HomeStreet, Inc.
Form 10-Q
November 13, 2014

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, 2014
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 October 31, 2014 was 14,856,611.

PART I – FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

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

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

(in thousands, except share data)	September 30, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents (including interest-bearing instruments of $16,044 and $9,436)	$ 34,687	$ 33,908
Investment securities (includes $432,096 and $481,683 carried at fair value)	449,948	498,816
Loans held for sale (includes $614,876 and $279,385 carried at fair value)	698,111	279,941
Loans held for investment (net of allowance for loan losses of $21,847 and $23,908)	1,964,762	1,871,813
Mortgage servicing rights (includes $115,477 and $153,128 carried at fair value)	124,593	162,463
Other real estate owned	10,478	12,911
Federal Home Loan Bank stock, at cost	34,271	35,288
Premises and equipment, net	44,476	36,612
Goodwill	11,945	12,063
Other assets	101,385	122,239
Total assets	$ 3,474,656	$ 3,066,054
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 2,425,458	$ 2,210,821
Federal Home Loan Bank advances	598,590	446,590
Securities sold under agreements to repurchase	14,225	—
Accounts payable and other liabilities	79,958	77,906
Long-term debt	61,857	64,811
Total liabilities	3,180,088	2,800,128
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, 14,852,971 shares and 14,799,991 shares	511	511
Additional paid-in capital	96,650	94,474
Retained earnings	197,945	182,935
Accumulated other comprehensive income	(538)	(11,994)
Total shareholders' equity	294,568	265,926
Total liabilities and shareholders' equity	$ 3,474,656	$ 3,066,054

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, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Interest income:				
Loans	$25,763	$19,425	$71,865	$54,920
Investment securities	2,565	3,895	8,199	9,552
Other	150	28	449	82
	28,478	23,348	80,513	64,554
Interest expense:				
Deposits	2,364	2,222	7,080	8,078
Federal Home Loan Bank advances	509	434	1,366	1,113
Securities sold under agreements to repurchase	6	—	7	11
Long-term debt	271	274	851	2,274
Other	20	6	42	16
	3,170	2,936	9,346	11,492
Net interest income	25,308	20,412	71,167	53,062
Provision (reversal of provision) for credit losses	—	(1,500)	(1,500)	900
Net interest income after provision for credit losses	25,308	21,912	72,667	52,162
Noninterest income:				
Net gain on mortgage loan origination and sale activities	37,642	33,491	104,946	139,870
Mortgage servicing income	6,155	4,011	24,284	9,265
(Loss) income from WMS Series LLC	(122)	(550)	(69)	1,063
Gain (loss) on debt extinguishment	2	—	(573)	—
Depositor and other retail banking fees	944	791	2,676	2,273
Insurance agency commissions	256	242	892	612
Gain (loss) on sale of investment securities available for sale (includes unrealized gain (loss) reclassified from accumulated other comprehensive income of $480 and $(184) for the three months ended September 30, 2014 and 2013, and $1,173 and $6 for the nine months ended September 30, 2014 and 2013, respectively)	480	(184)	1,173	6
Other	456	373	841	1,584
	45,813	38,174	134,170	154,673
Noninterest expense:				
Salaries and related costs	42,604	39,689	118,681	113,330
General and administrative	10,326	9,234	31,593	30,434
Legal	630	844	1,571	2,054
Consulting	628	884	2,182	2,343
Federal Deposit Insurance Corporation assessments	682	227	1,874	937
Occupancy	4,935	3,484	14,042	9,667
Information services	4,220	3,552	13,597	10,122
Net cost of operation and sale of other real estate owned	133	202	(320)	1,740
	64,158	58,116	183,220	170,627
Income before income taxes	6,963	1,970	23,617	36,208
	1,988	308	6,979	11,538

Income tax expense (includes reclassification adjustments of $168 and $(64) for the three months ended September 30, 2014 and 2013, and $411 and $2 for the nine months ended September 30, 2014 and 2013, respectively)				
NET INCOME	$4,975	$1,662	$16,638	$24,670
Basic income per share	$0.34	$0.12	$1.12	$1.72
Diluted income per share	$0.33	$0.11	$1.11	$1.67
Basic weighted average number of shares outstanding	14,805,780	14,388,559	14,797,019	14,374,943
Diluted weighted average number of shares outstanding	14,968,238	14,790,671	14,957,034	14,793,427

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

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

(in thousands)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Net income	$4,975	$1,662	$16,638	$24,670
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on investment securities available for sale:				
Unrealized holding gain (loss) arising during the period, net of tax expense (benefit) of $501 and $(362) for the three months ended September 30, 2014 and 2013, and $6,579 and $(9,845) for the nine months ended September 30, 2014 and 2013, respectively	930	(673)	12,218	(18,283)
Reclassification adjustment for net gains included in net income, net of tax expense (benefit) of $168 and $(64) for the three months ended September 30, 2014 and 2013, and $411 and $2 for the nine months ended September 30, 2014 and 2013, respectively	(312)	120	(762)	(4)
Other comprehensive income (loss)	618	(553)	11,456	(18,287)
Comprehensive income (loss)	$5,593	$1,109	$28,094	$6,383

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, 2013	14,382,638	$511	$90,189	$163,872	$ 9,190	$263,762
Net income	—	—	—	24,670	—	24,670
Dividends ($0.11 per share)	—	—	—	(3,163)	—	(3,163)
Share-based compensation expense	—	—	1,098	—	—	1,098
Common stock issued	39,716	—	128	—	—	128
Other comprehensive loss	—	—	—	—	(18,287)	(18,287)
Balance, September 30, 2013	14,422,354	$511	$91,415	$185,379	$ (9,097)	$268,208
Balance, January 1, 2014	14,799,991	$511	$94,474	$182,935	$ (11,994)	$265,926
Net income	—	—	—	16,638	—	16,638
Dividends ($0.11 per share)	—	—	—	(1,628)	—	(1,628)
Share-based compensation expense	—	—	1,867	—	—	1,867
Common stock issued	52,980	—	309	—	—	309
Other comprehensive income	—	—	—	—	11,456	11,456
Balance, September 30, 2014	14,852,971	$511	$96,650	$197,945	$ (538)	$294,568

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

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

(in thousands)	Nine Months Ended September 30, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$16,638	$24,670
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion	13,293	10,285
(Reversal of) provision for credit losses	(1,500)	900
Provision for losses on other real estate owned	73	547
Fair value adjustment of loans held for sale	(11,320)	15,602
Origination of mortgage servicing rights	(32,726)	(53,627)
Change in fair value of mortgage servicing rights	26,075	1,493
Net gain on sale of investment securities	(1,173)	(6)
Net gain on sale of loans originated as held for investment	(4,586)	—
Net fair value adjustment and gain on sale of other real estate owned	(714)	(744)
Loss on early retirement of long-term debt	573	—
Net deferred income tax (benefit) expense	(13,502)	18,650
Share-based compensation expense	1,100	932
Origination of loans held for sale	(2,840,050)	(4,151,302)
Proceeds from sale of loans originated as held for sale	2,459,748	4,425,792
Cash used by changes in operating assets and liabilities:		
Decrease (increase) in other assets	25,486	(36,680)
Increase (decrease) in accounts payable and other liabilities	9,959	4,867
Net cash (used in) provided by operating activities	(352,626)	261,379
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(45,179)	(286,741)
Proceeds from sale of investment securities	75,599	54,166
Principal repayments and maturities of investment securities	32,040	41,556
Proceeds from sale of other real estate owned	6,019	17,396
Proceeds from sale of loans originated as held for investment	271,409	—
Proceeds from sale of mortgage servicing rights	39,004	—
Mortgage servicing rights purchased from others	(8)	(20)
Capital expenditures related to other real estate owned	—	(22)
Origination of loans held for investment and principal repayments, net	(389,196)	(261,379)
Purchase of property and equipment	(13,904)	(12,683)
Net cash used in investing activities	(24,216)	(447,727)

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(in thousands)	Nine Months Ended September 30, 2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits, net	$214,637	$121,241
Proceeds from Federal Home Loan Bank advances	4,619,927	4,477,102
Repayment of Federal Home Loan Bank advances	(4,467,927)	(4,397,502)
Proceeds from securities sold under agreements to repurchase	58,308	159,790
Repayment of securities sold under agreements to repurchase	(44,083)	(159,790)
Proceeds from Federal Home Loan Bank stock repurchase	1,017	997
Repayment of long-term debt	(3,527)	—
Dividends paid	(1,628)	(3,163)
Proceeds from stock issuance, net	130	128
Excess tax benefits related to the exercise of stock options	767	166
Net cash provided by financing activities	377,621	198,969
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	779	12,621
CASH AND CASH EQUIVALENTS:		
Beginning of year	33,908	25,285
End of period	$34,687	$37,906
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$10,785	$24,969
Federal and state income taxes (paid), net of refunds	10,642	6,796
Non-cash activities:		
Loans held for investment foreclosed and transferred to other real estate owned	3,647	10,831
Loans transferred from held for investment to held for sale	310,455	54,403
Loans transferred from held for sale to held for investment	17,095	—
Ginnie Mae loans recognized with the right to repurchase, net	$649	$3,775

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

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

NOTE 1–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

The Company's accounting and financial reporting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP). Inter-company balances and transactions have been eliminated in consolidation. In preparing the consolidated financial statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and revenues and expenses during the reporting periods and related disclosures. Although these estimates contemplate current conditions and how they are expected to change in the future, it is reasonably possible that actual conditions could be worse than anticipated in those estimates, which could materially affect the Company's results of operations and financial condition. Management has made significant estimates in several areas, and actual results could differ materially from those estimates. Certain amounts in the financial statements from prior periods have been reclassified to conform to the current financial statement presentation.

These unaudited interim financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q. The results of operations in the interim financial statements do not necessarily indicate the results that may be expected for the full year. The interim financial information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the Securities and Exchange Commission ("2013 Annual Report on Form 10-K").

Purchase Accounting Adjustments

On November 1, 2013, the Company completed its acquisition of Fortune Bank and YNB Financial Services Corp. ("YNB"), the parent of Yakima National Bank. The assets acquired and liabilities assumed in the acquisitions were accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition date. On December 6, 2013, the Company acquired two retail deposit branches and some related assets from AmericanWest Bank, a Washington state-chartered bank. During the second quarter of 2014, the Company completed a more detailed fair value analysis of premises and equipment assumed in the acquisition of YNB and determined that adjustments to the acquisition-date fair value were required. The Company also determined that adjustments were required to the provisional estimates for core deposit intangibles that were assumed in all three acquisitions. As a result of these adjustments, core deposit intangibles increased by $1.1 million, premises and equipment decreased by $740 thousand, and deferred tax liabilities increased by $280 thousand, resulting in a net decrease to goodwill of $118 thousand. These immaterial measurement period adjustments and corrections of accounting errors were made in the second quarter of 2014 as they were not material to the prior periods.

Recent Accounting Developments

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. The ASU applies to all reporting entities that invest in qualified affordable housing projects through limited liability entities that are flow through entities for tax purposes. The amendments in this ASU eliminate the effective yield election and permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received, and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). Those not electing the proportional amortization method would account for the investment using the equity method or cost method. The amendments in this ASU should be applied retrospectively to all periods presented and are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014, although early adoption is permitted. The Company elected to adopt this new accounting guidance as of January 1, 2014. It is being adopted prospectively, as the retrospective adjustments were not material. The Company's income tax expense for the nine months ended September 30, 2014 includes discrete tax benefit items of $406 thousand related to the recognition of the cumulative effect for prior years of adoption of this new accounting guidance.

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

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

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to Maturity Transactions, Repurchase Financings, and Disclosures. The ASU applies to all entities that enter into repurchase-to-maturity transactions or repurchase financings. The amendments in this ASU require that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty (a repurchase financing), which will result in secured borrowing accounting for the repurchase agreement. The amendments require an entity to disclose information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements, in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. In addition the amendments require disclosure of the types of collateral pledged in repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions and the tenor of those transactions. The amendments in this ASU are effective for public business entities for the first interim or annual period beginning after December 15, 2014. Early adoption is not permitted. The application of this guidance may require enhanced disclosures of the Company's repurchase agreements, but will have no impact on the Company's consolidated financial statements.

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

NOTE 2–INVESTMENT SECURITIES:

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

(in thousands)	At September 30, 2014 Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential	$112,131	$374	$(1,668)	$110,837
Commercial	13,119	452	—	13,571
Municipal bonds	120,799	2,713	(470)	123,042
Collateralized mortgage obligations:				
Residential	56,359	130	(1,601)	54,888
Commercial	16,047	—	(415)	15,632
Corporate debt securities	74,166	50	(2,104)	72,112
U.S. Treasury securities	41,971	43	—	42,014
	$434,592	$3,762	$(6,258)	$432,096

(in thousands)	At December 31, 2013 Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Mortgage-backed securities:				
Residential	$137,602	$187	$(3,879)	$133,910
Commercial	13,391	45	(3)	13,433
Municipal bonds	136,937	185	(6,272)	130,850
Collateralized mortgage obligations:				
Residential	93,112	85	(2,870)	90,327
Commercial	17,333	—	(488)	16,845
Corporate debt securities	75,542	—	(6,676)	68,866
U.S. Treasury securities	27,478	1	(27)	27,452
	$501,395	$503	$(20,215)	$481,683

Mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMO") represent securities issued by government sponsored entities ("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, 2014 and December 31, 2013, 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, 2014 and December 31, 2013, 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, 2014					
	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	$(40)	$11,758	$(1,628)	$69,570	$(1,668)	$81,328
Municipal bonds	(13)	3,612	(457)	29,295	(470)	32,907
Collateralized mortgage obligations:						
Residential	(249)	8,802	(1,352)	31,346	(1,601)	40,148
Commercial	—	—	(415)	15,633	(415)	15,633
Corporate debt securities	(281)	17,145	(1,823)	45,573	(2,104)	62,718
	$(583)	$41,317	$(5,675)	$191,417	$(6,258)	$232,734

	At December 31, 2013					
	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	$(3,767)	$98,717	$(112)	$6,728	$(3,879)	$105,445
Commercial	(3)	7,661	—	—	(3)	7,661
Municipal bonds	(5,991)	106,985	(281)	3,490	(6,272)	110,475
Collateralized mortgage obligations:						
Residential	(2,120)	63,738	(750)	15,081	(2,870)	78,819
Commercial	(488)	16,845	—	—	(488)	16,845
Corporate debt securities	(6,676)	68,844	—	—	(6,676)	68,844
U.S. Treasury securities	(27)	25,452	—	—	(27)	25,452
	$(19,072)	$388,242	$(1,143)	$25,299	$(20,215)	$413,541

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. As of September 30, 2014 and December 31, 2013, the Company does not expect any credit losses on its debt securities. In addition, as of September 30, 2014 and December 31, 2013, 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 Company did not hold any marketable equity securities as of September 30, 2014 and December 31, 2013.

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.

	At September 30, 2014									
	Within one year		After one year through five years		After five years through ten years		After ten years		Total	
(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	$—	— %	$—	— %	$7,466	1.73 %	$103,371	1.81 %	$110,837	1.80 %
Commercial	—	—	—	—	—	—	13,571	4.63	13,571	4.63
Municipal bonds	—	—	45	3.43	22,642	3.54	100,355	4.25	123,042	4.12
Collateralized mortgage obligations:										
Residential	—	—	—	—	—	—	54,887	2.07	54,887	2.07
Commercial	—	—	—	—	9,692	1.93	5,940	1.37	15,632	1.72
Corporate debt securities	—	—	—	—	40,854	3.25	31,259	3.64	72,113	3.42
U.S. Treasury securities	2,002	0.25	40,012	0.35	—	—	—	—	42,014	0.34
Total available for sale	$2,002	0.25 %	$40,057	0.35 %	$80,654	3.03 %	$309,383	2.93 %	$432,096	2.70 %

	At December 31, 2013									
	Within one year		After one year through five years		After five years through ten years		After ten years		Total	
(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	$—	— %	$—	— %	$10,581	1.63 %	$123,329	1.82 %	$133,910	1.81 %
Commercial	—	—	—	—	—	—	13,433	4.51	13,433	4.51
Municipal bonds	—	—	—	—	19,598	3.51	111,252	4.29	130,850	4.17
Collateralized mortgage obligations:										
Residential	—	—	—	—	19,987	2.31	70,340	2.17	90,327	2.20
Commercial	—	—	—	—	5,270	1.90	11,575	1.42	16,845	1.57
	—	—	—	—	32,848	3.31	36,018	3.75	68,866	3.54

Corporate debt securities															
U.S. Treasury securities	1,001	0.18		26,451	0.30		—	—		—	—		27,452	0.29	
Total available for sale	$1,001	0.18	%	$26,451	0.30	%	$88,284	2.84	%	$365,947	2.92	%	$481,683	2.75	%

Sales of investment securities available for sale were as follows.

(in thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Proceeds	$9,753	$1,972	$75,599	$52,566
Gross gains	480	—	1,375	322
Gross losses	—	(184)	(201)	(316)

There were $39.9 million and $47.3 million in investment securities pledged to secure advances from the Federal Home Loan Bank of Seattle ("FHLB") at September 30, 2014 and December 31, 2013, respectively. At September 30, 2014 and December 31, 2013, there were $49.7 million and $37.7 million, respectively, of securities pledged to secure derivatives in a liability position. At September 30, 2014, there were $15.0 million of securities pledged under repurchase agreements and none at December 31, 2013.

Tax-exempt interest income on securities available for sale totaling $856 thousand and $1.5 million for the three months ended September 30, 2014 and 2013, respectively, and $2.6 million and $4.2 million for the nine months ended September 30, 2014 and 2013, respectively, was recorded in the Company's consolidated statements of operations.

NOTE 3–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 6, Loans and Credit Quality within our 2013 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 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, 2014	At December 31, 2013
Consumer loans		
Single family	$788,232	$904,913
Home equity	138,276	135,650
	926,508	1,040,563
Commercial loans		
Commercial real estate	530,335	477,642
Multifamily	62,498	79,216
Construction/land development	297,790	130,465

Commercial business	173,226	171,054
	1,063,849	858,377
	1,990,357	1,898,940
Net deferred loan fees and discounts	(3,748)	(3,219)
	1,986,609	1,895,721
Allowance for loan losses	(21,847)	(23,908)
	$1,964,762	$1,871,813

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Loans in the amount of $850.2 million and $800.5 million at September 30, 2014 and December 31, 2013, respectively, were pledged to secure borrowings from the FHLB as part of our liquidity management strategy. The FHLB does not have the right to sell or re-pledge these loans.

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 states of Washington, Oregon, California, Idaho and Hawaii. At September 30, 2014, we had concentrations representing 10% or more of the total portfolio by state and property type for the loan classes of single family, commercial real estate and construction/land development within the state of Washington, which represented 26.2%, 22.2% and 11.8% of the total portfolio, respectively. At December 31, 2013 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 37.3% and 21.2% of the total portfolio, respectively. These loans were mostly located within the metropolitan area of Puget Sound, particularly within King County.

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, 2014. 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 2013 Annual Report on Form 10-K.

Activity in the allowance for credit losses was as follows.

(in thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Allowance for credit losses (roll-forward):				
Beginning balance	$22,168	$27,858	$24,089	$27,751
Provision (reversal of provision) for credit losses	—	(1,500)	(1,500)	900
(Charge-offs), net of recoveries	(57)	(1,464)	(478)	(3,757)
Ending balance	$22,111	$24,894	$22,111	$24,894
Components:				
Allowance for loan losses	$21,847	$24,694	$21,847	$24,694
Allowance for unfunded commitments	264	200	264	200
Allowance for credit losses	$22,111	$24,894	$22,111	$24,894

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

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

(in thousands)	Three Months Ended September 30, 2013 Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$13,810	$(606)	$179	$(1,251)	$12,132
Home equity	4,879	(377)	273	(139)	4,636
	18,689	(983)	452	(1,390)	16,768
Commercial loans					
Commercial real estate	5,723	(1,306)	—	51	4,468
Multifamily	690	—	—	80	770
Construction/land development	1,185	—	348	(141)	1,392
Commercial business	1,571	—	25	(100)	1,496
	9,169	(1,306)	373	(110)	8,126
Total allowance for credit losses	$27,858	$(2,289)	$825	$(1,500)	$24,894

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

(in thousands)	Nine Months Ended September 30, 2013 Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$13,388	$(2,468)	$425	$787	$12,132
Home equity	4,648	(1,515)	526	977	4,636
	18,036	(3,983)	951	1,764	16,768
Commercial loans					
Commercial real estate	5,312	(1,449)	—	605	4,468
Multifamily	622	—	—	148	770
Construction/land development	1,580	(148)	699	(739)	1,392
Commercial business	2,201	—	173	(878)	1,496
	9,715	(1,597)	872	(864)	8,126
Total allowance for credit losses	$27,751	$(5,580)	$1,823	$900	$24,894

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

(in thousands)	At September 30, 2014 Allowance: collectively evaluated for impairment	Allowance: individually evaluated for impairment	Total	Loans: collectively evaluated for impairment	Loans: individually evaluated for impairment	Total
Consumer loans						
Single family	$8,042	$836	$8,878	$713,339	$74,893	$788,232
Home equity	3,448	115	3,563	135,755	2,521	138,276
	11,490	951	12,441	849,094	77,414	926,508
Commercial loans						
Commercial real estate	3,859	122	3,981	499,198	31,137	530,335
Multifamily	347	366	713	59,396	3,102	62,498
Construction/land development	2,687	—	2,687	292,097	5,693	297,790
Commercial business	1,092	1,197	2,289	169,481	3,745	173,226
	7,985	1,685	9,670	1,020,172	43,677	1,063,849
Total	$19,475	$2,636	$22,111	$1,869,266	$121,091	$1,990,357

(in thousands)	At December 31, 2013 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	$10,632	$1,358	$11,990	$831,730	$73,183	$904,913
Home equity	3,903	84	3,987	133,006	2,644	135,650
	14,535	1,442	15,977	964,736	75,827	1,040,563
Commercial loans						
Commercial real estate	4,012	—	4,012	445,766	31,876	477,642
Multifamily	515	427	942	76,053	3,163	79,216
Construction/land development	1,414	—	1,414	124,317	6,148	130,465
Commercial business	1,042	702	1,744	168,199	2,855	171,054
	6,983	1,129	8,112	814,335	44,042	858,377
Total	$21,518	$2,571	$24,089	$1,779,071	$119,869	$1,898,940

Impaired Loans

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

(in thousands)	At September 30, 2014 Recorded investment (1)	Unpaid principal balance (2)	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	$41,422	$43,600	$—
Home equity	1,949	1,974	—
	43,371	45,574	—
Commercial loans			
Commercial real estate	30,344	33,367	—
Multifamily	508	508	—
Construction/land development	5,693	14,824	—
Commercial business	1,854	3,294	—
	38,399	51,993	—
	$81,770	$97,567	$—
With an allowance recorded:			
Consumer loans			
Single family	$33,471	$33,530	$836
Home equity	572	572	115
	34,043	34,102	951
Commercial loans			
Commercial real estate	793	797	122
Multifamily	2,594	2,771	366
Construction/land development	—	—	—
Commercial business	1,891	1,911	1,197
	5,278	5,479	1,685
	$39,321	$39,581	$2,636
Total:			
Consumer loans			
Single family(3)	$74,893	$77,130	$836
Home equity	2,521	2,546	115
	77,414	79,676	951
Commercial loans			
Commercial real estate	31,137	34,164	122
Multifamily	3,102	3,279	366
Construction/land development	5,693	14,824	—
Commercial business	3,745	5,205	1,197
	43,677	57,472	1,685
Total impaired loans	$121,091	$137,148	$2,636

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

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

(3) Includes $70.0 million in performing troubled debt restructurings ("TDRs").

(in thousands)	At December 31, 2013 Recorded investment (1)	Unpaid principal balance (2)	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	$39,341	$41,935	$—
Home equity	1,895	1,968	—
	41,236	43,903	—
Commercial loans			
Commercial real estate	31,876	45,921	—
Multifamily	508	508	—
Construction/land development	6,148	15,299	—
Commercial business	1,533	7,164	—
	40,065	68,892	—
	$81,301	$112,795	$—
With an allowance recorded:			
Consumer loans			
Single family	$33,842	$33,900	$1,358
Home equity	749	749	84
	34,591	34,649	1,442
Commercial loans			
Multifamily	2,655	2,832	427
Commercial business	1,322	1,478	702
	3,977	4,310	1,129
	$38,568	$38,959	$2,571
Total:			
Consumer loans			
Single family(3)	$73,183	$75,835	$1,358
Home equity	2,644	2,717	84
	75,827	78,552	1,442
Commercial loans			
Commercial real estate	31,876	45,921	—
Multifamily	3,163	3,340	427
Construction/land development	6,148	15,299	—
Commercial business	2,855	8,642	702
	44,042	73,202	1,129
Total impaired loans	$119,869	$151,754	$2,571

(1) Includes partial charge-offs and nonaccrual interest paid.
(2) Unpaid principal balance does not include partial charge-offs or nonaccrual interest paid. Related allowance is calculated on net book balances not unpaid principal balances.
(3) Includes $70.3 million in 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)	2014	2013	2014	2013
Consumer loans				
Single family	$72,840	$79,527	$72,508	$77,841
Home equity	2,457	3,095	2,524	3,345
	75,297	82,622	75,032	81,186
Commercial loans				
Commercial real estate	31,209	27,456	31,638	27,775
Multifamily	3,114	3,194	3,134	3,205
Construction/land development	5,768	7,218	5,898	9,450
Commercial business	3,664	1,696	3,250	1,922
	43,755	39,564	43,920	42,352
	$119,052	$122,186	$118,952	$123,538

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:

- 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:

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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 non-accrual and troubled debt restructurings. Impaired loans are risk rated for internal and regulatory rating purposes, but presented separately for clarification.

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

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

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

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

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

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

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

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

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

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

	At September 30, 2014				
(in thousands)	Pass	Watch	Special mention	Substandard	Total
Consumer loans					
Single family	$756,182	$1,347	$ 15,489	$15,214	$788,232
Home equity	136,029	109	438	1,700	138,276
	892,211	1,456	15,927	16,914	926,508
Commercial loans					
Commercial real estate	439,969	65,048	20,391	4,927	530,335
Multifamily	57,874	1,523	3,101	—	62,498
Construction/land development	291,545	3,065	350	2,830	297,790
Commercial business	144,645	23,604	2,112	2,865	173,226
	934,033	93,240	25,954	10,622	1,063,849
	$1,826,244	$94,696	$ 41,881	$27,536	$1,990,357

	At December 31, 2013				
(in thousands)	Pass	Watch	Special mention	Substandard	Total
Consumer loans					
Single family	$817,877	$53,711	$ 12,746	$20,579	$904,913
Home equity	132,086	1,442	276	1,846	135,650
	949,963	55,153	13,022	22,425	1,040,563
Commercial loans					
Commercial real estate	368,817	63,579	37,758	7,488	477,642
Multifamily	74,509	1,544	3,163	—	79,216
Construction/land development	121,026	3,414	2,895	3,130	130,465
Commercial business	145,760	20,062	586	4,646	171,054
	710,112	88,599	44,402	15,264	858,377
	$1,660,075	$143,752	$ 57,424	$37,689	$1,898,940

The Company considers ‘adversely classified assets’ to include loans graded as Substandard, Doubtful, and Loss as well as other real estate owned ("OREO"). As of September 30, 2014 and December 31, 2013, none of the Company's loans were rated Doubtful or Loss. The total amount of adversely classified assets was $38.0 million and $50.6 million as of September 30, 2014 and December 31, 2013, respectively. For a detailed discussion on credit quality, see Note 6, Loans and Credit Quality within our 2013 Annual Report on Form 10-K.

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

or more past due.

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

(in thousands)	At September 30, 2014 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(1)
Consumer loans							
Single family	$9,208	$4,140	$39,830	$53,178	$735,054	$788,232	$31,480
Home equity	461	109	1,700	2,270	136,006	138,276	—
	9,669	4,249	41,530	55,448	871,060	926,508	31,480
Commercial loans							
Commercial real estate	—	—	7,058	7,058	523,277	530,335	—
Multifamily	—	—	—	—	62,498	62,498	—
Construction/land development	—	—	—	—	297,790	297,790	—
Commercial business	44	—	2,798	2,842	170,384	173,226	—
	44	—	9,856	9,900	1,053,949	1,063,849	—
	$9,713	$4,249	$51,386	$65,348	$1,925,009	$1,990,357	$31,480

(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, 2013 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(1)
Consumer loans							
Single family	$6,466	$4,901	$55,672	$67,039	$837,874	$904,913	$46,811
Home equity	375	75	1,846	2,296	133,354	135,650	—
	6,841	4,976	57,518	69,335	971,228	1,040,563	46,811
Commercial loans							
Commercial real estate	—	—	12,257	12,257	465,385	477,642	—
Multifamily	—	—	—	—	79,216	79,216	—
Construction/land development	—	—	—	—	130,465	130,465	—
Commercial business	—	—	2,743	2,743	168,311	171,054	—
	—	—	15,000	15,000	843,377	858,377	—
	$6,841	$4,976	$72,518	$84,335	$1,814,605	$1,898,940	$46,811

(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.

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

	At September 30, 2014		
(in thousands)	Accrual	Nonaccrual	Total
Consumer loans			
Single family	$779,882	$8,350	$788,232
Home equity	136,576	1,700	138,276
	916,458	10,050	926,508
Commercial loans			
Commercial real estate	523,277	7,058	530,335
Multifamily	62,498	—	62,498
Construction/land development	297,790	—	297,790
Commercial business	170,428	2,798	173,226
	1,053,993	9,856 (1)	1,063,849
	$1,970,451	$19,906	$1,990,357

(1) Includes $6.3 million of nonperforming loans at September 30, 2014 that are guaranteed by the Small Business Administration ("SBA").

	At December 31, 2013		
(in thousands)	Accrual	Nonaccrual	Total
Consumer loans			
Single family	$896,052	$8,861	$904,913
Home equity	133,804	1,846	135,650
	1,029,856	10,707	1,040,563
Commercial loans			
Commercial real estate	465,385	12,257	477,642
Multifamily	79,216	—	79,216
Construction/land development	130,465	—	130,465
Commercial business	168,311	2,743	171,054
	843,377	15,000 (1)	858,377
	$1,873,233	$25,707	$1,898,940

(1) Includes $6.5 million of nonperforming loans at December 31, 2013 that are guaranteed by the SBA.

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

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

(dollars in thousands)	Three Months Ended September 30, 2013 Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	27	$5,538	$—
Home equity				
	Interest rate reduction	2	132	—
Total consumer				
	Interest rate reduction	29	5,670	—
Total loans				
	Interest rate reduction	29	$5,670	$—

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

(dollars in thousands)	Nine Months Ended September 30, 2013 Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	51	$11,300	$—
Home equity				
	Interest rate reduction	5	301	—
Total consumer				
	Interest rate reduction	56	11,601	—
		56	11,601	—
Total loans				
	Interest rate reduction	56	$11,601	$—

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, 2014 and 2013, 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, 2014 Number of loan relationships that re-defaulted	Recorded investment	2013 Number of loan relationships that re-defaulted	Recorded investment
Consumer loans				
Single family	3	$282	7	$1,017
Home equity	—	—	—	—
	3	282	7	1,017
	3	$282	7	$1,017

(dollars in thousands)	Nine Months Ended September 30, 2014 Number of loan relationships that re-defaulted	Recorded investment	2013 Number of loan relationships that re-defaulted	Recorded investment
Consumer loans				
Single family	7	$1,010	14	$2,573
Home equity	1	190	1	22
	8	1,200	15	2,595
Commercial loans				
Commercial real estate	—	—	1	770
	—	—	1	770
	8	$1,200	16	$3,365

NOTE 4–DEPOSITS:

Deposit balances, including stated rates, were as follows.

(in thousands)	At September 30, 2014	At December 31, 2013
Noninterest-bearing accounts	$557,580	$322,952
NOW accounts, 0.00% to 1.00% at September 30, 2014 and 0.00% to 0.75% at December 31, 2013	300,832	297,966
Statement savings accounts, due on demand, 0.00% to 1.99% at September 30, 2014 and 0.20% to 2.00% at December 31, 2013	184,656	156,181

Money market accounts, due on demand, 0.00% to 1.45% at September 30, 2014 and 0.00% to 1.50% at December 31, 2013	1,015,266	919,322
Certificates of deposit, 0.05% to 3.80% at September 30, 2014 and December 31, 2013	367,124	514,400
	$2,425,458	$2,210,821

There were $1.9 million in public funds included in deposits as of September 30, 2014 and none at December 31, 2013.

Interest expense on deposits was as follows.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
NOW accounts	$289	$265	$835	$656
Statement savings accounts	238	140	649	358
Money market accounts	1,125	1,060	3,226	2,890
Certificates of deposit	712	757	2,370	4,174
	$2,364	$2,222	$7,080	$8,078

The weighted-average interest rates on certificates of deposit September 30, 2014 and December 31, 2013 were 0.65% and 0.71%, respectively.

Certificates of deposit outstanding mature as follows.

(in thousands)	At September 30, 2014
Within one year	$235,568
One to two years	82,026
Two to three years	40,207
Three to four years	6,044
Four to five years	3,279
	$367,124

The aggregate amount of time deposits in denominations of $100 thousand or more at September 30, 2014 and December 31, 2013 was $167.5 million and $216.5 million, respectively. The aggregate amount of time deposits in denominations of more than $250 thousand at September 30, 2014 and December 31, 2013 was $19.7 million and $26.3 million, respectively. There were $83.2 million and $144.3 million of brokered deposits at September 30, 2014 and December 31, 2013, respectively.

NOTE 5–DERIVATIVES AND HEDGING ACTIVITIES:

To reduce the risk of significant interest rate fluctuations on the value of certain assets and liabilities, such as certain mortgage loans held for sale or mortgage servicing rights ("MSRs"), the Company utilizes derivatives, such as forward sale commitments, futures, option contracts, interest rate swaps and swaptions as risk management instruments in its hedging strategy. Derivative transactions are measured in terms of notional amount, which is not recorded in the consolidated statements of financial condition. The notional amount is generally not exchanged and is used as the basis for interest and other contractual payments. We held no derivatives designated as cash flow or foreign currency hedge instruments at September 30, 2014 or December 31, 2013. Derivatives are reported at their respective fair values in the other assets or the 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 2, Investment Securities of this Form 10-Q for further information on securities collateral pledged. At September 30, 2014 and December 31, 2013, 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 12, Derivatives and Hedging Activities within our 2013 Annual Report on Form 10-K.

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

	At September 30, 2014		
	Notional amount	Fair value derivatives	
(in thousands)		Asset	Liability
Forward sale commitments	$1,140,752	$1,309	$(3,950)
Interest rate swaptions	40,000	23	—
Interest rate lock commitments	457,381	14,074	(7)
Interest rate swaps	514,604	3,499	(4,166)
Total derivatives before netting	$2,152,737	18,905	(8,123)
Netting adjustments		(3,745)	3,745
Carrying value on consolidated statements of financial condition		$15,160	$(4,378)

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(in thousands)	At December 31, 2013 Notional amount	Fair value derivatives Asset	Liability
Forward sale commitments	$526,382	$3,630	$(578)
Interest rate swaptions	110,000	858	(199)
Interest rate lock commitments	261,070	6,012	(40)
Interest rate swaps	508,004	1,088	(9,548)
Total derivatives before netting	$1,405,456	11,588	(10,365)
Netting adjustments		(1,363)	1,363
Carrying value on consolidated statements of financial condition		$10,225	$(9,002)

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

	At September 30, 2014					
(in thousands)	Gross fair value	Netting adjustments	Carrying value	Cash collateral paid [(1)]	Securities pledged	Net amount
Derivative assets	$18,905	$ (3,745)	$15,160	$—	$—	$15,160
Derivative liabilities	$(8,123)	$ 3,745	$(4,378)	$3,557	$721	$(100)

	At December 31, 2013					
(in thousands)	Gross fair value	Netting adjustments	Carrying value	Cash collateral paid [(1)]	Securities pledged	Net amount
Derivative assets	$11,588	$ (1,363)	$10,225	$—	$—	$10,225
Derivative liabilities	$(10,365)	$ 1,363	$(9,002)	$8,491	$451	$(60)

(1) Excludes cash collateral of $21.5 million and $18.5 million at September 30, 2014 and December 31, 2013, which predominantly consists of collateral transferred by the Company at the initiation of derivative transactions and held by the counterparty as security. These amounts were not netted against the derivative receivables and payables, because, at an individual counterparty level, the collateral exceeded the fair value exposure at both September 30, 2014 and December 31, 2013.

The ineffective portion of net gain (loss) on derivatives in fair value hedging relationships, recognized in other noninterest income on the consolidated statements of operations, for loans held for investment were $74 thousand and $10 thousand for the three months ended September 30, 2014 and 2013, respectively, and $86 thousand and $116 thousand for the nine months ended September 30, 2014 and 2013, respectively.

The Company's fair value hedge accounting relationships had loan valuation asset adjustments of $3.5 million and $4.4 million and swap valuation liabilities of $3.5 million and $4.4 million at September 30, 2014 and December 31, 2013, respectively.

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, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Recognized in noninterest income:				
Net gain on mortgage loan origination and sale activities [1]	$(2,868)	$(37,017)	$(8,882)	$(17,368)
Mortgage servicing income (loss) [2]	2,543	3,631	23,381	(12,392)
	$(325)	$(33,386)	$14,499	$(29,760)

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

NOTE 6–MORTGAGE BANKING OPERATIONS:

Loans held for sale consisted of the following.

(in thousands)	At September 30, 2014		At December 31, 2013
Single family	$644,965	(1)	$279,385
Multifamily	53,146		556
	$698,111		$279,941

(1) The Company transferred $310.5 million of loans from the held for investment portfolio into loans held for sale in March of this year and subsequently sold $266.8 million of these loans. At June 30, 2014, the Company had transferred $17.1 million of these loans back to the held for investment portfolio.

Loans sold consisted of the following.

(in thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Single family	$1,179,464	$1,326,888	$2,705,719	$3,916,918
Multifamily	20,409	21,998	42,574	87,971
	$1,199,873	$1,348,886	$2,748,293	$4,004,889

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

Three Months Ended September 30,	Nine Months Ended September 30,

(in thousands)	2014	2013	2014	2013
Single family:				
Servicing value and secondary market gains[1]	$29,866	$23,076	$79,658	$110,760
Loan origination and funding fees	6,947	8,302	18,489	24,363
Total single family	36,813	31,378	98,147	135,123
Multifamily	930	2,113	2,019	4,747
Other	(101)	—	4,780	—
Total net gain on mortgage loan origination and sale activities	$37,642	$33,491	$104,946	$139,870

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

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

(in thousands)	September 30, 2014[(1)]	At December 31, 2013
Single family		
U.S. government and agency	$10,007,872	$11,467,853
Other	585,393	327,768
	10,593,265	11,795,621
Commercial		
Multifamily	703,197	720,429
Other	86,589	95,673
	789,786	816,102
Total loans serviced for others	$11,383,051	$12,611,723

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

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 7, 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, 2014	2013	Nine Months Ended September 30, 2014	2013
Balance, beginning of period	$1,235	$1,810	$1,260	$1,955
Additions [(1)]	518	505	1,070	1,513
Realized losses [(2)]	(86)	(717)	(663)	(1,870)
Balance, end of period	$1,667	$1,598	$1,667	$1,598

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

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

Advances are made to Ginnie Mae mortgage pools for delinquent loan payments. We also fund foreclosure costs and we repurchase loans from Ginnie Mae mortgage pools prior to recovery of guaranteed amounts. Ginnie Mae advances of $9.6 million and $7.1 million were recorded in other assets as of September 30, 2014 and December 31, 2013, respectively.

When the Company has the unilateral right to repurchase Ginnie Mae pool loans it has previously sold (generally loans that are more than 90 days past due), the Company then records the loan on its consolidated statement of financial condition. At September 30, 2014 and December 31, 2013, delinquent or defaulted mortgage loans currently in Ginnie Mae pools that the Company has recognized on its consolidated statements of financial condition totaled $13.7 million and $14.3 million, respectively, with a corresponding amount recorded within accounts payable and other liabilities on the consolidated statements of financial condition. The recognition of previously sold loans does not impact the accounting for the previously recognized MSRs.

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

(in thousands)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Servicing income, net:				
Servicing fees and other	$9,350	$8,934	$29,311	$24,497
Changes in fair value of single family MSRs due to modeled amortization [1]	(6,212)	(5,665)	(19,289)	(18,305)
Amortization of multifamily MSRs	(425)	(433)	(1,283)	(1,347)
	2,713	2,836	8,739	4,845
Risk management, single family MSRs:				
Changes in fair value due to changes in model inputs and/or assumptions [2]	899	(2,456)	(7,836) [3]	16,812
Net gain (loss) from derivatives economically hedging MSR	2,543	3,631	23,381	(12,392)
	3,442	1,175	15,545	4,420
Mortgage servicing income	$6,155	$4,011	$24,284	$9,265

(1) Represents changes due to collection/realization of expected cash flows and curtailments.
(2) Principally reflects changes in model assumptions, including prepayment speed assumptions, which are primarily affected by changes in mortgage interest rates.
(3) Includes pre-tax income of $4.7 million, net of brokerage fees and prepayment reserves, resulting from the sale of single family MSRs during the second quarter ended June 30, 2014.

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

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

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

(rates per annum) [1]	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Constant prepayment rate ("CPR") [2]	12.60 %	8.39 %	12.72 %	8.87 %
Discount rate	10.27 %	10.21 %	10.60 %	10.25 %

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

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, 2014	
Fair value of single family MSR	$115,477	
Expected weighted-average life (in years)	5.20	
Constant prepayment rate [(1)]	15.46	%
Impact on 25 basis points adverse change	$(8,343	)
Impact on 50 basis points adverse change	$(17,045	)
Discount rate	10.60	%
Impact on fair value of 100 basis points increase	$(3,568	)
Impact on fair value of 200 basis points increase	$(6,927	)

(1) Represents the expected lifetime average.

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

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands)	2014		2013		2014		2013	
Beginning balance	$108,869		$128,146		$153,128		$87,396	
Originations	11,944		16,862		31,664		50,975	
Purchases	3		10		8		19	
Sale of single family MSRs	—		—		(43,248	) [(3)]	—	
Changes due to modeled amortization[(1)]	(6,212	)	(5,665	)	(19,289	)	(18,305	)
Net additions and amortization	5,735		11,207		(30,865	)	32,689	
Changes in fair value due to changes in model inputs and/or assumptions [(2)]	873		(2,456	)	(6,786	) [(4)]	16,812	
Ending balance	$115,477		$136,897		$115,477		$136,897	

(1) Represents changes due to collection/realization of expected cash flows and curtailments.
(2)

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

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

(4) Includes pre-tax income of $5.7 million, excluding transaction costs, resulting from the sale of single family MSRs on June 30, 2014.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2014	2013	2014	2013
Beginning balance	$9,122	$9,239	$9,335	$8,097
Origination	418	597	1,062	2,652
Amortization	(424)	(433)	(1,281)	(1,346)
Ending balance	$9,116	$9,403	$9,116	$9,403

At September 30, 2014, the expected weighted-average life of the Company’s multifamily MSRs was 9.30 years. Projected amortization expense for the gross carrying value of multifamily MSRs is estimated as follows.

(in thousands)	At September 30, 2014
Remainder of 2014	$399
2015	1,551
2016	1,441
2017	1,319
2018	1,161
2019 and thereafter	3,245
Carrying value of multifamily MSR	$9,116

NOTE 7–COMMITMENTS, GUARANTEES AND CONTINGENCIES:

Commitments

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

The Company makes certain unfunded loan commitments as part of its lending activities that have not been recognized in the Company’s financial statements. These include commitments to extend credit made as part of the Company's mortgage lending activities and interest rate lock commitments on loans the Company intends to hold in its loans held for investment portfolio. The aggregate amount of these unrecognized unfunded loan commitments existing at September 30, 2014 and December 31, 2013 was $61.6 million and $18.4 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 $327.5 million and $168.5 million at September 30, 2014 and December 31, 2013, respectively. Unused home equity and commercial banking funding lines totaled $151.9 million and $154.0 million at September 30, 2014 and December 31, 2013, 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 $264 thousand and $181 thousand at September 30, 2014 and

December 31, 2013, respectively.

Guarantees

In the ordinary course of business, the Company sells loans through the Fannie Mae Multifamily Delegated Underwriting and Servicing Program ("DUS®")[1] that are subject to a credit loss sharing arrangement. The Company services the loans for Fannie Mae and shares in the risk of loss with Fannie Mae under the terms of the DUS contracts. Under the program, the DUS lender is contractually responsible for the first 5% of losses and then shares equally in the remainder of losses with Fannie Mae with a maximum lender loss of 20% of the original principal balance of each DUS loan. For loans that have been sold through this program, a liability is recorded for this loss sharing arrangement under the accounting guidance for guarantees. As of September 30, 2014 and December 31, 2013, the total unpaid principal balance of loans sold under this program was $703.2 million and $720.4 million, respectively. The Company's reserve liability related to this arrangement totaled $1.8 million and $2.0 million at September 30, 2014 and December 31, 2013. There were no actual losses incurred under this arrangement during the three and nine months ended September 30, 2014 and 2013.

Mortgage repurchase liability

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

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

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

The total unpaid principal balance of loans sold on a servicing-retained basis that were subject to the terms and conditions of these representations and warranties totaled $10.68 billion and $11.89 billion as of September 30, 2014 and December 31, 2013, respectively. At September 30, 2014 and December 31, 2013, 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 $1.7 million and $1.3 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, 2014, we reviewed our legal claims and determined that there were no claims that are considered to be probable or reasonably possible of resulting in a loss. As a result, the Company did not have any amounts reserved for legal claims as of September 30, 2014.

NOTE 8–FAIR VALUE MEASUREMENT:

For a further discussion of fair value measurements, including information regarding the Company’s valuation methodologies and the fair value hierarchy, see Note 18, Fair Value Measurement within our 2013 Annual Report on Form 10-K.

Valuation Processes

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

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

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

Estimation of Fair Value

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

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

Asset/Liability class	Valuation methodology, inputs and assumptions	Classification
Cash and cash equivalents	Carrying value is a reasonable estimate of fair value based on the short-term nature of the instruments.	Estimated fair value classified as Level 1.
Investment securities		
Investment securities available for sale	Observable market prices of identical or similar securities are used where available. If market prices are not readily available, value is based on discounted cash flows using the following significant inputs: • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	Level 2 recurring fair value measurement
Investment securities held to maturity	Observable market prices of identical or similar securities are used where available. If market prices are not readily available, value is based on discounted cash flows using the following significant inputs: • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	Carried at amortized cost. Estimated fair value classified as Level 2.
Loans held for sale		
Single-family loans, including 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
Multifamily loans	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.
Loans held for investment		
Loans held for investment, excluding collateral dependent loans	Fair value is based on discounted cash flows, which considers the following inputs: • Current lending rates for new loans	For the carrying value of loans see Note 1–Summary of Significant Accounting Policies of this Form 10-Q.

	• Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	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.

Asset/Liability class	Valuation methodology, inputs and assumptions	Classification
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 6, Mortgage Banking Operations of this Form 10-Q.	Level 3 recurring fair value measurement
Multifamily MSRs	Fair value is based on discounted estimated future servicing fees and other revenue, less estimated costs to service the loans.	Carried at lower of amortized cost or fair value Estimated fair value classified as Level 3.
Derivatives		
Interest rate swaps Interest rate swaptions Forward sale commitments	Fair value is based on quoted prices for identical or similar instruments, when available. When quoted prices are not available, fair value is based on internally developed modeling techniques, which require the use of multiple observable market inputs including: • Forward interest rates • Interest rate volatilities	Level 2 recurring fair value measurement
Interest rate lock commitments	The fair value considers several factors including: • Fair value of the underlying loan based on quoted prices in the secondary market, when available. • Value of servicing • Fall-out factor	Level 3 recurring fair value measurement
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, 2014	Level 1	Level 2	Level 3
Assets:				
Investment securities available for sale				
Mortgage backed securities:				
Residential	$110,837	$—	$110,837	$—
Commercial	13,571	—	13,571	—
Municipal bonds	123,042	—	123,042	—
Collateralized mortgage obligations:				
Residential	54,888	—	54,888	—
Commercial	15,632	—	15,632	—
Corporate debt securities	72,112	—	72,112	—
U.S. Treasury securities	42,014	—	42,014	—
Single family mortgage servicing rights	115,477	—	—	115,477
Single family loans held for sale	614,876	—	614,876	—
Derivatives				
Forward sale commitments	1,309	—	1,309	—
Interest rate swaptions	23	—	23	—
Interest rate lock commitments	14,074	—	—	14,074
Interest rate swaps	3,499	—	3,499	—
Total assets	$1,181,354	$—	$1,051,803	$129,551
Liabilities:				
Derivatives				
Forward sale commitments	$3,950	$—	$3,950	$—
Interest rate lock commitments	7	—	—	7
Interest rate swaps	4,166	—	4,166	—
Total liabilities	$8,123	$—	$8,116	$7

(in thousands)	Fair Value at December 31, 2013	Level 1	Level 2	Level 3
Assets:				
Investment securities available for sale				
Mortgage backed securities:				
Residential	$133,910	$—	$133,910	$—
Commercial	13,433	—	13,433	—
Municipal bonds	130,850	—	130,850	—
Collateralized mortgage obligations:				
Residential	90,327	—	90,327	—
Commercial	16,845	—	16,845	—
Corporate debt securities	68,866	—	68,866	—
U.S. Treasury securities	27,452	—	27,452	—
Single family mortgage servicing rights	153,128	—	—	153,128
Single family loans held for sale	279,385	—	279,385	—
Derivatives				
Forward sale commitments	3,630	—	3,630	—
Interest rate swaptions	858	—	858	—
Interest rate lock commitments	6,012	—	—	6,012
Interest rate swaps	1,088	—	1,088	—
Total assets	$925,784	$—	$766,644	$159,140
Liabilities:				
Derivatives				
Forward sale commitments	$578	$—	$578	$—
Interest rate swaptions	199	—	199	—
Interest rate lock commitments	40	—	—	40
Interest rate swaps	9,548	—	9,548	—
Total liabilities	$10,365	$—	$10,325	$40

There were no transfers between levels of the fair value hierarchy during the three and nine months ended September 30, 2014 and 2013.

Level 3 Recurring Fair Value Measurements

The Company's level 3 recurring fair value measurements consist of single family mortgage servicing rights and interest rate lock commitments, which are accounted for as derivatives. For information regarding fair value changes and activity for single family MSRs during the three and nine months ended September 30, 2014 and 2013, see Note 6, Mortgage Banking Operations of this Form 10-Q.

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

(in thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Beginning balance, net	$17,406	$406	$5,972	$22,528
Total realized/unrealized gains[1]	23,844	28,538	78,506	102,231
Settlements	(27,183)	(15,267)	(70,411)	(111,082)
Ending balance, net	$14,067	$13,677	$14,067	$13,677

(1) All realized and unrealized gains and losses are recognized in earnings as net gain from mortgage loan origination and sale activities on the consolidated statements of operations. There were net unrealized (losses) gains of $405 thousand and $13.3 million for the three months ended September 30, 2014 and 2013, respectively, and $27.3 million and $13.7 million of net unrealized gains (losses) for the nine months ended September 30, 2014 and 2013, respectively, recognized on interest rate lock commitments outstanding at the beginning of the period and still outstanding at September 30, 2014 and 2013, respectively.

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

(dollars in thousands)	At September 30, 2014					
	Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Interest rate lock commitments, net	$14,067	Income approach	Fall out factor	0.63%	79.56%	16.14%
			Value of servicing	0.51%	2.14%	1.03%

(dollars in thousands)	At December 31, 2013					
	Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Interest rate lock commitments, net	$5,972	Income approach	Fall out factor	0.5%	97.0%	17.8%
			Value of servicing	0.62%	2.65%	1.22%

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, 2014, the Company recorded no adjustments to the appraisal values of certain commercial loans held for investment that are collateralized by real estate. The Company uses a fair value of collateral technique to apply adjustments to the stated value of certain commercial loans held for investment that are not collateralized by real estate. During the three months ended September 30, 2014, the Company applied a range of stated value adjustments of 0.0% to 98.0%, with a weighted average rate of 18.6%. During the nine months ended September 30, 2014, the Company applied a range of stated value adjustments of 0.0% to 98.0%, with a weighted average rate of 22.5%. During the three months ended September 30, 2014, 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 0.0% to 18.0%, with a weighted average rate of 2.5%. During the nine months ended September 30, 2014, the Company applied a range of discount adjustments of 0.0% to 18.0%, with a weighted average rate of 0.4%. During the three and nine months ended September 30, 2013, the Company did not apply any discount adjustments to the appraisal value of loans held for investment or 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 may increase or decrease an appraised value and can 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, 2014 and 2013 and still held at the end of the respective reporting period.

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

	Three Months Ended September 30, 2013				
(in thousands)	Fair Value of Assets Held at September 30, 2013	Level 1	Level 2	Level 3	Total Gains (Losses)
Loans held for investment[1]	$37,853	$—	$—	$37,853	$(760)
Other real estate owned[2]	1,847	—	—	1,847	(174)
Total	$39,700	$—	$—	$39,700	$(934)

	Nine Months Ended September 30, 2014				
(in thousands)	Fair Value of Assets Held at September 30, 2014	Level 1	Level 2	Level 3	Total Gains (Losses)
Loans held for investment[1]	$25,786	$—	$—	$25,786	$(495)
Other real estate owned[2]	6,831	—	—	6,831	(69)
Total	$32,617	$—	$—	$32,617	$(564)

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(in thousands)	Nine Months Ended September 30, 2013 Fair Value of Assets Held at September 30, 2013	Level 1	Level 2	Level 3	Total Gains (Losses)
Loans held for investment[1]	$37,853	$—	$—	$37,853	$(1,510)
Other real estate owned[2]	10,398	—	—	10,398	(2,589)
Total	$48,251	$—	$—	$48,251	$(4,099)

(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, 2014 Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$34,687	$34,687	$34,687	$—	$—
Investment securities held to maturity	17,852	18,116	—	18,116	—
Loans held for investment	1,964,762	2,006,926	—	—	2,006,926
Loans held for sale - transferred from held for investment	30,089	30,089	—	30,089	—
Loans held for sale – multifamily	53,146	53,147	—	53,147	—
Mortgage servicing rights – multifamily	9,116	10,790	—	—	10,790
Federal Home Loan Bank stock	34,271	34,271	—	34,271	—
Liabilities:					
Deposits	$2,425,458	$2,426,678	$—	$2,426,678	$—
Federal Home Loan Bank advances	598,590	601,306	—	601,306	—
Securities sold under agreements to repurchase	14,225	14,225	—	14,225	—
Long-term debt	61,857	60,239	—	60,239	—

(in thousands)	At December 31, 2013 Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$33,908	$33,908	$33,908	$—	$—
Investment securities held to maturity	17,133	16,887	—	16,887	—

Loans held for investment	1,871,813	1,900,349	—	—	1,900,349
Loans held for sale – multifamily	556	556	—	556	—
Mortgage servicing rights – multifamily	9,335	10,839	—	—	10,839
Federal Home Loan Bank stock	35,288	35,288	—	35,288	—
Liabilities:					
Deposits	$2,210,821	$2,058,533	$—	$2,058,533	$—
Federal Home Loan Bank advances	446,590	449,109	—	449,109	—
Long-term debt	64,811	63,849	—	63,849	—

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Excluded from the fair value tables above are certain off-balance sheet loan commitments such as unused home equity lines of credit, business banking line funds and undisbursed construction funds. A reasonable estimate of the fair value of these instruments is the carrying value of deferred fees plus the related allowance for credit losses, which amounted to $2.5 million and $977 thousand at September 30, 2014 and December 31, 2013, respectively.

NOTE 9–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)	2014	2013	2014	2013
Net income	$4,975	$1,662	$16,638	$24,670
Weighted average shares:				
Basic weighted-average number of common shares outstanding	14,805,780	14,388,559	14,797,019	14,374,943
Dilutive effect of outstanding common stock equivalents [(1)]	162,458	402,112	160,015	418,484
Diluted weighted-average number of common stock outstanding	14,968,238	14,790,671	14,957,034	14,793,427
Earnings per share:				
Basic earnings per share	$0.34	$0.12	$1.12	$1.72
Diluted earnings per share	$0.33	$0.11	$1.11	$1.67

(1) Excluded from the computation of diluted earnings per share (due to their antidilutive effect) for the three and nine months ended September 30, 2014 and 2013 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 104,514 and 112,765 at September 30, 2014 and 2013, respectively.

NOTE 10–SHARE-BASED COMPENSATION PLANS:

For the three months ended September 30, 2014 and 2013, $416 thousand and $273 thousand of compensation costs, respectively, were recognized for share-based compensation awards. For the nine months ended September 30, 2014 and 2013, $1.1 million and $808 thousand of compensation costs, respectively, was recognized for share-based compensation awards.

2014 Equity Incentive Plan

In May 2014, the shareholders approved the Company's 2014 Equity Incentive Plan (the "2014 EIP"). Under the 2014 EIP, all of the Company's officers, employees, directors and/or consultants are eligible to receive awards. Awards which may be granted under the 2014 EIP include incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock awards, restricted stock units, unrestricted stock, performance share awards and performance compensation awards. The maximum amount of HomeStreet, Inc. common stock available for grant under the 2014 EIP is 900,000 shares, which includes shares of common stock that were still available for issuance under the 2010 Plan and the 2011 Plan.

Nonqualified Stock Options

The Company grants nonqualified options to key senior management personnel. A summary of changes in nonqualified stock options granted for the nine months ended September 30, 2014, is as follows.

	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in yrs.)	Aggregate Intrinsic Value [2] (in thousands)
Options outstanding at December 31, 2013	654,216	$11.54	8.1	$ 5,559
Cancelled or forfeited	(9,688)	11.00	7.4	59
Exercised	(43,504)	2.98	6.4	734
Options outstanding at September 30, 2014	601,024	12.16	7.5	3,170
Options that are exercisable and expected to be exercisable [1]	597,664	12.17	7.5	3,150
Options exercisable	382,539	$11.64	7.4	$ 2,164

(1) Adjusted for estimated forfeitures.
(2) Intrinsic value is the amount by which fair value of the underlying stock exceeds the exercise price.

Under this plan, 43,504 options have been exercised during the nine months ended September 30, 2014, resulting in cash received and related income tax benefits totaling $897 thousand. At September 30, 2014, there was $500 thousand of total unrecognized compensation costs related to stock options. Compensation costs are recognized over the requisite service period, which typically is the vesting period. Unrecognized compensation costs are expected to be recognized over the remaining weighted-average requisite service period of six months.

Restricted Shares

The Company grants restricted shares to key senior management personnel and directors. A summary of the status of restricted shares follows.

	Number	Weighted Average Grant Date Fair Value
Restricted shares outstanding at December 31, 2013	53,951	$18.18
Granted	74,645	17.99
Vested	(8,559)	15.39
Restricted shares outstanding at September 30, 2014	120,037	18.26
Nonvested at September 30, 2014	120,037	$18.26

At September 30, 2014, there was $1.7 million of total unrecognized compensation costs related to nonvested restricted shares. Unrecognized compensation costs are generally expected to be recognized over a weighted average period of 2.3 years. Restricted shares granted to non-employee directors vest one-third at each one year anniversary from the grant date.

Certain restricted stock awards granted to senior management during the second quarter of 2014 contain both service conditions and performance conditions. Performance share units ("PSUs") are stock awards where the number of shares ultimately received by the employee depends on the company’s performance against specified targets and vest over a three-year period. The fair value of each PSU is determined on the grant date, based on the company’s stock price, and assumes that performance targets will be achieved. Over the performance period, the number of shares of stock that will be issued is adjusted upward or downward based upon the probability of achievement of performance targets. The ultimate number of shares issued and the related compensation cost recognized as expense will be based on a comparison of the final performance metrics to the specified targets. Compensation cost will be recognized over the requisite three-year service period on a straight-line basis and adjusted for changes in the probability that the performance targets will be achieved.

NOTE 11–BUSINESS SEGMENTS:

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

As a result of a change in the manner in which management evaluates strategic decisions, commencing with the second quarter of 2013, the Company realigned its business segments and organized them into two lines of business: Commercial and Consumer Banking segment and Mortgage Banking segment. In conjunction with this realignment, the Company modified its internal reporting to provide discrete financial information to management for these two business segments. The information that follows has been revised to reflect the current business segments.

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

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

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

Financial highlights by operating segment were as follows.

	Three Months Ended September 30, 2014		
(in thousands)	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income [1]	$5,145	$20,163	$25,308
Provision for credit losses	—	—	—
Noninterest income	42,153	3,660	45,813
Noninterest expense	45,228	18,930	64,158
Income before income taxes	2,070	4,893	6,963
Income tax expense	629	1,359	1,988
Net income	$1,441	$3,534	$4,975
Average assets	$697,601	$2,584,404	$3,282,005

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	Three Months Ended September 30, 2013		
(in thousands)	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income [(1)]	$4,317	$16,095	$20,412
Provision (reversal of provision) for credit losses	—	(1,500)	(1,500)
Noninterest income	34,696	3,478	38,174
Noninterest expense	43,468	14,648	58,116
(Loss) income before income taxes	(4,455)	6,425	1,970
Income tax (benefit) expense	(1,260)	1,568	308
Net (loss) income	$(3,195)	$4,857	$1,662
Average assets	$619,962	$2,166,332	$2,786,294

	Nine Months Ended September 30, 2014		
(in thousands)	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income [(1)]	$11,368	$59,799	$71,167
Provision (reversal of provision) for credit losses	—	(1,500)	(1,500)
Noninterest income	120,938	13,232	134,170
Noninterest expense	124,563	58,657	183,220
Income before income taxes	7,743	15,874	23,617
Income tax expense	2,508	4,471	6,979
Net income	$5,235	$11,403	$16,638
Average assets	$571,063	$2,552,154	$3,123,217

	Nine Months Ended September 30, 2013		
(in thousands)	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income [(1)]	$12,050	$41,012	$53,062
Provision for credit losses	—	900	900
Noninterest income	145,083	9,590	154,673
Noninterest expense	126,215	44,412	170,627
Income before income taxes	30,918	5,290	36,208
Income tax expense	10,786	752	11,538
Net income	$20,132	$4,538	$24,670
Average assets	$602,443	$2,025,785	$2,628,228

(1)

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

NOTE 12–SUBSEQUENT EVENTS:

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

- the qualifying disclosures and other factors referenced in this Form 10-Q including, but not limited to, those listed under Item 1A “Risk Factors” and “Management's Discussion and Analysis of Financial Condition and Results of Operations;”
- implementation of new capital requirements under the Basel III rules and related regulations;
- our ability to manage the credit risks of our lending activities, including potential increases in loan delinquencies, nonperforming assets and write offs, decreased collateral values, inadequate loan reserve amounts and the effectiveness of our hedging strategies;
- our ability to grow our geographic footprint and our various lines of business, and to manage that growth effectively, including our effectiveness in managing the associated costs and in generating the expected revenues and strategic benefits;
- our ability to complete our pending acquisition, including resolution of any related litigation, and effectively integrate Simplicity with our operations;
- our ability to maintain our data security, including unauthorized electronic access, physical custody and inadvertent disclosure, and including potential reputational harm and litigation risks;
- our ability to implement and maintain appropriate disclosure controls and procedures and internal controls over financial reporting;
-

general economic conditions, either nationally or in our market area, including increases in mortgage interest rates, declines in housing refinance activities, employment trends, business contraction, consumer confidence, real estate values and other recessionary pressures;

- the impact of and our ability to anticipate and respond effectively to changes in the levels of general interest rates, mortgage interest rates, deposit interest rates, our net interest margin and funding sources;
- compliance with regulatory requirements, including laws and regulations such as those related to the Dodd-Frank Act and new rules being promulgated under that Act, Basel III capital requirements and related regulations, as well as

restrictions that may be imposed by our federal and state regulatory authorities, including the extent to which regulatory initiatives may affect our capital, liquidity and earnings;

- the effect on our mortgage origination and resale operations of changes in mortgage markets generally, including the uncertain impact on the market for non-qualified mortgage loans resulting from regulations which took effect in January 2014, as well as in monetary policies and economic trends and initiatives as those events affect our mortgage origination and servicing operations;
- compliance with requirements of investors and/or government-owned or sponsored entities, including Fannie Mae, Freddie Mac, Ginnie Mae, the Federal Housing Administration (the “FHA”) the Department of Housing and Urban Development (“HUD”) and the Department of Veterans' Affairs (the “VA”);
- costs associated with the integration of new personnel from growth through acquisitions and hiring initiatives, including increased salary costs, as well as time and attention from our management team that is needed to identify, investigate and successfully complete such acquisitions;
- our ability to control costs while meeting operational needs and retaining key members of our senior management team and other key managers and business producers; and
- competition.

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

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

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

Summary Financial Data

(dollars in thousands, except share data)	At or for the Quarter Ended Sept. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013	Sept. 30, 2013	At or for the Nine Months Ended Sept. 30, 2014	Sept. 30, 2013
Income statement data (for the period ended):							
Net interest income	$25,308	$23,147	$22,712	$21,382	$20,412	$71,167	$53,062
Provision (reversal of provision) for credit losses	—	—	(1,500)	—	(1,500)	(1,500)	900
Noninterest income	45,813	53,650	34,707	36,072	38,174	134,170	154,673
Noninterest expense	64,158	62,971	56,091	58,868	58,116	183,220	170,627
Net income (loss) before tax expense (benefit)	6,963	13,826	2,828	(1,414)	1,970	23,617	36,208
Income tax expense (benefit)	1,988	4,464	527	(553)	308	6,979	11,538
Net income (loss)	$4,975	$9,362	$2,301	$(861)	$1,662	$16,638	$24,670
Basic earnings (loss) per common share	$0.34	$0.63	$0.16	$(0.06)	$0.12	$1.12	$1.72
Diluted earnings (loss) per common share	$0.33	$0.63	$0.15	$(0.06)	$0.11	$1.11	$1.67
Common shares outstanding	14,852,971	14,849,692	14,846,519	14,799,991	14,422,354	14,852,971	14,422,354
Weighted average common shares:							
Basic	14,805,780	14,800,853	14,784,424	14,523,405	14,388,559	14,797,019	14,374,943
Diluted	14,968,238	14,954,998	14,947,864	14,523,405	14,790,671	14,957,034	14,793,427
Shareholders' equity per share	$19.83	$19.41	$18.42	$17.97	$18.60	$19.83	18.60
Financial position (at period end):							
Cash and cash equivalents	$34,687	$74,991	$47,714	$33,908	$37,906	$34,687	$37,906
Investment securities	449,948	454,966	446,639	498,816	574,894	449,948	574,894
Loans held for sale	698,111	549,440	588,465	279,941	385,110	698,111	385,110
Loans held for investment, net	1,964,762	1,812,895	1,662,623	1,871,813	1,510,169	1,964,762	1,510,169
Mortgage servicing rights	124,593	117,991	158,741	162,463	146,300	124,593	146,300
Other real estate owned	10,478	11,083	12,089	12,911	12,266	10,478	12,266
Total assets	3,474,656	3,235,676	3,124,812	3,066,054	2,854,323	3,474,656	2,854,323
Deposits	2,425,458	2,417,712	2,371,358	2,210,821	2,098,076	2,425,458	2,098,076
Federal Home Loan Bank advances	598,590	384,090	346,590	446,590	338,690	598,590	338,690
Repurchase agreements	14,225	14,681	—	—	—	14,225	—
Shareholders' equity	294,568	288,249	273,510	265,926	268,208	294,568	268,208
Financial position (averages):							
Investment securities	$457,545	$447,458	$477,384	$565,869	$556,862	$460,723	$497,857

Loans held for investment	1,917,503	1,766,788	1,830,330	1,732,955	1,475,011	1,838,526	1,406,582
Total interest-earning assets	2,952,916	2,723,687	2,654,078	2,624,287	2,474,397	2,777,988	2,347,560
Total interest-bearing deposits	1,861,164	1,900,681	1,880,358	1,662,180	1,488,076	1,880,664	1,519,615
Federal Home Loan Bank advances	442,409	350,271	323,832	343,366	374,682	372,605	277,192
Repurchase agreements	11,149	1,129	—	—	—	4,134	3,638
Total interest-bearing liabilities	2,376,579	2,313,937	2,267,904	2,232,456	2,045,155	2,319,872	1,906,023
Shareholders’ equity	295,229	284,365	272,596	268,328	271,286	284,146	275,463

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Summary Financial Data (continued)

(dollars in thousands, except share data)	At or for the Quarter Ended					At or for the Nine Months Ended	
	Sept. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Financial performance:							
Return on average shareholders' equity [(1)]	6.74 %	13.17 %	3.38 %	(1.28)%	2.45 %	7.81 %	11.94 %
Return on average total assets	0.61 %	1.22 %	0.30 %	(0.12)%	0.24 %	0.71 %	1.25 %
Net interest margin [(2)]	3.50 %	3.48 %	3.51 %	3.34 %	3.41 %	3.50 %	3.12 % [(3)]
Efficiency ratio [(4)]	90.21 %	82.00 %	97.69 %	102.46 %	99.20 %	89.23 %	82.14 %
Asset quality:							
Allowance for credit losses	$22,111	$22,168	$22,317	$24,089	$24,894	$22,111	$24,894
Allowance for loan losses/total loans	1.10 % [(5)]	1.19 % [(5)]	1.31 % [(5)]	1.26 % [(5)]	1.61 %	1.10 % [(5)]	1.61 %
Allowance for loan losses/nonaccrual loans	109.75 %	103.44 %	96.95 %	93.00 %	92.30 %	109.75 %	92.30 %
Total nonaccrual loans [(6)]	$19,906 [(7)]	$21,197 [(7)]	$22,823 [(7)]	$25,707 [(7)]	$26,753	$19,906 [(7)]	$26,753
Nonaccrual loans/total loans	1.00 %	1.16 %	1.35 %	1.36 %	1.74 %	1.00 %	1.74 %
Other real estate owned	$10,478	$11,083	$12,089	$12,911	$12,266	$10,478	$12,266
Total nonperforming assets	$30,384 [(7)]	$32,280 [(7)]	$34,912 [(7)]	$38,618 [(7)]	$39,019	$30,384	$39,019
Nonperforming assets/total assets	0.87 %	1.00 %	1.12 %	1.26 %	1.37 %	0.87 %	1.37 %
Net charge-offs	$57	$149	$272	$805	$1,464	$478	$3,757
Regulatory capital ratios for the Bank:							
Tier 1 leverage capital (to average assets)	9.63 %	10.17 %	9.94 %	9.96 %	10.85 %	9.63 %	10.85 %
Tier 1 risk-based capital (to risk-weighted assets)	13.03 %	13.84 %	13.99 %	14.12 %	17.19 %	13.03 %	17.19 %
Total risk-based capital (to risk-weighted	13.96 %	14.84 %	15.04 %	15.28 %	18.44 %	13.96 %	18.44 %

assets)							
Other data:							
Full-time equivalent employees (ending)	1,598	1,546	1,491	1,502	1,426	1,598	1,426

(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) Net interest margin for the first quarter of 2013 included $1.4 million in interest expense related to the correction of the cumulative effect of an error in prior years, resulting from the under accrual of interest due on the Trust Preferred Securities ("TruPS") for which the Company had deferred the payment of interest. Excluding the impact of the prior period interest expense correction, the net interest margin was 3.21% for the nine months ended September 30, 2013.

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

(5) Includes loans acquired with bank acquisitions. Excluding acquired loans, allowance for loan losses/total loans was 1.18%, 1.31%, 1.46% and 1.40% at September 30, 2014, June 30, 2014, March 31, 2014 and December 31, 2013, respectively.

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

(7) Includes $6.3 million, $6.5 million, $6.6 million and $6.5 million of nonperforming loans at September 30, 2014, June 30, 2014, March 31, 2014 and December 31, 2013, respectively, that are guaranteed by the Small Business Administration ("SBA").

(in thousands)	At or for the Quarter Ended Sept. 30, 2014	 Jun. 30, 2014	 Mar. 31, 2014	 Dec. 31, 2013	 Sept. 30, 2013	At or for the Nine Months Ended Sept. 30, 2014	 Sept. 30, 2013
SUPPLEMENTAL DATA:							
Loans serviced for others							
Single family	$10,593,265	$9,895,074	$12,198,479	$11,795,621	$11,286,244	$10,593,265	$11,286,244
Multifamily	703,197	704,997	721,464	720,429	722,767	703,197	722,767
Other	86,589	97,996	99,340	95,673	50,629	86,589	50,629
Total loans serviced for others	$11,383,051	$10,698,067	$13,019,283	$12,611,723	$12,059,640	$11,383,051	$12,059,640
Loan production volumes:							
Single family mortgage closed loans (1) (2)	$1,294,895	$1,100,704	$674,283	$773,146	$1,187,061	$3,069,882	$3,686,503
Single family mortgage interest rate lock commitments(2)	1,167,677	1,201,665	803,308	662,015	786,147	3,172,650	3,245,259
Single family mortgage loans sold(2)	1,179,464	906,342	619,913	816,555	1,326,888	2,705,719	3,916,918
Multifamily mortgage originations	60,699	23,105	11,343	16,325	10,734	95,147	74,643
Multifamily mortgage loans sold	20,409	15,902	6,263	15,775	21,998	42,574	87,971

(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.

This report contains forward-looking statements. For a discussion about such statements, including the risks and uncertainties inherent therein, see “Forward-Looking Statements.” Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Consolidated Financial Statements and Notes presented elsewhere in this report and in HomeStreet, Inc.'s 2013 Annual Report on Form 10-K.

Management’s Overview of Third Quarter 2014 Financial Performance

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

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

At September 30, 2014, we had total assets of $3.47 billion, net loans held for investment of $1.96 billion, deposits of $2.43 billion and shareholders’ equity of $294.6 million.

Results for the third quarter of 2014 reflect the continued growth of our mortgage banking business and investments to expand our commercial and consumer business. Since September 2013, we have increased our lending capacity by adding loan origination and operations personnel in all of our lending lines of business. We added 19 home loan centers, one commercial lending center, one residential construction center and 10 retail deposit branches, four de novo and six from acquisitions, to bring our total home loan centers to 55, our total commercial centers to five and our total retail deposit branches to 33.

On September 29, 2014, HomeStreet announced plans to merge with Simplicity Bancorp, Inc., a Maryland corporation and savings and loan holding company headquartered in Covina, California. HomeStreet will be the surviving company in the merger. Immediately following the merger, Simplicity Bank, a federally chartered savings bank institution, will merge with HomeStreet Bank with HomeStreet Bank continuing as the resulting bank’s name and brand. The transaction, structured as a stock-for-stock merger, is expected to have a total value of approximately $128.0 million as of the announcement date. On a pro forma basis, the combined company will have approximately $4.32 billion in assets, total deposits of approximately $3.09 billion and loans held for investment of approximately $2.69 billion as of September 30, 2014. At the time of the anticipated closing, the combined company is expected to have a network of more than 100 retail deposit branches and stand-alone lending centers in six states. Upon completion of the merger, the resulting bank will operate under the HomeStreet Bank name and brand. The transaction is expected to be completed in the first quarter of 2015, after obtaining certain approvals of the shareholders of each company and the necessary regulatory approvals.

On January 1, 2015, the Company and the Bank will become subject to new capital standards commonly referred to as “Basel III” which raise our minimum capital requirements. For more on the Basel III requirements as they apply to us, please see “Capital Management – New Capital Regulations" within the Liquidity and Capital Resources section of this Form 10-Q. In preparation for the higher capital targets under these new regulatory requirements and to better diversify our balance sheet and improve our risk profile, we sold single family mortgage loans that previously were held for investment and sold single family mortgage servicing rights during the first half of the year.

We continued to execute our strategy of diversifying earnings by expanding the commercial and consumer banking business; growing our mortgage banking market share in existing and new markets; growing and improving the quality of our deposits; and bolstering our processing, compliance and risk management capabilities. Despite substantial growth in home loan centers and mortgage production personnel, our production volume has been less than expected due in part to macroeconomic forces and

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

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

Consolidated Financial Performance

(in thousands, except per share data and ratios)	At or for the Three Months Ended September 30, 2014	2013	Percent Change 2014 vs. 2013	At or for the Nine Months Ended September 30, 2014	2013	Percent Change 2014 vs. 2013
Selected statement of operations data						
Total net revenue	$71,121	$58,586	21 %	$205,337	$207,735	(1)%
Total noninterest expense	64,158	58,116	10	183,220	170,627	7
Provision (reversal of provision) for credit losses	—	(1,500)	(100)	(1,500)	900	NM
Income tax expense	1,988	308	545	6,979	11,538	(40)
Net income	$4,975	$1,662	199 %	$16,638	$24,670	(33)%
Financial performance						
Diluted earnings per common share	$0.33	$0.11		$1.11	$1.67	
Return on average common shareholders’ equity	6.74 %	2.45 %		7.81 %	11.94 %	
Return on average assets	0.61 %	0.24 %		0.71 %	1.25 %	
Net interest margin	3.50 %	3.41 %		3.50 %	3.12 % (1)	
Capital ratios (Bank only)						
Tier 1 leverage capital (to average assets)	9.63 %	10.85 %		9.63 %	10.85 %	
Tier 1 risk-based capital (to risk-weighted assets)	13.03 %	17.19 %		13.03 %	17.19 %	
Total risk-based capital (to risk-weighted assets)	13.95 %	18.44 %		13.95 %	18.44 %	

(1) Net interest margin for the first quarter of 2013 included $1.4 million in interest expense related to the correction of the cumulative effect of an error in prior years, resulting from the under accrual of interest due on the TruPS for which the Company had deferred the payment of interest. Excluding the impact of the prior period interest expense correction, the net interest margin was 3.21% for the nine months ended September 30, 2013.

For the third quarter of 2014, net income was $5.0 million, or $0.33 per diluted share, compared to $1.7 million, or $0.11 per diluted share for the third quarter of 2013. Return on equity was 6.74% for the third quarter of 2014 (on an annualized basis), compared to 2.45% for the same period last year, while return on average assets was 0.61% for the third quarter of 2014 (on an annualized basis), compared to 0.24% for the same period last year.

Commercial and Consumer Banking Segment Results

Commercial and Consumer Banking segment net income was $3.5 million in the third quarter of 2014, compared to $4.9 million in the third quarter of 2013.

Commercial and Consumer Banking segment net interest income was $20.2 million for the third quarter of 2014, an increase of $4.1 million, or 25.3%, from $16.1 million for the third quarter of 2013, primarily due to growth in average balances of loans held for investment, both from originations and from our acquisitions in the fourth quarter of 2013.

In recognition of the Company's improving credit trends and lower charge-offs, the Company recorded no provision in the third quarter of 2014 compared to a release of $1.5 million of reserves in the third quarter of 2013. Net charge-offs were $57 thousand in the third quarter of 2014, a decrease of $1.4 million, or 96.1%, from $1.5 million in the third quarter of 2013. Overall, the allowance for loan losses (which excludes the allowance for unfunded commitments) was 1.10% of loans held for investment at September 30, 2014 compared to 1.61% at September 30, 2013, which primarily reflected the improved credit quality of the Company's loan portfolio. Excluding acquired loans, the allowance for loan losses was 1.18% of loans held for investment at September 30, 2014. Nonperforming assets of $30.4 million, or 0.87% of total assets at September 30, 2014, were down significantly from September 30, 2013 when nonperforming assets were $39.0 million, or 1.37% of total assets.

Commercial and Consumer Banking segment noninterest expense of $18.9 million increased $4.3 million, or 29.2%, from $14.6 million in the third quarter of 2013, primarily due to increased costs from fourth quarter 2013 acquisitions and the continued organic growth of our commercial real estate and commercial business lending units and the expansion of our branch banking network. We added 10 retail deposit branches, four de novo and six from acquisitions, and increased the segment's headcount by 20% during the twelve-month period.

Mortgage Banking Segment Results

Mortgage Banking segment net income was $1.4 million in the third quarter of 2014, compared to a net loss of $3.2 million in the third quarter of 2013. The increase in net income is primarily due to higher noninterest income resulting from higher interest rate lock commitment volumes.

Mortgage Banking noninterest income of $42.2 million increased $7.5 million, or 21.5%, from $34.7 million in the third quarter of 2013, primarily due to a 48.5% increase in mortgage interest rate lock commitment volumes, partially offset by lower secondary market margins. Increased commitment volumes reflect, in part, sharp increases in market interest rates late in the second quarter of 2013 which negatively impacted third quarter 2013 origination activity. Additionally, we have expanded our mortgage production offices and increased our mortgage production personnel by 26.8% at September 30, 2014 compared to September 30, 2013. At the same time, secondary market profit margins have declined, as the mortgage market became substantially more competitive as lenders tried to secure a reliable flow of production through competitive pricing.

Mortgage Banking noninterest expense of $45.2 million increased $1.8 million, or 4.0%, from $43.5 million in the third quarter of 2013, primarily due to higher commission and incentive expense and general and administrative expenses resulting from a 9.1% increase in closed loan volumes and overall growth in personnel and expansion into new markets. We added 19 home loan centers and increased the segment's headcount by 7.7% during the twelve-month period.

Regulatory Matters

The Bank remains well-capitalized, with Tier 1 leverage and total risk-based capital ratios at September 30, 2014 of 9.63% and 13.96%, respectively, compared with 10.85% and 18.44% at September 30, 2013. The decline in the Bank's capital ratios from September 30, 2013 was primarily attributable to the fourth quarter 2013 cash acquisitions of Fortune Bank, Yakima National Bank and two branches from AmericanWest Bank, which resulted in $14.4 million of net intangible assets at September 30, 2014 which are not included as capital for regulatory purposes and resulted in an increase in average and risk-weighted assets, as well as overall growth in total risk-weighted assets.

On January 1, 2015, the Company and the Bank will become subject to new capital standards commonly referred to as “Basel III” which raise our minimum capital requirements. For more on the Basel III requirements as they apply to us, please see “Capital Management – New Capital Regulations" within the Liquidity and Capital Resources section of this Form 10-Q. In preparation for the higher capital targets under these new regulatory requirements and to better diversify our balance sheet and improve our risk profile, we sold single family mortgage loans that previously were held for investment and sold single family mortgage servicing rights during the first half of the year.

Critical Accounting Policies and Estimates

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

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

These policies and estimates are described in further detail in Part II, Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations and Note 1, Summary of Significant Accounting Policies within our 2013 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.

(in thousands)	Three Months Ended September 30, 2014 Average Balance	Interest	Average Yield/Cost		2013 Average Balance	Interest	Average Yield/Cost	
Assets:								
Interest-earning assets: [1]								
Cash and cash equivalents	$27,631	$13	0.19	%	$37,671	$17	0.24	%
Investment securities	457,545	3,141	2.72	%	556,862	4,452	3.20	%
Loans held for sale	550,237	5,393	3.89	%	404,853	4,004	3.96	%
Loans held for investment	1,917,503	20,402	4.22	%	1,475,011	15,453	4.18	%
Total interest-earning assets	2,952,916	28,949	3.89	%	2,474,397	23,926	3.88	%
Noninterest-earning assets [2]	329,089				311,897			
Total assets	$3,282,005				$2,786,294			
Liabilities and shareholders' equity:								
Deposits:								
Interest-bearing demand accounts	$281,820	301	0.42	%	$254,277	265	0.41	%
Savings accounts	174,849	238	0.54	%	123,444	140	0.45	%
Money market accounts	1,001,709	1,125	0.45	%	848,300	1,060	0.50	%
Certificate accounts	402,786	700	0.69	%	383,221	762	0.79	%
Total interest-bearing deposits	1,861,164	2,364	0.50	%	1,609,242	2,227	0.57	%
Federal Home Loan Bank advances	442,409	509	0.46	%	374,682	434	0.46	%
Securities sold under agreements to repurchase	11,149	6	0.21	%	—	—	—	%
Long-term debt	61,857	271	1.74	%	61,231	274	1.75	%
Other borrowings	—	20	—	%	—	—	—	%
Total interest-bearing liabilities	2,376,579	3,170	0.53	%	2,045,155	2,935	0.57	%
Noninterest-bearing liabilities	610,197				469,853			
Total liabilities	2,986,776				2,515,008			
Shareholders' equity	295,229				271,286			
Total liabilities and shareholders' equity	$3,282,005				$2,786,294			
Net interest income [3]		$25,779				$20,991		
Net interest spread			3.36	%			3.31	%
Impact of noninterest-bearing sources			0.14	%			0.10	%
Net interest margin			3.50	%			3.41	%

(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 $471 thousand and $579 thousand for the three months ended September 30, 2014 and September 30, 2013, respectively. The estimated federal statutory tax rate was 35% for the periods presented.

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	Nine Months Ended September 30,							
	2014				2013			
(in thousands)	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
Assets:								
Interest-earning assets: [1]								
Cash and cash equivalents	$30,793	$45	0.19	%	$27,488	$46	0.26	%
Investment securities	460,723	10,005	2.90	%	497,857	11,175	2.99	%
Loans held for sale	447,946	12,863	3.84	%	415,633	11,218	3.60	%
Loans held for investment	1,838,526	59,089	4.30	%	1,406,582	43,795	4.13	%
Total interest-earning assets	2,777,988	82,002	3.95	%	2,347,560	66,234	3.75	%
Noninterest-earning assets [2]	345,229				280,668			
Total assets	$3,123,217				$2,628,228			
Liabilities and shareholders' equity:								
Deposits:								
Interest-bearing demand accounts	$268,282	657	0.33	%	$224,942	656	0.39	%
Savings accounts	166,896	657	0.53	%	114,023	358	0.42	%
Money market accounts	969,262	3,224	0.44	%	776,267	2,890	0.50	%
Certificate accounts	476,224	2,542	0.71	%	448,315	4,189	1.25	%
Total interest-bearing deposits	1,880,664	7,080	0.50	%	1,563,547	8,093	0.69	%
Federal Home Loan Bank advances	372,605	1,366	0.49	%	277,192	1,113	0.53	%
Securities sold under agreements to repurchase	4,134	7	0.23	%	3,638	11	0.40	%
Long-term debt	62,469	851	1.82	%	61,646	2,274 [3]	4.86	% [3]
Other borrowings	—	32	—	%	—	—	—	%
Total interest-bearing liabilities	2,319,872	9,336	0.54	%	1,906,023	11,491	0.79	%
Noninterest-bearing liabilities	519,199				446,742			
Total liabilities	2,839,071				2,352,765			
Shareholders' equity	284,146				275,463			
Total liabilities and shareholders' equity	$3,123,217				$2,628,228			
Net interest income [4]		$72,666				$54,743		
Net interest spread			3.41	%			2.96	%
Impact of noninterest-bearing sources			0.09	%			0.16	%
Net interest margin			3.50	%			3.12	% [3]

(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) Interest expense for the first quarter of 2013 included $1.4 million related to the correction of the cumulative effect of an immaterial error in prior years, resulting from the under accrual of interest due on the TruPS for which the Company had deferred the payment of interest. Excluding the impact of the prior period interest expense correction, the net interest margin was 3.21% for the nine months ended September 30, 2013.
(4) Includes taxable-equivalent adjustments primarily related to tax-exempt income on certain loans and securities of $1.5 million and $1.7 million for the nine months ended September 30, 2014 and September 30, 2013, respectively. The estimated federal statutory tax rate was 35% for the periods presented.

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Interest on Nonaccrual Loans

We do not include interest collected on nonaccrual loans in interest income. When we place a loan on nonaccrual status, we reverse the accrued unpaid interest receivable against interest income and amortization of any net deferred fees is suspended. Additionally, if interest is received on nonaccrual loans, the interest collected on the loan is recognized as an adjustment to the cost basis of the loan. The net decrease to interest income due to adjustments made for nonaccrual loans, including the effect of additional interest income that would have been recorded during the period if the loans had been accruing, was $713 thousand and $1.2 million for the three months ended September 30, 2014 and 2013, respectively, and $2.2 million and $3.6 million for the nine months ended September 30, 2014 and 2013, respectively.

Net Income

Net income was $5.0 million for the three months ended September 30, 2014, an increase of $3.3 million from net income of $1.7 million for the three months ended September 30, 2013, primarily due to higher average balances of interest-earning assets and higher net gain on mortgage loan origination and sale activities. For the first nine months of 2014, net income was $16.6 million, a decrease of $8.0 million, or 32.6%, from $24.7 million for the first nine months of 2013. The decline in net income from the first nine months of 2013 mainly resulted from a decrease in noninterest income, primarily due to a significantly lower gain on mortgage loan origination and sale activities driven by lower single family interest rate lock commitments. Included in noninterest income for the first nine months of 2014 were a $4.7 million pre-tax net increase in mortgage servicing income resulting from the sale of MSRs and a $4.6 million pre-tax gain on single family mortgage origination and sale activities from the sale of loans that were originally held for investment. No similar transactions occurred in the first nine months of 2013.

Net Interest Income

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

Net interest income on a tax equivalent basis was $25.8 million for the third quarter of 2014, an increase of $4.8 million, or 22.8%, from $21.0 million for the third quarter of 2013. For the first nine months of 2014, net interest income was $72.7 million, an increase of $17.9 million, or 32.7%, from $54.7 million for the first nine months of 2013. The net interest margin for the third quarter of 2014 improved to 3.50% from 3.41% in the third quarter of 2013, and improved to 3.50% for the nine months ended September 30, 2014 from 3.12% for the same period last year. The net interest margin increase from the third quarter of 2013 resulted from higher yields on higher average balances of loans held for investment. Included in interest expense for the nine months ended September 30, 2013 was expense of $1.4 million related to the correction of the cumulative effect of an immaterial error in prior years, resulting from the under accrual of interest due on the TruPS for which the Company had deferred the payment of interest. Excluding the impact of the prior period interest expense correction, the net interest margin for the nine months ended September 30, 2013 was 3.21%.

Total average interest-earning assets increased from the three and nine months ended September 30, 2013, primarily as a result of growth in average loans held for investment, both from originations and from fourth quarter 2013 acquisitions. Total average interest-bearing deposit balances increased from the prior periods primarily due to acquisition-related and organic growth in transaction and savings deposits.

Total interest income on a tax equivalent basis of $28.9 million in the third quarter of 2014 increased $5.0 million, or 21.0%, from $23.9 million in the third quarter of 2013, primarily driven by higher yields on higher average balances of loans held for investment. Average balances of loans held for investment increased $442.5 million, or 30.0%, from the third quarter of 2013. For the first nine months of 2014, interest income was $82.0 million, an increase of $15.8 million, or 23.8%, from $66.2 million in the same period last year resulting from higher yields on higher average balances of loans held for investment.

Total interest expense of $3.2 million in the third quarter of 2014 increased $235 thousand, or 8.0%, from $2.9 million in the third quarter of 2013. Higher average balances of interest-bearing deposits in the third quarter of 2014 were primarily offset by a 7 basis point reduction in the cost of interest-bearing deposits. For the first nine months of 2014, interest expense was $9.3 million, a decrease of $2.2 million, or 18.8%, from $11.5 million in the nine months ended September 30, 2013, reflecting a 19 basis point decrease in the cost of interest-bearing deposits. Included in interest expense for the nine months ended September 30, 2013 was expense of $1.4 million related to the correction of the cumulative effect of an immaterial error in prior years, resulting from the under accrual of interest due on the TruPS for which the Company had deferred the payment of interest.

Provision for Credit Losses

In recognition of our improving credit trends and lower charge-offs, we recorded no provision in the third quarter of 2014, compared to a reversal of provision of $1.5 million in the third quarter of 2013. For the nine months ended September 30, 2014, we recorded a reversal of provision of $1.5 million, compared to a provision of $900 thousand during the same period in the prior year. Nonaccrual loans declined to $19.9 million at September 30, 2014, a decrease of $5.8 million, or 22.6%, from $25.7 million at December 31, 2013. Nonaccrual loans as a percentage of total loans was 1.00% at September 30, 2014 compared to 1.36% at December 31, 2013.

Net charge-offs of $57 thousand in the third quarter of 2014 were down $1.4 million from net charge-offs of $1.5 million in the third quarter of 2013. For the first nine months of 2014, net charge-offs were $478 thousand compared to $3.8 million in the same period last year. The decrease in net charge-offs in the three and nine months ended September 30, 2014 compared to the same periods of 2013 was primarily due to lower charge-offs on single family and commercial real estate loans. For a more detailed discussion on our allowance for loan losses and related provision for loan losses, see Credit Risk Management within Management’s Discussion and Analysis of this Form 10-Q.

Noninterest Income

Noninterest income was $45.8 million in the third quarter of 2014, an increase of $7.6 million, or 20.0%, from $38.2 million in the third quarter of 2013. For the first nine months of 2014, noninterest income was $134.2 million, a decrease of $20.5 million, or 13.3%, from $154.7 million in the same period last year. Our noninterest income is heavily dependent upon our single family mortgage banking activities, which are comprised of mortgage origination and sale as well as mortgage servicing activities. The level of our mortgage banking activity fluctuates and is influenced by mortgage interest rates, the economy, employment and housing supply and affordability, among other factors. The increase in noninterest income in the third quarter of 2014 compared to the third quarter of 2013 was primarily the result of higher net gain on mortgage loan origination and sale activities due mostly to increased interest rate lock commitment volumes and a $2.1 million increase in mortgage servicing income. Our single family mortgage interest rate lock commitments of $1.17 billion in the third quarter of 2014 increased 48.5% compared to $786.1 million in the third quarter of 2013. Included in noninterest income for the first nine months of 2014 were a $4.7 million pre-tax net increase in mortgage servicing income resulting from the sale of MSRs and a $4.6 million pre-tax gain on single family mortgage origination and sale activities from the sale of loans that were originally held for investment. No similar transactions occurred in the first nine months of 2013.

Noninterest income consisted of the following.

(in thousands)	Three Months Ended September 30, 2014	2013	Dollar Change	Percent Change	Nine Months Ended September 30, 2014	2013	Dollar Change	Percent Change
Noninterest income								
Net gain on mortgage loan origination and sale activities (1)	$37,642	$33,491	$4,151	12 %	$104,946 (2)	$139,870	$(34,924)	(25)%
Mortgage servicing income	6,155	4,011	2,144	53	24,284 (3)	9,265	15,019	162
Income (loss) from WMS Series LLC	(122)	(550)	428	(78)	(69)	1,063	(1,132)	(106)
Loss on debt extinguishment	2	—	2	NM	(573)	—	(573)	NM
Depositor and other retail banking fees	944	791	153	19	2,676	2,273	403	18
Insurance agency commissions	256	242	14	6	892	612	280	46
Gain (loss) on securities available for sale	480	(184)	664	(361)	1,173	6	1,167	19,450
Other	456	373	83	22	841	1,584	(743)	(47)
Total noninterest income	$45,813	$38,174	$7,639	20 %	$134,170	$154,673	$(20,503)	(13)%

NM = not meaningful

(1) Single family and multifamily mortgage banking activities.

(2) Includes $4.6 million in pre-tax gain during the first six months of 2014 from the sale of loans that were originally held for investment.

(3) Includes pre-tax income of $4.7 million, net of transaction costs, resulting from the sale of single family MSRs during the quarter ended June 30, 2014.

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

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

(in thousands)	Three Months Ended September 30, 2014	2013	Dollar Change	Percent Change	Nine Months Ended September 30, 2014	2013	Dollar Change	Percent Change
Single family held for sale:								
Servicing value and secondary market gains(1)	$29,866	$23,076	$6,790	29 %	$79,658	$110,760	$(31,102)	(28)%
Loan origination and funding fees	6,947	8,302	(1,355)	(16)	18,489	24,363	(5,874)	(24)
Total single family held for sale	36,813	31,378	5,435	17	98,147	135,123	(36,976)	(27)

Multifamily	930	2,113	(1,183)	(56)	2,019	4,747	(2,728)	(57)
Other	(101)	—	(101)	NM	4,780 [2]	—	4,780	NM
Net gain on mortgage loan origination and sale activities	$37,642	$33,491	$4,151	12%	$104,946	$139,870	$(34,924)	(25)%

NM = not meaningful

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

(2) Includes $4.6 million in pre-tax gain during the first six months of 2014 from the sale of loans that were originally held for investment.

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

(in thousands)	Three Months Ended September 30, 2014	2013	Dollar Change	Percent Change	Nine Months Ended September 30, 2014	2013	Dollar Change	Percent Change
Single family mortgage closed loan volume [(1)]	$1,294,895	$1,187,061	$107,834	9 %	$3,069,882	$3,686,503	$(616,621)	(17)%
Single family mortgage interest rate lock commitments [(1)]	1,167,677	786,147	381,530	49	3,172,650	3,245,259	(72,609)	(2)

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

During the third quarter of 2014, single family closed loan production increased 9.1% and single family interest rate lock commitments increased 48.5% compared to the third quarter of 2013. For the first nine months of 2014, single family closed loan production decreased 16.7% and single family interest rate lock commitments decreased 2.2% compared to the same period last year. These decreases were mainly the result of higher mortgage interest rates beginning in the second quarter of 2013 that led to a reduction in refinance mortgage activity since then.

Net gain on mortgage loan origination and sale activities was $37.6 million for the third quarter of 2014, an increase of $4.2 million, or 12.4%, from $33.5 million for the third quarter of 2013. This increase predominantly reflected higher mortgage interest rate lock commitment volumes as a result of the expansion of our mortgage lending operations. Mortgage production personnel grew by approximately 26.8% at September 30, 2014 compared to September 30, 2013.

For the first nine months of 2014, net gain on mortgage loan origination and sale activities was $104.9 million, a decrease of $34.9 million, or 25.0%, from $139.9 million in the same period last year. Significant decreases in mortgage refinance activities were partially offset by a slow growing purchase market and the expansion of our mortgage lending operations. Included in net gain on mortgage loan origination and sale activities for the first nine months of 2014 was a $4.6 million pre-tax gain on single family mortgage origination and sale activities from the sale of loans that were originally held for investment.

The Company records a liability for estimated mortgage repurchase losses, which has the effect of reducing net gain on mortgage loan origination and sale activities. The following table presents the effect of changes in the Company's mortgage repurchase liability within the respective line items of net gain on mortgage loan origination and sale activities. For further information on the Company's mortgage repurchase liability, see Note 7, Commitments, Guarantees and Contingencies in this Form 10-Q.

(in thousands)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Effect of changes to the mortgage repurchase liability recorded in net gain on mortgage loan origination and sale activities:				
New loan sales [(1)]	$(518)	$(505)	$(1,070)	$(1,513)
	$(518)	$(505)	$(1,070)	$(1,513)

(1)

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

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Mortgage servicing income consisted of the following.

(in thousands)	Three Months Ended September 30, 2014	2013	Dollar Change	Percent Change	Nine Months Ended September 30, 2014	2013	Dollar Change	Percent Change
Servicing income, net:								
Servicing fees and other	$9,350	$8,934	$416	5 %	$29,311	$24,497	$4,814	20 %
Changes in fair value of MSRs due to modeled amortization (1)	(6,212)	(5,665)	(547)	10	(19,289)	(18,305)	(984)	5
Amortization of multifamily MSRs	(425)	(433)	8	(2)	(1,283)	(1,347)	64	(5)
	2,713	2,836	(123)	(4)	8,739	4,845	3,894	80
Risk management:								
Changes in fair value of MSRs due to changes in model inputs and/or assumptions (2)	899	(2,456)	3,355	(137)	(7,836) (3)	16,812	(24,648)	(147)
Net gain (loss) from derivatives economically hedging MSRs	2,543	3,631	(1,088)	(30)	23,381	(12,392)	35,773	(289)
	3,442	1,175	2,267	193	15,545	4,420	11,125	252
Mortgage servicing income	$6,155	$4,011	$2,144	53 %	$24,284	$9,265	$15,019	162 %

NM = not meaningful

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

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

(3) Includes pre-tax income of $4.7 million, net of brokerage fees and prepayment reserves, resulting from the sale of single family MSRs during the during the quarter ended June 30, 2014.

For the third quarter of 2014, mortgage servicing income was $6.2 million, an increase of $2.1 million, or 53.5%, from $4.0 million in the third quarter of 2013, primarily due to improved risk management results.

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

The net performance of our MSR risk management activities for the third quarter of 2014 was a gain of $3.4 million compared to a gain of $1.2 million in the third quarter of 2013. The higher hedging gain in 2014 largely reflected higher sensitivity to interest rates for the Company's MSRs, which led the Company to increase the notional amount of derivative instruments used to economically hedge MSRs. The higher notional amount of derivative instruments, along with a steeper yield curve, resulted in higher net gains from MSR risk management, which positively impacted mortgage servicing income. In addition, MSR risk management results for 2014 reflected the impact on the fair value of MSRs of changes in model inputs and assumptions related to historically low prepayment speeds experienced during 2014 resulting in lower projected prepayment speeds.

Mortgage servicing fees collected in the third quarter of 2014 were $9.4 million, an increase of $416 thousand, or 4.7%, from $8.9 million in the third quarter of 2013. Our loans serviced for others portfolio was $11.38 billion at September 30, 2014 compared to $12.61 billion at December 31, 2013 and $12.06 billion at September 30, 2013. The lower balance at quarter end was the result of the June 30, 2014 sale of the rights to service $2.96 billion of single family mortgage loans. Mortgage servicing fees collected in future periods will be negatively impacted in the short term because the balance of the loans serviced for others portfolio was reduced as a consequence of this sale.

Income (loss) from WMS Series LLC in the third quarter of 2014 was a loss of $122 thousand compared to a loss of $550 thousand in the third quarter of 2013. The improvement in 2014 was primarily due to a 3.6% increase in interest rate lock commitments and a 24.4% decrease in closed loan volume, which were $114.7 million and $145.8 million, respectively, for the three months ended September 30, 2014 compared to $110.7 million and $192.9 million, respectively, for the same period in 2013.

Depositor and other retail banking fees for the three and nine months ended September 30, 2014 increased from the three and nine months ended September 30, 2013, primarily driven by an increase in the number of transaction accounts as we grow our retail deposit branch network. The following table presents the composition of depositor and other retail banking fees for the periods indicated.

(in thousands)	Three Months Ended September 30, 2014	2013	Dollar Change	Percent Change	Nine Months Ended September 30, 2014	2013	Dollar Change	Percent Change
Fees:								
Monthly maintenance and deposit-related fees	$423	$387	$36	9 %	$1,241	$1,106	$135	12 %
Debit Card/ATM fees	511	381	130	34	1,397	1,104	293	27
Other fees	10	23	(13)	(57)	38	63	(25)	(40)
Total depositor and other retail banking fees	$944	$791	$153	19 %	$2,676	$2,273	$403	18 %

Noninterest Expense

Noninterest expense was $64.2 million in the third quarter of 2014, an increase of $6.0 million, or 10.4%, from $58.1 million in the third quarter of 2013. For the first nine months of 2014, noninterest expense was $183.2 million, an increase of $12.6 million, or 7.4%, from $170.6 million for the same period last year. The increase in noninterest expense in the third quarter of 2014 was primarily the result of a $2.9 million increase in salaries and related costs, a $1.5 million increase in occupancy, and a $1.1 million increase in general and administrative costs. The increase in noninterest expense for the three and nine months of 2014 compared to prior year was primarily a result of the integration of our acquisitions and a 12.1% growth in personnel in connection with our continued expansion of our mortgage banking and commercial and consumer businesses. These additions to personnel were partially offset by attrition and position eliminations in mortgage production, mortgage operations, and in commercial lending and administration. We have been eliminating positions since the fourth quarter of 2013 in response to a slowdown in mortgage activity as well as the integration of our acquisitions and we expect such eliminations to improve efficiency and performance.

Noninterest expense consisted of the following.

(in thousands)	Three Months Ended September 30, 2014	2013	Dollar Change	Percent Change	Nine Months Ended September 30, 2014	2013	Dollar Change	Percent Change
Noninterest expense								
Salaries and related costs	$42,604	$39,689	$2,915	7 %	$118,681	$113,330	$5,351	5 %
General and administrative	10,326	9,234	1,092	12	31,593	30,434	1,159	4
Legal	630	844	(214)	(25)	1,571	2,054	(483)	(24)
Consulting	628	884	(256)	(29)	2,182	2,343	(161)	(7)

Federal Deposit Insurance Corporation assessments	682	227	455	200	1,874	937	937	100
Occupancy	4,935	3,484	1,451	42	14,042	9,667	4,375	45
Information services	4,220	3,552	668	19	13,597	10,122	3,475	34
Net cost of operation and sale of other real estate owned	133	202	(69)	(34)	(320)	1,740	(2,060)	(118)
Total noninterest expense	$64,158	$58,116	$6,042	10 %	$183,220	$170,627	$12,593	7 %

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

Salaries and related costs were $42.6 million in the third quarter of 2014, an increase of $2.9 million, or 7.3%, from $39.7 million in the third quarter of 2013. For the first nine months of 2014, salaries and related costs were $118.7 million, an increase of $5.4 million, or 4.7%, from $113.3 million for the same period last year. These increases primarily resulted from a 12.1% increase in full-time equivalent employees at September 30, 2014 compared to September 30, 2013.

General and administrative expense was $10.3 million in the third quarter of 2014, an increase of $1.1 million, or 11.8%, from $9.2 million in the third quarter of 2013. For the first nine months of 2014, general and administrative expenses were $31.6 million, an increase of $1.2 million, or 3.8%, from $30.4 million for the same period last year. These expenses include general office and equipment expense, marketing, taxes and insurance.

Income Tax Expense

The Company's income tax expense was $2.0 million inclusive of discrete items, representing an income tax rate of 28.6% for the third quarter of 2014. In the third quarter of 2013, the Company’s tax expense was $308 thousand, inclusive of discrete items, representing an effective rate of 15.6%. For the first nine months of 2014, income tax expense was $7.0 million, inclusive of discrete items, compared to $11.5 million, inclusive of discrete items, for the same period last year. Our effective income tax rate was 29.6%, inclusive of discrete items, for the nine months ended September 30, 2014, compared to an effective tax rate of 31.6% for the year end 2013. Our effective income tax rate in the three and nine months ended September 30, 2014 differed from the Federal statutory tax rate of 35% due to the benefit of tax-exempt interest income, the benefit of low income housing tax credit investments, and the impact of updated state income tax for Oregon, Hawaii, California, and Idaho. Included in income tax expense for the first nine months of 2014 are $613 thousand of discrete tax items related to the adoption of ASU 2014-01, recorded in the first quarter, and federal return to provision true ups and updates to the effective state tax rate.

Review of Financial Condition – Comparison of September 30, 2014 to December 31, 2013

Total assets were $3.47 billion at September 30, 2014 and $3.07 billion at December 31, 2013. The increase in total assets was primarily due to a $418.2 million increase in loans held for sale and a $92.9 million increase in loans held for investment, partially offset by a $48.9 million decrease in investment securities. The increase in loan balances was the result of the organic growth of the Company, partially offset by the transfer of $310.5 million of single family mortgage loans out of the held for investment portfolio and into loans held for sale in March of this year and the subsequent sale of $266.8 million of these loans.

Cash and cash equivalents was $34.7 million at September 30, 2014 compared to $33.9 million at December 31, 2013, an increase of $779 thousand, or 2.3%.

Investment securities were $449.9 million at September 30, 2014 compared to $498.8 million at December 31, 2013, a decrease of $48.9 million, or 9.8%, primarily due to sales of securities.

We primarily hold investment securities for liquidity purposes, while also creating a relatively stable source of interest income. We designated substantially all securities as available for sale. We held securities having a carrying value of $17.9 million at September 30, 2014, which were designated as held to maturity.

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

	At September 30, 2014			At December 31, 2013		
(in thousands)	Fair Value	Percent		Fair Value	Percent	
Investment securities available for sale:						
Mortgage-backed securities:						
Residential	$110,837	25.7	%	$133,910	27.8	%
Commercial	13,571	3.1		13,433	2.8	
Municipal bonds	123,042	28.5		130,850	27.2	
Collateralized mortgage obligations:						
Residential	54,888	12.7		90,327	18.8	
Commercial	15,632	3.6		16,845	3.5	
Corporate debt securities	72,112	16.7		68,866	14.3	
U.S. Treasury securities	42,014	9.7		27,452	5.7	
Total investment securities available for sale	$432,096	100.0	%	$481,683	100.0	%

Loans held for sale were $698.1 million at September 30, 2014 compared to $279.9 million at December 31, 2013, an increase of $418.2 million, or 149.4%. 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 is primarily due to increased single family mortgage closed loan volume during the quarter.

Loans held for investment, net were $1.96 billion at September 30, 2014 compared to $1.87 billion at December 31, 2013, a increase of $92.9 million, or 5.0%. Our single family loan portfolio decreased $116.7 million from December 31, 2013, as the Company transferred $310.5 million of single family mortgage loans out of the portfolio and into loans held for sale in March of this year. Our construction loans, including commercial construction and residential construction, increased $167.3 million from December 31, 2013, primarily from new originations in our commercial real estate and residential construction lending business.

Mortgage servicing rights were $124.6 million at September 30, 2014 compared to $162.5 million at December 31, 2013, a decrease of $37.9 million, or 23.3%. The decline in the size of our servicing portfolio was the result of a strategic decision to sell a portion of our single family MSRs to increase capital in preparation for compliance with the new Basel III regulatory capital standards. During the second quarter of 2014, the Company sold the rights to service $2.96 billion of single family mortgage loans serviced for Fannie Mae.

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

(in thousands)	At September 30, 2014 Amount	Percent		At December 31, 2013 Amount	Percent	
Consumer loans						
Single family	$788,232	39.6	%	$904,913	47.7	%
Home equity	138,276	6.9		135,650	7.1	
	926,508	46.5		1,040,563	54.8	
Commercial loans						
Commercial real estate (1)	530,335	26.6		477,642	25.1	
Multifamily	62,498	3.1		79,216	4.2	
Construction/land development	297,790	15.0		130,465	6.9	
Commercial business	173,226	8.8		171,054	9.0	
	1,063,849	53.5		858,377	45.2	
	1,990,357	100.0	%	1,898,940	100.0	%
Net deferred loan fees and costs	(3,748)			(3,219)		
	1,986,609			1,895,721		
Allowance for loan losses	(21,847)			(23,908)		
	$1,964,762			$1,871,813		

(1) September 30, 2014 and December 31, 2013 balances comprised of $137.5 million and $156.7 million of owner occupied loans, respectively, and $392.8 million and $320.9 million of non-owner occupied loans, respectively.

Deposits were $2.43 billion at September 30, 2014 compared to $2.21 billion at December 31, 2013, an increase of $214.6 million, or 9.7%. This increase was due to higher balances of transaction and savings deposits, which were $1.77 billion at September 30, 2014, an increase of $234.8 million, or 15.3%, from $1.54 billion at December 31, 2013, reflecting the organic growth and expansion of our branch banking network. Certificates of deposit balances were $367.1 million at September 30, 2014, a decrease of $147.3 million, or 28.6%, from $514.4 million at December 31, 2013.

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, 2014 Amount	Percent		At December 31, 2013 Amount	Percent	
Noninterest-bearing accounts - checking and savings	$271,669	11.2	%	$199,943	9.0	%
Interest-bearing transaction and savings deposits:						
NOW accounts	300,832	12.4		262,138	11.9	
Statement savings accounts due on demand	184,656	7.6		156,181	7.1	
Money market accounts due on demand	1,015,266	41.9		919,322	41.6	
Total interest-bearing transaction and savings deposits	1,500,754	61.9		1,337,641	60.6	
Total transaction and savings deposits	1,772,423	73.1		1,537,584	69.6	
Certificates of deposit	367,124	15.1		514,400	23.3	
Noninterest-bearing accounts - other	285,911	11.8		158,837	7.1	
Total deposits	$2,425,458	100.0	%	$2,210,821	100.0	%

Federal Home Loan Bank advances were $598.6 million at September 30, 2014 compared to $446.6 million at December 31, 2013, an increase of $152.0 million, or 34.0%. The Company uses these borrowings to primarily fund our mortgage banking and securities investment activities.

Long-term debt was $61.9 million at September 30, 2014 compared to $64.8 million at December 31, 2013, a decrease of $3.0 million, or 4.6%. During the first quarter of 2014, we redeemed $3.0 million of TruPS that were acquired as part of the acquisition of YNB in 2013.

Shareholders’ Equity

Shareholders' equity was $294.6 million at September 30, 2014 compared to $265.9 million at December 31, 2013. This increase included net income of $16.6 million and other comprehensive income of $11.5 million recognized during the nine months ended September 30, 2014, partially offset by dividend payments of $1.6 million during the first quarter of 2014. Other comprehensive income represents unrealized gains in the valuation of our investment securities portfolio at September 30, 2014.

Shareholders’ equity, on a per share basis, was $19.83 per share at September 30, 2014, compared to $17.97 per share at December 31, 2013.

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,			
	2014		2013		2014		2013	
Return on assets (1)	0.61	%	0.24	%	0.71	%	1.25	%
Return on equity (2)	6.74	%	2.45	%	7.81	%	11.94	%
Equity to assets ratio (3)	9.00	%	9.74	%	9.10	%	10.48	%

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

Business Segments

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

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

Commercial and Consumer Banking Segment

Commercial and Consumer Banking provides diversified financial products and services to our commercial and consumer customers through bank branches and through ATMs, online, mobile and telephone banking. These products and services include deposit products; residential, consumer, business and agricultural portfolio loans;

non-deposit investment products; insurance products and cash management services. We originate construction loans, bridge loans and permanent loans for our portfolio primarily on single family residences, and on office, retail, industrial and multifamily property types. We originate multifamily real estate loans through our Fannie Mae DUS business, whereby loans are sold to or securitized by Fannie Mae, while the Company generally retains the servicing rights. As of September 30, 2014, our bank branch network consists of 33 branches in the Pacific Northwest and Hawaii. At September 30, 2014 and December 31, 2013, our transaction and savings deposits totaled \$1.77 billion and \$1.54 billion, respectively, and our loan portfolio totaled \$1.96 billion and \$1.87 billion, respectively. This segment is also responsible for the management of the Company's portfolio of investment securities.

Commercial and Consumer Banking segment results are detailed below.

(in thousands)	Three Months Ended September 30, 2014	2013	Change	Percent Change	Nine Months Ended September 30, 2014	2013	Change	Percent Change
Net interest income	$20,163	$16,095	$4,068	25 %	$59,799	$41,012	$18,787	46 %
Provision for credit losses	—	(1,500)	1,500	(100)	(1,500)	900	(2,400)	NM
Noninterest income	3,660	3,478	182	5	13,232 [1]	9,590	3,642	38
Noninterest expense	18,930	14,648	4,282	29	58,657	44,412	14,245	32
Income (loss) before income tax expense (benefit)	4,893	6,425	(1,532)	(24)	15,874	5,290	10,584	200
Income tax expense (benefit)	1,359	1,568	(209)	(13)	4,471	752	3,719	495
Net income (loss)	$3,534	$4,857	$(1,323)	(27)%	$11,403	$4,538	$6,865	151
Average assets	$2,584,404	$2,166,332	$418,072	19 %	$2,552,154	$2,025,785	$526,369	26 %
Efficiency ratio [2]	79.46 %	74.84 %			80.32 %	87.77 %		
Full-time equivalent employees (ending)	605	504	101	20	605	504	101	20
Net gain on mortgage loan origination and sale activities:								
Multifamily	930	2,113	(1,183)	—	2,019	4,747	(2,728)	—
Other	(101)	—	(101)	NM	4,780 [1]	—	4,780	NM
	$829	$2,113	$(1,284)	$—	$6,799	$4,747	$2,052	$—
Production volumes:								
Multifamily mortgage originations	60,699	10,734	49,965	465	95,147	74,643	20,504	27
Multifamily mortgage loans sold	$20,409	$21,998	$(1,589)	(7)%	$42,574	$87,971	$(45,397)	(52)%

NM = not meaningful

(1) Includes $4.6 million in pre-tax gain during the first six months of 2014 from the sale of loans that were originally held for investment.
(2) Noninterest expense divided by total net revenue (net interest income and noninterest income).

Commercial and Consumer Banking net income was $3.5 million for the third quarter of 2014, a decrease of $1.3 million from net income of $4.9 million for the third quarter of 2013. The decrease in net income in the third quarter of 2014 was primarily the result of a $1.5 million reversal of provision in the third quarter of 2013 compared to no provision recorded in the third quarter of 2014 as well as higher salaries and related costs and other expenses in the third quarter of 2014 related to fourth quarter 2013 acquisitions and organic growth. These were partially offset by a $4.1 million increase in net interest income, resulting from higher average balances of interest-earning assets related to our fourth quarter 2013 acquisitions. For the first nine months of 2014, Commercial and Consumer Banking net income was $11.4 million, improved by $6.9 million, from $4.5 million for the first nine months of 2013. Included in net income for the first nine months of 2014 was a $4.6 million pre-tax gain on single family mortgage origination and sale activities resulting from the sales of loans in the first half of 2014 that were originally designated as held for investment.

In recognition of our improving credit trends and lower charge-offs, we recorded no provision for credit losses in the third quarter of 2014, compared to a reversal of provision of $1.5 million in the third quarter of 2013. For the nine months ended September 30, 2014, we recorded a reversal of provision of $1.5 million, compared to a provision of $900 thousand during the same period in the prior year.

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

(in thousands)	Three Months Ended September 30, 2014	2013	Dollar Change	Percent Change	Nine Months Ended September 30, 2014	2013	Dollar Change	Percent Change
Servicing income, net:								
Servicing fees and other	$1,289	$789	$500	63 %	$3,196	$2,341	$855	37 %
Amortization of multifamily MSRs	(425)	(433)	8	(2)	(1,283)	(1,347)	64	(5)
Commercial mortgage servicing income	$864	$356	$508	143 %	$1,913	$994	$919	92 %

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

(in thousands)	At September 30, 2014	At December 31, 2013
Multifamily	$703,197	$720,429
Other	86,589	95,673
Total commercial loans serviced for others	$789,786	$816,102

Commercial and Consumer Banking segment noninterest expense of $18.9 million increased $4.3 million, or 29.2%, from $14.6 million in the third quarter of 2013, primarily due to increased salaries and related costs, reflecting the growth of our commercial real estate and commercial business lending units and the expansion of our branch banking network, including growth through acquisitions.

Mortgage Banking Segment

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

Mortgage Banking segment results are detailed below.

(in thousands)	Three Months Ended September 30, 2014	2013	Change	Percent Change	Nine Months Ended September 30, 2014	2013	Change	Percent Change
Net interest income	$5,145	$4,317	$828	19 %	$11,368	$12,050	$(682)	(6)%
Noninterest income	42,153	34,696	7,457	21	120,938	145,083	(24,145)	(17)
Noninterest expense	45,228	43,468	1,760	4	124,563	126,215	(1,652)	(1)
Income before income tax expense	2,070	(4,455)	6,525	NM	7,743	30,918	(23,175)	(75)
Income tax expense	629	(1,260)	1,889	NM	2,508	10,786	(8,278)	(77)
Net income	$1,441	$(3,195)	$4,636	NM	$5,235	$20,132	$(14,897)	(74)%
Average assets	$697,601	$619,962	$77,639	13 %	$571,063	$602,443	$(31,380)	(5)%
Efficiency ratio (1)	95.62 %	111.42 %			94.15 %	80.32 %		
Full-time equivalent employees (ending)	993	922	71	8	993	922	71	8
Production volumes for sale to the secondary market:								
Single family mortgage closed loan volume (2)(3)	$1,294,895	$1,187,061	$107,834	9	$3,069,882	$3,686,503	$(616,621)	(17)
Single family mortgage interest rate lock commitments(2)	1,167,677	786,147	381,530	49	3,172,650	3,245,259	(72,609)	(2)
Single family mortgage loans sold(2)	$1,179,464	$1,326,888	$(147,424)	(11)%	$2,705,719	$3,916,918	$(1,211,199)	(31)%

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

Mortgage Banking net income was $1.4 million for the third quarter of 2014, compared to a net loss of $3.2 million for the third quarter of 2013. For the first nine months of 2014, Mortgage Banking net income was $5.2 million, a decrease of $14.9 million, or 74.0%, from net income of $20.1 million for the first nine months of 2013. The increase in Mortgage Banking net income for the third quarter of 2014 primarily reflected increased interest rate lock commitment volume from the expansion of our mortgage production offices and a 26.8% increase in mortgage production personnel year over year.

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

(in thousands)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Net gain on mortgage loan origination and sale activities:(1)				
Single family:				
Servicing value and secondary market gains(2)	$29,866	$23,076	$79,658	$110,760
Loan origination and funding fees	6,947	8,302	18,489	24,363
Total mortgage banking net gain on mortgage loan origination and sale activities(1)	$36,813	$31,378	$98,147	$135,123

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

Net gain on mortgage loan origination and sale activities was $36.8 million for the third quarter of 2014, an increase of $5.4 million, or 17.3%, from $31.4 million in the third quarter of 2013. This increase is primarily the result of a 48.5% increase in interest rate lock commitments, which was mainly driven by the expansion of our mortgage production offices. Since September 2013, we have increased our home lending capacity and expanded our lending footprint by adding 19 home loan centers, including 12 in California, to bring our total home loan centers to 55.

Mortgage Banking servicing income consisted of the following.

(in thousands)	Three Months Ended September 30, 2014	2013	Dollar Change	Percent Change	Nine Months Ended September 30, 2014	2013	Dollar Change	Percent Change
Servicing income, net:								
Servicing fees and other	$8,061	$8,145	$(84)	(1)%	$26,115	$22,156	$3,959	18 %
Changes in fair value of MSRs due to modeled amortization (1)	(6,212)	(5,665)	(547)	10	(19,289)	(18,305)	(984)	5
	1,849	2,480	(631)	(25)	6,826	3,851	2,975	77
Risk management:								
Changes in fair value of MSRs due to changes in model inputs and/or assumptions (2)	899	(2,456)	$3,355	(137)	(7,836)(3)	16,812	$(24,648)	(147)
Net gain from derivatives economically hedging MSRs	2,543	3,631	(1,088)	(30)	23,381	(12,392)	35,773	(289)
	3,442	1,175	2,267	193	15,545	4,420	11,125	252
Mortgage Banking servicing income	$5,291	$3,655	$1,636	45 %	$22,371	$8,271	$14,100	170 %

(1) Represents changes due to collection/realization of expected cash flows and curtailments.
(2)

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

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

Single family mortgage servicing income of $5.3 million in the third quarter of 2014 increased $1.6 million, or 45%, from $3.7 million in the third quarter of 2013, primarily due to improved risk management results. 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.

For the first nine months of 2014, single family mortgage servicing income of $22.4 million increased $14.1 million, or 170.5%, from $8.3 million for the first nine months of 2013, primarily as a result of improved risk management results and

servicing fees collected. Included in risk management results for the first nine months of 2014 is $4.7 million of pre-tax income recognized from the second quarter 2014 sale of single family MSRs.
Single family mortgage servicing fees collected in the third quarter of 2014 decreased $84 thousand, or 1.0%, from the third quarter of 2013. As a result of the June 30, 2014 sale of single family MSRs, the portfolio of single family loans serviced for others decreased to $10.59 billion at September 30, 2014 compared to $11.29 billion at September 30, 2013. Mortgage servicing fees collected in future periods will be negatively impacted in the short term because the balance of the loans serviced for others portfolio was reduced as a consequence of this sale.

Single family loans serviced for others consisted of the following.

(in thousands)	At September 30, 2014	At December 31, 2013
U.S. government and agency	$10,007,872	$11,467,853
Other	585,393	327,768
Total single family loans serviced for others	$10,593,265	$11,795,621

Mortgage Banking noninterest expense of $45.2 million in the third quarter of 2014 increased $1.8 million, or 4.0%, from $43.5 million in the third quarter of 2013, primarily due to higher commission and incentive expense, as closed loan volumes increased 9.1% from the third quarter of 2013, and higher general and administrative expenses resulting from our expansion into new markets.

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 2013 Annual Report on Form 10-K, as well as Note 14, Commitments, Guarantees and Contingencies in our 2013 Annual Report on Form 10-K and Note 7, 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 2013 Annual Report on Form 10-K.

Credit Risk Management

The following discussion highlights developments since December 31, 2013 and should be read in conjunction with the Credit Risk Management discussion within Part II, Item 7 Management's Discussion and Analysis in our 2013 Annual Report on Form 10-K.

Loan Underwriting Standards

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

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

Additional considerations for commercial permanent loans secured by real estate:

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

Our underwriting standards for multifamily residential permanent loans generally require that the loan-to-value ratio for these loans not exceed 80% of appraised value, cost, or discounted cash flow value, as appropriate, and that multifamily residential properties attain debt coverage ratios of 1.2 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 1.2 or better.

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

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

Asset Quality and Nonperforming Assets

Nonperforming assets ("NPAs") were $30.4 million, or 0.87% of total assets at September 30, 2014, compared to $38.6 million, or 1.26% of total assets at December 31, 2013. Nonaccrual loans of $19.9 million, or 1.00% of total loans at September 30, 2014, decreased $5.8 million, or 22.6%, from $25.7 million, or 1.36% of total loans at December 31, 2013. OREO balances of $10.5 million at September 30, 2014 decreased $2.4 million, or 18.8%, from $12.9 million at December 31, 2013. Net charge-offs during the three and nine months ended September 30, 2014 were $57 thousand and $478 thousand, respectively, compared with $1.5 million and $3.8 million during the three and nine months ended September 30, 2013, respectively.

At September 30, 2014, our loans held for investment portfolio, excluding the allowance for loan losses, was $1.99 billion, an increase of $90.9 million from December 31, 2013. The allowance for loan losses decreased to $21.8 million, or 1.10% of loans held for investment, compared to $23.9 million, or 1.26% of loans held for investment at December 31, 2013.

In recognition of our improving credit trends and lower charge-offs, we recorded no provision for credit losses in the third quarter of 2014, compared to a reversal of provision of $1.5 million in the third quarter of 2013. For the nine months ended September 30, 2014, we recorded a reversal of provision of $1.5 million, compared to a provision of $900 thousand during the nine months ended September 30, 2013.

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.

	At September 30, 2014		
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans:			
Loans with no related allowance recorded	$81,770	$97,567	$—
Loans with an allowance recorded	39,321	39,581	2,636
Total	$121,091 [(1)]	$137,148	$2,636

	At December 31, 2013		
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans:			
Loans with no related allowance recorded	$81,301	$112,795	$—
Loans with an allowance recorded	38,568	38,959	2,571
Total	$119,869 [(1)]	$151,754	$2,571

(1) Includes $70.0 million and $70.3 million in single family performing troubled debt restructurings ("TDRs") at September 30, 2014 and December 31, 2013, respectively.

The Company had 247 impaired loans totaling $121.1 million at September 30, 2014 and 216 impaired loans totaling $119.9 million at December 31, 2013. The average recorded investment in these loans for the three and nine months ended September 30, 2014 was $119.1 million and $119.0 million, respectively, compared with $122.2 million and $123.5 million for the three and nine months ended September 30, 2013, respectively. Impaired loans of $39.3 million and $38.6 million had a valuation allowance of $2.6 million and $2.6 million at September 30, 2014 and December 31, 2013, 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 2013 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, 2014			At December 31, 2013		
(in thousands)	Amount	Percent of Allowance to Total Allowance	Loan Category as a % of Total Loans	Amount	Percent of Allowance to Total Allowance	Loan Category as a % of Total Loans
Consumer loans						
Single family	$8,878	40.2 %	39.6 %	$11,990	49.8 %	47.7 %
Home equity	3,563	16.1	6.9	3,987	16.6	7.1
	12,441	56.3	46.5	15,977	66.4	54.8
Commercial loans						
Commercial real estate	3,981	18.0	26.6	4,012	16.7	25.2
Multifamily	713	3.2	3.1	942	3.9	4.2
Construction/land development	2,687	12.2	15.0	1,414	5.9	6.9
Commercial business	2,289	10.3	8.8	1,744	7.1	8.9
	9,670	43.7	53.5	8,112	33.6	45.2
Total allowance for credit losses	$22,111	100.0 %	100.0 %	$24,089	100.0 %	100.0 %

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

(in thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Allowance at the beginning of period	$22,168	$27,858	$24,089	$27,751
Provision for loan losses	—	(1,500)	(1,500)	900
Recoveries:				
Consumer				
Single family	65	179	106	425
Home equity	94	273	420	526
	159	452	526	951
Commercial				
Commercial real estate	275	—	431	—
Construction/land development	123	348	185	699
Commercial business	51	25	198	173
	449	373	814	872
Total recoveries	608	825	1,340	1,823
Charge-offs:				
Consumer				
Single family	(226)	(606)	(509)	(2,468)
Home equity	(135)	(377)	(694)	(1,515)
	(361)	(983)	(1,203)	(3,983)
Commercial				
Commercial real estate	—	(1,306)	(23)	(1,449)
Construction/land development	—	—	—	(148)
Commercial business	(304)	—	(592)	—
	(304)	(1,306)	(615)	(1,597)
Total charge-offs	(665)	(2,289)	(1,818)	(5,580)
(Charge-offs), net of recoveries	(57)	(1,464)	(478)	(3,757)
Balance at end of period	$22,111	$24,894	$22,111	$24,894

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

	At September 30, 2014		
(in thousands)	Accrual	Nonaccrual	Total
Consumer			
Single family [1]	$72,663	$1,379	$74,042
Home equity	2,501	20	2,521
	75,164	1,399	76,563
Commercial			
Commercial real estate	23,964	1,182	25,146
Multifamily	3,101	—	3,101
Construction/land development	5,693	—	5,693
Commercial business	658	9	667
	33,416	1,191	34,607
	$108,580	$2,590	$111,170

	At December 31, 2013		
(in thousands)	Accrual	Nonaccrual	Total
Consumer			
Single family [1]	$70,304	$4,017	$74,321
Home equity	2,558	86	2,644
	72,862	4,103	76,965
Commercial			
Commercial real estate	19,620	628	20,248
Multifamily	3,163	—	3,163
Construction/land development	6,148	—	6,148
Commercial business	112	—	112
	29,043	628	29,671
	$101,905	$4,731	$106,636

(1) Includes loan balances insured by the FHA or guaranteed by the VA of $24.6 million and $17.8 million, at September 30, 2014 and December 31, 2013, respectively.

The Company had 231 loan relationships classified as troubled debt restructurings (“TDRs”) totaling $111.2 million at September 30, 2014 with related unfunded commitments of $55 thousand. The Company had 204 loan relationships classified as TDRs totaling $106.6 million at December 31, 2013 with related unfunded commitments of $47 thousand. TDR loans within the loans held for investment portfolio and the related reserves are included in the impaired loan tables above.

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

(in thousands)	At September 30, 2014 30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Not Accruing	90 Days or More Past Due and Still Accruing		Total Past Due Loans	Other Real Estate Owned
Consumer loans							
Single family	$2,406	$1,535	$8,350	$31,480	(1)	$43,771	$2,818
Home equity	461	109	1,700	—		2,270	—
	2,867	1,644	10,050	31,480		46,041	2,818
Commercial loans							
Commercial real estate	—	—	7,058	—		7,058	1,822
Multifamily	—	—	—	—		—	—
Construction/land development	—	—	—	—		—	5,838
Commercial business	44	—	2,798	—		2,842	—
	44	—	9,856	—		9,900	7,660
Total	$2,911	$1,644	$19,906	$31,480		$55,941	$10,478

(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, 2013 30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Not Accruing	90 Days or More Past Due and Still Accruing[(1)]		Total Past Due Loans	Other Real Estate Owned
Consumer loans							
Single family	$6,466	$4,901	$8,861	$46,811	(1)	$67,039	$5,246
Home equity	375	75	1,846	—		2,296	—
	6,841	4,976	10,707	46,811		69,335	5,246
Commercial loans							
Commercial real estate	—	—	12,257	—		12,257	1,688
Construction/land development	—	—	—	—		—	5,977
Commercial business	—	—	2,743	—		2,743	—
	—	—	15,000	—		15,000	7,665
Total	$6,841	$4,976	$25,707	$46,811		$84,335	$12,911

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

Liquidity and Capital Resources

Liquidity risk management is primarily intended to ensure we are able to maintain cash flows adequate to fund operations and meet our obligations, including demands from depositors, draws on lines of credit and paying any

creditors, on a timely and cost-effective basis, in various market conditions. Our liquidity profile is influenced by changes in market conditions, the composition of the balance sheet and risk tolerance levels. HomeStreet, Inc., HomeStreet Capital ("HSC") and the Bank
have established liquidity guidelines and operating plans that detail the sources and uses of cash and liquidity.

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

HomeStreet, Inc.

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

HomeStreet Capital

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

HomeStreet Bank

The Bank’s primary short-term sources of funds include deposits, advances from the FHLB, repayments and prepayments of loans, proceeds from the sale of loans and investment securities and interest from our loans and investment securities. We have also raised short-term funds through the sale of securities under agreements to repurchase. While scheduled principal repayments on loans are a relatively predictable source of funds, deposit inflows and outflows and loan prepayments are greatly influenced by interest rates, economic conditions and competition. The primary liquidity ratio is defined as net cash, short-term investments and other marketable assets as a percent of net deposits and short-term borrowings. At September 30, 2014, our primary liquidity ratio was 36.1% compared to 26.9% at December 31, 2013.

At September 30, 2014 and December 31, 2013, the Bank had available borrowing capacity of $113.8 million and $228.5 million, respectively, from the FHLB, and $390.6 million and $332.7 million, respectively, from the Federal Reserve Bank of San Francisco.

Cash Flows

For the nine months ended September 30, 2014, cash and cash equivalents increased $779 thousand, compared to an increase of $12.6 million for the nine months ended September 30, 2013. 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, 2014, net cash of $352.6 million was used in operating activities, as cash used to fund loans held for sale production exceeded proceeds from the sale of loans. 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, 2013, net cash of $261.4 million was provided by operating activities, as proceeds from the sale of loans held for sale were largely offset by cash used to fund the production 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, 2014, net cash of $24.2 million was used in investing activities, as the Company increased the balances of its loans held for investment portfolio, primarily offset by the sale of loans originated as held for investment and the sale of investment securities. The Company elected to sell single family mortgage loans during the second quarter of 2014 to provide additional liquidity to support the commercial loan portfolio growth and to reduce the concentration of single family mortgage loans in the portfolio. For the nine months ended September 30, 2013, net cash of $447.7 million was used in investing activities, as the Company increased the balances of its investment securities portfolio and its loans held for investment portfolio.

Cash flows from financing activities

The Company's financing activities are primarily related to customer deposits and net proceeds from the FHLB. For the nine months ended September 30, 2014, net cash of $377.6 million was provided by financing activities, primarily resulting from a $214.6 million growth in deposits and net proceeds of $152.0 million of FHLB advances. For the nine months ended September 30, 2013, net cash of $199.0 million was provided by financing activities. We had net proceeds of $79.6 million of FHLB advances as the Company grew its investment securities portfolio by $157.3 million and its loans held for investment portfolio by $201.2 million, both of which required additional wholesale funding.

Capital Management

Federally insured depository institutions, such as the Bank, are required to maintain a minimum level of regulatory capital. The FDIC regulations recognize two types, or tiers, of capital: “core capital,” or Tier 1 capital, and “supplementary capital,” or Tier 2 capital. The FDIC currently measures a bank’s capital using (1) Tier 1 leverage ratio, (2) Tier 1 risk-based capital ratio and (3) Total risk-based capital ratio. In order to qualify as “well capitalized,” a bank must have a Tier 1 leverage ratio of at least 5.0%, a Tier 1 risk-based capital ratio of at least 6.0% and a Total risk-based capital ratio of at least 10.0%. In order to be deemed “adequately capitalized,” a bank generally must have a Tier 1 leverage ratio of at least 4.0%, a Tier 1 risk-based capital ratio of at least 4.0% and a Total risk-based capital ratio of at least 8.0%. The FDIC retains the right to require a depository institution to maintain a higher capital level based on its particular risk profile.

At September 30, 2014, 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 the Bank’s capital amounts and ratios.

	At September 30, 2014								
	Actual			For Minimum Capital Adequacy Purposes			To Be Categorized As “Well Capitalized” Under Prompt Corrective Action Provisions		
(in thousands)	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Tier 1 leverage capital (to average assets)	$312,141	9.63	%	$129,613	4.0	%	$162,016	5.0	%
Tier 1 risk-based capital (to risk-weighted assets)	312,141	13.03	%	95,808	4.0	%	143,713	6.0	%
Total risk-based capital (to risk-weighted assets)	$334,251	13.96	%	$191,617	8.0	%	$239,521	10.0	%

	At December 31, 2013								
	Actual			For Minimum Capital Adequacy Purposes			To Be Categorized As “Well Capitalized” Under Prompt Corrective Action Provisions		
(in thousands)	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Tier 1 leverage capital (to average assets)	$291,673	9.96	%	$117,182	4.0	%	$146,478	5.0	%

Tier 1 risk-based capital (to risk-weighted assets)	291,673	14.12	%	81,708	4.0	%	122,562	6.0	%
Total risk-based capital (to risk-weighted assets)	$315,762	15.28	%	$163,415	8.0	%	$204,269	10.0	%

New Capital Regulations

In July 2013, federal banking regulators (including the FDIC and the FRB) adopted new capital rules (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.

Under the Rules, both the Company and the Bank will be required to meet certain minimum capital requirements. The Rules implement a new capital ratio of common equity Tier 1 capital to risk-based assets. Common equity Tier 1 capital generally consists of retained earnings and common stock instruments (subject to certain adjustments), as well as accumulated other comprehensive income (“AOCI”) except to the extent that the Company and the Bank exercise a one-time irrevocable option to exclude certain components of AOCI. Both the Company and the Bank expect to elect this one-time option to exclude certain components of AOCI. Both the Company and the Bank are required to have a common equity Tier 1 capital ratio of at least 4.5%. In addition, both the Company and the Bank are required to have a Tier 1 leverage ratio of 4.0%, a Tier 1 risk-based ratio of at least 6.0% and a total risk-based ratio of at least 8.0%. In addition to the preceding requirements, both the Company and the Bank are required to establish a “conservation buffer”, consisting of common equity Tier 1 capital, which is at least 2.5% above each of the preceding common equity Tier 1 capital ratios, 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 prompt corrective action rules, which apply to the Bank but not the Company, are modified to include a common equity Tier 1 risk-based ratio and to increase certain other capital requirements for the various thresholds. For example, the requirements for the Bank to be considered well-capitalized under the Rules are a 5.0% Tier 1 leverage ratio, a 6.5% common equity Tier 1 risk-based ratio, an 8.0% Tier 1 risk-based capital ratio and a 10.0% total risk-based capital ratio. To be adequately capitalized, those ratios are 4.0%, 4.5%, 6.0% and 8.0%, respectively.

The Rules modify 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. As a result, the Company will not be required to exclude our outstanding trust preferred securities from our Tier 1 capital calculations.

The Rules make 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, among which are commercial real estate, credit facilities that finance the acquisition, development or construction of real property, certain exposures or credit 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.

The Company and the Bank are generally required to begin compliance with the Rules on January 1, 2015. The conservation buffer will be 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 as of the effective date, and we have taken additional steps, including the sale of MSRs in the quarter ended June 30, 2014, to increase our capital to prepare for compliance with these new standards.

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

For a discussion of the quantitative and qualitative disclosures about market risk, see Part I, Item 3 Quantitative and Qualitative Disclosures About Market Risk, Market Risk Management in our Quarterly Report on Form 10-Q for the period ended June 30, 2014, which discussion highlights developments since December 31, 2013 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 2013 Annual Report on Form 10-K.

During the six months ending June 30, 2014, the Company undertook certain actions in order to adjust the interest rate risk sensitivity of its balance sheet. Specifically, the Company reduced the interest rate sensitivity of its available-for-sale investment securities and held-for-investment loan portfolios and extended the maturity of a portion of its FHLB borrowings. As a result of these combined actions, the estimated sensitivity of net interest income is positively correlated with changes in interest rates, meaning an increase (decrease) in interest rates would result in an increase (decrease) in net interest income.

There have been no material changes in the Company’s market risk management since June 30, 2014. Since December 31, 2013, there have been no material changes in the types of risk management instruments we use or in our hedging strategies.

ITEM 4 CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Registrant carried out an evaluation, with the participation of our management, and under the supervision of our Chief Executive Officer and Chief Accounting 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.

After the closing of the Registrant’s books for the quarter ended September 30, 2014 and during the preparation of the Registrant’s financial statements as of and for the three and nine month periods then ended, management discovered errors in the Registrant’s analysis of hedge effectiveness related to fair value hedge accounting for fourteen commercial loans and related swap or derivative instruments designed to hedge against benchmark interest rate risk (“Hedge Effectiveness Errors”). The loans and related swaps had been originated between 2006 and 2008. Management determined that the loans and related swaps had not been evaluated in accordance with the appropriate fair value hedging methodology. The Hedge Effectiveness Errors resulted in inaccurate calculations of changes in the loan fair values related to changes in the benchmark interest rate. Management further determined that management of the hedging effectiveness analysis and loan valuation by the Treasury Department had been ineffective and that there was insufficient oversight provided by the Accounting Department to ensure adherence to the relevant accounting principles and to provide for an effective system of internal controls relating to these assets and liabilities.

Following the discovery of the Hedge Effectiveness Errors, management determined that the circumstances reflected a deficiency in the Registrant’s internal accounting controls. Management then evaluated the materiality of the Hedge Effectiveness Errors to the current and prior accounting periods and determined the Hedge Effectiveness Errors were immaterial to all relevant periods. Management also evaluated the deficiency in its accounting controls based upon the potential maximum errors that could have resulted from the deficiency. Based upon that evaluation, management determined that the Registrant had experienced a material weakness in its internal accounting controls as of September 30, 2014.

Based on Management’s assessment of the Hedge Effectiveness Errors and related internal accounting control weakness, management determined that certain changes in the Registrant’s internal accounting controls and other actions will be implemented during the fourth quarter of 2014, including:

- enhanced oversight by the Accounting Department of complex accounting for financial instruments within the Registrant's Treasury Department;
- termination of the swaps related to affected loans during the fourth quarter of 2014, an action that is expected to have no material impact upon the Registrant's results of operations or financial condition;
- terminating any remaining fair value hedge accounting relationships; and
- amortizing the previously recorded changes in value of the affected loans over the remaining life of those loans, an amount that in the aggregate is immaterial to the Registrant's results of operations and financial condition.

In addition, the Registrant had ceased the lending and hedging practices from 2008 that gave rise to these errors and management has no plans to reestablish any similar practices or products.

Management has concluded that, as of September 30, 2014, the Registrant’s internal controls over financial reporting were not effective for the reasons set forth above.

Internal Control Over Financial Reporting

There were no changes to our internal control over financial reporting that occurred during the quarter ended September 30, 2014 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

On or about October 10, 2014, a putative class action lawsuit related to the merger of Simplicity Bancorp with and into HomeStreet, captioned Bushansky vs. Simplicity Bancorp, Inc., et al. (Cause No. BC560508), was filed in the Superior Court of California, Los Angeles County, against Simplicity, each of Simplicity's directors and HomeStreet, Inc. The action, brought by a purported shareholder of Simplicity, seeks certification of a class of all holders of Simplicity common stock (except the defendants and their affiliates) and alleges, among other things, that Simplicity's directors breached their fiduciary duties by putting their personal interests ahead of those of Simplicity's shareholders and failing to take adequate measures to protect the interests of Simplicity's shareholders, and further alleges that HomeStreet aided and abetted such alleged breaches. The action seeks, among other things, an injunction against the merger and damages, as well as recovery of the costs of the action, including attorneys' and experts' fees. HomeStreet believes the claims alleged against it in the actions to be without merit and intends to defend against them vigorously. In addition, Simplicity has informed the Company that it also believes the allegations against it in the actions to be without merit, and that it intends to defend against the claims vigorously.

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

ITEM 1A RISK FACTORS

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

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

In 2012, HomeStreet completed its initial public offering of common stock. At that time HomeStreet had been operating under regulatory orders that had been imposed during the financial crisis of 2007 through 2010 as a result of HomeStreet Bank having experienced operating losses, capital impairment, asset quality deterioration and a number of related operational and management issues. In early 2010 we began recruiting a new management team, and the recapitalization brought about by our initial public offering, together with aggressive management strategies, helped us substantially improve all aspects of our operations and financial condition. As a result of a combination of these factors, our regulators removed all extraordinary restrictions on our operations by early 2013. In November 2013 we completed the simultaneous acquisitions by merger of Fortune Bank, headquartered in Seattle, and Yakima National Bank, headquartered in Yakima, Washington. In December 2013 we completed the acquisition of two Seattle branches from AmericanWest Bank. In September 2014, we announced the pending acquisition by merger of Simplicity Bancorp and the merger of Simplicity Bank with HomeStreet Bank ("Simplicity Merger"). That pending merger represents our third whole-bank acquisition in less than two years. Simultaneously, we have grown our mortgage origination operations opportunistically but quickly, opening new offices in the San Francisco Bay and Los Angeles areas of California in 2013 and 2014 while also continuing to grow those operations in our Pacific Northwest offices, and in October 2014 we announced plans to further expand our mortgage origination operations into Arizona beginning in the fourth quarter of 2014.

At the time we completed our IPO, and after giving effect to the $77.6 million in net proceeds from that offering, based on December 31, 2011 balances, we had total assets of approximately $2.4 billion, total deposits of approximately $2.0 billion, and total loans of approximately $1.5 billion, and we had approximately 600 employees. At September 30, 2014, we had total assets of approximately $3.5 billion, total deposits of $2.4 billion, total loans of approximately $2.7 billion, and approximately 1,600 employees. On a proforma basis giving effect to the Simplicity Merger, as of September 30, 2014, the combined company would have had total assets of approximately $4.1 billion, total deposits of $3.07 billion, and total loans of approximately $3.07 billion. Further, unlike the Fortune Bank and Yakima National Bank acquisitions, which together resulted in only modest geographic expansion, the Simplicity Merger represents a substantial geographic expansion of our commercial and consumer banking operations. We have plans to continue growing strategically, and we may also grow opportunistically from time to time. Growth can present substantial demands on management personnel, line employees, and other aspects of a bank's operations, and those challenges are particularly pronounced when growth occurs rapidly. We may face difficulties in managing that growth, and we may experience a variety of adverse consequences, including:

- loss of or damage to key customer relationships;
- distraction of management from ordinary course operations;
- 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 to accommodate our growth in employees;
- increased costs related to hiring, training and providing initial compensation to new employees, which may not be recouped if those employees do not remain with us long enough to be profitable;
- challenges in complying with legal and regulatory requirements in new jurisdictions;
- inadequacies in our computer systems, accounting policies and procedures, and management personnel (some of which may be difficult to detect until other problems become manifest);
- challenges integrating different systems, practices, and customer relationships;
- an inability to attract and retain personnel whose experience and (in certain circumstances) business relationships promote the achievement of our strategic goals; and
- increasing volatility in our operating results as we progress through these initiatives.

The pending acquisition of Simplicity and any future acquisitions could consume significant resources, present significant challenges in integration and may not be successful.

In the fourth quarter of 2013 we completed our acquisitions of Fortune Bank, Yakima National Bank and the two retail branches of AmericanWest Bank and in September 2014 we announced the Simplicity Merger. While we consider our 2013 acquisitions to be substantially integrated, we expect to close the Simplicity acquisition in the first half of 2015 and we may seek out other acquisitions in the near future as we look for ways to continue to grow our business and our market share. The Simplicity acquisition and any future acquisition we may undertake may involve numerous risks related to the investigation and consideration of the potential acquisition, the costs of undertaking such a transaction and, if we are successful in closing such transaction, the risks inherent in the integration of the acquired assets or entity 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;
- Costs incurred in the process of vetting potential acquisition candidates which may not be recouped by the Company;
- 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, controls, procedures and policies at the acquired companies or businesses; and
- Potential loss of key employees of the acquired companies.

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

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

Interest rates may be affected by many factors beyond our control, including general and economic conditions and the monetary and fiscal policies of various governmental and regulatory authorities. Increases in interest rates in early 2014 reduced our mortgage revenues in large part by drastically reducing the market for refinancings, which has 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. Our earnings are also dependent on the difference between the interest earned on loans and investments and the interest paid on deposits and borrowings. Changes in market interest rates impact the rates earned on loans and investment securities and the rates paid on deposits and borrowings and may negatively impact our ability to attract deposits, make loans and achieve satisfactory interest rate spreads, which could adversely affect our financial condition or results of operations. In addition, changes to market interest rates may impact the level of loans, deposits and investments and the credit quality of existing loans.

In addition, our securities portfolio includes securities that are insured or guaranteed by U.S. government agencies or government-sponsored enterprises and other securities that are sensitive to interest rate fluctuations. The unrealized gains or losses in our available-for-sale portfolio are reported as a separate component of shareholders' equity until realized upon sale. Future interest rate fluctuations may impact the value of these securities and as a result, shareholders' equity, causing material fluctuations from quarter to quarter. Failure to hold our securities until maturity or until market conditions are favorable for a sale could adversely affect our financial condition.

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

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

Despite recent improvements in the economy and increases in interest rates, we are continuing to operate in an uncertain economic environment, including sluggish national and global conditions, accompanied by high unemployment and very low interest rates. Financial institutions continue to be affected by changing conditions in the real estate and financial markets, along with an arduous and changing regulatory climate in which regulations passed in response to conditions and events during the economic downturn continue to be implemented. Recent improvements in the housing market may not continue, and a return to a recessionary economy could result in financial stress on our borrowers that may result in volatility in home prices, increased foreclosures and significant write-downs of asset values, all of which would adversely affect our financial condition and results of operations.

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

- Market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, resulting in increased delinquencies and default rates on loans and other credit facilities;
- Regulatory scrutiny of the industry could further increase, leading to harsh regulation of our industry that could lead to a higher cost of compliance, limit our ability to pursue business opportunities and increase our exposure to the judicial system and the plaintiff’s bar;
- The models we use to assess the creditworthiness of our customers may prove less reliable than we had anticipated in predicting future behaviors which may impair our ability to make good underwriting decisions;
- If our forecasts of economic conditions and other economic predictions are not accurate, we may face challenges in accurately estimating the ability of our borrowers to repay their loans;
- Further erosion in the fiscal condition of the U.S. Treasury may lead to new taxes limiting the ability of the Company to pursue growth and return profits to shareholders; and
- Future political developments and fiscal policy decisions may create uncertainty in the marketplace.

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

The proposed 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. Since the nationwide downturn in residential mortgage lending that began in 2007 and the placement of Fannie Mae and Freddie Mac into conservatorship, Congress and various executive branch agencies have offered a wide range of proposals aimed at restructuring these agencies. The Obama administration has called for scaling back the role of the U.S. government in, and promoting the return of private capital to, the mortgage markets and the reduction of the role of Fannie Mae and Freddie Mac in the mortgage markets by, among other things, reducing conforming loan limits, increasing guarantee fees and requiring larger down payments by borrowers with the ultimate goal of winding down Fannie Mae and Freddie Mac. As recently as January

2014, the White House reaffirmed the view that housing finance reform should include ending Fannie Mae and Freddie Mac's business model.

Notwithstanding the White House's reaffirmed position, in May 2014 FHFA released a strategic plan relating to the conservatorships of Fannie Mae and Freddie Mac which no longer involves specific steps to contract Fannie Mae's and Freddie Mac's market presence, but retains a goal focused on ways to bring additional private capital into the system in order to reduce taxpayer risk. However, Congress has recently considered several bills to reform the housing finance system, including bills that, among other things, would require Fannie Mae and Freddie Mac to be wound down after a period of time and place certain restrictions on Fannie Mae's and Freddie Mac's activities prior to being wound down. We expect that Congress will continue to hold hearings and consider legislation on the future status of Fannie Mae and Freddie Mac, including proposals that would result in Fannie Mae's liquidation or dissolution.

We cannot be certain if or when Fannie Mae and Freddie Mac ultimately will be restructured or wound down, if or when additional reform of the housing finance market will be implemented or what the future role of the U.S. government will be in the mortgage market, and, accordingly, we will not be able to determine the impact that any such reform may have on us until a definitive reform plan is adopted. However, any restructuring or replacement of Fannie Mae and Freddie Mac that restricts the current loan purchase programs of those entities may have a material adverse effect on our business and results of operations. Moreover, we have recorded on our balance sheet an intangible asset (mortgage servicing rights, or MSRs) relating to our right to service single and multifamily loans sold to Fannie Mae and Freddie Mac. That MSR asset was valued at $124.6 million at September 30, 2014. Changes in the policies and operations of Fannie Mae and Freddie Mac or any replacement for or successor to those entities that adversely affect our single family residential loan and DUS mortgage servicing assets may require us to record impairment charges to the value of these assets, and significant impairment charges could be material and adversely affect our business.

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

We may need to increase our capital to be prepared to comply with more stringent capital requirements under Basel III beginning on January 1, 2015.

In July 2013, the U.S. federal banking regulators (including the Federal Reserve and FDIC) jointly announced the adoption of new rules relating to capital standards requirements, including requirements contemplated by Section 171 of the Dodd-Frank Act as well as certain standards initially adopted by the Basel Committee on Banking Supervision, which standards are commonly referred to as Basel III. A substantial portion of these rules will apply to both the Company and the Bank beginning in January 2015. As part of these new rules, both the Company and the Bank will be required to have a common equity Tier 1 capital ratio of 4.5%, have a Tier 1 leverage ratio of 4.0%, a Tier 1 risk-based ratio of 6.0% and a total risk-based ratio of 8.0%. In addition, both the Company and the Bank will be required to establish a "conservation buffer", consisting of common equity Tier 1 capital, equal to 2.5%, which means in effect that in order to prevent certain regulatory restrictions, the common equity Tier 1 capital ratio requirement will be 7.0%, the Tier 1 risk-based ratio requirement will be 8.5% and the total risk-based ratio requirement will be 10.5%. In this regard, any institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases and discretionary bonuses to executive officers. The requirement for a conservation buffer will be phased in beginning in 2016 and will take full effect on January 1, 2019.

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

In addition, deductions include, for example, the requirement that mortgage servicing rights, certain deferred tax assets not dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from the new common equity Tier 1 capital to the extent that any one such category exceeds 10% of new common equity Tier 1 capital, or all such categories in the aggregate exceed 15% of new common equity Tier 1 capital. Maintaining higher capital levels may result in lower profits for the Company as we will not be able to grow our lending as quickly as we might otherwise be able to do if we were to maintain lower capital levels. See “Regulation and Supervision of Home Street Bank - Capital and Prompt Corrective Action Requirements - New Capital Regulations” in Item 1 of our Form 10-K for the year ended December 31, 2013 previously filed with the SEC.

The sale of approximately 24% of our MSR portfolio in the second quarter of 2014 was consummated in part to facilitate balance sheet and capital management in preparation for Basel III. The application of more stringent capital requirements could, among other things, result in lower returns on invested capital and result in regulatory actions if we were to be unable to comply with such requirements.

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

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

The Dodd-Frank Act is expected to increase our costs of operations and may have a material negative effect on us.

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

Some of these changes were effective immediately, though many are being phased in gradually. In addition, the statute in many instances calls for regulatory rulemaking to implement its provisions. While some provisions are now being implemented, such
as the Basel III capital standards which take effect beginning on January 1, 2015, not all of the regulations called for by
Dodd-Frank have been completed or are in effect, so the precise contours of the law and its effects on us cannot yet be fully understood. The provisions of the Dodd-Frank Act and the subsequent exercise by regulators of their revised and expanded powers thereunder could materially and negatively impact the profitability of our business, the value of assets we hold or the collateral available for our loans, require changes to business practices or force us to discontinue businesses and expose us to additional costs, taxes, liabilities, enforcement actions and reputational risk. For example, the Dodd-Frank Act imposes a requirement that private securitizers of mortgage and other asset backed securities retain, subject to certain exemptions, not less than five percent of the credit risk of the mortgages or other assets backing the securities. The regulatory agencies released the final Risk Retention rules on October 22, 2014 to be effective in one year for residential mortgage-backed securitizations and in two years for all other securitization types. See “Regulation and Supervision” in Item 1 of our Form 10-K for the year ended December 31, 2013 previously filed

with the SEC.

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

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

- Recent legislation and court decisions with precedential value could allow judges to modify the terms of residential mortgages in bankruptcy proceedings and could hinder our ability to foreclose promptly on defaulted mortgage loans or expand assignee liability for certain violations in the mortgage loan origination process, any or all of which could adversely affect our business or result in our being held responsible for violations in the mortgage loan origination process.

- Congress and various regulatory authorities have proposed programs that would require a reduction in principal balances of "underwater" residential mortgages, which if implemented would tend to reduce loan servicing income and which might adversely affect the carrying values of portfolio loans.
- The Washington state supreme court has ruled that Mortgage Electronic Registration System, Inc. ("MERS") does not meet the definition of "beneficiary" under Washington's deed of trust act, requiring additional steps to be taken to appoint a successor trustee prior to initiating a non-judicial foreclosure in that state or necessitating a judicial foreclosure process for MERS-related mortgages. Court cases in Oregon have brought similar challenges regarding MERS under Oregon state law. While the Oregon Supreme Court has ruled on the appeal of several lower-court MERS cases, enough ambiguity exists in the ruling that we and other servicers of MERS-related loans have elected to foreclose primarily through judicial procedures in Oregon, resulting in increased foreclosure costs, longer foreclosure timelines and additional delays. If state courts in Washington or other states where we do significant business issue similar decisions in the cases pending before them, our foreclosure costs and foreclosure timelines may continue to increase, which in turn, could increase our single family loan delinquencies, servicing costs, and adversely affect our cost of doing business and results of operations.

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

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

Termination of the merger agreement could adversely impact our financial results and stock price.

On September 27, 2014, we entered into a merger agreement pursuant to which we have agreed to acquire Simplicity Bancorp. We expect to close that transaction in the first half of 2015, but it remains subject to certain closing conditions, including regulatory approvals and certain shareholder approvals. In addition, Simplicity has the ability to terminate the merger agreement in certain circumstances, including in order to pursue a superior offer. If the merger agreement is terminated, there may be various consequences. For example, HomeStreet's businesses may be impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the merger, without realizing any of the anticipated benefits of completing the merger. HomeStreet has incurred substantial costs in connection with the merger agreement, including legal and accounting fees, investment banking fees, printing charges and filing fees. If the merger agreement is terminated, HomeStreet will be required to recognize an operating expense in the amount of such costs in the period in which the merger agreement is terminated, and unless a termination fee is due from Simplicity in connection with the closing, HomeStreet will not receive any reimbursement for those expenses. Additionally, if the merger agreement is terminated, the market price of our common stock could decline to the extent that the current market prices reflect a market assumption that the merger will be completed.

Pending litigation against Simplicity and HomeStreet could result in an injunction preventing the effective time or a judgment resulting in the payment of damages.

In connection with the merger, purported Simplicity stockholders have filed at least one putative shareholder class action lawsuit against Simplicity, the members of the Simplicity board of directors and HomeStreet. Among other remedies, the plaintiffs seek to enjoin the merger. If the pending case and any similar cases are not resolved, these lawsuits could prevent or delay completion of the merger and result in substantial costs to HomeStreet and Simplicity, including any costs associated with the indemnification of directors and officers. Plaintiffs may file additional lawsuits against HomeStreet, Simplicity and/or the directors and officers of either company in connection with the merger. The defense or settlement of any lawsuit or claim that remains unresolved at the time the merger is completed may adversely affect HomeStreet's business, financial condition, results of operations and cash flows.

New CFPB regulations which took effect in January 2014 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 has broad rulemaking authority over consumer financial products and services. In January 2014 new federal regulations promulgated by the CFPB took effect which impact how we originate and service residential mortgage loans. The new 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 new regulations also require changes to certain loan servicing procedures and practices. The new servicing rules will, among other things, result in increased foreclosure costs and longer foreclosure timelines in the event of loan default, and failure to comply with the new servicing rules may result in additional litigation and compliance risk.

The CFPB recently proposed 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. As drafted, the proposed updates to the HMDA increase the types of dwelling-secured loans that would be subject to the disclosure requirements of the rule and expands the categories of information that financial institutions such as the Bank would be required to report with respect to such loans and such borrowers, including potentially sensitive customer information. If implemented, these changes would increase our compliance costs due to the 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. In addition, because of the anticipated volume of new data that would be required to be reported under the updated rules, the Bank would 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 would 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. The comment period for these proposed rules closed on October 29, 2014 and the final rules have not yet been released.

While the full impact of CFPB's activities on our business is still unknown, we anticipate that the proposed rule change under the HMDA and other CFPB actions that may follow may increase our compliance costs and require changes in our business practices as a result of new regulations and requirements and could limit the products and services we are able to provide to customers. We are unable to predict whether U.S. federal, state or local authorities, or other pertinent bodies, will enact legislation, laws, rules, regulations, handbooks, guidelines or similar provisions that will affect our business or require changes in our practices in the future, and any such changes could adversely affect our cost of doing business and profitability. See “Regulation and Supervision - Regulation and Supervision” in Item 1 of our Form 10-K for the year ended December 31, 2013 previously filed with the SEC.

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.

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

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

Following the closing of our books for the third quarter of 2014, management discovered a deficiency in our internal control over financial reporting relating to the evaluation of certain hedging instruments. Management investigated this deficiency in light of the extent to which misstatements had resulted in our prior period reports, and determined that the amount of actual misstatements was immaterial for each of the prior periods and in the aggregate. However, we also examined the deficiencies in light of the maximum possible error that could have resulted from the deficiencies, and determined that such an amount could have been material. As a result, this Quarterly Report on Form 10-Q identifies and discusses a deficiency in our disclosure controls and procedures, and notes that we intend to take certain remedial measures to improve our internal control over financial reporting. However, we cannot offer assurances that these remedial measures will completely resolve the deficiencies that we have identified, or that we do not have other undiscovered deficiencies in our disclosure controls and procedures or our internal control over financial reporting.

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

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

HomeStreet, Inc. is a separate legal entity from the Bank, and although we may receive some dividends from HomeStreet Capital Corporation, the primary source of our funds from which we service our debt, pay dividends 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 will also impose more stringent capital requirements to maintain “well capitalized” status which may additionally impact the Bank’s ability to pay dividends to the Company. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Capital Management – New Capital Regulations” as well as “Regulation of Home Street Bank - Capital and Prompt Corrective Action Requirements - New Capital Rules” in Item 1 of our Form 10-K for the year ended December 31, 2013 previously filed with the SEC. 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 determined that it is in the best interests of the shareholders not to declare a dividend to be paid in the third quarter of 2014. As such, our dividends are not regular and are subject to restriction due to cash flow limitations, capital requirements, capital needs of the business or other factors.

We cannot assure you that we will remain profitable.

We have sustained significant losses in the past and our profitability has declined in recent quarters. 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:

- Further increases in interest rates may continue to 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 that 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;
- Changes in government-sponsored enterprises and their ability to insure or to buy our loans in the secondary market may result in significant changes in our ability to recognize income on sale of our loans to third parties;
- Competition in the mortgage market industry may drive down the interest rates we are able to offer on our mortgages, which will negatively impact our net interest income;
- Changes in the cost structures and fees of government-sponsored enterprises to whom we sell many of these loans may compress our margins and reduce our net income and profitability; and
- Our hedging strategies to offset risks related to interest rate changes may not prove to be successful and may result in unanticipated losses for the Company.

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

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

Federal, state and local laws have been adopted that are intended to eliminate certain practices considered “predatory” or “unfair and deceptive”. These laws prohibit practices such as steering borrowers away from more affordable products, failing to disclose key features, limitations, or costs related to products and services, selling unnecessary insurance to borrowers, repeatedly refinancing loans, imposing excessive fees for overdrafts, and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. It is our policy not to make predatory loans or engage in deceptive practices, but these laws and regulations create the potential for liability with respect to our lending, servicing, loan investment and deposit taking activities. As we offer products and services to customers in additional states, we may become subject to additional state and local laws designed to protect consumers. The additional laws and regulations may increase our cost of doing business, and ultimately may prevent us from making certain loans, offering certain products, and may cause us to reduce the average percentage rate or the points and fees on loans and other products and services that we do provide.

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

Substantially all of our loans are secured by real property. Our real estate secured lending is generally sensitive to national, regional and local economic conditions, making loss levels difficult to predict. Declines in real estate sales and prices, significant increases in interest rates, and a degeneration in prevailing economic conditions may result in higher than expected loan delinquencies, foreclosures, problem loans, OREO, net charge-offs and provisions for credit and OREO losses. Although real estate prices are stable in the markets in which we operate, if market values decline, the collateral for our loans may provide less security and our ability to recover the principal, interest and costs due on defaulted loans by selling the underlying real estate will be diminished, leaving us more likely to suffer additional losses on defaulted loans. Such declines may have a greater effect on our earnings and capital than on the earnings and capital of financial institutions whose loan portfolios are more geographically diversified.

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

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

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

Our business depends on the creditworthiness of our customers. As with most financial institutions, we maintain an allowance for loan losses to provide for defaults and nonperformance, which represents management's best estimate of probable incurred losses inherent in the loan portfolio. Management's estimate is the result of our continuing evaluation of specific credit risks and loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions, industry concentrations and other factors that may indicate future loan losses. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and judgment and requires us to make estimates of current credit risks and future trends, all of which may undergo material changes. Generally, our nonperforming loans and OREO reflect operating difficulties of individual borrowers and weaknesses in the economies of the markets we serve. This allowance may not be adequate to cover actual losses, and future provisions for losses could materially and adversely affect our financial condition, results of operations and cash flows.
In addition, as a result of our acquisitions of Fortune Bank, Yakima National Bank and two branches of AmericanWest Bank in the second half of 2013, we have added the loans previously held by the acquired companies or related to the acquired branches to our books. The pending acquisition of Simplicity and any future acquisitions we may make will have a similar result. Although we review loan quality as part of our due diligence in considering any acquisition, the addition of such loans may increase our credit risk exposure, requiring an increase in our allowance for loan losses or we may experience adverse effects to our financial condition, results of operations and cash flows stemming from losses on those additional loans.

Our real estate lending also exposes us to environmental liabilities.

In the course of our business, it is necessary to foreclose and take title to real estate, which could subject us to environmental liabilities with respect to these properties. Hazardous substances or waste, contaminants, pollutants or sources thereof may be discovered on properties during our ownership or after a sale to a third party. We could be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances or chemical releases at such properties. The costs associated with investigation or remediation activities could be substantial and could substantially exceed the value of the real property. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. We may be unable to recover costs from any third party. These occurrences may materially reduce the value of the affected property, and we may find it difficult or impossible to use or sell the property prior to or following any environmental remediation. If we ever become subject to significant environmental liabilities, our business, financial condition and results of operations could be materially and adversely affected.

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

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

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

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

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

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

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

In addition, a significant barrier to online financial transactions is the secure transmission of confidential information over public networks. Our Internet banking system relies on encryption and authentication technology to provide the security and authentication necessary to effect secure transmission of confidential information. Advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms our third-party service providers use to protect customer transaction data. If any such compromise of security were to occur, it could have a material adverse effect on our business, financial condition and results of operations.

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

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

The actions we may take in order to promote compliance with these obligations vary by business segment and may change over time, but may include, among other things:

- training and educating our employees and independent contractors regarding our obligations relating to confidential information;
- monitoring changes in state or federal privacy and compliance requirements;
- drafting and enforcing appropriate contractual provisions into any contract that raises proprietary and confidentiality issues;
- maintaining secure storage facilities and protocols for tangible records;
- physically and technologically securing access to electronic information; and
- in the event of a security breach, providing credit monitoring or other services to affected customers.

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

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

We depend, and will continue to depend, to a significant extent, on a number of relationships with third-party service and technology providers. Specifically, we receive core systems processing, essential web hosting and other Internet systems and deposit and other processing services from third-party service providers. If these third-party service providers, or if any parties to whom our third party service providers have subcontracted services, experience difficulties or terminate their services and we are unable to replace them with other service providers, our operations could be interrupted and our operating expenses may be materially increased. If an interruption were to continue for a significant period of time, our business financial condition and results of operations could be materially adversely affected.

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

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

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

Our securities portfolio currently includes securities with unrecognized losses. We may continue to observe declines in the fair market value of these securities. We evaluate the securities portfolio for any other than temporary impairment each reporting period. In addition, as a condition of membership in the FHLB, we are required to purchase and hold a certain amount of FHLB stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB. Our FHLB stock is carried at cost and is subject to recoverability testing under applicable accounting standards. Future negative changes to the financial condition of the FHLB may require us to recognize an impairment charge with respect to such holdings. The FHLB is currently subject to a

Consent Order issued by its primary regulator, the Federal Housing Finance Agency.

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.

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 has been aligned with specific economic targets or measures intended to bolster the U.S. economy. As the Federal Reserve Board, through the Federal Open Market Committee (the “Committee”), monitors economic performance, the volume of the quantitative easing program continues to be incrementally reduced. The Committee has stated that if incoming information broadly supports the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective, the Committee will likely reduce the pace of asset purchases in further measured steps at future meetings. However, asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's outlook for the labor market and inflation as well as its assessment of the likely efficacy and costs of such purchases.

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, and for so long as the program continues, may continue to have, the effect of supporting higher revenues than might otherwise be available. Contrarily, a reduction in or termination of this policy, absent a significant rebound in employment and real wages, would likely reduce mortgage originations throughout the United States, including ours. Continued reduction or termination of the quantitative easing program may likely further raise interest rates, which could reduce our mortgage origination revenues and in turn have a material adverse impact upon our business.

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

A substantial portion of our consolidated net revenues (net interest income plus noninterest income) are derived from originating and selling residential mortgages. Residential mortgage lending in general has experienced substantial volatility in recent periods. An increase in interest rates in the second quarter of 2013 resulted in a significant adverse impact on our business and financial results due primarily to a related decrease in volume of loan originations, especially refinancings. Any future additional increase in interest rates may further materially and adversely affect our future loan origination volume, margins, and the value of the collateral securing our outstanding loans, may increase rates of borrower default, and may otherwise adversely affect our business. Additionally, in recent periods we have experienced very low levels of homes available for sale in many of the markets in which we operate. The lack of housing inventory has had a downward impact on the volume of mortgage loans that we originate. Further, it has resulted in elevated costs, as a significant amount of loan processing and underwriting that we perform are to qualifying borrowers for mortgage loan transactions that never materialize. The lack of inventory of homes for sale may continue to have an adverse impact on mortgage loan volumes into the foreseeable future.

We may incur losses due to changes in prepayment rates.

Our mortgage servicing rights carry interest rate risk because the total amount of servicing fees earned, as well as changes in fair-market value, fluctuate based on expected loan prepayments (affecting the expected average life of a portfolio of residential mortgage servicing rights). The rate of prepayment of residential mortgage loans may be influenced by changing national and regional economic trends, such as recessions or depressed real estate markets, as well as the difference between interest rates on existing residential mortgage loans relative to prevailing residential mortgage rates. Changes in prepayment rates are therefore difficult for us to predict. An increase in the general level of interest rates may adversely affect the ability of some borrowers to pay the interest and principal of their obligations. During periods of declining interest rates, many residential borrowers refinance their mortgage loans. The loan administration fee income (related to the residential mortgage loan servicing rights corresponding to a mortgage loan) decreases as mortgage loans are prepaid. Consequently, the fair value of portfolios of residential mortgage loan servicing rights tend to decrease during periods of declining interest rates, because greater prepayments can be expected and, as a result, the amount of loan administration income received also decreases.

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

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

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

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

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

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

In addition, in connection with the sale of a significant amount of our MSRs to SunTrust Mortgage, Inc., we agreed to indemnify SunTrust Mortgage, Inc. for prepayment of a certain amount of those loans. In the event the holders of such loans prepay the loans, we may be required to reimburse SunTrust Mortgage, Inc. for a certain portion of the anticipated MSR value of that loan.

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

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

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

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

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

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 DISCLOSURE

Not applicable.

ITEM 5 OTHER INFORMATION

Not applicable.

ITEM 6 EXHIBITS

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger between HomeStreet, Inc. and Simplicity Bancorp, Inc. dated as of September 27, 2014. (1)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.(2)
31.2	Certification of Chief Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.(2)
32	Certification of Periodic Financial Report by Principal Executive Officer and Principal Accounting Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and 18 U.S.C. § 1350.(3)
101.INS	XBRL Instance Document(4)(5)
101.SCH	XBRL Taxonomy Extension Schema Document(4)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document(4)
101.DEF	XBRL Taxonomy Extension Label Linkbase Document(4)
101.LAB	XBRL Taxonomy Extension Presentation Linkbase Document(4)
101.PRE	XBRL Taxonomy Extension Definitions Linkbase Document(4)

(1) Previously filed as an exhibit to the registrant's Current Report on Form 8-K dated September 29, 2014.

(2) Filed herewith.

(3) 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.

(4) 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.

(5) Pursuant to Rule 405 of Regulation S-T, includes the following financial information included in the Firm’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, 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, 2014 and 2013, (ii) the Consolidated Statements of Financial Condition as of September 30, 2014, and December 31, 2013, (iii) the Consolidated Statements of Stockholders’ Equity and Comprehensive Income for the three and nine months ended September 30, 2014 and 2013, (iv) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013, 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 12, 2014.

HomeStreet, Inc.

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

HomeStreet, Inc.

By: /s/ Cory D. Stewart
Cory D. Stewart
Executive Vice President and
Chief Accounting Officer