263
Commercial loans			
Commercial real estate	518,621	4,843	523,464
Multifamily	55,088	—	55,088
Construction/land development	367,934	—	367,934
Commercial business	146,172	1,277	147,449
	1,087,815	6,120	1,093,935
	$2,110,184	$16,014	$2,126,198

The following tables present information about troubled debt restructurings ("TDRs") activity during the periods presented.

	Three Months Ended September 30, 2015			
(dollars in thousands)	Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	11	$1,722	$—
Total consumer				
	Interest rate reduction	11	1,722	—
		11	1,722	—
Total loans				
	Interest rate reduction	11	1,722	—
		11	$1,722	$—

	Three Months Ended September 30, 2014			
(dollars in thousands)	Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	18	$3,268	$—
	Payment restructure	8	1,626	—
Home equity				
	Interest rate reduction	1	220	—
Total consumer				
	Interest rate reduction	19	3,488	—
	Payment restructure	8	1,626	—
		27	5,114	—
Commercial loans				
Commercial real estate				
	Interest rate reduction	1	1,181	—
Commercial business				
	Forgiveness of principal	1	391	266
Total commercial				
	Interest rate reduction	1	1,181	—
	Forgiveness of principal	1	391	266
		2	1,572	266
Total loans				
	Interest rate reduction	20	4,669	—
	Payment restructure	8	1,626	—
	Forgiveness of principal	1	391	266
		29	$6,686	$266

(dollars in thousands)	Nine Months Ended September 30, 2015 Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	39	$8,514	$—
Home equity and other				
	Interest rate reduction	1	37	—
Total consumer				
	Interest rate reduction	40	8,551	—
		40	8,551	—
Commercial loans				
Commercial business				
	Interest rate reduction	2	482	—
Total commercial				
	Interest rate reduction	2	482	—
		2	482	—
Total loans				
	Interest rate reduction	42	9,033	—
		42	$9,033	$—

(dollars in thousands)	Nine Months Ended September 30, 2014 Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	42	$7,455	$—
	Payment restructure	10	1,991	—
Home equity				
	Interest rate reduction	1	220	—
Total consumer				
	Interest rate reduction	43	7,675	—
	Payment restructure	10	1,991	—
		53	9,666	—
Commercial loans				
Commercial real estate				
	Interest rate reduction	1	1,181	—
	Payment restructure	3	4,248	—
Commercial business				
	Interest rate reduction	2	117	—
	Forgiveness of principal	2	599	554
Total commercial				
	Interest rate reduction	3	1,298	—
	Payment restructure	3	4,248	—
	Forgiveness of principal	2	599	554
		8	6,145	554
Total loans				
	Interest rate reduction	46	8,973	—
	Payment restructure	13	6,239	—
	Forgiveness of principal	2	599	554
		61	$15,811	$554

The following tables present loans that were modified as TDRs within the previous 12 months and subsequently re-defaulted during the three and nine months ended September 30, 2015 and 2014, respectively. A TDR loan is considered re-defaulted when it becomes doubtful that the objectives of the modifications will be met, generally when a consumer loan TDR becomes 60 days or more past due on principal or interest payments or when a commercial loan TDR becomes 90 days or more past due on principal or interest payments.

(dollars in thousands)	Three Months Ended September 30, 2015 Number of loan relationships that re-defaulted	Recorded investment	2014 Number of loan relationships that re-defaulted	Recorded investment
Consumer loans				
Single family	3	$552	3	$282
Home equity and other	1	68	—	—

4	620	3	282
4	$620	3	$282

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(dollars in thousands)	Nine Months Ended September 30, 2015		2014	
	Number of loan relationships that re-defaulted	Recorded investment	Number of loan relationships that re-defaulted	Recorded investment
Consumer loans				
Single family	10	$2,270	7	$1,010
Home equity and other	1	68	1	190
	11	2,338	8	1,200
	11	$2,338	8	$1,200

NOTE 5–DEPOSITS:

Deposit balances, including stated rates, were as follows.

(in thousands)	At September 30, 2015	At December 31, 2014
Noninterest-bearing accounts	$698,360	$470,663
NOW accounts, 0.00% to 1.00% at September 30, 2015 and 0.00% to 1.00% at December 31, 2014	452,482	272,390
Statement savings accounts, due on demand, 0.00% to 1.00% at September 30, 2015 and 0.00% to 1.99% at December 31, 2014	296,983	200,638
Money market accounts, due on demand, 0.00% to 1.45% at September 30, 2015 and 0.00% to 1.45% at December 31, 2014	1,140,660	1,007,214
Certificates of deposit, 0.05% to 3.80% at September 30, 2015 and 0.05% to 3.80% at December 31, 2014	719,208	494,525
	$3,307,693	$2,445,430

There were $1.6 million in public funds included in deposits as of September 30, 2015 and $2.2 million at December 31, 2014.

Interest expense on deposits was as follows.

(in thousands)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
NOW accounts	$495	$289	$1,283	$835
Statement savings accounts	257	238	778	649
Money market accounts	1,272	1,125	3,655	3,226
Certificates of deposit	1,045	712	2,940	2,370
	$3,069	$2,364	$8,656	$7,080

The weighted-average interest rates on certificates of deposit September 30, 2015 and December 31, 2014 were 0.92% and 0.60%, respectively.

Certificates of deposit outstanding mature as follows.

(in thousands)	At September 30, 2015
Within one year	$556,103
One to two years	97,049
Two to three years	21,351
Three to four years	28,206
Four to five years	16,499
	$719,208

The aggregate amount of time deposits in denominations of $100 thousand or more at September 30, 2015 and December 31, 2014 was $263.0 million and $188.7 million, respectively. The aggregate amount of time deposits in denominations of more than $250 thousand at September 30, 2015 and December 31, 2014 was $70.8 million and $30.2 million, respectively. There were $149.1 million and $176.1 million of brokered deposits at each of September 30, 2015 and December 31, 2014.

NOTE 6–DERIVATIVES AND HEDGING ACTIVITIES:

To reduce the risk of significant interest rate fluctuations on the value of certain assets and liabilities, such as certain mortgage loans held for sale or mortgage servicing rights ("MSRs"), the Company utilizes derivatives, such as forward sale commitments, futures, option contracts, interest rate swaps and swaptions as risk management instruments in its hedging strategy. Derivative transactions are measured in terms of notional amount, which is not recorded in the consolidated statements of financial condition. The notional amount is generally not exchanged and is used as the basis for interest and other contractual payments. We held no derivatives designated as a fair value, cash flow or foreign currency hedge instrument at September 30, 2015 or December 31, 2014. Derivatives are reported at their respective fair values in the other assets or accounts payable and other liabilities line items on the consolidated statements of financial condition, with changes in fair value reflected in current period earnings.

As permitted under U.S. GAAP, the Company nets derivative assets and liabilities when a legally enforceable master netting agreement exists between the Company and the derivative counterparty, which are documented under industry standard master agreements and credit support annexes. The Company's master netting agreements provide that following an uncured payment default or other event of default the non-defaulting party may promptly terminate all transactions between the parties and determine a net amount due to be paid to, or by, the defaulting party. An event of default may also occur under a credit support annex if a party fails to make a collateral delivery (which remains uncured following applicable notice and grace periods). The Company's right of offset requires that master netting agreements are legally enforceable and that the exercise of rights by the non-defaulting party under these agreements will not be stayed, or avoided under applicable law upon an event of default including bankruptcy, insolvency or similar proceeding.

The collateral used under the Company's master netting agreements is typically cash, but securities may be used under agreements with certain counterparties. Receivables related to cash collateral that has been paid to counterparties is included in other assets on the Company's consolidated statements of financial condition. Any securities pledged to counterparties as collateral remain on the consolidated statement of financial condition. Refer to Note 3, Investment Securities of this Form 10-Q for further information on securities collateral pledged. At September 30, 2015 and December 31, 2014, the Company did not hold any collateral received from counterparties under derivative transactions.

For further information on the policies that govern derivative and hedging activities, see Note 1, Summary of Significant Accounting Policies and Note 11, Derivatives and Hedging Activities within our 2014 Annual Report on Form 10-K.

The notional amounts and fair values for derivatives consist of the following.

	At September 30, 2015		
	Notional amount	Fair value derivatives	
(in thousands)		Asset	Liability
Forward sale commitments	$1,502,462	$2,448	$(9,662)
Interest rate swaptions	55,000	—	(18)
Interest rate lock commitments	775,136	26,211	(2)
Interest rate swaps	857,950	13,634	(4,582)
Total derivatives before netting	$3,190,548	42,293	(14,264)
Netting adjustments		(10,146)	10,146
Carrying value on consolidated statements of financial condition		$32,147	$(4,118)

	At December 31, 2014		
	Notional amount	Fair value derivatives	
(in thousands)		Asset	Liability
Forward sale commitments	$934,986	$1,071	$(5,658)
Interest rate swaptions	15,000	—	—
Interest rate lock commitments	392,687	11,939	(6)
Interest rate swaps	610,150	11,689	(972)
Total derivatives before netting	$1,952,823	24,699	(6,636)
Netting adjustments		(5,858)	5,858
Carrying value on consolidated statements of financial condition		$18,841	$(778)

The following tables present gross and net information about derivative instruments.

	At September 30, 2015					
(in thousands)	Gross fair value	Netting adjustments	Carrying value	Cash collateral paid (1)	Securities pledged	Net amount
Derivative assets	$42,293	$(10,146)	$32,147	$—	$—	$32,147
Derivative liabilities	$(14,264)	$10,146	$(4,118)	$3,798	$—	$(320)

	At December 31, 2014					
(in thousands)	Gross fair value	Netting adjustments	Carrying value	Cash collateral paid (1)	Securities pledged	Net amount
Derivative assets	$24,699	$(5,858)	$18,841	$—	$—	$18,841
Derivative liabilities	$(6,636)	$5,858	$(778)	$—	$762	$(16)

(1) Excludes cash collateral of $28.4 million and $20.4 million at September 30, 2015 and December 31, 2014, which predominantly consists of collateral transferred by the Company at the initiation of derivative transactions and held by the counterparty as security. These amounts were not netted against the derivative receivables and payables, because, at an individual counterparty level, the collateral exceeded the fair value exposure at both September 30,

2015 and December 31, 2014.

The following table presents the net gain (loss) recognized on derivatives, including economic hedge derivatives, within the respective line items in the statement of operations for the periods indicated.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Recognized in noninterest income:				
Net gain on mortgage loan origination and sale activities [1]	$(17,135)	$(2,868)	$5,116	$(8,882)
Mortgage servicing income [2]	22,017	2,543	17,030	23,381
	$4,882	$(325)	$22,146	$14,499

(1) Comprised of interest rate lock commitments ("IRLCs") and forward contracts used as an economic hedge of IRLCs and single family mortgage loans held for sale.
(2) Comprised of interest rate swaps, interest rate swaptions and forward contracts used as an economic hedge of single family MSRs.

NOTE 7–MORTGAGE BANKING OPERATIONS:

Loans held for sale consisted of the following.

(in thousands)	At September 30, 2015	At December 31, 2014
Single family	$860,800	$610,350
Multifamily	21,519	10,885
Total loans held for sale	$882,319	$621,235

Loans sold consisted of the following.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Single family	$1,965,223	$1,179,464	$5,176,569	$2,705,719
Multifamily	42,333	20,409	140,965	42,574
Total loans sold	$2,007,556	$1,199,873	$5,317,534	$2,748,293

Net gain on mortgage loan origination and sale activities, including the effects of derivative risk management instruments, consisted of the following.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Single family:				
Servicing value and secondary market gains[1]	$49,613	$29,866	$167,786	$79,658

Loan origination and funding fees	6,362	6,947	16,452	18,489
Total single family	55,975	36,813	184,238	98,147
Multifamily	1,488	930	4,741	2,019
Other	422	(101)	767	4,780
Total net gain on mortgage loan origination and sale activities	$57,885	$37,642	$189,746	$104,946

(1) Comprised of gains and losses on interest rate lock commitments (which considers the value of servicing), single family loans held for sale, forward sale commitments used to economically hedge secondary market activities, and changes in the Company's repurchase liability for loans that have been sold.

The Company’s portfolio of loans serviced for others is primarily comprised of loans held in U.S. government and agency MBS issued by Fannie Mae, Freddie Mac and Ginnie Mae. Loans serviced for others are not included in the consolidated statements of financial condition as they are not assets of the Company. The composition of loans serviced for others is presented below at the unpaid principal balance.

(in thousands)	At September 30, 2015	At December 31, 2014
Single family		
U.S. government and agency	$13,590,706	$10,630,864
Other	680,481	585,344
	14,271,187	11,216,208
Commercial		
Multifamily	866,880	752,640
Other	86,567	82,354
	953,447	834,994
Total loans serviced for others	$15,224,634	$12,051,202

The Company has made representations and warranties that the loans sold meet certain requirements. The Company may be required to repurchase mortgage loans or indemnify loan purchasers due to defects in the origination process of the loan, such as documentation errors, underwriting errors and judgments, appraisal errors, early payment defaults and fraud. For further information on the Company's mortgage repurchase liability, see Note 8, Commitments, Guarantees and Contingencies of this Form 10-Q. The following is a summary of changes in the Company's liability for estimated mortgage repurchase losses.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Balance, beginning of period	$2,480	$1,235	$1,956	$1,260
Additions [1]	883	518	2,052	1,070
Realized losses [2]	(128)	(86)	(773)	(663)
Balance, end of period	$3,235	$1,667	$3,235	$1,667

(1) Includes additions for new loan sales and changes in estimated probable future repurchase losses on previously sold loans.

(2) Includes principal losses and accrued interest on repurchased loans, “make-whole” settlements, settlements with claimants and certain related expense.

Advances are made to Ginnie Mae mortgage pools for delinquent loan payments. We also fund foreclosure costs and we repurchase loans from Ginnie Mae mortgage pools prior to recovery of guaranteed amounts. Ginnie Mae advances of $9.0 million and $7.8 million were recorded in other assets as of September 30, 2015 and December 31, 2014, respectively.

When the Company has the unilateral right to repurchase Ginnie Mae pool loans it has previously sold (generally loans that are more than 90 days past due), the Company then records the loan on its consolidated statement of financial condition. At September 30, 2015 and December 31, 2014, delinquent or defaulted mortgage loans currently in Ginnie Mae pools that the Company has recognized on its consolidated statements of financial condition totaled

$24.5 million and $21.2 million, respectively, with a corresponding amount recorded within accounts payable and other liabilities on the consolidated statements of financial condition. The recognition of previously sold loans does not impact the accounting for the previously recognized MSRs.

Revenue from mortgage servicing, including the effects of derivative risk management instruments, consisted of the following.

(in thousands)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Servicing income, net:				
Servicing fees and other	$11,136	$9,350	$30,256	$29,311
Changes in fair value of single family MSRs due to modeled amortization [1]	(8,478)	(6,212)	(26,725)	(19,289)
Amortization of multifamily MSRs	(511)	(425)	(1,441)	(1,283)
	2,147	2,713	2,090	8,739
Risk management, single family MSRs:				
Changes in fair value due to changes in model inputs and/or assumptions [2]	(19,396)	899	(8,224)	(7,836) [3]
Net gain from derivatives economically hedging MSR	22,017	2,543	17,030	23,381
	2,621	3,442	8,806	15,545
Mortgage servicing income	$4,768	$6,155	$10,896	$24,284

(1) Represents changes due to collection/realization of expected cash flows and curtailments.

(2) Principally reflects changes in model assumptions, including prepayment speed assumptions, which are primarily affected by changes in mortgage interest rates.

(3) Includes pre-tax income of $4.7 million, net of brokerage fees and prepayment reserves, resulting from the sale of single family MSRs during 2014.

All MSRs are initially measured and recorded at fair value at the time loans are sold. Single family MSRs are subsequently carried at fair value with changes in fair value reflected in earnings in the periods in which the changes occur, while multifamily MSRs are subsequently carried at the lower of amortized cost or fair value.

The fair value of MSRs is determined based on the price that would be received to sell the MSRs in an orderly transaction between market participants at the measurement date. The Company determines fair value using a valuation model that calculates the net present value of estimated future cash flows. Estimates of future cash flows include contractual servicing fees, ancillary income and costs of servicing, the timing of which are impacted by assumptions, primarily expected prepayment speeds and discount rates, which relate to the underlying performance of the loans.

The initial fair value measurement of MSRs is adjusted up or down depending on whether the underlying loan pool interest rate is at a premium, discount or par. Key economic assumptions used in measuring the initial fair value of capitalized single family MSRs were as follows.

(rates per annum) [1]	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Constant prepayment rate ("CPR") [2]	14.96 %	12.60 %	14.71 %	12.72 %
Discount rate [3]	10.34 %	10.27 %	10.31 %	10.60 %

(1) Weighted average rates for sales during the period for sales of loans with similar characteristics.

(2) Represents the expected lifetime average.
(3) Discount rate is a rate based on market observations.

Key economic assumptions and the sensitivity of the current fair value for single family MSRs to immediate adverse changes in those assumptions were as follows.

(dollars in thousands)	At September 30, 2015	
Fair value of single family MSR	$132,701	
Expected weighted-average life (in years)	4.27	
Constant prepayment rate [1]	19.57	%
Impact on 25 basis points adverse change	$(11,351	)
Impact on 50 basis points adverse change	$(23,284	)
Discount rate	10.50	%
Impact on fair value of 100 basis points increase	$(3,548	)
Impact on fair value of 200 basis points increase	$(6,914	)

(1) Represents the expected lifetime average.

These sensitivities are hypothetical and should be used with caution. As the table above demonstrates, the Company's methodology for estimating the fair value of MSRs is highly sensitive to changes in key assumptions. For example, actual prepayment experience may differ and any difference may have a material effect on MSR fair value. Changes in fair value resulting from changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the MSRs is calculated without changing any other assumption; in reality, changes in one factor may be associated with changes in another (for example, decreases in market interest rates may provide an incentive to refinance; however, this may also indicate a slowing economy and an increase in the unemployment rate, which reduces the number of borrowers who qualify for refinancing), which may magnify or counteract the sensitivities. Thus, any measurement of MSR fair value is limited by the conditions existing and assumptions made as of a particular point in time. Those assumptions may not be appropriate if they are applied to a different point in time.

The changes in single family MSRs measured at fair value are as follows.

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands)	2015		2014		2015		2014	
Beginning balance	$140,588		$108,869		$112,439		$153,128	
Additions and amortization:								
Originations	19,984		11,944		55,202		31,664	
Purchases	3		3		9		8	
Sale of single family MSRs	—		—		—		(43,248	) [3]
Changes due to modeled amortization[1]	(8,478	)	(6,212	)	(26,725	)	(19,289	)
Net additions and amortization	11,509		5,735		28,486		(30,865	)
Changes in fair value due to changes in model inputs and/or assumptions [2]	(19,396	)	873		(8,224	)	(6,786	) [4]
Ending balance	$132,701		$115,477		$132,701		$115,477	

(1) Represents changes due to collection/realization of expected cash flows and curtailments.

(2) Principally reflects changes in model assumptions, including prepayment speed assumptions, which are primarily affected by changes in mortgage interest rates.

(3) On June 30, 2014, the Company sold the rights to service $2.96 billion in total unpaid principal balance of single family mortgage loans serviced for Fannie Mae.

(4) Includes pre-tax income of $5.7 million, excluding transaction costs, resulting from the sale of single family MSRs during 2014.

MSRs resulting from the sale of multifamily loans are subsequently carried at the lower of amortized cost or fair value. Multifamily MSRs are recorded at fair value and are amortized in proportion to, and over, the estimated period the net servicing income will be collected.

The changes in multifamily MSRs measured at the lower of amortized cost or fair value were as follows.

(in thousands)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Beginning balance	$12,649	$9,122	$10,885	$9,335
Origination	1,241	418	3,935	1,062
Amortization	(511)	(424)	(1,441)	(1,281)
Ending balance	$13,379	$9,116	$13,379	$9,116

At September 30, 2015, the expected weighted-average life of the Company's multifamily MSRs was 9.83 years. Projected amortization expense for the gross carrying value of multifamily MSRs is estimated as follows.

(in thousands)	At September 30, 2015
Remainder of 2015	$524
2016	2,023
2017	1,901
2018	1,744
2019	1,633
2020 and thereafter	5,554
Carrying value of multifamily MSR	$13,379

NOTE 8–COMMITMENTS, GUARANTEES AND CONTINGENCIES:

Commitments

Commitments to extend credit are agreements to lend to customers in accordance with predetermined contractual provisions. These commitments may be for specific periods or contain termination clauses and may require the payment of a fee by the borrower. The total amounts of unused commitments do not necessarily represent future credit exposure or cash requirements in that commitments may expire without being drawn upon.

The Company makes certain unfunded loan commitments as part of its lending activities that have not been recognized in the Company's financial statements. These include commitments to extend credit made as part of the Company's mortgage lending activities and interest rate lock commitments on loans the Company intends to hold in its loans held for investment portfolio. The aggregate amount of these unrecognized unfunded loan commitments existing at September 30, 2015 and December 31, 2014 was $33.9 million and $72.0 million, respectively.

In the ordinary course of business, the Company extends secured and unsecured open-end loans to meet the financing needs of its customers. Undistributed construction loan commitments, where the Company has an obligation to advance funds for construction progress payments, were $410.4 million and $379.4 million at September 30, 2015 and December 31, 2014, respectively. Unused home equity and commercial banking funding lines totaled $158.1 million and $149.4 million at September 30, 2015 and December 31, 2014, respectively. The Company has recorded an allowance for credit losses on loan commitments, included in accounts payable and other liabilities on the

consolidated statements of financial condition, of $965 thousand and $503 thousand at September 30, 2015 and December 31, 2014, respectively.

Guarantees

In the ordinary course of business, the Company sells loans through the Fannie Mae Multifamily Delegated Underwriting and Servicing Program ("DUS®")[1] that are subject to a credit loss sharing arrangement. The Company services the loans for Fannie Mae and shares in the risk of loss with Fannie Mae under the terms of the DUS contracts. Under the program, the DUS lender is contractually responsible for the first 5% of losses and then shares equally in the remainder of losses with Fannie Mae with a maximum lender loss of 20% of the original principal balance of each DUS loan. For loans that have been sold through this program, a liability is recorded for this loss sharing arrangement under the accounting guidance for guarantees. As of September 30, 2015 and December 31, 2014, the total unpaid principal balance of loans sold under this program was $866.9 million and $752.6 million, respectively. The Company's reserve liability related to this arrangement totaled $2.9 million and $2.3 million at September 30, 2015 and December 31, 2014, respectively. There were no actual losses incurred under this arrangement during the three and nine months ended September 30, 2015 and 2014.

Mortgage repurchase liability

In the ordinary course of business, the Company sells residential mortgage loans to GSEs that include the mortgage loans in GSE-guaranteed mortgage securitizations. In addition, the Company sells FHA-insured and VA-guaranteed mortgage loans that are sold to Ginnie Mae and are used to back Ginnie Mae-guaranteed securities. The Company has made representations and warranties that the loans sold meet certain requirements. The Company may be required to repurchase mortgage loans or indemnify loan purchasers due to defects in the origination process of the loan, such as documentation errors, underwriting errors and judgments, early payment defaults and fraud.

These obligations expose the Company to any credit loss on the repurchased mortgage loans after accounting for any mortgage insurance that it may receive. Generally, the maximum amount of future payments the Company would be required to make for breaches of these representations and warranties would be equal to the unpaid principal balance of such loans that are deemed to have defects that were sold to purchasers plus, in certain circumstances, accrued and unpaid interest on such loans and certain expenses.

The Company does not typically receive repurchase requests from Ginnie Mae, FHA or VA. As an originator of FHA-insured or VA-guaranteed loans, the Company is responsible for obtaining the insurance with FHA or the guarantee with the VA. If loans are later found not to meet the requirements of FHA or VA, through required internal quality control reviews or through agency audits, the Company may be required to indemnify FHA or VA against losses. The loans remain in Ginnie Mae pools unless and until they are repurchased by the Company. In general, once a FHA or VA loan becomes 90 days past due, the Company repurchases the FHA or VA residential mortgage loan to minimize the cost of interest advances on the loan. If the loan is cured through borrower efforts or through loss mitigation activities, the loan may be resold into a Ginnie Mae pool. The Company's liability for mortgage loan repurchase losses incorporates probable losses associated with such indemnification.

The total unpaid principal balance of loans sold on a servicing-retained basis that were subject to the terms and conditions of these representations and warranties totaled $14.36 billion and $11.30 billion as of September 30, 2015 and December 31, 2014, respectively. At September 30, 2015 and December 31, 2014, the Company had recorded a mortgage repurchase liability for loans sold on a servicing-retained and servicing-released basis, included in accounts payable and other liabilities on the consolidated statements of financial condition, of $3.2 million and $2.0 million, respectively.

Contingencies

In the normal course of business, the Company may have various legal claims and other similar contingent matters outstanding for which a loss may be realized. For these claims, the Company establishes a liability for contingent losses when it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. For claims determined to be reasonably possible but not probable of resulting in a loss, there may be a range of possible losses in excess of the established liability. At September 30, 2015, we reviewed our legal claims and determined that there were no claims that are considered to be probable or reasonably possible of resulting in a loss. As a result, the Company did not have any amounts reserved for legal claims as of September 30, 2015.

NOTE 9–FAIR VALUE MEASUREMENT:

For a further discussion of fair value measurements, including information regarding the Company’s valuation methodologies and the fair value hierarchy, see Note 18, Fair Value Measurement within our 2014 Annual Report on Form 10-K.

Valuation Processes

The Company has various processes and controls in place to ensure that fair value measurements are reasonably estimated. The Finance Committee provides oversight and approves the Company’s Asset/Liability Management Policy ("ALMP"). The Company's ALMP governs, among other things, the application and control of the valuation models used to measure fair value. On a quarterly basis, the Company’s Asset/Liability Management Committee ("ALCO") and the Finance Committee of the Board review significant modeling variables used to measure the fair value of the Company’s financial instruments, including the significant inputs used in the valuation of single family MSRs. Additionally, at least annually ALCO obtains an independent review of the MSR valuation process and procedures, including a review of the model architecture and the valuation assumptions. The Company obtains an MSR valuation from an independent valuation firm monthly to assist with the validation of the fair value estimate and the reasonableness of the assumptions used in measuring fair value.

The Company’s real estate valuations are overseen by the Company’s appraisal department, which is independent of the Company’s lending and credit administration functions. The appraisal department maintains the Company’s appraisal policy and recommends changes to the policy subject to approval by the Company’s Loan Committee and the Credit Committee of the Board. The Company’s appraisals are prepared by independent third-party appraisers and the Company’s internal appraisers. Single family appraisals are generally reviewed by the Company’s single family loan underwriters. Single family appraisals with unusual, higher risk or complex characteristics, as well as commercial real estate appraisals, are reviewed by the Company’s appraisal department.

We obtain pricing from third party service providers for determining the fair value of a substantial portion of our investment securities available for sale. We have processes in place to evaluate such third party pricing services to ensure information obtained and valuation techniques used are appropriate. For fair value measurements obtained from third party services, we monitor and review the results to ensure the values are reasonable and in line with market experience for similar classes of securities. While the inputs used by the pricing vendor in determining fair value are not provided, and therefore unavailable for our review, we do perform certain procedures to validate the values received, including comparisons to other sources of valuation (if available), comparisons to other independent market data and a variance analysis of prices by Company personnel that are not responsible for the performance of the investment securities.

Estimation of Fair Value
Fair value is based on quoted market prices, when available. In cases where a quoted price for an asset or liability is not available, the Company uses valuation models to estimate fair value. These models incorporate inputs such as forward yield curves, loan prepayment assumptions, expected loss assumptions, market volatilities, and pricing spreads utilizing market-based inputs where readily available. The Company believes its valuation methods are appropriate and consistent with those that would be used by other market participants. However, imprecision in estimating unobservable inputs and other factors may result in these fair value measurements not reflecting the amount realized in an actual sale or transfer of the asset or liability in a current market exchange.

The following table summarizes the fair value measurement methodologies, including significant inputs and assumptions, and classification of the Company's assets and liabilities.

Asset/Liability class	Valuation methodology, inputs and assumptions	Classification
Cash and cash equivalents	Carrying value is a reasonable estimate of fair value based on the short-term nature of the instruments.	Estimated fair value classified as Level 1.
Investment securities		
Investment securities available for sale	Observable market prices of identical or similar securities are used where available. If market prices are not readily available, value is based on discounted cash flows using the following significant inputs: • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	Level 2 recurring fair value measurement
Investment securities held to maturity	Observable market prices of identical or similar securities are used where available. If market prices are not readily available, value is based on discounted cash flows using the following significant inputs: • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	Carried at amortized cost. Estimated fair value classified as Level 2.
Loans held for sale		
Single-family loans, excluding loans transferred from held for investment	Fair value is based on observable market data, including: • Quoted market prices, where available • Dealer quotes for similar loans • Forward sale commitments	Level 2 recurring fair value measurement
Single-family loans transferred from held for investment	Fair value is based on observable market data, including: • Quoted market prices, where available • Dealer quotes for similar loans • Forward sale commitments	Carried at lower of amortized cost or fair value. Estimated fair value classified as Level 2.
Multifamily loans	The sale price is set at the time the loan commitment is made, and as such subsequent changes in market	Carried at lower of amortized cost or fair value.

	conditions have a very limited effect, if any, on the value of these loans carried on the consolidated statements of financial condition, which are typically sold within 30 days of origination.	Estimated fair value classified as Level 2.
Loans held for investment		
Loans held for investment, excluding collateral dependent loans and loans transferred from held for sale	Fair value is based on discounted cash flows, which considers the following inputs: • Current lending rates for new loans • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	For the carrying value of loans see Note 1–Summary of Significant Accounting Policies of the 2014 Annual Report on Form 10-K. Estimated fair value classified as Level 3.

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Asset/Liability class	Valuation methodology, inputs and assumptions	Classification
Loans held for investment, collateral dependent	Fair value is based on appraised value of collateral, which considers sales comparison and income approach methodologies. Adjustments are made for various factors, which may include: • Adjustments for variations in specific property qualities such as location, physical dissimilarities, market conditions at the time of sale, income producing characteristics and other factors • Adjustments to obtain "upon completion" and "upon stabilization" values (e.g., property hold discounts where the highest and best use would require development of a property over time) • Bulk discounts applied for sales costs, holding costs and profit for tract development and certain other properties	Carried at lower of amortized cost or fair value of collateral, less the estimated cost to sell. Classified as a Level 3 nonrecurring fair value measurement in periods where carrying value is adjusted to reflect the fair value of collateral.
Loans held for investment transferred from loans held for sale	Fair value is based on discounted cash flows, which considers the following inputs: • Current lending rates for new loans • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	Level 3 recurring fair value measurement
Mortgage servicing rights		
Single family MSRs	For information on how the Company measures the fair value of its single family MSRs, including key economic assumptions and the sensitivity of fair value to changes in those assumptions, see Note 7, Mortgage Banking Operations of this Form 10-Q.	Level 3 recurring fair value measurement
Multifamily MSRs	Fair value is based on discounted estimated future servicing fees and other revenue, less estimated costs to service the loans.	Carried at lower of amortized cost or fair value Estimated fair value classified as Level 3.
Derivatives		
Interest rate swaps Interest rate swaptions Forward sale commitments	Fair value is based on quoted prices for identical or similar instruments, when available. When quoted prices are not available, fair value is based on internally developed modeling techniques, which require the use of multiple observable market inputs including: • Forward interest rates • Interest rate volatilities	Level 2 recurring fair value measurement

Interest rate lock commitments	The fair value considers several factors including: • Fair value of the underlying loan based on quoted prices in the secondary market, when available. • Value of servicing • Fall-out factor	Level 3 recurring fair value measurement

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Asset/Liability class	Valuation methodology, inputs and assumptions	Classification
Other real estate owned (“OREO”)	Fair value is based on appraised value of collateral, less the estimated cost to sell. See discussion of "loans held for investment, collateral dependent" above for further information on appraisals.	Carried at lower of amortized cost or fair value of collateral (Level 3), less the estimated cost to sell.
Federal Home Loan Bank stock	Carrying value approximates fair value as FHLB stock can only be purchased or redeemed at par value.	Carried at par value. Estimated fair value classified as Level 2.
Deposits		
Demand deposits	Fair value is estimated as the amount payable on demand at the reporting date.	Carried at historical cost. Estimated fair value classified as Level 2.
Fixed-maturity certificates of deposit	Fair value is estimated using discounted cash flows based on market rates currently offered for deposits of similar remaining time to maturity.	Carried at historical cost. Estimated fair value classified as Level 2.
Federal Home Loan Bank advances	Fair value is estimated using discounted cash flows based on rates currently available for advances with similar terms and remaining time to maturity.	Carried at historical cost. Estimated fair value classified as Level 2.
Long-term debt	Fair value is estimated using discounted cash flows based on current lending rates for similar long-term debt instruments with similar terms and remaining time to maturity.	Carried at historical cost. Estimated fair value classified as Level 2.

The following table presents the levels of the fair value hierarchy for the Company's assets and liabilities measured at fair value on a recurring basis.

(in thousands)	Fair Value at September 30, 2015	Level 1	Level 2	Level 3
Assets:				
Investment securities available for sale				
Mortgage backed securities:				
Residential	$91,004	$—	$91,004	$—
Commercial	24,065	—	24,065	—
Municipal bonds	187,083	—	187,083	—
Collateralized mortgage obligations:				
Residential	87,789	—	87,789	—
Commercial	56,246	—	56,246	—
Corporate debt securities	82,882	—	82,882	—
U.S. Treasury securities	41,013	—	41,013	—
Single family mortgage servicing rights	132,701	—	—	132,701
Single family loans held for sale	860,800	—	860,800	—
Single family loans held for investment	23,755	—	—	23,755
Derivatives				
Forward sale commitments	2,448	—	2,448	—
Interest rate swaptions	—	—	—	—
Interest rate lock commitments	26,211	—	—	26,211
Interest rate swaps	13,634	—	13,634	—
Total assets	$1,629,631	$—	$1,446,964	$182,667
Liabilities:				
Derivatives				
Forward sale commitments	$9,662	$—	$9,662	$—
Interest rate swaptions	18	—	18	—
Interest rate lock commitments	2	—	—	2
Interest rate swaps	4,582	—	4,582	—
Total liabilities	$14,264	$—	$14,262	$2

(in thousands)	Fair Value at December 31, 2014	Level 1	Level 2	Level 3
Assets:				
Investment securities available for sale				
Mortgage backed securities:				
Residential	$107,280	$—	$107,280	$—
Commercial	13,671	—	13,671	—
Municipal bonds	122,334	—	122,334	—
Collateralized mortgage obligations:				
Residential	43,166	—	43,166	—
Commercial	20,486	—	20,486	—
Corporate debt securities	79,400	—	79,400	—
U.S. Treasury securities	40,989	—	40,989	—
Single family mortgage servicing rights	112,439	—	—	112,439
Single family loans held for sale	610,350	—	610,350	—
Derivatives				
Forward sale commitments	1,071	—	1,071	—
Interest rate lock commitments	11,939	—	—	11,939
Interest rate swaps	11,689	—	11,689	—
Total assets	$1,174,814	$—	$1,050,436	$124,378
Liabilities:				
Derivatives				
Forward sale commitments	$5,658	$—	$5,658	$—
Interest rate lock commitments	6	—	—	6
Interest rate swaps	972	—	972	—
Total liabilities	$6,636	$—	$6,630	$6

There were no transfers between levels of the fair value hierarchy during the three and nine months ended September 30, 2015 and 2014.

Level 3 Recurring Fair Value Measurements

The Company's level 3 recurring fair value measurements consist of single family mortgage servicing rights, single family loans held for investment where fair value option was elected and interest rate lock commitments, which are accounted for as derivatives. For information regarding fair value changes and activity for single family MSRs during the three and nine months ended September 30, 2015 and 2014, see Note 7, Mortgage Banking Operations of this Form 10-Q.

During the first quarter of 2015, the Company transferred certain loans from held for sale to held for investment. These loans were originated as held for sale loans where the Company has elected fair value option. The Company determined these loans to be level 3 recurring assets as the valuation technique included a significant unobservable input. The total amount of held for investment loans where fair value option election was made was $23.8 million at September 30, 2015.
The following information presents significant Level 3 unobservable inputs used to measure fair value of single family loans held for investment where fair value option was elected.

(dollars in thousands)	At September 30, 2015

	Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Loans held for investment, fair value option	$23,755	Income approach	Implied spread to benchmark interest rate curve	3.19%	3.65%	3.30%

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The following table presents fair value changes and activity for level 3 interest rate lock commitments.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Beginning balance, net	$23,487	$17,406	$11,933	$5,972
Total realized/unrealized gains[1]	43,784	23,844	131,930	78,506
Settlements	(41,062)	(27,183)	(117,654)	(70,411)
Ending balance, net	$26,209	$14,067	$26,209	$14,067

(1) All realized and unrealized gains and losses are recognized in earnings as net gain from mortgage loan origination and sale activities on the consolidated statements of operations. There were net unrealized gains of $797 thousand and $405 thousand for the three months ended September 30, 2015 and 2014, respectively, and $1.3 million and $27.3 million for the nine months ended September 30, 2015 and 2014, respectively, recognized on interest rate lock commitments outstanding at the beginning of the period and still outstanding at September 30, 2015 and 2014, respectively.

The following information presents significant Level 3 unobservable inputs used to measure fair value of interest rate lock commitments.

(dollars in thousands)	At September 30, 2015					
	Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Interest rate lock commitments, net	$26,209	Income approach	Fall out factor	1.12%	65.77%	16.85%
			Value of servicing	0.45%	2.27%	0.85%

(dollars in thousands)	At December 31, 2014					
	Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Interest rate lock commitments, net	$11,933	Income approach	Fall out factor	0.60%	77.9%	21.4%
			Value of servicing	0.56%	1.94%	0.93%

Nonrecurring Fair Value Measurements

Certain assets held by the Company are not included in the tables above, but are measured at fair value on a nonrecurring basis. These assets include certain loans held for investment and other real estate owned that are carried at the lower of cost or fair value of the underlying collateral, less the estimated cost to sell. The estimated fair values of real estate collateral are generally based on internal evaluations and appraisals of such collateral, which use the market approach and income approach methodologies. All impaired loans are subject to an internal evaluation completed quarterly by management as part of the allowance process.

The fair value of commercial properties are generally based on third-party appraisals that consider recent sales of comparable properties, including their income-generating characteristics, adjusted (generally based on unobservable inputs) to reflect the general assumptions that a market participant would make when analyzing the property for

purchase. The Company uses a fair value of collateral technique to apply adjustments to the appraisal value of certain commercial loans held for investment that are collateralized by real estate. During the three and nine months ended September 30, 2015 and September 30, 2014, the Company recorded no adjustments to the appraisal values of certain commercial loans held for investment that are collateralized by real estate.

The Company uses a fair value of collateral technique to apply adjustments to the stated value of certain commercial loans held for investment that are not collateralized by real estate. During the three months ended September 30, 2015, the Company applied a range of stated value adjustments of 26.2% to 100.0%, with a weighted average rate of 35.2%. During the nine months ended September 30, 2015, the Company applied a range of stated value adjustments of 25.0% to 100.0%, with a weighted average of 36.3%. During the three months ended September 30, 2014, the Company applied a range of stated value

adjustments of 0.0% to 98.0%, with a weighted average of 18.6%. During the nine months ended September 30, 2014, the Company applied a range of stated value adjustments of 0.0% to 98.0%, with a weighted average of 22.5%.

Residential properties are generally based on unadjusted third-party appraisals. Factors considered in determining the fair value include geographic sales trends, the value of comparable surrounding properties as well as the condition of the property.

These adjustments include management assumptions that are based on the type of collateral dependent loan and may increase or decrease an appraised value. Management adjustments vary significantly depending on the location, physical characteristics and income producing potential of each individual property. The quality and volume of market information available at the time of the appraisal can vary from period-to-period and cause significant changes to the nature and magnitude of the unobservable inputs used. Given these variations, changes in these unobservable inputs are generally not a reliable indicator for how fair value will increase or decrease from period to period.

The following tables present assets that had changes in their recorded fair value during the three and nine months ended September 30, 2015 and 2014 and still held at the end of the respective reporting period.

	Three Months Ended September 30, 2015				
(in thousands)	Fair Value of Assets Held at September 30, 2015	Level 1	Level 2	Level 3	Total Gains (Losses)
Loans held for investment[1]	$9,171	$—	$—	$9,171	$(375)
Other real estate owned[2]	6,532	—	—	6,532	(399)
Total	$15,703	$—	$—	$15,703	$(774)

	Three Months Ended September 30, 2014				
(in thousands)	Fair Value of Assets Held at September 30, 2014	Level 1	Level 2	Level 3	Total Gains (Losses)
Loans held for investment[1]	$22,379	$—	$—	$22,379	$(82)
Other real estate owned[2]	1,017	—	—	1,017	(93)
Total	$23,396	$—	$—	$23,396	$(175)

	Nine Months Ended September 30, 2015				
(in thousands)	Fair Value of Assets Held at September 30, 2015	Level 1	Level 2	Level 3	Total Gains (Losses)
Loans held for investment[1]	$9,171	$—	$—	$9,171	$(287)
Other real estate owned[2]	6,532	—	—	6,532	(399)
Total	$15,703	$—	$—	$15,703	$(686)

	Nine Months Ended September 30, 2014			
(in thousands)		Level 1	Level 2	Level 3

	Fair Value of Assets Held at September 30, 2014				Total Gains (Losses)	
Loans held for investment[1]	$25,786	$—	$—	$25,786	$(495	)
Other real estate owned[2]	6,831	—	—	6,831	(69	)
Total	$32,617	$—	$—	$32,617	$(564	)

(1) Represents the carrying value of loans for which adjustments are based on the fair value of the collateral.
(2) Represents other real estate owned where an updated fair value of collateral is used to adjust the carrying amount subsequent to the initial classification as other real estate owned.

Fair Value of Financial Instruments

The following presents the carrying value, estimated fair value and the levels of the fair value hierarchy for the Company's financial instruments other than assets and liabilities measured at fair value on a recurring basis.

(in thousands)	At September 30, 2015 Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$37,303	$37,303	$37,303	$—	$—
Investment securities held to maturity	31,936	32,572	—	32,572	—
Loans held for investment	2,989,168	3,069,234	—	—	3,069,234
Loans held for sale – multifamily	21,519	21,519	—	21,519	—
Mortgage servicing rights – multifamily	13,379	15,062	—	—	15,062
Federal Home Loan Bank stock	44,652	44,652	—	44,652	—
Liabilities:					
Deposits	$3,307,693	$3,308,155	$—	$3,308,155	$—
Federal Home Loan Bank advances	1,025,745	1,029,713	—	1,029,713	—
Long-term debt	61,857	60,245	—	60,245	—

(in thousands)	At December 31, 2014 Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$30,502	$30,502	$30,502	$—	$—
Investment securities held to maturity	28,006	28,537	—	28,537	—
Loans held for investment	2,099,129	2,150,672	—	—	2,150,672
Loans held for sale – multifamily	10,885	10,855	—	10,855	—
Mortgage servicing rights – multifamily	10,885	12,540	—	—	12,540
Federal Home Loan Bank stock	33,915	33,915	—	33,915	—
Liabilities:					
Deposits	$2,445,430	$2,445,635	$—	$2,445,635	$—
Federal Home Loan Bank advances	597,590	600,599	—	600,599	—
Federal funds purchased and securities sold under agreements to repurchase	50,000	50,000	—	50,000	—
Long-term debt	61,857	60,235	—	60,235	—

Excluded from the fair value tables above are certain off-balance sheet loan commitments such as unused home equity lines of credit, business banking line funds and undisbursed construction funds. A reasonable estimate of the fair value of these instruments is the carrying value of deferred fees plus the related allowance for credit losses, which amounted to $3.3 million and $3.4 million at September 30, 2015 and December 31, 2014, respectively.

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NOTE 10–EARNINGS PER SHARE:

The following table summarizes the calculation of earnings per share.

(in thousands, except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$9,961	$4,975	$32,641	$16,638
Weighted average shares:				
Basic weighted-average number of common shares outstanding	22,035,317	14,805,780	20,407,386	14,797,019
Dilutive effect of outstanding common stock equivalents (1)	256,493	162,458	239,154	160,015
Diluted weighted-average number of common stock outstanding	22,291,810	14,968,238	20,646,540	14,957,034
Earnings per share:				
Basic earnings per share	$0.45	$0.34	$1.60	$1.12
Diluted earnings per share	$0.45	$0.33	$1.58	$1.11

(1) Excluded from the computation of diluted earnings per share (due to their antidilutive effect) for the three and nine months ended September 30, 2015 and 2014 were certain stock options and unvested restricted stock issued to key senior management personnel and directors of the Company. The aggregate number of common stock equivalents related to such options and unvested restricted shares, which could potentially be dilutive in future periods, was zero and 104,514 at September 30, 2015 and 2014, respectively.

NOTE 11–BUSINESS SEGMENTS:

The Company's business segments are determined based on the products and services provided, as well as the nature of the related business activities, and they reflect the manner in which financial information is currently evaluated by management. The Company organizes the segments into two lines of business: Commercial and Consumer Banking segment and Mortgage Banking segment.

A description of the Company's business segments and the products and services that they provide is as follows.

Commercial and Consumer Banking provides diversified financial products and services to our commercial and consumer customers through bank branches and through ATMs, online, mobile and telephone banking. These products and services include deposit products; residential, consumer, business and agricultural portfolio loans; non-deposit investment products; insurance products and cash management services. We originate construction loans, bridge loans and permanent loans for our portfolio primarily on single family residences, and on office, retail, industrial and multifamily property types. We originate multifamily real estate loans through our Fannie Mae DUS business, whereby loans are sold to or securitized by Fannie Mae, while the Company generally retains the servicing rights. This segment is also responsible for the management of the Company's portfolio of investment securities.

Mortgage Banking originates single family residential mortgage loans for sale in the secondary markets. We have become a rated originator and servicer of jumbo loans, allowing us to sell these loans to other securitizers. We also purchase loans from WMS Series LLC through a correspondent arrangement with that company. The majority of our

mortgage loans are sold to or securitized by Fannie Mae, Freddie Mac or Ginnie Mae, while we retain the right to service these loans. On occasion, we may sell a portion of our MSR portfolio. We also sell loans on a servicing-released and servicing-retained basis to securitizers and correspondent lenders. A small percentage of our loans are brokered to other lenders or sold on a servicing-released basis to correspondent lenders. We manage the loan funding and the interest rate risk associated with the secondary market loan sales and the retained single family mortgage servicing rights within this business segment.

Financial highlights by operating segment were as follows.

(in thousands)	Three Months Ended September 30, 2015		
	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income [1]	$8,125	$31,509	$39,634
Provision for credit losses	—	700	700
Noninterest income	60,584	6,884	67,468
Noninterest expense	63,916	28,110	92,026
Income before income taxes	4,793	9,583	14,376
Income tax expense	1,632	2,783	4,415
Net income	$3,161	$6,800	$9,961
Total assets	$1,089,832	$3,885,821	$4,975,653

(in thousands)	Three Months Ended September 30, 2014		
	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income [1]	$5,145	$20,163	$25,308
Provision (reversal of provision) for credit losses	—	—	—
Noninterest income	42,153	3,660	45,813
Noninterest expense	45,228	18,930	64,158
(Loss) income before income taxes	2,070	4,893	6,963
Income tax (benefit) expense	629	1,359	1,988
Net (loss) income	$1,441	$3,534	$4,975
Total assets	$791,131	$2,683,525	$3,474,656

(in thousands)	Nine Months Ended September 30, 2015		
	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income [1]	$21,337	$87,261	$108,598
Provision for credit losses	—	4,200	4,200
Noninterest income	195,239	20,589	215,828
Noninterest expense	180,787	93,056	273,843
Income before income taxes	35,789	10,594	46,383
Income tax expense	12,788	954	13,742
Net income	$23,001	$9,640	$32,641

Total assets	$1,089,832	$3,885,821	$4,975,653

(in thousands)	Nine Months Ended September 30, 2014		
	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income [1]	$11,368	$59,799	$71,167
Provision for credit losses	—	(1,500)	(1,500)
Noninterest income	120,938	13,232	134,170
Noninterest expense	124,563	58,657	183,220
Income before income taxes	7,743	15,874	23,617
Income tax expense	2,508	4,471	6,979
Net income	$5,235	$11,403	$16,638
Total assets	$791,131	$2,683,525	$3,474,656

(1) Net interest income is the difference between interest earned on assets and the cost of liabilities to fund those assets. Interest earned includes actual interest earned on segment assets and, if the segment has excess liabilities, interest credits for providing funding to the other segment. The cost of liabilities includes interest expense on segment liabilities and, if the segment does not have enough liabilities to fund its assets, a funding charge based on the cost of excess liabilities from another segment.

NOTE 12–SUBSEQUENT EVENTS:

The Company has evaluated subsequent events through the time of filing this Quarterly Report on Form 10-Q and has concluded that there are no significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on the consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Form 10-Q and the documents incorporated by reference contain, in addition to historical information, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements relate to our future plans, objectives, expectations, intentions and financial performance, and assumptions that underlie these statements. When used in this Form 10-Q, terms such as "anticipates," "believes," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "should," or "will" or the negative of those terms or comparable terms are intended to identify such forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause industry trends or actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. Our actual results may differ significantly from the results discussed in such forward-looking statements, and we may take actions that differ from our current plans and expectations. All statements other than statements of historical fact are "forward-looking statements" for the purposes of these provisions, including:

- any projections of revenues, estimated operating expenses or other financial items;
- any statements of the plans and objectives of management for future operations or programs;
- any statements regarding future operations, plans, or regulatory or shareholder approvals;
- any statements concerning proposed new products or services;
- any statements regarding pending or future mergers, acquisitions or other transactions; and
- any statement regarding future economic conditions or performance, and any statement of assumption underlying any of the foregoing.

These and other forward looking statements are, among other things, attempts to predict the future and, as such, may not come to pass. A wide variety of events, circumstances and conditions may cause us to fall short of management's expectations as expressed herein, or to deviate from the plans and intentions we have described in this report. Some of the factors that may cause us to fall short of expectations or to deviate from our intended courses of action include:

- the qualifying disclosures and other factors referenced in this Form 10-Q including, but not limited to, those listed under Item 1A "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations;"
- our ability to implement new or expanded business products and business lines;
- our ability to grow our geographic footprint and our various lines of business, and to manage that growth effectively, including our effectiveness in managing the associated costs and in generating the expected revenues and strategic benefits;
- our ability to manage the credit risks of our lending activities, including potential increases in loan delinquencies, nonperforming assets and write offs, decreased collateral values, inadequate loan reserve amounts and the effectiveness of our hedging strategies;
- our ability to complete our proposed acquisition of Orange County Business Bank on the anticipated timeline or at all;
- our ability to effectively integrate any recent or future acquisitions with our operations;
- our ability to maintain confidentiality, integrity, and availability of enterprise data, including unauthorized electronic access, physical security threats, and inadvertent disclosure, which could lead to reputational harm and litigation risks;
- our ability to implement and maintain appropriate disclosure controls and procedures and internal controls over financial reporting;
- general economic conditions, either nationally or in our market area, including increases in mortgage interest rates, declines in housing refinance activities, changes in the availability and affordability of single family housing,

employment trends, business contraction, consumer confidence, real estate values and other recessionary pressures;

- the impact of changes to local zoning and land use ordinances that may impact the availability of single family housing in our market areas;
- the impact of and our ability to anticipate and respond effectively to changes in the levels of general interest rates, mortgage interest rates, deposit interest rates, our net interest margin and funding sources;

- our ability to achieve compliance with complex new regulatory requirements, including laws and regulations such as those related to the Dodd-Frank Act and new rules being promulgated under that Act, including the Final Truth In Lending Act ("TILA")/Real Estate Settlement Procedures Act ("RESPA") Integrated Disclosure Rule (“Rule”) which took effect on October 3, 2015 and comes with increased regulatory penalties and the right of private action under TILA and may impact our ability to sell or the price we receive for certain loans;
- compliance with Basel III capital requirements and related regulations, as well as restrictions that may be imposed by our federal and state regulatory authorities, including the extent to which regulatory initiatives may affect our capital, liquidity and earnings;
- the effect on our mortgage origination and resale operations of changes in mortgage markets generally, including the uncertain impact on the market for non-qualified mortgage loans resulting from regulations which took effect in January 2014, as well as in monetary policies and economic trends and initiatives as those events affect our mortgage origination and servicing operations;
- compliance with requirements of investors and/or government-owned or sponsored entities, including Fannie Mae, Freddie Mac, Ginnie Mae, the Federal Housing Administration (the “FHA”) the Department of Housing and Urban Development (“HUD”) and the Department of Veterans' Affairs (the “VA”);
- costs associated with the integration of new personnel from growth through acquisitions and hiring initiatives, including increased salary costs, as well as time and attention from our management team that is needed to identify, investigate and successfully complete such acquisitions;
- our ability to control costs while meeting operational needs and retaining key members of our senior management team and other key managers and business producers; and
- competition.

Unless required by law, we do not intend to update any of the forward-looking statements after the date of this Form 10-Q to conform these statements to actual results or changes in our expectations. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this Form 10-Q.

Except as otherwise noted, references to “we,” “our,” “us” or “the Company” refer to HomeStreet, Inc. and its subsidiaries that are consolidated for financial reporting purposes.

You may review a copy of this Form 10-Q quarterly report, including exhibits and any schedule filed therewith, and obtain copies of such materials at prescribed rates, at the Securities and Exchange Commission's Public Reference Room at, 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains a website (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding registrants, such as HomeStreet, Inc., that file electronically with the Securities and Exchange Commission. Copies of our Securities Exchange Act reports also are available from our investor relations website, http://ir.homestreet.com. Except as otherwise expressly noted in that section of our investor relations website, information contained in or linked from our websites is not incorporated into and does not constitute a part of this report.

This report contains forward-looking statements. For a discussion about such statements, including the risks and uncertainties inherent therein, see “Forward-Looking Statements.” Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Consolidated Financial Statements and Notes presented elsewhere in this report and in HomeStreet, Inc.'s 2014 Annual Report on Form 10-K.

Summary Financial Data

	At or for the Three Months Ended					At or for the Nine Months Ended	
(dollars in thousands, except share data)	Sept. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	Sept. 30, 2015	Sept. 30, 2014
Income statement data (for the period ended):							
Net interest income	$39,634	$38,230	$30,734	$27,502	$25,308	$108,598	$71,167
Provision (reversal of provision) for credit losses	700	500	3,000	500	—	4,200	(1,500)
Noninterest income	67,468	72,987	75,373	51,487	45,813	215,828	134,170
Noninterest expense	92,026	92,335	89,482	68,791	64,158	273,843	183,220
Net income before tax expense	14,376	18,382	13,625	9,698	6,963	46,383	23,617
Income tax expense	4,415	6,006	3,321	4,077	1,988	13,742	6,979
Net income	$9,961	$12,376	$10,304	$5,621	$4,975	$32,641	$16,638
Basic earnings per common share	$0.45	$0.56	$0.60	$0.38	$0.34	$1.60	$1.12
Diluted earnings per common share	$0.45	$0.56	$0.59	$0.38	$0.33	$1.58	$1.11
Common shares outstanding	22,061,702	22,065,249	22,038,748	14,856,611	14,852,971	22,061,702	14,852,971
Weighted average common shares:							
Basic	22,035,317	22,028,539	17,158,303	14,811,699	14,805,780	20,407,386	14,797,019
Diluted	22,291,810	22,292,734	17,355,076	14,973,222	14,968,238	20,646,540	14,957,034
Shareholders’ equity per share	$20.87	$20.29	$19.94	$20.34	$19.83	20.87	19.83
Financial position (at period end):							
Cash and cash equivalents	$37,303	$46,197	$56,864	$30,502	$34,687	37,303	$34,687
Investment securities	602,018	509,545	476,102	455,332	449,948	602,018	449,948
Loans held for sale	882,319	972,183	865,322	621,235	698,111	882,319	698,111
Loans held for investment, net	3,012,943	2,900,675	2,828,177	2,099,129	1,964,762	3,012,943	1,964,762
Mortgage servicing rights	146,080	153,237	121,722	123,324	124,593	146,080	124,593
Other real estate owned	8,273	11,428	11,589	9,448	10,478	8,273	10,478
Total assets	4,975,653	4,866,248	4,604,403	3,535,090	3,474,656	4,975,653	3,474,656
Deposits	3,307,693	3,322,653	3,344,223	2,445,430	2,425,458	3,307,693	2,425,458
Federal Home Loan Bank advances	1,025,745	922,832	669,419	597,590	598,590	1,025,745	598,590
Federal funds purchased and securities sold under agreements to repurchase	—	—	9,450	50,000	14,225	—	14,225
Shareholders’ equity	460,458	447,726	439,395	302,238	294,568	460,458	294,568
Financial position (averages):							
Investment securities	$539,330	$506,904	$462,762	$454,127	$457,545	$503,280	$460,723
Loans held for investment	2,975,624	2,861,223	2,370,763	2,044,873	1,917,503	2,738,085	1,838,526
Total interest-earning assets	4,394,557	4,266,382	3,473,652	3,140,708	2,952,916	4,048,237	2,777,988
Total interest-bearing deposits	2,573,512	2,626,925	2,205,585	1,892,399	1,861,164	2,470,022	1,880,664
Federal Home Loan Bank advances	887,711	783,801	515,958	606,753	442,409	730,519	372,605

Federal funds purchased and securities sold under agreements to repurchase	—	4,336	41,734	23,338	11,149	15,204	4,134
Total interest-bearing liabilities	3,523,080	3,476,919	2,825,134	2,584,347	2,376,579	3,277,602	2,319,872
Shareholders’ equity	460,489	455,721	370,008	305,068	295,229	429,071	284,146

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Summary Financial Data (continued)

(dollars in thousands, except share data)	At or for the Three Months Ended					At or for the Nine Months Ended	
	Sept. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	Sept. 30, 2015	Sept. 30, 2014
Financial performance:							
Return on average shareholders' equity [1]	8.65 %	10.86 %	11.14 %	7.37 %	6.74 %	10.14 %	7.81 %
Return on average assets	0.83 %	1.06 %	1.08 %	0.65 %	0.61 %	0.98 %	0.71 %
Net interest margin [2]	3.67 %	3.63 %	3.60 %	3.53 %	3.50 %	3.63 %	3.50 %
Efficiency ratio [3]	85.92 %	83.02 %	84.33 %	87.09 %	90.21 %	84.41 %	89.23 %
Asset quality:							
Allowance for credit losses	$27,887	$26,448	$25,628	$22,524	$22,111	$27,887	$22,111
Allowance for loan losses/total loans[4]	0.89 %	0.88 %	0.87 %	1.04 %	1.10 %	0.89 %	1.10 %
Allowance for loan losses/nonaccrual loans	138.27 %	120.97 %	117.48 %	137.51 %	109.75 %	138.27 %	109.75 %
Total nonaccrual loans [5][6]	$19,470	$21,308	$21,209	$16,014	$19,906	$19,470	$19,906
Nonaccrual loans/total loans	0.64 %	0.73 %	0.74 %	0.75 %	1.00 %	0.64 %	1.00 %
Other real estate owned	$8,273	$11,428	$11,589	$9,448	$10,478	$8,273	$10,478
Total nonperforming assets[6]	$27,743	$32,736	$32,798	$25,462	$30,384	$27,743	$30,384
Nonperforming assets/total assets	0.56 %	0.67 %	0.71 %	0.72 %	0.87 %	0.56 %	0.87 %
Net (recoveries) charge-offs	$(739)	$(320)	$(104)	$87	$57	$(1,163)	$478
Regulatory capital ratios for the Bank:							
Basel III - Tier 1 leverage capital (to average assets)[7]	9.69 %	9.46 %	11.47 %	NA	NA	9.69 %	NA
Basel III - Tier 1 common equity risk-based capital (to risk-weighted assets)	13.35 %	13.17 %	13.75 %	NA	NA	13.35 %	NA
Basel III - Tier 1 risk-based capital (to risk-weighted assets)	13.35 %	13.17 %	13.75 %	NA	NA	13.35 %	NA
Basel III - Total risk-based capital (to risk-weighted assets)	14.15 %	13.97 %	14.57 %	NA	NA	14.15 %	NA
Basel I - Tier 1 leverage capital (to average assets)[7]	NA	NA	NA	9.38 %	9.63 %	NA	9.63 %
Basel I - Tier 1 risk-based capital (to risk-weighted assets)	NA	NA	NA	13.10 %	13.03 %	NA	13.03 %
Basel I - Total risk-based capital (to risk-weighted assets)	NA	NA	NA	14.03 %	13.96 %	NA	13.96 %
Regulatory capital ratios for the Company:							

Basel III - Tier 1 leverage capital (to average assets)[7]	10.00	%	9.87	%	11.95	%	NA	NA	10.00	%	NA
Basel III - Tier 1 common equity risk-based capital (to risk-weighted assets)	10.65	%	10.66	%	11.12	%	NA	NA	10.65	%	NA
Basel III - Tier 1 risk-based capital (to risk-weighted assets)	12.09	%	12.02	%	12.55	%	NA	NA	12.09	%	NA
Basel III - Total risk-based capital (to risk-weighted assets)	12.79	%	12.72	%	13.26	%	NA	NA	12.79	%	NA
Other data:											
Full-time equivalent employees (ending)	2,100		1,964		1,829		1,611	1,598	2,100		1,598

(1) Net earnings available to common shareholders divided by average shareholders' equity.

(2) Net interest income divided by total average interest-earning assets on a tax equivalent basis.

(3) Noninterest expense divided by total revenue (net interest income and noninterest income).

(4) Includes loans acquired with bank acquisitions. Excluding acquired loans, allowance for loan losses /total loans was 1.14%, 1.16%, 1.19%, 1.10% and 1.18% at September 30, 2015, June 30, 2015, March 31, 2015, December 31, 2014 and September 30, 2014, respectively.

(5) Generally, loans are placed on nonaccrual status when they are 90 or more days past due.

(6) Includes $1.5 million, $1.2 million, $1.4 million, $4.4 million and $6.3 million of nonperforming loans at September 30, 2015, June 30, 2015, March 31, 2015, December 31, 2014 and September 30, 2014, respectively, which are guaranteed by the Small Business Administration ("SBA").

(7) March 31, 2015 Tier 1 leverage capital (to average assets) includes average assets from the Simplicity merger for one month. If the Simplicity merger had occurred on January 1, 2015, the Bank's Tier 1 leverage capital would have been 9.95% and the Company's Tier 1 leverage capital would have been 10.38% at March 31, 2015.

(in thousands)	At or for the Three Months Ended					At or for the Nine Months Ended	
	Sept. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	Sept. 30, 2015	Sept. 30, 2014
SUPPLEMENTAL DATA:							
Loans serviced for others							
Single family	$14,271,187	$12,980,045	$11,910,254	$11,216,208	$10,593,265	$14,271,187	$10,593,265
Multifamily	866,880	840,051	773,092	752,640	703,197	866,880	703,197
Other	86,567	83,982	83,574	82,354	86,589	86,567	86,589
Total loans serviced for others	$15,224,634	$13,904,078	$12,766,920	$12,051,202	$11,383,051	$15,224,634	$11,383,051
Loan production volumes:							
Single family mortgage closed loans(1)(2)	$1,934,151	$2,022,656	$1,606,893	$1,330,735	$1,294,895	$5,563,700	$3,069,882
Single family mortgage interest rate lock commitments(2)	1,806,767	1,882,955	1,901,238	1,171,598	1,167,677	5,590,960	3,172,650
Single family mortgage loans sold(2)	1,965,223	1,894,387	1,316,959	1,273,679	1,179,464	5,176,569	2,705,719
Multifamily mortgage originations	47,342	79,789	24,428	57,135	60,699	151,559	95,147
Multifamily mortgage loans sold	42,333	72,459	26,173	99,285	20,409	140,965	42,574

(1) Represents single family mortgage production volume designated for sale to the secondary market during each respective period.
(2) Includes loans originated by WMS Series LLC and purchased by HomeStreet Bank.

Management's Overview of Third Quarter of 2015 Financial Performance

We are a diversified financial services company founded in 1921 and headquartered in Seattle, Washington, serving customers primarily in the Pacific Northwest, California and Hawaii. HomeStreet, Inc. is principally engaged in real estate lending, including mortgage banking activities, and commercial and consumer banking. Our primary subsidiaries are HomeStreet Bank and HomeStreet Capital Corporation. The Bank is a Washington state-chartered savings bank that provides consumer, mortgage and commercial loans, deposit products and services, non-deposit investment products, private banking and cash management services. Our primary loan products include consumer loans, single family residential mortgages, loans secured by commercial real estate, construction loans for residential and commercial real estate projects, commercial business loans and agricultural loans. HomeStreet Capital Corporation, a Washington corporation, originates, sells and services multifamily mortgage loans under the Fannie Mae Delegated Underwriting and Servicing Program ("DUS®")[1] in conjunction with HomeStreet Bank. Doing business as HomeStreet Insurance Agency, we provide insurance products and services for consumers and businesses. We also offer single family home loans through our partial ownership in an affiliated business arrangement with WMS Series LLC, whose businesses are known as Windermere Mortgage Services and Penrith Home Loans.

Reflecting the continued growth and diversification of our banking business, we are in the process of applying for a conversion to a Washington State Chartered Commercial Bank. To facilitate this bank charter conversion, we are also, simultaneously, in the process of applying to become a Bank Holding Company and a Financial Holding Company. Subject to regulatory approvals, we anticipate these organizational changes to become effective by the end of the year.

We generate revenue by earning "net interest income" and "noninterest income." Net interest income is primarily the difference between interest income earned on loans and investment securities less the interest we pay on deposits and other borrowings. We earn noninterest income from the origination, sale and servicing of loans and from fees earned on deposit services and investment and insurance sales.

On September 28, 2015, the Company entered into a definitive agreement to acquire Orange County Business Bank ("OCBB"), a California banking corporation in Irvine, California. Management believes that this acquisition will complement HomeStreet's recent expansion of its banking activities into California. The proposed transaction was approved by the boards of both companies and is expected to close in the first quarter of 2016, subject to certain conditions set forth in the merger agreement as well as customary closing conditions, including OCBB shareholder approval and certain state and federal regulatory approvals.

On August 4, 2015, the Company entered into a definitive agreement to acquire a bank branch and deposits in Dayton, Washington. This acquisition, which has received regulatory approval and is expected to close in December, will increase HomeStreet's network of branches in Eastern Washington to a total of five retail deposit branches.

On March 1, 2015, the Company completed its merger with Simplicity Bancorp, Inc., located in Southern California ("Simplicity"), immediately followed by the merger of its subsidiary Simplicity Bank with and into HomeStreet Bank (together, referred to as the "Simplicity merger"). At the closing, there were 7,180,005 shares of Simplicity common stock, par value $0.01, outstanding, all of which were cancelled in exchange for an equal number of shares of HomeStreet common stock, no par value, issued to Simplicity's stockholders. The provisional application of the acquisition method of accounting resulted in a bargain purchase gain of $7.3 million, as subsequently adjusted, which was reported as a component of noninterest income on our consolidated statements of operations. We also recorded merger-related expenses of $15.8 million during the nine months ended September 30, 2015. The results of operations of Simplicity are included in the consolidated results of operations since the date of the merger. The merger represents a significant expansion of HomeStreet's banking activities into California.

During the first quarter of 2015, we launched HomeStreet Commercial Capital, a commercial real estate lending group originating permanent loans up to $10 million in size. The group is based in Orange County, California and will provide permanent financing for a range of commercial real estate loans including multifamily, industrial, retail, office, mobile home parks and self-storage facilities. We also added a team specializing in U.S. Small Business Administration ("SBA") lending also located in Orange County, California.

At September 30, 2015, we had total assets of $4.98 billion, net loans held for investment of $3.01 billion, deposits of $3.31 billion and shareholders' equity of $460.5 million. Through the Simplicity merger, we added $850.9 million of assets, $664.1 million of loans and $651.2 million of deposits.

Results for the third quarter of 2015 reflect the continued growth of our mortgage banking business and expansion of our commercial and consumer business. Since September 2014, we have increased our lending capacity by adding loan origination and operations personnel in all of our lending lines of business. We added nine home loan centers and 10 retail deposit branches

[1] DUS® is a registered trademark of Fannie Mae

(three de novo and seven from the Simplicity merger) to bring our total home loan centers to 64, our total commercial lending centers to six and our total retail deposit branches to 43.

On January 1, 2015, the Company and the Bank became subject to new capital standards commonly referred to as “Basel III” which raised our minimum capital requirements. For more on the Basel III requirements as they apply to us, please see “Capital Management" within the Liquidity and Capital Resources section of this Form 10-Q.

We continued to execute our strategy of diversifying earnings by expanding the commercial and consumer banking business; growing our mortgage banking market share in existing and new markets; growing and improving the quality of our deposits; and bolstering our processing, compliance and risk management capabilities.

Consolidated Financial Performance

(in thousands, except per share data and ratios)	At or for the Three Months Ended September 30, 2015		2014		Percent Change 2015 vs. 2014		At or for the Nine Months Ended September 30, 2015		2014		Percent Change 2015 vs. 2014	
Selected statement of operations data												
Total net revenue	$107,102		$71,121		51	%	$324,426		$205,337		58	%
Total noninterest expense	92,026		64,158		43		273,843		183,220		49	
Provision (reversal of provision) for credit losses	700		—		NM		4,200		(1,500	)	NM	
Income tax expense	4,415		1,988		122		13,742		6,979		97	
Net income	$9,961		$4,975		100	%	$32,641		$16,638		96	%
Financial performance												
Diluted income per share	$0.45		$0.33				$1.58		$1.11			
Return on average common shareholders’ equity	8.65	%	6.74	%			10.14	%	7.81	%		
Return on average assets	0.83	%	0.61	%			0.98	%	0.71	%		
Net interest margin	3.67	%	3.50	%			3.63	%	3.50	%		

NM = Not meaningful

For the third quarter of 2015, net income was $10.0 million, or $0.45 per diluted share, compared to $5.0 million, or $0.33 per diluted share for the third quarter of 2014. Return on equity was 8.65% for the third quarter of 2015 (on an annualized basis), compared to 6.74% for the same period last year, while return on average assets was 0.83% for the third quarter of 2015 (on an annualized basis), compared to 0.61% for the same period last year.

Commercial and Consumer Banking Segment Results

Our Commercial and Consumer Banking segment net income was $6.8 million in the third quarter of 2015, compared to net income of $3.5 million in the third quarter of 2014. Included in the results for the third quarter of 2015 are merger-related items (net of tax) of a gain of $512 thousand compared to expense of $469 thousand during the same period last year.

Commercial and Consumer Banking segment net interest income was $31.5 million for the third quarter of 2015, an increase of $11.3 million, or 56.3%, from $20.2 million for the third quarter of 2014, primarily due to higher average

balances of loans held for investment.

The Company recorded $700 thousand of provision for credit losses in the third quarter of 2015 compared to no provision recorded in the third quarter of 2014. The additional credit loss provision in the quarter was due in part to overall growth in the loans held for investment portfolio, partially offset by the favorable impact of net loan loss recoveries during the quarter. Net recoveries were $739 thousand in the third quarter of 2015 compared to net charge-offs of $57 thousand in the third quarter of 2014. Overall, the allowance for loan losses (which excludes the allowance for unfunded commitments) was 0.89% of loans held for investment at September 30, 2015 compared to 1.10% at September 30, 2014, which primarily reflected the improved credit

quality of the Company's loan portfolio. Excluding acquired loans, the allowance for loan losses was 1.14% of loans held for investment at September 30, 2015 compared to 1.18% at September 30, 2014. Nonperforming assets were $27.7 million, or 0.56% of total assets at September 30, 2015, compared to $30.4 million, or 0.87% of total assets at September 30, 2014.

Commercial and Consumer Banking segment noninterest expense of $28.1 million increased $9.2 million, or 48.5%, from $18.9 million in the third quarter of 2014, primarily due to the continued organic growth of our commercial real estate and commercial business lending units and the expansion of our branch banking network. We added 10 retail deposit branches, three de novo and seven from the Simplicity merger, and increased the segment's headcount by 33.4% during the twelve-month period. During the first quarter of 2015, the commercial and consumer banking segment further expanded its network into California through the launch of HomeStreet Commercial Capital and the addition of a team specializing in SBA lending.

Mortgage Banking Segment Results

Mortgage Banking segment net income was $3.2 million in the third quarter of 2015, compared to net income of $1.4 million in the third quarter of 2014. The increase in net income is primarily due to higher net gain on single family mortgage loan origination and sale activities due to higher interest rate lock commitments and composite margin, partially offset by higher commission expense resulting from increased closed loan volume in the quarter.

Mortgage Banking noninterest income of $60.6 million increased $18.4 million, or 43.7%, from $42.2 million in the third quarter of 2014, primarily due to a 54.7% increase in single family mortgage interest rate lock commitments. Increased interest rate lock commitments reflect sustained lower mortgage interest rates and growth in the overall segment loan origination capacity through the addition of mortgage production personnel and expansion of our network of mortgage loan centers. We have increased our mortgage production personnel by 14.1% at September 30, 2015 compared to September 30, 2014.

Mortgage Banking noninterest expense was $63.9 million an increase of $18.7 million, or 41.3%, from $45.2 million in the third quarter of 2014, primarily due to higher commission and incentive expense and general and administrative expenses resulting from a 49.4% increase in closed loan volumes and overall growth in personnel and expansion into new markets. We added nine home loan centers and increased the segment's headcount by 30.2% during the twelve-month period.

Regulatory Matters

On January 1, 2015, the Bank and the Company became subject to Basel III capital standards. The Bank and the Company remain above current “well-capitalized” regulatory minimums. Under the Basel III standards, the Bank's Tier 1 leverage and total risk-based capital ratios at September 30, 2015 were 9.69% and 14.15%, respectively. The Company's Tier 1 leverage and total risk-based capital ratios were 10.00% and 12.79%, respectively. At September 30, 2014, under the Basel I standards, the Bank's Tier 1 leverage and total risk-based capital ratios were 9.63% and 13.96%.

For more on the Basel III requirements as they apply to us, please see “Capital Management" within the Liquidity and Capital Resources section of this Form 10-Q.

Critical Accounting Policies and Estimates

Our significant accounting policies are fundamental to understanding our results of operations and financial condition because they require that we use estimates and assumptions that may affect the value of our assets or liabilities and financial results. Three of these policies are critical because they require management to make subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. These policies govern:

- Allowance for Loan Losses
- Fair Value of Financial Instruments
- Single Family mortgage servicing rights ("MSRs")
- Other real estate owned ("OREO")
- Income Taxes

These policies and estimates are described in further detail in Part II, Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations and Note 1, Summary of Significant Accounting Policies within our 2014 Annual Report on Form 10-K.

Business Combinations

The Simplicity acquisition was accounted for under the acquisition method of accounting pursuant to ASC 805, Business Combinations. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of acquisition date. The Company made significant estimates and exercised significant judgment in estimating the fair values and accounting for such acquired assets and assumed liabilities. The valuation of acquired loans, mortgage servicing rights, premises and equipment, core deposit intangibles, deferred taxes, deposits, Federal Home Loan Bank advances and any contingent liabilities that arise as a result of the transaction are considered preliminary and such fair value estimates are subject to adjustment for up to one year after the acquisition date or when additional information relative to the closing date fair values becomes available and such information is considered final, whichever is earlier.

The Company used valuation models to estimate the fair value for certain assets and liabilities. These models incorporate inputs such as forward yield curves, loan prepayment expectations, expected credit loss assumptions, market volatilities, and pricing spreads utilizing market-based inputs where available. We believe our valuation methods are appropriate and consistent with those that would be used by other market participants. However, imprecision in estimating unobservable inputs and other factors may result in these fair value measurements not reflecting the amount that could be realized in an actual sale or transfer of the asset or liability in a current market exchange.

Results of Operations

Average Balances and Rates

Average balances, together with the total dollar amounts of interest income and expense, on a tax equivalent basis related to such balances and the weighted average rates, were as follows.

	Three Months Ended September 30,							
	2015				2014			
(in thousands)	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
Assets:								
Interest-earning assets: [(1)]								
Cash and cash equivalents	$27,725	$13	0.18	%	$27,631	$13	0.19	%
Investment securities	539,330	3,453	2.54	%	457,545	3,141	2.72	%
Loans held for sale	851,878	8,394	3.91	%	550,237	5,393	3.89	%
Loans held for investment	2,975,624	32,727	4.36	%	1,917,503	20,402	4.22	%
Total interest-earning assets	4,394,557	44,587	4.03	%	2,952,916	28,949	3.89	%
Noninterest-earning assets [(2)]	423,048				329,089			
Total assets	$4,817,605				$3,282,005			
Liabilities and shareholders' equity:								
Deposits:								
Interest-bearing demand accounts	$404,874	495	0.49	%	$281,820	301	0.42	%
Savings accounts	299,135	258	0.34	%	174,849	238	0.54	%
Money market accounts	1,126,119	1,268	0.45	%	1,001,709	1,125	0.45	%
Certificate accounts	743,384	1,101	0.59	%	402,786	720	0.71	%
Total interest-bearing deposits	2,573,512	3,122	0.48	%	1,861,164	2,384	0.51	%
Federal Home Loan Bank advances	887,711	958	0.43	%	442,409	509	0.46	%
Federal funds purchased and securities sold under agreements to repurchase	—	—	—	%	11,149	6	0.21	%
Long-term debt	61,857	278	1.78	%	61,857	271	1.74	%
Total interest-bearing liabilities	3,523,080	4,358	0.49	%	2,376,579	3,170	0.53	%
Noninterest-bearing liabilities	834,036				610,197			
Total liabilities	4,357,116				2,986,776			
Shareholders' equity	460,489				295,229			
Total liabilities and shareholders' equity	$4,817,605				$3,282,005			
Net interest income [(3)]		$40,229				$25,779		
Net interest spread			3.54	%			3.36	%
Impact of noninterest-bearing sources			0.13	%			0.14	%
Net interest margin			3.67	%			3.50	%

(1) The average balances of nonaccrual assets and related income, if any, are included in their respective categories.
(2) Includes former loan balances that have been foreclosed and are now reclassified to OREO.
(3) Includes taxable-equivalent adjustments primarily related to tax-exempt income on certain loans and securities of $595 thousand and $471 thousand for the three months ended September 30, 2015 and September 30, 2014, respectively. The estimated federal statutory tax rate was 35% for the periods presented.

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(in thousands)	Nine Months Ended September 30, 2015 Average Balance	Interest	Average Yield/Cost		2014 Average Balance	Interest	Average Yield/Cost	
Assets:								
Interest-earning assets: [1]								
Cash and cash equivalents	$37,719	$55	0.19	%	$30,793	$45	0.19	%
Investment securities	503,280	10,355	2.74	%	460,723	10,005	2.90	%
Loans held for sale	769,153	22,010	3.81	%	447,946	12,863	3.84	%
Loans held for investment	2,738,085	89,786	4.37	%	1,838,526	59,089	4.30	%
Total interest-earning assets	4,048,237	122,206	4.02	%	2,777,988	82,002	3.95	%
Noninterest-earning assets [2]	389,691				345,229			
Total assets	$4,437,928				$3,123,217			
Liabilities and shareholders' equity:								
Deposits:								
Interest-bearing demand accounts	$283,523	1,004	0.46	%	$268,282	657	0.33	%
Savings accounts	281,212	800	0.39	%	166,896	657	0.53	%
Money market accounts	1,113,001	3,643	0.44	%	969,262	3,224	0.44	%
Certificate accounts	792,285	3,313	0.56	%	476,224	2,574	0.72	%
Total interest-bearing deposits	2,470,021	8,760	0.47	%	1,880,664	7,112	0.51	%
Federal Home Loan Bank advances	730,519	2,477	0.46	%	372,605	1,366	0.49	%
Federal funds purchased and securities sold under agreements to repurchase	15,204	28	0.16	%	4,134	7	0.23	%
Long-term debt	61,857	814	1.76	%	62,469	851	1.82	%
Total interest-bearing liabilities	3,277,601	12,079	0.49	%	2,319,872	9,336	0.54	%
Noninterest-bearing liabilities	731,256				519,199			
Total liabilities	4,008,857				2,839,071			
Shareholders' equity	429,071				284,146			
Total liabilities and shareholders' equity	$4,437,928				$3,123,217			
Net interest income [3]		$110,127				$72,666		
Net interest spread			3.53	%			3.41	%
Impact of noninterest-bearing sources			0.10	%			0.09	%
Net interest margin			3.63	%			3.50	%

(1) The average balances of nonaccrual assets and related income, if any, are included in their respective categories.
(2) Includes former loan balances that have been foreclosed and are now reclassified to OREO.
(3) Includes taxable-equivalent adjustments primarily related to tax-exempt income on certain loans and securities of $1.5 million for each of the nine months ended September 30, 2015 and September 30, 2014. The estimated federal statutory tax rate was 35% for the periods presented.

Interest on Nonaccrual Loans

We do not include interest collected on nonaccrual loans in interest income. When we place a loan on nonaccrual status, we reverse the accrued unpaid interest receivable against interest income and amortization of any net deferred fees is suspended. Additionally, if interest is received on nonaccrual loans, the interest collected on the loan is recognized as an adjustment to the cost basis of the loan. The net decrease to interest income due to adjustments made for nonaccrual loans, including the effect of additional interest income that would have been recorded during the period if the loans had been accruing, was $488 thousand and $713 thousand for the three months ended September 30, 2015 and 2014, respectively, and $1.8 million and $2.2 million for the nine months ended September 30, 2015 and 2014, respectively.

Net Income

Net income was $10.0 million for the three months ended September 30, 2015, an increase of $5.0 million from net income of $5.0 million for the three months ended September 30, 2014, primarily due to an increase in noninterest income, which is largely due to a significantly higher gain on mortgage loan origination and sale activities driven by higher single family interest rate lock commitments. Interest rate lock commitments increased as a result of the expansion of our mortgage lending network and higher loan production per loan producer as a result of lower mortgage interest rates. For the nine months ended September 30, 2015, net income was $32.6 million, an increase of $16.0 million, or 96.2%, from $16.6 million for the nine months ended September 30, 2014. Included in net income for the three and nine months ended September 30, 2015 were merger-related costs (net of tax) of $284 thousand and $10.3 million, respectively. Additionally, during the three and nine months ended September 30, 2015, we recorded bargain purchase gain, as subsequently adjusted, of $796 thousand and $7.3 million, respectively. Such merger-related costs (net of tax) relating to prior acquisitions totaled $469 thousand and $1.4 million during the three and nine months ended September 30, 2014, respectively.

Net Interest Income

Our profitability depends significantly on net interest income, which is the difference between income earned on our interest-earning assets, primarily loans and investment securities, and interest paid on interest-bearing liabilities. Our interest-bearing liabilities consist primarily of deposits and borrowed funds, including our outstanding trust preferred securities and advances from the Federal Home Loan Bank ("FHLB").

Net interest income on a tax equivalent basis was $40.2 million for the third quarter of 2015, an increase of $14.5 million, or 56.1%, from $25.8 million for the third quarter of 2014. For the nine months ended September 30, 2015, net interest income was $110.1 million, an increase of $37.5 million, or 51.6%, from $72.7 million for the nine months ended September 30, 2014. The net interest margin for the third quarter of 2015 improved to 3.67% from 3.50% in the third quarter of 2014, and improved to 3.63% for the nine months ended September 30, 2015 from 3.50% for the nine months ended September 30, 2014. The increase in the net interest margin from the three and nine months ended September 30, 2014 primarily resulted from a higher yield on interest-earning assets, primarily due to higher yield on loans held for investment, coupled with a lower cost of interest-bearing funds.

Total average interest-earning assets increased from the three and nine months ended September 30, 2014, primarily as a result of growth in average loans held for investment, both from originations and from the March 2015 merger with Simplicity. Total average interest-bearing deposit balances increased from the prior periods primarily due to growth in certificates of deposit accounts.

Total interest income on a tax equivalent basis of $44.6 million in the third quarter of 2015 increased $15.6 million, or 54.0%, from $28.9 million in the third quarter of 2014, primarily driven by higher average balances of loans held for

investment. Average balances of loans held for investment increased $1.06 billion, or 55.2%, from the third quarter of 2014. For the nine months ended September 30, 2015, interest income was $122.2 million compared to $82.0 million for the nine months ended September 30, 2014 also resulting from higher average balances of loans held for investment.

Total interest expense of $4.4 million in the third quarter of 2015 increased $1.2 million, or 37.5%, from $3.2 million in the third quarter of 2014. Higher average balances of interest-bearing deposits in the third quarter of 2015 were partially offset by a 3 basis point reduction in the cost of these interest-bearing deposits. For the nine months ended September 30, 2015, interest expense was $12.1 million compared to $9.3 million for the nine months ended September 30, 2014, primarily resulting from higher average balances of interest-bearing deposits, partially offset by a 5 basis point reduction in the cost of such funds.

Provision for Credit Losses

We recorded a provision for credit losses of $700 thousand in the third quarter of 2015, compared to no provision recorded in the third quarter of 2014. For the nine months ended September 30, 2015, we recorded a provision of $4.2 million, compared to a reversal of provision of $1.5 million during the same period in the prior year. Nonaccrual loans were $19.5 million at September 30, 2015, an increase of $3.5 million, or 21.6%, from $16.0 million at December 31, 2014. Nonaccrual loans as a percentage of total loans was 0.64% at September 30, 2015 compared to 0.75% at December 31, 2014.

Net recoveries were $739 thousand in the third quarter of 2015 compared to net charge-offs of $57 thousand in the third quarter of 2014. For the nine months ended September 30, 2015, net recoveries were $1.2 million, compared to net charge-offs of $478 thousand during the same period in the prior year. For a more detailed discussion on our allowance for loan losses and related provision for loan losses, see Credit Risk Management within Management's Discussion and Analysis of this Form 10-Q.

Noninterest Income

Noninterest income was $67.5 million in the third quarter of 2015, an increase of $21.7 million, or 47.3%, from $45.8 million in the third quarter of 2014. For the nine months ended September 30, 2015, noninterest income was $215.8 million, an increase of $81.7 million, or 60.9%, from $134.2 million for the nine months ended September 30, 2014. Our noninterest income is heavily dependent upon our single family mortgage banking activities, which are comprised of mortgage origination and sale as well as mortgage servicing activities. The level of our mortgage banking activity fluctuates and is influenced by mortgage interest rates, the economy, employment and housing supply and affordability, among other factors. The increase in noninterest income in the third quarter of 2015 compared to the third quarter of 2014 was primarily the result of higher net gain on mortgage loan origination and sale activities mostly due to increased single family mortgage interest rate lock commitments. Our single family mortgage interest rate lock commitments of $1.81 billion in the third quarter of 2015 increased $639.1 million, or 54.7%, compared to $1.17 billion in the third quarter of 2014. Included in noninterest income for the nine months ended September 30, 2015 was a bargain purchase gain of $7.3 million from the merger with Simplicity. Included in noninterest income for the nine months ended September 30, 2014 were a $4.7 million pre-tax increase in mortgage servicing income resulting from the sale of MSRs and a $4.6 million pre-tax gain on sale of single family mortgage origination and sale activities from the sale of loans that were originally held for investment.

Noninterest income consisted of the following.

(in thousands)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Dollar Change	Percent Change	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014	Dollar Change	Percent Change
Noninterest income								
Net gain on mortgage loan origination and sale activities [1]	$57,885	$37,642	$20,243	54 %	$189,746	$104,946 [2]	$84,800	81 %
Mortgage servicing income	4,768	6,155	(1,387)	(23)	10,896	24,284 [3]	(13,388)	(55)
Income (loss) from WMS Series LLC	380	(122)	502	NM	1,428	(69)	1,497	NM
Gain (loss) on debt extinguishment	—	2	(2)	(100)	—	(573)	573	(100)

Depositor and other retail banking fees	1,701	944	757	80	4,239	2,676	1,563	58
Insurance agency commissions	477	256	221	86	1,183	892	291	33
Gain (loss) on securities available for sale	1,002	480	522	109	1,002	1,173	(171)	(15)
Bargain purchase gain	796	—	796	NM	7,345	—	7,345	NM
Other	459	456	3	1	(11)	841	(852)	(101)
Total noninterest income	$67,468	$45,813	$21,655	47 %	$215,828	$134,170	$81,658	61 %

NM = not meaningful

(1) Single family and multifamily mortgage banking activities.

(2) Includes $4.6 million in pre-tax gain resulting from the sale of loans that were originally held for investment.

(3) Includes pre-tax income of $4.7 million, net of transaction costs, resulting from the sale of single family MSRs during 2014.

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The significant components of our noninterest income are described in greater detail, as follows.

Net gain on mortgage loan origination and sale activities consisted of the following.

(in thousands)	Three Months Ended September 30, 2015	2014	Dollar Change	Percent Change	Nine Months Ended September 30, 2015	2014	Dollar Change	Percent Change
Single family held for sale:								
Servicing value and secondary market gains[1]	$49,613	$29,866	$19,747	66 %	$167,786	$79,658	$88,128	111 %
Loan origination and funding fees	6,362	6,947	(585)	(8)	16,452	18,489	(2,037)	(11)
Total single family held for sale	55,975	36,813	19,162	52	184,238	98,147	86,091	88
Multifamily	1,488	930	558	60	4,741	2,019	2,722	135
Other	422	(101)	523	NM	767	4,780 [2]	(4,013)	(84)
Net gain on mortgage loan origination and sale activities	$57,885	$37,642	$20,243	54 %	$189,746	$104,946	$84,800	81 %

NM = not meaningful

(1) Comprised of gains and losses on interest rate lock commitments (which considers the value of servicing), single family loans held for sale, forward sale commitments used to economically hedge secondary market activities, and changes in the Company's repurchase liability for loans that have been sold.
(2) Includes $4.6 million in pre-tax gain resulting from the sale of loans that were originally held for investment.

Single family production volumes related to loans designated for sale consisted of the following.

(in thousands)	Three Months Ended September 30, 2015	2014	Dollar Change	Percent Change	Nine Months Ended September 30, 2015	2014	Dollar Change	Percent Change
Single family mortgage closed loan volume [1]	$1,934,151	$1,294,895	$639,256	49 %	$5,563,700	$3,069,882	$2,493,818	81 %
Single family mortgage interest rate lock commitments [1]	1,806,767	1,167,677	639,090	55	5,590,960	3,172,650	2,418,310	76

(1) Includes loans originated by WMS Series LLC and purchased by HomeStreet Bank.

During the third quarter of 2015, single family closed loan production increased 49.4% and single family interest rate lock commitments increased 54.7% compared to the third quarter of 2014. For the nine months ended September 30, 2015, single family closed loan production increased 81.2% and single family interest rate lock commitments increased 76.2% compared to the nine months ended September 30, 2014. These increases were mainly the result of the expansion of our mortgage lending operations and continued low mortgage interest rates.

Net gain on mortgage loan origination and sale activities was $57.9 million for the third quarter of 2015, an increase of $20.2 million, or 53.8%, from $37.6 million for the third quarter of 2014. For the nine months ended September 30, 2015, net gain on mortgage loan origination and sale activities was $189.7 million, an increase of $84.8 million, or 80.8%, from $104.9 million for the nine months ended September 30, 2014. This increase predominantly reflected higher single family mortgage interest rate lock commitments as a result of the expansion of our mortgage lending network and higher loan production per loan producer as a result of continued low mortgage interest rates. Mortgage production personnel grew by 14.1% at September 30, 2015 compared to September 30, 2014. During the first nine months of 2014, we recognized a $4.6 million pre-tax gain on sale of single family loans that were originally held for investment.

The Company records a liability for estimated mortgage repurchase losses, which has the effect of reducing net gain on mortgage loan origination and sale activities. The following table presents the effect of changes in the Company's mortgage repurchase liability within the respective line of net gain on mortgage loan origination and sale activities. For further information on the Company's mortgage repurchase liability, see Note 8, Commitments, Guarantees and Contingencies in this Form 10-Q.

(in thousands)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Effect of changes to the mortgage repurchase liability recorded in net gain on mortgage loan origination and sale activities:				
New loan sales [1]	$(883)	$(518)	$(2,052)	$(1,070)
	$(883)	$(518)	$(2,052)	$(1,070)

(1) Represents the estimated fair value of the repurchase or indemnity obligation recognized as a reduction of proceeds on new loan sales.

Mortgage servicing income consisted of the following.

(in thousands)	Three Months Ended September 30, 2015	2014	Dollar Change	Percent Change	Nine Months Ended September 30, 2015	2014	Dollar Change	Percent Change
Servicing income, net:								
Servicing fees and other	$11,136	$9,350	$1,786	19 %	$30,256	$29,311	$945	3 %
Changes in fair value of MSRs due to modeled amortization [1]	(8,478)	(6,212)	(2,266)	36	(26,725)	(19,289)	(7,436)	39
Amortization of multifamily MSRs	(511)	(425)	(86)	20	(1,441)	(1,283)	(158)	12
	2,147	2,713	(566)	(21)	2,090	8,739	(6,649)	(76)
Risk management:								
Changes in fair value of MSRs due to changes in model inputs and/or assumptions [2]	(19,396)	899	(20,295)	NM	(8,224)	(7,836) [3]	(388)	5
Net gain (loss) from derivatives economically hedging MSRs	22,017	2,543	19,474	766	17,030	23,381	(6,351)	(27)
	2,621	3,442	(821)	(24)	8,806	15,545	(6,739)	(43)
Mortgage servicing income	$4,768	$6,155	$(1,387)	(23)%	$10,896	$24,284	$(13,388)	(55)%

NM = not meaningful

(1) Represents changes due to collection/realization of expected cash flows and curtailments.

(2) Principally reflects changes in model assumptions, including prepayment speed assumptions, which are primarily affected by changes in mortgage interest rates.

(3) Includes pre-tax income of $4.7 million, net of brokerage fees and prepayment reserves, resulting from the sale of single family MSRs during 2014.

For the third quarter of 2015, mortgage servicing income was $4.8 million, a decrease of $1.4 million, or 22.5%, from $6.2 million in the third quarter of 2014. For the nine months ended September 30, 2015, mortgage servicing income was $10.9 million, a decrease of $13.4 million, or 55.1%, from $24.3 million for the nine months ended September 30, 2014. The decrease in comparative quarters was primarily attributable to a $2.3 million decrease in the changes in fair value of MSRs due to modeled amortization and an $821 thousand decrease in risk management results. The decrease in the changes in fair value of MSRs due to modeled amortization occurred as a result of higher current loan prepayments. The decrease in risk management results for the nine months ended September 30, 2015 was primarily attributable to a pre-tax gain of $4.7 million included in the nine months ended September 30, 2014, resulting from the sale of single family MSRs, as well as gains from model assumption adjustments in 2014 to better align observed borrower prepayment behavior with modeled borrower prepayment behavior.

MSR risk management results represent changes in the fair value of single family MSRs due to changes in model inputs and assumptions net of the gain/(loss) from derivatives economically hedging MSRs. The fair value of MSRs is sensitive to changes in interest rates, primarily due to the effect on prepayment speeds. MSRs typically decrease in value when interest rates decline because declining interest rates tend to increase mortgage prepayment speeds and therefore reduce the expected life of the net servicing cash flows of the MSR asset. Certain other changes in MSR fair value relate to factors other than interest rate changes and are generally not within the scope of the Company's MSR economic hedging strategy. These factors may include but are not limited to the impact of changes to the housing price index, the level of home sales activity, changes to mortgage spreads, valuation discount rates, costs to service and policy changes by U.S. government agencies.

The net performance of our MSR risk management activities for the third quarter of 2015 was a gain of $2.6 million compared to a gain of $3.4 million in the third quarter of 2014. For the nine months ended September 30, 2015, risk management results was a gain of $8.8 million compared to a gain of $15.5 million for the nine months ended September 30, 2014. The lower hedging gain in the first nine months of 2015 largely resulted from the one-time gain of $4.7 million in the third quarter of 2014 resulting from the sale of single family MSRs, as well as a reduction in gains from model assumption adjustments in 2014 to better align observed borrower prepayment behavior with modeled borrower prepayment behavior.

Mortgage servicing fees collected in the third quarter of 2015 were $11.1 million, an increase of $1.8 million, or 19.1%, from $9.4 million in the third quarter of 2014. For the nine months ended September 30, 2015, mortgage servicing fees were $30.3 million compared to mortgage servicing fees of $29.3 million for the nine months ended September 30, 2014. Our loans serviced for others portfolio was $15.22 billion at September 30, 2015 compared to $11.38 billion at September 30, 2014. The lower balance at September 30, 2014 was the result of the June 2014 sale of the rights to service $2.96 billion of single family mortgage loans.

Income (loss) from WMS Series LLC in the third quarter of 2015 was $380 thousand compared to a loss of $122 thousand in the third quarter of 2014. For the nine months ended September 30, 2015, income from WMS Series LLC was $1.4 million compared to a loss of $69 thousand for the nine months ended September 30, 2014. The improvement in 2015 was primarily due to continued low mortgage interest rates which led to a 35.2% increase in interest rate lock commitments and a 18.4% increase in closed loan volume, which were $155.1 million and $172.7 million, respectively, for the three months ended September 30, 2015 compared to $114.7 million and $145.8 million, respectively, for the same period in 2014. For the nine months ended September 30, 2015, interest rate lock commitments and closed loan volume were $468.2 million and $491.1 million compared to $346.1 million and $362.4 million, respectively, for the same period in 2014.

Depositor and other retail banking fees for the three and nine months ended September 30, 2015 increased from the three and nine months ended September 30, 2014, primarily driven by an increase in the number of transaction accounts as we grow our retail deposit branch network both organically and through the merger with Simplicity. The following table presents the composition of depositor and other retail banking fees for the periods indicated.

(in thousands)	Three Months Ended September 30, 2015	2014	Dollar Change	Percent Change	Nine Months Ended September 30, 2015	2014	Dollar Change	Percent Change
Fees:								
Monthly maintenance and deposit-related fees	$721	$423	$298	70 %	$1,931	$1,241	$690	56 %
Debit Card/ATM fees	954	511	443	87	2,242	1,397	845	60
Other fees	26	10	16	160	66	38	28	74

Total depositor and other retail banking fees	$1,701	$944	$757	80	%	$4,239	$2,676	$1,563	58	%

Noninterest Expense

Noninterest expense was $92.0 million in the third quarter of 2015, an increase of $27.9 million, or 43.4%, from $64.2 million in the third quarter of 2014. For the nine months ended September 30, 2015, noninterest expense was $273.8 million, an increase of $90.6 million, or 49.5%, from $183.2 million for the nine months ended September 30, 2014. The increase in noninterest expense in the third quarter of 2015 was due to an $18.4 million increase in salaries and related costs, a $4.5 million increase in general and administrative costs, and a $3.9 million increase in information services costs. These increased costs were primarily a result of the integration of Simplicity and a 31.4% growth in personnel in connection with our continued expansion of our mortgage banking and commercial and consumer businesses. The increase in noninterest expense in the nine

months ended September 30, 2015 was due to a $61.6 million increase in salaries and related costs, a $10.9 million increase in general and administrative costs and a $8.4 million increase in information services costs. Included in noninterest expense in the nine months ended September 30, 2015 was $15.8 million of merger costs related to Simplicity. Such merger-related costs from prior acquisitions totaled $2.2 million for the nine months ended September 30, 2014.

Noninterest expense consisted of the following.

(in thousands)	Three Months Ended September 30, 2015	2014	Dollar Change	Percent Change	Nine Months Ended September 30, 2015	2014	Dollar Change	Percent Change
Noninterest expense								
Salaries and related costs	$60,991	$42,604	$18,387	43 %	$180,238	$118,681	$61,557	52 %
General and administrative	14,869	10,326	4,543	44	42,532	31,593	10,939	35
Legal	868	630	238	38	1,912	1,571	341	22
Consulting	166	628	(462)	(74)	6,544	2,182	4,362	200
Federal Deposit Insurance Corporation assessments	504	682	(178)	(26)	1,890	1,874	16	1
Occupancy	6,077	4,935	1,142	23	18,024	14,042	3,982	28
Information services	8,159	4,220	3,939	93	21,993	13,597	8,396	62
Net cost of operation and sale of other real estate owned	392	133	259	195	710	(320)	1,030	(322)
Total noninterest expense	$92,026	$64,158	$27,868	43 %	$273,843	$183,220	$90,623	49 %

The following table provides a breakout of expenses related to the merger with Simplicity for the three and nine months ended September 30, 2015:

(in thousands)	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Noninterest expense		
Salaries and related costs	$(7)	$7,669
General and administrative	7	1,256
Legal	179	530
Consulting	(212)	5,539
Occupancy	(48)	335
Information services	518	481
Total noninterest expense	$437	$15,810

Salaries and related costs were $61.0 million in the third quarter of 2015, an increase of $18.4 million, or 43.2%, from $42.6 million in the third quarter of 2014. For the nine months ended September 30, 2015, salaries and related costs were $180.2 million, an increase of $61.6 million, or 51.9%, from $118.7 million for the nine months ended September 30, 2014. The increases primarily resulted from a 31.4% increase in full-time equivalent employees at September 30, 2015 compared to September 30, 2014 and higher commission and incentive expense, as single family closed loan volumes increased 49.4% and 81.2%, respectively, from the three and nine months ended September 30, 2014.

General and administrative expenses were $14.9 million in the third quarter of 2015, an increase of $4.5 million, or 44.0%, from $10.3 million in the third quarter of 2014. For the nine months ended September 30, 2015, general and administrative expenses were $42.5 million, an increase of $10.9 million, or 34.6%, from $31.6 million for the nine months ended September 30, 2014. These expenses include general office and equipment expense, marketing, taxes and insurance.

Information services expense was $8.2 million in the third quarter of 2015, an increase of $3.9 million, or 93.3%, from $4.2 million in the third quarter of 2014. For the nine months ended September 30, 2015, information services expense was $22.0 million, an increase of $8.4 million, or 61.7%, from $13.6 million for the nine months ended September 30, 2014. The increases primarily resulted from increased headcount and continued growth of our mortgage banking business and expansion of our commercial and consumer business.

Consulting expense was $166 thousand in the third quarter of 2015, a decrease of $462 thousand, or 73.6%, from $628 thousand in the third quarter of 2014. For the nine months ended September 30, 2015, consulting expenses were $6.5 million, an increase of $4.4 million, or 200%, from $2.2 million for the nine months ended September 30, 2014. The increase in the nine months ended September 30, 2015 was predominantly due to incurred merger-related costs.

Income Tax Expense

For the third quarter of 2015 we recorded income tax provision of $4.4 million, compared to a provision of $2.0 million for the third quarter of 2014.

For the nine months ended September 30, 2015, income tax provision was $13.7 million with an effective tax rate of 29.6% (inclusive of discrete items), compared to $7.0 million and a 29.6% effective tax rate (inclusive of discrete items) for the same period in 2014.

Our effective income tax rate for the nine months ended September 30, 2015 differs from the Federal statutory tax rate of 35% primarily due to the impact of state income taxes, the benefit of tax exempt interest income, the benefit of low income housing tax credit investments, the tax impacts related to the Simplicity transaction, and the impacts of our 2014 tax return true-up adjustments. The Company’s discrete amounts for the nine months ended September 30, 2015 resulted in a net reduction of approximately 4.3% to the effective tax rate, largely due to the Simplicity acquisition. For tax purposes, the bargain purchase gain from the Simplicity acquisition is nontaxable and resulted in a discrete reduction of 5.6% to the effective tax rate as of September 30, 2015. Additionally, re-evaluation of the estimated 2015 state tax rate as a result of the Company's increased business activities in California resulted in a discrete increase of 2.4% to the effective tax rate as of September 30, 2015.

Review of Financial Condition – Comparison of September 30, 2015 to December 31, 2014

Total assets were $4.98 billion at September 30, 2015 and $3.54 billion at December 31, 2014. Through the Simplicity merger, we added $850.2 million of total assets to the balance sheet.

Cash and cash equivalents were $37.3 million at September 30, 2015 compared to $30.5 million at December 31, 2014, an increase of $6.8 million, or 22.3%.

Investment securities were $602.0 million at September 30, 2015 compared to $455.3 million at December 31, 2014, an increase of $146.7 million, or 32.2%, primarily resulting from the execution of our strategic growth and diversification.

We primarily hold investment securities for liquidity purposes, while also creating a relatively stable source of interest income. We designated substantially all securities as available for sale. We held securities having a carrying value of $31.9 million at September 30, 2015, which were designated as held to maturity.

The following table details the composition of our investment securities available for sale by dollar amount and as a percentage of the total available for sale securities portfolio.

	At September 30, 2015			At December 31, 2014		
(in thousands)	Fair Value	Percent		Fair Value	Percent	
Investment securities available for sale:						
Mortgage-backed securities:						
Residential	$91,004	16.0	%	$107,280	25.1	%
Commercial	24,065	4.2		13,671	3.2	
Municipal bonds	187,083	32.8		122,334	28.6	

Collateralized mortgage obligations:						
Residential	87,789	15.4		43,166	10.1	
Commercial	56,246	9.9		20,486	4.8	
Corporate debt securities	82,882	14.5		79,400	18.6	
U.S. Treasury securities	41,013	7.2		40,989	9.6	
Total investment securities available for sale	$570,082	100.0	%	$427,326	100.0	%

Loans held for sale were $882.3 million at September 30, 2015 compared to $621.2 million at December 31, 2014, an increase of $261.1 million, or 42.0%. Loans held for sale include single family and multifamily residential loans, typically sold within 30 days of closing the loan. The increase in the loans held for sale balance was primarily due to a 45.3% increase in single family mortgage closed loans during the quarter compared to the fourth quarter of 2014.

Loans held for investment, net were $3.01 billion at September 30, 2015 compared to $2.10 billion at December 31, 2014, an increase of $913.8 million, or 43.5%. Our single family loan portfolio increased $275.3 million from December 31, 2014. Our multifamily loan portfolio increased $327.3 million from December 31, 2014, primarily from the Simplicity merger as well as organic growth of our commercial portfolio. Our construction loans, including commercial construction and residential construction, increased $161.9 million from December 31, 2014, primarily from new originations in our commercial real estate and residential construction lending business.

Mortgage servicing rights were $146.1 million at September 30, 2015 compared to $123.3 million at December 31, 2014, an increase of $22.8 million, or 18.5%, as a result of growth in the loans serviced for others portfolio and changes in model assumptions, including prepayment speed assumptions.

The following table details the composition of our loans held for investment portfolio by dollar amount and as a percentage of our total loan portfolio.

	At September 30, 2015				At December 31, 2014		
(in thousands)	Amount		Percent		Amount	Percent	
Consumer loans							
Single family	$1,171,967	(1)	38.6	%	$896,665	42.2	%
Home equity and other	237,491		7.8		135,598	6.4	
	1,409,458		46.4		1,032,263	48.6	
Commercial loans							
Commercial real estate [2]	563,241		18.5		523,464	24.6	
Multifamily	382,392		12.6		55,088	2.6	
Construction/land development	529,871		17.3		367,934	17.3	
Commercial business	158,135		5.2		147,449	6.9	
	1,633,639		53.6		1,093,935	51.4	
	3,043,097		100.0	%	2,126,198	100.0	%
Net deferred loan fees, costs and discounts	(3,232	)			(5,048	)	
	3,039,865				2,121,150		
Allowance for loan losses	(26,922	)			(22,021	)	
	$3,012,943				$2,099,129		

(1) Includes $23.8 million of loans at September 30, 2015 where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

(2) September 30, 2015 and December 31, 2014 balances comprised of $154.1 million and $143.8 million of owner occupied loans, respectively, and $409.1 million and $379.6 million of non-owner occupied loans, respectively.

Deposits were $3.31 billion at September 30, 2015 compared to $2.45 billion at December 31, 2014, an increase of $862.3 million, or 35.3%. During the first quarter of 2015, we added $651.2 million of deposits from the Simplicity merger. Transaction and savings deposits increased $541.3 million, or 31.5%, during the first nine months of 2015 reflecting the growth and expansion of our branch banking network. The $224.7 million, or 45.4%, increase in certificates of deposit since December 31, 2014 was primarily due to the Simplicity merger.

Deposit balances by dollar amount and as a percentage of our total deposits were as follows for the periods indicated:

(in thousands)	At September 30, 2015			At December 31, 2014		
	Amount	Percent		Amount	Percent	
Noninterest-bearing accounts - checking and savings	$372,070	11.2	%	$240,679	9.8	%
Interest-bearing transaction and savings deposits:						
NOW accounts	452,482	13.7		272,390	11.1	
Statement savings accounts due on demand	296,983	9.0		200,638	8.2	
Money market accounts due on demand	1,140,660	34.5		1,007,213	41.2	
Total interest-bearing transaction and savings deposits	1,890,125	57.2		1,480,241	60.5	
Total transaction and savings deposits	2,262,195	68.4		1,720,920	70.3	
Certificates of deposit	719,208	21.7		494,526	20.2	
Noninterest-bearing accounts - other	326,290	9.9		229,984	9.5	
Total deposits	$3,307,693	100.0	%	$2,445,430	100.0	%

Federal Home Loan Bank advances were $1.03 billion at September 30, 2015 compared to $597.6 million at December 31, 2014, an increase of $428.2 million, or 71.6%. The Company uses these borrowings to primarily fund our mortgage banking and securities investment activities.

Shareholders’ Equity

Shareholders' equity was $460.5 million at September 30, 2015 compared to $302.2 million at December 31, 2014. This increase included additional paid in capital from issuance of common stock of $124.4 million mostly related to the issuance of HomeStreet common stock to Simplicity shareholders, net income of $32.6 million and other comprehensive income of $147 thousand recognized during the nine months ended September 30, 2015. Other comprehensive income represents unrealized gains and losses in the valuation of our investment securities portfolio at September 30, 2015.

Shareholders’ equity, on a per share basis, was $20.87 per share at September 30, 2015, compared to $20.34 per share at December 31, 2014.

Return on Equity and Assets

The following table presents certain information regarding our returns on average equity and average total assets.

	At or for the Three Months Ended September 30,				At or for the Nine Months Ended September 30,			
	2015		2014		2015		2014	
Return on assets [1]	0.83	%	0.61	%	0.98	%	0.71	%
Return on equity [2]	8.65	%	6.74	%	10.14	%	7.81	%
Equity to assets ratio [3]	9.56	%	9.00	%	9.67	%	9.10	%

(1) Net income (annualized) divided by average total assets.

(2) Net earnings (loss) available to common shareholders (annualized) divided by average common shareholders’ equity.

(3) Average equity divided by average total assets.

Business Segments

The Company's business segments are determined based on the products and services provided, as well as the nature of the related business activities, and they reflect the manner in which financial information is currently evaluated by management.

This process is dynamic and is based on management's current view of the Company's operations and is not necessarily comparable with similar information for other financial institutions. We define our business segments by product type and customer segment. If the management structure or the allocation process changes, allocations, transfers and assignments may change. The information that follows has been revised to reflect the manner in which financial information is currently evaluated by management.

Commercial and Consumer Banking Segment

Commercial and Consumer Banking provides diversified financial products and services to our commercial and consumer customers through bank branches and through ATMs, online, mobile and telephone banking. These products and services include deposit products; residential, consumer, business and agricultural portfolio loans; non-deposit investment products; insurance products and cash management services. We originate construction loans, bridge loans and permanent loans for our portfolio primarily on single family residences, and on office, retail, industrial and multifamily property types. We originate multifamily real estate loans through our Fannie Mae DUS business, whereby loans are sold to or securitized by Fannie Mae, while the Company generally retains the servicing rights. During the first quarter of 2015, we launched HomeStreet Commercial Capital, a commercial real estate lending group originating permanent loans up to $10 million in size. The group is based in Orange County, California and will provide permanent financing for a range of commercial real estate loans including multifamily, industrial, retail, office, mobile home parks and self-storage facilities. We also added a team specializing in U.S. Small Business Administration ("SBA") lending also located in Orange County, California. As of September 30, 2015, our bank branch network consists of 43 branches in the Pacific Northwest, California and Hawaii. At September 30, 2015 and December 31, 2014, our transaction and savings deposits totaled $2.26 billion and $1.72 billion, respectively, and our loan portfolio totaled $3.01 billion and $2.10 billion, respectively. This segment is also responsible for the management of the Company's portfolio of investment securities.

Commercial and Consumer Banking segment results are detailed below.

(in thousands)	Three Months Ended September 30, 2015	2014	Dollar Change	Percent Change	Nine Months Ended September 30, 2015	2014	Dollar Change	Percent Change
Net interest income	$31,509	$20,163	$11,346	56 %	$87,261	$59,799	$27,462	46 %
Provision for credit losses	700	—	700	NM	4,200	(1,500)	5,700	NM
Noninterest income	6,884	3,660	3,224	88	20,589	13,232 [(2)]	7,357	56
Noninterest expense	28,110	18,930	9,180	48	93,056	58,657	34,399	59
Income (loss) before income tax expense (benefit)	9,583	4,893	4,690	96	10,594	15,874	(5,280)	(33)
Income tax expense (benefit)	2,783	1,359	1,424	105	954	4,471	(3,517)	(79)
Net income (loss)	$6,800	$3,534	$3,266	92 %	$9,640	$11,403	$(1,763)	(15)%
Total assets	$3,885,821	$2,683,525	$1,202,296	45 %	$3,885,821	$2,683,525	$1,202,296	45 %
Efficiency ratio [(1)]	73.22 %	79.46 %			86.28 %	80.32 %		
Full-time equivalent employees (ending)	807	605	202	33	807	605	202	33
Net gain on mortgage loan origination and sale activities:								
Multifamily	1,488	930	558	60	4,741	2,019	2,722	135
Other	422	(101)	523	NM	767	4,780 [(2)]	(4,013)	(84)
	$1,910	$829	$1,081	130 %	$5,508	$6,799	$(1,291)	(19)%
Production volumes:								
Multifamily mortgage originations	$47,342	$60,699	$(13,357)	(22)%	$151,559	$95,147	$56,412	59 %
	$42,333	$20,409	$21,924	107 %	$140,965	$42,574	$98,391	231 %

Multifamily
mortgage
loans sold
NM = not
meaningful

(1) Noninterest expense divided by total net revenue (net interest income and noninterest income).
(2) Includes $4.6 million in pre-tax gain resulting from the sale of loans that were originally held for investment.

Commercial and Consumer Banking net income was $6.8 million for the third quarter of 2015 compared to $3.5 million for the third quarter of 2014. The increase in net income in the third quarter of 2015 was primarily the result of an $11.3 million increase in net interest income resulting from higher average balances of interest-earning assets. This increase to net income was partially offset by a $9.2 million increase in noninterest expense primarily resulting from the continued expansion of this segment. Full-time equivalent employees increased by 202, or 33.4% from the third quarter of 2014. Included in noninterest expense for the third quarter of 2015 was $437 thousand of merger-related costs. For the nine months ended September 30, 2015, Commercial and Consumer Banking net income was $9.6 million, compared to $11.4 million for the nine months ended September 30, 2014. Included in pre-tax net income for the nine months ended September 30, 2015 was $15.8 million of merger-related costs and a bargain purchase gain of $7.3 million from the merger with Simplicity. Included in pre-tax net income for the nine months ended September 30, 2014 was a $4.6 million pre-tax net gain on sale of single family mortgage origination and sale activities from the sale of loans that were originally held for investment.

We recorded $700 thousand of provision for credit losses in the third quarter of 2015, compared to no provision recorded in the third quarter of 2014. For the nine months ended September 30, 2015, we recorded a provision of $4.2 million, compared to a reversal of provision of $1.5 million during the same period in the prior year. The additional credit loss provision in the nine months ended September 30, 2015 was due in part to an extension in the modeled loan loss emergence period for commercial loans, higher qualitative reserves for construction loans and overall growth in the loans held for investment portfolio.

Commercial and Consumer Banking segment servicing income consisted of the following.

(in thousands)	Three Months Ended September 30, 2015	2014	Dollar Change	Percent Change	Nine Months Ended September 30, 2015	2014	Dollar Change	Percent Change
Servicing income, net:								
Servicing fees and other	$1,181	$1,289	$(108)	(8)%	$3,202	$3,196	$6	—%
Amortization of multifamily MSRs	(511)	(425)	(86)	20	(1,441)	(1,283)	(158)	12
Commercial mortgage servicing income	$670	$864	$(194)	(22)%	$1,761	$1,913	$(152)	(8)%

Commercial and Consumer Banking segment loans serviced for others consisted of the following.

(in thousands)	At September 30, 2015	At December 31, 2014
Multifamily	$866,880	$752,640
Other	86,567	82,354
Total commercial loans serviced for others	$953,447	$834,994

Commercial and Consumer Banking segment noninterest expense of $28.1 million increased $9.2 million, or 48.5%, from $18.9 million in the third quarter of 2014, primarily due to the addition of Simplicity operating expenses for the quarter and the continued organic growth of our commercial real estate and commercial business lending units and the expansion of our branch banking network. During the first quarter of 2015, we added commercial lending capabilities in California by launching HomeStreet Commercial Capital, a commercial real estate lending group, and adding a team specializing in U.S. SBA lending. For the nine months ended September 30, 2015, Commercial and Consumer Banking segment noninterest expense was $93.1 million, an increase of $34.4 million, or 58.6%, from $58.7 million for the nine months ended September 30, 2014. Included in noninterest expense for the nine months ended September 30, 2015 was $15.8 million of merger-related costs primarily related to Simplicity. Such merger-related costs from prior acquisitions totaled $2.2 million for the nine months ended September 30, 2014.

Mortgage Banking Segment

Mortgage Banking originates single family residential mortgage loans primarily for sale in the secondary markets. We have become a rated originator and servicer of jumbo loans, allowing us to sell these loans to other securitizers. We also purchase loans from WMS Series LLC through a correspondent arrangement with that company. The majority of our mortgage loans are sold to or securitized by Fannie Mae, Freddie Mac or Ginnie Mae, while we retain the right to service these loans. On occasion, we may sell a portion of our MSR portfolio. We also sell loans on a servicing-released and servicing-retained basis to securitizers and correspondent lenders. A small percentage of our loans are brokered to other lenders or sold on a servicing-released basis to correspondent lenders. We manage the loan funding and the interest rate risk associated with the secondary market loan sales and the retained single family mortgage servicing rights within this business segment.

Mortgage Banking segment results are detailed below.

(in thousands)	Three Months Ended September 30, 2015	2014	Dollar Change	Percent Change	Nine Months Ended September 30, 2015	2014	Dollar Change	Percent Change
Net interest income	$8,125	$5,145	$2,980	58 %	$21,337	$11,368	$9,969	88 %
Noninterest income	60,584	42,153	18,431	44	195,239	120,938	74,301	61
Noninterest expense	63,916	45,228	18,688	41	180,787	124,563	56,224	45
Income before income tax expense	4,793	2,070	2,723	132	35,789	7,743	28,046	362
Income tax expense	1,632	629	1,003	159	12,788	2,508	10,280	410
Net income	$3,161	$1,441	$1,720	119 %	$23,001	$5,235	$17,766	339 %
Total assets	$1,089,832	$791,131	$298,701	38 %	$1,089,832	$791,131	$298,701	38 %
Efficiency ratio (1)	93.02 %	95.62 %			83.48 %	94.15 %		
Full-time equivalent employees (ending)	1,293	993	300	30	1,293	993	300	30
Production volumes for sale to the secondary market:								
Single family mortgage closed loan volume (2)(3)	$1,934,151	$1,294,895	$639,256	49	$5,563,700	$3,069,882	$2,493,818	81
Single family mortgage interest rate lock commitments(2)	$1,806,767	$1,167,677	$639,090	55	$5,590,960	$3,172,650	$2,418,310	76
Single family mortgage loans sold(2)	$1,965,223	$1,179,464	$785,759	67 %	$5,176,569	$2,705,719	$2,470,850	91 %

(1) Noninterest expense divided by total net revenue (net interest income and noninterest income).
(2) Includes loans originated by WMS Series LLC and purchased by HomeStreet Bank.
(3) Represents single family mortgage production volume designated for sale to the secondary market during each respective period.

Mortgage Banking net income was $3.2 million for the third quarter of 2015, compared to $1.4 million for the third quarter of 2014. The increase in Mortgage Banking net income for the third quarter of 2015 primarily reflected a 54.7% increase in interest rate lock commitments resulting from expansion of our network of mortgage loan centers and a 14.1% increase in mortgage production personnel coupled with continued low mortgage interest rates. For the nine months ended September 30, 2015, Mortgage Banking net income was $23.0 million, compared to $5.2 million

for the same period in the prior year, resulting primarily from a 76.2% increase in interest rate lock commitments. Results for the nine months ended September 30, 2014 includes pre-tax Mortgage Banking servicing income of $4.7 million, net of transaction costs, from the 2014 sale of single family MSRs.

Mortgage Banking net gain on sale to the secondary market is detailed in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Net gain on mortgage loan origination and sale activities:[1]				
Single family:				
Servicing value and secondary market gains[2]	$49,613	$29,866	$167,786	$79,658
Loan origination and funding fees	6,362	6,947	16,452	18,489
Total mortgage banking net gain on mortgage loan origination and sale activities[1]	$55,975	$36,813	$184,238	$98,147

(1) Excludes inter-segment activities.

(2) Comprised of gains and losses on interest rate lock commitments (which considers the value of servicing), single family loans held for sale, forward sale commitments used to economically hedge secondary market activities, and the estimated fair value of the repurchase or indemnity obligation recognized on new loan sales.

Net gain on mortgage loan origination and sale activities was $56.0 million for the third quarter of 2015, an increase of $19.2 million, or 52.1%, from $36.8 million in the third quarter of 2014. This increase is primarily the result of a 54.7% increase in interest rate lock commitments, which was mainly driven by low mortgage interest rates and the expansion of our mortgage production offices and personnel. Since September 2014, we have increased our lending footprint by adding nine home loan centers to bring our total home loan centers to 64. For the nine months ended September 30, 2015, Mortgage Banking net gain on mortgage loan origination and sale activities was $184.2 million, an increase of $86.1 million, or 87.7%, from $98.1 million for the same period in the prior year, primarily due to increased interest rate lock commitments.

Mortgage Banking servicing income consisted of the following.

(in thousands)	Three Months Ended September 30, 2015	2014	Dollar Change	Percent Change	Nine Months Ended September 30, 2015	2014	Dollar Change	Percent Change
Servicing income, net:								
Servicing fees and other	$9,955	$8,061	$1,894	23 %	$27,054	$26,115	$939	4 %
Changes in fair value of MSRs due to modeled amortization [1]	(8,478)	(6,212)	(2,266)	36	(26,725)	(19,289)	(7,436)	39
	1,477	1,849	(372)	(20)	329	6,826	(6,497)	(95)
Risk management:								
Changes in fair value of MSRs due to changes in model inputs and/or assumptions [2]	(19,396)	899	$(20,295)	NM	(8,224)	(7,836) [3]	$(388)	5
Net gain from derivatives economically hedging MSRs	22,017	2,543	19,474	766	17,030	23,381	(6,351)	(27)
	2,621	3,442	(821)	(24)	8,806	15,545	(6,739)	(43)
Mortgage Banking servicing income	$4,098	$5,291	$(1,193)	(23)%	$9,135	$22,371	$(13,236)	(59)%

NM = not meaningful

(1) Represents changes due to collection/realization of expected cash flows and curtailments.

(2) Principally reflects changes in model assumptions, including prepayment speed assumptions, which are primarily affected by changes in mortgage interest rates.

(3) Includes pre-tax income of $4.7 million, net of transaction costs, resulting from the sale of single family MSRs in 2014.

Mortgage Banking servicing income of $4.1 million in the third quarter of 2015 decreased $1.2 million, or 22.5%, from $5.3 million in the third quarter of 2014. The decrease was primarily attributable to a $821 thousand decrease in risk management results and a $372 thousand decrease in servicing income. The decrease in risk management results were primarily attributable to a reduction in the estimated yield from the hedge portfolio. The decrease in the changes

in fair value of MSRs due to modeled amortization occurred as a result of higher current loan prepayments. For the nine months ended September 30, 2015, single family mortgage servicing income of $9.1 million decreased $13.2 million, or 59.2% from $22.4 million for the nine months ended September 30, 2014, primarily as a result of lower risk management results and lower servicing income. Included in risk management results for the nine months ended September 30, 2014 is $4.7 million of pre-tax income recognized from the sale of single family MSRs.

Single family mortgage servicing fees collected in the third quarter of 2015 increased $1.9 million, or 23.5%, from the third quarter of 2014 primarily due to higher average balances in our loans serviced for others portfolio. The portfolio of single family loans serviced for others was $14.27 billion at September 30, 2015 compared to $10.59 billion at September 30, 2014.

Single family loans serviced for others consisted of the following.

(in thousands)	At September 30, 2015	At December 31, 2014
U.S. government and agency	$13,590,706	$10,630,864
Other	680,481	585,344
Total single family loans serviced for others	$14,271,187	$11,216,208

Mortgage Banking noninterest expense was $63.9 million in the third quarter of 2015 an increase of $18.7 million, or 41.3%, from $45.2 million in the third quarter of 2014, primarily due to higher commission and incentive expense, as closed loan volumes increased 49.4% from the third quarter of 2014, as well as increased salaries and related costs, occupancy expenses and information services expenses as we grew our single family mortgage lending network. For the nine months ended September 30, 2015, noninterest expense was $180.8 million, an increase of $56.2 million, or 45.14%, from $124.6 million for the same period in the prior year.

Off-Balance Sheet Arrangements

In the normal course of business, we are a party to financial instruments with off-balance sheet risk. These financial instruments (which include commitments to originate loans and commitments to purchase loans) include potential credit risk in excess of the amount recognized in the accompanying consolidated financial statements. These transactions are designed to (1) meet the financial needs of our customers, (2) manage our credit, market or liquidity risks, (3) diversify our funding sources and/or (4) optimize capital.

For more information on off-balance sheet arrangements, including derivative counterparty credit risk, see the Off-Balance Sheet Arrangements and Commitments, Guarantees and Contingencies discussions within Part II, Item 7 Management's Discussion and Analysis in our 2014 Annual Report on Form 10-K, as well as Note 13, Commitments, Guarantees and Contingencies in our 2014 Annual Report on Form 10-K and Note 8, Commitments, Guarantees and Contingencies in this Form 10-Q.

Enterprise Risk Management

All financial institutions manage and control a variety of business and financial risks that can significantly affect their financial performance. Among these risks are credit risk; market risk, which includes interest rate risk and price risk; liquidity risk; and operational risk. We are also subject to risks associated with compliance/legal, strategic and reputational matters.
For more information on how we manage these business, financial and other risks, see the Enterprise Risk Management discussion within Part II, Item 7 Management's Discussion and Analysis in our 2014 Annual Report on Form 10-K.
Credit Risk Management

The following discussion highlights developments since December 31, 2014 and should be read in conjunction with the Credit Risk Management discussion within Part II, Item 7 Management's Discussion and Analysis in our 2014 Annual Report on Form 10-K.

Loan Underwriting Standards

Our underwriting standards for single family and home equity loans require evaluating and understanding a borrower’s credit, collateral and ability to repay the loan. Credit is determined based on how well a borrower manages their

current and prior debts, documented by a credit report that provides credit scores and the borrower’s current and past information about their credit history. Collateral is based on the type and use of property, occupancy and market value, largely determined by property appraisals. A borrower's ability to repay the loan is based on several factors, including employment, income, current debt, assets and level of equity in the property. We also consider loan-to-property value and debt-to-income ratios, loan amount and lien position in assessing whether to originate a loan. Single family and home equity borrowers are particularly susceptible to downturns in economic trends that negatively affect housing prices and demand and levels of unemployment.

For commercial, multifamily and construction loans, we consider the same factors with regard to the borrower and the guarantors. In addition, we evaluate liquidity, net worth, leverage, other outstanding indebtedness of the borrower, an analysis of cash expected to flow through the borrower (including the outflow to other lenders) and prior experience with the borrower. We use this information to assess financial capacity, profitability and experience. Ultimate repayment of these loans is sensitive to interest rate changes, general economic conditions, liquidity and availability of long-term financing.

Additional considerations for commercial permanent loans secured by real estate:

Our underwriting standards for commercial permanent loans generally require that the loan-to-value ratio for these loans not exceed 75% of appraised value or discounted cash flow value, as appropriate, and that commercial properties attain debt coverage ratios (net operating income divided by annual debt servicing) of 1.25 or better.

Our underwriting standards for multifamily residential permanent loans generally require that the loan-to-value ratio for these loans not exceed 80% of appraised value, cost, or discounted cash flow value, as appropriate, and that multifamily residential properties attain debt coverage ratios of 1.20 or better. However, underwriting standards can be influenced by competition and other factors. We endeavor to maintain the highest practical underwriting standards while balancing the need to remain competitive in our lending practices.

Additional considerations for commercial construction loans secured by real estate:

We originate a variety of real estate construction loans. Underwriting guidelines for these loans vary by loan type but include loan-to-value limits, term limits, loan advance limits and pre-leasing requirements, as applicable.

Our underwriting guidelines for commercial real estate construction loans generally require that the loan-to-value ratio not exceed 75% and stabilized debt coverage ratios of 1.25 or better.

Our underwriting guidelines for multifamily residential construction loans generally require that the loan-to-value ratio not exceed 80% and stabilized debt coverage ratios of 1.20 or better.

Our underwriting guidelines for single family residential construction loans to builders generally require that the loan-to-value ratio not exceed 85%.

As noted above, underwriting standards can be influenced by competition and other factors. However, we endeavor to maintain the highest practical underwriting standards while balancing the need to remain competitive in our lending practices.

Asset Quality and Nonperforming Assets

Nonperforming assets ("NPAs") were $27.7 million, or 0.56% of total assets at September 30, 2015, compared to $25.5 million, or 0.72% of total assets at December 31, 2014.
Nonaccrual loans of $19.5 million, or 0.64% of total loans at September 30, 2015, increased $3.5 million, or 21.6%, from $16.0 million, or 0.75% of total loans at December 31, 2014. OREO balances of $8.3 million at September 30, 2015 decreased $1.2 million, or 12.4%, from $9.4 million at December 31, 2014. Net recoveries during the three and nine months ended September 30, 2015 were $739 thousand and $1.2 million, respectively, compared with net charge-offs of $57 thousand and $478 thousand during the three and nine months ended September 30, 2014, respectively.

At September 30, 2015, our loans held for investment portfolio, excluding the allowance for loan losses, was $3.0 billion, an increase of $913.8 million from December 31, 2014. During the first quarter of 2015, we added $664.1 million of loans to the portfolio from the Simplicity merger. The allowance for loan losses increased to $26.9 million, or 0.89% of loans held for investment, compared to $22.0 million, or 1.04% of loans held for investment at December 31, 2014.

We recorded $700 thousand of provision for credit losses in the third quarter of 2015, compared to no provision recorded in the third quarter of 2014. For the nine months ended September 30, 2015, we recorded a provision of $4.2 million, compared to a reversal of provision of $1.5 million during the nine months ended September 30, 2014. The additional credit loss provision in the nine months ended September 30, 2015 was due in part to an extension in the modeled loan loss emergence period for commercial loans, higher qualitative reserves for construction loans and overall growth in the loans held for investment portfolio.

The following tables present the recorded investment, unpaid principal balance and related allowance for impaired loans, broken down by those with and those without a specific reserve.

(in thousands)	At September 30, 2015 Recorded Investment		Unpaid Principal Balance [2]	Related Allowance
Impaired loans:				
Loans with no related allowance recorded	$96,965		$108,660	$—
Loans with an allowance recorded	4,841		5,219	910
Total	$101,806	[1]	$113,879	$910

(in thousands)	At December 31, 2014 Recorded Investment		Unpaid Principal Balance [2]	Related Allowance
Impaired loans:				
Loans with no related allowance recorded	$82,725		$98,664	$—
Loans with an allowance recorded	36,499		37,078	1,706
Total	$119,224	[1]	$135,742	$1,706

(1) Includes $74.4 million and $73.6 million in single family performing troubled debt restructurings ("TDRs") at September 30, 2015 and December 31, 2014, respectively.

(2) Unpaid principal balance does not include partial charge-offs, purchase discounts and premiums or nonaccrual interest paid. Related allowance is calculated on net book balances not unpaid principal balances.

The Company had 270 impaired loans totaling $101.8 million at September 30, 2015 and 258 impaired loans totaling $119.2 million at December 31, 2014. The average recorded investment in these loans for the three and nine months ended September 30, 2015 was $111.0 million and $114.6 million, respectively, compared with $119.1 million and $119.0 million for the three and nine months ended September 30, 2014, respectively. Impaired loans of $4.8 million and $36.5 million had a valuation allowance of $910 thousand and $1.7 million at September 30, 2015 and December 31, 2014, respectively.

The allowance for credit losses represents management’s estimate of the incurred credit losses inherent within our loan portfolio. For further discussion related to credit policies and estimates see Critical Accounting Policies and Estimates — Allowance for Loan Losses within Part II, Item 7 Management's Discussion and Analysis in our 2014 Annual Report on Form 10-K.

The following table presents the allowance for credit losses, including reserves for unfunded commitments, by loan class.

(in thousands)	At September 30, 2015			At December 31, 2014		
	Amount	Percent of Allowance to Total Allowance	Loan Category as a % of Total Loans (1)	Amount	Percent of Allowance to Total Allowance	Loan Category as a % of Total Loans
Consumer loans						
Single family	$8,717	31.3 %	38.0 %	$9,447	41.9 %	42.2 %
Home equity and other	4,252	15.2	7.9	3,322	14.7	6.4
	12,969	46.5	45.9	12,769	56.6	48.6
Commercial loans						
Commercial real estate	4,691	16.8	18.7	3,846	17.1	24.6
Multifamily	783	2.8	12.7	673	3.0	2.6
Construction/land development	7,411	26.6	17.5	3,818	17.0	17.3
Commercial business	2,033	7.3	5.2	1,418	6.3	6.9
	14,918	53.5	54.1	9,755	43.4	51.4
Total allowance for credit losses	$27,887	100.0 %	100.0 %	$22,524	100.0 %	100.0 %

(1) Excludes loans held for investment balances that are carried at fair value.

The following table presents activity in our allowance for credit losses, which includes reserves for unfunded commitments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Allowance at the beginning of period	$26,448	$22,168	$22,524	$24,089
Provision (reversal of provision) for loan losses	700	—	4,200	(1,500)
Recoveries:				
Consumer				
Single family	250	65	496	106
Home equity and other	84	94	225	420
	334	159	721	526
Commercial				
Commercial real estate	—	275	37	431
Construction/land development	1,033	123	1,132	185
Commercial business	23	51	150	198
	1,056	449	1,319	814
Total recoveries	1,390	608	2,040	1,340
Charge-offs:				
Consumer				
Single family	(232)	(226)	(232)	(509)
Home equity and other	(255)	(135)	(456)	(694)
	(487)	(361)	(688)	(1,203)
Commercial				
Commercial real estate	—	—	(16)	(23)
Multifamily	(150)	—	(150)	—
Commercial business	(14)	(304)	(23)	(592)
	(164)	(304)	(189)	(615)
Total charge-offs	(651)	(665)	(877)	(1,818)
Recoveries, net of (charge-offs)	739	(57)	1,163	(478)
Balance at end of period	$27,887	$22,111	$27,887	$22,111

The following table presents the composition of TDRs by accrual and nonaccrual status.

	At September 30, 2015		
(in thousands)	Accrual	Nonaccrual	Total
Consumer			
Single family [(1)]	$74,408	$2,158	$76,566
Home equity and other	1,395	181	1,576
	75,803	2,339	78,142
Commercial			
Commercial real estate	4,431	1,060	5,491
Multifamily	3,019	—	3,019
Construction/land development	4,332	—	4,332
Commercial business	1,784	195	1,979
	13,566	1,255	14,821
	$89,369	$3,594	$92,963

	At December 31, 2014		
(in thousands)	Accrual	Nonaccrual	Total
Consumer			
Single family [(1)]	$73,585	$2,482	$76,067
Home equity and other	2,430	231	2,661
	76,015	2,713	78,728
Commercial			
Commercial real estate	21,703	1,148	22,851
Multifamily	3,077	—	3,077
Construction/land development	5,447	—	5,447
Commercial business	1,573	249	1,822
	31,800	1,397	33,197
	$107,815	$4,110	$111,925

(1) Includes loan balances insured by the FHA or guaranteed by the VA of $29.1 million and $26.8 million, at September 30, 2015 and December 31, 2014, respectively.

The Company had 249 loan relationships classified as troubled debt restructurings (“TDRs”) totaling $93.0 million at September 30, 2015 with no related unfunded commitments. The Company had 244 loan relationships classified as TDRs totaling $111.9 million at December 31, 2014 with related unfunded commitments of $151 thousand. TDR loans within the loans held for investment portfolio and the related reserves are included in the impaired loan tables above.

Delinquent loans and other real estate owned by loan type consisted of the following.

(in thousands)	At September 30, 2015 30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Not Accruing	90 Days or More Past Due and Still Accruing		Total Past Due Loans	Other Real Estate Owned
Consumer loans							
Single family	$6,431	$7,764	$10,439	$35,152	(1)	$59,786	$916
Home equity and other	1,294	157	1,608	—		3,059	—
	7,725	7,921	12,047	35,152		62,845	916
Commercial loans							
Commercial real estate	1,714	—	2,540	—		4,254	4,113
Multifamily	—	—	1,449	—		1,449	—
Construction/land development	715	—	—	—		715	3,244
Commercial business	202	—	3,434	—		3,636	—
	2,631	—	7,423	—		10,054	7,357
Total	$10,356	$7,921	$19,470	$35,152		$72,899	$8,273

(1) FHA-insured and VA-guaranteed single family loans that are 90 days or more past due are maintained on accrual status if they are determined to have little to no risk of loss.

(in thousands)	At December 31, 2014 30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Not Accruing	90 Days or More Past Due and Still Accruing[1]		Total Past Due Loans	Other Real Estate Owned
Consumer loans							
Single family	$7,832	$2,452	$8,368	$34,737	(1)	$53,389	$1,613
Home equity and other	371	81	1,526	—		1,978	—
	8,203	2,533	9,894	34,737		55,367	1,613
Commercial loans							
Commercial real estate	—	—	4,843	—		4,843	1,996
Construction/land development	—	1,261	—	—		1,261	5,839
Commercial business	611	3	1,277	250		2,141	—
	611	1,264	6,120	250		8,245	7,835
Total	$8,814	$3,797	$16,014	$34,987		$63,612	$9,448

(1) FHA-insured and VA-guaranteed single family loans that are 90 days or more past due are maintained on accrual status as they have little to no risk of loss.

Liquidity and Capital Resources

Liquidity risk management is primarily intended to ensure we are able to maintain cash flows adequate to fund operations and meet our obligations, including demands from depositors, draws on lines of credit and paying any creditors, on a timely and cost-effective basis, in various market conditions. Our liquidity profile is influenced by changes in market conditions, the composition of the balance sheet and risk tolerance levels. HomeStreet, Inc., HomeStreet Capital ("HSC") and the Bank
have established liquidity guidelines and operating plans that detail the sources and uses of cash and liquidity.

HomeStreet, Inc., HomeStreet Capital and the Bank have different funding needs and sources of liquidity and separate regulatory capital requirements.

HomeStreet, Inc.

The main source of liquidity for HomeStreet, Inc. is proceeds from dividends from the Bank and HomeStreet Capital. In the past, we have raised longer-term funds through the issuance of senior debt and TruPS. Historically, the main cash outflows were distributions to shareholders, interest and principal payments to creditors and operating expenses. HomeStreet, Inc.'s ability to pay dividends to shareholders depends substantially on dividends received from the Bank.

HomeStreet Capital

HomeStreet Capital generates positive cash flow from its servicing fee income on the DUS portfolio, net of its costs to service the portfolio. Offsetting this are HomeStreet Capital's costs to purchase the servicing rights on new production from the Bank. Liquidity management and reporting requirements for DUS lenders such as HomeStreet Capital are set by Fannie Mae. HomeStreet Capital's liquidity management therefore consists of meeting Fannie Mae requirements and its own operational needs.

HomeStreet Bank

The Bank's primary short-term sources of funds include deposits, advances from the FHLB, repayments and prepayments of loans, proceeds from the sale of loans and investment securities and interest from our loans and investment securities. We have also raised short-term funds through the sale of securities under agreements to repurchase. While scheduled principal repayments on loans are a relatively predictable source of funds, deposit inflows and outflows and loan prepayments are greatly influenced by interest rates, economic conditions and competition. The primary liquidity ratio is defined as net cash, short-term investments and other marketable assets as a percent of net deposits and short-term borrowings. At September 30, 2015, our primary liquidity ratio was 30.1% compared to 30.0% at December 31, 2014.

At September 30, 2015 and December 31, 2014, the Bank had available borrowing capacity of $353.0 million and $317.9 million, respectively, from the FHLB, and $388.5 million and $316.1 million, respectively, from the Federal Reserve Bank of San Francisco.

Cash Flows

For the nine months ended September 30, 2015, cash and cash equivalents increased $6.8 million, compared to an increase of $779 thousand for the nine months ended September 30, 2014. The following discussion highlights the major activities and transactions that affected our cash flows during these periods.

Cash flows from operating activities

The Company's operating assets and liabilities are used to support our lending activities, including the origination and sale of mortgage loans. For the nine months ended September 30, 2015, net cash of $233.4 million was used in operating activities, as cash used to fund loans held for sale production exceeded proceeds from the sale of loans. We believe that cash flows from operations, available cash balances and our ability to generate cash through short-term debt are sufficient to fund our operating liquidity needs. For the nine months ended September 30, 2014, net cash of $352.6 million was used in operating activities, as cash used to fund loans held for sale production exceeded proceeds from the sale of loans.

Cash flows from investing activities

The Company's investing activities primarily include available-for-sale securities and loans originated as held for investment. For the nine months ended September 30, 2015, net cash of $280.0 million was used in investing activities, primarily due to cash used for the origination of portfolio loans and principal repayments and purchases of investment securities, partially offset by $112.2 million of net cash acquired from the Simplicity merger. For the nine months ended September 30, 2014, net cash of $24.2 million was used in investing activities, as the Company increased the balances of its loans held for investment portfolio, primarily offset by the sale of loans originated as held for investment and the sale of investment securities. The Company elected to sell single family mortgage loans during the second quarter of 2014 to provide additional liquidity to support the commercial loan portfolio growth and to reduce the concentration of single family mortgage loans in the portfolio.

Cash flows from financing activities

The Company's financing activities are primarily related to customer deposits and net proceeds from the FHLB. For the nine months ended September 30, 2015, net cash of $520.2 million was provided by financing activities, primarily resulting from net proceeds of $362.5 million of FHLB advances and a $212.7 million growth in deposits. For the nine months ended September 30, 2014, net cash of $377.6 million was provided by financing activities, primarily driven by a $214.6 million growth in deposits and net proceeds of $152.0 million of FHLB advances.

Capital Management

HomeStreet, Inc. and HomeStreet Bank are required to maintain a minimum level of regulatory capital. On January 1, 2015, the Bank and the Company became subject to Basel III capital standards. Bank regulations currently recognize three components, or tiers, of capital: common equity Tier 1 capital, additional Tier 1 capital and Tier 2 capital. The FDIC measures a bank’s capital using (1) Tier 1 leverage ratio, (2) Common equity risk-based capital ratio, (3) Tier 1 risk-based capital ratio and (4) Total risk-based capital ratio. Key differences between the new capital requirements and the prior requirements under Basel I, include, but are not limited to, the following:

- Common equity Tier 1 capital generally consists of retained earnings and common stock instruments (subject to certain adjustments), as well as accumulated other comprehensive income (“AOCI”) except to the extent that the Company and the Bank exercise a one-time irrevocable option to exclude certain components of AOCI. Both the Company and the Bank elected this one-time option to exclude certain components of AOCI.
- The Rules modified the manner in which certain capital elements are determined, including but not limited to, requiring certain deductions related to mortgage servicing rights and deferred tax assets. When the federal banking regulators initially proposed new capital rules in 2012, the rules would have phased out trust preferred securities as a component of Tier 1 capital. As finally adopted, however, the Rules permit holding companies with less than $15 billion in total assets as of December 31, 2009 (which includes the Company) to continue to include trust preferred securities issued prior to May 19, 2010 in Tier 1 capital, generally up to 25% of other Tier 1 capital.
- The Rules made changes in the methods of calculating certain risk-based assets, which in turn affected the calculation of risk- based ratios. Higher or more sensitive risk weights are assigned to various categories of assets, among which are commercial real estate, credit facilities that finance the acquisition, development or construction of real property, certain exposures or credits that are 90 days past due or are nonaccrual, foreign exposures, certain corporate exposures, securitization exposures, equity exposures and in certain cases mortgage servicing rights and deferred tax assets. Certain calculations under the rules related to deductions from capital have phase-in periods through 2018. Specifically, the capital treatment of mortgage servicing rights will have an increasingly negative impact our capital ratios as the deductions are phased in through the transition periods. Under the prior rules, the Bank deducted 10% of the value of MSRs (net of deferred tax) from Tier 1 capital ratios. However, under Basel III, the Bank and Company must deduct a much larger portion of the value of MSRs from Tier 1 capital.
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MSRs in excess of a 10% threshold must be deducted from common equity. The disallowable portion of MSRs will be phased in incrementally (40% in 2015; 60% in 2016; 80% in 2017) to 100% deduction in 2018.

- In addition, the combined balance of MSRs and deferred tax assets is limited to approximately 15% of the Bank's and the Company's common equity Tier 1 capital. These combined assets must be deducted from common equity to the extent that they exceed the 15% threshold.
- Any portion of the Bank's and the Company's MSRs that are not deducted from the calculation of common equity Tier 1 are subject to a 100% risk weight that will increase to 250% in 2018.

In order to qualify as "well capitalized," a bank must have a Tier 1 leverage ratio of at least 5.0%, a Common equity risk-based capital ratio of at least 6.5%, a Tier 1 risk-based capital ratio of at least 8.0% and a Total risk-based capital ratio of at least 10.0%. In order to be deemed "adequately capitalized," a bank generally must have a Tier 1 leverage ratio of at least 4.0%, a Common equity risk-based capital of at least 4.5%, a Tier 1 risk-based capital ratio of at least 6.0% and a Total risk-based capital ratio of at least 8.0%. The FDIC retains the right to require a depository institution to maintain a higher capital level based on its particular risk profile. In addition to the preceding requirements, both the Company and the Bank are required to establish a "conservation buffer," consisting of common equity Tier 1 capital, which is at least 2.5% above each of the preceding common equity Tier 1 capital ratio, the Tier 1 risk-based ratio and the total risk-based ratio. An institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases and discretionary bonuses to executive officers. The conservation buffer will be phased in beginning in 2016 and will take full effect on January 1, 2019.

At September 30, 2015, the Bank's capital ratios continued to meet the regulatory capital category of "well capitalized" as defined by the FDIC's prompt corrective action rules.

The following table presents regulatory capital information for HomeStreet, Inc. and HomeStreet Bank. Information presented for September 30, 2015 reflects the transition to Basel III capital requirements from previous regulatory capital adequacy guidelines under Basel I effective in 2014.

	At September 30, 2015								
HomeStreet Bank	Actual			For Minimum Capital Adequacy Purposes			To Be Categorized As "Well Capitalized" Under Prompt Corrective Action Provisions		
(in thousands)	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Tier 1 leverage capital (to average assets)	$461,121	9.69	%	$190,407	4.0	%	$238,009	5.0	%
Common equity risk-based capital (to risk-weighted assets)	461,121	13.35	%	155,465	4.5	%	224,560	6.5	%
Tier 1 risk-based capital (to risk-weighted assets)	461,121	13.35	%	207,287	6.0	%	276,382	8.0	%
Total risk-based capital (to risk-weighted assets)	$489,008	14.15	%	$276,382	8.0	%	$345,478	10.0	%

	At September 30, 2015								
HomeStreet, Inc.	Actual			For Minimum Capital Adequacy Purposes			To Be Categorized As "Well Capitalized" Under Prompt Corrective Action Provisions		
(in thousands)	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Tier 1 leverage capital (to average assets)	$477,591	10.00	%	$190,987	4.0	%	$238,733	5.0	%
Common equity risk-based capital (to risk-weighted assets)	420,570	10.65	%	177,787	4.5	%	256,804	6.5	%
Tier 1 risk-based capital (to risk-weighted assets)	477,591	12.09	%	237,049	6.0	%	316,066	8.0	%
Total risk-based capital (to risk-weighted assets)	$505,478	12.79	%	$316,066	8.0	%	$395,082	10.0	%

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HomeStreet Bank	At December 31, 2014 Actual		For Minimum Capital Adequacy Purposes		To Be Categorized As “Well Capitalized” Under Prompt Corrective Action Provisions	
(in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 leverage capital (to average assets)	$319,010	9.38 %	$136,058	4.0 %	$170,072	5.0 %
Tier 1 risk-based capital (to risk-weighted assets)	319,010	13.10 %	97,404	4.0 %	146,106	6.0 %
Total risk-based capital (to risk-weighted assets)	$341,534	14.03 %	$194,808	8.0 %	$243,511	10.0 %

Accounting Developments

See the Consolidated Financial Statements—Note 1, Summary of Significant Accounting Policies for a discussion of Accounting Developments.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk Management

The following discussion highlights developments since December 31, 2014 and should be read in conjunction with the Market Risk Management discussion within Part II, Item 7A Quantitative and Qualitative Disclosures About Market Risk in our 2014 Annual Report on Form 10-K. Since December 31, 2014, there have been no material changes in the types of risk management instruments we use or in our hedging strategies.

Market risk is defined as the sensitivity of income, fair value measurements and capital to changes in interest rates, foreign currency exchange rates, commodity prices and other relevant market rates or prices. The primary market risks that we are exposed to are price and interest rate risks. Price risk is defined as the risk to current or anticipated earnings or capital arising from changes in the value of either assets or liabilities that are entered into as part of distributing or managing risk. Interest rate risk is defined as risk to current or anticipated earnings or capital arising from movements in interest rates.

For the Company, price and interest rate risks arise from the financial instruments and positions we hold. This includes loans, mortgage servicing rights, investment securities, deposits, borrowings, long-term debt and derivative financial instruments. Due to the nature of our operations, we are not subject to foreign currency exchange or commodity price risk. Our real estate loan portfolio is subject to risks associated with the local economies of our various markets and, in particular, the regional economy of the Pacific Northwest and, to a growing extent, California.

Our price and interest rate risks are managed by the Bank’s Asset/Liability Management Committee ("ALCO"), a management committee that identifies and manages the sensitivity of earnings or capital to changing interest rates to achieve our overall financial objectives. ALCO is a management-level committee whose members include the Chief Investment Officer, acting as the chair, the Chief Executive Officer and other members of management. The committee meets monthly and is responsible for:

- understanding the nature and level of the Company's interest rate risk and interest rate sensitivity;
- assessing how that risk fits within our overall business strategies;
- ensuring an appropriate level of rigor and sophistication in the risk management process for the overall level of risk;
- complying with and reviewing the asset/liability management policy;
- formulating and implementing strategies to improve balance sheet mix and earnings.

The Finance Committee of the Bank's Board provides oversight of the asset/liability management process, reviews the results of interest rate risk analysis and approves relevant policies.

The spread between the yield on interest-earning assets and the cost of interest-bearing liabilities and the relative dollar amounts of these assets and liabilities are the principal items affecting net interest income. Changes in net interest spread (interest rate risk) are influenced to a significant degree by the repricing characteristics of assets and liabilities (timing risk), the relationship between various rates (basis risk), customer options (option risk) and changes in the shape of the yield curve (time-sensitive risk). We manage the available-for-sale investment securities portfolio while maintaining a balance between risk and return. The Company's funding strategy is to grow core deposits while we efficiently supplement using wholesale borrowings.

We estimate the sensitivity of our net interest income to changes in market interest rates using an interest rate simulation model that includes assumptions related to the level of balance sheet growth, deposit repricing characteristics and the rate of prepayments for multiple interest rate change scenarios. Interest rate sensitivity depends on certain repricing characteristics in our interest-earnings assets and interest-bearing liabilities, including the maturity structure of assets and liabilities and their repricing characteristics during the periods of changes in market interest

rates. Effective interest rate risk management seeks to ensure both assets and liabilities respond to changes in interest rates within an acceptable timeframe, minimizing the impact of interest rate changes on net interest income and capital. Interest rate sensitivity is measured as the difference between the volume of assets and liabilities, at a point in time, that are subject to repricing at various time horizons, known as interest rate sensitivity gaps.

The following table presents sensitivity gaps for these different intervals.

(dollars in thousands)	September 30, 2015 3 Mos. or Less	More Than 3 Mos. to 6 Mos.	More Than 6 Mos. to 12 Mos.	More Than 12 Mos. to 3 Yrs.	More Than 3 Yrs. to 5 Yrs.	More Than 5 Yrs.	Non-Rate-Sensitive	Tot
Interest-earning assets:								
Cash & cash equivalents	$37,303	$—	$—	$—	$—	$—	$—	$37
FHLB Stock	—	—	—	—	—	44,652	—	44,6
Investment securities[(1)]	63,782	16,014	41,461	92,968	71,855	315,939	—	602
Mortgage loans held for sale	882,319	—	—	—	—	—	—	882
Loans held for investment[(1)]	793,177	202,278	376,715	821,511	440,169	379,093	—	3,01
Total interest-earning assets	1,776,581	218,292	418,176	914,479	512,024	739,684	—	4,57
Non-interest-earning assets	—	—	—	—	—	—	396,418	396
Total assets	$1,776,581	$218,292	$418,176	$914,479	$512,024	$739,684	$396,418	$4,9
Interest-bearing liabilities:								
NOW accounts[(2)]	$452,369	$—	$—	$—	$—	$—	$—	$45
Statement savings accounts[(2)]	296,995	—	—	—	—	—	—	296
Money market accounts[(2)]	1,140,481	—	—	—	—	—	—	1,14
Certificates of deposit	757,758	225,170	149,457	122,623	45,759	117,082	—	1,41
FHLB advances	895,155	50,000	20,000	35,000	20,000	5,590	—	1,02
Long-term debt[(3)]	61,857	—	—	—	—	—	—	61,8
Total interest-bearing liabilities	3,604,615	275,170	169,457	157,623	65,759	122,672	—	4,39
Non-interest bearing liabilities	—	—	—	—	—	—	119,900	119
Equity	—	—	—	—	—	—	460,458	460
Total liabilities and shareholders' equity	$3,604,615	$275,170	$169,457	$157,623	$65,759	$122,672	$580,358	$4,9
Interest sensitivity gap	$(1,828,034)	$(56,878)	$248,719	$756,856	$446,265	$617,012		
Cumulative interest sensitivity gap	$(1,828,034)	$(1,884,912)	$(1,636,193)	$(879,337)	$(433,072)	$183,940		
	(37)%	(38)%	(33)%	(18)%	(9)%	4%		

Cumulative interest sensitivity gap as a percentage of total assets						
Cumulative interest-earning assets as a percentage of cumulative interest-bearing liabilities	49 %	51 %	60 %	79 %	90 %	104 %

(1) Based on contractual maturities, repricing dates and forecasted principal payments assuming normal amortization and, where applicable, prepayments.
(2) Assumes 100% of interest-bearing non-maturity deposits are subject to repricing in three months or less.
(3) Based on contractual maturity.

Changes in the mix of interest-earning assets or interest-bearing liabilities can either increase or decrease the net interest margin, without affecting interest rate sensitivity. In addition, the interest rate spread between an earning asset and its funding liability can vary significantly, while the timing of repricing for both the asset and the liability remains the same, thereby impacting net interest income. This characteristic is referred to as basis risk. Varying interest rate environments can create unexpected changes in prepayment levels of assets and liabilities that are not reflected in the interest rate sensitivity analysis. These prepayments may have a significant impact on our net interest margin. Because of these factors, an interest sensitivity gap analysis may not provide an accurate assessment of our actual exposure to changes in interest rates.

The estimated impact on our net interest income over a time horizon of one year and the change in net portfolio value as of September 30, 2015 and December 31, 2014 are provided in the table below. For the scenarios shown, the interest rate simulation assumes an instantaneous and sustained shift in market interest rates and no change in the composition or size of the balance sheet.

	September 30, 2015		December 31, 2014	
Change in Interest Rates	Percentage Change			
(basis points)	Net Interest Income [1]	Net Portfolio Value [2]	Net Interest Income [1]	Net Portfolio Value [2]
+200	(2.5)%	(6.5)%	(1.5)%	(12.0)%
+100	(1.4)	0.2	(0.1)	(3.5)
-100	(3.2)	(8.1)	(3.4)	(4.6)
-200	(8.1)%	(24.6)%	(7.2)%	(18.0)%

(1) This percentage change represents the impact to net interest income for a one-year period, assuming there is no change in the structure of the balance sheet.

(2) This percentage change represents the impact to the net present value of equity, assuming there is no change in the structure of the balance sheet.

At September 30, 2015, we believe our net interest income sensitivity did not exhibit a strong bias to either an increase in interest rates or a decline in interest rates. Since December 31, 2014, the interest rate sensitivity of the Company’s assets has decreased while the interest rate sensitivity of its liabilities has increased. The changes in sensitivity reflect the impact of both higher market interest rates and changes to overall balance sheet composition. It is expected that, as interest rates change, net interest income will be positively correlated with rate movements in the short-term, i.e. an increase (decrease) in interest rates would result in an increase (decrease) in net interest income. Some of the assumptions made in the simulation model may not materialize and unanticipated events and circumstances will occur. In addition, the simulation model does not take into account any future actions that we could undertake to mitigate an adverse impact due to changes in interest rates from those expected, in the actual level of market interest rates or competitive influences on our deposits.

ITEM 4 CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company carried out an evaluation, with the participation of our management and under the supervision of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2015.

Internal Control Over Financial Reporting

As required by Rule 13a-15(d), our management, including our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

There were no changes to our internal control over financial reporting that occurred during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

Because the nature of our business involves the collection of numerous accounts, the validity of liens and compliance with various state and federal lending laws, we are subject to various legal proceedings in the ordinary course of our business related to foreclosures, bankruptcies, condemnation and quiet title actions and alleged statutory and regulatory violations. We are also subject to legal proceedings in the ordinary course of business related to employment matters. We do not expect that these proceedings, taken as a whole, will have a material adverse effect on our business, financial position or our results of operations. There are currently no matters that, in the opinion of management, would have a material adverse effect on our consolidated financial position, results of operation or liquidity, or for which there would be a reasonable possibility of such a loss based on information known at this time.

ITEM 1A RISK FACTORS

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this report.

We are growing rapidly, and we may be unable to manage our growth properly.

In 2012, HomeStreet completed its initial public offering of common stock (the "IPO"). At that time HomeStreet had been operating under regulatory orders that had been imposed during the financial crisis of 2007 through 2010 as a result of HomeStreet Bank having experienced operating losses, capital impairment, asset quality deterioration and a number of related operational and management issues. In late 2009 we began recruiting a new management team, and the recapitalization brought about by our IPO, together with aggressive management strategies, helped us substantially improve all of the major aspects of our operations and financial condition. As a result of a combination of these factors, our regulators removed all extraordinary restrictions on our operations by early 2013. In November 2013 we completed the simultaneous acquisitions by merger of Fortune Bank, headquartered in Seattle, and Yakima National Bank, headquartered in Yakima, Washington. In December 2013 we completed the acquisition of two Seattle branches from AmericanWest Bank. In March 2015, we completed the Simplicity merger, in which we acquired Simplicity Bancorp, Inc. and its wholly owned subsidiary Simplicity Bank. That merger represents our third whole-bank acquisition in less than two years and represents a substantial geographic expansion of our commercial and consumer banking operations. In August 2015, the Company entered into a definitive agreement to acquire a bank branch and deposits in Dayton, Washington which we expect to close in the fourth quarter of 2015. Most recently, we announced in September 2015 that we have entered into an agreement to acquire Orange County Business Bank in a merger that we expect will close in early 2016, subject to certain closing conditions, representing additional growth in our commercial banking operations. Simultaneously with this growth of our banking operations through acquisition, we have grown our mortgage origination operations opportunistically but quickly, opening new offices in Northern and Southern California starting in 2013, and further expanding our mortgage origination operations into Arizona beginning in the fourth quarter of 2014 and Central California in the second quarter of 2015, while also continuing to grow those operations in the Pacific Northwest. We also expanded our residential construction lending activities, opening a new office in Salt Lake City, Utah and adding production personnel in Southern California during 2014 and early 2015.

At the time we completed our IPO, and after giving effect to the $77.6 million in net proceeds from that offering, based on December 31, 2011 balances, we had total assets of approximately $2.4 billion, total deposits of approximately $2.0 billion, total loans of approximately $1.5 billion, and we had approximately 600 employees. At September 30, 2015, we had total assets of approximately $4.98 billion, total deposits of $3.31 billion, total loans of

approximately $3.90 billion, and approximately 2,100 full-time equivalent employees. We have plans to continue growing strategically, and we may also grow opportunistically from time to time. Growth can present substantial demands on management personnel, line employees, and other aspects of a bank's operations, and those challenges are particularly pronounced when growth occurs rapidly. We may face difficulties in managing that growth, and we may experience a variety of adverse consequences, including:

- Loss of or damage to key customer relationships;
- Distraction of management from ordinary course operations;
- Costs incurred in the process of vetting potential acquisition candidates which we may not recoup;
- Loss of key employees or significant numbers of employees;
- The potential of litigation from prior employers relating to the portability of their employees;

- Costs associated with opening new offices and systems expansion to accommodate our growth in employees;
- Increased costs related to hiring, training and providing initial compensation to new employees, which may not be recouped if those employees do not remain with us long enough to be profitable;
- Challenges in complying with legal and regulatory requirements in new jurisdictions;
- Inadequacies in our computer systems, accounting policies and procedures, and management personnel (some of which may be difficult to detect until other problems become manifest);
- Challenges integrating different systems, practices, and customer relationships;
- An inability to attract and retain personnel whose experience and (in certain circumstances) business relationships promote the achievement of our strategic goals; and
- Increasing volatility in our operating results as we progress through these initiatives.

The integration of recent and future acquisitions into HomeStreet could consume significant resources, present significant challenges in integration and may not be successful.

In March 2015, we completed the Simplicity merger and are continuing to integrate the Simplicity operations into HomeStreet's operations. We also anticipate closing the acquisition of Orange County Business Bank by merger in early 2016. There are certain risks related to the integration of the Simplicity operations and the anticipated integration of the Orange County Business Bank operations, and similar risks may arise if we seek out other acquisitions in the near future as we look for ways to continue to grow our business and our market share. Any future acquisition we may undertake may involve numerous risks related to the investigation and consideration of the potential acquisition and the costs of undertaking such a transaction, and each of the Simplicity integration, the proposed Orange County Business Bank integration and integration into HomeStreet or HomeStreet Bank of any other assets or entities we may acquire in the future involve inherent risks, including risks that arise after the transaction is completed. These risks include:

- Diversion of management's attention from normal daily operations of the business;
- Difficulties in integrating the operations, technologies, and personnel of the acquired companies;
- Difficulties in implementing, upgrading and maintaining our internal controls over financial reporting and our disclosure controls and procedures;
- Inability to maintain the key business relationships and the reputations of acquired businesses;
- Entry into markets in which we have limited or no prior experience and in which competitors have stronger market positions;
- Potential responsibility for the liabilities of acquired businesses;
- Inability to maintain our internal standards, procedures and policies at the acquired companies or businesses; and
- Potential loss of key employees of the acquired companies.

Difficulties in pursuing or integrating any new acquisitions may increase our costs and adversely impact our financial condition and results of operations. Further, even if we successfully address these factors and are successful in closing acquisitions and integrating our systems with the acquired systems, we may nonetheless experience customer losses, or we may fail to grow the acquired businesses as we intend.

Fluctuations in interest rates could adversely affect the value of our assets and reduce our net interest income and noninterest income, thereby adversely affecting our earnings and profitability.

Interest rates may be affected by many factors beyond our control, including general and economic conditions and the monetary and fiscal policies of various governmental and regulatory authorities. For example, increases in interest rates in early 2014 reduced our mortgage revenues in large part by drastically reducing the market for refinancings, which negatively impacted our noninterest income and, to a lesser extent, our net interest income, as well as demand for our residential loan products and the revenue realized on the sale of loans in the first half of 2014. Our earnings are

also dependent on the difference between the interest earned on loans and investments and the interest paid on deposits and borrowings. Changes in market interest rates impact the rates earned on loans and investment securities and the rates paid on deposits and borrowings and may negatively impact our ability to attract deposits, make loans and achieve satisfactory interest rate spreads, which could adversely affect our financial condition or results of operations. In addition, changes to market interest rates may impact the level of loans, deposits and investments and the credit quality of existing loans.

In addition, our securities portfolio includes securities that are insured or guaranteed by U.S. government agencies or government-sponsored enterprises and other securities that are sensitive to interest rate fluctuations. The unrealized gains or losses in our available-for-sale portfolio are reported as a separate component of shareholders' equity until realized upon sale.

Future interest rate fluctuations may impact the value of these securities and as a result, shareholders' equity, causing material fluctuations from quarter to quarter. Failure to hold our securities until maturity or until market conditions are favorable for a sale could adversely affect our financial condition.

A significant portion of our noninterest income is derived from originating residential mortgage loans and selling them into the secondary market. That business has benefited from a long period of historically low interest rates. To the extent interest rates rise again, particularly if they rise substantially, we may experience another reduction in mortgage financing of new home purchases and refinancing. These factors have negatively affected our mortgage loan origination volume and our noninterest income in the past and may do so again in the future.

Current economic conditions continue to pose significant challenges for us and could adversely affect our financial condition and results of operations.

We generate revenue from the interest and fees we charge on the loans and other products and services we sell, and a substantial amount of our revenue and earnings comes from the net interest and noninterest income that we earn from our mortgage banking and commercial lending businesses. Our operations have been, and will continue to be, materially affected by the state of the U.S. economy, particularly unemployment levels and home prices. Although the U.S. economy has continued to improve from the recessionary levels of 2008 and early 2009, economic growth has at times been slow and uneven and there is no guarantee that it will continue at the current pace or at all.

A prolonged period of slow growth in the U.S. economy, or any deterioration in general economic conditions and/or the financial markets resulting from these factors, or any other events or factors that may disrupt or dampen the economic recovery, could materially adversely affect our financial results and condition. If economic conditions do not continue to improve or if the economy worsens and unemployment rises, which also would likely result in a decrease in consumer and business confidence and spending, the demand for our credit products, including our mortgages, may fall, reducing our net interest and noninterest income and our earnings.

Housing affordability is directly affected by the level of mortgage interest rates. The housing market recovery has been aided by a protracted period of historically low mortgage interest rates that has made it easier for consumers to qualify for a mortgage and purchase a home. Should mortgage rates substantially increase over current levels, it would become more difficult for many consumers to qualify for mortgage credit. This could have a dampening effect on home sales and on home values.

In addition, financial institutions continue to be affected by changing conditions in the real estate and financial markets, along with an arduous and changing regulatory climate in which regulations passed in response to conditions and events during the economic downturn continue to be implemented. Recent improvements in the housing market may not continue, and a return to a recessionary economy could result in financial stress on our borrowers that may result in volatility in home prices, increased foreclosures and significant write-downs of asset values, all of which would adversely affect our financial condition and results of operations.

In particular, we may face risks related to market conditions that may negatively impact our business opportunities and plans, such as:

- Market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, resulting in increased delinquencies and default rates on loans and other credit facilities;
- Regulatory scrutiny of the industry could further increase, leading to stricter regulation of our industry that could lead to a higher cost of compliance, limit our ability to pursue business opportunities and increase our exposure to the judicial system and the plaintiff’s bar;
-

The models we use to assess the creditworthiness of our customers may prove less reliable than we had anticipated in predicting future behaviors which may impair our ability to make good underwriting decisions;

- If our forecasts of economic conditions and other economic predictions are not accurate, we may face challenges in accurately estimating the ability of our borrowers to repay their loans;
- Further erosion in the fiscal condition of the U.S. Treasury may lead to new taxes limiting the ability of the Company to pursue growth and return profits to shareholders; and
- Future political developments and fiscal policy decisions may create uncertainty in the marketplace.

If recovery from the economic recession slows or if we experience another recessionary dip, our ability to access capital and our business, financial condition and results of operations may be adversely impacted.

Any restructuring or replacement of Fannie Mae and Freddie Mac and changes in existing government-sponsored and federal mortgage programs could adversely affect our business.

We originate and purchase, sell and thereafter service single family and multifamily mortgages under the Fannie Mae, and to a lesser extent the Freddie Mac single family purchase programs and the Fannie Mae multifamily DUS program. In 2008, Fannie Mae and Freddie Mac were placed into conservatorship, and since then Congress, various executive branch agencies and certain large private investors in Fannie Mae and Freddie Mac have offered a wide range of proposals aimed at restructuring these agencies. While the Obama administration and certain members of Congress have called for scaling back the role of the U.S. government in, and promoting the return of private capital to, the mortgage markets and the reduction of the role of Fannie Mae and Freddie Mac in the mortgage markets by, among other things, reducing conforming loan limits, increasing guarantee fees and requiring larger down payments by borrowers with the ultimate goal of winding down Fannie Mae and Freddie Mac, others have focused on ways to bring additional private capital into the system in order to reduce taxpayer risk. We expect that Congress will continue to hold hearings and consider legislation on the future status of Fannie Mae and Freddie Mac, including proposals that would result in Fannie Mae's liquidation or dissolution.

We cannot be certain if or when Fannie Mae and Freddie Mac ultimately will be restructured or wound down, if or when additional reform of the housing finance market will be implemented or what the future role of the U.S. government will be in the mortgage market, and, accordingly, we will not be able to determine the impact that any such reform may have on us until a definitive reform plan is adopted. However, any restructuring or replacement of Fannie Mae and Freddie Mac that restricts the current loan purchase programs of those entities may have a material adverse effect on our business and results of operations. Moreover, we have recorded on our balance sheet an intangible asset (mortgage servicing rights, or MSRs) relating to our right to service single and multifamily loans sold to Fannie Mae and Freddie Mac. That MSR asset was valued at $146.1 million at September 30, 2015. Changes in the policies and operations of Fannie Mae and Freddie Mac or any replacement for or successor to those entities that adversely affect our single family residential loan and DUS mortgage servicing assets may require us to record impairment charges to the value of these assets, and significant impairment charges could be material and adversely affect our business.

In addition, our ability to generate income through mortgage sales to institutional investors depends in part on programs sponsored by Fannie Mae, Freddie Mac and Ginnie Mae, which facilitate the issuance of mortgage-backed securities in the secondary market. Any discontinuation of, or significant reduction in, the operation of those programs could have a material adverse effect on our loan origination and mortgage sales as well as our results of operations. Also, any significant adverse change in the level of activity in the secondary market or the underwriting criteria of these entities could negatively impact our results of business, operations and cash flows.

We are subject to more stringent capital requirements under Basel III.

As of January 1, 2015, we are subject to new rules relating to capital standards requirements, including requirements contemplated by Section 171 of the Dodd-Frank Act as well as certain standards initially adopted by the Basel Committee on Banking Supervision, which standards are commonly referred to as Basel III. A substantial portion of these rules applies to both the Company and the Bank, including a requirement that both the Company and the Bank have a common equity Tier 1 capital ratio of 4.5%, a Tier 1 leverage ratio of 4.0%, a Tier 1 risk-based ratio of 6.0% and a total risk-based ratio of 8.0%. In addition, beginning in 2016, both the Company and the Bank will be required to establish a "conservation buffer", consisting of common equity Tier 1 capital, equal to 2.5%, which means in effect that, once the conservation buffer is fully phased in, in order to prevent certain regulatory restrictions, the common equity Tier 1 capital ratio requirement will be 7.0%, the Tier 1 risk-based ratio requirement will be 8.5% and the total risk-based ratio requirement will be 10.5%. Any institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases and discretionary bonuses to

executive officers. The requirement for a conservation buffer will be phased in beginning in 2016 and will take full effect on January 1, 2019.

Beginning in 2015, additional prompt corrective action rules apply to the Bank, including higher and new ratio requirements for the Bank to be considered well-capitalized. The new rules also modify the manner for determining when certain capital elements are included in the ratio calculations. Under the prior capital standards (Basel I), the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under Basel III, the effects of certain accumulated other comprehensive items are not excluded; however, banking organizations that are not required to use advanced approaches, including the Company and the Bank, may make a one-time permanent election to continue to exclude these items. The Company and Bank made this election in 2015 in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of the Company's securities portfolio.

In addition, deductions include, for example, the requirement that mortgage servicing rights, certain deferred tax assets not dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from the new common equity Tier 1 capital to the extent that any one such category exceeds 10% of new common equity Tier 1 capital, or all such categories in the aggregate exceed 15% of new common equity Tier 1 capital. Maintaining higher capital levels may result in lower profits for the Company as we will not be able to grow our lending as quickly as we might otherwise be able to do if we were to maintain lower capital levels. See "Regulation and Supervision of Home Street Bank - Capital and Prompt Corrective Action Requirements - New Capital Regulations" in Item 1 of our Form 10-K for the year ended December 31, 2014 filed with the SEC on March 25, 2015. The application of more stringent capital requirements could, among other things, result in lower returns on invested capital and result in regulatory actions if we were to be unable to comply with such requirements.

We are subject to extensive regulation that may restrict our activities, including declaring cash dividends or capital distributions, and imposes financial requirements or limitations on the conduct of our business.

Our operations are subject to extensive regulation by federal, state and local governmental authorities, including the FDIC, the Washington Department of Financial Institutions and the Federal Reserve, and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Because our business is highly regulated, the laws, rules and regulations to which we are subject are evolving and change frequently. Changes to those laws, rules and regulations are also sometimes retroactively applied. Examination findings by the regulatory agencies may result in adverse consequences to the Company or the Bank. We have, in the past, been subject to specific regulatory orders that constrained our business and required us to take measures that investors may have deemed undesirable, and we may again in the future be subject to such orders if banking regulators were to determine that our operations require such restrictions. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the authority to restrict our operations, adversely reclassify our assets, determine the level of deposit premiums assessed and require us to increase our allowance for loan losses.

The Dodd-Frank Act has increased our costs of operations and may have a material negative effect on us.

The Dodd-Frank Act significantly changed the laws as they apply to financial institutions and revised and expanded the rulemaking, supervisory and enforcement authority of federal banking regulators. It is also having a material impact on our relationships with current and future customers.

Some of these changes were effective immediately, although others are still being phased in gradually. In addition, the statute in many instances calls for regulatory rulemaking to implement its provisions. While many of the provisions are now being implemented, such as the Basel III capital standards, not all of the regulations called for by Dodd-Frank have been completed or are in effect, so the precise contours of the law and its effects on us cannot yet be fully understood. The provisions of the Dodd-Frank Act and the subsequent exercise by regulators of their revised and expanded powers thereunder could materially and negatively impact the profitability of our business, the value of assets we hold or the collateral available for our loans, require changes to business practices or force us to discontinue businesses and expose us to additional costs, taxes, liabilities, enforcement actions and reputational risk. For example, the Dodd-Frank Act imposes a requirement that private securitizers of mortgage and other asset backed securities retain, subject to certain exemptions, not less than five percent of the credit risk of the mortgages or other assets backing the securities. The regulatory agencies published the final Risk Retention rules in December 2014; compliance is required beginning in December 2015 for residential mortgage-backed securitizations and December 2016 for all other securitization types. See "Regulation and Supervision" in Item 1 of our Form 10-K for the year ended December 31, 2014 filed with the SEC on March 25, 2015.

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New federal and state legislation, case law or regulatory action may negatively impact our business.

Enacted legislation, including the Dodd-Frank Act, as well as future federal and state legislation, case law and regulations could require us to revise our operations and change certain business practices, impose additional costs, reduce our revenue and earnings and otherwise adversely impact our business, financial condition and results of operations. For instance,

- Recent legislation and court decisions with precedential value could allow judges to modify the terms of residential mortgages in bankruptcy proceedings and could hinder our ability to foreclose promptly on defaulted mortgage loans or expand assignee liability for certain violations in the mortgage loan origination process, any or all of which could adversely affect our business or result in our being held responsible for violations in the mortgage loan origination process.
- Congress and various regulatory authorities have proposed programs that would require a reduction in principal balances of “underwater” residential mortgages, which if implemented would tend to reduce loan servicing income and which might adversely affect the carrying values of portfolio loans.

These or other judicial decisions or legislative actions, if upheld or implemented, may limit our ability to take actions that may be essential to preserve the value of the mortgage loans we service or hold for investment. Any restriction on our ability to foreclose on a loan, any requirement that we forego a portion of the amount otherwise due on a loan or any requirement that we modify any original loan terms may require us to advance principal, interest, tax and insurance payments, which would negatively impact our business, financial condition, liquidity and results of operations. Given the relatively high percentage of our business that derives from originating residential mortgages, any such actions are likely to have a significant impact on our business, and the effects we experience will likely be disproportionately high in comparison to financial institutions whose residential mortgage lending is more attenuated.

In addition, while these legislative and regulatory proposals and courts decisions generally have focused primarily, if not exclusively, on residential mortgage origination and servicing, other laws and regulations may be enacted that affect the manner in which we do business and the products and services that we provide, restrict our ability to grow through acquisition, restrict our ability to compete in our current business or expand into any new business, and impose additional fees, assessments or taxes on us or increase our regulatory oversight.

Policies and regulations enacted by CFPB may negatively impact our residential mortgage loan business and compliance risk.

Our consumer business, including our mortgage, credit card, and other consumer lending and non-lending businesses, may be adversely affected by the policies enacted or regulations adopted by the Consumer Financial Protection Bureau (CFPB) which under the Dodd-Frank Act has broad rulemaking authority over consumer financial products and services. For example, in January 2014 new federal regulations promulgated by the CFPB took effect which impact how we originate and service residential mortgage loans. Those regulations, among other things, require mortgage lenders to assess and document a borrower’s ability to repay their mortgage loan. The regulations provide borrowers the ability to challenge foreclosures and sue for damages based on allegations that the lender failed to meet the standard for determining the borrower’s ability to repay their loan. While the regulations include presumptions in favor of the lender based on certain loan underwriting criteria, it is uncertain how these presumptions will be construed and applied by courts in the event of litigation. The ultimate impact of these new regulations on the lender’s enforcement of its loan documents in the event of a loan default, and the cost and expense of doing so, is uncertain, but may be significant. In addition, the secondary market demand for loans that do not fall within the presumptively safest category of a “qualified mortgage” as defined by the CFPB is uncertain. The 2014 regulations also require changes to certain loan servicing procedures and practices, which result in increased foreclosure costs and longer foreclosure timelines in the event of loan default, and failure to comply with the new servicing rules may result in

additional litigation and compliance risk. On November 20, 2013, the CFPB released its Final Integrated Disclosure Rule (“Rule”) which became effective October 3, 2015 following a recent two month extension on effectiveness from the CFPB. Among other things, the new rule requires lenders to combine the initial Good Faith Estimate and Initial Truth in Lending (“TIL”) disclosures into a single new Loan Estimate disclosure and the HUD-1 and Final TIL disclosures into a single new Closing Disclosure. The definition of an application and timing requirements has changed, and a new Closing Disclosure waiting period has been added. These changes, along with other changes required by the Rule, will require significant systems modifications, process and procedures changes and training. Failure to comply with these new requirements may result in regulatory penalties for disclosure violations under the Real Estate Settlement Procedures Act (“RESPA”) and the Truth In Lending Act (“TILA”), and private right of action under TILA, and may impact our ability to sell or the price we receive for certain loans.

In addition, the CFPB recently adopted additional rules under the Home Mortgage Disclosure Act ("HMDA") that are intended to improve information reported about the residential mortgage market and increase disclosure about consumer access to mortgage credit. The updates to the HMDA increase the types of dwelling-secured loans that will be subject to the disclosure requirements of the rule and expand the categories of information that financial institutions such as the Bank will be required to report with respect to such loans and such borrowers, including potentially sensitive customer information. The rule becomes effective January 1, 2018. These changes may increase our compliance costs due to the anticipated need for additional resources to meet the enhanced disclosure requirements, including additional personnel and training costs as well as informational systems to allow the Bank to properly capture and report the additional mandated information. The volume of new data that will be required to be reported under the updated rules will also cause the Bank to face an increased risk of errors in the information. More importantly, because of the sensitive nature of some of the additional customer information to be included in such reports, the Bank may face a higher potential for a security breach resulting in the disclosure of sensitive customer information in the event the HMDA reporting files were obtained by an unauthorized party.

While the full impact of CFPB's activities on our business is still unknown, we anticipate that the rule change under the HMDA and other CFPB actions that may follow may increase our compliance costs and require changes in our business practices as a result of new regulations and requirements and could limit the products and services we are able to provide to customers. We are unable to predict whether U.S. federal, state or local authorities, or other pertinent bodies, will enact legislation, laws, rules, regulations, handbooks, guidelines or similar provisions that will affect our business or require changes in our practices in the future, and any such changes could adversely affect our cost of doing business and profitability.

Our accounting policies and methods are fundamental to how we report our financial condition and results of operations, and we use estimates in determining the fair value of certain of our assets, which estimates may prove to be imprecise and result in significant changes in valuation.

A portion of our assets are carried on the balance sheet at fair value, including investment securities available for sale, mortgage servicing rights related to single family loans and single family loans held for sale. Generally, for assets that are reported at fair value, we use quoted market prices or internal valuation models that utilize observable market data inputs to estimate their fair value. In certain cases, observable market prices and data may not be readily available or their availability may be diminished due to market conditions. We use financial models to value certain of these assets. These models are complex and use asset-specific collateral data and market inputs for interest rates. Although we have processes and procedures in place governing internal valuation models and their testing and calibration, such assumptions are complex as we must make judgments about the effect of matters that are inherently uncertain. Different assumptions could result in significant changes in valuation, which in turn could affect earnings or result in significant changes in the dollar amount of assets reported on the balance sheet.

HomeStreet, Inc. primarily relies on dividends from the Bank and payment of dividends by the Bank may be limited by applicable laws and regulations.

HomeStreet, Inc. is a separate legal entity from the Bank, and although we may receive some dividends from HomeStreet Capital Corporation, the primary source of our funds from which we service our debt, pay any dividends that we may declare to our shareholders and otherwise satisfy our obligations is dividends from the Bank. The availability of dividends from the Bank is limited by various statutes and regulations, as well as by our policy of retaining a significant portion of our earnings to support the Bank's operations. New capital rules impose more stringent capital requirements to maintain "well capitalized" status which may additionally impact the Bank's ability to pay dividends to the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Management - New Capital Regulations" as well as "Regulation of Home Street Bank - Capital and Prompt Corrective Action Requirements - New Capital Rules" in Item 1 of our Form 10-K for the year ended

December 31, 2014 filed with the SEC on March 25, 2015. If the Bank cannot pay dividends to us, we may be limited in our ability to service our debts, fund the Company's operations and acquisition plans and pay dividends to the Company's shareholders. While the Company has made special dividend distributions to its public shareholders in prior quarters, the Company has not adopted a dividend policy and the board of directors has determined that it was in the best interests of the shareholders not to declare a dividend to be paid for each of the last six quarters. As such, our dividends are not regular and are subject to restriction due to cash flow limitations, capital requirements, capital needs of the business or other factors.

We cannot assure you that we will remain profitable.

We have sustained significant losses in the past. We cannot guarantee that we will remain profitable or be able to maintain the level of profit we are currently experiencing. Many factors determine whether or not we will be profitable, and our ability to remain profitable is threatened by a myriad of issues, including:

- Increases in interest rates may limit our ability to make loans, decrease our net interest income and noninterest income, reduce demand for loans, increase the cost of deposits and otherwise negatively impact our financial situation;
- Volatility in mortgage markets, which is driven by factors outside of our control such as interest rate changes, housing inventory and general economic conditions, may negatively impact our ability to originate loans and change the fair value of our existing loans and servicing rights;
- Changes in regulations may negatively impact the Company or the Bank and may limit our ability to offer certain products or services or may increase our costs of compliance;
- Increased costs from growth through acquisition could exceed the income growth anticipated from these opportunities, especially in the short term as these acquisitions are integrated into our business;
- Increased costs for controls over data confidentiality, integrity, and availability due to growth or to strengthen the security profile of our computer systems and computer networks;
- Changes in government-sponsored enterprises and their ability to insure or to buy our loans in the secondary market may result in significant changes in our ability to recognize income on sale of our loans to third parties;
- Competition in the mortgage market industry may drive down the interest rates we are able to offer on our mortgages, which will negatively impact our net interest income;
- Changes in the cost structures and fees of government-sponsored enterprises to whom we sell many of these loans may compress our margins and reduce our net income and profitability; and
- Our hedging strategies to offset risks related to interest rate changes may not prove to be successful and may result in unanticipated losses for the Company.

These and other factors may limit our ability to generate revenue in excess of our costs, which in turn may result in a lower rate of profitability or even substantial losses for the Company.

Federal, state and local consumer protection laws may restrict our ability to offer and/ or increase our risk of liability with respect to certain products and services and could increase our cost of doing business.

Federal, state and local laws have been adopted that are intended to eliminate certain practices considered “predatory” or “unfair and deceptive”. These laws prohibit practices such as steering borrowers away from more affordable products, failing to disclose key features, limitations, or costs related to products and services, selling unnecessary insurance to borrowers, repeatedly refinancing loans, imposing excessive fees for overdrafts, and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. It is our policy not to make predatory loans or engage in deceptive practices, but these laws and regulations create the potential for liability with respect to our lending, servicing, loan investment and deposit taking activities. As a company with a significant mortgage banking operation, we also, inherently, have a significant amount of risk of noncompliance with fair lending laws and regulations. These laws and regulations are complex and require vigilance to ensure that policies and practices do not create disparate impact on our customers or that our employees do not engage in overt discriminatory practices. Noncompliance can result in significant regulatory actions including, but not limited to, sanctions, fines or referrals to the Department of Justice. As we offer products and services to customers in additional states, we may become subject to additional state and local laws designed to protect consumers. The additional laws and regulations may increase our cost of doing business, and ultimately may prevent us from making certain loans, offering certain products, and may cause us to reduce the average percentage rate or the points and fees on loans and other products and services that we do provide.

The significant concentration of real estate secured loans in our portfolio has had and may continue to have a negative impact on our asset quality and profitability.

Substantially all of our loans are secured by real property. Our real estate secured lending is generally sensitive to national, regional and local economic conditions, making loss levels difficult to predict. Declines in real estate sales and prices, significant increases in interest rates, and a degeneration in prevailing economic conditions may result in higher than expected loan delinquencies, foreclosures, problem loans, OREO, net charge-offs and provisions for credit and OREO losses. Although real estate prices are stable in the markets in which we operate, if market values decline, the collateral for our loans may provide less security and our ability to recover the principal, interest and costs due on defaulted loans by selling the underlying

real estate will be diminished, leaving us more likely to suffer additional losses on defaulted loans. Such declines may have a greater effect on our earnings and capital than on the earnings and capital of financial institutions whose loan portfolios are more geographically diversified.

Worsening conditions in the real estate market and higher than normal delinquency and default rates on loans could cause other adverse consequences for us, including:

- The reduction of cash flows and capital resources, as we are required to make cash advances to meet contractual obligations to investors, process foreclosures, and maintain, repair and market foreclosed properties;
- Declining mortgage servicing fee revenues because we recognize these revenues only upon collection;
- Increasing loan servicing costs;
- Declining fair value on our mortgage servicing rights; and
- Declining fair values and liquidity of securities held in our investment portfolio that are collateralized by mortgage obligations.

Our allowance for loan losses may prove inadequate or we may be negatively affected by credit risk exposures. Future additions to our allowance for loan losses will reduce our earnings.

Our business depends on the creditworthiness of our customers. As with most financial institutions, we maintain an allowance for loan losses to provide for defaults and nonperformance, which represents management's best estimate of probable incurred losses inherent in the loan portfolio. Management's estimate is the result of our continuing evaluation of specific credit risks and loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions, industry concentrations and other factors that may indicate future loan losses. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and judgment and requires us to make estimates of current credit risks and future trends, all of which may undergo material changes. Generally, our nonperforming loans and OREO reflect operating difficulties of individual borrowers and weaknesses in the economies of the markets we serve. This allowance may not be adequate to cover actual losses, and future provisions for losses could materially and adversely affect our financial condition, results of operations and cash flows.

In addition, as a result of our acquisitions of Simplicity Bank on March 1, 2015 and Fortune Bank, Yakima National Bank and two branches of AmericanWest Bank in the second half of 2013, we have added the loans previously held by the acquired companies or related to the acquired branches to our books. We expect that the acquisition of Orange County Business Bank, which we anticipate completing in early 2016, and any other future acquisitions we may make will have a similar result. Although we review loan quality as part of our due diligence in considering any acquisition, the addition of such loans may increase our credit risk exposure, requiring an increase in our allowance for loan losses or we may experience adverse effects to our financial condition, results of operations and cash flows stemming from losses on those additional loans.

Our real estate lending also exposes us to environmental liabilities.

In the course of our business, it is necessary to foreclose and take title to real estate, which could subject us to environmental liabilities with respect to these properties. Hazardous substances or waste, contaminants, pollutants or sources thereof may be discovered on properties during our ownership or after a sale to a third party. We could be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances or chemical releases at such properties. The costs associated with investigation or remediation activities could be substantial and could substantially exceed the value of the real property. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based

on damages and costs resulting from environmental contamination emanating from the property. We may be unable to recover costs from any third party. These occurrences may materially reduce the value of the affected property, and we may find it difficult or impossible to use or sell the property prior to or following any environmental remediation. If we ever become subject to significant environmental liabilities, our business, financial condition and results of operations could be materially and adversely affected.

A failure in or breach of our security systems or infrastructure, or those of our third party vendors and other service providers, resulting from cyber-attacks, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

Information security risks for financial institutions have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. Those parties also may attempt to fraudulently induce employees, customers, or other users of our systems to disclose confidential information in order to gain access to our data or that of our customers. Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks, either managed directly by us or through our data processing vendors. In addition, to access our products and services, our customers may use personal smartphones, tablet PCs, and other mobile devices that are beyond our control systems. Although we believe we have robust information security procedures and controls, we are heavily reliant on our third party vendors, and our vendors' or our own technologies, systems, networks and our customers' devices may become the target of cyber-attacks, computer viruses, malicious code, unauthorized access, hackers or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of Company or our customers' confidential, proprietary and other information, or otherwise disrupt the Company's or its customers' or other third parties' business operations.

Third parties with which we do business or that facilitate our business activities, including exchanges, clearing houses, financial intermediaries or vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. In addition, some of our primary third party service providers may be subject to enhanced regulatory scrutiny due to regulatory findings during examinations of such service provider(s) conducted by federal regulators. While we have and will subject such vendor(s) to higher scrutiny and monitor any corrective measures that the vendor(s) are taking or would undertake, we are not able to fully mitigate any risk which could result from a breach or other operational failure caused by this, or any other vendor's breach.

To date we are not aware of any material losses relating to cyber-attacks or other information security breaches, but there can be no assurance that we will not suffer such attacks and losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, our plans to continue to implement our Internet banking and mobile banking channel, our expanding operations and the outsourcing of a significant portion of our business operations. As a result, cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect customer information, our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for the Company. As cyber threats continue to evolve, we may be required to expend significant additional resources to insure, to continue to modify or enhance our protective measures or to investigate and remediate important information security vulnerabilities, however, our measures may be insufficient to prevent physical .and electronic break-ins, denial of service and other cyber-attacks or security breaches.

Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber-attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in customer attrition, financial losses, the inability of our customers to transact business with us, violations of applicable privacy and other laws, regulatory fines, penalties or intervention, additional regulatory scrutiny, reputational damage, litigation, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially and adversely affect our results of operations or financial condition.

The network and computer systems on which we depend could fail or experience security breaches.

Our computer systems could be vulnerable to unforeseen problems. Because we conduct a part of our business over the Internet and outsource several critical functions to third parties, operations will depend on our ability, as well as the ability of third-party service providers, to protect computer systems and network infrastructure against damage from fire, power loss, telecommunications failure, physical break-ins or similar catastrophic events. Any damage or failure that causes interruptions in operations may compromise our ability to perform critical functions in a timely manner and could have a material adverse effect on our business, financial condition and results of operations as well as our reputation and customer or vendor relationships.

In addition, a significant barrier to online financial transactions is the secure transmission of confidential information over public networks. Our Internet banking system relies on encryption and authentication technology to provide the security and authentication necessary to effect secure transmission of confidential information. Advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms our

third-party service providers use to protect customer transaction data. If any such compromise of security were to occur, it could have a material adverse effect on our business, financial condition and results of operations.

The failure to protect our customers' confidential information and privacy could adversely affect our business.

We are subject to state and federal privacy regulations and confidentiality obligations that, among other things restrict the use and dissemination of, and access to, the information that we produce, store or maintain in the course of our business. We also have contractual obligations to protect certain confidential information we obtain from our existing vendors and customers. These obligations generally include protecting such confidential information in the same manner and to the same extent as we protect our own confidential information, and in some instances may impose indemnity obligations on us relating to unlawful or unauthorized disclosure of any such information.
The actions we may take in order to promote compliance with these obligations vary by business segment and may change over time, but may include, among other things:

- Training and educating our employees and independent contractors regarding our obligations relating to confidential information;
- Monitoring changes in state or federal privacy and compliance requirements;
- Drafting and enforcing appropriate contractual provisions into any contract that raises proprietary and confidentiality issues;
- Maintaining secure storage facilities and protocols for tangible records;
- Physically and technologically securing access to electronic information;
- Performing vulnerability scanning and penetration testing of our computer systems and computer networks to identify potential weaknesses and to develop mitigating controls; and
- In the event of a security breach, providing credit monitoring or other services to affected customers.

If we do not properly comply with privacy regulations and protect confidential information, we could experience adverse consequences, including regulatory sanctions, penalties or fines, increased compliance costs, litigation and damage to our reputation, which in turn could result in decreased revenues and loss of customers, all of which would have a material adverse effect on our business, financial condition and results of operations.

Our operations could be interrupted if our third-party service and technology providers experience difficulty, terminate their services or fail to comply with banking regulations.

We depend, and will continue to depend, to a significant extent, on a number of relationships with third-party service and technology providers. Specifically, we receive core systems processing, essential web hosting and other Internet systems and deposit and other processing services from third-party service providers. If these third-party service providers, or if any parties to whom our third party service providers have subcontracted services, experience difficulties or terminate their services and we are unable to replace them with other service providers, our operations could be interrupted and our operating expenses may be materially increased. If an interruption were to continue for a significant period of time, our business financial condition and results of operations could be materially adversely affected. Additionally, if our third-party service and technology providers, including our mortgage loan origination technology provider, fail to update their systems or services in a timely manner to reflect new or changing regulation, our ability to meet regulatory requirements may be impacted and may expose us to heightened regulatory scrutiny and the potential for payment of monetary penalties.

We continually encounter technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations. Many national vendors provide turn-key services to community banks, such as Internet banking and remote deposit capture that allow smaller banks to compete with institutions that have substantially greater resources to invest in technological improvements. We may not be able, however, to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

We may be required to recognize impairment with respect to investment securities, including the FHLB stock we hold.

Our securities portfolio currently includes securities with unrecognized losses. We may continue to observe declines in the fair market value of these securities. We evaluate the securities portfolio for any other than temporary impairment each reporting period. In addition, as a condition of membership in the Federal Home Loan Bank of Des Moines (the "FHLB"), we are required to purchase and hold a certain amount of FHLB stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB. Our FHLB stock is carried at cost and is subject to recoverability testing under applicable accounting standards. Future negative changes to the financial condition of the FHLB may require us to recognize an impairment charge with respect to such holdings. See "Regulation and Supervision" in Item 1 of our Form 10-K for the year ended December 31, 2014 filed with the SEC on March 25, 2015.

A change in federal monetary policy could adversely impact our mortgage banking revenues.

The Federal Reserve is responsible for regulating the supply of money in the United States, and as a result its monetary policies strongly influence our costs of funds for lending and investing as well as the rate of return we are able to earn on those loans and investments, both of which impact our net interest income and net interest margin. The Federal Reserve Board's interest rate policies can also materially affect the value of financial instruments we hold, including debt securities and mortgage servicing rights, or MSRs. These monetary policies can also negatively impact our borrowers, which in turn may increase the risk that they will be unable to pay their loans according to the terms or be unable to pay their loans at all. We have no control over the monetary policies of the Federal Reserve Board and cannot predict when changes are expected or what the magnitude of such changes may be.

For example, as a result of the Federal Reserve Board's concerns regarding continued slow economic growth, the Federal Reserve Board, in 2008 implemented its standing monetary policy known as "quantitative easing," a program involving the purchase of mortgage backed securities and United States Treasury securities, the volume of which was aligned with specific economic targets or measures intended to bolster the U.S. economy. Although the Federal Reserve Board has ended quantitative easing, it still holds the securities purchased during the program and, if economic conditions worsened, could revive that program.

Because a substantial portion of our revenues and our net income historically have been, and in the foreseeable future are expected to be, derived from gain on the origination and sale of mortgage loans and on the continuing servicing of those loans, the Federal Reserve Board's monetary policies may have had the effect of supporting higher revenues than might otherwise be available. If the rebound in employment and real wages is not adequate to offset the termination of the program, or if the Federal Reserve begins selling off the securities it has accumulated, we may see a reduction in mortgage originations throughout the United States, and may see a corresponding rise in interest rates, which could reduce our mortgage origination revenues and in turn have a material adverse impact upon our business.

A substantial portion of our revenue is derived from residential mortgage lending which is a market sector that experiences significant volatility.

A substantial portion of our consolidated net revenues (net interest income plus noninterest income) are derived from originating and selling residential mortgages. Residential mortgage lending in general has experienced substantial volatility in recent periods. An increase in interest rates in the second quarter of 2013 resulted in a significant adverse impact on our business and financial results due primarily to a related decrease in volume of loan originations, especially refinancings. The Federal Reserve has indicated that interest rates may rise again as early as the fourth quarter of 2015. Any such increase in interest rates may materially and adversely affect our future loan origination volume, margins, and the value of the collateral securing our outstanding loans, may increase rates of borrower

default, and may otherwise adversely affect our business. Additionally, in recent periods we have experienced very low levels of homes available for sale in many of the markets in which we operate. The lack of housing inventory has had a downward impact on the volume of mortgage loans that we originate. Further, it has resulted in elevated costs, as a significant amount of loan processing and underwriting that we perform are to qualifying borrowers for mortgage loan transactions that never materialize. The lack of inventory of homes for sale may continue to have an adverse impact on mortgage loan volumes into the foreseeable future.

We may incur losses due to changes in prepayment rates.

Our mortgage servicing rights carry interest rate risk because the total amount of servicing fees earned, as well as changes in fair-market value, fluctuate based on expected loan prepayments (affecting the expected average life of a portfolio of residential mortgage servicing rights). The rate of prepayment of residential mortgage loans may be influenced by changing national and regional economic trends, such as recessions or depressed real estate markets, as well as the difference between interest rates on

existing residential mortgage loans relative to prevailing residential mortgage rates. Changes in prepayment rates are therefore difficult for us to predict. An increase in the general level of interest rates may adversely affect the ability of some borrowers to pay the interest and principal of their obligations. During periods of declining interest rates, many residential borrowers refinance their mortgage loans. The loan administration fee income (related to the residential mortgage loan servicing rights corresponding to a mortgage loan) decreases as mortgage loans are prepaid. Consequently, the fair value of portfolios of residential mortgage loan servicing rights tend to decrease during periods of declining interest rates, because greater prepayments can be expected and, as a result, the amount of loan administration income received also decreases.

We may incur significant losses as a result of ineffective hedging of interest rate risk related to our loans sold with a reservation of servicing rights.

Both the value our single family mortgage servicing rights, or MSRs, and the value of our single family loans held for sale changes with fluctuations in interest rates, among other things, reflecting the changing expectations of mortgage prepayment activity. To mitigate potential losses of fair value of single family loans held for sale and MSRs related to changes in interest rates, we actively hedge this risk with financial derivative instruments. Hedging is a complex process, requiring sophisticated models, experienced and skilled personnel and continual monitoring. Changes in the value of our hedging instruments may not correlate with changes in the value of our single family loans held for sale and MSRs, and we could incur a net valuation loss as a result of our hedging activities. Following the expansion of our single family mortgage operations in early 2012 through the addition of a significant number of single family mortgage origination personnel, the volume of our single family loans held for sale and MSRs has increased. The increase in volume in turn increases our exposure to the risks associated with the impact of interest rate fluctuations on single family loans held for sale and MSRs.

Changes in fee structures by third party loan purchasers and mortgage insurers may decrease our loan production volume and the margin we can recognize on conforming home loans, and may adversely impact our results of operations.

Certain third party loan purchasers revised their fee structures in the third quarter of 2013 and increased the costs of doing business with them. For example, certain purchasers of conforming loans, including Fannie Mae and Freddie Mac, raised costs of guarantee fees and other required fees and payments. These changes increased the cost of mortgages to consumers and the cost of selling conforming loans to third party loan purchasers which in turn decreased our margin and negatively impacted our profitability. Additionally, the FHA raised costs for premiums and extended the period for which private mortgage insurance is required on a loan purchased by them. Additional changes in the future from third party loan purchasers may have a negative impact on our ability to originate loans to be sold because of the increased costs of such loans and may decrease our profitability with respect to loans held for sale. In addition, any significant adverse change in the level of activity in the secondary market or the underwriting criteria of these third party loan purchasers could negatively impact our results of business, operations and cash flows.

If we breach any of the representations or warranties we make to a purchaser or securitizer of our mortgage loans or MSRs, we may be liable to the purchaser or securitizer for certain costs and damages.

When we sell or securitize mortgage loans in the ordinary course of business, we are required to make certain representations and warranties to the purchaser about the mortgage loans and the manner in which they were originated. Our agreements require us to repurchase mortgage loans if we have breached any of these representations or warranties, in which case we may be required to repurchase such loan and record a loss upon repurchase and/or bear any subsequent loss on the loan. We may not have any remedies available to us against a third party for such losses, or the remedies available to us may not be as broad as the remedies available to the purchaser of the mortgage loan against us. In addition, if there are remedies against a third party available to us, we face further risk that such

third party may not have the financial capacity to perform remedies that otherwise may be available to us. Therefore, if a purchaser enforces remedies against us, we may not be able to recover our losses from a third party and may be required to bear the full amount of the related loss.

If repurchase and indemnity demands increase on loans or MSRs that we sell from our portfolios, our liquidity, results of operations and financial condition will be adversely affected.

If we breach any representations or warranties or fail to follow guidelines when originating a FHA/HUD-insured loan or a VA-guaranteed loan, we may lose the insurance or guarantee on the loan and suffer losses, pay penalties, and/or be subjected to litigation from the federal government.

We originate and purchase, sell and thereafter service single family loans that are insured by FHA/HUD or guaranteed by the VA. We certify to the FHA/HUD and the VA that the loans meet their requirements and guidelines. The FHA/HUD and VA audit loans that are insured or guaranteed under their programs, including audits of our processes and procedures as well as

individual loan documentation. Violations of guidelines can result in monetary penalties or require us to provide indemnifications against loss or loans declared ineligible for their programs. In the past, monetary penalties and losses from indemnifications have not created material losses to the Bank. As a result of the housing crisis, the FHA/HUD has stepped up enforcement initiatives. In addition to regular FHA/HUD audits, HUD's Inspector General has become active in enforcing FHA regulations with respect to individual loans and has partnered with the Department of Justice ("DOJ") in filing lawsuits against lenders for systemic violations. The penalties resulting from such lawsuits can be much more severe, since systemic violations can be applied to groups of loans and penalties may be subject to treble damages. The DOJ has used the Federal False Claims Act and other federal laws and regulations in prosecuting these lawsuits. Because of our significant origination of FHA/HUD insured and VA guaranteed loans, if the DOJ were to find potential violations by the Bank, we could be subject to material monetary penalties and/or losses, and may even be subject to lawsuits alleging systemic violations which could result in treble damages.

We may face risk of loss if we purchase loans from a seller that fails to satisfy its indemnification obligations.

We generally receive representations and warranties from the originators and sellers from whom we purchase loans and servicing rights such that if a loan defaults and there has been a breach of such representations and warranties, we may be able to pursue a remedy against the seller of the loan for the unpaid principal and interest on the defaulted loan. However, if the originator and/or seller breach such representations and warranties and does not have the financial capacity to pay the related damages, we may be subject to the risk of loss for such loan as the originator or seller may not be able to pay such damages or repurchase loans when called upon by us to do so. Currently, we only purchase loans from WMS Series LLC, an affiliated business arrangement with certain Windermere real estate brokerage franchise owners.

We have previously identified certain deficiencies in our internal controls over financial reporting, and those deficiencies or others that we have not discovered may result in our inability to maintain control over our assets or to identify and accurately report our financial condition, results of operations, or cash flows.

Our internal controls over financial reporting include those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Each year, our management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, conducts an evaluation of the effectiveness of our internal control over financial reporting. Based on this evaluation, our management concluded that our internal controls over financial reporting were not effective as of December 31, 2014, because of a material weakness in our internal controls related to certain new back office systems, primarily relating to accounts payable processing and payroll processing. Implementation of key systems requires that management perform a thorough risk assessment to adequately assess risk at an appropriate level of detail to allow for (i) the design of controls with the appropriate precision and responsiveness to address those risks, (ii) the timely and effective implementation of controls, including evidence of operating effectiveness, and (iii) effective monitoring of the controls. Management concluded that its risk assessment related to these changes was not comprehensive enough and that sufficient documentation was not maintained. In each of these cases, management determined that no material loss occurred, and that we did not have an actual misstatement of our financial statements. However, management also noted that in the absence of specific management attention, we could have experienced a material loss or could have made a material error in the reporting of our results of operations for the fourth quarter of 2014. Management thus

determined that these potential outcomes reflect a material weakness in our internal controls over financial reporting, and that, as a result, our internal controls over financial reporting were not effective as of December 31, 2014.

These deficiencies are discussed in greater detail in our Annual Report on Form 10-K for the year ended December 31, 2014 under Item 9A, “Internal Control over Financial Reporting.” Management identified and implemented certain remedial measures that we believe will resolve these deficiencies. However, if these measures are not effective, or if our internal controls over financial reporting are subject to additional defects we have not identified, we may be unable to maintain adequate control over our assets, or we may experience material errors in recording our assets, liabilities and results of operations. Further, we reported an unrelated material weakness in our internal controls over financial reporting following the end of our third fiscal quarter of 2014 which was remediated prior to December 31, 2014. Repeated or continuing deficiencies may cause investors to question the reliability of our internal controls or our financial statements, and may result in an erosion of confidence in our management or result in penalties or other potential enforcement action by the Securities and Exchange Commission.

If we fail to maintain effective systems of internal and disclosure control, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential shareholders could lose confidence in our financial reporting, which in turn may harm our business and the trading price of our securities.

Effective internal and disclosure controls are necessary for us to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. As part of our ongoing monitoring of internal control from time to time we have discovered deficiencies in our internal control as defined under standards adopted by the Public Company Accounting Oversight Board, or PCAOB, that have required remediation. Under the PCAOB standards, a "material weakness" is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. A "significant deficiency" is a control deficiency or combination of control deficiencies, that adversely affect a company's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of a company's annual or interim financial statements that is more than inconsequential will not be prevented or detected.

To support our growth initiatives and to create operating efficiencies the company has implemented, and will continue to implement, new systems and processes. If our project management processes are not sound and adequate resources are not deployed to these implementations we may experience internal control lapses that could expose the company to operating losses.

If we discover additional deficiencies in our internal controls, we may also identify defects in our disclosure controls and procedures that require remediation. If we discover additional deficiencies, we will take affirmative steps to improve our internal and disclosure controls. However, there is no assurance that we will be successful. Any failure to maintain effective controls or timely effect any necessary improvement of our internal and disclosure controls could harm operating results or cause us to fail to meet our reporting obligations. Ineffective internal and disclosure controls could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our securities or result in penalties or other potential enforcement action by the Securities and Exchange Commission.

Some provisions of our articles of incorporation and bylaws and certain provisions of Washington law may deter takeover attempts, which may limit the opportunity of our shareholders to sell their shares at a favorable price.

Some provisions of our articles of incorporation and bylaws may have the effect of deterring or delaying attempts by our shareholders to remove or replace management, to commence proxy contests, or to effect changes in control. These provisions include:

- A classified board of directors so that only approximately one third of our board of directors is elected each year;
- Elimination of cumulative voting in the election of directors;
- Procedures for advance notification of shareholder nominations and proposals;
- The ability of our board of directors to amend our bylaws without shareholder approval; and
- The ability of our board of directors to issue shares of preferred stock without shareholder approval upon the terms and conditions and with the rights, privileges and preferences as the board of directors may determine.

In addition, as a Washington corporation, we are subject to Washington law which imposes restrictions on some transactions between a corporation and certain significant shareholders. These provisions, alone or together, could have the effect of deterring or delaying changes in incumbent management, proxy contests or changes in control.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

a) Sale of Unregistered Securities.

We maintain a 401(k) retirement savings plan that is available to substantially all of our employees. This plan allows participants to allocate up to 10% of their eligible account balances to interests to purchases of HomeStreet common stock. For participants who elect such an allocation, the plan's trustee acquires HomeStreet common stock in the open market and allocates that stock the account of each participant. The plan is considered to be an affiliate of the Company because the trustees ultimately responsible for administering the plan are a committee of our board of directors. The trustees have selected Charles Schwab to administer the plan. During the third quarter of 2015, the plan (our affiliate) sold 2,651 shares of common stock to participants that were not properly registered due to an inadvertent failure to file an S-8 to register such shares. On October 15, 2015, together with the plan, we filed a registration statement on Form S-8 to register future transactions in the 401(k) plan as well as certain resale by plan participants who purchased shares through their accounts in the six months prior to the filing of the registration statement. We did not receive any proceeds from the sales of the securities.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4 MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5 OTHER INFORMATION

Not applicable.

ITEM 6 EXHIBITS

EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Periodic Financial Report by Chief Executive and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and 18 U.S.C. § 1350.(1)
101.INS	XBRL Instance Document(2)(3)
101.SCH	XBRL Taxonomy Extension Schema Document(2)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document(2)
101.DEF	XBRL Taxonomy Extension Label Linkbase Document(2)
101.LAB	XBRL Taxonomy Extension Presentation Linkbase Document(2)
101.PRE	XBRL Taxonomy Extension Definitions Linkbase Document(2)

(1) This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

(2) As provided in Rule 406T of Regulation S-T, this information shall not be deemed “filed” for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934 or otherwise subject to liability under those sections.

(3) Pursuant to Rule 405 of Regulation S-T, includes the following financial information included in the Firm’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in XBRL (eXtensible Business Reporting Language) interactive data files: (i) the Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014, (ii) the Consolidated Statements of Financial Condition as of September 30, 2015, and December 31, 2014, (iii) the Consolidated Statements of Stockholders’ Equity and Comprehensive Income for the three and nine months ended September 30, 2015 and 2014, (iv) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014, and (v) the Notes to Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Seattle, State of Washington, on November 5, 2015.

HomeStreet, Inc.

By: /s/ Mark K. Mason
Mark K. Mason
President and Chief Executive Officer

HomeStreet, Inc.

By: /s/ Melba A. Bartels
Melba A. Bartels
Executive Vice President and
Chief Financial Officer