HomeStreet, Inc.
Form 10-Q
November 08, 2016
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, 2016
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, 2016 was 24,836,124.6.

Table of Contents

PART I – FINANCIAL INFORMATION

ITEM 1FINANCIAL STATEMENTS

Table of Contents

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 (“HomeStreet Capital”) and other direct and indirect subsidiaries of HomeStreet, Inc.

PART I
ITEM 1.
FINANCIAL
STATEMENTS

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

(in thousands, except share data)	September 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents (including interest-earning instruments of $8,580 and $2,079)	$ 55,998	$ 32,684
Investment securities (includes $949,075 and $541,151 carried at fair value)	991,325	572,164
Loans held for sale (includes $834,144 and $632,273 carried at fair value)	893,513	650,163
Loans held for investment (net of allowance for loan losses of $33,975 and $29,278; includes $20,547, and $21,544 carried at fair value)	3,764,178	3,192,720
Mortgage servicing rights (includes $149,910 and $156,604 carried at fair value)	167,501	171,255
Other real estate owned	6,440	7,531
Federal Home Loan Bank stock, at cost	39,783	44,342
Premises and equipment, net	72,951	63,738
Goodwill	19,900	11,521
Other assets	215,012	148,377
Total assets	$ 6,226,601	$ 4,894,495
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 4,504,560	$ 3,231,953
Federal Home Loan Bank advances	858,923	1,018,159
Accounts payable and other liabilities	151,968	117,251
Long-term debt	125,122	61,857
Total liabilities	5,640,573	4,429,220
Commitments and contingencies (Note 9)		
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, 24,833,008 shares and 22,076,534 shares	511	511
Additional paid-in capital	276,844	222,328
Retained earnings	300,742	244,885
Accumulated other comprehensive income (loss)	7,931	(2,449)
Total shareholders' equity	586,028	465,275
Total liabilities and shareholders' equity	$ 6,226,601	$ 4,894,495

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, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Interest income:				
Loans	$49,752	$ 41,012	$139,748	$111,603
Investment securities	5,476	2,754	12,531	8,426
Other	102	224	396	647
	55,330	43,990	152,675	120,676
Interest expense:				
Deposits	5,362	3,069	13,380	8,656
Federal Home Loan Bank advances	1,605	958	4,486	2,476
Federal funds purchased and securities sold under agreements to repurchase	2	—	2	8
Long-term debt	1,440	278	2,574	815
Other	119	51	258	123
	8,528	4,356	20,700	12,078
Net interest income	46,802	39,634	131,975	108,598
Provision for credit losses	1,250	700	3,750	4,200
Net interest income after provision for credit losses	45,552	38,934	128,225	104,398
Noninterest income:				
Net gain on mortgage loan origination and sale activities	92,600	57,885	239,493	189,746
Mortgage servicing income	14,544	4,768	35,855	10,896
Income from WMS Series LLC	1,174	380	2,474	1,428
Depositor and other retail banking fees	1,744	1,701	4,991	4,239
Insurance agency commissions	441	477	1,205	1,183
Gain on sale of investment securities available for sale	48	1,002	145	1,002
Bargain purchase gain	—	796	—	7,345
Other	1,194	459	1,766	(11)
	111,745	67,468	285,929	215,828
Noninterest expense:				
Salaries and related costs	79,164	60,991	221,615	180,238
General and administrative	14,949	14,342	47,210	41,122
Amortization of core deposit intangibles	579	527	1,636	1,410
Legal	639	868	1,687	1,912
Consulting	1,390	166	4,239	6,544
Federal Deposit Insurance Corporation assessments	919	504	2,419	1,890
Occupancy	7,740	6,077	22,408	18,024
Information services	7,876	8,159	23,857	21,993
Net cost from operation and sale of other real estate owned	1,143	392	1,712	710
	114,399	92,026	326,783	273,843
Income before income taxes	42,898	14,376	87,371	46,383
Income tax expense	15,197	4,415	31,514	13,742
NET INCOME	$27,701	$ 9,961	$55,857	$32,641
Basic income per share	$1.12	$ 0.45	$2.29	$1.60

Diluted income per share	$1.11	$ 0.45	$2.27	$1.58
Basic weighted average number of shares outstanding	24,811,169	22,035,317	24,398,683	20,407,386
Diluted weighted average number of shares outstanding	24,996,742	22,291,810	24,595,348	20,646,540

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

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

(in thousands)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net income	$27,701	$9,961	$55,857	$32,641
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on investment securities available for sale:				
Unrealized holding (loss) gain arising during the period, net of tax (benefit) expense of $(962) and $1,576 for the three months ended September 30, 2016 and 2015, and $5,640 and $430 for the nine months ended September 30, 2016 and 2015, respectively	(1,786)	2,926	10,474	798
Reclassification adjustment for net gains included in net income, net of tax expense of $17 and $351 for the three months ended September 30, 2016 and 2015, and $51 and $351 for the nine months ended September 30, 2016 and 2015, respectively	(31)	(651)	(94)	(651)
Other comprehensive (loss) income	(1,817)	2,275	10,380	147
Comprehensive income	$25,884	$12,236	$66,237	$32,788

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

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, 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
Balance, January 1, 2016	22,076,534	$ 511	$ 222,328	$ 244,885	$ (2,449)	$ 465,275
Net income	—	—	—	55,857	—	55,857
Share-based compensation expense	—	—	1,278	—	—	1,278
Common stock issued	2,756,474	—	53,238	—	—	53,238
Other comprehensive income	—	—	—	—	10,380	10,380
Balance, September 30, 2016	24,833,008	$ 511	$ 276,844	$ 300,742	$ 7,931	$ 586,028

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

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

	Nine Months Ended September 30,	
(in thousands)	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$55,857	$32,641
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation, amortization and accretion	12,789	10,700
Provision for credit losses	3,750	4,200
Net fair value adjustment and gain on sale of loans held for sale	(220,944)	(3,797)
Fair value adjustment of loans held for investment	(863)	1,797
Origination of mortgage servicing rights	(59,487)	(58,158)
Change in fair value of mortgage servicing rights	61,294	34,949
Net gain on sale of investment securities	(145)	(1,002)
Net gain on sale of loans originated as held for investment	(1,181)	—
Net fair value adjustment, gain on sale and provision for losses on other real estate owned	1,653	290
Loss on disposal of fixed assets	186	89
Net deferred income tax expense	116	11,491
Share-based compensation expense	1,478	783
Bargain purchase gain	—	(7,345)
Origination of loans held for sale	(6,582,189)	(5,599,978)
Proceeds from sale of loans originated as held for sale	6,571,684	5,349,444
Changes in operating assets and liabilities:		
Increase in other assets	(55,845)	(32,025)
Increase in accounts payable and other liabilities	30,569	22,550
Net cash used in operating activities	(181,278)	(233,371)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(468,900)	(177,535)
Proceeds from sale of investment securities	21,107	28,080
Principal repayments and maturities of investment securities	61,018	25,835
Proceeds from sale of other real estate owned	4,310	4,953
Proceeds from sale of loans originated as held for investment	80,956	—
Proceeds from sale of mortgage servicing rights	—	3,825
Mortgage servicing rights purchased from others	—	(9)
Capital expenditures related to other real estate owned	(270)	—
Origination of loans held for investment and principal repayments, net	(497,222)	(260,404)
Proceeds from sale of property and equipment	1,148	—
Purchase of property and equipment	(17,932)	(16,961)
Net cash acquired from acquisitions	24,248	112,196
Net cash used in investing activities	(791,537)	(280,020)

(in thousands)	Nine Months Ended September 30, 2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits, net	$1,097,970	$212,710
Proceeds from Federal Home Loan Bank advances	11,323,660	7,332,200
Repayment of Federal Home Loan Bank advances	(11,497,160)	(6,969,700)
Proceeds from federal funds purchased and securities sold under agreements to repurchase	52,304	73,004
Repayment of federal funds purchased and securities sold under agreements to repurchase	(52,304)	(123,004)
Proceeds from Federal Home Loan Bank stock repurchase	197,876	90,565
Purchase of Federal Home Loan Bank stock	(192,086)	(95,783)
Proceeds from debt issuance, net	63,205	—
Proceeds from stock issuance, net	2,664	177
Excess tax benefit related to the exercise of stock options	—	23
Net cash provided by financing activities	996,129	520,192
NET INCREASE IN CASH AND CASH EQUIVALENTS	23,314	6,801
CASH AND CASH EQUIVALENTS:		
Beginning of year	32,684	30,502
End of period	$55,998	$37,303
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest paid	$19,067	$12,021
Federal and state income taxes paid, net	14,318	16,533
Non-cash activities:		
Loans held for investment foreclosed and transferred to other real estate owned	1,661	4,095
Loans transferred from held for investment to held for sale	101,938	32,421
Loans transferred from held for sale to held for investment	10,262	25,668
(Reduction in) Ginnie Mae loans recognized with the right to repurchase, net	(33)	3,345
Simplicity acquisition:		
Assets acquired, excluding cash acquired	—	738,279
Liabilities assumed	—	718,916
Bargain purchase gain	—	7,345
Common stock issued	—	124,214
Orange County Business Bank acquisition:		
Assets acquired, excluding cash acquired	165,786	—
Liabilities assumed	141,267	—
Goodwill	8,360	—
Common stock issued	$50,373	$—

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 western United States, including 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, HS Properties, Inc. and Union Street Holdings LLC. HomeStreet Bank was formed in 1986 and is a state-chartered commercial 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. 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 8, Mortgage Banking Operations), valuation of certain loans held for investment (Note 4, Loans and Credit Quality), valuation of investment securities (Note 3, Investment Securities), and valuation of derivatives (Note 7, 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 of the periods presented. These adjustments are of a normal recurring mature, 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, 2015, filed with the Securities and Exchange Commission (“2015 Annual Report on Form 10-K”).

Recent Accounting Developments

On August 26, 2016, the FASB issued Accounting Standards Update ("ASU") 2016-15, Statement of Cash Flows, Classification of Certain Cash Receipts and Cash Payments. The amendments in this ASU were issued to reduce diversity in how certain cash receipts and payments are presented and classified in the statement of cash flows in eight specific areas. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and should be applied using a retrospective transition method to each period presented. Early application was permitted upon issuance of the ASU. The Company is currently evaluating the impact of this ASU and the Company does not expect this ASU to have a material impact on the Company’s consolidated financial statements.

On June 16, 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326). The amendments in this ASU were issued to provide financial statement users with more decision-useful information about the current expected credit losses (CECL) on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other commitments to extend credit held by a reporting entity at each reporting date. The amendments to this ASU require that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The amendments in this ASU eliminate the probable initial recognition in current GAAP and reflect an entity's current estimate of all expected credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets.

For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination ("PCD assets") that are measured at amortized cost, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense. Subsequent changes in the allowance for credit losses on PCD assets are recognized through the statement of income as a credit loss expense.

Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security.
The amendments to this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The amendments in this ASU should be applied on a modified-retrospective transition approach that would require a cumulative-effect adjustment to the opening retained earnings in the statement of financial condition as of the date of adoption. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. The Company is currently evaluating the impact of this ASU and the Company expects this ASU to have a material impact on the Company's consolidated financial statements.
On March 30, 2016, the FASB issued ASU 2016-09, Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. The FASB issued this ASU as part of its initiative to reduce complexity in accounting standards. This new accounting standard simplifies several areas of accounting for share-based payment transactions, including tax provision, classification in the cash-flow statement, forfeitures, and statutory tax withholding requirements. The amendments in this ASU are effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods. Early application was permitted upon issuance of the ASU. The Company determined to early adopt the provisions of ASU 2016-09 during the second quarter of 2016 and determined the new standard did not have a material impact on the Company's Consolidated Financial Statements.

On February 25 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The amendments in this ASU require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. This ASU simplifies the accounting for sale and leaseback transactions. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application was permitted upon issuance of the ASU. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently evaluating the provisions of this guidance to determine the potential impact the new standard will have on the Company's consolidated financial statements.

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 were effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The Company adopted this guidance during the first quarter of 2016 and applied it prospectively to adjustments to provisional amounts.

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 became effective for the Company for the interim and annual periods beginning after December 15, 2015, and early adoption was permitted for financial statements that had 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 Company adopted this guidance during the first quarter of 2016 and determined there was no material impact on the Company’s consolidated financial statements.

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 became effective for the Company for the interim and annual periods beginning after December 15, 2015; early adoption was permitted. The Company could 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 adopted this guidance during the first quarter of 2016 and determined there was no material impact on the Company’s consolidated financial statements.

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 variable interest entity ("VIE") primary beneficiary determination. This guidance was effective for interim and annual reporting periods beginning after December 15, 2015. The Company adopted this guidance during the first quarter of 2016 and determined there was no 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. On August 12, 2015, the FASB issued ASU 2015-14 to defer the effective date of ASU 2014-09. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. On March 17, 2016, the FASB issued Accounting Standards Update 2016-08 to clarify the implementation guidance on principal versus agent considerations. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

NOTE 2–BUSINESS COMBINATIONS:

Recent Acquisition Activity

On August 12, 2016, the Company completed its acquisition of certain assets and liabilities, including two branches in Lake Oswego, Oregon from The Bank of Oswego. This acquisition increases HomeStreet’s network of branches in the Portland, Oregon metropolitan area to a total of five retail deposit branches.

On February 1, 2016, the Company completed its acquisition of Orange County Business Bank ("OCBB") located in Irvine, California through the merger of OCBB with and into HomeStreet Bank with HomeStreet Bank as the surviving subsidiary. The purchase price of this acquisition was $55.9 million. OCBB shareholders as of the effective time received merger consideration equal to 0.5206 shares of HomeStreet common stock, and $1.1641 in cash upon the surrender of their OCBB shares, which resulted in the issuance of 2,459,408 shares of HomeStreet common stock. The provisional application of the acquisition method of accounting resulted in goodwill of $8.3 million. The primary objective for this acquisition is to grow our Commercial and Consumer Banking segment. Along with one de novo branch opened in California during the quarter, adding Orange County Business Bank’s branch brings HomeStreet’s Southern California retail deposit branch network to eleven locations.

On December 11, 2015, the Company acquired a former AmericanWest Bank retail deposit branch and certain related assets located in Dayton, Washington. This acquisition increases HomeStreet’s network of branches in eastern Washington to a total of five retail deposit branches. The Company purchased the branch from Banner Bank, which had recently acquired AmericanWest Bank. The purchase resulted in a bargain purchase gain of $381 thousand.

Simplicity Acquisition

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 multifamily 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 was 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 are 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.

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
Bargain purchase (gain)		$(7,345)

The 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. Acquisition-related costs were expensed as incurred in noninterest expense as acquisition and integration costs.

The following table provides a breakout of acquisition-related expense for the nine months ended September 30, 2015:

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

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 meeting 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)	2016	2015	2016	2015
Net interest income	$46,802	$ 39,603	$131,975	$ 113,190
Provision for credit losses	1,250	700	3,750	4,200
Total noninterest income	111,745	66,676	285,929	209,239
Total noninterest expense	114,399	91,557	326,783	266,243
Net income	$27,701	$ 9,756	$55,857	$ 35,355
Basic income per share	$1.12	$ 0.44	$2.29	$ 1.60
Diluted income per share	$1.11	$ 0.44	$2.27	$ 1.59
Basic weighted average number of shares outstanding	24,811,169	22,035,317	24,398,683	22,034,201
Diluted weighted average number of shares outstanding	24,996,747	22,291,810	24,595,348	22,207,764

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, 2016			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential	$151,521	$ 993	$ (278)	$152,236
Commercial	26,898	333	(23)	27,208
Municipal bonds	348,181	7,582	(419)	355,344
Collateralized mortgage obligations:				
Residential	182,631	906	(704)	182,833
Commercial	118,589	1,775	(105)	120,259
Corporate debt securities	83,026	2,511	(346)	85,191
U.S. Treasury securities	26,003	1	—	26,004

$936,849	$ 14,101	$ (1,875)	$949,075

(in thousands)	At December 31, 2015 Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential	$69,342	$ 19	$(1,260)	$68,101
Commercial	18,142	14	(305)	17,851
Municipal bonds	168,722	3,460	(313)	171,869
Collateralized mortgage obligations:				
Residential	86,167	32	(1,702)	84,497
Commercial	80,190	43	(1,100)	79,133
Corporate debt securities	81,280	125	(2,669)	78,736
U.S. Treasury securities	41,047	—	(83)	40,964
	$544,890	$ 3,693	$(7,432)	$541,151

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, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, 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.

	At September 30, 2016 Less than 12 months		12 months or more		Total	
(in thousands)	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
Mortgage-backed securities:						
Residential	$(66)	$28,439	$(212)	$10,282	$(278)	$38,721
Commercial	(23)	3,041	—	—	(23)	3,041
Municipal bonds	(420)	64,081	—	—	(420)	64,081
Collateralized mortgage obligations:						
Residential	(340)	77,897	(364)	9,666	(704)	87,563
Commercial	(44)	11,125	(61)	6,059	(105)	17,184
Corporate debt securities	(30)	1,615	(315)	11,163	(345)	12,778
U.S. Treasury securities	—	1,000	—	—	—	1,000
	$(923)	$187,198	$(952)	$37,170	$(1,875)	$224,368

(in thousands)	At December 31, 2015 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	$(572)	$36,477	$(688)	$21,119	$(1,260)	$57,596
Commercial	(305)	16,072	—	—	(305)	16,072
Municipal bonds	(211)	21,302	(101)	5,839	(312)	27,141
Collateralized mortgage obligations:						
Residential	(673)	50,490	(1,029)	26,028	(1,702)	76,518
Commercial	(986)	60,812	(115)	4,348	(1,101)	65,160
Corporate debt securities	(1,142)	36,953	(1,527)	27,405	(2,669)	64,358
U.S. Treasury securities	(83)	40,964	—	—	(83)	40,964
	$(3,972)	$263,070	$(3,460)	$84,739	$(7,432)	$347,809

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, 2016 and December 31, 2015. In addition, as of September 30, 2016 and December 31, 2015, 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.

(dollars in thousands)	At September 30, 2016 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	$—	— %	$2	0.31 %	$4,065	1.71 %	$148,169	1.86 %	$152,236	1.86 %
Commercial	—	—	22,349	2.14	4,859	2.39	—	—	27,208	2.18
Municipal bonds	1,712	3.95	17,030	2.97	46,779	3.04	289,823	3.78	355,344	3.65
Collateralized mortgage obligations:										
Residential	—	—	—	—	2,291	1.32	180,542	1.84	182,833	1.84
Commercial	—	—	22,472	2.00	53,350	2.49	44,437	1.97	120,259	2.21

Corporate debt securities	—	—		19,567	2.97		33,473	3.71		32,151	3.98		85,191	3.64	
U.S. Treasury securities	26,004	0.37		—	—		—	—		—	—		26,004	0.37	
Total available for sale	$27,716	0.59	%	$81,420	2.47	%	$144,817	2.91	%	$695,122	2.75	%	$949,075	2.69	%

	At December 31, 2015									
	Within one year		After one year through five years		After five years through ten years		After ten years		Total	
(dollars in thousands)	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	$—	— %	$4	0.39 %	$3,176	1.63 %	$64,921	1.88 %	$68,101	1.87 %
Commercial	—	—	—	—	17,851	2.20	—	—	17,851	2.20
Municipal bonds	510	2.09	8,828	3.33	31,806	3.16	130,725	3.99	171,869	3.79
Collateralized mortgage obligations:										
Residential	—	—	—	—	153	0.92	84,344	1.74	84,497	1.74
Commercial	—	—	5,354	1.87	56,506	2.29	17,273	1.87	79,133	2.17
Corporate debt securities	—	—	10,413	2.70	38,291	3.20	30,032	3.64	78,736	3.31
U.S. Treasury securities	39,971	0.39	993	0.63	—	—	—	—	40,964	0.40
Total available for sale	$40,481	0.41 %	$25,592	2.65 %	$147,783	2.69 %	$327,295	2.83 %	$541,151	2.60 %

Sales of investment securities available for sale were as follows.

(in thousands)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Proceeds	$9,641	$28,080	$21,108	$28,080
Gross gains	48	1,002	145	1,002
Gross losses	$—	$—	$—	$—

The following table summarizes the carrying value of securities pledged as collateral to secure public deposits, borrowings and other purposes as permitted or required by law:

(in thousands)	At September 30, 2016
Federal Home Loan Bank to secure borrowings	$ 92,313
Washington and California State to secure public deposits	30,877
Securities pledged to secure derivatives in a liability position	25,003
Other securities pledged	9,193
Total securities pledged as collateral	$ 157,386

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, 2016 and December 31, 2015.

Tax-exempt interest income on securities available for sale totaling $1.8 million and $968 thousand for the three months ended September 30, 2016 and 2015, respectively, and $4.3 million and $2.6 million for the nine months ended September 30, 2016 and 2015, 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 2015 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, 2016	At December 31, 2015
Consumer loans		
Single family[(1)]	$ 1,186,476	$ 1,203,180
Home equity and other	338,155	256,373
	1,524,631	1,459,553
Commercial loans		
Commercial real estate	810,346	600,703
Multifamily	562,272	426,557
Construction/land development	661,813	583,160
Commercial business	237,117	154,262
	2,271,548	1,764,682
	3,796,179	3,224,235
Net deferred loan fees and costs	1,974	(2,237)
	3,798,153	3,221,998
Allowance for loan losses	(33,975)	(29,278)
	$ 3,764,178	$ 3,192,720

(1) Includes $20.5 million and $21.5 million at September 30, 2016 and December 31, 2015, respectively, 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 $1.59 billion and $1.73 billion at September 30, 2016 and December 31, 2015, respectively, were pledged to secure borrowings from the FHLB as part of our liquidity management strategy. Additionally, loans totaling $674.4 million and $572.0 million at September 30, 2016 and December 31, 2015, 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 Concentrations

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, California and Hawaii. At September 30, 2016, we had concentrations representing 10% or more of the total portfolio by state and property type for the loan classes of single family and commercial real estate within the state of Washington, which represented 14.5% and 14.6% 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 11.6% of the total portfolio. At December 31, 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 18.0%, 14.7% and 11.3% 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 13.6% of the total portfolio.

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, 2016. 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 2015 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)	2016	2015	2016	2015
Allowance for credit losses (roll-forward):				
Beginning balance	$34,001	$26,448	$30,659	$22,524
Provision for credit losses	1,250	700	3,750	4,200
Recoveries and (charge-offs), net	(18)	739	824	1,163
Ending balance	$35,233	$27,887	$35,233	$27,887
Components:				
Allowance for loan losses	$33,975	$26,922	$33,975	$26,922
Allowance for unfunded commitments	1,258	965	1,258	965
Allowance for credit losses	$35,233	$27,887	$35,233	$27,887

20

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

	Three Months Ended September 30, 2016				
(in thousands)	Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$8,294	$ (42)	$ 1	$ 995	$9,248
Home equity and other	5,400	(356)	192	512	5,748
	13,694	(398)	193	1,507	14,996
Commercial loans					
Commercial real estate	6,045	—	—	80	6,125
Multifamily	2,048	—	—	49	2,097
Construction/land development	9,369	—	176	(524)	9,021
Commercial business	2,845	—	11	138	2,994
	20,307	—	187	(257)	20,237
Total allowance for credit losses	$34,001	$ (398)	$ 380	$ 1,250	$35,233

	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

	Nine Months Ended September 30, 2016				
(in thousands)	Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$8,942	$ (74)	$ 87	$ 293	$9,248
Home equity and other	4,620	(654)	530	1,252	5,748
	13,562	(728)	617	1,545	14,996
Commercial loans					
Commercial real estate	4,847	—	—	1,278	6,125
Multifamily	1,194	—	—	903	2,097
Construction/land development	9,271	(42)	959	(1,167)	9,021
Commercial business	1,785	(26)	44	1,191	2,994

	17,097	(68)	1,003	2,205	20,237
Total allowance for credit losses	$30,659	$ (796)	$ 1,620	$ 3,750	$35,233

(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

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

(in thousands)	At September 30, 2016 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	$8,223	$ 1,025	$9,248	$1,079,132	$ 86,797	$1,165,929
Home equity and other	5,696	52	5,748	336,809	1,346	338,155
	13,919	1,077	14,996	1,415,941	88,143	1,504,084
Commercial loans						
Commercial real estate	6,124	1	6,125	806,600	3,746	810,346
Multifamily	2,097	—	2,097	561,651	621	562,272
Construction/land development	9,021	—	9,021	659,480	2,333	661,813
Commercial business	2,767	227	2,994	231,650	5,467	237,117
	20,009	228	20,237	2,259,381	12,167	2,271,548
Total loans evaluated for impairment	33,928	1,305	35,233	3,675,322	100,310	3,775,632
Loans held for investment carried at fair value						20,547 (1)
Total loans held for investment	$33,928	$ 1,305	$35,233	$3,675,322	$ 100,310	$3,796,179

(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, 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	$8,723	$ 219	$8,942	$1,101,891	$ 79,745	$1,181,636	
Home equity and other	4,545	75	4,620	254,762	1,611	256,373	
	13,268	294	13,562	1,356,653	81,356	1,438,009	
Commercial loans							
Commercial real estate	4,847	—	4,847	597,571	3,132	600,703	
Multifamily	1,194	—	1,194	423,424	3,133	426,557	
Construction/land development	9,271	—	9,271	579,446	3,714	583,160	
Commercial business	1,512	273	1,785	151,924	2,338	154,262	
	16,824	273	17,097	1,752,365	12,317	1,764,682	
Total loans evaluated for impairment	30,092	567	30,659	3,109,018	93,673	3,202,691	
Loans held for investment carried at fair value						21,544	(1)
Total loans held for investment	$30,092	$ 567	$30,659	$3,109,018	$ 93,673	$3,224,235	

(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.

Impaired Loans

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

(in thousands)	At September 30, 2016 Recorded investment [(1)]	Unpaid principal balance [(2)]	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	$82,898	$85,153	$ —
Home equity and other	790	822	—
	83,688	85,975	—
Commercial loans			
Commercial real estate	2,217	2,758	—
Multifamily	621	745	—
Construction/land development	2,333	3,259	—
Commercial business	1,094	1,977	—
	6,265	8,739	—
	$89,953	$94,714	$ —
With an allowance recorded:			
Consumer loans			
Single family	$3,899	$3,990	$ 1,025
Home equity and other	556	555	52
	4,455	4,545	1,077
Commercial loans			
Commercial real estate	1,529	1,529	1
Commercial business	4,373	4,445	227
	5,902	5,974	228
	$10,357	$10,519	$ 1,305
Total:			
Consumer loans			
Single family[(3)]	$86,797	$89,143	$ 1,025
Home equity and other	1,346	1,377	52
	88,143	90,520	1,077
Commercial loans			
Commercial real estate	3,746	4,287	1
Multifamily	621	745	—
Construction/land development	2,333	3,259	—
Commercial business	5,467	6,422	227
	12,167	14,713	228
Total impaired loans	$100,310	$105,233	$ 1,305

(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 $77.5 million in single family performing TDRs.

(in thousands)	At December 31, 2015 Recorded investment [1]	Unpaid principal balance [2]	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	$78,240	$80,486	$ —
Home equity and other	955	1,033	—
	79,195	81,519	—
Commercial loans			
Commercial real estate	3,132	3,421	—
Multifamily	3,133	3,429	—
Construction/land development	3,714	4,214	—
Commercial business	1,373	1,475	—
	11,352	12,539	—
	$90,547	$94,058	$ —
With an allowance recorded:			
Consumer loans			
Single family	$1,505	$1,618	$ 219
Home equity and other	656	656	75
	2,161	2,274	294
Commercial loans			
Commercial business	965	1,019	273
	965	1,019	273
	$3,126	$3,293	$ 567
Total:			
Consumer loans			
Single family[3]	$79,745	$82,104	$ 219
Home equity and other	1,611	1,689	75
	81,356	83,793	294
Commercial loans			
Commercial real estate	3,132	3,421	—
Multifamily	3,133	3,429	—
Construction/land development	3,714	4,214	—
Commercial business	2,338	2,494	273
	12,317	13,558	273
Total impaired loans	$93,673	$97,351	$ 567

(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 $74.7 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)	2016	2015	2016	2015
Consumer loans				
Single family	$85,138	$78,432	$83,271	$78,358
Home equity and other	1,371	1,872	1,479	2,184
	86,509	80,304	84,750	80,542
Commercial loans				
Commercial real estate	3,431	15,797	3,439	20,328
Multifamily	621	4,590	1,877	4,022
Construction/land development	2,333	4,466	3,023	4,968
Commercial business	4,068	5,883	3,902	4,691
	10,453	30,736	12,241	34,009
	$96,962	$111,040	$96,991	$114,551

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 90-179 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, 2016				
(in thousands)	Pass	Watch	Special mention	Substandard	Total
Consumer loans					
Single family	$1,152,096 (1)	$4,073	$ 15,307	$ 15,000	$1,186,476
Home equity and other	335,966	304	320	1,565	338,155
	1,488,062	4,377	15,627	16,565	1,524,631
Commercial loans					
Commercial real estate	744,279	55,490	4,098	6,479	810,346
Multifamily	542,091	19,206	862	113	562,272
Construction/land development	640,379	15,771	4,181	1,482	661,813
Commercial business	179,532	43,819	4,298	9,468	237,117
	2,106,281	134,286	13,439	17,542	2,271,548
	$3,594,343	$138,663	$ 29,066	$ 34,107	$3,796,179

(1) Includes $20.5 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, 2015				
(in thousands)	Pass	Watch	Special mention	Substandard	Total
Consumer loans					
Single family	$1,165,990 (1)	$7,933	$ 16,439	$ 12,818	$1,203,180
Home equity and other	253,912	381	478	1,602	256,373
	1,419,902	8,314	16,917	14,420	1,459,553
Commercial loans					
Commercial real estate	535,903	55,058	7,067	2,675	600,703
Multifamily	403,604	20,738	1,657	558	426,557
Construction/land development	552,819	25,520	4,407	414	583,160
Commercial business	120,969	30,300	1,731	1,262	154,262
	1,613,295	131,616	14,862	4,909	1,764,682
	$3,033,197	$139,930	$ 31,779	$ 19,329	$3,224,235

(1) Includes $21.5 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.

As of September 30, 2016 and December 31, 2015, none of the Company's loans were rated Doubtful or Loss. For a detailed discussion on credit quality, see Note 5, Loans and Credit Quality, within our 2015 Annual Report on Form 10-K.

29

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 FHA or guaranteed by the 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, 2016						
(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
Consumer loans							
Single family	$9,108	$ 3,727	$46,385	$59,220	$1,127,256 (1)	$1,186,476	$ 32,108 (2)
Home equity and other	385	144	1,563	2,092	336,063	338,155	—
	9,493	3,871	47,948	61,312	1,463,319	1,524,631	32,108
Commercial loans							
Commercial real estate	—	—	3,731	3,731	806,615	810,346	—
Multifamily	—	354	113	467	561,805	562,272	—
Construction/land development	—	—	1,376	1,376	660,437	661,813	—
Commercial business	—	—	4,861	4,861	232,256	237,117	—
	—	354	10,081	10,435	2,261,113	2,271,548	—
	$9,493	$ 4,225	$58,029	$71,747	$3,724,432	$3,796,179	$ 32,108

	At December 31, 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
Consumer loans							
Single family	$7,098	$ 3,537	$48,714	$59,349	$1,143,831 (1)	$1,203,180	$ 36,595 (2)
Home equity and other	1,095	398	1,576	3,069	253,304	256,373	—
	8,193	3,935	50,290	62,418	1,397,135	1,459,553	36,595
Commercial loans							
Commercial real estate	233	—	2,341	2,574	598,129	600,703	—
Multifamily	—	—	119	119	426,438	426,557	—
Construction/land development	77	—	339	416	582,744	583,160	—
Commercial business	—	—	692	692	153,570	154,262	17
	310	—	3,491	3,801	1,760,881	1,764,682	17
	$8,503	$ 3,935	$53,781	$66,219	$3,158,016	$3,224,235	$ 36,612

(1) Includes $20.5 million and $21.5 million of loans at September 30, 2016 and December 31, 2015, respectively, 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.

	At September 30, 2016		
(in thousands)	Accrual	Nonaccrual	Total
Consumer loans			
Single family	$1,172,199 (1)	$ 14,277	$1,186,476
Home equity and other	336,592	1,563	338,155
	1,508,791	15,840	1,524,631
Commercial loans			
Commercial real estate	806,615	3,731	810,346
Multifamily	562,159	113	562,272
Construction/land development	660,437	1,376	661,813
Commercial business	232,256	4,861	237,117
	2,261,467	10,081	2,271,548
	$3,770,258	$ 25,921	$3,796,179

	At December 31, 2015		
(in thousands)	Accrual	Nonaccrual	Total
Consumer loans			
Single family	$1,191,061 (1)	$ 12,119	$1,203,180
Home equity and other	254,797	1,576	256,373
	1,445,858	13,695	1,459,553
Commercial loans			
Commercial real estate	598,362	2,341	600,703
Multifamily	426,438	119	426,557
Construction/land development	582,821	339	583,160
Commercial business	153,588	674	154,262
	1,761,209	3,473	1,764,682
	$3,207,067	$ 17,168	$3,224,235

(1) Includes $20.5 million and $21.5 million of loans at September 30, 2016 and December 31, 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.

The following tables present information about TDR activity during the periods presented.

	Three Months Ended September 30, 2016			
(dollars in thousands)	Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	11	$ 2,492	$ —
	Payment restructure	12	2,773	—
Home equity and other				
	Interest rate reduction	1	100	—
Total consumer				
	Interest rate reduction	12	2,592	—
	Payment restructure	12	2,773	—
		24	5,365	—
Total loans				
	Interest rate reduction	12	2,592	—
	Payment restructure	12	2,773	—
		24	$ 5,365	$ —

	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	$ —

	Nine Months Ended September 30, 2016			
(dollars in thousands)	Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	29	$ 5,881	$ —
	Payment restructure	46	9,691	—
Home equity and other				
	Interest rate reduction	2	113	—
Total consumer				
	Interest rate reduction	31	5,994	—
	Payment restructure	46	9,691	—
		77	15,685	—
Total loans				
	Interest rate reduction	31	5,994	—
	Payment restructure	46	9,691	—
		77	$ 15,685	$ —

	Nine 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	39	$ 8,514	$ —
Home equity and other				
	Interest rate reduction	1	37	—
Total consumer				
	Interest rate reduction	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	$ —

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, 2016 and 2015, 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, 2016 Number of loan relationships that re-defaulted	Recorded investment	2015 Number of loan relationships that re-defaulted	Recorded investment
Consumer loans				
Single family	7	$ 1,173	3	$ 552
Home equity and other	—	—	1	68
	7	$ 1,173	4	$ 620

(dollars in thousands)	Nine Months Ended September 30, 2016 Number of loan relationships that re-defaulted	Recorded investment	2015 Number of loan relationships that re-defaulted	Recorded investment
Consumer loans				
Single family	16	$ 3,811	10	$ 2,270
Home equity and other	1	93	1	68
	17	$ 3,904	11	$ 2,338

NOTE 5–DEPOSITS:

Deposit balances, including stated rates, were as follows.

(in thousands)	At September 30, 2016	At December 31, 2015
Noninterest-bearing accounts	$ 1,088,508	$ 643,028
NOW accounts, 0.00% to 1.00% at September 30, 2016 and December 31, 2015	501,370	408,477
Statement savings accounts, due on demand, 0.00% to 1.13% at September 30, 2016 and 0.00% to 1.00% at December 31, 2015	303,872	292,092
Money market accounts, due on demand, 0.00% to 1.50% at September 30, 2016 and 0.00% to 1.45% at December 31, 2015	1,513,547	1,155,464
Certificates of deposit, 0.05% to 3.80% at September 30, 2016 and 0.05% to 3.80% at December 31, 2015	1,097,263	732,892
	$ 4,504,560	$ 3,231,953

Interest expense on deposits was as follows.

(in thousands)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
NOW accounts	$484	$495	$1,465	$1,283
Statement savings accounts	262	257	771	778
Money market accounts	2,084	1,272	5,057	3,655
Certificates of deposit	2,532	1,045	6,087	2,940
	$5,362	$3,069	$13,380	$8,656

The weighted-average interest rates on certificates of deposit were 0.96% at both September 30, 2016 and December 31, 2015, respectively.

Certificates of deposit outstanding mature as follows.

(in thousands)	At September 30, 2016
Within one year	$ 742,312
One to two years	280,983
Two to three years	38,740
Three to four years	19,786
Four to five years	14,129
Thereafter	1,313
	$ 1,097,263

The aggregate amount of time deposits in denominations of $100 thousand or more at September 30, 2016 and December 31, 2015 was $523.4 million and $290.1 million, respectively. The aggregate amount of time deposits in denominations of more than $250 thousand at September 30, 2016 and December 31, 2015 was $78.1 million and $81.7 million, respectively. There were $243.6 million and $120.3 million of brokered deposits at September 30, 2016 and December 31, 2015, respectively.

NOTE 6–LONG-TERM DEBT:

On May 26, 2016, the Company closed on a $65.0 million in aggregate principal amount of its 6.50% Senior Notes due 2026 (the "Senior Notes") at an offering price of 100% plus accrued interest.

The Company raised capital by issuing trust preferred securities during the period from 2005 through 2007 resulting in a debt balance of $61.9 million that remains outstanding at September 30, 2016. In connection with the issuance of trust preferred securities, HomeStreet, Inc. issued to HomeStreet Statutory Trust Junior Subordinated Deferrable Interest Debentures. The sole assets of the HomeStreet Statutory Trust are the Subordinated Debt Securities I, II, III, and IV.

The Subordinated Debt Securities are as follows:

(in thousands)	HomeStreet Statutory I	II	III	IV
Date issued	June 2005	September 2005	February 2006	March 2007
Amount	$5,155	$20,619	$20,619	$15,464
Interest rate	3 MO LIBOR + 1.70%	3 MO LIBOR + 1.50%	3 MO LIBOR + 1.37%	3 MO LIBOR + 1.68%
Maturity date	June 2035	December 2035	March 2036	June 2037
Call option(1)	5 years	5 years	5 years	5 years

(1) Call options are exercisable at par.

NOTE 7–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 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, 2016 or December 31, 2015. 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, for further information on securities collateral pledged. At September 30, 2016 and December 31, 2015, 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 2015 Annual Report on Form 10-K.

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

	At September 30, 2016		
	Notional amount	Fair value derivatives	
(in thousands)		Asset	Liability
Forward sale commitments	$3,902,372	$3,612	$(11,681)
Interest rate swaptions	120,000	57	—
Interest rate lock and purchase loan commitments	1,334,615	45,403	(43)
Interest rate swaps	2,134,050	43,500	(13,667)
Total derivatives before netting	$7,491,037	92,572	(25,391)
Netting adjustment/Cash collateral (1)		10,991	23,799
Carrying value on consolidated statements of financial condition		$103,563	$(1,592)

	At December 31, 2015		
	Notional amount	Fair value derivatives	
(in thousands)		Asset	Liability
Forward sale commitments	$1,069,102	$1,885	$(1,496)
Interest rate lock and purchase loan commitments	594,360	17,719	(8)
Interest rate swaps	1,109,350	8,670	(4,007)
Total derivatives before netting	$2,772,812	28,274	(5,511)
Netting adjustment/Cash collateral (1)		8,971	5,411
Carrying value on consolidated statements of financial condition		$37,245	$(100)

(1) Includes cash collateral of $34.8 million and $14.4 million at September 30, 2016 and December 31, 2015 respectively, as part of netting adjustments which primarily consists of collateral transferred by the Company at the initiation of derivative transactions and held by the counterparty as security.

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

	At September 30, 2016				
(in thousands)	Gross fair value	Netting adjustments/ Cash collateral(1)	Carrying value	Securities not offset in consolidated balance sheet (disclosure-only netting)	Net amount
Derivative assets	$92,572	$ 10,991	$103,563	$ —	$103,563
Derivative liabilities	$(25,391)	$ 23,799	$(1,592)	$ 2	$(1,590)

	At December 31, 2015				
(in thousands)	Gross fair value	Netting adjustments/ Cash collateral(1)	Carrying value	Securities not offset in consolidated balance sheet	Net amount

				(disclosure-only netting)	
Derivative assets	$28,274	$ 8,971	$37,245	$ —	$37,245
Derivative liabilities	$(5,511)	$ 5,411	$(100)	$ 5	$(95)

(1) Includes cash collateral of $34.8 million and $14.4 million at September 30, 2016 and December 31, 2015 respectively, as part of the netting adjustments which primarily consists of collateral transferred by the Company at the initiation of derivative transactions and held by the counterparty as security.

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,	
	2016	2015	2016	2015
Recognized in noninterest income:				
Net gain (loss) on mortgage loan origination and sale activities [1]	$(3,675)	$(17,135)	$(4,006)	$5,116
Mortgage servicing income [2]	3,162	22,017	57,110	17,030
Other [3]	2,087	—	735	—
	$1,574	$4,882	$53,839	$22,146

(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.
(3) Comprised of interest rate swaps, interest rate swaptions and forward contracts used as an economic hedge of fair value option loans held for investment.

NOTE 8–MORTGAGE BANKING OPERATIONS:

Loans held for sale consisted of the following.

(in thousands)	At September 30, 2016	At December 31, 2015
Single family	$ 834,144	$ 632,273
Multifamily DUS® [1]	26,429	11,076
Other [2]	32,940	6,814
Total loans held for sale	$ 893,513	$ 650,163

(1) Fannie Mae Multifamily Delegated Underwriting and Servicing Program (“DUS®) is a registered trademark of Fannie Mae.
(2) Includes multifamily loans originated from sources other than DUS.

Loans sold consisted of the following.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Single family	$2,489,415	$1,965,223	$6,134,390	$5,176,569
Multifamily DUS	58,484	42,333	215,848	140,965
Other [1]	50,255	—	82,068	—
Total loans sold	$2,598,154	$2,007,556	$6,432,306	$5,317,534

(1) Includes multifamily loans originated from sources other than DUS.

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, 2016	2015	Nine Months Ended September 30, 2016	2015
Single family:				
Servicing value and secondary market gains[1]	$79,946	$49,613	$207,758	$167,786
Loan origination and funding fees	8,931	6,362	21,614	16,452
Total single family	88,877	55,975	229,372	184,238
Multifamily DUS	2,695	1,488	7,879	4,741
Other [2]	1,028	422	2,242	767
Total gain on mortgage loan origination and sale activities	$92,600	$57,885	$239,493	$189,746

(1) Comprised of gains and losses on interest rate lock and purchase loan 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 multifamily loans originated from sources other than DUS.

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, 2016	At December 31, 2015
Single family		
U.S. government and agency	$ 17,593,901	$ 14,628,596
Other	605,139	719,215
	18,199,040	15,347,811
Commercial		
Multifamily DUS	1,055,181	924,367
Other	67,348	79,513
	1,122,529	1,003,880
Total loans serviced for others	$ 19,321,569	$ 16,351,691

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 9, 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, 2016	2015	Nine Months Ended September 30, 2016	2015
Balance, beginning of period	$3,379	$2,480	$2,922	$1,956
Additions [(1)]	495	883	1,407	2,052
Realized losses [(2)]	(251)	(128)	(706)	(773)
Balance, end of period	$3,623	$3,235	$3,623	$3,235

(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.

The Company has agreements with investors to advance scheduled principal and interest amounts on delinquent loans. Advances are also made to fund the foreclosure and collection costs of delinquent loans prior to the recovery of reimbursable amounts from investors or borrowers. Advances of $5.3 million and $9.6 million were recorded in other assets as of September 30, 2016 and December 31, 2015, 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 both September 30, 2016 and December 31, 2015, delinquent or defaulted mortgage loans currently in Ginnie Mae pools that the Company has recognized on its consolidated statements of financial condition totaled $29.0 million, 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, 2016	2015	Nine Months Ended September 30, 2016	2015
Servicing income, net:				
Servicing fees and other	$16,053	$11,136	$41,985	$30,256
Changes in fair value of single family MSRs due to modeled amortization [(1)]	(8,925)	(8,478)	(23,940)	(26,725)
Amortization of multifamily MSRs	(661)	(511)	(1,946)	(1,441)
	6,467	2,147	16,099	2,090
Risk management, single family MSRs:				
Changes in fair value of MSRs due to changes in market inputs and/or model updates [(2)]	4,915	(19,396)	(37,354)	(8,224)
Net gain from derivatives economically hedging MSR	3,162	22,017	57,110	17,030
	8,077	2,621	19,756	8,806
Mortgage servicing income	$14,544	$4,768	$35,855	$10,896

(1) Represents changes due to collection/realization of expected cash flows and curtailments.
(2) Principally reflects changes in market inputs, which include current market interest rates and prepayment model updates, both of which affect future prepayment speed and cash flow projections.

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, 2016	2015	Nine Months Ended September 30, 2016	2015
Constant prepayment rate ("CPR") [2]	14.77%	14.96%	15.67%	14.71%
Discount rate [3]	10.19%	10.34%	10.34%	10.31%

(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, 2016
Fair value of single family MSR	$ 149,910
Expected weighted-average life (in years)	4.13
Constant prepayment rate [1]	20.36%
Impact on 25 basis points adverse change	$ (19,011)
Impact on 50 basis points adverse change	$ (37,011)
Discount rate	10.40%
Impact on fair value of 100 basis points increase	$ (4,121)
Impact on fair value of 200 basis points increase	$ (8,014)

(1) Represents the expected lifetime average.

These sensitivities are hypothetical and subject to key assumptions of the underlying valuation model. 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.

(in thousands)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Beginning balance	$130,900	$140,588	$156,604	$112,439
Additions and amortization:				
Originations	23,020	19,984	54,600	55,202
Purchases	—	3	—	9
Changes due to modeled amortization[1]	(8,925)	(8,478)	(23,940)	(26,725)
Net additions and amortization	14,095	11,509	30,660	28,486
Changes in fair value of MSRs due to changes in market inputs and/or model updates [2]	4,915	(19,396)	(37,354)	(8,224)
Ending balance	$149,910	$132,701	$149,910	$132,701

(1) Represents changes due to collection/realization of expected cash flows and curtailments.
(2) Principally reflects changes in market inputs, which include current market interest rates and prepayment model updates, both of which affect future prepayment speed and cash flow projections.

MSRs resulting from the sale of multifamily loans are recorded at fair value and subsequently carried at the lower of amortized cost or fair value. Multifamily MSRs 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, 2016	2015	Nine Months Ended September 30, 2016	2015
Beginning balance	$16,366	$12,649	$14,651	$10,885
Origination	1,886	1,241	4,886	3,935
Amortization	(661)	(511)	(1,946)	(1,441)
Ending balance	$17,591	$13,379	$17,591	$13,379

At September 30, 2016, the expected weighted-average life of the Company's multifamily MSRs was 10.05 years. Projected amortization expense for the gross carrying value of multifamily MSRs is estimated as follows.

(in thousands)	At September 30, 2016
Remainder of 2016	$ 649
2017	2,494
2018	2,360
2019	2,252
2020	2,168
2021 and thereafter	7,668
Carrying value of multifamily MSR	$ 17,591

NOTE 9–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 amount 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 lending activities 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, 2016 and December 31, 2015 was $159.5 million and $52.9 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 $546.5 million and $456.4 million at September 30, 2016 and December 31, 2015, respectively. Unused home equity and commercial banking funding lines totaled $260.6 million and $216.5 million at September 30, 2016 and December 31, 2015, 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 $1.3 million and $1.4 million at September 30, 2016 and December 31, 2015, 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 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, 2016 and December 31, 2015, the total unpaid principal balance of loans sold under this program was $1.06 billion and $924.4 million, respectively. The Company’s reserve liability related to this arrangement totaled $1.7 million and $3.0 million at September 30, 2016 and December 31, 2015, respectively. There were no actual losses incurred under this arrangement during the three and nine months ended September 30, 2016 and 2015.

Mortgage repurchase liability

In the ordinary course of business, the Company sells residential mortgage loans to GSEs and other entities. In addition, the Company pools FHA-insured and VA-guaranteed mortgage loans into Ginnie Mae, Fannie Mae and Freddie Mac guaranteed mortgage-backed 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 mark-to-market and credit losses on the repurchased mortgage loans after accounting for any mortgage insurance that we 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 the FHA or VA. As an originator of FHA-insured or VA-guaranteed loans, the Company is responsible for obtaining the insurance with the FHA or the guarantee with the VA. If loans are later found not to meet the requirements of the FHA or VA, through required internal quality control reviews or through agency audits, the Company may be required to indemnify the FHA or VA against losses. The loans remain in Ginnie Mae pools unless and until they are repurchased by the Company. In general, once an 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 $18.27 billion and $15.43 billion as of September 30, 2016 and December 31, 2015, respectively. At September 30, 2016 and December 31, 2015, 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 $3.6 million and $2.9 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, 2016, we reviewed our legal claims and determined that there were no material claims that were considered to be probable or reasonably possible of resulting in a loss. As a result, the Company did not have any material amounts reserved for legal claims as of September 30, 2016.

NOTE 10–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 17, Fair Value Measurement within our 2015 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 of the Board 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, ALCO periodically 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
	When not derived from observable market inputs, 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	Estimated fair value classified as Level 3.
Loans originated as held for investment and transferred to held for sale	Fair value is based on discounted cash flows, which considers the following inputs: • Current lending rates for new loans	Carried at lower of amortized cost or fair value. Estimated fair value

	• Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	classified as Level 3.
Multifamily loans (DUS) and other	The sale price is set at the time the loan commitment is made, and as such subsequent changes in market 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.	Carried at lower of amortized cost or fair value. Estimated fair value classified as Level 2.

Asset/Liability class	Valuation methodology, inputs and assumptions	Classification
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 2015 Annual Report on Form 10-K. Estimated fair value classified as Level 3.
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 8, Mortgage Banking Operations.	Level 3 recurring fair value measurement
Multifamily MSRs and other	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 and purchase loan 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

46

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, 2016	Level 1	Level 2	Level 3
Assets:				
Investment securities available for sale				
Mortgage backed securities:				
Residential	$152,236	$ —	$152,236	$—
Commercial	27,208	—	27,208	—
Municipal bonds	355,344	—	355,344	—
Collateralized mortgage obligations:				
Residential	182,833	—	182,833	—
Commercial	120,259	—	120,259	—
Corporate debt securities	85,191	—	85,191	—
U.S. Treasury securities	26,004	—	26,004	—
Single family mortgage servicing rights	149,910	—	—	149,910
Single family loans held for sale	834,144	—	789,844	44,300
Single family loans held for investment	20,547	—	—	20,547
Derivatives				
Forward sale commitments	3,612	—	3,612	—
Interest rate swaptions	57	—	57	—
Interest rate lock and purchase loan commitments	45,403	—	—	45,403
Interest rate swaps	43,500	—	43,500	—
Total assets	$2,046,248	$ —	$1,786,088	$260,160
Liabilities:				
Derivatives				
Forward sale commitments	$11,681	$ —	$11,681	$—
Interest rate lock and purchase loan commitments	43	—	—	43
Interest rate swaps	13,667	—	13,667	—
Total liabilities	$25,391	$ —	$25,348	$43

(in thousands)	Fair Value at December 31, 2015	Level 1	Level 2	Level 3
Assets:				
Investment securities available for sale				
Mortgage backed securities:				
Residential	$68,101	$ —	$68,101	$—
Commercial	17,851	—	17,851	—
Municipal bonds	171,869	—	171,869	—
Collateralized mortgage obligations:				
Residential	84,497	—	84,497	—
Commercial	79,133	—	79,133	—
Corporate debt securities	78,736	—	78,736	—
U.S. Treasury securities	40,964	—	40,964	—
Single family mortgage servicing rights	156,604	—	—	156,604
Single family loans held for sale	632,273	—	582,951	49,322
Single family loans held for investment	21,544	—	—	21,544
Derivatives				
Forward sale commitments	1,884	—	1,884	—
Interest rate lock and purchase loan commitments	17,719	—	—	17,719
Interest rate swaps	8,670	—	8,670	—
Total assets	$1,379,845	$ —	$1,134,656	$245,189
Liabilities:				
Derivatives				
Forward sale commitments	$1,496	$ —	$1,496	$—
Interest rate lock and purchase loan commitments	8	—	—	8
Interest rate swaps	4,007	—	4,007	—
Total liabilities	$5,511	$ —	$5,503	$8

There were no transfers between levels of the fair value hierarchy during the three and nine months ended September 30, 2016 and 2015.

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, certain single family loans held for sale, and interest rate lock and purchase loan 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, 2016 and 2015, see Note 8, Mortgage Banking Operations of this Form 10-Q.

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 had 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 $20.5 million at September 30, 2016.

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, 2016 Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Loans held for investment, fair value option	$20,547	Income approach	Implied spread to benchmark interest rate curve	4.22%	6.33%	5.12%

(dollars in thousands)	At December 31, 2015 Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Loans held for investment, fair value option	$21,544	Income approach	Implied spread to benchmark interest rate curve	3.26%	4.35%	4.01%

The following information presents significant Level 3 unobservable inputs used to measure fair value of certain single family loans held for sale where fair value option was elected.

(dollars in thousands)	At September 30, 2016 Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Loans held for sale, fair value option	$44,300	Income approach	Implied spread to benchmark interest rate curve	3.82%	5.00%	4.70%
			Market price movement from comparable bond	0.00%	0.52%	0.47%

(dollars in thousands)	At December 31, 2015 Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Loans held for sale, fair value option	$49,322	Income approach	Implied spread to benchmark interest rate curve	2.68%	7.62%	3.91%
			Market price movement from comparable bond	(0.43)%	(0.06)%	(0.27)%

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2016	2015	2016	2015
Beginning balance, net	$39,991	$23,487	$17,711	$11,933
Total realized/unrealized gains	56,752	43,784	160,047	131,930
Settlements	(51,383)	(41,062)	(132,398)	(117,654)

Ending balance, net	$45,360	$26,209	$45,360	$26,209

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

(dollars in thousands)	At September 30, 2016 Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Interest rate lock and purchase loan commitments, net	$45,360	Income approach	Fall-out factor	0.00%	61.84%	12.79%
			Value of servicing	0.55%	1.75%	0.96%

(dollars in thousands)	At December 31, 2015 Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Interest rate lock and purchase loan commitments, net	$17,711	Income approach	Fall-out factor	0.60%	61.16%	15.80%
			Value of servicing	0.53%	1.71%	0.80%

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, 2016 and 2015, 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, 2016, the Company applied a stated value adjustment of 7.0%. During the nine months ended September 30, 2016, the Company applied a range of stated value adjustments of 7.0% to 63.4%, with a weighted average of 58.4%. 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 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 and nine months ended September 30, 2016 the Company used a fair value of collateral technique to apply an adjustment to the appraisal value of certain OREO using a range of discount adjustments of 27.4% to 49.1%, with a weighted average rate of 32.1%. During the three and nine months ended September 30, 2015, the Company did not apply any adjustment to the appraisal value of OREO.

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, 2016 and 2015 and what we still held at the end of the respective reporting period.

	At or for the Three Months Ended September 30, 2016				
(in thousands)	Fair Value of Assets Held at September 30, 2016	Level 1	Level 2	Level 3	Total Gains (Losses)
Loans held for investment[1]	$10,570	$ —	$ —	$10,570	$(750)
Other real estate owned[2]	5,755	—	—	5,755	(1,160)
Total	$16,325	$ —	$ —	$16,325	$(1,910)

	At or for the 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)

	At or for the Nine Months Ended September 30, 2016				
(in thousands)	Fair Value of Assets Held at September 30, 2016	Level 1	Level 2	Level 3	Total Gains (Losses)
Loans held for investment[1]	$10,570	$ —	$ —	$10,570	$(827)
Other real estate owned[2]	5,755	—	—	5,755	(1,551)
Total	$16,325	$ —	$ —	$16,325	$(2,378)

At or for the 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)

(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, 2016 Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$55,998	$55,998	$55,998	$—	$ —
Investment securities held to maturity	42,250	43,364	—	43,364	—
Loans held for investment	3,743,631	3,835,362	—	—	3,835,362
Loans held for sale – transferred from held for investment	26,514	26,514	—	—	26,514
Loans held for sale – multifamily and other	32,855	32,855	—	32,855	—
Mortgage servicing rights – multifamily	17,591	19,393	—	—	19,393
Federal Home Loan Bank stock	39,783	39,783	—	39,783	—
Liabilities:					
Deposits	$4,504,560	$4,488,239	$—	$4,488,239	$ —
Federal Home Loan Bank advances	858,923	862,420	—	862,420	—
Long-term debt	125,122	125,859	—	125,859	—

(in thousands)	At December 31, 2015 Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$32,684	$32,684	$32,684	$—	$ —
Investment securities held to maturity	31,013	31,387	—	31,387	—
Loans held for investment	3,171,176	3,255,740	—	—	3,255,740
Loans held for sale – transferred from held for investment	6,814	6,814	—	—	6,814
Loans held for sale – multifamily	11,076	11,076	—	11,076	—
Mortgage servicing rights – multifamily	14,651	16,412	—	—	16,412
Federal Home Loan Bank stock	44,342	44,342	—	44,342	—
Liabilities:					
Deposits	$3,231,953	$3,229,670	$—	$3,229,670	$ —
Federal Home Loan Bank advances	1,018,159	1,021,344	—	1,021,344	—
Long-term debt	61,857	60,239	—	60,239	—

NOTE 11–EARNINGS PER SHARE:

The following table summarizes the calculation of earnings per share.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except share and per share data)	2016	2015	2016	2015
Net income	$27,701	$ 9,961	$55,857	$ 32,641
Weighted average shares:				
Basic weighted-average number of common shares outstanding	24,811,169	22,035,317	24,398,683	20,407,386
Dilutive effect of outstanding common stock equivalents (1)	185,578	256,493	196,665	239,154
Diluted weighted-average number of common stock outstanding	24,996,747	22,291,810	24,595,348	20,646,540
Earnings per share:				
Basic earnings per share	$1.12	$ 0.45	$2.29	$ 1.60
Diluted earnings per share	$1.11	$ 0.45	$2.27	$ 1.58

(1) Excluded from the computation of diluted earnings per share (due to their antidilutive effect) for the three and nine months ended September 30, 2016 and 2015 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 at September 30, 2016 and 2015, respectively.

NOTE 12–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 also reflects the results 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. 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. We have become a rated originator and servicer of jumbo loans, allowing us to sell these loans to other securitizers. Additionally, we purchase loans from WMS Series LLC through a correspondent arrangement with that company. 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. On occasion, we may sell a portion of our MSR portfolio. We reflect the results from the management of 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.

	Three Months Ended September 30, 2016		
(in thousands)	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income [1]	$7,463	$39,339	$46,802
Provision for credit losses	—	1,250	1,250
Noninterest income	101,974	9,771	111,745
Noninterest expense	82,229	32,170	114,399
Income before income taxes	27,208	15,690	42,898
Income tax expense	9,640	5,557	15,197
Net income	$17,568	$10,133	$27,701
Total assets	$1,103,899	$5,122,702	$6,226,601

(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)	Nine Months Ended September 30, 2016 Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income [1]	$18,597	$113,378	$131,975
Provision for credit losses	—	3,750	3,750
Noninterest income	263,334	22,595	285,929
Noninterest expense	223,880	102,903	326,783
Income before income taxes	58,051	29,320	87,371
Income tax expense	20,948	10,566	31,514
Net income	$37,103	$18,754	$55,857
Total assets	$1,103,899	$5,122,702	$6,226,601

(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

(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 13–ACCUMULATED OTHER COMPREHENSIVE INCOME:

The following table shows changes in accumulated other comprehensive income (loss) from unrealized gain (loss) on available-for-sale securities, net of tax.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2016	2015	2016	2015
Beginning balance	$9,748	$(582)	$(2,449)	$1,546
Other comprehensive income (loss) before reclassifications	(1,786)	2,926	10,474	798
Amounts reclassified from accumulated other comprehensive income (loss)	(31)	(651)	(94)	(651)
Net current-period other comprehensive income (loss)	(1,817)	2,275	10,380	147
Ending balance	$7,931	$1,693	$7,931	$1,693

The following table shows the affected line items in the consolidated statements of operations from reclassifications of unrealized gain (loss) on available-for-sale securities from accumulated other comprehensive income (loss).

Affected Line Item in the Consolidated Statements of Operations	Amount Reclassified from Accumulated Other Comprehensive Income			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2016	2015	2016	2015
Gain on sale of investment securities available for sale	$48	$1,002	$145	$1,002
Income tax expense	17	351	51	351
Total, net of tax	$31	$651	$94	$651

NOTE 14–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

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 2015 Annual Report on Form 10-K.

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 about the expected or estimated performance of our loan portfolio
- 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 our current plans and intentions.

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. Information contained in or linked from our websites is not incorporated into and does not constitute a part of this report.

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, 2016	June 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Income statement data (for the period ended):							
Net interest income	$46,802	$44,482	$40,691	$39,740	$39,634	$131,975	$108,598
Provision for credit losses	1,250	1,100	1,400	1,900	700	3,750	4,200
Noninterest income	111,745	102,476	71,708	65,409	67,468	285,929	215,828
Noninterest expense	114,399	111,031	101,353	92,725	92,026	326,783	273,843
Income before income taxes	42,898	34,827	9,646	10,524	14,376	87,371	46,383
Income tax expense	15,197	13,078	3,239	1,846	4,415	31,514	13,742
Net income	$27,701	$21,749	$6,407	$8,678	$9,961	$55,857	$32,641
Basic income per share	$1.12	$0.88	$0.27	$0.39	$0.45	$2.29	$1.60
Diluted income per share	$1.11	$0.87	$0.27	$0.39	$0.45	$2.27	$1.58
Common shares outstanding	24,833,008	24,821,349	24,550,219	22,076,534	22,061,702	24,833,008	22,061,702
Weighted average number of shares outstanding:							
Basic	24,811,169	24,708,375	23,676,506	22,050,022	22,035,317	24,398,683	20,407,386
Diluted	24,996,747	24,911,919	23,877,376	22,297,183	22,291,810	24,595,348	20,646,540
Shareholders' equity per share	$23.60	$22.55	$21.55	$21.08	$20.87	$23.60	$20.87
Financial position (at period end):							
Cash and cash equivalents	$55,998	$45,229	$46,356	$32,684	$37,303	$55,998	$37,303
Investment securities	991,325	928,364	687,081	572,164	602,018	991,325	602,018
Loans held for sale	893,513	772,780	696,692	650,163	882,319	893,513	882,319
Loans held for investment, net	3,764,178	3,698,959	3,523,551	3,192,720	3,012,943	3,764,178	3,012,943
Mortgage servicing rights	167,501	147,266	148,851	171,255	146,080	167,501	146,080
Other real estate owned	6,440	10,698	7,273	7,531	8,273	6,440	8,273
Total assets	6,226,601	5,941,178	5,417,252	4,894,495	4,975,653	6,226,601	4,975,653
Deposits	4,504,560	4,239,155	3,823,027	3,231,953	3,307,693	4,504,560	3,307,693
Federal Home Loan Bank advances	858,923	878,987	883,574	1,018,159	1,025,745	858,923	1,025,745
Shareholders' equity	$586,028	$559,603	$529,132	$465,275	$460,458	$586,028	$460,458
Financial position (averages):							
Investment securities	$981,223	$766,248	$625,695	$584,519	$539,330	$791,749	$503,280
Loans held for investment	3,770,133	3,677,361	3,399,479	3,120,644	2,975,624	3,616,222	2,738,085
Total interest-earning assets	5,692,999	5,186,131	4,629,507	4,452,326	4,394,557	5,171,456	4,048,237
Total interest-bearing deposits	3,343,339	3,072,314	2,734,975	2,587,125	2,573,512	3,051,279	2,470,022
Federal Home Loan Bank advances	988,358	946,488	896,726	987,803	887,711	944,020	730,519
Federal funds purchased and securities sold under agreements to repurchase	2,242	—	—	100	—	753	15,204
Total interest-bearing liabilities	4,459,213	4,110,208	3,693,558	3,636,885	3,523,080	4,089,016	3,277,602
Shareholders’ equity	$588,335	$548,080	$510,883	$470,635	$460,489	$549,242	$429,071

59

Summary Financial Data (continued)

(dollars in thousands, except share data)	At or for the Three Months Ended Sept. 30, 2016	June 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	At or for the Nine Months Ended Sept. 30, 2016	Sept. 30, 2015
Financial performance:							
Return on average shareholders' equity [1]	18.83 %	15.87 %	5.02 %	7.38 %	8.65 %	13.56 %	10.14 %
Return on average assets	1.79 %	1.54 %	0.51 %	0.71 %	0.83 %	1.33 %	0.98 %
Net interest margin [2]	3.34 %	3.48 %	3.55 %	3.61 %	3.67 %	3.46 %	3.63 %
Efficiency ratio [3]	72.15 %	75.55 %	90.17 %	88.18 %	85.92 %	78.20 %	84.41 %
Asset quality:							
Allowance for credit losses	$35,233	$34,001	$32,423	$30,659	$27,887	$35,233	$27,887
Allowance for loan losses/total loans [4]	0.89 %	0.88 %	0.88 %	0.91 %	0.89 %	0.89 %	0.89 %
Allowance for loan losses/nonaccrual loans	131.07 %	207.41 %	195.51 %	170.54 %	138.27 %	131.07 %	138.27 %
Total nonaccrual loans [5][6]	$25,921	$15,745	$16,012	$17,168	$19,470	$25,921	$19,470
Nonaccrual loans/total loans	0.68 %	0.42 %	0.45 %	0.53 %	0.64 %	0.68 %	0.64 %
Other real estate owned	$6,440	$10,698	$7,273	$7,531	$8,273	$6,440	$8,273
Total nonperforming assets [6]	$32,361	$26,443	$23,285	$24,699	$27,743	$32,361	$27,743
Nonperforming assets/total assets	0.52 %	0.45 %	0.43 %	0.50 %	0.56 %	0.52 %	0.56 %
Net charge-offs (recoveries)	$18	$(478)	$(364)	$(872)	$(739)	$(824)	$(1,163)
Regulatory capital ratios for the Bank:							
Tier 1 leverage capital (to average assets)	9.91 %	10.28 %	10.17 %	9.46 %	9.69 %	9.91 %	9.69 %
Tier 1 common equity risk-based capital (to risk-weighted assets)	13.61 %	13.52 %	13.09 %	13.04 %	13.35 %	13.61 %	13.35 %
Tier 1 risk-based capital (to risk-weighted assets)	13.61 %	13.52 %	13.09 %	13.04 %	13.35 %	13.61 %	13.35 %
Total risk-based capital (to risk-weighted assets)	14.41 %	14.33 %	13.93 %	13.92 %	14.15 %	14.41 %	14.15 %
Regulatory capital ratios for the Company:							
Tier 1 leverage capital (to average assets)	9.52 %	9.88 %	10.50 %	9.95 %	10.00 %	9.52 %	10.00 %
Tier 1 common equity risk-based capital (to risk-weighted assets)	10.37 %	10.31 %	10.60 %	10.52 %	10.65 %	10.37 %	10.65 %
Tier 1 risk-based capital (to risk-weighted assets)	11.55 %	11.51 %	11.89 %	11.94 %	12.09 %	11.55 %	12.09 %
Total risk-based capital (to risk-weighted assets)	12.25 %	12.22 %	12.63 %	12.70 %	12.79 %	12.25 %	12.79 %

(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 1.05%, 1.03%, 1.07%, 1.10% and 1.11% at September 30, 2016, June 30, 2016, March 31, 2016, December 31, 2015 and September 30, 2015, respectively.

(5) Generally, loans are placed on nonaccrual status when they are 90 or more days past due, unless payment is insured by the FHA or guaranteed by the VA.

(6) Includes \$2.1 million, \$2.6 million, \$2.6 million, \$1.2 million and \$1.5 million of nonperforming loans guaranteed by the SBA at September 30, 2016, June 30, 2016, March 31, 2016, December 31, 2015 and September 30, 2015, respectively.

(in thousands)	At or for the Three Months Ended Sept. 30, 2016	June 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	At or for the Nine Months Ended Sept. 30, 2016	Sept. 30, 2015
SUPPLEMENTAL DATA:							
Loans serviced for others							
Single family	$18,199,040	$17,073,520	$15,980,932	$15,347,811	$14,271,187	$18,199,040	$14,271,187
Multifamily DUS	1,055,181	1,023,505	946,191	924,367	866,880	1,055,181	866,880
Other	67,348	62,466	62,566	79,513	86,567	67,348	86,567
Total loans serviced for others	$19,321,569	$18,159,491	$16,989,689	$16,351,691	$15,224,634	$19,321,569	$15,224,634
Loan production volumes:							
Mortgage Banking segment:							
Single family mortgage closed loans(1)(2)	$2,647,943	$2,261,599	$1,573,148	$1,648,735	$1,934,151	$6,482,690	$5,563,700
Single family mortgage interest rate lock commitments(2)	2,689,640	2,361,691	1,803,703	1,340,148	1,806,767	6,855,034	5,590,960
Single family mortgage loans sold(2)	2,489,415	2,173,392	1,471,583	1,830,768	1,965,223	6,134,390	5,176,569
Commercial and Consumer Banking segment:							
Loan originations							
Multifamily DUS® (3)	$45,497	$146,535	$39,094	$53,279	$47,342	231,126	151,559
Other (4)	2,913	5,528	—	—	—	8,441	—
Loans sold							
Multifamily DUS® (3)	58,484	109,394	47,970	63,779	42,333	215,848	140,965
Other (4)	$50,255	$31,813	$—	$—	$—	$82,068	$—

(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.
(3) Fannie Mae Multifamily Delegated Underwriting and Servicing Program (“DUS®) is a registered trademark of Fannie Mae.
(4) Includes multifamily loans originated from sources other than DUS.

Management’s Overview of Third Quarter of 2016 Financial Performance

HomeStreet is a diversified financial services company founded in 1921 headquartered in Seattle, Washington and serving customers primarily in the western United States, including Hawaii. HomeStreet, Inc. is a bank holding company whose operating subsidiaries are 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. HomeStreet, Inc., doing business as HomeStreet Insurance Agency, also provides insurance products and services for consumers and businesses.

HomeStreet Bank is a Washington state-chartered commercial 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. We also offer single family home loans through the Bank’s partial ownership in an affiliated business arrangement with WMS Series LLC, whose home loan businesses are known as Penrith Home Loans (some of which were formerly known as Windermere Mortgage Services).

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.

Since our initial public offering in February 2012, we have been pursuing a strategy of growth, seeking geographic expansion, an increase in our market share in our existing markets, and an expansion of our product and service offerings. We have invested resources in growing our operations organically, including hiring loan officers to reach more consumers in more markets and expanding the product offerings for our retail and commercial banking clients, while simultaneously pursuing strategic acquisitions targeted to meet our goals, such as expanding into Southern California and strengthening our commercial banking experience and operations. As of September 30, 2016, we had grown to a total of 51 retail branches and 80 stand-alone lending centers, including 10 commercial lending centers. We are continuing to expand into markets that are relatively new to us, including a pending acquisition of two branches from Boston Private Bank & Trust ("Boston Private") in Southern California which is expected to close in the fourth quarter of 2016, bringing the total number of branches in Southern California to thirteen. We have also increased stand-alone lending centers in both our existing retail deposit markets as well as Northern California; Salt Lake City, Utah; Phoenix, Arizona; Boise, Idaho; Denver, Colorado; and Dallas, Texas.

As part of our operational growth in commercial lending, in 2015 we launched a new division of the Bank called HomeStreet Commercial Capital, which originates permanent commercial real estate loans primarily up to $10 million in size, a portion of which we intend to sell into the secondary market. At the same time, we added another team specializing in U.S. Small Business Administration ("SBA") lending. Both of these groups are located in Orange County, California.

Our acquisitions in 2016 have included Orange County Business Bank (“OCBB”), which we merged into HomeStreet Bank in the first quarter of 2016, and two retail bank branches and all related deposits and loans from The Bank of Oswego in Lake Oswego, Oregon ("TBOO") in the third quarter, which expanded our presence in the Portland, Oregon metropolitan area. Out previously announced pending acquisition of two retail bank branches and certain related deposits in Southern California from Boston Private is expected to close in November 2016, subject to closing conditions and other external factors that may impact the timing and success of closing.

In part to fund our continued strategic growth, on May 20, 2016, we completed the issuance of $65 million, 6.5% senior notes, due in 2026. A majority of the net proceeds of $63.5 million will be used to support our growth and will be contributed over time to the Bank as capital; however, we have invested the net proceeds of the offering initially in our securities portfolio pending future loan growth.

At September 30, 2016, we had total assets of $6.23 billion, net loans held for investment of $3.76 billion, deposits of $4.50 billion and shareholders’ equity of $586.0 million. Through the OCBB acquisition, we added $188.5 million of assets, $125.8 million of loans, $126.5 million of deposits and $8.3 million of goodwill. Additionally, through the TBOO acquisition, we added $41.6 million in assets, $40.3 million in loans and $48.1 million in deposits.

[1] DUS® is a registered trademark of Fannie Mae 62

Results of Operations

Results for the third quarter of 2016 reflect the continued growth of our mortgage banking business and expansion of our commercial and consumer business. During the past twelve months, we have increased our lending capacity by adding loan origination and operations personnel in all of our lending lines of business. In the same period, we have added six home loan centers, four commercial lending centers and eight retail deposit branches to bring our total home loan centers to 70, our total commercial lending centers to ten and our total retail deposit branches to 51. We also relocated our insurance business in Spokane, Washington to a stand-alone insurance office.

For the three months ended September 30, 2016, net income was $27.7 million, an increase of $17.7 million or 178.1% from $10.0 million for the three months ended September 30, 2015. For the nine months ended September 30, 2016, net income was $55.9 million, an increase of $23.2 million, or 71%, from $32.6 million for the nine months ended September 30, 2015. Included in net income for the three and nine months ended September 30, 2016 were acquisition-related expenses, net of tax, of $333 thousand and $4.4 million, respectively. Included in net income for the three and nine months ended September 30, 2015 were acquisition-related expenses, net of tax, of $284 thousand and $10.3 million, respectively, partially offset by a bargain purchase gain of $796 thousand and $7.3 million for the three and nine months ended September 30, 2015, respectively.

Consolidated Financial Performance

(in thousands, except per share data and ratios)	At or for the Three Months Ended September 30, 2016	2015	Percent Change	At or for the Nine Months Ended September 30, 2016	2015	Percent Change
Selected statement of operations data						
Total net revenue [1]	$158,547	$107,102	48 %	$417,904	$324,426	29 %
Total noninterest expense	114,399	92,026	24 %	326,783	273,843	19 %
Provision for credit losses	1,250	700	79 %	3,750	4,200	(11)%
Income tax expense	15,197	4,415	244 %	31,514	13,742	129 %
Net income	$27,701	$9,961	178 %	$55,857	$32,641	71 %
Financial performance						
Diluted income per share	$1.11	$0.45		$2.27	$1.58	
Return on average common shareholders’ equity	18.83 %	8.65 %		13.56 %	10.14 %	
Return on average assets	1.79 %	0.83 %		1.33 %	0.98 %	
Net interest margin	3.34 %	3.67 %		3.46 %	3.63 %	

(1) Total net revenue is net interest income and noninterest income.

Commercial and Consumer Banking Segment Results

Commercial and Consumer Banking segment net income for the three and nine months ended September 30, 2016 was $10.1 million and $18.8 million, respectively, compared to $6.8 million and $9.6 million for the three and nine months ended September 30, 2015, respectively. The increase was primarily due to higher net interest income from higher average balances of interest-earning assets, partially offset by higher noninterest expense, which were the combined result of merger and acquisition activities and organic growth. Included in net income for the three and nine months ended September 30, 2016 were acquisition-related expenses, net of tax, of $333 thousand and $4.4 million, respectively. For the three and nine months ended September 30, 2015, net income included acquisition-related expenses, net of tax, of $284 thousand and $10.3 million, respectively. For the three and nine months ended

September 30, 2015, acquisition-related expenses were partially offset by a bargain purchase gain of $796 thousand and $7.3 million, respectively.

Commercial and Consumer Banking segment net interest income was $39.3 million for the third quarter of 2016, an increase of $7.8 million, or 24.9%, from $31.5 million for the third quarter of 2015. For the nine months ended September 30, 2016, segment net interest income was $113.4 million, an increase of $26.1 million, or 29.9%, from $87.3 million for the nine months ended September 30, 2015. These increases reflect higher average balances of loans held for investment as a result of organic growth and acquisitions.

For the three and nine months ended September 30, 2016, the Company recorded $1.3 million and $3.8 million, respectively, of provision for credit losses compared to $700 thousand and $4.2 million for the three and nine months ended September 30, 2015, respectively. Net recoveries were $824 thousand in the first nine months of 2016 compared to net recoveries of $1.2 million in the first nine months of 2015. Overall, the allowance for loan losses (which excludes the allowance for unfunded commitments) was 0.89% of loans held for investment at both September 30, 2016 and September 30, 2015. Excluding loans acquired through business combinations, the allowance for loan losses was 1.05% of loans held for investment at September 30, 2016 compared to 1.11% at September 30, 2015. Nonperforming assets were $32.4 million, or 0.52% of total assets at September 30, 2016, compared to $27.7 million, or 0.56% of total assets at September 30, 2015.

Commercial and Consumer Banking segment noninterest expense was $32.2 million for the third quarter of 2016, an increase of $4.1 million, or 14.4%, from $28.1 million for the third quarter of 2015. For the nine months ended September 30, 2016, segment noninterest expense was $102.9 million, an increase of $9.8 million, or 10.6%, from $93.1 million for the nine months ended September 30, 2015. The increase in noninterest expense was primarily due to the organic growth of our commercial real estate and commercial business lending units and the expansion of our branch banking network. Over the past 12 months, we added nine retail deposit branches, five de novo and four from acquisitions, and increased the segment's headcount by 17.5%. During the same period, the commercial and consumer banking segment further expanded its commercial lending business with the opening of four new stand-alone commercial lending centers.

Mortgage Banking Segment Results

Mortgage Banking segment net income for the three and nine months ended September 30, 2016 and 2015 was $17.6 million and $37.1 million, respectively, compared to and $3.2 million and $23.0 million for the three and nine months ended September 30, 2015, respectively. The increase in net income is primarily due to higher gain on single family mortgage loan origination and sale activities resulting from higher interest rate lock commitments, partially offset by higher noninterest expense resulting from continued growth and expansion of our mortgage banking segment and increased costs resulting from new regulatory disclosure requirements for the mortgage industry.

Mortgage Banking noninterest income for the three and nine months ended September 30, 2016 was $102.0 million and $263.3 million, respectively, compared to $60.6 million and $195.2 million for the three and nine months ended September 30, 2015, respectively, primarily due to higher gain on single family mortgage loan origination and sale activities and higher mortgage servicing income.

Mortgage Banking noninterest expense for the three and nine months ended September 30, 2016 was $82.2 million and $223.9 million, respectively, compared to $63.9 million and $180.8 million for the three and nine months ended September 30, 2015, respectively, primarily due to increased commissions, salary, insurance, and benefit costs on higher closed loan volume, the continued expansion of offices in new markets, and increased costs resulting from new regulatory disclosure requirements for the mortgage industry. We added six home loan centers and increased the segment's headcount by 14.7% during the past twelve months.

Regulatory Matters

The Company's Tier 1 leverage and total risk-based capital ratios at September 30, 2016 were 9.52% and 12.25%, respectively. The Company and the Bank 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, 2016 were 9.91% and 14.41%, respectively. The Company's Tier 1 leverage and total risk-based capital ratios at December 31, 2015 were 9.95% and 12.70%, respectively.
At December 31, 2015, the Bank's Tier 1 leverage and total risk-based capital ratios were 9.46% and 13.92%.

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. Certain 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
- Business Combinations

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 2015 Annual Report on Form 10-K.

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,					
	2016			2015		
(in thousands)	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets:						
Interest-earning assets: [1]						
Cash and cash equivalents	$39,069	$104	1.06 %	$27,725	$13	0.18 %
Investment securities	981,223	6,363	2.59 %	539,330	3,453	2.54 %
Loans held for sale	902,574	8,201	3.63 %	851,878	8,394	3.91 %
Loans held for investment	3,770,133	41,580	4.38 %	2,975,624	32,727	4.36 %
Total interest-earning assets	5,692,999	56,248	3.93 %	4,394,557	44,587	4.03 %
Noninterest-earning assets [2]	490,242			423,048		
Total assets	$6,183,241			$4,817,605		
Liabilities and shareholders' equity:						
Deposits:						
Interest-bearing demand accounts	$458,660	$484	0.42 %	$404,874	$495	0.49 %
Savings accounts	300,831	261	0.35 %	299,135	258	0.34 %
Money market accounts	1,443,111	2,064	0.57 %	1,126,119	1,268	0.45 %
Certificate accounts	1,140,737	2,669	0.93 %	743,384	1,101	0.59 %
Total interest-bearing deposits	3,343,339	5,478	0.65 %	2,573,512	3,122	0.48 %
Federal Home Loan Bank advances	988,358	1,605	0.65 %	887,711	958	0.43 %
Federal funds purchased and securities sold under agreements to repurchase	2,242	5	0.85 %	—	—	— %
Long-term debt	125,274	1,440	4.57 %	61,857	278	1.78 %
Total interest-bearing liabilities	4,459,213	8,528	0.76 %	3,523,080	4,358	0.49 %
Noninterest-bearing liabilities	1,135,693			834,036		
Total liabilities	5,594,906			4,357,116		
Shareholders' equity	588,335			460,489		
Total liabilities and shareholders' equity	$6,183,241			$4,817,605		
Net interest income [3]		$47,720			$40,229	
Net interest spread			3.17 %			3.54 %
Impact of noninterest-bearing sources			0.17 %			0.13 %
Net interest margin			3.34 %			3.67 %

(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 $918 thousand and $595 thousand for the three months ended September 30, 2016 and 2015, respectively. The estimated federal statutory tax rate was 35% for the periods presented.

(in thousands)	Nine Months Ended September 30, 2016 Average Balance	Interest	Average Yield/Cost		2015 Average Balance	Interest	Average Yield/Cost	
Assets:								
Interest-earning assets: [1]								
Cash and cash equivalents	$38,893	$175	0.60	%	$37,719	$55	0.19	%
Investment securities	791,749	14,805	2.48	%	503,280	10,355	2.74	%
Loans held for sale	724,592	20,252	3.75	%	769,153	22,010	3.81	%
Loans held for investment	3,616,222	119,586	4.39	%	2,738,085	89,786	4.37	%
Total interest-earning assets	5,171,456	154,818	3.99	%	4,048,237	122,206	4.02	%
Noninterest-earning assets [2]	448,172				389,691			
Total assets	$5,619,628				$4,437,928			
Liabilities and shareholders' equity:								
Deposits:								
Interest-bearing demand accounts	$444,782	$1,465	0.44	%	$283,523	$1,004	0.46	%
Savings accounts	299,763	777	0.35	%	281,212	800	0.39	%
Money market accounts	1,308,760	5,021	0.51	%	1,113,001	3,643	0.44	%
Certificate accounts	997,974	6,374	0.84	%	792,285	3,313	0.56	%
Total interest-bearing deposits	3,051,279	13,637	0.59	%	2,470,021	8,760	0.47	%
Federal Home Loan Bank advances	944,020	4,486	0.63	%	730,519	2,477	0.46	%
Federal funds purchased and securities sold under agreements to repurchase	753	5	0.28	%	15,204	28	0.16	%
Long-term debt	92,964	2,573	3.40	%	61,857	814	1.76	%
Total interest-bearing liabilities	4,089,016	20,701	0.67	%	3,277,601	12,079	0.49	%
Noninterest-bearing liabilities	981,370				731,256			
Total liabilities	5,070,386				4,008,857			
Shareholders' equity	549,242				429,071			
Total liabilities and shareholders' equity	$5,619,628				$4,437,928			
Net interest income [3]		$134,117				$110,127		
Net interest spread			3.32	%			3.53	%
Impact of noninterest-bearing sources			0.14	%			0.10	%
Net interest margin			3.46	%			3.63	%

(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 $2.1 million and $1.5 million for the nine months ended September 30, 2016 and 2015, respectively. The estimated federal statutory tax rate was 35% for the periods presented.

Interest on Nonaccrual Loans

Interest income does not include interest earned on loans that have been placed on nonaccrual status. When we place a loan on nonaccrual status, we reverse the accrued but unpaid interest, reducing interest income and we stop amortizing any net deferred fees. 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 $541 thousand and $488 thousand for the three months ended September 30, 2016 and 2015, respectively and $1.7 million and $1.8 million for the nine months ended September 30, 2016 and 2015, respectively.

Net Income

For the three months ended September 30, 2016, net income was $27.7 million, an increase of $17.7 million or 178.1% from $10.0 million for the three months ended September 30, 2015. For the nine months ended September 30, 2016, net income was $55.9 million, an increase of $23.2 million, or 71%, from $32.6 million for the nine months ended September 30, 2015. Included in net income for the three and nine months ended September 30, 2016 were acquisition-related expenses, net of tax, of $333 thousand and $4.4 million, respectively. Included in net income for the three and nine months ended September 30, 2015 were acquisition-related expenses, net of tax, of $284 thousand and $10.3 million, respectively, partially offset by a bargain purchase gain of $796 thousand and $7.3 million for the three and nine months ended September 30, 2015, 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 senior 6.5% notes due 2026, our outstanding trust preferred securities and advances from the Federal Home Loan Bank of Des Moines and the Federal Home Loan Bank of San Francisco ("FHLB").

Net interest income on a tax equivalent basis for the third quarter of 2016 increased $7.5 million, or 18.6%, from the third quarter of 2015. For the nine months ended September 30, 2016, net interest income was $134.1 million, an increase of $24.0 million, or 21.8%, from $110.1 million for the nine months ended September 30, 2015. The net interest margin for the third quarter of 2016 decreased to 3.34% from 3.67% for the third quarter of 2015. For the nine months ended September 30, 2016, the net interest margin decreased to 3.46% from 3.63% for the nine months ended September 30, 2015. These decreases were due primarily to asset mix shifts reflecting growth in lower yielding investment securities and loans held for sale and to higher cost of funds primarily related to our long-term debt issuance in 2016, certificates of deposit and FHLB borrowings.

Total average interest-earning assets increased 29.5% and 27.7% from the three and nine months ended September 30, 2015, respectively, primarily as a result of growth in average loans held for investment, both organically and through acquisition activities. Additionally, our average balance of investment securities grew from prior periods as part of the strategic growth of the Company.

Total interest income on a tax equivalent basis in the third quarter of 2016 increased $11.7 million, or 26.2%, from $44.6 million in the third quarter of 2015. For the nine months ended September 30, 2016, interest income increased $32.6 million, or 26.7%, from $122.2 million for the nine months ended September 30, 2015. These increases were primarily the result of higher average balances of loans held for investment.

Total interest expense in the third quarter of 2016 increased $4.2 million, or 95.7% from $4.4 million in the third quarter of 2015. For the nine months ended September 30, 2016, interest expense increased $8.6 million, or 71.4%, from $12.1 million for the nine months ended September 30, 2015. These increases were primarily the result of higher average balances of interest-bearing deposits, FHLB advances and interest in our $65.0 million in senior debt issued in May 2016.

Provision for Credit Losses

We recorded a provision for credit losses of $1.3 million for third quarter of 2016 compared to a provision of $700 thousand for the third quarter of 2015, an increase of 85.7% . For the nine months ended September 30, 2016, provision for credit losses was $3.8 million compared to a provision of $4.2 million during the same period in 2015, a decrease of 9.5%.

Nonaccrual loans were $25.9 million at September 30, 2016, an increase of $8.8 million, or 51.0%, from $17.2 million at December 31, 2015. Nonaccrual loans as a percentage of total loans increased to 0.68% at September 30, 2016 from 0.53% at December 31, 2015.

Net charge-offs were $18 thousand in the third quarter of 2016 compared to net recoveries of $739 thousand in the third quarter of 2015. For the nine months ended September 30, 2016, net recoveries were $824 thousand compared to net recoveries of $1.2 million during the same period in 2015. 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 consisted of the following.

(in thousands)	Three Months Ended September 30, 2016	2015	Dollar Change	Percent Change	Nine Months Ended September 30, 2016	2015	Dollar Change	Percent Change
Noninterest income								
Gain on mortgage loan origination and sale activities [(1)]	$92,600	$57,885	$34,715	60 %	$239,493	$189,746	$49,747	26 %
Mortgage servicing income	14,544	4,768	9,776	205	35,855	10,896	24,959	229
Income from WMS Series LLC	1,174	380	794	209	2,474	1,428	1,046	73
Depositor and other retail banking fees	1,744	1,701	43	3	4,991	4,239	752	18
Insurance agency commissions	441	477	(36)	(8)	1,205	1,183	22	2
Gain on sale of investment securities available for sale	48	1,002	(954)	(95)	145	1,002	(857)	(86)
Bargain purchase gain	—	796	(796)	NM	—	7,345	(7,345)	NM
Other	1,194	459	735	160	1,766	(11)	1,777	NM
Total noninterest income	$111,745	$67,468	$44,277	66 %	$285,929	$215,828	$70,101	32 %

NM = not meaningful

(1) Single family and multifamily mortgage banking activities.

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 highly sensitive to changes in mortgage interest rates, as well as to general economic conditions such as employment trends and housing supply and affordability. The increase in noninterest income in the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015 was primarily the result of higher gain on mortgage loan origination and sale activities and higher mortgage servicing income.

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

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

(in thousands)	Three Months Ended September 30, 2016	2015	Dollar Change	Percent Change	Nine Months Ended September 30, 2016	2015	Dollar Change	Percent Change
Single family held for sale:								
Servicing value and secondary market gains[1]	$79,946	$49,613	$30,333	61 %	$207,758	$167,786	$39,972	24 %
Loan origination and funding fees	8,931	6,362	2,569	40	21,614	16,452	5,162	31
Total single family held for sale	88,877	55,975	32,902	59	229,372	184,238	45,134	24
Multifamily DUS	2,695	1,488	1,207	81	7,879	4,741	3,138	66
Other [2]	1,028	422	606	144	2,242	767	1,475	192
Gain on mortgage loan origination and sale activities	$92,600	$57,885	$34,715	60 %	$239,493	$189,746	$49,747	26 %

(1) Comprised of gains and losses on interest rate lock and purchase loan 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 multifamily loans from sources other than DUS.

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

(in thousands)	Three Months Ended September 30, 2016	2015	Dollar Change	Percent Change	Nine Months Ended September 30, 2016	2015	Dollar Change	Percent Change
Single family mortgage closed loan volume [1]	$2,647,943	$1,934,151	$713,792	37 %	$6,482,690	$5,563,700	$918,990	17 %
Single family mortgage interest rate lock commitments [1]	$2,689,640	$1,806,767	$882,873	49 %	$6,855,034	$5,590,960	$1,264,074	23 %

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

The increase in gain on mortgage loan origination and sale activities in the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015 reflected higher single family mortgage interest rate lock commitments. We continue to expand our mortgage lending network with new lending offices and growing production personnel by 13.7% at September 30, 2016 compared to September 30, 2015.

The Company records a liability for estimated mortgage repurchase losses, which has the effect of reducing 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 gain on mortgage loan origination and sale activities. For further information on the Company's mortgage repurchase liability, see Note 9, Commitments, Guarantees and Contingencies, to the financial statements in this Form 10-Q.

(in thousands)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015

Effect of changes to the mortgage repurchase liability recorded in gain on mortgage loan origination and sale activities:				
New loan sales [1]	$(1,066)	$(883)	$(2,520)	$(2,052)
Other changes in estimated repurchase losses[2]	571	—	1,113	—
	$(495)	$(883)	$(1,407)	$(2,052)

(1) Represents the estimated fair value of the repurchase or indemnity obligation recognized as a reduction of proceeds on new loan sales.
(2) Represents changes in estimated probable future repurchase losses on previously sold loans.

70

Mortgage servicing income consisted of the following.

(in thousands)	Three Months Ended September 30, 2016	2015	Dollar Change	Percent Change	Nine Months Ended September 30, 2016	2015	Dollar Change	Percent Change
Servicing income, net:								
Servicing fees and other	$16,053	$11,136	$4,917	44 %	$41,985	$30,256	$11,729	39 %
Changes in fair value of MSRs due to modeled amortization [1]	(8,925)	(8,478)	(447)	5	(23,940)	(26,725)	2,785	(10)
Amortization of multifamily MSRs	(661)	(511)	(150)	29	(1,946)	(1,441)	(505)	35
	6,467	2,147	4,320	201	16,099	2,090	14,009	670
Risk management:								
Changes in fair value of MSRs due to changes in market inputs and/or model updates [2]	4,915	(19,396)	24,311	(125)	(37,354)	(8,224)	(29,130)	354
Net gain (loss) from derivatives economically hedging MSRs	3,162	22,017	(18,855)	(86)	57,110	17,030	40,080	235
	8,077	2,621	5,456	208	19,756	8,806	10,950	124
Mortgage servicing income	$14,544	$4,768	$9,776	205 %	$35,855	$10,896	$24,959	229 %

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

(2) Principally reflects changes in market inputs, which include current market interest rates and prepayment model updates, both of which affect future prepayment speed and cash flow projections.

The increase in mortgage servicing income for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 was primarily attributable to higher servicing income and improved risk management results. The higher servicing income was primarily attributable to higher servicing fees on higher average balance of loans serviced for others. The increase in risk management results was primarily attributable to an improved hedge performance.

The increase in mortgage servicing income for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was primarily attributable to higher servicing income and improved risk management results. The higher servicing income was primarily attributed to higher servicing fees on higher average balances of loans serviced for others and lower modeled amortization. The improved risk management result was primarily due to improves hedge performance and the impact of certain prepayment model refinements. By comparison, there was no material adjustments to the prepayment model in the nine months ended September 30, 2015.

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, prepayment model assumption adjustments, the level of home sales activity, changes to mortgage spreads, valuation discount rates, costs to service and policy changes by U.S. government agencies.

Mortgage servicing fees collected in the three and nine months ended September 30, 2016 increased compared to the three and nine months ended September 30, 2015 primarily as a result of higher average balances of loans serviced for others during the year. Our loans serviced for others portfolio was $19.32 billion at September 30, 2016 compared to $15.22 billion at September 30, 2015.

Income from WMS Series LLC increased in the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015 primarily due to an increase in interest rate lock commitments. For the third quarter of 2016, interest rate lock commitments of $210.7 million increased 35.9% from $155.1 million for the same period in 2015. For the first nine months of 2016, interest rate lock commitments of $526.2 million increased 12.4% from $468.2 million for the same period in 2015.

Depositor and other retail banking fees for the three and nine months ended September 30, 2016 increased from the three and nine months ended September 30, 2015 primarily due to an increase in the number of transaction accounts as we grew our retail deposit branch network both organically and through acquisition activities. The following table presents the composition of depositor and other retail banking fees for the periods indicated.

(in thousands)	Three Months Ended September 30, 2016	2015	Dollar Change	Percent Change	Nine Months Ended September 30, 2016	2015	Dollar Change	Percent Change
Fees:								
Monthly maintenance and deposit-related fees	$763	$721	$ 42	6 %	$2,135	$1,931	$ 204	11 %
Debit Card/ATM fees	960	954	6	1	2,796	2,242	554	25
Other fees	21	26	(5)	(19)	60	66	(6)	(9)
Total depositor and other retail banking fees	$1,744	$1,701	$ 43	3 %	$4,991	$4,239	$ 752	18 %

Noninterest Expense

Noninterest expense consisted of the following.

(in thousands)	Three Months Ended September 30, 2016	2015	Dollar Change	Percent Change	Nine Months Ended September 30, 2016	2015	Dollar Change	Percent Change
Noninterest expense								
Salaries and related costs	$79,164	$60,991	$18,173	30 %	$221,615	$180,238	$41,377	23 %
General and administrative	14,949	14,342	607	4	47,210	41,122	6,088	15
Amortization of core deposit intangibles	579	527	52	10	1,636	1,410	226	16
Legal	639	868	(229)	(26)	1,687	1,912	(225)	(12)
Consulting	1,390	166	1,224	737	4,239	6,544	(2,305)	(35)
Federal Deposit Insurance Corporation assessments	919	504	415	82	2,419	1,890	529	28
Occupancy	7,740	6,077	1,663	27	22,408	18,024	4,384	24
Information services	7,876	8,159	(283)	(3)	23,857	21,993	1,864	8
Net cost of operation and sale of other real estate owned	1,143	392	751	192	1,712	710	1,002	141
Total noninterest expense	$114,399	$92,026	$22,373	24 %	$326,783	$273,843	$52,940	19 %

The following table shows the acquisition-related expenses impacting the components of noninterest expense.

(in thousands)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Noninterest expense				
Salaries and related costs	$6	$(7)	$4,128	$7,669

General and administrative	35	7	500	1,256
Legal	63	179	110	530
Consulting	280	(212)	1,296	5,539
Occupancy	7	(48)	132	335
Information services	121	518	569	481
Total noninterest expense	$512	$437	$6,735	$15,810

The increase in noninterest expense in the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015 was primarily due to increased commissions on higher closed loan volume, salaries and related costs, general and administrative costs, occupancy and information services costs, primarily a result of the growth in personnel in connection with our expansion of our commercial and consumer and mortgage banking businesses, both organically and through acquisition-related activities.

Income Tax Expense

For the third quarter of 2016, income tax expense was $15.2 million with an effective tax rate of 35.4% (including discrete items), compared to an expense of $4.4 million for the third quarter of 2015. For the first nine months of 2016, income tax expense was $31.5 million with an effective tax rate of 36.1% (including discrete items), compared to an expense of $13.7 million for the first nine months of 2015.
Our effective income tax rate for the third quarter of 2016 differs from the Federal statutory tax rate of 35% primarily due to the impact of state income taxes, tax-exempt interest income, and low-income housing tax credit investments.

Review of Financial Condition – Comparison of September 30, 2016 to December 31, 2015

Total assets were $6.23 billion at September 30, 2016 and $4.89 billion at December 31, 2015, an increase of $1.33 billion, or 27.2%. The OCBB merger added $188.5 million of acquired assets and $8.3 million of goodwill to our balance sheet in the first quarter of 2016. Additionally, through the acquisition of two branches from TBOO, we added $41.6 million of assets acquired to the balance sheet in the third quarter of 2016.

Cash and cash equivalents were $56.0 million at September 30, 2016 compared to $32.7 million at December 31, 2015, an increase of $23.3 million, or 71.3%.

Investment securities were $991.3 million at September 30, 2016 compared to $572.2 million at December 31, 2015, an increase of $419.2 million, or 73.3%, primarily resulting from the investment of the net proceeds of the May 2016 issuance of senior notes in our securities portfolio pending future loan growth.

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 characterized securities having a carrying value of $42.3 million at September 30, 2016 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, 2016		At December 31, 2015	
(in thousands)	Fair Value	Percent	Fair Value	Percent
Investment securities available for sale:				
Mortgage-backed securities:				
Residential	$152,236	16 %	$68,101	13 %
Commercial	27,208	3	17,851	3
Municipal bonds	355,344	37	171,869	32
Collateralized mortgage obligations:				
Residential	182,833	19	84,497	16
Commercial	120,259	13	79,133	15
Corporate debt securities	85,191	9	78,736	14
U.S. Treasury securities	26,004	3	40,964	7

Total investment securities available for sale	$949,075	100 %	$541,151	100 %

Loans held for sale were $893.5 million at September 30, 2016 compared to $650.2 million at December 31, 2015, an increase of $243.4 million, or 37.4%. 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 increased mortgage production levels.

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

(in thousands)	At September 30, 2016 Amount	Percent	At December 31, 2015 Amount	Percent
Consumer loans:				
Single family [(1)]	$1,186,476	31.3 %	$1,203,180	37.3 %
Home equity and other	338,155	8.9	256,373	8.0
	1,524,631	40.3	1,459,553	45.3
Commercial loans:				
Commercial real estate [(2)]	810,346	21.3	600,703	18.6
Multifamily	562,272	14.8	426,557	13.2
Construction/ land development	661,813	17.4	583,160	18.1
Commercial business	237,117	6.2	154,262	4.8
	2,271,548	59.7	1,764,682	54.7
	3,796,179	100.0%	3,224,235	100.0%
Net deferred loan fees and costs	1,974		(2,237)	
	3,798,153		3,221,998	
Allowance for loan losses	(33,975)		(29,278)	
	$3,764,178		$3,192,720	

(1) Includes $20.5 million and $21.5 million at September 30, 2016 and December 31, 2015, respectively, 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.

(2) September 30, 2016 and December 31, 2015 balances comprised of $278.3 million and $154.9 million of owner-occupied loans, respectively, and $532.0 million and $445.8 million of non-owner-occupied loans, respectively.

Loans held for investment, net increased $571.5 million, or 17.9%, from December 31, 2015. Our commercial real estate loan portfolio increased $209.6 million, or 34.9%, from December 31, 2015. Our multifamily loan portfolio increased $135.7 million, or 31.8%, during the same period, primarily as a result of the growth of our commercial and consumer banking segment, both organically and through acquisitions. Our construction loans, including commercial construction and residential construction, increased $78.7 million from December 31, 2015, primarily from new originations in our commercial real estate and residential construction lending business.

Mortgage servicing rights were $167.5 million at September 30, 2016 compared to $171.3 million at December 31, 2015, a decrease of $3.8 million, or 2.2%, primarily due to the higher projected prepayment speeds due to the decline of market interest rates, partially offset by the higher average loan balance serviced for others and model assumption adjustments.

Federal Home Loan Bank stock was $39.8 million at September 30, 2016 compared to $44.3 million at December 31, 2015, a decrease of $4.6 million, or 10.3%. FHLB stock is carried at par value and can only be purchased or redeemed at par value in transactions between the FHLB and its member institutions. Both cash and stock dividends received on FHLB stock are reported in earnings.

Other assets were $215.0 million at September 30, 2016, compared to $148.4 million at December 31, 2015, an increase of $66.6 million, or 44.9%, primarily attributable to overall company growth and an increase in derivative assets.

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, 2016		At December 31, 2015	
	Amount	Percent	Amount	Percent
Noninterest-bearing accounts - checking and savings	$499,106	11.1 %	$370,523	11.5 %
Interest-bearing transaction and savings deposits:				
NOW accounts	501,370	11.1	408,477	12.6
Statement savings accounts due on demand	303,872	6.7	292,092	9.0
Money market accounts due on demand	1,513,547	33.6	1,155,464	35.8
Total interest-bearing transaction and savings deposits	2,318,789	51.5	1,856,033	57.4
Total transaction and savings deposits	2,817,895	62.5	2,226,556	68.9
Certificates of deposit	1,097,263	24.4	732,892	22.7
Noninterest-bearing accounts - other	589,402	13.1	272,505	8.4
Total deposits	$4,504,560	100.0%	$3,231,953	100.0%

Deposits at September 30, 2016 increased $1.27 billion, or 39.4%, from December 31, 2015. During the first nine months of 2016, transaction and savings deposits increased by $591.3 million, or 26.6%, reflecting the growth and expansion of our branch banking network. The $364.4 million, or 49.7%, increase in certificates of deposit since December 31, 2015 was due in part to a $123.3 million increase in brokered deposits. Additionally, in 2016, we added $126.5 million of deposits from the OCBB merger and $48.1 million from the TBOO acquisition. The $316.9 million, or 116.3%, increase in deposits in other noninterest-bearing accounts is primarily related to insurance and property tax escrow deposits and loan payoff funds received that have not yet been remitted to investors stemming from elevated refinance activity. At September 30, 2016, brokered deposits represented 5.41% of total deposits, as compared to 3.72% of total deposits at December 31, 2015.

The aggregate amount of time deposits in denominations of $100 thousand or more at September 30, 2016 and December 31, 2015 was $523.4 million and $290.1 million, respectively. The aggregate amount of time deposits in denominations of more than $250 thousand at September 30, 2016 and December 31, 2015 was $78.1 million and $81.7 million, respectively. There were $243.6 million and $120.3 million of brokered deposits at September 30, 2016 and December 31, 2015, respectively.

Federal Home Loan Bank advances were $858.9 million at September 30, 2016 compared to $1.02 billion at December 31, 2015. We use these borrowings to primarily fund our mortgage banking and securities investment activities. We effectively used short term funding to lower the cost of funds and manage the sensitivity of our net portfolio value and net interest income which mitigated the impact of changes in interest rates.

Shareholders’ Equity

Shareholders' equity was $586.0 million at September 30, 2016 compared to $465.3 million at December 31, 2015. This increase included additional paid in capital from issuance of common stock of $53.2 million mostly related to the issuance of HomeStreet common stock to OCBB shareholders, net income of $55.9 million and other comprehensive income of $10.4 million recognized during the nine months ended September 30, 2016. Other comprehensive income represents unrealized gains and losses in the valuation of our investment securities portfolio at September 30, 2016.

Shareholders’ equity, on a per share basis, was $23.60 per share at September 30, 2016, compared to $21.08 per share at December 31, 2015.

75

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,	
	2016	2015	2016	2015
Return on assets (1)	1.79 %	0.83%	1.33 %	0.98 %
Return on equity (2)	18.83%	8.65%	13.56%	10.14%
Equity to assets ratio (3)	9.51 %	9.56%	9.77 %	9.67 %

(1) Net income (annualized) divided by average total assets.
(2) Net earnings available to common shareholders (annualized) divided by average common shareholders' equity.
(3) Average equity divided by average total assets.

Business Segments

Our 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.

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 2016, we expanded into Texas with the opening of a commercial real estate lending office. During the first quarter of 2015, we launched HomeStreet Commercial Capital as a division of HomeStreet Bank, an Orange County, California-based commercial real estate lending group originating permanent loans primarily up to $10 million in size, a portion of which we intend to pool and sell into the secondary market. We also added a team specializing in U.S. Small Business Administration ("SBA") lending also located in Orange County, California. At September 30, 2016, our retail deposit branch network consists of 51 branches in the Pacific Northwest, California and Hawaii. At September 30, 2016 and December 31, 2015, our transaction and savings deposits totaled $2.82 billion and $2.23 billion, respectively, and our loan portfolio totaled $3.76 billion and $3.19 billion, respectively. This segment is also responsible for the management of our investment securities portfolio.

Commercial and Consumer Banking segment results are detailed below.

(in thousands)	Three Months Ended September 30, 2016	2015	Dollar Change	Percent Change	Nine Months Ended September 30, 2016	2015	Dollar Change	Percent Change
Net interest income	$39,339	$31,509	$7,830	25 %	$113,378	$87,261	$26,117	30 %
Provision for credit losses	1,250	700	550	79	3,750	4,200	(450)	(11)
Noninterest income	9,771	6,884	2,887	42	22,595	20,589	2,006	10
Noninterest expense	32,170	28,110	4,060	14	102,903	93,056	9,847	11
Income before income tax expense	15,690	9,583	6,107	64	29,320	10,594	18,726	177
Income tax expense	5,557	2,783	2,774	100	10,566	954	9,612	1,008
Net income	$10,133	$6,800	$3,333	49 %	$18,754	$9,640	$9,114	95 %
Total assets	$5,122,702	$3,885,821	$1,236,881	32 %	$5,122,702	$3,885,821	$1,236,881	32 %
Efficiency ratio (1)	65.51 %	73.22 %			75.68 %	86.28 %		
Full-time equivalent employees (ending)	948	807			948	807		
Net gain on loan origination and sale activities:								
Multifamily DUS	$2,695	$1,488	$1,207	81 %	$7,879	$4,741	3,138	66 %
Other (2)	1,028	422	606	144	2,242	767	1,475	192 %
	$3,723	$1,910	$1,813	95 %	$10,121	$5,508	4,613	84 %
Production volumes for sale to the secondary market:								
Loan originations								
Multifamily DUS	$45,497	$47,342	$(1,845)	(4)%	$231,126	$151,559	$79,567	52 %
Other (2)	2,913	—	2,913	NM	8,441	—	$8,441	NM
Loans sold								
Multifamily DUS	$58,484	$42,333	$16,151	38 %	$215,848	$140,965	$74,883	53 %
Other (2)	$50,255	$—	$50,255	NM	$82,068	$—	82,068	NM

NM = not meaningful

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

(2) Includes multifamily loans from sources other than DUS.

Commercial and Consumer Banking net income increased for the three and nine months ended September 30, 2016 primarily due to increased net interest income resulting from higher average balances of interest-earning assets and higher commercial net gain on loan origination and sale activities, partially offset by increased noninterest expense primarily resulting from the expansion of this segment.

The segment recorded a provision for credit losses of $1.3 million and $3.8 million, respectively, for the three and nine months ended September 30, 2016 compared to provision of $700 thousand and $4.2 million, respectively, for the three and nine months ended September 30, 2015.

Resulting from the growth of this segment, noninterest income increased for the three and nine months ended September 30, 2016 due to increases in net gain on loan origination and sale activities, mortgage servicing income and depositor and other retail banking fees. 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.

Noninterest expense increased primarily due to the growth of our commercial real estate and commercial business lending units and the expansion of our retail deposit banking network. During the first quarter of 2015, we added seven retail deposit branches in Southern California through our merger with Simplicity, and increased our 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. Over the past 12 months, we added nine retail deposit branches, five de novo and four from acquisitions, and increased the segment's headcount by 17.5%. Included in noninterest expense for the three and nine months ended September 30, 2016 was $512 thousand and $6.7 million, respectively, of acquisition-related costs. For the three and nine months ended September 30, 2015, such acquisition-related expenses related to the Simplicity merger were $437 thousand and $15.8 million, respectively.

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

(in thousands)	Three Months Ended September 30, 2016	2015	Dollar Change	Percent Change	Nine Months Ended September 30, 2016	2015	Dollar Change	Percent Change
Servicing income, net:								
Servicing fees and other	$3,425	$1,181	$2,244	190 %	$6,737	$3,202	$3,535	110 %
Amortization of multifamily MSRs	(661)	(511)	(150)	29	(1,946)	(1,441)	(505)	35
Commercial mortgage servicing income	$2,764	$670	$2,094	313 %	$4,791	$1,761	$3,030	172 %

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

(in thousands)	At September 30, 2016	At December 31, 2015
Multifamily DUS	$1,055,181	$924,367
Other	67,348	79,513
Total commercial loans serviced for others	$1,122,529	$1,003,880

Mortgage Banking Segment

Mortgage Banking originates single family residential mortgage loans primarily for sale in the secondary markets. 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. We have become a rated originator and servicer of jumbo loans, allowing us to sell these loans to other securitizers. Additionally, we purchase loans from WMS Series LLC through a correspondent arrangement with that company. 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. On occasion, we may sell a portion of our MSR portfolio. 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, 2016	2015	Dollar Change	Percent Change	Nine Months Ended September 30, 2016	2015	Dollar Change	Percent Change
Net interest income	$7,463	$8,125	$(662)	(8)%	$18,597	$21,337	$(2,740)	(13)%
Noninterest income	101,974	60,584	41,390	68	263,334	195,239	68,095	35
Noninterest expense	82,229	63,916	18,313	29	223,880	180,787	43,093	24
Income before income tax expense	27,208	4,793	22,415	468	58,051	35,789	22,262	62
Income tax expense	9,640	1,632	8,008	491	20,948	12,788	8,160	64
Net income	$17,568	$3,161	$14,407	456 %	$37,103	$23,001	$14,102	61 %
Total assets	$1,103,899	$1,089,832	$14,067	1 %	$1,103,899	1,089,832	$14,067	1 %
Efficiency ratio (1)	75.14 %	93.02 %			79.41 %	83.48 %		
Full-time equivalent employees (ending)	1,483	1,293			1,483	1,293		
Production volumes for sale to the secondary market:								
Single family mortgage closed loan volume (2)(3)	$2,647,943	$1,934,151	$713,792	37 %	$6,482,690	$5,563,700	$918,990	17 %
Single family mortgage interest rate lock commitments(2)	$2,689,640	$1,806,767	$882,873	49 %	6,855,034	5,590,960	$1,264,074	23 %
Single family mortgage loans sold(2)	$2,489,415	$1,965,223	$524,192	27 %	$6,134,390	$5,176,569	$957,821	19 %

(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.

The increase in Mortgage Banking net income for the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015 was primarily due to higher gain on single family mortgage loan origination and sale activities resulting from higher interest rate lock commitments, partially offset by higher noninterest expense resulting from continued growth and expansion of our mortgage banking segment and increased costs resulting from new regulatory disclosure requirements for the mortgage industry.

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

(in thousands)	Three Months Ended September 30, 2016	2015	Dollar Change	Percent Change	Nine Months Ended September 30, 2016	2015	Dollar Change	Percent Change
Single family: [1]								
Servicing value and secondary market gains[2]	$79,946	$49,613	$30,333	61 %	$207,758	$167,786	$39,972	24 %
Loan origination and funding fees	8,931	6,362	2,569	40	21,614	16,452	5,162	31
Total mortgage banking gain on mortgage loan origination and sale activities[1]	$88,877	$55,975	$32,902	59 %	$229,372	$184,238	$45,134	24 %

(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.

The increase in gain on mortgage loan origination and sale activities for the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015 is primarily the result of a 48.9% and 22.6% increase in interest rate lock commitments, respectively.

Mortgage Banking servicing income consisted of the following.

(in thousands)	Three Months Ended September 30, 2016	2015	Dollar Change	Percent Change	Nine Months Ended September 30, 2016	2015	Dollar Change	Percent Change
Servicing income, net:								
Servicing fees and other	$12,628	$9,955	$2,673	27 %	$35,248	$27,054	$8,194	30 %
Changes in fair value of MSRs due to modeled amortization [1]	(8,925)	(8,478)	(447)	5	(23,940)	(26,725)	2,785	(10)
	3,703	1,477	2,226	151	11,308	329	10,979	3,337
Risk management:								
Changes in fair value of MSRs due to changes in market inputs and/or model updates [2]	4,915	(19,396)	24,311	(125)	(37,354)	(8,224)	(29,130)	354
Net gain from derivatives economically hedging MSRs	3,162	22,017	(18,855)	(86)	57,110	17,030	40,080	235
	8,077	2,621	5,456	208	19,756	8,806	10,950	124
Mortgage Banking servicing income	$11,780	$4,098	$7,682	187 %	$31,064	$9,135	$21,929	240 %

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

(2) Principally reflects changes in market inputs, which include current market interest rates and prepayment model updates, both of which affect future prepayment speed and cash flow projections.

The increase in Mortgage Banking servicing income for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 was primarily attributable to higher servicing income and improved risk management results. The higher servicing income was primarily attributable to higher servicing fees on higher average balance of loans serviced for others. The increase in risk management results was primarily attributable to an improved hedge performance.

The increase in Mortgage Banking servicing income for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was primarily attributable to higher servicing income and improved risk management results. The higher servicing income was primarily attributed to higher servicing fees on higher average balances of loans serviced for others and lower modeled amortization was primarily attributable to higher servicing income and improved risk management results. The higher servicing income was primarily attributed to higher servicing fees on higher average balances of loans serviced for others and lower modeled amortization. The improved risk management result was primarily due to improves hedge performance and the impact of certain prepayment model refinements. By comparison, there were no material adjustments to the prepayment model in nine months ended September 30, 2015. Single family mortgage servicing fees collected increased for the three and nine months ended September 30, 2016 compared to three and nine months ended September 30, 2015 primarily due to higher average balances in our loans serviced for others portfolio.

Single family loans serviced for others consisted of the following.

(in thousands)	At September 30, 2016	At December 31, 2015
Single family		
U.S. government and agency	$ 17,593,901	$ 14,628,596
Other	605,139	719,215
Total single family loans serviced for others	$ 18,199,040	$ 15,347,811

Mortgage Banking noninterest expense for the three and nine months ended September 30, 2016 increased compared to the three and nine months ended September 30, 2015 primarily due to the continued expansion of offices in new markets and increases of our mortgage production and support staff along with related salary, insurance, and benefit costs as well as increased costs resulting from new regulatory disclosure requirements for the mortgage industry. Since September 30, 2015, we have increased our lending footprint by adding six home loan centers to bring our total home loan centers to 70.

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 2015 Annual Report on Form 10-K, as well as Note 13, Commitments, Guarantees and Contingencies in our 2015 Annual Report on Form 10-K and Note 9, 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 2015 Annual Report on Form 10-K.

Credit Risk Management

The following discussion highlights developments since December 31, 2015 and should be read in conjunction with the Credit Risk Management discussion within Part II, Item 7 Management's Discussion and Analysis in our 2015 Annual Report on Form 10-K.

Asset Quality and Nonperforming Assets

Nonperforming assets ("NPAs") were $32.4 million, or 0.52% of total assets at September 30, 2016, compared to $24.7 million, or 0.50% of total assets at December 31, 2015. Nonaccrual loans of $25.9 million, or 0.68% of total loans at September 30, 2016, increased $8.8 million, or 51%, from $17.2 million, or 0.53% of total loans at December 31, 2015. Net charge-offs for the three months ended September 30, 2016 were $18 thousand compared to net recoveries of $739 thousand for the three months ended September 30, 2015. Net recoveries during the nine months ended September 30, 2016 were $824 thousand compared with net recoveries of $1.2 million during the nine months ended September 30, 2015.

At September 30, 2016, our loans held for investment portfolio, net of the allowance for loan losses, was $3.76 billion, an increase of $571.5 million from December 31, 2015. In 2016, we added $125.8 million of loans to the portfolio from the OCBB merger and $40.3 million in loans from the acquisition of two branches from TBOO. The allowance for loan losses was $34.0 million, or 0.89% of loans held for investment, compared to $29.3 million, or 0.91% of loans held for investment at December 31, 2015.

The Company recorded a provision for credit losses of $1.3 million for the third quarter of 2016 compared to a provision of $700 thousand for the third quarter of 2015. For the nine months ended September 30, 2016, we recorded a provision for credit losses of $3.8 million compared to a provision of $4.2 million for the nine months ended September 30, 2015. Management considers the current level of the allowance for loan losses to be appropriate to cover estimated incurred losses inherent within our loans held for investment portfolio.

For information regarding the activity on our allowance for credit losses, which includes the reserves for unfunded commitments, and the amounts that were collectively and individually evaluated for impairment, see Note 4, Loans and Credit Quality to the financial statements of this Form 10-Q.

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 Management's Discussion and Analysis in our 2015 Annual Report on Form 10-K.

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, 2016 Recorded Investment	Unpaid Principal Balance (2)	Related Allowance
Impaired loans:			
Loans with no related allowance recorded	$89,953	$94,714	$ —
Loans with an allowance recorded	10,357	10,519	1,305
Total	$100,310 (1)	$105,233	$ 1,305

(in thousands)	At December 31, 2015 Recorded Investment	Unpaid Principal Balance (2)	Related Allowance
Impaired loans:			
Loans with no related allowance recorded	$90,547	$94,058	$ —
Loans with an allowance recorded	3,126	3,293	567
Total	$93,673 (1)	$97,351	$ 567

(1) Includes $77.5 million and $74.7 million in single family performing troubled debt restructurings ("TDRs") at September 30, 2016 and December 31, 2015, 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 298 impaired loans totaling $100.3 million at September 30, 2016 and 271 impaired loans totaling $93.7 million at December 31, 2015. Included in the total impaired loan amounts were 256 single family TDR loan relationships totaling $81.2 million at September 30, 2016 and 224 single family TDR loan relationships totaling $77.1 million at December 31, 2015. At September 30, 2016, there were 242 single family impaired loan relationships totaling $77.5 million that were performing per their current contractual terms. Additionally, the impaired loan balance included $37.1 million of loans insured by the FHA or guaranteed by the VA. The average recorded investment in these loans for the three and nine months ended September 30, 2016 was $97.0 million and $97.0 million, respectively, compared to $111.0 million and $114.6 million for the three and nine months ended September 30, 2015. Impaired loans of $10.4 million and $3.1 million had a valuation allowance of $1.3 million and $567 thousand at September 30, 2016 and December 31, 2015, 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 2015 Annual Report on Form
10-K.

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

	At September 30, 2016					At December 31, 2015				
(in thousands)	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 (1)	
Consumer loans										
Single family	$9,248	26.2	%	30.9	%	$8,942	29.2	%	36.9	%
Home equity and other	5,748	16.3		9.0		4,620	15.1		8.0	
	14,996	42.5		39.9		13,562	44.3		44.9	
Commercial loans										
Commercial real estate	6,125	17.4		21.5		4,847	15.8		18.8	
Multifamily	2,097	6.0		14.9		1,194	3.9		13.3	
Construction/land development	9,021	25.6		17.5		9,271	30.2		18.2	
Commercial business	2,994	8.5		6.2		1,785	5.8		4.8	
	20,237	57.5		60.1		17,097	55.7		55.1	
Total allowance for credit losses	$35,233	100.0	%	100.0	%	$30,659	100.0	%	100.0	%

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

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

	At September 30, 2016		
(in thousands)	Accrual	Nonaccrual	Total
Consumer			
Single family (1)	$77,487	$ 3,677	$81,164
Home equity and other	1,153	193	1,346
	78,640	3,870	82,510
Commercial			
Commercial real estate	—	960	960
Multifamily	508	—	508
Construction/land development	1,627	707	2,334
Commercial business	495	143	638
	2,630	1,810	4,440
	$81,270	$ 5,680	$86,950

(1) Includes loan balances insured by the FHA or guaranteed by the VA of $37.1 million at September 30, 2016.

(in thousands)	At December 31, 2015 Accrual	Nonaccrual	Total
Consumer			
Single family [1]	$74,685	$ 2,452	$77,137
Home equity and other	1,340	271	1,611
	76,025	2,723	78,748
Commercial			
Commercial real estate	—	1,023	1,023
Multifamily	3,014	—	3,014
Construction/land development	3,714	—	3,714
Commercial business	1,658	185	1,843
	8,386	1,208	9,594
	$84,411	$ 3,931	$88,342

(1) Includes loan balances insured by the FHA or guaranteed by the VA of $29.6 million at December 31, 2015.

The Company had 285 loan relationships classified as TDRs totaling $87.0 million at September 30, 2016 with no related unfunded commitments. The Company had 259 loan relationships classified as TDRs totaling $88.3 million at December 31, 2015 with no related unfunded commitments. 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, 2016 30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	90 Days or More Past Due and Accruing	Total Past Due Loans	Other Real Estate Owned
Consumer loans						
Single family	$9,108	$ 3,727	$ 14,277	$ 32,108 [1]	$59,220	$ 3,780
Home equity and other	385	144	1,563	—	2,092	—
	9,493	3,871	15,840	32,108	61,312	3,780
Commercial loans						
Commercial real estate	—	—	3,731	—	3,731	398
Multifamily	—	354	113	—	467	—
Construction/land development	—	—	1,376	—	1,376	2,262
Commercial business	—	—	4,861	—	4,861	—
	—	354	10,081	—	10,435	2,660
Total	$9,493	$ 4,225	$ 25,921	$ 32,108	$71,747	$ 6,440

(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, 2015 30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	90 Days or More Past Due and Accruing		Total Past Due Loans	Other Real Estate Owned
Consumer loans							
Single family	$7,098	$ 3,537	$ 12,119	$ 36,595	(1)	$59,349	$ 301
Home equity and other	1,095	398	1,576	—		3,069	—
	8,193	3,935	13,695	36,595		62,418	301
Commercial loans							
Commercial real estate	233	—	2,341	—		2,574	4,071
Multifamily	—	—	119	—		119	—
Construction/land development	77	—	339	—		416	3,159
Commercial business	—	—	674	17		691	—
	310	—	3,473	17		3,800	7,230
Total	$8,503	$ 3,935	$ 17,168	$ 36,612		$66,218	$ 7,531

(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.

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 1.15 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.

Liquidity and Capital Resources

Liquidity risk management is primarily intended to ensure we are able to maintain sources of cash to adequately 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. We have raised longer-term funds through the issuance of senior debt and trust preferred securities and also have an available line of credit from which we can borrow up to $20.0 million. 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 DUS portfolio. Additional uses are HomeStreet Capital's costs to purchase the servicing rights on new production from the Bank. Minimum liquidity 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 requirements.

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 and federal funds purchased. 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 Bank uses the primary liquidity ratio as a measure of liquidity. 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, 2016, our primary liquidity ratio was 32.4% compared to 25.4% at December 31, 2015.

At September 30, 2016 and December 31, 2015, the Bank had available borrowing capacity of $311.1 million and $320.4 million, respectively, from the FHLB, and $433.2 million and $382.1 million, respectively, from the Federal Reserve Bank of San Francisco.

Cash Flows

For the nine months ended September 30, 2016, cash and cash equivalents increased $23.3 million compared to an increase of $6.8 million for the nine months ended September 30, 2015. 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, 2016, net cash of $181.3 million was used in operating activities, as our net income was less than the net fair value adjustment and gain on sale of loans held for sale. 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, 2015, net cash of $233.4 million was used in operating activities, as our net income was less than the net amount of cash used to fund loans held for sale production and proceeds from the sale of loans held for sale.

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, 2016, net cash of $791.5 million was used in investing activities, primarily due to $497.2 million of cash used for the origination of portfolio loans and principal repayments and $468.9 million of cash used for the purchase of investment securities, partially offset by $81.0 million from proceeds from sale of loans originated as held for investment and $61.0 million from principal repayments and maturities of investment securities. 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.

Cash flows from financing activities

The Company's financing activities are primarily related to customer deposits and net proceeds from the FHLB. For nine months ended September 30, 2016, net cash of $996.1 million was provided by financing activities, primarily due to a $1.10 billion organic growth in deposits and net proceeds from the senior note offering, partially offset by $173.5 million from net repayments of FHLB advances. 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 organic growth in deposits.

Capital Management

In July 2013, federal banking regulators (including the FDIC and the FRB) adopted new capital rules (as used in this section, the “Rules”). The Rules apply to both depository institutions (such as the Bank) and their holding companies (such as the Company). The Rules reflect, in part, certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010 (which standards are commonly referred to as “Basel III”) as well as requirements contemplated by the Dodd-Frank Act. The Rules apply to both the Company and the Bank beginning in 2015.
The Rules recognize three components, or tiers, of capital: common equity Tier 1 capital, additional Tier 1 capital and Tier 2 capital. 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”); however, both the Company and the Bank exercised a one-time irrevocable option to exclude certain components of AOCI in 2015. Additional Tier 1 capital generally includes non-cumulative preferred stock and related surplus subject to certain

adjustments and limitations. Tier 2 capital generally includes certain capital instruments (such as subordinated debt) and portions of the amounts of the allowance for loan and lease losses, subject to certain requirements and deductions. The term “Tier 1 capital” means common equity Tier 1 capital plus additional Tier 1 capital, and the term “total capital” means Tier 1 capital plus Tier 2 capital.

The Rules generally measure an institution’s capital using four capital measures or ratios. The common equity Tier 1 capital ratio is the ratio of the institution’s common equity Tier 1 capital to its total risk-weighted assets. The Tier 1 capital ratio is the ratio of the institution’s total Tier 1 capital to its total risk-weighted assets. The total capital ratio is the ratio of the institution’s total capital to its total risk-weighted assets. The leverage ratio is the ratio of the institution’s Tier 1 capital to its average total consolidated assets. To determine risk-weighted assets, assets of an institution are generally placed into a risk category and given a percentage weight based on the relative risk of that category. The percentage weights range from 0% to 1,250%. An asset's risk-weighted value will generally be its percentage weight multiplied by the asset's value as determined under generally accepted accounting principles. In addition, certain off-balance-sheet items are converted to balance-sheet credit equivalent amounts, and each amount is then assigned to one of the risk categories. An institution's federal regulator may require the institution to hold more capital than would otherwise be required under the Rules if the regulator determines that the institution's capital requirements under the Rules are not commensurate with the institution's credit, market, operational or other risks.

To be classified as "well capitalized," both the Company and the Bank are required to have a common equity Tier 1 capital ratio of at least 6.5%, a Tier 1 risk-based ratio of at least 8.0%, a total risk-based ratio of at least 10.0% and a Tier 1 leverage ratio of at least 5.0%. In addition to the preceding requirements, all financial institutions subject to the Rules, including both the Company and the Bank, are required to establish a "conservation buffer" of common equity Tier 1 capital of at least 2.5% above the required 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 Rules set forth 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 affects the calculation of risk- based ratios. Higher or more sensitive risk weights are assigned to various categories of assets, including 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 is 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.

- 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.

Both the Company and the Bank were generally required to begin compliance with the Rules on January 1, 2015. The conservation buffer is being phased in beginning in 2016 and will take full effect on January 1, 2019. Certain calculations under the Rules will also have phase-in periods. We believe that the current capital levels of the Company and the Bank are in compliance with the standards under the Rules including the conservation buffer.

During the second quarter of 2016, the Company contributed a portion of the proceeds from the issuance of senior notes to the Bank, increasing the Bank's Tier 1 capital.

At September 30, 2016, 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 tables present regulatory capital information for HomeStreet, Inc. and HomeStreet Bank.

HomeStreet Bank	At September 30, 2016					
	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
Common equity risk-based capital (to risk-weighted assets)	604,757	13.61 %	199,913	4.5 %	288,764	6.5 %
Tier 1 risk-based capital (to risk-weighted assets)	604,757	13.61 %	266,551	6.0 %	355,401	8.0 %
Total risk-based capital (to risk-weighted assets)	$639,991	14.41 %	$355,401	8.0 %	$ 444,252	10.0 %
Tier 1 leverage capital (to average assets)	$604,757	9.91 %	$244,124	4.0 %	$ 305,155	5.0 %

HomeStreet, Inc.	At September 30, 2016					
	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
Common equity risk-based capital (to risk-weighted assets)	522,889	10.37 %	226,921	4.5 %	327,775	6.5 %
Tier 1 risk-based capital (to risk-weighted assets)	582,489	11.55 %	302,562	6.0 %	403,416	8.0 %
Total risk-based capital (to risk-weighted assets)	$617,723	12.25 %	$403,416	8.0 %	$ 504,270	10.0 %
Tier 1 leverage capital (to average assets)	$582,489	9.52 %	$244,788	4.0 %	$ 305,985	5.0 %

HomeStreet Bank	At December 31, 2015					
	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
Common equity risk-based capital (to risk-weighted assets)	455,101	13.04 %	157,074	4.5 %	226,885	6.5 %
Tier 1 risk-based capital (to risk-weighted assets)	455,101	13.04 %	209,432	6.0 %	279,243	8.0 %
Total risk-based capital (to risk-weighted assets)	$485,761	13.92 %	$279,243	8.0 %	$ 349,054	10.0 %
Tier 1 leverage capital (to average assets)	$455,101	9.46 %	$192,428	4.0 %	$ 240,536	5.0 %

HomeStreet, Inc.	At December 31, 2015					
	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
	423,005	10.52 %	180,912	4.5 %	261,317	6.5 %

Common equity risk-based capital (to risk-weighted assets)						
Tier 1 risk-based capital (to risk-weighted assets)	480,038	11.94%	241,216	6.0%	321,621	8.0 %
Total risk-based capital (to risk-weighted assets)	$510,697	12.70%	$321,621	8.0%	$ 402,026	10.0 %
Tier 1 leverage capital (to average assets)	$480,038	9.95 %	$193,025	4.0%	$ 241,281	5.0 %

90

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, 2015 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 2015 Annual Report on Form 10-K. Since December 31, 2015, 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 current 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 western United States, including Hawaii.

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; and
- 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 submission of the relevant policies to the board.

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 rates (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.

	September 30, 2016						
(dollars in thousands)	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
Interest-earning assets:							
Cash & cash equivalents	$55,998	$—	$—	$—	$—	$—	$—
FHLB Stock	—	—	—	—	—	39,783	—
Investment securities[1]	73,366	27,600	50,110	188,249	191,833	460,167	—
Mortgage loans held for sale	865,742	34	78	436	3,091	24,132	—
Loans held for investment[1]	1,115,768	220,722	460,884	899,715	485,799	581,290	—
Total interest-earning assets	2,110,874	248,356	511,072	1,088,400	680,723	1,105,372	—
Non-interest-earning assets	—	—	—	—	—	—	481,804
Total assets	$2,110,874	$248,356	$511,072	$1,088,400	$680,723	$1,105,372	$481,804
Interest-bearing liabilities:							
NOW accounts[2]	$501,370	$—	$—	$—	$—	$—	$—
Statement savings accounts[2]	303,872	—	—	—	—	—	—
Money market accounts[2]	1,513,547	—	—	—	—	—	—
Certificates of deposit	212,897	238,074	326,994	287,728	31,537	33	—
FHLB advances	801,833	—	—	51,500	—	5,590	—
Long-term debt[3]	60,122	—	—	—	—	65,000	—
Total interest-bearing liabilities	3,393,641	238,074	326,994	339,228	31,537	70,623	—
Non-interest bearing liabilities	—	—	—	—	—	—	1,240,476
Equity	—	—	—	—	—	—	586,028
Total liabilities and shareholders' equity	$3,393,641	$238,074	$326,994	$339,228	$31,537	$70,623	$1,826,504
Interest sensitivity gap	(1,282,767)	10,282	184,078	749,172	649,186	1,034,749	
Cumulative interest sensitivity gap	$(1,282,767)	$(1,272,485)	$(1,088,407)	$(339,235)	$309,951	$1,344,700	
Cumulative interest sensitivity gap as a	(21)%	(20)%	(17)%	(5)%	5 %	22 %	

percentage of total assets												
Cumulative interest-earning assets as a percentage of cumulative interest-bearing liabilities	62	%	65	%	73	%	92	%	107	%	131	%

(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, 2016 and December 31, 2015 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, 2016		December 31, 2015	
Change in Interest Rates	Percentage Change			
(basis points) [1]	Net Interest Income [2]	Net Portfolio Value [3]	Net Interest Income [1]	Net Portfolio Value [2]
+200	0.0 %	(1.3)%	(5.1)%	(10.0)%
+100	(0.2)	2.0	(2.6)	(2.4)
-100	(1.4)	(11.1)	0.1	(8.3)
-200	(3.6)%	(19.6)%	(4.4)%	(19.4)%

(1) For purposes of our model, we assume interest rates will not go below zero. This "floor" limits the effect of a potential negative interest rate shock in a low rate environment like the one we are currently experiencing.

(2) 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.

(3) 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, 2016, 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, 2015, 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 lower market interest rates and changes to overall balance sheet composition. It is expected that, as interest rates change, net interest income will only be slightly impacted regardless of the direction of interest rate movement. Some of the assumptions made in the simulation model may not materialize and unanticipated events and circumstances will occur. Modeling results in extreme interest rate decline scenarios may encounter negative rate assumptions which may cause the results to be inherently unreliable. 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

Evaluation of 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, 2016.

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, 2016 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, 2016 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.

Risks Related to Our Operations

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

Since our initial public offering ("IPO") in February 2012, we have pursued targeted and opportunistic growth which has included four whole-bank acquisitions - Fortune Bank and Yakima National Bank in November 2013, Simplicity Bank in March 2015, and Orange County Business Bank in February 2016 - along with five branch acquisitions in that same period. We have also entered into an agreement to acquire two additional branches, which we expect will close in November 2016, subject to certain closing conditions and other external factors that may impact our ability to close that transaction in a timely manner or at all. These acquisitions represent both significant operational growth and a substantial geographic expansion of our commercial and consumer banking operations. Simultaneously with this growth of our banking operations through acquisition, we have also 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. Beginning in 2015, we also started expanding our commercial lending activities, opening new offices in Salt Lake City, Utah and Dallas, Texas and adding production personnel in Southern California focused on residential construction and SBA loans. At the time of our IPO, we had 20 retail branches and nine stand-alone lending centers. As of September 30, 2016 we have grown to a total of 51 retail branches, 80 stand-alone lending centers, including 10 commercial lending centers, and one stand-alone insurance office.

These activities reflect substantial growth in terms of total assets, total deposits, total loans and employees. We plan to continue both strategic and opportunistic growth, which can present substantial demands on management personnel, line employees, and other aspects of our operations, especially if 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.

Because our business strategy includes growth in total assets, total deposits, total loans and employees, including through opportunistic acquisitions, if we fail to manage our growth properly, our financial condition and results of operations could be negatively affected.

Our funding sources may prove insufficient to replace deposits and support our future growth.

We must maintain sufficient funds to respond to the needs of depositors and borrowers. As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. As we continue to grow, we are likely to become more dependent on these sources, which may include Federal Home Loan Bank advances, proceeds from the sale of loans, federal funds purchased and brokered certificates of deposit. Adverse operating results or changes in industry conditions could lead to difficulty or an inability to access these additional funding sources and could make our existing funds more volatile. Our financial flexibility may be materially constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. If we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In that case, our operating margins and profitability would be adversely affected. Further, the volatility inherent in some of these funding sources, particularly including brokered deposits, may increase our exposure to liquidity risk.

The integration of recent and future acquisitions could consume significant resources and may not be successful.

We have completed four whole-bank acquisitions in the past three years and we have also acquired five stand-alone branches in the same time period, all of which has required substantial resources and costs related to the acquisition process and subsequent integration. For example, we incurred $4.4 million and $10.7 million of acquisition related expenses, net of tax, in the nine months ended September 30, 2016 and the fiscal year ended December 31, 2015. We regularly evaluate merger and acquisition opportunities with other financial institutions and financial services companies. There are certain risks related to the integration of operations of acquired banks and branches, which we may continue to encounter if we acquire other banks or branches in the near future as part of our strategy to grow our business and our market share.

We have also entered into an agreement to acquire two additional branches in Southern California, which we expect will close in November 2016, subject to certain closing conditions, and other external factors that may impact our ability to close in a timely manner or at all. This pending acquisition and 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, as well as the integration of any acquired entities or assets into HomeStreet or HomeStreet Bank, 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.

In addition, in certain cases our acquisition of a whole bank or a branch includes the acquisition of all or a substantial portion of the target bank or branch’s assets and liabilities, including all or a substantial portion of its loan portfolio. There may be instances where we, under our normal operating procedures, may find after the acquisition that there may be additional losses or undisclosed liabilities with respect to the assets and liabilities of the target bank or branch, and, with respect to its loan portfolio, that the ability of a borrower to repay a loan may have become impaired, the quality of the value of the collateral securing a loan may fall below our standards, or the allowance for loan losses may not be adequate. One or more of these factors might cause us to have additional losses or liabilities, additional loan charge-offs or increases in allowances for loan losses.

Difficulties in pursuing or integrating any new acquisitions, and potential discoveries of additional losses or undisclosed liabilities with respect to the assets and liabilities of acquired companies, 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 or to operate the acquired businesses at a level that would avoid losses or justify our investments in those companies.

In addition, we may choose to issue additional common stock for future acquisitions, or we may instead choose to pay the consideration in cash or a combination of stock and cash. Any issuances of stock relating to an acquisition may have a dilutive effect on earnings per share, book value per share or the percentage ownership of current shareholders depending on the value of the assets or entity acquired. Alternatively, the use of cash as consideration in any such acquisitions could impact our capital position and may require us to raise additional capital.

The significant concentration of real estate secured loans in our portfolio has had a negative impact on our asset quality and profitability in the past and there can be no assurance that it will not have such impact in the future.

A substantial portion 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 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:

- Reduced 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 business is geographically confined to certain metropolitan areas of the Western United States, and events and conditions that disproportionately affect those areas may pose a more pronounced risk for our business.

We are headquartered in Seattle, Washington, and a significant portion of our historical operations have been limited to the Pacific Northwest and, to a lesser degree, Hawaii. Since 2014 we have expanded significantly into California by opening lending centers in Northern and Southern California and expanding our retail branch network into Southern California. We have also established lending operations in and around Salt Lake City, Utah; Phoenix, Arizona; Dallas, Texas; and Boise, Idaho. However, a substantial majority of our revenues are derived from operations in the Puget Sound region of Washington State, the Portland, Oregon metropolitan area and Los Angeles and Orange Counties in Southern California. Each of these areas is subject to various types of natural disasters, and each has experienced disproportionately significant economic declines in recent years. Economic declines or natural disasters that affect these areas in particular, or economic events that affect the Western United States more generally, may have an unusually pronounced impact on our business and, because our operations are not more geographically diversified, we may lack the ability to mitigate those impacts from operations in other regions of the United States.

We have previously had 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 are intended to assure we maintain accurate records, promote the accurate and timely reporting of our financial information, maintain adequate control over our assets, and detect unauthorized acquisition, use or disposition of our assets. 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 may be harmed.

As part of our ongoing monitoring of internal control from time to time we have discovered deficiencies in our internal controls that have required remediation. These deficiencies have included “material weaknesses,” defined as a deficiency or combination of 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. For example, our management determined that we had experienced a material weakness in our internal control over financial reporting as of September 30, 2014 related to errors in the analysis of hedge effectiveness related to fair value hedge accounting for certain loans and related swap or derivative instruments, and also concluded that our internal control 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. We also have discovered “significant deficiencies,” defined as a deficiency or combination of deficiencies in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting.

Management has identified and implemented remedial measures intended to resolve all known deficiencies. To support our growth initiatives and to create operating efficiencies we have 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 additional internal control lapses that could expose the company to operating losses.
However, any failure to maintain effective controls or timely effect any necessary improvement of our internal and disclosure controls in the future could harm operating results or cause us to fail to meet our reporting obligations.

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. 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.

For example, we have responded to inquiries from the SEC’s Division of Enforcement relating primarily to our fair value hedge accounting analysis described above. We believe we have made all appropriate accounting adjustments, are cooperating fully with the SEC in response to the ongoing investigation, and do not believe an enforcement action is warranted. Further, if an action were brought, we do not expect the outcome would have a material adverse impact on the financial results of the Company for any reporting period, past or future. However, we cannot give any assurances regarding whether or not the SEC will take any enforcement action or what the outcome of any potential enforcement action may be.

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, as well as charge-offs in excess of reserves, 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 we have acquired new operations, we have added the loans previously held by the acquired companies or related to the acquired branches to our books. We expect that any future acquisition we may make will bring additional loans originated by other institutions onto our books. 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 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.

Volatility in the mortgage market, changes in interest rates, operational costs and other factors beyond our control may adversely impact our ability to 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.

Our management of capital could adversely affect profitability measures and the market price of our common stock and could dilute the holders of our outstanding common stock.

Our capital ratios are higher than regulatory minimums. We may choose to have a lower capital ratio in the future in order to take advantage of growth opportunities, including acquisition and organic loan growth, or in order to take advantage of a favorable investment opportunity. On the other hand, we may in the future elect to raise capital through a sale of our debt or equity securities in order to have additional resources to pursue our growth, including by acquisition, fund our business needs and meet our commitments, or as a response to changes in economic conditions that make capital raising a prudent choice. In the event the quality of our assets or our economic position were to deteriorate significantly, as a result of market forces or otherwise, we may also need to raise additional capital in order to remain compliant with capital standards.

We may not be able to raise such additional capital at the time when we need it, or on terms that are acceptable to us. Our ability to raise additional capital will depend in part on conditions in the capital markets at the time, which are outside our control, and in part on our financial performance. Further, if we need to raise capital in the future, especially if it is in response to changing market conditions, we may need to do so when many other financial institutions are also seeking to raise capital, which would create competition for investors. An inability to raise additional capital on acceptable terms when needed could have a material adverse effect on our business, financial condition, results of operations and prospects. In addition, any capital raising alternatives could dilute the holders of our outstanding common stock and may adversely affect the market price of our common stock.

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 of our single family mortgage servicing rights, or MSRs, and the value of our single family loans held for sale change 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. As we continue to expand our single family mortgage operations and add more single family mortgage origination personnel, the volume of our single family loans held for sale and MSRs has continued to increase. 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.

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 an 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 breaches 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.

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.

Changes in the fee structures by Fannie Mae, Freddie Mac or other third party loan purchasers, such as an increase in guarantee fees and other required fees and payments, may increase the costs of doing business with them and, in turn, increase the cost of mortgages to consumers and the cost of selling conforming loans to third party loan purchasers. Increases in those costs could in turn decrease our margin and negatively impact our profitability. Additionally, increased costs for premiums from mortgage insurers, extensions of the period for which private mortgage insurance is required on a loan purchased by third party purchasers and other changes to mortgage insurance requirements could also increase our costs of completing a mortgage and our margins for home loan origination. Were any of our third party loan purchasers to make such changes in the future, it 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.

We may incur additional costs in placing loans if our third party purchasers discontinue doing business with us for any reason.

We rely on third party purchasers with whom we place loans as a source of funding for the loans we make to consumers. Occasionally, third party loan purchasers may go out of business, elect to exit the market or choose to cease doing business with us for a myriad of reasons, including but not limited to the increased burdens on purchasers related to compliance, adverse market conditions or other pressures on the industry. In the event that one or more third party purchasers goes out of business, exits the market or otherwise ceases to do business with us at a time when we have loans that have been placed with such purchaser but not yet sold, we may incur additional costs to sell those loans to other purchasers or may have to retain such loans, which could negatively impact our results of operations and our capital position.

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.

Risks Related to our Market

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. Conversely, the United Kingdom’s announcement that it would leave the European Union in the second quarter of 2016 caused interest rates to fall again, increasing the demand for refinance mortgages in that period and providing a positive impact on our income and revenues in that period. Market volatility in interest rates can be difficult to predict, however, as unexpected interest rate changes may result in a sudden impact but anticipated changes in interest rates generally impact the mortgage rate market prior to the actual rate change. For example, in the fourth quarter of 2015, as the market anticipated a change in interest rates by the Federal Reserve, mortgage interest rates increased. However, once the actual interest rate change was announced, mortgage rates began to come back down somewhat in response to the flattening of the yield curve. 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. Interest rate fluctuations may impact the value of these securities and as a result, shareholders' equity, and may cause 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, particularly if they rise substantially, we may experience a 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.

Our mortgage operations are impacted by changes in the housing market, including factors that impact housing affordability and availability.

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. Mortgage rates rose somewhat in the fourth quarter of 2015 in anticipation of a general interest rate increase that was implemented by the Federal Reserve in December 2015. While mortgage rates have subsequently declined, 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, while some parts of the country, including the Pacific Northwest, have seen a resurgence of the housing market in recent months, those recent improvements 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. Constraints on the number of houses available for sale in some markets may also adversely impact our ability to originate mortgages and, as a consequence, our results of operations.

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.

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;
- 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;
- Changes in U.S. tax policy may limit our ability 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.

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 increased interest rates in December 2015 and may continue to raise rates in 2016. An 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.

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.

Regulatory-Related Risks

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. 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. Changes to those laws, rules and regulations are also sometimes retroactively applied. For instance, 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. Some of these changes were effective immediately, others are still being phased in gradually, and some still require additional regulatory rulemaking. As a result, a few of the regulations called for by the Dodd-Frank Act have not yet been completed or are not yet in effect, so not all of the precise contours of that law and its effects on us can be fully understood. Expanding regulatory requirements, including 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.

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. Examination findings by the regulatory agencies may also 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, require us to increase our allowance for loan losses, require customer restitution and impose fines or other penalties.

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

As of January 1, 2015, we became 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. Many of these rules apply to both the Company and the Bank, including increased common equity Tier 1 capital ratios, Tier 1 leverage ratios, Tier 1 risk-based ratios and total risk-based ratios. In addition, beginning in 2016, all institutions subject to Basel III, including the Company and the Bank are required to establish a "conservation buffer" that is being phased in beginning in 2016 and will take full effect on January 1, 2019. This conservation buffer consists of common equity Tier 1 capital and will ultimately be required to be 2.5% above existing capital ratio requirements, which means 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 capital 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.

Additional prompt corrective action rules implemented in 2015 also 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. For more on these regulatory requirements and how they apply to the Company and the Bank, see "Liquidity and Capital Resources — Capital Management" in the Management's Discussion and Analysis of Financial Condition and Results of Operations in this quarterly report on Form 10-Q and "Regulation and Supervision of HomeStreet Bank — Capital and Prompt Corrective Action Requirements - Capital Requirements" in our Annual Report on Form 10-K for the year ended December 31, 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. In addition, if we need to raise additional equity capital in order to meet these more stringent requirements, our shareholders may be diluted.

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, deposit taking and other financial 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 and restrictions on our ability to execute our growth and expansion plans. These risks are enhanced because of our growth activities as we integrate operations from our acquisitions and expand our geographic markets. 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.

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.

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

In addition to expanded regulatory activity in recent years, future federal and state legislation, case law and regulations could also 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, legislation and judicial decisions made during the financial crisis could be interpreted to allow judges to modify the terms of residential mortgages in bankruptcy proceedings which 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.

Such judicial decisions or legislative actions 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. 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.

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 has resulted 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 October 3, 2015, the CFPB's Final Integrated Disclosure Rule, commonly known as TRID, became effective. Among other things, TRID 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 TRID, require significant systems modifications, process and procedures changes and training and we have incurred and will continue to incur additional personnel costs in the near future related to compliance with TRID. 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. Most of the rule's provisions will become 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 could 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.

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.

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 $167.5 million at September 30, 2016. 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.

HomeStreet, Inc. primarily relies on dividends from the Bank, which 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” as well as “Regulation and Supervision of HomeStreet Bank - Capital and Prompt Corrective Action Requirements” in Item 1 of the Company's 2015 Form 10-K. 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 seven 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.

Changes in accounting standards could materially impact our financial statements.

From time to time, the Financial Accounting Standards Board (the “FASB”) and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can materially impact how we record and report our financial condition and results of operations.

On June 16, 2016, the FASB issued amendments to its guidance on financial instruments and credit losses. Among other things, the amendments change the way companies must record expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other commitments to extend credit held by a reporting entity at each reporting date, and require that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis and eliminate the probable initial recognition in current GAAP and reflect the current estimate of all expected credit losses based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets.

These amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Although we are currently evaluating the impact of these changes, we anticipate that this accounting change could have a material impact on the Company’s consolidated financial statements.
The financial services industry is highly competitive.

We face pricing competition for loans and deposits. We also face competition with respect to customer convenience, product lines, accessibility of service and service capabilities. Our most direct competition comes from other banks, credit unions, mortgage companies and savings institutions, but more recently has also come from financial technology (or "fintech") companies that rely on technology to provide financial services. The significant competition in attracting and retaining deposits and making loans as well as in providing other financial services throughout our market area may impact future earnings and growth. Our success depends, in part, on the ability to adapt products and services to evolving industry standards and provide consistent customer service while keeping costs in line. There is increasing pressure to provide products and services at lower prices, which can reduce net interest income and non-interest income from fee-based products and services. New technology-driven products and services are often introduced and adopted, including innovative ways that customers can make payments, access products and manage accounts. We could be required to make substantial capital expenditures to modify or adapt existing products and services or develop new products and services. We may not be successful in introducing new products and services or those new products may not achieve market acceptance. We could lose business, be forced to price products and services on less advantageous terms to retain or attract clients, or be subject to cost increases if we do not effectively develop and implement new technology. In addition, advances in technology such as telephone, text, and on-line banking; e-commerce; and self-service automatic teller machines and other equipment, as well as changing customer preferences to access our products and services through digital channels, could decrease the value of our branch network and other assets. As a result of these competitive pressures, our business, financial condition or results of operations may be adversely affected.

Risks Related to Information Systems and Security

A failure in or breach of our security systems or infrastructure, including breaches 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 computers, 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, technologies, systems, networks and our customers' devices all of which 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, theft 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.

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, breaches 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, the continued development and enhancement of our information security 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, modify or enhance our protective measures or to investigate and remediate important information security vulnerabilities or exposures; however, our measures may be insufficient to prevent physical and electronic break-ins, denial of service and other cyber-attacks or security breaches.

We maintain insurance coverage related to business interruptions and breaches of our security systems. However, 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, uninsured 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.

We rely on third party vendors and other service providers for certain critical business activities, which creates additional operational and information security risks for us.

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. Specifically, we receive core systems processing, essential web hosting and other Internet systems and deposit and other processing services from third-party service providers. Such third parties may also be target of cyber-attacks, computer viruses, malicious code, unauthorized access, hackers or information security breaches that could compromise the confidential or proprietary information of HomeStreet and our customers. To date none of our third party vendors or service providers have notified us of any security breach in their systems.

In addition, if any third-party service providers 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.

Some of our primary third party service providers are subject to examination by banking regulators and may be subject to enhanced regulatory scrutiny due to regulatory findings during examinations of such service providers conducted by federal regulators. While we subject such vendors to higher scrutiny and monitor any corrective measures that the vendors are taking or would undertake, we are not able to fully mitigate all risk which could result from a breach or other operational failure of a vendor’s system.

Others provide technology that we use in our own regulatory compliance, including our mortgage loan origination technology. If those providers fail to update their systems or services in a timely manner to reflect new or changing regulations, or if our personnel operate these systems in a non-compliant manner, 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.

In addition, in order to safeguard our online financial transactions, we must provide secure transmission of confidential information over public networks. Our Internet banking system relies on third party encryption and authentication technologies necessary to provide 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 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:

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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; and
- Performing vulnerability scanning and penetration testing of our computer systems and computer networks to identify potential weaknesses and to develop mitigating controls.

If we do not properly comply with privacy regulations and protect confidential information or we experience a security breach, we could experience adverse consequences, including regulatory sanctions, penalties or fines, increased compliance costs, remedial costs such as providing credit monitoring or other services to affected customers, 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.

The network and computer systems on which we depend could fail for reasons not related to security breaches.

Our computer systems could be vulnerable to unforeseen problems other than a cyber-attack or other security breach. 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.

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.

Anti-Takeover Risk

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

Not applicable.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 OTHER INFORMATION

Not applicable.

ITEM 6 EXHIBITS
EXHIBIT INDEX

Exhibit Number	Description
12.1	Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
32[(1)]	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith.
101.INS[(2)(3)]	XBRL Instance Document
101.SCH [(2)]	XBRL Taxonomy Extension Schema Document
101.CAL [(2)]	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF [(2)]	XBRL Taxonomy Extension Label Linkbase Document
101.LAB [(2)]	XBRL Taxonomy Extension Presentation Linkbase Document
101.PRE [(2)]	XBRL Taxonomy Extension Definitions Linkbase Document

(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 Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, 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, 2016 and 2015, (ii) the Consolidated Statements of Financial Condition as of September 30, 2016 and December 31, 2015, (iii) the Consolidated Statements of Shareholders’ Equity for the nine months ended September 30, 2016 and 2015, and Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015, (iv) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015, 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 8, 2016.

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
Senior Executive Vice President and
Chief Financial Officer