HomeStreet, Inc.
Form 10-Q
August 04, 2017
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: June 30, 2017
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
Emerging growth Company	x		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 12(a) of the Exchange Act.	x

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 August 1, 2017 was 26,884,028.6.

Table of Contents

PART I – FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

Table of Contents

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

PART I
ITEM 1.
FINANCIAL
STATEMENTS

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

(in thousands, except share data)	June 30, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents (including interest-earning instruments of $23,107 and $34,615)	$54,447	$53,932
Investment securities (includes $884,266 and $993,990 carried at fair value)	936,522	1,043,851
Loans held for sale (includes $680,959 and $656,334 carried at fair value)	784,556	714,559
Loans held for investment (net of allowance for loan losses of $36,136 and $34,001; includes $5,134 and $17,988 carried at fair value)	4,156,424	3,819,027
Mortgage servicing rights (includes $236,621 and $226,113 carried at fair value)	258,222	245,860
Other real estate owned	4,597	5,243
Federal Home Loan Bank stock, at cost	41,769	40,347
Premises and equipment, net	101,797	77,636
Goodwill	22,175	22,175
Other assets	226,048	221,070
Total assets	$6,586,557	$6,243,700
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	$4,747,771	$4,429,701
Federal Home Loan Bank advances	867,290	868,379
Accounts payable and other liabilities	190,421	191,189
Long-term debt	125,234	125,147
Total liabilities	5,930,716	5,614,416
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Preferred stock, no par value, authorized 10,000 shares, issued and outstanding, 0 shares and 0 shares	—	—
Common stock, no par value, authorized 160,000,000 shares, issued and outstanding, 26,874,871 shares and 26,800,183 shares	511	511
Additional paid-in capital	337,515	336,149
Retained earnings	323,228	303,036
Accumulated other comprehensive loss	(5,413)	(10,412)
Total shareholders' equity	655,841	629,284
Total liabilities and shareholders' equity	$6,586,557	$6,243,700

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except share data)	2017	2016	2017	2016
Interest income:				
Loans	$51,198	$ 47,262	$100,704	$ 89,996
Investment securities	5,419	4,002	11,051	7,055
Other	125	27	261	294
	56,742	51,291	112,016	97,345
Interest expense:				
Deposits	5,867	4,449	11,490	8,018
Federal Home Loan Bank advances	2,368	1,462	4,769	2,881
Federal funds purchased and securities sold under agreements to repurchase	5	—	5	—
Long-term debt	1,514	823	2,993	1,134
Other	120	75	240	139
	9,874	6,809	19,497	12,172
Net interest income	46,868	44,482	92,519	85,173
Provision for credit losses	500	1,100	500	2,500
Net interest income after provision for credit losses	46,368	43,382	92,019	82,673
Noninterest income:				
Net gain on loan origination and sale activities	65,908	85,630	126,189	146,893
Loan servicing income	8,764	12,703	18,003	20,735
Income from WMS Series LLC	406	1,164	591	1,300
Depositor and other retail banking fees	1,811	1,652	3,467	3,247
Insurance agency commissions	501	370	897	764
Gain on sale of investment securities available for sale	551	62	557	97
Other	3,067	895	5,765	1,148
	81,008	102,476	155,469	174,184
Noninterest expense:				
Salaries and related costs	76,390	75,167	147,698	142,451
General and administrative	15,872	16,739	33,000	32,261
Amortization of core deposit intangibles	493	525	1,007	1,057
Legal	150	605	310	1,048
Consulting	771	1,177	1,829	2,849
Federal Deposit Insurance Corporation assessments	697	784	1,521	1,500
Occupancy	8,880	7,513	17,089	14,668
Information services	8,172	8,447	15,820	15,981
Net (benefit) cost from operation and sale of other real estate owned	(181)	74	(156)	569
	111,244	111,031	218,118	212,384
Income before income taxes	16,132	34,827	29,370	44,473
Income tax expense	4,923	13,078	9,178	16,317
NET INCOME	$11,209	$ 21,749	$20,192	$ 28,156
Basic income per share	$0.42	$ 0.88	$0.75	$ 1.16
Diluted income per share	$0.41	$ 0.87	$0.75	$ 1.15
Basic weighted average number of shares outstanding	26,866,230	24,708,375	26,843,813	24,192,441

Diluted weighted average number of shares outstanding	27,084,608	24,911,919	27,071,028	24,394,648

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

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

(in thousands)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net income	$11,209	$21,749	$20,192	$28,156
Other comprehensive income, net of tax:				
Unrealized gain on investment securities available for sale:				
Unrealized holding gain arising during the period, net of tax expense of $1,848 and $3,030 for the three months ended June 30, 2017 and 2016, and $2,887 and $6,602 for the six months ended June 30, 2017 and 2016, respectively	3,431	5,627	5,361	12,260
Reclassification adjustment for net gains included in net income, net of tax expense of $193 and $22 for the three months ended June 30, 2017 and 2016 and, $195 and $34 for the six months ended June 30, 2017 and 2016, respectively	(358)	(40)	(362)	(63)
Other comprehensive income	3,073	5,587	4,999	12,197
Comprehensive income	$14,282	$27,336	$25,191	$40,353

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, 2016	22,076,534	$ 511	$ 222,328	$ 244,885	$ (2,449)	$ 465,275
Net income	—	—	—	28,156	—	28,156
Share-based compensation expense	—	—	827	—	—	827
Common stock issued	2,744,815	—	53,148	—	—	53,148
Other comprehensive income	—	—	—	—	12,197	12,197
Balance, June 30, 2016	24,821,349	$ 511	$ 276,303	$ 273,041	$ 9,748	$ 559,603
Balance, January 1, 2017	26,800,183	$ 511	$ 336,149	$ 303,036	$ (10,412)	$ 629,284
Net income	—	—	—	20,192	—	20,192
Share-based compensation expense	—	—	1,211	—	—	1,211
Common stock issued	74,688	—	155	—	—	155
Other comprehensive income	—	—	—	—	4,999	4,999
Balance, June 30, 2017	26,874,871	$ 511	$ 337,515	$ 323,228	$ (5,413)	$ 655,841

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

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

(in thousands)	Six Months Ended June 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$20,192	$28,156
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation, amortization and accretion	10,911	8,565
Provision for credit losses	500	2,500
Net fair value adjustment and gain on sale of loans held for sale	(113,742)	(131,102)
Fair value adjustment of loans held for investment	(1,203)	1,272
Origination of mortgage servicing rights	(35,211)	(34,580)
Change in fair value of mortgage servicing rights	21,722	57,284
Net gain on sale of investment securities	(557)	(97)
Net gain on sale of loans originated as held for investment	(297)	(793)
Net fair value adjustment, gain on sale and provision for losses on other real estate owned	(356)	646
Loss on disposal of fixed assets	106	513
Loss on lease abandonment	502	—
Net deferred income tax expense (benefit)	7,510	(7,951)
Share-based compensation expense	1,362	827
Origination of loans held for sale	(3,665,396)	(3,930,954)
Proceeds from sale of loans originated as held for sale	3,769,126	3,931,729
Changes in operating assets and liabilities:		
Increase in accounts receivable and other assets	(7,207)	(51,974)
(Decrease) increase in accounts payable and other liabilities	(17,371)	17,077
Net cash used in operating activities	(9,409)	(108,882)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(246,435)	(356,975)
Proceeds from sale of investment securities	314,633	11,467
Principal repayments and maturities of investment securities	50,043	37,099
Proceeds from sale of other real estate owned	2,170	164
Proceeds from sale of loans originated as held for investment	23,780	39,022
Mortgage servicing rights purchased from others	(565)	—
Capital expenditures related to other real estate owned	(57)	(32)
Origination of loans held for investment and principal repayments, net	(420,530)	(414,089)
Proceeds from sale of property and equipment	—	1,148
Purchase of property and equipment	(28,789)	(12,151)
Net cash acquired from acquisitions	—	17,495
Net cash used in investing activities	(305,750)	(676,852)

(in thousands)	Six Months Ended June 30, 2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits, net	$318,132	$880,701
Proceeds from Federal Home Loan Bank advances	4,497,700	7,621,460
Repayment of Federal Home Loan Bank advances	(4,498,700)	(7,774,960)
Proceeds from federal funds purchased and securities sold under agreements to repurchase	326,618	—
Repayment of federal funds purchased and securities sold under agreements to repurchase	(326,618)	—
Proceeds from Federal Home Loan Bank stock repurchase	91,939	123,038
Purchase of Federal Home Loan Bank stock	(93,362)	(117,879)
Proceeds from debt issuance, net	—	63,255
Proceeds from stock issuance, net	11	2,664
Payments from equity raise	(46)	—
Net cash provided by financing activities	315,674	798,279
NET INCREASE IN CASH AND CASH EQUIVALENTS	515	12,545
CASH AND CASH EQUIVALENTS:		
Beginning of year	53,932	32,684
End of period	$54,447	$45,229
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest paid	$19,757	$14,905
Federal and state income taxes paid (refunded), net	(23,382)	(1,464)
Non-cash activities:		
Loans held for investment foreclosed and transferred to other real estate owned	1,125	1,168
Loans transferred from held for investment to held for sale	113,278	37,648
Loans transferred from held for sale to held for investment	29,809	7,129
(Reduction in) Ginnie Mae loans recognized with the right to repurchase, net	(2,358)	(2,725)
Orange County Business Bank acquisition:		
Assets acquired, excluding cash acquired	—	165,786
Liabilities assumed	—	141,267
Goodwill	—	8,360
Common stock issued	$—	$50,373

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

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

NOTE 1–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

HomeStreet, Inc. and its wholly owned subsidiaries (the “Company”) is a diversified financial services company serving customers primarily in the western United States, including Hawaii. The Company is principally engaged in commercial banking, mortgage banking, and consumer/retail banking activities. The Company's consolidated financial statements include the accounts of HomeStreet, Inc. and its wholly owned subsidiaries, HomeStreet Capital Corporation and HomeStreet Bank (the “Bank”), and the Bank’s subsidiaries, HomeStreet/WMS, Inc., HomeStreet Reinsurance, Ltd., Continental Escrow Company, HS Properties, Inc., HS Evergreen Corporate Center LLC and Union Street Holdings LLC. HomeStreet Bank was formed in 1986 and is a state-chartered commercial bank.

The Company’s accounting and financial reporting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP). Inter-company balances and transactions have been eliminated in consolidation. In preparing the consolidated financial statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and revenues and expenses during the reporting periods and related disclosures. These estimates that require application of management's most difficult, subjective or complex judgments often result in the need to make estimates about the effect of matters that are inherently uncertain and may change in future periods. Management has made significant estimates in several areas, including the fair value of assets acquired and liabilities assumed in business combinations (Note 2, Business Combinations), allowance for credit losses (Note 4, Loans and Credit Quality), valuation of residential mortgage servicing rights and loans held for sale (Note 7, Mortgage Banking Operations), valuation of certain loans held for investment (Note 4, Loans and Credit Quality), valuation of investment securities (Note 3, Investment Securities), and valuation of derivatives (Note 6, Derivatives and Hedging Activities). We have reclassified certain prior period amounts to conform to the current period presentation. These reclassifications are immaterial and have no effect on net income, comprehensive income, cash flows, total assets or total shareholder's equity as previously reported.

These unaudited interim financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results of the periods presented. These adjustments are of a normal recurring 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, 2016, filed with the Securities and Exchange Commission (“2016 Annual Report on Form 10-K”).

Recent Accounting Developments

In March 2017 the Financial Accounting Standards Board ('"FASB") issued Accounting Standards Update ("ASU") No. 2017-08, Receivables - Nonrefundable Fees and other Costs (Subtopic 320-20): Premium Amortization on Purchased Callable Debt Securities, or ASU 2017-08. This standard shortens the amortization period for the premium to the earliest call date to more closely align interest income recorded on bonds held at a premium or a discount with the economics of the underlying instrument. Adoption of ASU 2017-08 is required for fiscal years and interim periods within those fiscal years, beginning after December, 15, 2018, early adoption is permitted. The Company is currently evaluating the provisions of this guidance to determine the potential impact the new standard will have on the Company's consolidated financial statements.
In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, or ASU 2017-04, which eliminates Step 2 from the goodwill impairment test. ASU 2017-04 also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity

still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Adoption of ASU 2017-04 is required for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019 with early adoption being permitted for annual or interim goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations Clarifying the Definition of a Business (Topic 805), for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The new standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted for transactions that occurred before the issuance date or effective date of the standard if the transactions were not reported in financial statements that have been issued or made available for issuance. The standard must be applied prospectively. Upon adoption, the standard will impact how we assess acquisitions (or disposals) of assets or businesses. Management does not expect the adoption of ASU 2017-01 to have a material impact on its consolidated financial statements.

On November 17, 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash: a Consensus of the FASB Emerging Issues Task Force." This ASU requires a company's cash flow statement to explain the changes during a reporting period of the totals for cash, cash equivalents, restricted cash, and restricted cash equivalents. Additionally, amounts for restricted cash and restricted cash equivalents are to be included with cash and cash equivalents if the cash flow statement includes a reconciliation of the total cash balances for a reporting period. This ASU is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2017, with early application permitted. Management does not anticipate that this guidance will have a material impact on its consolidated financial statements.

On August 26, 2016, the FASB issued ASU 2016-15, Statement of Cash Flows, Classification of Certain Cash Receipts and Cash Payments (Topic 230). The amendments in this ASU were issued to reduce diversity in how certain cash receipts and payments are presented and classified in the statement of cash flows in eight specific areas. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and should be applied using a retrospective transition method to each period presented. Early application was permitted upon issuance of the ASU. Management is currently evaluating the impact of this ASU but does not expect this ASU to have a material impact on the Company's consolidated financial statements.

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

For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination ("PCD assets") that are measured at amortized cost, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense. Subsequent changes in the allowance for credit losses on PCD assets are recognized through the statement of income as a credit loss expense. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security. The amendments to this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The amendments in this ASU should be applied on a modified-retrospective transition approach that would require a cumulative-effect adjustment to the opening retained earnings in the statement of financial condition as of the date of adoption. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Management is currently evaluating the impact of this ASU and the Company expects this ASU to have a material impact on the Company's consolidated financial statements.

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

In January 2016, FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU require equity securities to be measured at fair value with changes in the fair value recognized

through net income. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value under certain circumstances and require enhanced disclosures about those investments. This ASU simplifies the impairment assessment of equity investments without readily determinable fair values. This ASU also eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The amendments in this ASU require separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. This ASU excludes from net income gains or losses that the entity may not realize because those financial liabilities are not usually transferred or settled at their fair values before maturity. The amendments in this ASU require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the provisions of ASU No. 2016-01 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.
In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU clarifies the principles for recognizing revenue from contracts with customers. On August 12, 2015, the FASB issued ASU 2015-14 to defer the effective date of ASU 2014-09. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. On March 17, 2016, the FASB issued Accounting Standards Update 2016-08 to clarify the implementation guidance on principal versus agent considerations. We intend to adopt this new guidance on January 1, 2018. We are in the process of completing an analysis that includes (1)identification of all revenue streams included in the financial statements ; (2) of the revenue streams identified, determine which are within the scope of the pronouncement; (3) determination of size, timing and amount of revenue recognition for streams of income within the scope of this pronouncement; (4) determination of the sample size of contracts for further analysis; and (5) completion of analysis on sample of contracts to evaluate the impact of the new guidance. Based on this analysis, we are developing processes and procedures in 2017 to address the amendments of this ASU, including new disclosures. Additionally, we do not expect the implementation of this guidance to have a material impact on our consolidated financial statements.

NOTE 2–BUSINESS COMBINATIONS:

Recent Acquisition Activity

On November 10, 2016, the Company completed its acquisition of two branches and their related deposits in Southern California, from Boston Private Bank and Trust. The provisional application of the acquisition method of accounting resulted in goodwill of $2.3 million.

On August 12, 2016, the Company completed its acquisition of certain assets and liabilities, including two branches in Lake Oswego, Oregon from The Bank of Oswego. The provisional application of the acquisition method of accounting resulted in goodwill of $19 thousand.

On February 1, 2016, the Company completed its acquisition of Orange County Business Bank ("OCBB") located in Irvine, California through the merger of OCBB with and into HomeStreet Bank with HomeStreet Bank as the surviving subsidiary. The purchase price of this acquisition was $55.9 million. OCBB shareholders as of the effective time received merger consideration equal to 0.5206 shares of HomeStreet common stock, and $1.1641 in cash upon the surrender of their OCBB shares, which resulted in the issuance of 2,459,461 shares of HomeStreet common stock.

The application of the acquisition method of accounting resulted in goodwill of $8.4 million.

NOTE 3–INVESTMENT SECURITIES:

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

	At June 30, 2017			
(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
AVAILABLE FOR SALE				
Mortgage-backed securities:				
Residential	$154,145	$ 1	$(3,211)	$150,935
Commercial	23,592	22	(233)	23,381
Municipal bonds	373,336	3,334	(3,941)	372,729
Collateralized mortgage obligations:				
Residential	187,351	273	(2,929)	184,695
Commercial	76,961	75	(806)	76,230
Corporate debt securities	30,839	61	(682)	30,218
U.S. Treasury securities	10,890	—	(150)	10,740
Agency	35,457	—	(119)	35,338
	$892,571	$ 3,766	$(12,071)	$884,266
HELD TO MATURITY				
Mortgage-backed securities:				
Residential	$13,104	$ 73	$(68)	$13,109
Commercial	16,127	137	(10)	16,254
Collateralized mortgage obligations	3,500	—	—	3,500
Municipal bonds	19,425	315	(152)	19,588
Corporate debt securities	100	—	—	100
	$52,256	$ 525	$(230)	$52,551

(in thousands)	At December 31, 2016 Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
AVAILABLE FOR SALE				
Mortgage-backed securities:				
Residential	$181,158	$ 31	$(4,115)	$177,074
Commercial	25,896	13	(373)	25,536
Municipal bonds	473,153	1,333	(6,813)	467,673
Collateralized mortgage obligations:				
Residential	194,982	32	(3,813)	191,201
Commercial	71,870	29	(1,135)	70,764
Corporate debt securities	52,045	110	(1,033)	51,122
U.S. Treasury securities	10,882	—	(262)	10,620
	$1,009,986	$ 1,548	$(17,544)	$993,990
HELD TO MATURITY				
Mortgage-backed securities:				
Residential	$13,844	$ 71	$(90)	$13,825
Commercial	16,303	70	(64)	16,309
Municipal bonds	19,612	99	(459)	19,252
Corporate debt securities	102	—	—	102
	$49,861	$ 240	$(613)	$49,488

Mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMO") represent securities issued by government sponsored enterprises ("GSEs"). Each of the MBS and CMO securities in our investment portfolio are guaranteed by Fannie Mae, Ginnie Mae or Freddie Mac. Municipal bonds are comprised of general obligation bonds (i.e., backed by the general credit of the issuer) and revenue bonds (i.e., backed by revenues from the specific project being financed) issued by various municipal corporations. As of June 30, 2017 and December 31, 2016, 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 June 30, 2017 and December 31, 2016, substantially all securities held had ratings available by external ratings agencies.

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

(in thousands)	At June 30, 2017 Less than 12 months Gross unrealized losses	Fair value	12 months or more Gross unrealized losses	Fair value	Total Gross unrealized losses	Fair value
AVAILABLE FOR SALE						
Mortgage-backed securities:						
Residential	$(2,952)	$132,749	$(259)	$10,212	$(3,211)	$142,961
Commercial	(233)	21,660	—	—	(233)	21,660
Municipal bonds	(3,805)	199,291	(136)	8,661	(3,941)	207,952
Collateralized mortgage obligations:						
Residential	(1,855)	129,559	(1,074)	23,623	(2,929)	153,182
Commercial	(545)	57,142	(261)	9,124	(806)	66,266
Corporate debt securities	(282)	14,807	(400)	7,137	(682)	21,944
U.S. Treasury securities	(150)	10,740	—	—	(150)	10,740
Agency	(119)	35,338	—	$—	(119)	35,338
	$(9,941)	$601,286	$(2,130)	$58,757	$(12,071)	$660,043
HELD TO MATURITY						
Mortgage-backed securities:						
Residential	$(68)	$6,360	$—	$—	$(68)	$6,360
Commercial	(10)	4,533	—	—	(10)	4,533
Municipal bonds	(152)	10,690	—	—	(152)	10,690
	$(230)	$21,583	$—	$—	$(230)	$21,583

(in thousands)	At December 31, 2016 Less than 12 months Gross unrealized losses	Fair value	12 months or more Gross unrealized losses	Fair value	Total Gross unrealized losses	Fair value
AVAILABLE FOR SALE						
Mortgage-backed securities:						
Residential	$(3,842)	$144,240	$(273)	$9,907	$(4,115)	$154,147
Commercial	(373)	23,798	—	—	(373)	23,798
Municipal bonds	(6,813)	283,531	—	—	(6,813)	283,531
Collateralized mortgage obligations:						
Residential	(3,052)	175,490	(761)	11,422	(3,813)	186,912
Commercial	(1,005)	60,926	(130)	5,349	(1,135)	66,275
Corporate debt securities	(472)	24,447	(561)	11,677	(1,033)	36,124
U.S. Treasury securities	(262)	10,620	—	—	(262)	10,620
	$(15,819)	$723,052	$(1,725)	$38,355	$(17,544)	$761,407
HELD TO MATURITY						
Mortgage-backed securities:						
Residential	$(90)	$5,481	$—	$—	$(90)	$5,481
Commercial	(64)	13,156	—	—	(64)	13,156

Municipal bonds	(459	) 11,717	—	—	(459	) 11,717
	$(613	) $30,354	$—	$—	$(613	) $30,354

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

15

related to any issuer- or industry-specific credit event. The Company has not identified any expected credit losses on its debt securities as of June 30, 2017 and December 31, 2016. In addition, as of June 30, 2017 and December 31, 2016, the Company had not made a decision to sell any of its debt securities held, nor did the Company consider it more likely than not that it would be required to sell such securities before recovery of their amortized cost basis.

The following tables present the fair value of investment securities available for sale and held to maturity 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 June 30, 2017														
	Within one year			After one year through five years			After five years through ten years			After ten years			Total		
(dollars in thousands)	Fair Value	Weighted Average Yield		Fair Value	Weighted Average Yield		Fair Value	Weighted Average Yield		Fair Value	Weighted Average Yield		Fair Value	Weighted Average Yield	
AVAILABLE FOR SALE															
Mortgage-backed securities:															
Residential	$1	0.28	%	$—	—	%	$1,663	1.53	%	$149,271	1.89	%	$150,935	1.88	%
Commercial	—	—		18,763	2.08		4,618	2.04		—	—		23,381	2.07	
Municipal bonds	508	3.96		21,843	3.15		39,867	3.07		310,511	3.76		372,729	3.65	
Collateralized mortgage obligations:															
Residential	—	—		—	—		507	1.24		184,188	1.98		184,695	1.98	
Commercial	—	—		10,671	1.91		14,938	2.88		50,621	2.02		76,230	2.17	
Agency	—	—		5,072	1.90		30,266	2.24		—	—		35,338	2.20	
Corporate debt securities	—	—		7,884	2.74		8,622	3.37		13,712	3.47		30,218	3.25	
U.S. Treasury securities	999	0.64		—	—		9,741	1.78		—	—		10,740	1.68	
Total available for sale	$1,508	1.75	%	$64,233	2.48	%	$110,222	2.65	%	$708,303	2.78	%	$884,266	2.74	%
HELD TO MATURITY															
Mortgage-backed securities:															
Residential	$—	—	%	$—	—	%	$—	—	%	$13,109	2.96	%	$13,109	2.95	%
Commercial	—	—		4,533	2.04		11,721	2.69		—	—		16,254	2.50	
Collateralized mortgage obligations	—	—		—	—		—	—		3,500	1.75		3,500	1.75	
Municipal bonds	—	—		1,167	2.92		5,435	2.79		12,986	3.40		19,588	3.20	
Corporate debt securities	—	—		—	—		—	—		100	6.00		100	6.00	
Total held to maturity	$—	—	%	$5,700	2.21	%	$17,156	2.72	%	$29,695	3.01	%	$52,551	2.83	%

	At December 31, 2016									
	Within one year		After one year through five years		After five years through ten years		After ten years		Total	
(dollars in thousands)	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
AVAILABLE FOR SALE										
Mortgage-backed securities:										
Residential	$1	0.29 %	$—	— %	$2,122	1.59 %	$174,951	2.03 %	$177,074	2.02 %
Commercial	—	—	20,951	2.13	4,585	2.06	—	—	25,536	2.11
Municipal bonds	3,479	3.30	20,939	2.94	52,043	2.55	391,212	3.08	467,673	3.02
Collateralized mortgage obligations:										
Residential	—	—	—	—	1,639	1.32	189,562	2.06	191,201	2.06
Commercial	—	—	10,860	1.84	19,273	2.74	40,631	1.91	70,764	2.12
Corporate debt securities	—	—	10,516	2.67	21,493	3.74	19,113	3.54	51,122	3.45
U.S. Treasury securities	999	0.64	—	—	9,621	1.76	—	—	10,620	1.66
Total available for sale	$4,479	2.70 %	$63,266	2.43 %	$110,776	2.69 %	$815,469	2.57 %	$993,990	2.57 %
HELD TO MATURITY										
Mortgage-backed securities:										
Residential	$—	— %	$—	— %	$—	— %	$13,825	3.11 %	$13,825	3.11 %
Commercial	—	—	4,581	2.06	11,728	2.71	—	—	16,309	2.53
Municipal bonds	—	—	—	—	6,450	2.73	12,802	3.31	19,252	3.11
Corporate debt securities	—	—	—	—	—	—	102	6.00	102	6.00
Total held to maturity	$—	— %	$4,581	2.06 %	$18,178	2.72 %	$26,729	3.22 %	$49,488	2.93 %

Sales of investment securities available for sale were as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2017	2016	2017	2016
Proceeds	$312,247	$1,706	$314,633	$11,467
Gross gains	551	62	576	97
Gross losses	—	—	(19)	—

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

(in thousands)	At June 30, 2017
Federal Home Loan Bank to secure borrowings	$203,377
Washington and California State to secure public deposits	32,495
Securities pledged to secure derivatives in a liability position	6,757
Other securities pledged	7,273
Total securities pledged as collateral	$249,902

The Company assesses the creditworthiness of the counterparties that hold the pledged collateral and has determined that these arrangements have little risk. There were no securities pledged under repurchase agreements at June 30, 2017 and December 31, 2016.

Tax-exempt interest income on securities available for sale totaling $2.4 million and $1.5 million for the three months ended June 30, 2017 and 2016, respectively, and $4.9 million and $2.4 million for the six months ended June 30, 2017 and 2016, respectively, and was recorded in the Company's consolidated statements of operations.

NOTE 4–LOANS AND CREDIT QUALITY:

For a detailed discussion of loans and credit quality, including accounting policies and the methodology used to estimate the allowance for credit losses, see Note 1, Summary of Significant Accounting Policies, and Note 5, Loans and Credit Quality, within our 2016 Annual Report on Form 10-K.

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

Loans held for investment consist of the following:

(in thousands)	At June 30, 2017	At December 31, 2016
Consumer loans		
Single family(1)	$1,148,229	$ 1,083,822
Home equity and other	414,506	359,874
	1,562,735	1,443,696
Commercial loans		
Commercial real estate	942,122	871,563
Multifamily	780,602	674,219
Construction/land development	648,672	636,320
Commercial business	248,908	223,653

	2,620,304	2,405,755
	4,183,039	3,849,451
Net deferred loan fees and costs	9,521	3,577
	4,192,560	3,853,028
Allowance for loan losses	(36,136)	(34,001)
	$4,156,424	$ 3,819,027

(1) Includes \$5.1 million and \$18.0 million at June 30, 2017 and December 31, 2016, respectively, of loans where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

Loans in the amount of \$1.75 billion and \$1.59 billion at June 30, 2017 and December 31, 2016, respectively, were pledged to secure borrowings from the FHLB as part of our liquidity management strategy. Additionally, loans totaling \$732.5 million and \$554.7 million at June 30, 2017 and December 31, 2016, respectively, were pledged to secure borrowings from the Federal Reserve Bank. The FHLB and Federal Reserve Bank do not have the right to sell or re-pledge these loans.

Credit Risk Concentrations

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

Loans held for investment are primarily secured by real estate located in the Pacific Northwest, California and Hawaii. At June 30, 2017, 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 13.7% and 13.1% of the total portfolio, respectively. At December 31, 2016 we had concentrations representing 10% or more of the total portfolio by state and property type for the loan classes of single family and commercial real estate within the state of Washington, which represented 13.8% and 14.4% of the total portfolio, respectively.

Credit Quality

Management considers the level of allowance for loan losses to be appropriate to cover credit losses inherent within the loans held for investment portfolio as of June 30, 2017. 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 2016 Annual Report on Form 10-K.

Activity in the allowance for credit losses was as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2017	2016	2017	2016
Allowance for credit losses (roll-forward):				
Beginning balance	\$36,042	\$32,423	\$35,264	\$30,659
Provision for credit losses	500	1,100	500	2,500
Recoveries, net of charge-offs	928	478	1,706	842
Ending balance	\$37,470	\$34,001	\$37,470	\$34,001
Components:				
Allowance for loan losses	\$36,136	\$32,656	\$36,136	\$32,656
Allowance for unfunded commitments	1,334	1,345	1,334	1,345
Allowance for credit losses	\$37,470	\$34,001	\$37,470	\$34,001

19

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

	Three Months Ended June 30, 2017				
(in thousands)	Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$7,954	$ (2)	$ 683	$ (347)	$8,288
Home equity and other	6,546	(186)	67	429	6,856
	14,500	(188)	750	82	15,144
Commercial loans					
Commercial real estate	7,036	—	—	419	7,455
Multifamily	3,793	—	—	266	4,059
Construction/land development	8,069	—	214	(57)	8,226
Commercial business	2,644	(16)	168	(210)	2,586
	21,542	(16)	382	418	22,326
Total allowance for credit losses	$36,042	$ (204)	$ 1,132	$ 500	$37,470

	Three Months Ended June 30, 2016				
(in thousands)	Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$9,026	$ —	$ 2	$ (734)	$8,294
Home equity and other	4,852	(204)	87	665	5,400
	13,878	(204)	89	(69)	13,694
Commercial loans					
Commercial real estate	5,175	—	—	870	6,045
Multifamily	1,832	—	—	216	2,048
Construction/land development	9,286	—	573	(490)	9,369
Commercial business	2,252	—	20	573	2,845
	18,545	—	593	1,169	20,307
Total allowance for credit losses	$32,423	$ (204)	$ 682	$ 1,100	$34,001

	Six Months Ended June 30, 2017				
(in thousands)	Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$8,196	$ (2)	$ 1,016	$ (922)	$8,288
Home equity and other	6,153	(511)	353	861	6,856
	14,349	(513)	1,369	(61)	15,144
Commercial loans					
Commercial real estate	6,680	—	—	775	7,455
Multifamily	3,086	—	—	973	4,059
Construction/land development	8,553	—	434	(761)	8,226
Commercial business	2,596	(16)	432	(426)	2,586

	20,915	(16)	866	561	22,326
Total allowance for credit losses	$35,264	$ (529)	$ 2,235	$ 500	$37,470

20

(in thousands)	Six Months Ended June 30, 2016 Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$8,942	$ (32)	$ 86	$ (702)	$8,294
Home equity and other	4,620	(298)	338	740	5,400
	13,562	(330)	424	38	13,694
Commercial loans					
Commercial real estate	4,847	—	—	1,198	6,045
Multifamily	1,194	—	—	854	2,048
Construction/land development	9,271	(42)	783	(643)	9,369
Commercial business	1,785	(26)	33	1,053	2,845
	17,097	(68)	816	2,462	20,307
Total allowance for credit losses	$30,659	$ (398)	$ 1,240	$ 2,500	$34,001

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

(in thousands)	At June 30, 2017 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	$7,964	$ 324	$8,288	$1,059,203	$ 83,968	$1,143,171
Home equity and other	6,810	46	6,856	412,729	1,701	414,430
	14,774	370	15,144	1,471,932	85,669	1,557,601
Commercial loans						
Commercial real estate	7,455	—	7,455	938,765	3,357	942,122
Multifamily	4,059	—	4,059	779,774	828	780,602
Construction/land development	8,226	—	8,226	647,649	1,023	648,672
Commercial business	2,414	172	2,586	247,083	1,825	248,908
	22,154	172	22,326	2,613,271	7,033	2,620,304
Total loans evaluated for impairment	36,928	542	37,470	4,085,203	92,702	4,177,905
Loans held for investment carried at fair value						5,134 (1)
Total loans held for investment	$36,928	$ 542	$37,470	$4,085,203	$ 92,702	$4,183,039

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

(in thousands)	At December 31, 2016 Allowance: collectively evaluated for impairment	Allowance: individually evaluated for impairment	Total	Loans: collectively evaluated for impairment	Loans: individually evaluated for impairment	Total
Consumer loans						
Single family	$7,871	$ 325	$8,196	$985,219	$ 80,676	$1,065,895
Home equity and other	6,104	49	6,153	358,350	1,463	359,813
	13,975	374	14,349	1,343,569	82,139	1,425,708
Commercial loans						
Commercial real estate	6,680	—	6,680	869,225	2,338	871,563
Multifamily	3,086	—	3,086	673,374	845	674,219
Construction/land development	8,553	—	8,553	634,427	1,893	636,320
Commercial business	2,591	5	2,596	220,360	3,293	223,653
	20,910	5	20,915	2,397,386	8,369	2,405,755
Total loans evaluated for impairment	34,885	379	35,264	3,740,955	90,508	3,831,463
Loans held for investment carried at fair value						17,988 (1)
Total loans held for investment	$34,885	$ 379	$35,264	$3,740,955	$ 90,508	$3,849,451

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

22

Impaired Loans

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

(in thousands)	At June 30, 2017 Recorded investment [1]	Unpaid principal balance [2]	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	$79,782	$81,373	$ —
Home equity and other	1,185	1,211	—
	80,967	82,584	—
Commercial loans			
Commercial real estate	3,357	3,874	—
Multifamily	828	845	—
Construction/land development	1,023	1,549	—
Commercial business	395	1,623	—
	5,603	7,891	—
	$86,570	$90,475	$ —
With an allowance recorded:			
Consumer loans			
Single family	$4,186	$4,277	$ 324
Home equity and other	516	516	46
	4,702	4,793	370
Commercial loans			
Commercial business	1,430	1,481	172
	$6,132	$6,274	$ 542
Total:			
Consumer loans			
Single family[3]	$83,968	$85,650	$ 324
Home equity and other	1,701	1,727	46
	85,669	87,377	370
Commercial loans			
Commercial real estate	3,357	3,874	—
Multifamily	828	845	—
Construction/land development	1,023	1,549	—
Commercial business	1,825	3,104	172
	7,033	9,372	172
Total impaired loans	$92,702	$96,749	$ 542

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

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

(3) Includes $77.5 million in single family performing trouble debt restructurings "TDRs".

(in thousands)	At December 31, 2016 Recorded investment [(1)]	Unpaid principal balance [(2)]	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	$77,756	$80,573	$ —
Home equity and other	946	977	—
	78,702	81,550	—
Commercial loans			
Commercial real estate	2,338	2,846	—
Multifamily	845	851	—
Construction/land development	1,893	2,819	—
Commercial business	2,945	4,365	—
	8,021	10,881	—
	$86,723	$92,431	$ —
With an allowance recorded:			
Consumer loans			
Single family	$2,920	$3,011	$ 325
Home equity and other	517	517	49
	3,437	3,528	374
Commercial loans			
Commercial business	348	347	5
	348	347	5
	$3,785	$3,875	$ 379
Total:			
Consumer loans			
Single family[(3)]	$80,676	$83,584	$ 325
Home equity and other	1,463	1,494	49
	82,139	85,078	374
Commercial loans			
Commercial real estate	2,338	2,846	—
Multifamily	845	851	—
Construction/land development	1,893	2,819	—
Commercial business	3,293	4,712	5
	8,369	11,228	5
Total impaired loans	$90,508	$96,306	$ 379

(1) Includes partial charge-offs and nonaccrual interest paid.
(2) Unpaid principal balance does not include partial charge-offs, purchase discounts and premiums or nonaccrual interest paid. Related allowance is calculated on net book balances not unpaid principal balances.
(3) Includes $73.1 million in single family performing TDRs.

The following tables provide the average recorded investment and interest income recognized on impaired loans by portfolio segment and class.

(in thousands)	Three Months Ended June 30, 2017		Three Months Ended June 30, 2016	
Consumer loans	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Single family	$83,653	$ 790	$81,754	$ 740
Home equity and other	1,568	24	1,412	17
	85,221	814	83,166	757
Commercial loans				
Commercial real estate	4,441	37	3,125	4
Multifamily	832	6	1,864	6
Construction/land development	1,105	21	2,458	23
Commercial business	2,380	36	2,802	23
	8,758	100	10,249	56
	$93,979	$ 914	$93,415	$ 813

(in thousands)	Six Months Ended June 30, 2017		Six Months Ended June 30, 2016	
Consumer loans	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Single family	$82,661	$ 1,540	$81,612	$ 1,444
Home equity and other	1,533	43	1,504	33
	84,194	1,583	83,116	1,477
Commercial loans				
Commercial real estate	3,740	96	3,124	8
Multifamily	836	12	1,878	35
Construction/land development	1,368	47	3,023	44
Commercial business	2,684	83	2,503	41
	8,628	238	10,528	128
	$92,822	$ 1,821	$93,644	$ 1,605

Credit Quality Indicators

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

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

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

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

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

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

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

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

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

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

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

- Performance is poor or significantly less than expected. There may be a temporary debt-servicing deficiency or inadequate working capital as evidenced by a cash cushion deficiency, but not to the extent that repayment is compromised. Material violation of financial covenants is common.
-

Loans with unresolved material issues that significantly cloud the debt service outlook, even though a debt servicing deficiency does not currently exist.

- Modest underperformance or deviation from plan for real estate loans where absorption of rental/sales units is necessary to properly service the debt as structured. Depth of support for interest carry provided by owner/guarantors may mitigate and provide for improved rating.

26

- This rating may be assigned when a loan officer is unable to supervise the credit properly, an inadequate loan agreement, an inability to control collateral, failure to obtain proper documentation, or any other deviation from prudent lending practices.
- Unlike a substandard credit, there should be a reasonable expectation that these temporary issues will be corrected within the normal course of business, rather than liquidation of assets, and in a reasonable period of time.

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

- Cash flow deficiencies or trends are of a magnitude to jeopardize current and future payments with no immediate relief. A loss is not presently expected, however the outlook is sufficiently uncertain to preclude ruling out the possibility.
- The borrower has been unable to adjust to prolonged and unfavorable industry or economic trends.
- Material underperformance or deviation from plan for real estate loans where absorption of rental/sales units is necessary to properly service the debt and risk is not mitigated by willingness and capacity of owner/guarantor to support interest payments.
- Management character or honesty has become suspect. This includes instances where the borrower has become uncooperative.
- Due to unprofitable or unsuccessful business operations, some form of restructuring of the business, including liquidation of assets, has become the primary source of loan repayment. Cash flow has deteriorated, or been diverted, to the point that sale of collateral is now the Company's primary source of repayment (unless this was the original source of repayment). If the collateral is under the Company's control and is cash or other liquid, highly marketable securities and properly margined, then a more appropriate rating might be special mention or watch.
- The borrower is involved in bankruptcy proceedings where collateral liquidation values are expected to fully protect the Company against loss.
- There is material, uncorrectable faulty documentation or materially suspect financial information.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	At June 30, 2017				
(in thousands)	Pass	Watch	Special mention	Substandard	Total
Consumer loans					
Single family	$1,117,636 [1]	$3,508	$ 15,243	$ 11,842	$1,148,229
Home equity and other	412,039	205	659	1,603	414,506
	1,529,675	3,713	15,902	13,445	1,562,735
Commercial loans					
Commercial real estate	886,638	42,739	8,713	4,032	942,122
Multifamily	765,652	12,737	1,893	320	780,602
Construction/land development	632,857	14,366	1,449	—	648,672
Commercial business	195,504	46,362	4,549	2,493	248,908
	2,480,651	116,204	16,604	6,845	2,620,304
	$4,010,326	$119,917	$ 32,506	$ 20,290	$4,183,039

(1) Includes $5.1 million of loans where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

28

(in thousands)	At December 31, 2016 Pass	Watch	Special mention	Substandard	Total
Consumer loans					
Single family	$1,051,463 [1]	$4,348	$ 15,172	$ 12,839	$1,083,822
Home equity and other	357,191	597	514	1,572	359,874
	1,408,654	4,945	15,686	14,411	1,443,696
Commercial loans					
Commercial real estate	809,996	52,519	7,165	1,883	871,563
Multifamily	660,234	13,140	508	337	674,219
Construction/land development	615,675	16,074	3,083	1,488	636,320
Commercial business	171,883	42,767	3,385	5,618	223,653
	2,257,788	124,500	14,141	9,326	2,405,755
	$3,666,442	$129,445	$ 29,827	$ 23,737	$3,849,451

(1) Includes $18.0 million of loans where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

As of June 30, 2017 and December 31, 2016, none of the Company's loans were rated Doubtful or Loss. For a detailed discussion on credit quality, see Note 5, Loans and Credit Quality, within our 2016 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 FHA or guaranteed by the VA are generally maintained on accrual status even if 90 days or more past due.

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

(in thousands)	At June 30, 2017 30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total loans	90 days or more past due and accruing
Consumer loans							
Single family	$9,911	$ 4,246	$45,545	$59,702	$1,088,527 [1]	$1,148,229	$ 33,824 [2]
Home equity and other	1,096	73	1,603	2,772	411,734	414,506	—
	11,007	4,319	47,148	62,474	1,500,261	1,562,735	33,824
Commercial loans							
Commercial real estate	—	—	1,242	1,242	940,880	942,122	—
Multifamily	—	—	320	320	780,282	780,602	—
Construction/land development	147	—	—	147	648,525	648,672	—
Commercial business	424	—	590	1,014	247,894	248,908	—
	571	—	2,152	2,723	2,617,581	2,620,304	—
	$11,578	$ 4,319	$49,300	$65,197	$4,117,842	$4,183,039	$ 33,824

(in thousands)	At December 31, 2016 30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total loans	90 days or more past due and accruing
Consumer loans							
Single family	$4,310	$ 5,459	$53,563	$63,332	$1,020,490 (1)	$1,083,822	$ 40,846 (2)
Home equity and other	251	442	1,571	2,264	357,610	359,874	—
	4,561	5,901	55,134	65,596	1,378,100	1,443,696	40,846
Commercial loans							
Commercial real estate	71	205	2,127	2,403	869,160	871,563	—
Multifamily	—	—	337	337	673,882	674,219	—
Construction/land development	—	—	1,376	1,376	634,944	636,320	—
Commercial business	202	—	2,414	2,616	221,037	223,653	—
	273	205	6,254	6,732	2,399,023	2,405,755	—
	$4,834	$ 6,106	$61,388	$72,328	$3,777,123	$3,849,451	$ 40,846

(1) Includes $5.1 million and $18.0 million of loans at June 30, 2017 and December 31, 2016, respectively, where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

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

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

(in thousands)	At June 30, 2017 Accrual	Nonaccrual	Total
Consumer loans			
Single family	$1,136,508 [(1)]	$ 11,721	$1,148,229
Home equity and other	412,903	1,603	414,506
	1,549,411	13,324	1,562,735
Commercial loans			
Commercial real estate	940,880	1,242	942,122
Multifamily	780,282	320	780,602
Construction/land development	648,672	—	648,672
Commercial business	248,318	590	248,908
	2,618,152	2,152	2,620,304
	$4,167,563	$ 15,476	$4,183,039

(in thousands)	At December 31, 2016 Accrual	Nonaccrual	Total
Consumer loans			
Single family	$1,071,105 [(1)]	$ 12,717	$1,083,822
Home equity and other	358,303	1,571	359,874
	1,429,408	14,288	1,443,696
Commercial loans			
Commercial real estate	869,436	2,127	871,563
Multifamily	673,882	337	674,219
Construction/land development	634,944	1,376	636,320
Commercial business	221,239	2,414	223,653
	2,399,501	6,254	2,405,755
	$3,828,909	$ 20,542	$3,849,451

(1) Includes $5.1 million and $18.0 million of loans at June 30, 2017 and December 31, 2016, where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

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

	Three Months Ended June 30, 2017			
(dollars in thousands)	Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	13	$ 2,097	$ —
	Payment restructure	30	6,015	—
Home equity and other				
	Payment restructure	1	277	—
Total consumer				
	Interest rate reduction	13	2,097	—
	Payment restructure	31	6,292	—
		44	8,389	—
Commercial loans				
Construction/land development				
	Payment restructure	1	436	—
Total commercial				
	Payment restructure	1	436	—
		1	436	—
Total loans				
	Interest rate reduction	13	2,097	—
	Payment restructure	32	6,728	—
		45	$ 8,825	$ —

	Three Months Ended June 30, 2016			
(dollars in thousands)	Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	13	$ 2,369	$ —
	Payment restructure	19	3,747	—
Home equity and other				
	Interest rate reduction	1	13	—
Total consumer				
	Interest rate reduction	14	2,382	—
	Payment restructure	19	3,747	—
		33	6,129	—
Total loans				
	Interest rate reduction	14	2,382	—
	Payment restructure	19	3,747	—
		33	$ 6,129	$ —

	Six Months Ended June 30, 2017			
(dollars in thousands)	Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	39	$ 6,920	$ —
	Payment restructure	42	8,892	—
Home equity and other				
	Payment restructure	2	351	—
Total consumer				
	Interest rate reduction	39	6,920	—
	Payment restructure	44	9,243	—
		83	16,163	—
Commercial loans				
Construction/land development				
	Payment restructure	1	436	—
Commercial business				
	Payment restructure	1	18	—
Total commercial				
	Payment restructure	2	454	—
		2	454	—
Total loans				
	Interest rate reduction	39	6,920	—
	Payment restructure	46	9,697	—
		85	$ 16,617	$ —

	Six Months Ended June 30, 2016			
(dollars in thousands)	Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	18	$ 3,389	$ —
	Payment restructure	34	6,918	—
Home equity and other				
	Interest rate reduction	1	13	—
Total consumer				
	Interest rate reduction	19	3,402	—
	Payment restructure	34	6,918	—
		53	10,320	—
Total loans				
	Interest rate reduction	19	3,402	—
	Payment restructure	34	6,918	—
		53	$ 10,320	$ —

The following table presents loans that were modified as TDRs within the previous 12 months and subsequently re-defaulted during the three and six months ended June 30, 2017 and 2016, 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 June 30,			
	2017		2016	
	Number of loan relationships that re-defaulted	Recorded investment	Number of loan relationships that re-defaulted	Recorded investment
Consumer loans				
Single family	7	$ 1,382	8	$ 2,367
Home equity and other	—	—	1	93
	7	$ 1,382	9	$ 2,460

(dollars in thousands)	Six Months Ended June 30,			
	2017		2016	
	Number of loan relationships that re-defaulted	Recorded investment	Number of loan relationships that re-defaulted	Recorded investment
Consumer loans				
Single family	8	$ 1,652	9	$ 2,638
Home equity and other	—	—	1	93
	8	$ 1,652	10	$ 2,731

NOTE 5–DEPOSITS:

Deposit balances, including stated rates, were as follows.

(in thousands)	At June 30, 2017	At December 31, 2016
Noninterest-bearing accounts	$1,015,301	$ 964,829
NOW accounts, 0.00% to 1.00% at June 30, 2017 and December 31, 2016	541,592	468,812
Statement savings accounts, due on demand, 0.05% to 1.13% at June 30, 2017 and December 31, 2016	311,202	301,361
Money market accounts, due on demand, 0.00% to 1.70% and at June 30, 2017 and December 31, 2016	1,587,741	1,603,141

Certificates of deposit, 0.05% to 3.80% at June 30, 2017 and December 31, 2016	1,291,935	1,091,558
	$4,747,771	$ 4,429,701

Interest expense on deposits was as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2017	2016	2017	2016
NOW accounts	$503	$489	$980	$981
Statement savings accounts	253	255	505	509
Money market accounts	1,935	1,606	4,165	2,973
Certificates of deposit	3,176	2,099	5,840	3,555
	$5,867	$4,449	$11,490	$8,018

34

The weighted-average interest rates on certificates of deposit were 1.01% and 0.96% at June 30, 2017 and December 31, 2016, respectively.

Certificates of deposit outstanding mature as follows.

(in thousands)	At June 30, 2017
Within one year	$967,731
One to two years	265,348
Two to three years	32,627
Three to four years	14,060
Four to five years	11,944
Thereafter	225
	$1,291,935

The aggregate amount of time deposits in denominations of $100 thousand or more at June 30, 2017 and December 31, 2016 were $481.1 million and $508.6 million, respectively. The aggregate amount of time deposits in denominations of more than $250 thousand at June 30, 2017 and December 31, 2016 were $102.1 million and $87.4 million, respectively. There were $412.7 million and $234.4 million of brokered deposits at June 30, 2017 and December 31, 2016, respectively.

NOTE 6–DERIVATIVES AND HEDGING ACTIVITIES:

To reduce the risk of significant interest rate fluctuations on the value of certain assets and liabilities, such as certain mortgage loans held for sale or MSRs, the Company utilizes derivatives, such as forward sale commitments, futures, option contracts, interest rate swaps and "swaptions" as risk management instruments in its hedging strategy. Derivative transactions are measured in terms of notional amount, which is not recorded in the consolidated statements of financial condition. The notional amount is generally not exchanged and is used as the basis for interest and other contractual payments.

We held no derivatives designated as a fair value, cash flow or foreign currency hedge instrument at June 30, 2017 or December 31, 2016. Derivatives are reported at their respective fair values in the other assets or accounts payable and other liabilities line items on the consolidated statements of financial condition, with changes in fair value reflected in current period earnings.

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

The collateral used under the Company's master netting agreements is typically cash, but securities may be used under agreements with certain counterparties. Receivables related to cash collateral that has been paid to counterparties is included in other assets on the Company's consolidated statements of financial condition. Any securities pledged to counterparties as collateral remain on the consolidated statement of financial condition. Refer to Note 3, Investment Securities, for further information on securities collateral pledged. At June 30, 2017 and December 31, 2016, the Company did not hold any collateral received from counterparties under derivative transactions.

For further information on the policies that govern derivative and hedging activities, see Note 1, Summary of Significant Accounting Policies, and Note 11, Derivatives and Hedging Activities, within our 2016 Annual Report on Form 10-K.

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

	At June 30, 2017		
	Notional amount	Fair value derivatives	
(in thousands)		Asset	Liability
Forward sale commitments	$2,110,125	$4,665	$(3,818)
Interest rate swaptions	30,000	1	—
Interest rate lock and purchase loan commitments	831,294	22,331	(48)
Interest rate swaps	1,912,850	14,139	(21,139)
Eurodollar futures	1,188,000	98	(52)
Total derivatives before netting	$6,072,269	41,234	(25,057)
Netting adjustment/Cash collateral (1)		16,873	21,329
Carrying value on consolidated statements of financial condition		$58,107	$(3,728)

(1) Includes cash collateral of $38.2 million at June 30, 2017 as part of netting adjustments which primarily consists of collateral transferred by the Company at the initiation of derivative transactions and held by the counterparty as security.

	At December 31, 2016		
	Notional amount	Fair value derivatives	
(in thousands)		Asset	Liability
Forward sale commitments	$3,596,677	$24,623	$(15,203)
Interest rate swaptions	20,000	1	—
Interest rate lock and purchase loan commitments	746,102	19,586	(367)
Interest rate swaps	1,689,850	15,016	(26,829)
Total derivatives before netting	$6,052,629	59,226	(42,399)
Netting adjustment/Cash collateral (1)		10,174	37,836
Carrying value on consolidated statements of financial condition		$69,400	$(4,563)

(1) Includes cash collateral of $48.0 million at December 31, 2016 as part of netting adjustments which primarily consists of collateral transferred by the Company at the initiation of derivative transactions and held by the counterparty as security.

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

	At June 30, 2017				
(in thousands)	Gross fair value	Netting adjustments/ Cash collateral(1)	Carrying value	Securities not offset in consolidated balance sheet (disclosure-only netting)	Net amount
Derivative assets	$41,234	$ 16,873	$58,107	$ —	$58,107
Derivative liabilities	$(25,057)	$ 21,329	$(3,728)	$ 2,616	$(1,112)

	At December 31, 2016
(in thousands)	

	Gross fair value	Netting adjustments/ Cash collateral[1]	Carrying value	Securities not offset in consolidated balance sheet (disclosure-only netting)	Net amount
Derivative assets	$59,226	$ 10,174	$69,400	$ —	$69,400
Derivative liabilities	$(42,399)	$ 37,836	$(4,563)	$ 1,820	$(2,743)

(1) Includes cash collateral of $38.2 million and $48.0 million at June 30, 2017 and December 31, 2016 respectively, as part of the netting adjustments which primarily consists of collateral transferred by the Company at the initiation of derivative transactions and held by the counterparty as security.

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

(in thousands)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Recognized in noninterest income:				
Net gain (loss) on loan origination and sale activities [1]	$(10,109)	$761	$(11,608)	$(331)
Loan servicing income [2]	8,874	22,241	9,253	53,948
Other [3]	—	(390)	—	(1,352)
	$(1,235)	$22,612	$(2,355)	$52,265

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

NOTE 7–MORTGAGE BANKING OPERATIONS:

Loans held for sale consisted of the following.

(in thousands)	At June 30, 2017	At December 31, 2016
Single family	$680,959	$ 656,334
Multifamily DUS® [1]	39,099	35,506
Other [2]	64,498	22,719
Total loans held for sale	$784,556	$ 714,559

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

Loans sold consisted of the following.

(in thousands)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Single family	$1,808,500	$2,173,392	$3,548,237	$3,644,975
Multifamily DUS®	35,312	109,394	112,161	157,364

Other [1]	24,695	31,813	37,881	31,813
Total loans sold	$1,868,507	$2,314,599	$3,698,279	$3,834,152

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

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

(in thousands)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Single family:				
Servicing value and secondary market gains[1]	$57,353	$73,685	$107,891	$127,812
Loan origination and administration fees	6,823	7,355	12,604	12,683
Total single family	64,176	81,040	120,495	140,495
Multifamily DUS®	1,273	3,655	4,633	5,184
Other [2]	459	935	1,061	1,214
Total gain on loan origination and sale activities	$65,908	$85,630	$126,189	$146,893

(1) Comprised of gains and losses on interest rate lock and purchase loan commitments (which considers the value of servicing), single family loans held for sale, forward sale commitments used to economically hedge secondary market activities, and changes in the Company's repurchase liability for loans that have been sold.
(2) Includes multifamily and commercial loans originated from sources other than DUS®.

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

The composition of loans serviced for others is presented below at the unpaid principal balance.

(in thousands)	At June 30, 2017	At December 31, 2016
Single family		
U.S. government and agency	$20,574,300	$ 18,931,835
Other	530,308	556,621
	21,104,608	19,488,456
Commercial		
Multifamily DUS®	1,135,722	1,108,040
Other	75,336	69,323
	1,211,058	1,177,363
Total loans serviced for others	$22,315,666	$ 20,665,819

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

The following is a summary of changes in the Company's liability for estimated mortgage repurchase losses.

(in thousands)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Balance, beginning of period	$2,863	$2,725	$3,382	$2,922
Additions (reductions), net [(1)]	328	885	(32)	912
Realized losses [(2)]	(201)	(231)	(360)	(455)
Balance, end of period	$2,990	$3,379	$2,990	$3,379

(1) Includes additions for new loan sales and changes in estimated probable future repurchase losses on previously sold loans.
(2) Includes principal losses and accrued interest on repurchased loans, "make-whole" settlements, settlements with claimants and certain related expense.

The Company has agreements with certain investors, depending on the requirements, to advance scheduled principal and interest amounts on delinquent loans. Advances are also made to fund the foreclosure and collection costs of delinquent loans prior to the recovery of reimbursable amounts from investors or borrowers. Advances of $6.4 million and $7.5 million were recorded in other assets as of June 30, 2017 and December 31, 2016, respectively.

When the Company has the unilateral right to repurchase Ginnie Mae pool loans it has previously sold (generally loans that are more than 90 days past due), the Company then records the loan on its consolidated statement of financial condition. At both June 30, 2017 and December 31, 2016, delinquent or defaulted mortgage loans currently in Ginnie Mae pools that the Company has recognized on its consolidated statements of financial condition totaled $33.4 million and $35.8 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 June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Servicing income, net:				
Servicing fees and other	$15,977	$12,923	$32,156	$25,356
Changes in fair value of single family MSRs due to modeled amortization [(1)]	(8,909)	(7,758)	(17,429)	(15,015)
Amortization of multifamily MSRs	(761)	(648)	(1,692)	(1,285)
	6,307	4,517	13,035	9,056
Risk management, single family MSRs:				
Changes in fair value of MSRs due to changes in market inputs and/or model updates [(2)]	(6,417)	(14,055)	(4,285)	(42,269)
Net gain from derivatives economically hedging MSR	8,874	22,241	9,253	53,948
	2,457	8,186	4,968	11,679
Mortgage servicing income	$8,764	$12,703	$18,003	$20,735

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

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(rates per annum) (1)	2017	2016	2017	2016
Constant prepayment rate ("CPR") (2)	14.75%	15.62%	13.39%	16.30%
Discount rate (3)	10.30%	10.57%	10.29%	10.44%

(1) Weighted average rates for sales during the period for sales of loans with similar characteristics.
(2) Represents the expected lifetime average.
(3) Discount rate is a rate based on market observations.

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

(dollars in thousands)	At June 30, 2017
Fair value of single family MSR	$236,621
Expected weighted-average life (in years)	6.02
Constant prepayment rate (1)	12.94 %
Impact on 25 basis points adverse change in interest rates	$(17,984)
Impact on 50 basis points adverse change in interest rates	$(37,908)
Discount rate	10.40 %
Impact on fair value of 100 basis points increase	$(8,206)
Impact on fair value of 200 basis points increase	$(15,868)

(1) Represents the expected lifetime average.

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

40

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

(in thousands)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Beginning balance	$235,997	$133,449	$226,113	$156,604
Additions and amortization:				
Originations	15,748	19,264	31,666	31,580
Purchases	211	—	565	—
Sale of single family MSRs	—	—	—	—
Changes due to modeled amortization[1]	(8,909)	(7,758)	(17,429)	(15,015)
Net additions and amortization	7,050	11,506	14,802	16,565
Changes in fair value of MSRs due to changes in market inputs and/or model updates [2]	(6,426)	(14,055)	(4,294)	(42,269)
Ending balance	$236,621	$130,900	$236,621	$130,900

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

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

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

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

(in thousands)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Beginning balance	$21,424	$15,402	$19,747	$14,651
Origination	937	1,612	3,545	3,000
Amortization	(761)	(648)	(1,692)	(1,285)
Ending balance	$21,600	$16,366	$21,600	$16,366

At June 30, 2017, the expected weighted-average life of the Company’s multifamily MSRs was 10.21 years. Projected amortization expense for the gross carrying value of multifamily MSRs is estimated as follows.

(in thousands)	At June 30, 2017
Remainder of 2017	$1,498
2018	2,944
2019	2,842
2020	2,760
2021	2,546
2022 and thereafter	9,010
Carrying value of multifamily MSR	$21,600

NOTE 8–COMMITMENTS, GUARANTEES AND CONTINGENCIES:

Commitments

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

The Company makes certain unfunded loan commitments as part of its lending activities that have not been recognized in the Company's financial statements. These include commitments to extend credit made as part of the Company's lending activities on loans the Company intends to hold in its loans held for investment portfolio. The aggregate amount of these unrecognized unfunded loan commitments existing at June 30, 2017 and December 31, 2016 was $89.0 million and $42.6 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 $614.2 million and $603.8 million at June 30, 2017 and December 31, 2016, respectively. Unused home equity and commercial banking funding lines totaled $390.6 million and $289.3 million at June 30, 2017 and December 31, 2016, respectively. The Company has recorded an allowance for credit losses on loan commitments, included in accounts payable and other liabilities on the consolidated statements of financial condition, of $1.3 million and $1.3 million at June 30, 2017 and December 31, 2016, respectively.

Guarantees

In the ordinary course of business, the Company sells loans through the Fannie Mae Multifamily DUS® that are subject to a credit loss sharing arrangement. The Company services the loans for Fannie Mae and shares in the risk of loss with Fannie Mae under the terms of the DUS® contracts. Under the program, the DUS® lender is contractually responsible for the first 5% of losses and then shares in the remainder of losses with Fannie Mae with a maximum lender loss of 20% of the original principal balance of each DUS® loan. For loans that have been sold through this program, a liability is recorded for this loss sharing arrangement under the accounting guidance for guarantees. As of June 30, 2017 and December 31, 2016, the total unpaid principal balance of loans sold under this program was $1.14 billion and $1.11 billion, respectively. The Company's reserve liability related to this arrangement totaled $1.7 million and $1.8 million at June 30, 2017 and December 31, 2016, respectively. There were no actual losses incurred under this arrangement during the three and six months ended June 30, 2017 and 2016.

Mortgage repurchase liability

In the ordinary course of business, the Company sells residential mortgage loans to GSEs and other entities. In addition, the Company pools FHA-insured and VA-guaranteed mortgage loans into Ginnie Mae guaranteed mortgage-backed securities and pools conventional loans into Fannie Mae and Freddie Mac guaranteed mortgage-backed securities. The Company has made representations and warranties that the loans sold meet certain requirements. The Company may be required to repurchase mortgage loans, or indemnify loan purchasers, or FHA or VA due to defects in the origination process of the loan, such as documentation errors, underwriting errors and judgments, early payment defaults and fraud.

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

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

The total unpaid principal balance of loans sold on a servicing-retained basis that were subject to the terms and conditions of these representations and warranties totaled $21.18 billion and $19.56 billion as of June 30, 2017 and December 31, 2016, respectively. At June 30, 2017 and December 31, 2016, the Company had recorded a mortgage repurchase liability for loans sold on a servicing-retained and servicing-released basis, included in accounts payable and other liabilities on the consolidated statements of financial condition, of $3.0 million and $3.4 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 June 30, 2017, we reviewed our legal claims and determined that there were no material claims that were considered to be probable or reasonably possible of resulting in a loss. As a result, the Company did not have any material amounts reserved for legal claims as of June 30, 2017.

NOTE 9–FAIR VALUE MEASUREMENT:

For a further discussion of fair value measurements, including information regarding the Company’s valuation methodologies and the fair value hierarchy, see Note 17, Fair Value Measurement within our 2016 Annual Report on Form 10-K.

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

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

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

Estimation of Fair Value

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

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

Asset/Liability class	Valuation methodology, inputs and assumptions	Classification
Cash and cash equivalents	Carrying value is a reasonable estimate of fair value based on the short-term nature of the instruments.	Estimated fair value classified as Level 1.
Investment securities		
Investment securities available for sale	Observable market prices of identical or similar securities are used where available. If market prices are not readily available, value is based on discounted cash flows using the following significant inputs: • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	Level 2 recurring fair value measurement
Investment securities held to maturity	Observable market prices of identical or similar securities are used where available. If market prices are not readily available, value is based on discounted cash flows using the following significant inputs: • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	Carried at amortized cost. Estimated fair value classified as Level 2.
Loans held for sale		
Single family loans, excluding loans transferred from held for investment	Fair value is based on observable market data, including: • Quoted market prices, where available • Dealer quotes for similar loans • Forward sale commitments When not derived from observable market inputs, fair value is based on discounted cash flows, which considers the following inputs: • Current lending rates for new loans • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	Level 2 recurring fair value measurement Estimated fair value classified as Level 3.
Loans originated as held for investment and transferred to held for sale	Fair value is based on discounted cash flows, which considers the following inputs: • Current lending rates for new loans	Carried at lower of amortized cost or fair value. Estimated fair value

	• Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	classified as Level 3.
Multifamily loans (DUS®) and other	The sale price is set at the time the loan commitment is made, and as such subsequent changes in market conditions have a very limited effect, if any, on the value of these loans carried on the consolidated statements of financial condition, which are typically sold within 30 days of origination.	Carried at lower of amortized cost or fair value. Estimated fair value classified as Level 2.

Asset/Liability class	Valuation methodology, inputs and assumptions	Classification
Loans held for investment		
Loans held for investment, excluding collateral dependent loans and loans transferred from held for sale	Fair value is based on discounted cash flows, which considers the following inputs: • Current lending rates for new loans • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	For the carrying value of loans see Note 1–Summary of Significant Accounting Policies of the 2016 Annual Report on Form 10-K. Estimated fair value classified as Level 3.
Loans held for investment, collateral dependent	Fair value is based on appraised value of collateral, which considers sales comparison and income approach methodologies. Adjustments are made for various factors, which may include: • Adjustments for variations in specific property qualities such as location, physical dissimilarities, market conditions at the time of sale, income producing characteristics and other factors • Adjustments to obtain “upon completion” and “upon stabilization” values (e.g., property hold discounts where the highest and best use would require development of a property over time) • Bulk discounts applied for sales costs, holding costs and profit for tract development and certain other properties	Carried at lower of amortized cost or fair value of collateral, less the estimated cost to sell. Classified as a Level 3 nonrecurring fair value measurement in periods where carrying value is adjusted to reflect the fair value of collateral.
Loans held for investment transferred from loans held for sale	Fair value is based on discounted cash flows, which considers the following inputs: • Current lending rates for new loans • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	Level 3 recurring fair value measurement
Mortgage servicing rights		
Single family MSRs	For information on how the Company measures the fair value of its single family MSRs, including key economic assumptions and the sensitivity of fair value to changes in those assumptions, see Note 7, Mortgage Banking Operations.	Level 3 recurring fair value measurement
Multifamily MSRs and other	Fair value is based on discounted estimated future servicing fees and other revenue, less estimated costs to service the loans.	Carried at lower of amortized cost or fair value Estimated fair value classified as Level 3.
Derivatives		
Eurodollar futures	Fair value is based on closing exchange prices.	

	Fair value is based on quoted prices for identical or similar instruments, when available.	Level 1 recurring fair value measurement
Interest rate swaps Interest rate swaptions Forward sale commitments	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

Asset/Liability class	Valuation methodology, inputs and assumptions	Classification
Interest rate lock and purchase loan commitments	The fair value considers several factors including: • Fair value of the underlying loan based on quoted prices in the secondary market, when available. • Value of servicing • Fall-out factor	Level 3 recurring fair value measurement
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 June 30, 2017	Level 1	Level 2	Level 3
Assets:				
Investment securities available for sale				
Mortgage backed securities:				
Residential	$150,935	$ —	$150,935	$—
Commercial	23,381	—	23,381	—
Municipal bonds	372,729	—	372,729	—
Collateralized mortgage obligations:				
Residential	184,695	—	184,695	—
Commercial	76,230	—	76,230	—
Corporate debt securities	30,218	—	30,218	—
U.S. Treasury securities	10,740	—	10,740	—
Agency	35,338	—	35,338	—
Single family mortgage servicing rights	236,621	—	—	236,621
Single family loans held for sale	680,959	—	651,700	29,259
Single family loans held for investment	5,134	—	—	5,134
Derivatives				
Eurodollar futures	98	98	—	—
Forward sale commitments	4,665	—	4,665	—
Interest rate swaptions	1	—	1	—
Interest rate lock and purchase loan commitments	22,331	—	—	22,331
Interest rate swaps	14,139	—	14,139	—
Total assets	$1,848,214	$ 98	$1,554,771	$293,345
Liabilities:				
Derivatives				
Eurodollar futures	$52	$ 52	$—	$—
Forward sale commitments	3,818	—	3,818	—
Interest rate lock and purchase loan commitments	48	—	—	48
Interest rate swaps	21,139	—	21,139	—
Total liabilities	$25,057	$ 52	$24,957	$48

(in thousands)	Fair Value at December 31, 2016	Level 1	Level 2	Level 3
Assets:				
Investment securities available for sale				
Mortgage backed securities:				
Residential	$177,074	$ —	$177,074	$—
Commercial	25,536	—	25,536	—
Municipal bonds	467,673	—	467,673	—
Collateralized mortgage obligations:				
Residential	191,201	—	191,201	—
Commercial	70,764	—	70,764	—
Corporate debt securities	51,122	—	51,122	—
U.S. Treasury securities	10,620	—	10,620	—
Single family mortgage servicing rights	226,113	—	—	226,113
Single family loans held for sale	656,334	—	614,524	41,810
Single family loans held for investment	17,988	—	—	17,988
Derivatives				
Forward sale commitments	24,623	—	24,623	—
Interest rate swaptions	1	—	1	—
Interest rate lock and purchase loan commitments	19,586	—	—	19,586
Interest rate swaps	15,016	—	15,016	—
Total assets	$1,953,651	$ —	$1,648,154	$305,497
Liabilities:				
Derivatives				
Forward sale commitments	$15,203	$ —	$15,203	$—
Interest rate lock and purchase loan commitments	367	—	—	367
Interest rate swaps	26,829	—	26,829	—
Total liabilities	$42,399	$ —	$42,032	$367

There were no transfers between levels of the fair value hierarchy during the three and six months ended June 30, 2017 and 2016.

Level 3 Recurring Fair Value Measurements

The Company's level 3 recurring fair value measurements consist of single family mortgage servicing rights, single family loans held for investment where fair value option was elected, certain single family loans held for sale, and interest rate lock and purchase loan commitments, which are accounted for as derivatives. For information regarding fair value changes and activity for single family MSRs during the three and six months ended June 30, 2017 and 2016, see Note 7, Mortgage Banking Operations of this Form 10-Q.

The Company transferred certain loans from held for sale to held for investment. These loans were originated as held for sale loans where the Company had elected fair value option. The Company determined these loans to be level 3 recurring assets as the valuation technique included a significant unobservable input. The total amount of held for investment loans where fair value option election was made was $5.1 million at June 30, 2017.

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

(dollars in thousands)	At June 30, 2017 Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Loans held for investment, fair value option	$5,134	Income approach	Implied spread to benchmark interest rate curve	3.53%	4.88%	4.21%

(dollars in thousands)	At December 31, 2016 Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Loans held for investment, fair value option	$17,988	Income approach	Implied spread to benchmark interest rate curve	3.62%	4.97%	4.49%

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

(dollars in thousands)	At June 30, 2017 Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Loans held for sale, fair value option	$29,259	Income approach	Implied spread to benchmark interest rate curve	3.24%	5.26%	4.47%
			Market price movement from comparable bond	(0.27)%	(0.09)%	(0.18)%

(dollars in thousands)	At December 31, 2016 Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Loans held for sale, fair value option	$41,810	Income approach	Implied spread to benchmark interest rate curve	3.46%	6.14%	4.23%
			Market price movement from comparable bond	(0.49)%	(0.11)%	(0.27)%

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2017	2016	2017	2016
Beginning balance, net	$27,136	$28,482	$19,219	$17,711
Total realized/unrealized gains	34,127	58,767	69,586	103,295
Settlements	(38,980)	(47,258)	(66,522)	(81,015)
Ending balance, net	$22,283	$39,991	$22,283	$39,991

49

The following table presents fair value changes and activity for Level 3 loans held for sale and loans held for investment.

Three Months Ended June 30, 2017	Beginning balance	Additions	Transfers	Payoffs/Sales	Change in mark to market	Ending balance
(in thousands)						
Loans held for sale	$ 40,331	$ 197	$ 13,755	$ (25,884)	$ 860	$ 29,259
Loans held for investment	19,042	—	(13,575)	(479)	146	5,134
Three Months Ended June 30, 2016						
Loans held for sale	$ 45,558	$ 7,480	$ (4,582)	$ (3,696)	$ (1,018)	$ 43,742
Loans held for investment	18,327	106	4,572	(503)	(140)	22,362

Six Months Ended June 30, 2017	Beginning balance	Additions	Transfers	Payoffs/Sales	Change in mark to market	Ending balance
(in thousands)						
Loans held for sale	$ 41,810	$ 2,996	$ 13,066	$ (29,110)	$ 497	$ 29,259
Loans held for investment	17,988	—	(12,369)	(479)	(6)	5,134
Six Months Ended June 30, 2016						
Loans held for sale	$ 49,322	$ 7,963	$ (4,582)	$ (8,525)	$ (436)	$ 43,742
Loans held for investment	21,544	106	4,572	(3,583)	(277)	22,362

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

	At June 30, 2017					
(dollars in thousands)	Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Interest rate lock and purchase loan commitments, net	$ 22,283	Income approach	Fall-out factor	0.40%	62.52%	14.30%
			Value of servicing	0.64%	1.92%	1.02%

	At December 31, 2016					
(dollars in thousands)	Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Interest rate lock and purchase loan commitments, net	$ 19,219	Income approach	Fall-out factor	0.50%	60.34%	11.95%
			Value of servicing	0.65%	2.27%	1.08%

50

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 six months ended June 30, 2017, the Company recorded an adjustment of 7.10% to the appraisal values of certain commercial loans held for investment that are collateralized by real estate. During the three and six months ended June 30, 2016, the Company recorded no adjustment 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 June 30, 2017, the Company applied a range of stated value adjustments of 0.0% to 42.6%, with a weighted average of 42.3%. During the six months ended June 30, 2017, the Company applied a range of stated value adjustments of 0.0% to 100.0%, with a weighted average of 41.3%. During the three and six months ended June 30, 2016, the Company applied a stated value adjustment of 63.4%. During the three and six months ended June 30, 2017 and 2016, the Company did not apply any adjustment to the appraisal value of OREO.

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

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

The following tables present assets that had changes in their recorded fair value during the three and six months ended June 30, 2017 and 2016 and what we still held at the end of the respective reporting period.

	At or for the Three Months Ended June 30, 2017				
(in thousands)	Fair Value of Assets Held at June 30, 2017	Level 1	Level 2	Level 3	Total Gains (Losses)
Loans held for investment[1]	$2,003	$ —	$ —	$2,003	$ 162

	At or for the Three Months Ended June 30, 2016				
(in thousands)	Fair Value of Assets Held at June 30, 2016	Level 1	Level 2	Level 3	Total Gains (Losses)
Loans held for investment[1]	$2,581	$ —	$ —	$2,581	$ 20

	At or for the Six Months Ended June 30, 2017				
(in thousands)	Fair Value of Assets Held at June 30, 2017	Level 1	Level 2	Level 3	Total Gains (Losses)
Loans held for investment[1]	$2,003	$ —	$ —	$2,003	$ 140

	At or for the Six Months Ended June 30, 2016				
(in thousands)	Fair Value of Assets Held at June	Level 1	Level 2	Level 3	Total Gains (Losses)

	30, 2016				
Loans held for investment(1)	$2,581	$ —	$ —	$2,581	$ (14)
Other real estate owned(2)	5,485	—	—	5,485	(391)
Total	$8,066	$ —	$ —	$8,066	$ (405)

(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 June 30, 2017 Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$54,447	$54,447	$54,447	$—	$ —
Investment securities held to maturity	52,256	52,551	—	52,551	—
Loans held for investment	4,151,290	4,205,010	—	—	4,205,010
Loans held for sale – transferred from held for investment	62,183	62,183	—	—	62,183
Loans held for sale – multifamily and other	41,414	41,414	—	41,414	—
Mortgage servicing rights – multifamily	21,600	23,662	—	—	23,662
Federal Home Loan Bank stock	41,769	41,769	—	41,769	—
Liabilities:					
Deposits	$4,747,771	$4,727,531	$—	$4,727,531	$ —
Federal Home Loan Bank advances	867,290	869,559	—	869,559	—
Long-term debt	125,234	122,712	—	122,712	—

(in thousands)	At December 31, 2016 Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$53,932	$53,932	$53,932	$—	$ —
Investment securities held to maturity	49,861	49,488	—	49,488	—
Loans held for investment	3,801,039	3,840,990	—	—	3,840,990
Loans held for sale – transferred from held for investment	17,512	17,512	—	—	17,512
Loans held for sale – multifamily	40,712	40,712	—	40,712	—
Mortgage servicing rights – multifamily	19,747	21,610	—	—	21,610
Federal Home Loan Bank stock	40,347	40,347	—	40,347	—
Liabilities:					
Deposits	$4,429,701	$4,410,213	$—	$4,410,213	$ —
Federal Home Loan Bank advances	868,379	870,782	—	870,782	—
Long-term debt	125,147	122,357	—	122,357	—

NOTE 10–EARNINGS PER SHARE:

The following table summarizes the calculation of earnings per share.

(in thousands, except share and per share data)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Net income	$11,209	$ 21,749	$20,192	$ 28,156
Weighted average shares:				
Basic weighted-average number of common shares outstanding	26,866,230	24,708,375	26,843,813	24,192,441
Dilutive effect of outstanding common stock equivalents (1)	218,378	203,544	227,215	202,207
Diluted weighted-average number of common stock outstanding	27,084,608	24,911,919	27,071,028	24,394,648
Earnings per share:				
Basic earnings per share	$0.42	$ 0.88	$0.75	$ 1.16
Diluted earnings per share	$0.41	$ 0.87	$0.75	$ 1.15

(1) Excluded from the computation of diluted earnings per share (due to their antidilutive effect) for the three and six months ended June 30, 2017 and 2016 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 6,417 at June 30, 2017 and zero at June 30, 2016.

NOTE 11–BUSINESS SEGMENTS:

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

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

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

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

Financial highlights by operating segment were as follows.

	Three Months Ended June 30, 2017		
(in thousands)	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income [1]	$4,420	$42,448	$46,868
Provision for credit losses	—	500	500
Noninterest income	72,732	8,276	81,008
Noninterest expense	74,613	36,631	111,244
Income before income taxes	2,539	13,593	16,132
Income tax expense	776	4,147	4,923
Net income	$1,763	$9,446	$11,209
Total assets	$992,668	$5,593,889	$6,586,557

	Three Months Ended June 30, 2016		
(in thousands)	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income [1]	$6,089	$38,393	$44,482
Provision for credit losses	—	1,100	1,100
Noninterest income	94,295	8,181	102,476
Noninterest expense	76,928	34,103	111,031
Income before income taxes	23,456	11,371	34,827
Income tax expense	8,786	4,292	13,078
Net income	$14,670	$7,079	$21,749
Total assets	$966,586	$4,974,592	$5,941,178

	Six Months Ended June 30, 2017		
(in thousands)	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income [1]	$9,167	$83,352	$92,519
Provision for credit losses	—	500	500
Noninterest income	137,768	17,701	155,469
Noninterest expense	145,017	73,101	218,118

Income before income taxes	1,918	27,452	29,370
Income tax expense	464	8,714	9,178
Net income	$1,454	$18,738	$20,192
Total assets	$992,668	$5,593,889	$6,586,557

(in thousands)	Six Months Ended June 30, 2016 Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income [1]	$11,134	$74,039	$85,173
Provision for credit losses	—	2,500	2,500
Noninterest income	161,360	12,824	174,184
Noninterest expense	141,651	70,733	212,384
Income before income taxes	30,843	13,630	44,473
Income tax expense	11,308	5,009	16,317
Net income	$19,535	$8,621	$28,156
Total assets	$966,586	$4,974,592	$5,941,178

(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–ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):

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

(in thousands)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Beginning balance	$(8,486)	$4,161	$(10,412)	$(2,449)
Other comprehensive income before reclassifications	3,431	5,627	5,361	12,260
Amounts reclassified from accumulated other comprehensive loss	(358)	(40)	(362)	(63)
Net current-period other comprehensive income	3,073	5,587	4,999	12,197
Ending balance	$(5,413)	$9,748	$(5,413)	$9,748

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

Affected Line Item in the Consolidated Statements of Operations	Amount Reclassified from Accumulated Other Comprehensive Income Three Months Ended	Six Months Ended

(in thousands)	June 30, 2017	2016	June 30, 2017	2016
Gain on sale of investment securities available for sale	$551	$ 62	$557	$ 97
Income tax expense	193	22	195	34
Total, net of tax	$358	$ 40	$362	$ 63

56

NOTE 13–SUBSEQUENT EVENTS:

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

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

FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Consolidated Financial Statements and Notes presented elsewhere in this report and in HomeStreet, Inc.'s 2016 Annual Report on Form 10-K.

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

- any projections of revenues, estimated operating expenses or other financial items;
- any statements of management's plans and objectives for future operations or programs;
- any statements regarding future operations, plans, regulatory compliance or approvals;
- any statements concerning proposed new products or services;
- any statements about the expected or estimated performance of our loan portfolio;
- any statements regarding our pending or potential expansion into other geographic markets or potential increases in personnel or business in existing markets;
- any statements regarding pending or future mergers, acquisitions or other transactions; and
- any statement regarding future economic conditions or performance, and any statement of assumption underlying any of the foregoing.

These and other forward looking statements are, among other things, attempts to predict the future and, as such, may not come to pass. A wide variety of events, circumstances and conditions may cause us to fall short of management's expectations as expressed herein, or to deviate from our current plans and intentions.

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

Except as otherwise noted, references to "we," "our," "us" or "the Company" refer to HomeStreet, Inc. and its subsidiaries that are consolidated for financial reporting purposes. Statements of knowledge, intention or belief reflect those characteristics of our executive management team based on current facts and circumstances.

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

Summary Financial Data

	At or for the Three Months Ended					At or for the Six Months Ended	
(dollars in thousands, except share data)	June 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	June 30, 2017	June 30, 2016
Income statement data (for the period ended):							
Net interest income	$46,868	$45,651	$48,074	$46,802	$44,482	$92,519	$85,173
Provision for credit losses	500	—	350	1,250	1,100	500	2,500
Noninterest income	81,008	74,461	73,221	111,745	102,476	155,469	174,184
Noninterest expense	111,244	106,874	117,539	114,399	111,031	218,118	212,384
Income before income taxes	16,132	13,238	3,406	42,898	34,827	29,370	44,473
Income tax expense	4,923	4,255	1,112	15,197	13,078	9,178	16,317
Net income	$11,209	$8,983	$2,294	$27,701	$21,749	$20,192	$28,156
Basic income per share	$0.42	$0.33	$0.09	$1.12	$0.88	$0.75	$1.16
Diluted income per share	$0.41	$0.33	$0.09	$1.11	$0.87	$0.75	$1.15
Common shares outstanding	26,874,871	26,862,744	26,800,183	24,833,008	24,821,349	26,874,871	24,821,349
Weighted average number of shares outstanding:							
Basic	26,866,230	26,821,396	25,267,909	24,811,169	24,708,375	26,843,813	24,192,441
Diluted	27,084,608	27,057,449	25,588,691	24,996,747	24,911,919	27,071,028	24,394,648
Shareholders' equity per share	$24.40	$23.86	$23.48	$23.60	$22.55	$24.40	$22.55
Financial position (at period end):							
Cash and cash equivalents	$54,447	$61,492	$53,932	$55,998	$45,229	$54,447	$45,229
Investment securities	936,522	1,185,654	1,043,851	991,325	928,364	936,522	928,364
Loans held for sale	784,556	537,959	714,559	893,513	772,780	784,556	772,780
Loans held for investment, net	4,156,424	3,957,959	3,819,027	3,764,178	3,698,959	4,156,424	3,698,959
Mortgage servicing rights	258,222	257,421	245,860	167,501	147,266	258,222	147,266
Other real estate owned	4,597	5,646	5,243	6,440	10,698	4,597	10,698
Total assets	6,586,557	6,401,143	6,243,700	6,226,601	5,941,178	6,586,557	5,941,178
Deposits	4,747,771	4,595,809	4,429,701	4,504,560	4,239,155	4,747,771	4,239,155
Federal Home Loan Bank advances	867,290	862,335	868,379	858,923	878,987	867,290	878,987
Shareholders' equity	$655,841	$640,919	$629,284	$586,028	$559,603	$655,841	$559,603
Financial position (averages):							
Investment securities	$1,089,552	$1,153,248	$962,504	$981,223	$766,248	$1,121,224	$695,971
Loans held for investment	4,119,825	3,914,537	3,823,253	3,770,133	3,677,361	4,017,748	3,538,420
Total interest-earning assets	5,837,917	5,782,061	5,711,154	5,692,999	5,186,131	5,810,143	4,907,819
Total interest-bearing deposits	3,652,036	3,496,190	3,413,311	3,343,339	3,072,314	3,574,543	2,903,645
Federal Home Loan Bank advances	872,019	975,914	938,342	988,358	946,488	923,679	921,607
Federal funds purchased and securities sold under agreements to repurchase	4,804	978	951	2,242	—	2,901	—
Total interest-bearing liabilities	4,654,064	4,598,243	4,477,732	4,459,213	4,110,208	4,626,306	3,901,883
Shareholders’ equity	$668,377	$649,439	$616,497	$588,335	$548,080	$658,961	$529,482

Summary Financial Data (continued)

	At or for the Three Months Ended					At or for the Six Months Ended	
(dollars in thousands, except share data)	June 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	June 30, 2017	June 30, 2016
Financial performance:							
Return on average shareholders' equity [1]	6.71 %	5.53 %	1.49 %	18.83 %	15.87 %	6.13 %	10.64 %
Return on average assets	0.70 %	0.57 %	0.15 %	1.79 %	1.54 %	0.63 %	1.06 %
Net interest margin [2]	3.29 %	3.23 %	3.42 %	3.34 %	3.48 %	3.26 %	3.52 %
Efficiency ratio [3]	86.99 %	88.98 %	96.90 %	72.15 %	75.55 %	87.96 %	81.89 %
Asset quality:							
Allowance for credit losses	$37,470	$36,042	$35,264	$35,233	$34,001	$37,470	$34,001
Allowance for loan losses/total loans [4]	0.86 %	0.87 %	0.88 %	0.89 %	0.88 %	0.86 %	0.88 %
Allowance for loan losses/nonaccrual loans	233.50 %	185.99 %	165.52 %	131.07 %	207.41 %	233.50 %	207.41 %
Total nonaccrual loans [5][6]	$15,476	$18,676	$20,542	$25,921	$15,745	$15,476	$15,745
Nonaccrual loans/total loans	0.37 %	0.47 %	0.53 %	0.68 %	0.42 %	0.37 %	0.42 %
Other real estate owned	$4,597	$5,646	$5,243	$6,440	$10,698	$4,597	$10,698
Total nonperforming assets [6]	$20,073	$24,322	$25,785	$32,361	$26,443	$20,073	$26,443
Nonperforming assets/total assets	0.30 %	0.38 %	0.41 %	0.52 %	0.45 %	0.30 %	0.45 %
Net (recoveries) charge-offs	$(928)	$(778)	$319	$18	$(478)	$(1,706)	$(842)
Regulatory capital ratios for the Bank:							
Tier 1 leverage capital (to average assets)	10.13 %	9.98 %	10.26 %	9.91 %	10.28 %	10.13 %	10.28 %
Common equity tier 1 risk-based capital (to risk-weighted assets)	13.23 %	13.25 %	13.92 %	13.61 %	13.52 %	13.23 %	13.52 %
Tier 1 risk-based capital (to risk-weighted assets)	13.23 %	13.25 %	13.92 %	13.61 %	13.52 %	13.23 %	13.52 %
Total risk-based capital (to risk-weighted assets)	14.01 %	14.02 %	14.69 %	14.41 %	14.33 %	14.01 %	14.33 %
Regulatory capital ratios for the Company:							
Tier 1 leverage capital (to average assets)	9.55 %	9.45 %	9.78 %	9.52 %	9.88 %	9.55 %	9.88 %
Tier 1 common equity risk-based capital (to risk-weighted assets)	10.01 %	9.96 %	10.54 %	10.37 %	10.31 %	10.01 %	10.31 %
Tier 1 risk-based capital (to risk-weighted assets)	11.10 %	11.07 %	11.66 %	11.55 %	11.51 %	11.10 %	11.51 %
Total risk-based capital (to risk-weighted assets)	11.79 %	11.74 %	12.34 %	12.25 %	12.22 %	11.79 %	12.22 %

(1) Net earnings available to common shareholders divided by average shareholders’ equity.
(2) Net interest income divided by total average interest-earning assets on a tax equivalent basis.
(3) Noninterest expense divided by total revenue (net interest income and noninterest income).

(4) Includes loans acquired with bank acquisitions. Excluding acquired loans, allowance for loan losses /total loans was 0.95%, 0.97%, 1.00%, 1.05% and 1.03% at June 30, 2017, March 31, 2017, December 31, 2016, September 30, 2016 and June 30, 2016, respectively.

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

(6) Includes $732 thousand, $750 thousand, $1.9 million, $2.1 million and $2.6 million of nonperforming loans guaranteed by the SBA at June 30, 2017, March 31, 2017, December 31, 2016, September 30, 2016 and June 30, 2016, respectively.

(in thousands)	At or for the Three Months Ended June 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	At or for the Six Months Ended June 30, 2017	June 30, 2016
SUPPLEMENTAL DATA:							
Loans serviced for others:							
Single family	$21,104,608	$20,303,169	$19,488,456	$18,199,040	$17,073,520	$21,104,608	$17,073,520
Multifamily DUS® (3)	1,135,722	1,140,414	1,108,040	1,055,181	1,023,505	1,135,722	1,023,505
Other	75,336	73,832	69,323	67,348	62,466	75,336	62,466
Total loans serviced for others	$22,315,666	$21,517,415	$20,665,819	$19,321,569	$18,159,491	$22,315,666	$18,159,491
Loan production volumes:							
Mortgage Banking segment:							
Single family mortgage closed loans(1)(2)	$2,011,127	$1,621,053	$2,514,657	$2,647,943	$2,261,599	$3,632,180	$3,834,747
Single family mortgage interest rate lock commitments(2)	1,950,427	1,622,622	1,765,942	2,689,640	2,361,691	3,573,049	4,165,394
Single family mortgage loans sold(2)	1,808,500	1,739,737	2,651,022	2,489,415	2,173,392	3,548,237	3,644,975
Commercial and Consumer Banking segment:							
Loan originations							
Multifamily DUS® (3)	$58,343	$57,552	$94,725	$45,497	$146,535	115,895	185,629
Other (4)	6,126	6,798	3,008	2,913	5,528	12,924	5,528
Loans sold							
Multifamily DUS® (3)	35,312	76,849	85,594	58,484	109,394	112,161	157,364
Other (4)	$24,695	$13,186	$75,000	$50,255	$31,813	$37,881	$31,813

(1) Represents single family mortgage production volume designated for sale to the secondary market during each respective period.
(2) Includes loans originated by our correspondent lender WMS Series LLC and purchased by HomeStreet Bank.
(3) Fannie Mae Multifamily Delegated Underwriting and Servicing Program (“DUS®) is a registered trademark of Fannie Mae.
(4) Includes multifamily loans originated from sources other than DUS®.

61

About Us

HomeStreet is a diversified financial services company founded in 1921, headquartered in Seattle, Washington, serving customers primarily in the western United States, including Hawaii. We are principally engaged in commercial and consumer banking and real estate lending, including single family mortgage origination and servicing.

HomeStreet, Inc. is a bank holding company that has elected to be treated as a financial holding company. Our primary subsidiaries are HomeStreet Bank and HomeStreet Capital Corporation. We also sell insurance products and services for commercial and consumer clients under the name HomeStreet Insurance.

HomeStreet Bank is a Washington state-chartered commercial bank providing commercial, consumer and mortgage loans, deposit products and services, non-deposit investment products, private banking and cash management services. Our loan products include commercial business loans and agriculture loans, consumer loans, single family residential mortgages, loans secured by commercial real estate and construction loans for residential and commercial real estate projects. We also have partial ownership in WMS Series LLC, an affiliated business arrangement with various owners of Windermere Real Estate Company franchises home loan business known as Penrith Home Loans (some of which were formerly known as Windermere Mortgage Services).

HomeStreet Capital Corporation, a Washington corporation, originates, sells and services multifamily mortgage loans under the Fannie Mae Multifamily Delegated Underwriting and Servicing Program (“DUS®)[(1)] in conjunction with HomeStreet Bank.

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 also earn noninterest income from the origination, sale and servicing of loans and from fees earned on deposit services and investment and insurance sales.

During the second quarter of 2017, we continued to execute our strategy of diversifying earnings by expanding our commercial and consumer banking business, adding new branches in the high-growth areas of Puget Sound and Southern California to promote convenience and build market share while also building deposits at our existing branches. Meanwhile, in our mortgage banking segment we are currently focused on optimizing our resources in our existing markets in the face of rate changes and inventory constraints that have lowered the number of loans that can be originated in the marketplace, and are actively seeking efficiencies in our single family lending operations.

At June 30, 2017, we had total assets of $6.59 billion, net loans held for investment of $4.16 billion, deposits of $4.75 billion and shareholders’ equity of $655.8 million. This includes $189.2 million of assets, $125.8 million of loans, $126.5 million of deposits and $8.4 million of goodwill added through the acquisition of Orange County Business Bank by merger in the first quarter of 2016, $41.6 million in assets, $40.3 million in loans and $48.1 million in deposits added through the acquisition of the assets and certain liabilities of The Bank of Oswego in the third quarter of 2016, and $104.5 million in deposits added through the acquisition of two branches in Southern California from Boston Private Bank & Trust in the fourth quarter of 2016.

In the second quarter of 2017, we entered into an agreement to acquire a branch located in El Cajon, California. This transaction is expected to close in the second half of 2017 and is subject to customary closing conditions, including receipt of regulatory approval.

Although our business traditionally has been centered heavily in mortgage banking, we have invested significantly in the growth of our commercial and consumer banking business since our initial public offering in 2012. The significant development of this business over the last five years has been helpful in offsetting the relatively lower performance of our residential mortgage banking operations in 2017, as the scarcity of homes available for sale in our key markets is creating challenges for customers looking for suitable housing at an affordable price which in turn has reduced our ability to originate purchase mortgages in those markets. As a result of this shift in market trends, we have begun to reassess the optimum staffing level and geographic scope of our mortgage operations, including a recent reduction in headcount in our mortgage origination operations by 73 employees. We are continuing to monitor market factors and to assess the appropriate office locations and staffing levels for mortgage banking. We expect that unless trends reverse sharply in the coming months, it may become necessary to further optimize staffing levels and reconsider maintaining the full complement of our existing office locations for mortgage banking operations. Some of the scenarios currently under consideration include measures that may require us to incur restructuring charges. However, if these steps become necessary, management expects to respond promptly and proactively to promote efficient growth in the business overall while still providing exceptional service to our customers.

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

Management's Overview of Second Quarter of 2017 Financial Performance

Results of Operations

Results for the second quarter of 2017 reflect the benefit of our investment in growth and diversification. We have continued to execute on our strategy of becoming a leading west coast regional bank by combining steady organic growth and effective integration of our bank and branch acquisitions. At the same time, our mortgage business has been impacted by both the low supply of houses in our primary markets and higher interest rates, resulting in lower rate locks. In response to these changes in market forces, we are currently focused on cost control and optimization in this segment, including implementing a new loan origination system and a reduction in workforce. Our commercial and consumer banking segment continued to have strong growth, including an increase of loans held for investment of 5% in the quarter.

For the three and six months ended June 30, 2017, net income was $11.2 million and $20.2 million, respectively, a decrease of $10.5 million or 48.5% and $8.0 million or 28.3% from $21.7 million and $28.2 million for the three and six months ended June 30, 2016, respectively. Included in net income for both the three and six months ended June 30, 2017 were $115 thousand in acquisition-related expenses, net of tax, compared to $666 thousand and $4.0 million in the three and six months ended 2016, respectively.

As of June 30, 2017, we had 47 primary stand-alone home loan centers, seven primary commercial loan centers and 57 retail deposit branches. We also have one stand-alone insurance office.

Consolidated Financial Performance

(in thousands, except per share data and ratios)	At or for the Three Months Ended June 30, 2017	2016	Percent Change	At or for the Six Months Ended June 30, 2017	2016	Percent Change
Selected statement of operations data						
Total net revenue [1]	$127,876	$146,958	(13)%	$247,988	$259,357	(4)%
Total noninterest expense	111,244	111,031	— %	218,118	212,384	3 %
Provision for credit losses	500	1,100	(55)%	500	2,500	(80)%
Income tax expense	4,923	13,078	(62)%	9,178	16,317	(44)%
Net income	$11,209	$21,749	(48)%	$20,192	$28,156	(28)%
Financial performance						
Diluted income per share	$0.41	$0.87		$0.75	$1.15	
Return on average common shareholders' equity	6.71 %	15.87 %		6.13 %	10.64 %	
Return on average assets	0.70 %	1.54 %		0.63 %	1.06 %	
Net interest margin	3.29 %	3.48 %		3.26 %	3.52 %	

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

Commercial and Consumer Banking Segment Results

Commercial and Consumer Banking segment net income for the three and six months ended June 30, 2017 was $9.4 million and $18.7 million, respectively, compared to $7.1 million and $8.6 million for the three and six months ended June 30, 2016, respectively. The increases were primarily due to higher net interest income resulting from higher average balances of interest-earning assets. These increases were the result of growth in income related to assets gained in merger and acquisition activities as well as organic growth. Included in net income for both the three and six months ended June 30, 2017, were acquisition-related expenses, net of tax, of $115 thousand, compared to $666 thousand and $4.0 million in the three and six months ended June 30, 2016, respectively.

Commercial and Consumer Banking segment net interest income was $42.4 million for the second quarter of 2017, an increase of $4.1 million, or 10.6%, from $38.4 million for the second quarter of 2016, reflecting higher average balances of loans held for investment primarily as a result of organic growth. For the six months ended June 30, 2017 segment net interest income was

$83.4 million, an increase of $9.3 million, or 12.6%, from $74.0 million for the six months ended June 30, 2016, reflecting higher average balances of loans held for investment as a result of organic growth and acquisitions.

Our provision for credit losses was $500 thousand in both the three and six months ended June 30, 2017, compared to $1.1 million and $2.5 million, respectively, for the three and six months ended June 30, 2016. Net recoveries were $1.7 million in the first six months of 2017 compared to net recoveries of $842 thousand in the first six months of 2016. Overall, the allowance for loan losses (which excludes the allowance for unfunded commitments) was 0.86% and 0.88% of loans held for investment at June 30, 2017 and June 30, 2016, respectively. Excluding loans acquired through business combinations, the allowance for loan losses was 0.95% of loans held for investment at June 30, 2017 compared to 1.03% at June 30, 2016. Nonperforming assets were $20.1 million, or 0.30% of total assets at June 30, 2017, compared to $26.4 million, or 0.45% of total assets at June 30, 2016.

Commercial and Consumer Banking segment noninterest expense was $36.6 million for the second quarter of 2017, an increase of $2.5 million, or 7.4%, from $34.1 million for the second quarter of 2016. For the six months ended June 30, 2017 noninterest expense was $73.1 million, an increase of $2.4 million, or 3.3%, from $70.7 million for the six months ended June 30, 2016. The increases were primarily attributable to increased costs related to organic growth of our commercial real estate and commercial business lending units and the expansion of our branch banking network. For the six months ended June 30, 2017, we added two de novo retail deposit branches and increased the segment's headcount by 13.9%. During the same period, the commercial and consumer banking segment further expanded its commercial lending business with the opening of two new stand-alone primary commercial lending centers.

Mortgage Banking Segment Results

Mortgage Banking segment net income for the three and six months ended June 30, 2017 was net income of $1.8 million and $1.5 million, respectively, compared to net income of $14.7 million and $19.5 million for the three and six months ended June 30, 2016, respectively. The decrease in net income was primarily due to a $411.3 million and $592.3 million reduction in rate locks, respectively, and higher noninterest expense from technology investments and the expansion of personnel and offices in new markets. In June 2017, as a result of anticipated loan processing efficiencies from our new loan origination system, as well as lower mortgage origination volume, we implemented cost reduction strategies, including a reduction in workforce impacting mortgage origination and processing personnel.

Mortgage Banking noninterest income for the three and six months ended June 30, 2017 was $72.7 million and $137.8 million, respectively compared to $94.3 million and $161.4 million, for the three and six months ended June 30, 2016, respectively, primarily due to a 17.4% and 14.2% decrease in single family mortgage interest rate lock commitments, respectively. The decrease in interest rate lock commitments was the result of both the limited supply of housing in our markets which reduced the volume of purchase mortgage activity in the period, and higher mortgage interest rates, which reduced the volume of refinance activity in the period. This decrease was partially offset by growth in overall segment loan origination capacity through the addition of mortgage production personnel and the expansion of our network of mortgage loan centers. Although our mortgage production personnel increased by 9% at June 30, 2017 compared to June 30, 2016, in the second quarter of 2017 we focused on optimizing our resources in that segment and reduced the total number of employees in the mortgage segment by 73 on a net basis as compared to March 31, 2017, including a reduction in workforce of 41 employees toward the end of the quarter.

Mortgage Banking noninterest expense for the three and six months ended June 30, 2017 was $74.6 million and $145.0 million, respectively compared to $76.9 million and $141.7 million for the three and six months ended June 30, 2016, respectively. The quarter over quarter decrease is primarily due to decreased commissions, salary and related costs on lower closed loan volumes. The increase from the six months ended June 30, 2016 was primarily due to the expansion of personnel and offices in existing markets and costs associated with implementing a new loan origination system which automated certain tasks that previously required manual entry.

Regulatory Matters

The Company's Tier 1 leverage, common equity risk-based capital, Tier 1 risk-based capital and total risk-based capital ratios at June 30, 2017 were 9.55%, 10.01%, 11.10% and 11.79%, respectively. The Company and the Bank remain above current “well-capitalized” regulatory minimums. Under the Basel III standards, the Bank's Tier 1 leverage, common equity risk-based capital, Tier 1 risk-based capital and total risk-based capital ratios at June 30, 2017 were 10.13%, 13.23%, 13.23% and 14.01%, respectively. The Company's Tier 1 leverage, common equity risk-based capital, Tier 1 risk-based capital and total risk-based capital ratios at December 31, 2016 were 9.78%, 10.54%, 11.66% and 12.34%, respectively. At December 31, 2016, the Bank's

Tier 1 leverage, common equity risk-based capital, Tier 1 risk-based capital and total risk-based capital ratios were 10.26%, 13.92%, 13.92% and 14.69%, respectively.

For more on the Basel III requirements as they apply to us, please see “Capital Management" within the Liquidity and Capital Resources section of our Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the Securities and Exchange Commission on March 9, 2017 and please see "Capital Management" within the Liquidity and Capital Resource section of this Form 10-Q.

Critical Accounting Policies and Estimates

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

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

These policies and estimates are described in further detail in Part II, Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations and Note 1, Summary of Significant Accounting Policies, within our 2016 Annual Report on Form 10-K.

Results of Operations

Average Balances and Rates

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

	Three Months Ended June 30,							
	2017				2016			
(in thousands)	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
Assets:								
Interest-earning assets: [1]								
Cash and cash equivalents	$87,249	$125	0.57	%	$37,572	$27	0.28	%
Investment securities	1,089,552	6,466	2.38	%	766,248	4,677	2.44	%
Loans held for sale	541,291	5,586	4.13	%	704,950	6,565	3.73	%
Loans held for investment	4,119,825	45,701	4.43	%	3,677,361	40,727	4.42	%
Total interest-earning assets	5,837,917	57,878	3.96	%	5,186,131	51,996	4.00	%
Noninterest-earning assets [2]	587,211				451,116			
Total assets	$6,425,128				$5,637,247			
Liabilities and shareholders’ equity:								
Deposits:								
Interest-bearing demand accounts	$494,997	$502	0.41	%	$456,461	$489	0.43	%
Savings accounts	309,844	256	0.33	%	299,103	255	0.34	%
Money market accounts	1,551,328	1,917	0.50	%	1,286,570	1,589	0.50	%
Certificate accounts	1,295,867	3,303	1.03	%	1,030,180	2,191	0.86	%
Total interest-bearing deposits	3,652,036	5,978	0.66	%	3,072,314	4,524	0.59	%
Federal Home Loan Bank advances	872,019	2,368	1.09	%	946,488	1,462	0.62	%
Federal funds purchased and securities sold under agreements to repurchase	4,804	14	1.20	%	—	—	—	%
Long-term debt	125,205	1,514	4.86	%	91,406	823	3.62	%
Total interest-bearing liabilities	4,654,064	9,874	0.85	%	4,110,208	6,809	0.67	%
Noninterest-bearing liabilities	1,102,687				978,959			
Total liabilities	5,756,751				5,089,167			
Shareholders’ equity	668,377				548,080			
Total liabilities and shareholders’ equity	$6,425,128				$5,637,247			
Net interest income [3]		$48,004				$45,187		
Net interest spread			3.11	%			3.33	%
Impact of noninterest-bearing sources			0.18	%			0.15	%
Net interest margin			3.29	%			3.48	%

(1) The average balances of nonaccrual assets and related income, if any, are included in their respective categories.
(2) Includes former loan balances that have been foreclosed and are now reclassified to OREO.
(3) Includes taxable-equivalent adjustments primarily related to tax-exempt income on certain loans and securities of $1.1 million and $705 thousand for the quarter ended June 30, 2017 and 2016, respectively. The estimated federal statutory tax rate was 35% for the periods presented.

66

(in thousands)	Six Months Ended June 30, 2017 Average Balance	Interest	Average Yield/Cost		2016 Average Balance	Interest	Average Yield/Cost	
Assets:								
Interest-earning assets: [1]								
Cash and cash equivalents	$89,224	$261	0.59	%	$38,805	$71	0.36	%
Investment securities	1,121,224	13,065	2.33	%	695,971	8,442	2.43	%
Loans held for sale	581,947	11,673	4.02	%	634,623	12,051	3.81	%
Loans held for investment	4,017,748	89,187	4.44	%	3,538,420	78,006	4.40	%
Total interest-earning assets	5,810,143	114,186	3.93	%	4,907,819	98,570	4.01	%
Noninterest-earning assets [2]	574,654				426,906			
Total assets	$6,384,797				$5,334,725			
Liabilities and shareholders' equity:								
Deposits:								
Interest-bearing demand accounts	$472,920	$980	0.42	%	$436,093	$981	0.45	%
Savings accounts	307,095	508	0.33	%	297,821	509	0.34	%
Money market accounts	1,570,406	4,128	0.53	%	1,237,023	2,953	0.48	%
Certificate accounts	1,224,122	6,104	1.00	%	932,708	3,716	0.79	%
Total interest-bearing deposits	3,574,543	11,720	0.66	%	2,903,645	8,159	0.56	%
Federal Home Loan Bank advances	923,679	4,770	1.04	%	921,607	2,881	0.62	%
Federal funds purchased and securities sold under agreements to repurchase	2,901	16	1.03	%	—	—	—	%
Long-term debt	125,183	2,992	4.81	%	76,631	1,133	2.80	%
Total interest-bearing liabilities	4,626,306	19,498	0.85	%	3,901,883	12,173	0.63	%
Noninterest-bearing liabilities	1,099,530				903,360			
Total liabilities	5,725,836				4,805,243			
Shareholders' equity	658,961				529,482			
Total liabilities and shareholders' equity	$6,384,797				$5,334,725			
Net interest income [3]		$94,688				$86,397		
Net interest spread			3.08	%			3.38	%
Impact of noninterest-bearing sources			0.18	%			0.14	%
Net interest margin			3.26	%			3.52	%

(1) The average balances of nonaccrual assets and related income, if any, are included in their respective categories.
(2) Includes loan balances that have been foreclosed and are now reclassified to other real estate owned.
(3) Includes taxable-equivalent adjustments primarily related to tax-exempt income on certain loans and securities of $2.2 million and $1.2 million for the six months ended June 30, 2017 and June 30, 2016, respectively. The estimated federal statutory tax rate was 35% for the periods presented.

Interest on Nonaccrual Loans

We do not include interest collected on nonaccrual loans in interest income. When we place a loan on nonaccrual status, we reverse the accrued but unpaid interest, which reduces interest income for the period in which the reversal occurs and we stop amortizing any net deferred fees (which are normally amortized over the life of the loan). 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 $352 thousand and $546 thousand for the three months ended June 30, 2017 and 2016, respectively, and $797 thousand and $1.2 million for the six months ended June 30, 2017 and 2016, respectively.

Net Income

For the three months ended June 30, 2017, net income was $11.2 million, a decrease of $10.5 million or 48.5% from $21.7 million for the three months ended June 30, 2016. For the six months ended June 30, 2017, net income was $20.2 million, a decrease of $8.0 million, or 28.3% from $28.2 million for the six months ended June 30, 2016. Included in net income in both the three and six months ended June 30, 2017 were $115 thousand in merger-related expenses, net of tax, compared to $666 thousand and $4.0 million in the three and six months ended June 30, 2016, respectively.

Net Interest Income

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

Net interest income on a tax equivalent basis for the second quarter of 2017 was $48.0 million, an increase of $2.8 million, or 6.2%, from the second quarter of 2016. For the six months ended June 30, 2017, net interest income on a tax equivalent basis was $94.7 million, an increase of $8.3 million, or 9.6%, from $86.4 million for the six months ended June 30, 2016. These increases from 2016 were primarily due to growth in average interest earning assets. The net interest margin for the second quarter of 2017 decreased to 3.29% from 3.48% for the second quarter of 2016. For the six months ended June 30, 2017 net interest margin decreased to 3.26% from 3.52% for the six months ended June 30, 2016. These decreases in our net interest margin were primarily due to both higher cost of funds and a higher portion of lower yielding investments, primarily from interest expense related to our long-term debt issuance in the second quarter of 2016, and higher FHLB borrowing costs due to higher short-term rates.

Total average interest-earning assets increased $651.8 million, or 12.6% from the three months ended June 30, 2016 and increased $902.3 million, or 18.4% from the six months ended June 30, 2016 primarily as a result of growth in average loans held for investment, both organically and through acquisition activity. Additionally, our average balance of investment securities grew from prior periods as part of the strategic growth of the Company.

Total interest income of $57.9 million on a tax equivalent basis in the second quarter of 2017 increased $5.9 million, or 11.3%, from $52.0 million in the second quarter of 2016. For the six months ended June 30, 2017 total interest income on a tax equivalent basis of $114.2 million increased 15.8%, or $15.6 million from $98.6 million. These increases primarily resulted from higher average balances of loans held for investment, which increased $442.5 million, or 12.0% and $479.3 million, or 13.5% for the three and six months ended June 30, 2017, respectively.

Total interest expense in the second quarter of 2017 increased $3.1 million, or 45.0% from $6.8 million in the second quarter of 2016. For the six months ended June 30, 2017, interest expense increased $7.3 million, or 60.2% from the six months ended June 30, 2016. These increases resulted from higher average balances of interest-bearing deposits, FHLB advances and interest paid on our $65.0 million in senior debt issued in May 2016.

Provision for Credit Losses

We recorded a provision for credit losses of $500 thousand in the second quarter of 2017 compared to a provision of $1.1 million for the second quarter of 2016. For the first half of 2017, provision for credit losses was $500 thousand compared to a provision for credit losses of $2.5 million for the first half of 2016.

Nonaccrual loans were $15.5 million at June 30, 2017, a decrease of $5.1 million, or 24.7%, from $20.5 million at December 31, 2016. Nonaccrual loans as a percentage of total loans decreased to 0.37% at June 30, 2017 from 0.53%

at December 31, 2016.

Net recoveries were $928 thousand in the second quarter of 2017 compared to net recoveries of $478 thousand in the second quarter of 2016. For the first half of 2017, net recoveries were $1.7 million compared to net recoveries of $842 thousand for the first half of 2016. For a more detailed discussion on our allowance for loan losses and related provision for loan losses, see Credit Risk Management within Management's Discussion and Analysis of this Form 10-Q.

Noninterest Income

Noninterest income consisted of the following.

(in thousands)	Three Months Ended June 30, 2017	2016	Dollar Change	Percent Change	Six Months Ended June 30, 2017	2016	Dollar Change	Percent Change
Noninterest income								
Gain on loan origination and sale activities [1]	$65,908	$85,630	$(19,722)	(23)%	$126,189	$146,893	$(20,704)	(14)%
Loan servicing income	8,764	12,703	(3,939)	(31)	18,003	20,735	(2,732)	(13)
Income from WMS Series LLC	406	1,164	(758)	(65)	591	1,300	(709)	(55)
Depositor and other retail banking fees	1,811	1,652	159	10	3,467	3,247	220	7
Insurance agency commissions	501	370	131	35	897	764	133	17
Gain on sale of investment securities available for sale	551	62	489	789	557	97	460	474
Other	3,067	895	2,172	243	5,765	1,148	4,617	402
Total noninterest income	$81,008	$102,476	$(21,468)	(21)%	$155,469	$174,184	$(18,715)	(11)%

(1) Single family, multifamily and other commercial loan banking activities.

Our noninterest income is heavily dependent upon our single family mortgage banking activities, which are comprised of mortgage origination and sale as well as mortgage servicing activities. The level of our mortgage banking activity fluctuates and is highly sensitive to changes in mortgage interest rates, as well as to general economic conditions such as employment trends and housing supply and affordability. The decrease in noninterest income in the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 was primarily due to a decrease in gain on loan origination and sale activities resulting from a 17%, and 14% decrease in single family rate lock volume, respectively.

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

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

(in thousands)	Three Months Ended June 30, 2017	2016	Dollar Change	Percent Change	Six Months Ended June 30, 2017	2016	Dollar Change	Percent Change
Single family held for sale:								
Servicing value and secondary market gains[1]	$57,353	$73,685	$(16,332)	(22)%	$107,891	$127,812	$(19,921)	(16)%
Loan origination and administrative fees	6,823	7,355	(532)	(7)	12,604	12,683	(79)	(1)
Total single family held for sale	64,176	81,040	(16,864)	(21)	120,495	140,495	(20,000)	(14)
Multifamily DUS®	1,273	3,655	(2,382)	(65)	4,633	5,184	(551)	(11)
Other [2]	459	935	(476)	(51)	1,061	1,214	(153)	(13)
Gain on loan origination and sale activities	$65,908	$85,630	$(19,722)	(23)%	$126,189	$146,893	$(20,704)	(14)%

(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 multifamily and other commercial loans from sources other than DUS®.

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

(in thousands)	Three Months Ended June 30, 2017	2016	Dollar Change	Percent Change	Six Months Ended June 30, 2017	2016	Dollar Change	Percent Change
Single family mortgage closed loan volume [1]	$2,011,127	$2,261,599	$(250,472)	(11)%	$3,632,180	$3,834,747	$(202,567)	(5)%
Single family mortgage interest rate lock commitments [1]	$1,950,427	$2,361,691	$(411,264)	(17)%	$3,573,049	$4,165,394	$(592,345)	(14)%

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

The decrease in gain on loan origination and sale activities in the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 predominately reflected lower single family mortgage interest rate lock commitments as a result of the higher market interest rates in the period and a limited supply of available housing in our markets. Although mortgage production personnel grew by 9% at June 30, 2017 compared to June 30, 2016, in the second quarter of 2017 we focused on optimizing our resources in that segment and reduced the total number of employees in the mortgage segment by 73 on a net basis as compared to March 31, 2017, including a reduction in workforce of 41 employees toward the end of the quarter.

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

(in thousands)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Effect of changes to the mortgage repurchase liability recorded in gain on loan origination and sale activities:				
New loan sales [1]	$592	$(885)	$1,359	$(1,454)
Other changes in estimated repurchase losses[2]	(264)	—	(1,391)	542
	$328	$(885)	$(32)	$(912)

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

(2) Represents changes in estimated probable future repurchase losses on previously sold loans.

Mortgage servicing income consisted of the following.

(in thousands)	Three Months Ended June 30, 2017	2016	Dollar Change	Percent Change	Six Months Ended June 30, 2017	2016	Dollar Change	Percent Change
Servicing income, net:								
Servicing fees and other	$15,977	$12,923	$3,054	24 %	$32,156	$25,356	$6,800	27 %
Changes in fair value of MSRs due to amortization (1)	(8,909)	(7,758)	(1,151)	15	(17,429)	(15,015)	(2,414)	16
Amortization of multifamily MSRs	(761)	(648)	(113)	17	(1,692)	(1,285)	(407)	32
	6,307	4,517	1,790	40	13,035	9,056	3,979	44
Risk management:								
Changes in fair value of MSRs due to changes in market inputs and/or model updates (2)	(6,417)	(14,055)	7,638	(54)	(4,285)	(42,269)	37,984	(90)
Net gain (loss) from derivatives economically hedging MSRs	8,874	22,241	(13,367)	(60)	9,253	53,948	(44,695)	(83)
	2,457	8,186	(5,729)	(70)	4,968	11,679	(6,711)	(57)
Mortgage servicing income	$8,764	$12,703	$(3,939)	(31)%	$18,003	$20,735	$(2,732)	(13)%

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

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

The decrease in mortgage servicing income in the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 was primarily due to lower risk management results. The lower risk management results in the three and six months ended June 30, 2017 were due in part to gains from prepayment model refinements in the second quarter of 2016 to align borrower prepayment behavior with observed borrower prepayment behavior. There were no significant model refinements in the three and six months ended June 30, 2017. Mortgage servicing fees collected in the three and six months ended June 30, 2017 increased compared to the three and six months ended June 30, 2016 primarily as a result of higher average balances of loans serviced for others during the period. Our loans serviced for others portfolio was $22.32 billion at June 30, 2017 compared to $20.67 billion at December 31, 2016 and $18.16 billion at June 30, 2016.

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

Income from WMS Series LLC decreased in the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 primarily due to a decrease in interest rate lock commitments. For the second quarter of 2017, interest rate lock commitments of $168.7 million decreased 17.2% from $203.7 million for the same period in 2016. For the first six months of 2017, interest rate lock commitments of $282.9 million decreased 10.4% from

$315.6 million for the same period in 2016.

Depositor and other retail banking fees for the three and six months ended June 30, 2017 increased from the three and six months ended June 30, 2016 primarily due to an increase in the number of transaction accounts as we grew our retail deposit branch network both organically and through acquisition activities. The following table presents the composition of depositor and other retail banking fees for the periods indicated.

(in thousands)	Three Months Ended June 30, 2017	2016	Dollar Change	Percent Change	Six Months Ended June 30, 2017	2016	Dollar Change	Percent Change
Fees:								
Monthly maintenance and deposit-related fees	$758	$674	$ 84	12 %	$1,460	$1,372	$ 88	6 %
Debit Card/ATM fees	1,014	956	58	6	1,911	1,836	75	4
Other fees	39	22	17	77	96	39	57	146
Total depositor and other retail banking fees	$1,811	$1,652	$ 159	10 %	$3,467	$3,247	$ 220	7 %

Noninterest Expense

Noninterest expense consisted of the following.

(in thousands)	Three Months Ended June 30, 2017	2016	Dollar Change	Percent Change	Six Months Ended June 30, 2017	2016	Dollar Change	Percent Change
Noninterest expense								
Salaries and related costs	$76,390	$75,167	$1,223	2 %	$147,698	$142,451	$5,247	4 %
General and administrative	15,872	16,739	(867)	(5)	33,000	32,261	739	2
Amortization of core deposit intangibles	493	525	(32)	(6)	1,007	1,057	(50)	(5)
Legal	150	605	(455)	(75)	310	1,048	(738)	(70)
Consulting	771	1,177	(406)	(34)	1,829	2,849	(1,020)	(36)
Federal Deposit Insurance Corporation assessments	697	784	(87)	(11)	1,521	1,500	21	1
Occupancy	8,880	7,513	1,367	18	17,089	14,668	2,421	17
Information services	8,172	8,447	(275)	(3)	15,820	15,981	(161)	(1)
Net cost of operation and sale of other real estate owned	(181)	74	(255)	(345)	(156)	569	(725)	(127)
Total noninterest expense	$111,244	$111,031	$213	— %	$218,118	$212,384	$5,734	3 %

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

(in thousands)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Noninterest expense				
Salaries and related costs	$—	$639	$—	$4,122
General and administrative	(9)	128	(9)	465
Legal	47	(29)	47	47
Consulting	139	183	139	1,016
Occupancy	—	46	—	125
Information services	—	58	—	448
Total noninterest expense	$177	$1,025	$177	$6,223

The increase in noninterest expense in the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 was primarily due to costs related to the growth in offices and personnel in connection with our expansion of our commercial and consumer and mortgage banking businesses, both organically and through acquisition-related activities.

Income Tax Expense

For the second quarter of 2017, income tax expense was $4.9 million compared with a tax expense of $13.1 million for the second quarter of 2016. For the six months ended June 30, 2017, income tax expense was $9.2 million compared with an expense of $16.3 million for the six months ended June 30, 2016.
Our effective tax rate of 30.52% for the second quarter of 2017 differs from the Federal statutory tax rate of 35% primarily due to the impact of state income taxes, tax-exempt interest income, bank-owned life insurance ("BOLI"), low-income housing tax credit investments and excess tax benefit from share-based compensation.

Review of Financial Condition – Comparison of June 30, 2017 to December 31, 2016

Total assets were $6.59 billion at June 30, 2017 and $6.24 billion at December 31, 2016, an increase of $342.9 million, or 5.5%.

Cash and cash equivalents were $54.4 million at June 30, 2017 compared to $53.9 million at December 31, 2016, an increase of $515 thousand, or 1.0%.

Investment securities were $936.5 million at June 30, 2017 compared to $1.04 billion at December 31, 2016, a decrease of $107.3 million, or 10.3%, primarily resulting from the sale of short term investments initially purchased with the proceeds of the December 2016 equity offering as we moved these funds out of their initial investments and into longer term investments.

We primarily hold investment securities for liquidity purposes, while also creating a relatively stable source of interest income. We designated the vast majority of these securities as available for sale. We held securities having a carrying value of $52.3 million at June 30, 2017 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 June 30, 2017			At December 31, 2016		
(in thousands)	Fair Value	Percent		Fair Value	Percent	
Investment securities available for sale:						
Mortgage-backed securities:						
Residential	$150,935	17	%	$177,074	18	%
Commercial	23,381	3		25,536	3	
Municipal bonds	372,729	42		467,673	47	
Collateralized mortgage obligations:						
Residential	184,695	21		191,201	19	
Commercial	76,230	9		70,764	7	
Corporate debt securities	30,218	3		51,122	5	
U.S. Treasury securities	10,740	1		10,620	1	
Agency	35,338	4		—	—	
Total investment securities available for sale	$884,266	100	%	$993,990	100	%

Loans held for sale were $784.6 million at June 30, 2017 compared to $714.6 million at December 31, 2016, an increase of $70.0 million, or 9.8%. Loans held for sale primarily include single family and multifamily residential loans that are typically sold within 30 days of closing the loan. The increase in the loans held for sale balance was primarily due to decreased mortgage production levels.

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

	At June 30, 2017		At December 31, 2016	
(in thousands)	Amount	Percent	Amount	Percent
Consumer loans:				
Single family [(1)]	$1,148,229	27 %	$1,083,822	28 %
Home equity and other	414,506	10	359,874	9
	1,562,735	37	1,443,696	37
Commercial loans:				
Commercial real estate [(2)]	942,122	23	871,563	23
Multifamily	780,602	19	674,219	17
Construction/ land development	648,672	15	636,320	17
Commercial business	248,908	6	223,653	6
	2,620,304	63	2,405,755	63
	4,183,039	100 %	3,849,451	100 %
Net deferred loan fees and costs	9,521		3,577	
	4,192,560		3,853,028	
Allowance for loan losses	(36,136)		(34,001)	
	$4,156,424		$3,819,027	

(1) Includes $5.1 million and $18.0 million at June 30, 2017 and December 31, 2016, respectively, of loans where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

(2) June 30, 2017 and December 31, 2016 balances comprised of $324.7 million and $282.9 million of owner-occupied loans, respectively, and $617.4 million and $588.7 million of non-owner-occupied loans, respectively.

Loans held for investment, net increased $337.4 million, or 8.8%, from December 31, 2016. Our commercial real estate loan portfolio increased $70.6 million, or 8.1%, from December 31, 2016. Our multifamily loan portfolio increased $106.4 million, or 15.8%, during the same period, primarily as a result of organic growth. Our construction loans, including commercial construction and residential construction, increased $12.4 million, or 1.9% from December 31, 2016, primarily from new originations and advances in our residential construction lending business.

Mortgage servicing rights were $258.2 million at June 30, 2017 compared to $245.9 million at December 31, 2016, an increase of $12.4 million, or 5.0%, primarily due to growth in the loans serviced for others portfolio and changes in market inputs, including current market interest rates and prepayment model updates.

Federal Home Loan Bank stock was $41.8 million at June 30, 2017 compared to $40.3 million at December 31, 2016, an increase of $1.4 million, or 3.5%. FHLB stock is carried at par value and can only be purchased or redeemed at par value in transactions between the FHLB and its member institutions. Both cash and stock dividends received on FHLB stock are reported in earnings.

Other assets were $226.0 million at June 30, 2017, compared to $221.1 million at December 31, 2016, an increase of $5.0 million, or 2.3%, primarily attributable to overall Company growth.

Deposit balances were as follows for the periods indicated:

(in thousands)	At June 30, 2017			At December 31, 2016		
	Amount	Percent		Amount	Percent	
Noninterest-bearing accounts - checking and savings	$572,734	12	%	$537,651	12	%
Interest-bearing transaction and savings deposits:						
NOW accounts	541,592	11		468,812	11	
Statement savings accounts due on demand	311,202	7		301,361	7	
Money market accounts due on demand	1,587,741	34		1,603,141	36	
Total interest-bearing transaction and savings deposits	2,440,535	52		2,373,314	54	
Total transaction and savings deposits	3,013,269	64		2,910,965	66	
Certificates of deposit	1,291,935	27		1,091,558	25	
Noninterest-bearing accounts - other	442,567	9		427,178	10	
Total deposits	$4,747,771	100	%	$4,429,701	100	%

Deposits at June 30, 2017 increased $318.1 million, or 7.2%, from December 31, 2016. During the first six months of 2017, transaction and savings deposits increased by $102.3 million, or 3.5%, reflecting the growth and expansion of our branch banking network. The $200.4 million, or 18.4%, increase in certificates of deposit since December 31, 2016 was due primarily to a $178.3 million increase in brokered deposits. The $15.4 million, or 3.6%, increase in deposits in other noninterest-bearing accounts was primarily associated with seasonal mortgage servicing activity. At June 30, 2017, brokered deposits represented 8.7% of total deposits, as compared to 5.3% of total deposits at December 31, 2016. The increase primarily due to a pricing advantage on these deposits in the period.

The aggregate amount of time deposits in denominations of $100 thousand or more at June 30, 2017 and December 31, 2016 was $481.1 million and $508.6 million, respectively. The aggregate amount of time deposits in denominations of more than $250 thousand at June 30, 2017 and December 31, 2016 was $102.1 million and $87.4 million, respectively. There were $412.7 million and $234.4 million of brokered deposits at June 30, 2017 and December 31, 2016, respectively.

Federal Home Loan Bank advances were $867.3 million at June 30, 2017 compared to $868.4 million at December 31, 2016. We use these borrowings to primarily fund our mortgage banking and securities investment activities. We effectively used short term funding to lower the cost of funds and manage the sensitivity of our net portfolio value and net interest income which mitigated the impact of changes in interest rates.

Shareholders’ Equity

Shareholders' equity was $655.8 million at June 30, 2017 compared to $629.3 million at December 31, 2016. This increase was mostly related to net income of $20.2 million and other comprehensive income of $5.0 million recognized during the six months ended June 30, 2017. Other comprehensive income represents unrealized gains and losses, net of tax in the valuation of our investment securities portfolio at June 30, 2017.

Shareholders’ equity, on a per share basis, was $24.40 per share at June 30, 2017, compared to $23.48 per share at December 31, 2016.

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 June 30,		At or For the Six Months Ended June 30,	
	2017	2016	2017	2016
Return on assets (1)	0.70 %	1.54 %	0.63 %	1.06 %
Return on equity (2)	6.71 %	15.87 %	6.13 %	10.64 %
Equity to assets ratio (3)	10.40 %	9.72 %	10.32 %	9.93 %

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

Business Segments

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

This process is dynamic and is based on management's current view of the Company's operations and is not necessarily comparable with similar information for other financial institutions. We define our business segments by product type and customer segment. If the management structure or the allocation process changes, allocations, transfers and assignments may change.

Commercial and Consumer Banking Segment

Commercial and Consumer Banking provides diversified financial products and services to our commercial and consumer customers through bank branches and through ATMs, online, mobile and telephone banking. These products and services include deposit products; residential, consumer, business and agricultural portfolio loans; non-deposit investment products; insurance products and cash management services. We originate construction loans, bridge loans and permanent loans for our portfolio primarily on single family residences, and on office, retail, industrial and multifamily property types. We originate multifamily real estate loans through our Fannie Mae DUS® business, whereby loans are sold to or securitized by Fannie Mae, while the Company generally retains the servicing rights. In addition, through HomeStreet Commercial Capital, a division of HomeStreet Bank based in Orange County, California, we originate permanent commercial real estate loans primarily up to $10 million in size, a portion of which we intend to pool and sell into the secondary market. At June 30, 2017, our retail deposit branch network consists of 57 branches in the Pacific Northwest, California and Hawaii. At June 30, 2017 and December 31, 2016, our transaction and savings deposits totaled $3.01 billion and $2.91 billion, respectively, and our loan portfolio totaled $4.16 billion and $3.82 billion, respectively. This segment also reflects the results 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 June 30, 2017	2016	Dollar Change	Percent Change	Six Months Ended June 30, 2017	2016	Dollar Change	Percent Change
Net interest income	$42,448	$38,393	$4,055	11 %	$83,352	$74,039	$9,313	13 %
Provision for credit losses	500	1,100	(600)	(55)	500	2,500	(2,000)	(80)
Noninterest income	8,276	8,181	95	1	17,701	12,824	4,877	38
Noninterest expense	36,631	34,103	2,528	7	73,101	70,733	2,368	3
Income before income tax expense	13,593	11,371	2,222	20	27,452	13,630	13,822	101
Income tax expense	4,147	4,292	(145)	(3)	8,714	5,009	3,705	74
Net income	$9,446	$7,079	$2,367	33 %	$18,738	$8,621	$10,117	117 %
Total assets	$5,593,889	$4,974,592	$619,297	12 %	$5,593,889	$4,974,592	$619,297	12 %
Efficiency ratio (1)	72.22 %	73.22 %			72.34 %	81.43 %		
Full-time equivalent employees (ending)	1,055	926			1055	926		
Net gain on loan origination and sale activities:								
Multifamily DUS®	$1,273	$3,655	$(2,382)	(65)%	$4,633	$5,184	$(551)	(11)%
Other (2)	459	935	(476)	(51)	1,061	1,214	(153)	(13)%
	$1,732	$4,590	$(2,858)	(62)%	$5,694	$6,398	$(704)	(11)%
Production volumes for sale to the secondary market:								
Loan originations								
Multifamily DUS®	$58,343	$146,535	$(88,192)	(60)%	$115,895	$185,629	$(69,734)	(38)%
Other (2)	6,126	5,528	598	11 %	12,924	5,528	7,396	134 %
Loans sold								
Multifamily DUS®	$35,312	$109,394	$(74,082)	(68)%	$112,161	$157,364	$(45,203)	(29)%
Other (2)	24,695	31,813	(7,118)	(22)%	37,881	31,813	6,068	19 %

(1) Noninterest expense divided by total net revenue (net interest income and noninterest income).
(2) Includes multifamily and commercial loans from sources other than DUS®.

Commercial and Consumer Banking net income increased for the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 primarily due to increased net interest income resulting from higher average balances of interest-earning assets, offset by higher noninterest expense. These increases were the combined result of acquisition activities and organic growth.

The segment recorded a $500 thousand provision for credit losses in both the three and six months ended June 30, 2017 compared to a provision of $1.1 million and $2.5 million for the three and six months ended June 30, 2016, respectively. The reduction in credit loss provision was due primarily to higher net recoveries and lower reserve requirements due to continued improvements in credit quality trends in the three and six months ended June 30, 2017 compared to the same periods in 2016.

Resulting from the growth of this segment, noninterest income increased for the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016. The increase for the six months ended June 30, 2017 compared to the same period in the prior year was primarily due to increases in mark to market adjustments on certain loans and prepayment fees.

Noninterest expense increased in the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 primarily due to increased noninterest expense related to growth of our commercial real estate and commercial business lending units and the expansion of our retail deposit banking network. In the first six months of 2017, we added two de novo retail deposit branches and increased the segment's headcount by 13.9%.

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

(in thousands)	Three Months Ended June 30, 2017	2016	Dollar Change	Percent Change	Six Months Ended June 30, 2017	2016	Dollar Change	Percent Change
Servicing income, net:								
Servicing fees and other	$1,652	$1,392	$ 260	19 %	$3,492	$2,736	$ 756	28 %
Amortization of multifamily MSRs	(761)	(648)	(113)	17	(1,692)	(1,285)	(407)	32
Commercial mortgage servicing income	$891	$744	$ 147	20 %	$1,800	$1,451	$ 349	24 %

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

(in thousands)	At June 30, 2017	At December 31, 2016
Commercial		
Multifamily DUS®	$1,135,722	$1,108,040
Other	75,336	69,323
Total commercial loans serviced for others	$1,211,058	$1,177,363

Mortgage Banking Segment

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

Mortgage Banking segment results are detailed below.

(in thousands)	Three Months Ended June 30, 2017	2016	Dollar Change	Percent Change	Six Months Ended June 30, 2017	2016	Dollar Change	Percent Change
Net interest income	$4,420	$6,089	$(1,669)	(27)%	$9,167	$11,134	$(1,967)	(18)%
Noninterest income	72,732	94,295	(21,563)	(23)	137,768	161,360	(23,592)	(15)
Noninterest expense	74,613	76,928	(2,315)	(3)	145,017	141,651	3,366	2
Income before income taxes	2,539	23,456	(20,917)	(89)	1,918	30,843	(28,925)	(94)
Income tax expense	776	8,786	(8,010)	(91)	464	11,308	(10,844)	(96)
Net income	$1,763	$14,670	$(12,907)	(88)%	$1,454	$19,535	$(18,081)	(93)%
Total assets	$992,668	$966,586	$26,082	3 %	$992,668	966,586	$26,082	3 %
Efficiency ratio (1)	96.71 %	76.63 %			98.69 %	82.12 %		
Full-time equivalent employees (ending)	1,487	1,409			1,487	1,409		
Production volumes for sale to the secondary market:								
Single family mortgage closed loan volume (2)(3)	$2,011,127	$2,261,599	$(250,472)	(11)%	$3,632,180	$3,834,747	$(202,567)	(5)%
Single family mortgage interest rate lock commitments(2)	$1,950,427	$2,361,691	$(411,264)	(17)%	3,573,049	4,165,394	$(592,345)	(14)%
Single family mortgage loans sold(2)	$1,808,500	$2,173,392	$(364,892)	(17)%	$3,548,237	$3,644,975	$(96,738)	(3)%

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

The decrease in Mortgage Banking net income for the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 was primarily due to $411.3 million and $592.3 million, respectively, lower rate locks and purchase loan commitments.

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

(in thousands)	Three Months Ended June 30, 2017	2016	Dollar Change	Percent Change	Six Months Ended June 30, 2017	2016	Dollar Change	Percent Change

Single family: [1]								
Servicing value and secondary market gains[2]	$57,353	$73,685	$(16,332)	(22)%	$107,891	$127,812	$(19,921)	(16)%
Loan origination and funding fees	6,823	7,355	(532)	(7)	12,604	12,683	(79)	(1)
Total mortgage banking gain on loan origination and sale activities[1]	$64,176	$81,040	$(16,864)	(21)%	$120,495	$140,495	$(20,000)	(14)%

(1) Excludes inter-segment activities.

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

The decrease in gain on loan origination and sale activities for the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 was primarily the result of a 17.4% and 14.2%, respectively, decrease in interest rate lock commitments, reflecting the limited supply of housing in our markets which reduced the volume of purchase loan activity in the periods presented and the impact of higher interest rates, which reduced the volume of refinance activity in the periods presented.

Mortgage Banking servicing income consisted of the following.

(in thousands)	Three Months Ended June 30, 2017	2016	Dollar Change	Percent Change	Six Months Ended June 30, 2017	2016	Dollar Change	Percent Change
Servicing income, net:								
Servicing fees and other	$14,325	$11,531	$2,794	24 %	$28,664	$22,620	$6,044	27 %
Changes in fair value of MSRs due to amortization (1)	(8,909)	(7,758)	(1,151)	15	(17,429)	(15,015)	(2,414)	16
	5,416	3,773	1,643	44	11,235	7,605	3,630	48
Risk management:								
Changes in fair value of MSRs due to changes in market inputs and/or model updates (2)	(6,417)	(14,055)	7,638	(54)	(4,285)	(42,269)	37,984	(90)
Net gain from derivatives economically hedging MSRs	8,874	22,241	(13,367)	(60)	9,253	53,948	(44,695)	(83)
	2,457	8,186	(5,729)	(70)	4,968	11,679	(6,711)	(57)
Mortgage Banking servicing income	$7,873	$11,959	$(4,086)	(34)%	$16,203	$19,284	$(3,081)	(16)%

(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.

The decrease in Mortgage Banking servicing income in the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 was primarily attributable to lower risk management results. The lower risk management results in the three and six months ended June 30, 2017 were due in part to gains from prepayment model refinements in the second quarter of 2016 to align borrower prepayment behavior with observed borrower prepayment behavior. There were no significant model refinements in the three and six months ended June 30, 2017.

Single family mortgage servicing fees collected increased for the three and six months ended June 30, 2017 compared to three and six months ended June 30, 2016, primarily due to higher average balances in our loans serviced for others portfolio.

Single family loans serviced for others consisted of the following.

(in thousands)	At June 30, 2017	At December 31, 2016
Single family		
U.S. government and agency	$20,574,300	$18,931,835
Other	530,308	556,621
Total single family loans serviced for others	$21,104,608	$19,488,456

Mortgage Banking noninterest expense for the three months ended June 30, 2017 decreased compared to the three months ended June 30, 2016 primarily due to decreased commissions, salary and related costs on lower closed loan volumes. Mortgage Banking noninterest expense for the six months ended June 30, 2017 increased compared to the six months ended June 30, 2016 primarily due to the expansion of offices and increases of our mortgage production and support staff and the implementation of a new loan origination system. At June 30, 2017, we have a total of 47 primary home loan centers. In June 2017, as a result of lower loan origination volume and increased efficiencies related to our new loan origination system, we focused on optimizing our resources in our mortgage banking segment and reduced the total number of employees in the

81

mortgage segment by 73 on a net basis as compared to March 31, 2017, including a reduction in workforce of 41 employees toward the end of the quarter.

Off-Balance Sheet Arrangements

In the normal course of business, we are a party to financial instruments that carry 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 2016 Annual Report on Form 10-K, as well as Note 13, Commitments, Guarantees and Contingencies in our 2016 Annual Report on Form 10-K and Note 8, Commitments, Guarantees and Contingencies in this Form 10-Q.

Enterprise Risk Management

Like many financial institutions, we manage and control a variety of business and financial risks that can significantly affect our 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 2016 Annual Report on Form 10-K.
Credit Risk Management

The following discussion highlights developments since December 31, 2016 and should be read in conjunction with the Credit Risk Management discussion within Part II, Item 7 Management's Discussion and Analysis in our 2016 Annual Report on Form 10-K.

Asset Quality and Nonperforming Assets
Nonperforming assets ("NPAs") were $20.1 million, or 0.30% of total assets at June 30, 2017, compared to $25.8 million, or 0.41% of total assets at December 31, 2016. Nonaccrual loans of $15.5 million, or 0.37% of total loans at June 30, 2017, decreased $5.1 million, or 25%, from $20.5 million, or 0.53% of total loans at December 31, 2016. Net recoveries in the three and six months ended June 30, 2017 were $928 thousand and $1.7 million, respectively, compared to net recoveries of $478 thousand and $842 thousand for the three and six months ended June 30, 2016, respectively.

At June 30, 2017, our loans held for investment portfolio, net of the allowance for loan losses, was $4.16 billion, an increase of $337.4 million from December 31, 2016. The allowance for loan losses was $36.1 million, or 0.86% of loans held for investment, compared to $34.0 million, or 0.88% of loans held for investment at December 31, 2016.

We recorded a provision of credit losses of $500 thousand for both the three and six months ended June 30, 2017 compared to a provision of $1.1 million and $2.5 million for the three and six months ended June 30, 2016, respectively. Management considers the current level of the allowance for loan losses to be appropriate to cover estimated losses inherent within our loans held for investment portfolio.

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

The allowance for credit losses represents management's estimate of the incurred credit losses inherent within our loan portfolio. For further discussion related to credit policies and estimates see "Critical Accounting Policies and Estimates — Allowance for Loan Losses" within Management's Discussion and Analysis in our 2016 Annual Report on Form 10-K.

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

(in thousands)	At June 30, 2017 Recorded Investment	Unpaid Principal Balance (2)	Related Allowance
Impaired loans:			
Loans with no related allowance recorded	$86,570	$90,475	$ —
Loans with an allowance recorded	6,132	6,274	542
Total	$92,702 (1)	$96,749	$ 542

(in thousands)	At December 31, 2016 Recorded Investment	Unpaid Principal Balance (2)	Related Allowance
Impaired loans:			
Loans with no related allowance recorded	$86,723	$92,431	$ —
Loans with an allowance recorded	3,785	3,875	379
Total	$90,508 (1)	$96,306	$ 379

(1) Includes $77.5 million and $73.1 million in single family performing troubled debt restructurings ("TDRs") at June 30, 2017 and December 31, 2016, respectively.

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

The Company had 323 impaired loans relationships totaling $92.7 million at June 30, 2017 and 282 impaired loan relationships totaling $90.5 million at December 31, 2016. Included in the total impaired loan amounts were 280 single family TDR loan relationships totaling $80.8 million at June 30, 2017 and 239 single family TDR loan relationships totaling $76.0 million at December 31, 2016. At June 30, 2017, there were 266 single family impaired loan relationships totaling $77.5 million that were performing per their current contractual terms. Additionally, the impaired loan balance, at June 30, 2017, included $41.8 million of loans insured by the FHA or guaranteed by the VA. The average recorded investment in these loans for the three and six months ended June 30, 2017 was $94.0 million and $92.8 million, respectively compared to $93.4 million and $93.6 million for the three and six months ended June 30, 2016, respectively. Impaired loans of $6.1 million and $3.8 million had a valuation allowance of $542 thousand and $379 thousand at June 30, 2017 and December 31, 2016, 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 2016 Annual Report on Form
10-K.

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

(in thousands)	At June 30, 2017 Amount	Percent of Allowance to Total Allowance		Loan Category as a % of Total Loans (1)		At December 31, 2016 Amount	Percent of Allowance to Total Allowance		Loan Category as a % of Total Loans (1)	
Consumer loans										
Single family	$8,288	22.1	%	27.4	%	$8,196	23.2	%	27.8	%
Home equity and other	6,856	18.3		9.9		6,153	17.4		9.4	
	15,144	40.4		37.3		14,349	40.6		37.2	
Commercial loans										
Commercial real estate	7,455	19.9		22.6		6,680	18.9		22.7	
Multifamily	4,059	10.8		18.7		3,086	8.8		17.6	
Construction/land development	8,226	22.0		15.5		8,553	24.3		16.6	
Commercial business	2,586	6.9		5.9		2,596	7.4		5.9	
	22,326	59.6		62.7		20,915	59.4		62.8	
Total allowance for credit losses	$37,470	100.0	%	100.0	%	$35,264	100.0	%	100.0	%

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

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

(in thousands)	At June 30, 2017 Accrual	Nonaccrual	Total
Consumer			
Single family (1)	$77,478	$ 3,275	$80,753
Home equity and other	1,567	134	1,701
	79,045	3,409	82,454
Commercial			
Commercial real estate	899	—	899
Multifamily	508	—	508
Construction/land development	1,023	—	1,023
Commercial business	411	102	513
	2,841	102	2,943
	$81,886	$ 3,511	$85,397

(1) Includes loan balances insured by the FHA or guaranteed by the VA of $41.8 million at June 30, 2017.

(in thousands)	At December 31, 2016 Accrual	Nonaccrual	Total
Consumer			
Single family [1]	$73,147	$ 2,885	$76,032
Home equity and other	1,247	216	1,463
	74,394	3,101	77,495
Commercial			
Commercial real estate	—	933	933
Multifamily	508	—	508
Construction/land development	1,186	707	1,893
Commercial business	493	133	626
	2,187	1,773	3,960
	$76,581	$ 4,874	$81,455

(1) Includes loan balances insured by the FHA or guaranteed by the VA of $35.1 million at December 31, 2016.

The Company had 310 loan relationships classified as TDRs totaling $85.4 million at June 30, 2017 with no related unfunded commitments. The Company had 269 loan relationships classified as TDRs totaling $81.5 million at December 31, 2016 with no related unfunded commitments. TDR loans within the loans held for investment portfolio and the related reserves are included in the impaired loan tables above.

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

(in thousands)	At June 30, 2017 30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	90 Days or More Past Due and Accruing		Total Past Due Loans	Other Real Estate Owned
Consumer loans							
Single family	$9,911	$ 4,246	$ 11,721	$ 33,824	[1]	$59,702	$ 1,829
Home equity and other	1,096	73	1,603	—		2,772	—
	11,007	4,319	13,324	33,824		62,474	1,829
Commercial loans							
Commercial real estate	—	—	1,242	—		1,242	—
Multifamily	—	—	320	—		320	—
Construction/land development	147	—	—	—		147	2,768
Commercial business	424	—	590	—		1,014	—
	571	—	2,152	—		2,723	2,768
Total	$11,578	$ 4,319	$ 15,476	$ 33,824		$65,197	$ 4,597

(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, 2016 30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	90 Days or More Past Due and Accruing		Total Past Due Loans	Other Real Estate Owned
Consumer loans							
Single family	$4,310	$ 5,459	$ 12,717	$ 40,846	(1)	$63,332	$ 2,133
Home equity and other	251	442	1,571	—		2,264	—
	4,561	5,901	14,288	40,846		65,596	2,133
Commercial loans							
Commercial real estate	71	205	2,127	—		2,403	398
Multifamily	—	—	337	—		337	—
Construction/land development	—	—	1,376	—		1,376	2,712
Commercial business	202	—	2,414	—		2,616	—
	273	205	6,254	—		6,732	3,110
Total	$4,834	$ 6,106	$ 20,542	$ 40,846		$72,328	$ 5,243

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

Loan Underwriting Standards

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

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

Additional considerations for commercial permanent loans secured by real estate:

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

Our underwriting standards for multifamily residential permanent loans generally require that the loan-to-value ratio for these loans not exceed 80% of appraised value, cost, or discounted cash flow value, as appropriate, and that multifamily residential properties attain debt coverage ratios of 1.15 or better. However, underwriting standards can be influenced by competition and other factors. We endeavor to maintain the highest practical underwriting standards while balancing the need to remain competitive in our lending practices.

Additional considerations for commercial construction loans secured by real estate:

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

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

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

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

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

Liquidity and Capital Resources

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

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

HomeStreet, Inc.

The main source of liquidity for HomeStreet, Inc. is dividends from the Bank. HomeStreet, Inc. has raised longer-term funds through the issuance of common stock, the senior debt and trust preferred securities. 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. We do not currently have a dividend policy, and our most recent dividend to shareholders was declared during the first quarter of 2014. We are generally deploying our capital toward strategic growth and we do not expect to pay dividends in the near future.

HomeStreet Capital

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

HomeStreet Bank

The Bank's primary sources of funds include deposits, advances from FHLBs, repayments and prepayments of loans, proceeds from the sale of loans and investment securities, interest from our loans and investment securities and capital contributions from HomeStreet, Inc. We have also raised short-term funds through the sale of securities under agreements to repurchase and federal funds purchased. While scheduled principal repayments on loans are a relatively predictable source of funds, deposit inflows and outflows and loan prepayments are greatly influenced by interest rates, economic conditions and competition. The Bank uses the primary liquidity ratio as a measure of liquidity. The primary liquidity ratio is defined as net cash, short-term investments and other marketable assets as a percent of net deposits and short-term borrowings. At June 30, 2017, our primary liquidity ratio was 26.8% compared to 31.2% at December 31, 2016.

At June 30, 2017 and December 31, 2016, the Bank had available borrowing capacity of $472.2 million and $282.8 million, respectively, from the FHLB, and $401.0 million and $292.1 million, respectively, from the Federal Reserve Bank of San Francisco.

Cash Flows

For the six months ended June 30, 2017, cash and cash equivalents increased by $515 thousand compared to an increase of $12.5 million for the six months ended June 30, 2016. 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 six months ended June 30, 2017, net cash of $9.4 million was used in operating activities, as our net income was less than the net fair value adjustment and gain on sale on loans held for sale partially offset by proceeds from the sale of loans held for sale. We believe that cash flows from operations, available cash balances and our ability to generate cash through short-term debt are sufficient to fund our operating liquidity needs. For the six months ended June 30, 2016, net cash of $108.9 million was used in operating activities, as our net income was less than the net amount of cash used to fund loans held for sale production and proceeds from the sale of loans held for sale less than the fair value adjustment 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 six months ended June 30, 2017, net cash of $305.8 million was used in investing activities, primarily due to $420.5 million of cash used for the origination of portfolio loans and principal repayments, $246.4 million of cash used for the purchase of investment securities, and $28.8 million used for the purchase of property and equipment, partially offset by $314.6 million proceeds from the sale of investment securities and $50.0 million from principal repayments and maturities of investment securities. For the six months ended June 30, 2016, net cash of $676.9 million was used in investing activities, primarily due to $414.1 million of cash used for the origination of portfolio loans and principal repayments and $357.0 million of cash used for the purchase of investment securities, partially offset by $17.5 million of net cash received from the OCBB acquisition.

Cash flows from financing activities

The Company's financing activities are primarily related to customer deposits and net proceeds from the FHLB. For the six months ended June 30, 2017, net cash of $315.7 million was provided by financing activities, primarily due to a $318.1 million organic growth in deposits. For the six months ended June 30, 2016, net cash of $798.3 million was provided by financing activities, primarily due to an $880.7 million organic growth in deposits and $63.3 million net proceeds from the senior note offering.

Capital Management

In July 2013, federal banking regulators (including the Federal Deposit Insurance Corporation "FDIC" and the Federal Reserve Board "FRB") adopted new capital rules (as used in this section, the “Rules”). The Rules apply to both depository institutions (such as the Bank) and their holding companies (such as the Company). The Rules reflect, in part, certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010 (which standards are commonly referred to as “Basel III”) as well as requirements contemplated by the Dodd-Frank Act. Since 2015, the Rules have applied to both the Company and the Bank.
The Rules recognize three components, or tiers, of capital: common equity Tier 1 capital, additional Tier 1 capital and Tier 2 capital. Common equity Tier 1 capital generally consists of retained earnings and common stock instruments (subject to certain adjustments), as well as accumulated other comprehensive income (“AOCI”); except to the extent that the Company and the Bank exercise a one-time irrevocable option to exclude certain components of AOCI. Both the Company and the Bank elected this one time option in 2015 to exclude certain components of AOCI. Additional Tier

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

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

To be classified as "well capitalized," both the Company and the Bank are required to have a common equity Tier 1 capital ratio of at least 6.5%, a Tier 1 risk-based ratio of at least 8.0%, a total risk-based ratio of at least 10.0% and a Tier 1 leverage ratio of at least 5.0%. In addition to the preceding requirements, all financial institutions subject to the Rules, including both the Company and the Bank, are required to establish a "conservation buffer" of common equity Tier 1 capital subject to a three year phase-in period that began on January 1, 2016 and will be fully phased in on January 1, 2019 at 2.5% above the required minimum common equity Tier 1 capital ratio, the Tier 1 risk-based ratio and the total risk-based ratio. The required phase-in capital conservation buffer during 2016 was 0.625% and is 1.25% during 2017.

A financial institution with a conservation buffer of less than the required amount is subject to limitations on capital distributions, including dividend payments and stock repurchases, and certain discretionary bonus payments to executive officers. At June 30, 2017, our capital conservation buffers for the Company and the Bank were 3.79% and 6.01%, respectively. The Rules set forth the manner in which certain capital elements are determined, including but not limited to, requiring certain deductions related to mortgage servicing rights and deferred tax assets. Holding companies with less than $15 billion in total assets as of December 31, 2009 (which includes the Company) are permitted under the rules 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. Because our trust preferred securities were issued prior to May 19, 2010, we include those in our Tier 1 capital calculations.

The Rules made changes in the methods of calculating certain risk-based assets, which in turn affects the calculation of risk- based ratios. Higher or more sensitive risk weights are assigned to various categories of assets, including commercial real estate, credit facilities that finance the acquisition, development or construction of real property, certain exposures or credits that are 90 days past due or are nonaccrual, foreign exposures, certain corporate exposures, securitization exposures, equity exposures and in certain cases mortgage servicing rights and deferred tax assets.

Certain calculations under the rules related to deductions from capital have phase-in periods through 2018. Specifically, the capital treatment of mortgage servicing rights is phased in through the transition periods. Under the prior rules, the Bank deducted 10% of the value of MSRs (net of deferred tax) from Tier 1 capital ratios. However, under Basel III, the Bank and Company must deduct a much larger portion of the value of MSRs from Tier 1 capital.

- MSRs in excess of 10% of Tier 1 capital before threshold based deductions must be deducted from common equity. The disallowable portion of MSRs will be phased in incrementally (40% in 2015; 60% in 2016; 80% in 2017) to 100% deduction in 2018.
- In addition, the combined balance of MSRs and deferred tax assets is limited to approximately 15% of the Bank's and the Company's common equity Tier 1 capital. These combined assets must be deducted from common equity to the extent that they exceed the 15% threshold.
- Any portion of the Bank's and the Company's MSRs that are not deducted from the calculation of common equity Tier 1 are subject to a 100% risk weight that will increase to 250% in 2018.

Both the Company and the Bank began compliance with the Rules on January 1, 2015. The phase-in of the conservation buffer 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.

At June 30, 2017, the Bank's capital ratios continued to meet the regulatory capital category of "well capitalized" as defined by the FDIC's prompt corrective action rules.

The following tables present regulatory capital information for HomeStreet, Inc. and HomeStreet Bank.

HomeStreet Bank	At June 30, 2017					
	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)	$637,011	10.13%	$251,445	4.0%	$ 314,307	5.0 %
Common equity Tier 1 risk-based capital (to risk-weighted assets)	637,011	13.23	216,645	4.5	312,931	6.5
Tier 1 risk-based capital (to risk-weighted assets)	637,011	13.23	288,860	6.0	385,146	8.0
Total risk-based capital (to risk-weighted assets)	$674,480	14.01%	$385,146	8.0%	$ 481,433	10.0 %

HomeStreet, Inc.	At June 30, 2017					
	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)	$603,115	9.55 %	$252,496	4.0%	$ 315,620	5.0 %
Common equity Tier 1 risk-based capital (to risk-weighted assets)	544,135	10.01	244,570	4.5	353,268	6.5
Tier 1 risk-based capital (to risk-weighted assets)	603,115	11.10	326,094	6.0	434,792	8.0
Total risk-based capital (to risk-weighted assets)	$640,584	11.79%	$434,792	8.0%	$ 543,490	10.0 %

HomeStreet Bank	At December 31, 2016					
	Actual		For Minimum Capital Adequacy Purposes		To Be Categorized As “Well Capitalized” Under Prompt Corrective Action Provisions	
(in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 leverage capital (to average assets)	$635,988	10.26%	$248,055	4.0%	$ 310,069	5.0 %
Common equity Tier 1 risk-based capital (to risk-weighted assets)	635,988	13.92	205,615	4.5	297,000	6.5
Tier 1 risk-based capital (to risk-weighted assets)	635,988	13.92	274,154	6.0	365,538	8.0
Total risk-based capital (to risk-weighted assets)	$671,252	14.69%	$365,538	8.0%	$ 456,923	10.0 %

HomeStreet, Inc.	At December 31, 2016 Actual		For Minimum Capital Adequacy Purposes		To Be Categorized As "Well Capitalized" Under Prompt Corrective Action Provisions	
(in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 leverage capital (to average assets)	$608,988	9.78 %	$249,121	4.0%	$ 311,402	5.0 %
Common equity Tier 1 risk-based capital (to risk-weighted assets)	550,510	10.54	234,965	4.5	339,395	6.5
Tier 1 risk-based capital (to risk-weighted assets)	608,988	11.66	313,287	6.0	417,716	8.0
Total risk-based capital (to risk-weighted assets)	$644,252	12.34%	$417,716	8.0%	$ 522,146	10.0 %

Accounting Developments

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

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk Management

The following discussion highlights developments since December 31, 2016 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 2016 Annual Report on Form 10-K. Since December 31, 2016, there have been no material changes in the types of risk management instruments we use or in our hedging strategies.

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

For the Company, price and interest rate risks arise from the financial instruments and positions we hold. This includes loans, mortgage servicing rights, investment securities, deposits, borrowings, long-term debt and derivative financial instruments. Due to the nature of our current operations, we are not subject to foreign currency exchange or commodity price risk. Our real estate loan portfolio is subject to risks associated with the local economies of our various markets, especially the metropolitan areas of Seattle and Los Angeles and Orange County, California and the regional economy of the western United States, including Hawaii.

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

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

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

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

We estimate the sensitivity of our net interest income to changes in market interest rates using an interest rate simulation model that includes assumptions related to the level of balance sheet growth, deposit repricing characteristics and the rate of prepayments for multiple interest rate change scenarios. Interest rate sensitivity depends on certain repricing characteristics in our interest-earnings assets and interest-bearing liabilities, including the maturity structure of assets and liabilities and their repricing characteristics during the periods of changes in market interest rates. Effective interest rate risk management seeks to ensure both assets and liabilities respond to changes in interest rates within an acceptable timeframe, minimizing the impact of interest rate changes on net interest income and capital. Interest rate sensitivity is measured as the difference between the volume of assets and liabilities, at a point in time, that are subject to repricing at various time horizons, known as interest rate sensitivity gaps.

The following table presents sensitivity gaps for these different intervals.

(dollars in thousands)	June 30, 2017 3 Mos. or Less	More Than 3 Mos. to 6 Mos.	More Than 6 Mos. to 12 Mos.	More Than 12 Mos. to 3 Yrs.	More Than 3 Yrs. to 5 Yrs.	More Than 5 Yrs.	Non-Rate-Sensitive
Interest-earning assets:							
Cash & cash equivalents	$54,447	$—	$—	$—	$—	$—	$—
FHLB Stock	—	—	—	—	—	41,769	—
Investment securities(1)	45,964	41,542	30,472	165,596	152,756	500,192	—
Mortgage loans held for sale (3)	783,300	25	52	224	259	696	—
Loans held for investment(1)	1,288,234	269,354	427,967	872,440	601,826	696,603	—
Total interest-earning assets	2,171,945	310,921	458,491	1,038,260	754,841	1,239,260	—
Non-interest-earning assets	—	—	—	—	—	—	612,839
Total assets	$2,171,945	$310,921	$458,491	$1,038,260	$754,841	$1,239,260	$612,839
Interest-bearing liabilities:							
NOW accounts(2)	$541,592	$—	$—	$—	$—	$—	$—
Statement savings accounts(2)	311,202	—	—	—	—	—	—
Money market accounts(2)	1,587,741	—	—	—	—	—	—
Certificates of deposit	344,382	187,461	453,820	280,359	25,904	9	—
FHLB advances	810,200	11,500	—	40,000	—	5,590	—
Long-term debt	60,234	—	—	—	—	65,000	—
Total interest-bearing liabilities	3,655,351	198,961	453,820	320,359	25,904	70,599	—
Non-interest bearing liabilities	—	—	—	—	—	—	1,205,722
Equity	—	—	—	—	—	—	655,841
Total liabilities and shareholders' equity	$3,655,351	$198,961	$453,820	$320,359	$25,904	$70,599	$1,861,563
Interest sensitivity gap	(1,483,406)	111,960	4,671	717,901	728,937	1,168,661	
Cumulative interest sensitivity gap	$(1,483,406)	$(1,371,446)	$(1,366,775)	$(648,874)	$80,063	$1,248,724	
Cumulative interest sensitivity gap as a	(23)%	(21)%	(21)%	(10)%	1%	19%	

percentage of total assets						
Cumulative interest-earning assets as a percentage of cumulative interest-bearing liabilities	59 %	64 %	68 %	86 %	102 %	126 %

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

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

The estimated impact on our net interest income over a time horizon of one year and the change in net portfolio value as of June 30, 2017 and December 31, 2016 are provided in the table below. For the scenarios shown, the interest rate simulation assumes an instantaneous and sustained shift in market interest rates and no change in the composition or size of the balance sheet.

	June 30, 2017		December 31, 2016	
Change in Interest Rates	Percentage Change			
(basis points) [1]	Net Interest Income [2]	Net Portfolio Value [3]	Net Interest Income [1]	Net Portfolio Value [2]
+200	2.6 %	(5.1)%	2.8 %	(6.2)%
+100	1.3	(2.2)	1.4	(3.1)
-100	0.7	(3.8)	1.1	(3.5)
-200	(2.8)%	(4.3)%	(2.8)%	(5.6)%

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

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

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

At June 30, 2017, we believe our net interest income sensitivity did not exhibit a strong bias to either an increase in interest rates or a decline in interest rates. The interest rate sensitivity of the Company remained stable between December 31, 2016 and June 30, 2017. It is expected that, as interest rates change, net interest income will only be slightly impacted regardless of the direction of interest rate movement. Some of the assumptions made in the simulation model may not materialize and unanticipated events and circumstances will occur. Modeling results in extreme interest rate decline scenarios may encounter negative rate assumptions which may cause the results to be inherently unreliable. In addition, the simulation model does not take into account any future actions that we could undertake to mitigate an adverse impact due to changes in interest rates from those expected, in the actual level of market interest rates or competitive influences on our deposits.

ITEM 4 CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation, with the participation of our management and under the supervision of our Chief Executive Officer and our Interim Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2017.

Internal Control Over Financial Reporting

As required by Rule 13a-15(d), our management, including our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

There were no changes to our internal control over financial reporting that occurred during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

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

ITEM 1A RISK FACTORS

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

Risks Related to Our Operations

We may fail to manage our growth and optimization properly.

Since our initial public offering (“IPO”) in February 2012, we have included targeted and opportunistic growth as a key component of our business strategy for both our mortgage banking segment and our commercial and consumer banking segment. We have expanded our retail branch presence from 20 branches in 2012 to 57 as of June 30, 2017, including expansion into new geographic regions. Simultaneously, we have added substantially to our mortgage operations in both existing and new markets and have expanded significantly into commercial lending. These activities reflect substantial growth in terms of total assets, total deposits, total loans and employees.

We expect to continue both strategic and opportunistic growth in the commercial and consumer banking segment, which can present substantial demands on management personnel, line employees, and other aspects of our operations. In our mortgage banking segment, because our production has been negatively impacted by increasing rates and a reduced supply of homes for sale in our primary markets, we expect to focus on optimizing our existing operations in the near term rather than growing that business at the pace at which we have grown in the recent past, although we may still grow opportunistically where expansion is expected to provide a substantial benefit. We may face difficulties in managing both the growth and optimization of our business, 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;
- Short term increased expenses related to long-term cost containment decisions;
- Costs incurred in the process of vetting potential acquisition candidates which we may not recoup;
- Loss of key employees or significant numbers of employees;
- The potential of litigation from prior employers relating to the portability of their employees;
- Increased costs related to hiring, training and providing initial compensation to new employees, which may not be recouped if those employees do not remain with us long enough to be profitable;
- Challenges in complying with legal and regulatory requirements in new jurisdictions;
- Inadequacies in our computer systems, accounting policies and procedures, and management personnel (some of which may be difficult to detect until other problems become manifest);
- Challenges integrating different systems, practices, and customer relationships;
- An inability to attract and retain personnel whose experience and (in certain circumstances) business relationships promote the achievement of our strategic goals; and
- Increasing volatility in our operating results as we progress through these initiatives.

Because our business strategy includes growth in commercial and consumer banking, including potentially growth through opportunistic acquisitions, as well as cost containment measures to optimize our existing operations in mortgage banking, if we fail to manage our growth and optimization efforts properly, our financial condition and results of operations could be negatively affected. Further, we anticipate that our regulatory burden will increase substantially in the event that we exceed $10 billion in total assets, which may happen in the next few years if we continue our recent growth trajectory. That increased regulatory burden could substantially increase our compliance costs and our risks of regulatory noncompliance, which may exacerbate the factors described above. Please see “We will be subject to heightened regulatory requirements if we exceed $10 billion in assets” under “Regulatory Risks” below.

Volatility in mortgage markets, changes in interest rates, operational costs and other factors beyond our control may adversely impact our profitability.

We have sustained significant losses in the past, and we cannot guarantee that we will remain profitable or be able to maintain profitability at a given level. Changes in the mortgage market including an increase in rates and a decrease in supply in our primary markets has caused a stagnation in mortgage originations throughout our markets, which impacted our profitability in the second quarter of 2017. This decline in profitability occurred even as we retained a significant market share of mortgage originations overall. In the fourth quarter of 2016, unexpected increases in interest rates and asymmetrical changes in the values of mortgage servicing rights and certain derivative hedging instruments impacted our earnings for that quarter. Many factors affect our profitability, and our ability to remain profitable is threatened by a myriad of issues, including:

- Volatility in interest rates that may limit our ability to make loans, decrease our net interest income and noninterest income, increase the number of rate locks that become closed loans which may in turn increase our costs relative to our income, reduce demand for loans, diminish the value of our loan servicing rights, affect the value of our hedging instruments, 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;
- 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;
- Changes in regulations or interpretation of regulation through enforcement actions may negatively impact the Company or the Bank and may limit our ability to offer certain products or services, increase our costs of compliance or restrict our growth initiatives, branch expansion and acquisition activities;
- Increased costs from growth through acquisition could exceed the income growth anticipated from these opportunities, especially in the short term as these acquisitions are integrated into our business;
- Increased costs for controls over data confidentiality, integrity, and availability due to growth or to strengthen the security profile of our computer systems and computer networks;
- Changes in government-sponsored enterprises and their ability to insure or to buy our loans in the secondary market may result in significant changes in our ability to recognize income on sale of our loans to third parties;
- Competition in the mortgage market industry may drive down the interest rates we are able to offer on our mortgages, which will negatively impact our net interest income; and
- 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.

These and other factors may limit our ability to generate revenue in excess of our costs, and in some circumstances may affect the carrying value of our mortgage servicing, either of which in turn may result in a lower rate of profitability or even substantial losses for the Company.

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

We have completed four whole-bank acquisitions and acquired seven stand-alone branches in the past four years, all of which have required substantial resources and costs related to the acquisition and integration process. For example, we incurred $4.6 million and $10.7 million of acquisition related expenses, net of tax, in the fiscal years ended December 31, 2016 and 2015, respectively. We have announced plans to acquire another branch in the second half of 2017, subject to regulatory approval and customary closing conditions, and we regularly evaluate merger and acquisition opportunities with other financial institutions and financial services companies. There are certain risks related to the integration of operations of acquired banks and branches, which we may continue to encounter if we acquire other banks or branches as part of our ongoing strategy to grow our business and our market share.

Any future acquisition we may undertake may involve numerous risks related to the investigation and consideration of the potential acquisition and the costs of undertaking such a transaction, as well as integrating acquired businesses into HomeStreet and HomeStreet Bank, including risks that arise after the transaction is completed. These risks include:

- Diversion of management's attention from normal daily operations of the business;

- Difficulties in integrating the operations, technologies, and personnel of the acquired companies;
- Difficulties in implementing, upgrading and maintaining our internal controls over financial reporting and our disclosure controls and procedures;
- Increased risk of compliance errors related to regulatory requirements, including customer notices and other related disclosures;
- 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;
- Increased operating costs associated with addressing the foregoing risks;

- Inability to maintain our internal standards, procedures and policies at the acquired companies or businesses; and
- Potential loss of key employees of the acquired companies.

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

Difficulties in pursuing or integrating any new acquisitions, and potential discoveries of additional losses or undisclosed liabilities with respect to the assets and liabilities of acquired companies, may increase our costs and adversely impact our financial condition and results of operations. Further, even if we successfully address these factors and are successful in closing acquisitions and integrating our systems with the acquired systems, we may nonetheless experience customer losses, or we may fail to grow the acquired businesses as we intend or to operate the acquired businesses at a level that would avoid losses or justify our investments in those companies.

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

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

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

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

- Reduced cash flows and capital resources, as we are required to make cash advances to meet contractual obligations to investors, process foreclosures, and maintain, repair and market foreclosed properties;
- Declining mortgage servicing fee revenues because we recognize these revenues only upon collection;
- Increasing mortgage 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.

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

Both the value of our single family mortgage servicing rights, or MSRs, and the value of our single family loans held for sale change with fluctuations in interest rates, among other things, reflecting the changing expectations of mortgage prepayment activity. To mitigate potential losses of fair value of single family loans held for sale and MSRs related to changes in interest rates, we actively hedge this risk with financial derivative instruments. Hedging is a complex process, requiring sophisticated models, experienced and skilled personnel and continual monitoring. Changes in the value of our hedging instruments may not correlate with changes in the value of our single family loans held for sale and MSRs, as occurred in the fourth quarter of 2016, and we could incur a net valuation loss as a result of our hedging activities. As we continue to expand our single family mortgage operations and add more single family mortgage origination personnel, the volume of our single family loans held for sale and MSRs has continued to increase. The increase in volume in turn increases our exposure to the risks associated with the impact of interest rate fluctuations on single family loans held for sale and MSRs. Further, in times of significant financial disruption, as in 2008, hedging counterparties have been known to default on their obligations. Any such events or conditions may harm our results of operations.

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

Although we presently have operations in eight states, a substantial majority of our revenues are derived from operations in the Puget Sound region of Washington State, the Portland, Oregon metropolitan area, the San Francisco Bay area and the Los Angeles and San Diego metropolitan areas in Southern California and all of our markets are located in the Western United States. Each of our primary markets is subject to various types of natural disasters, and each has experienced disproportionately significant economic declines in the past decade. In addition, many of these areas are currently experiencing a constriction in the availability of houses for sale as new home construction has not kept pace with population growth in our primary markets, in part due to limitations on permitting and land availability. Economic events or natural disasters that affect the Western United States and our primary markets in that region in particular, or more significantly, may have an unusually pronounced impact on our business and, because our operations are not more geographically diversified, we may lack the ability to mitigate those impacts from operations in other regions of the United States.

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

Our internal controls over financial reporting are intended to assure we maintain accurate records, promote the accurate and timely reporting of our financial information, maintain adequate control over our assets, and detect unauthorized acquisition, use or disposition of our assets. Effective internal and disclosure controls are necessary for us to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results may be harmed.

As part of our ongoing monitoring of internal control from time to time we have discovered deficiencies in our internal controls that have required remediation. These deficiencies have included “material weaknesses,” defined as a deficiency or combination of deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. For example, our management determined that we had experienced a material weakness in our internal controls over financial reporting as of September 30, 2014 related to errors in the analysis of hedge effectiveness related to fair value hedge accounting for certain commercial real estate loans and related swap or derivative instruments, and also concluded that our internal controls over financial reporting were not effective as of December 31, 2014 because of a material weakness in our internal controls related to certain new back office systems, primarily relating to accounts payable processing and payroll processing. We also have discovered “significant deficiencies,” defined as a deficiency or combination of deficiencies in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the Company's financial reporting.

Management has in place a process to document and analyze all identified internal control deficiencies and implement remedial measures sufficient to resolve those deficiencies. To support our growth initiatives and to create operating efficiencies we have implemented, and will continue to implement, new systems and processes. If our project management processes are not sound and adequate resources are not deployed to these implementations, we may experience additional internal control lapses that could expose the Company to operating losses. However, any failure to maintain effective controls or timely effect any necessary improvement of our internal and disclosure controls in the future could harm operating results or cause us to fail to meet our reporting obligations.

If our internal controls over financial reporting are subject to additional defects we have not identified, we may be unable to maintain adequate control over our assets, or we may experience material errors in recording our assets, liabilities and results of operations. Repeated or continuing deficiencies may cause investors to question the reliability of our internal controls or our financial statements, and may result in an erosion of confidence in our management or result in penalties or other potential enforcement action by the Securities and Exchange Commission (the "SEC"). On January 19, 2017, we finalized a settlement agreement with the SEC and paid a fine of $500,000 related to the previously disclosed SEC investigation into our fair value hedge accounting for certain commercial real estate loans and swaps. This fine was recorded in our financial statements for the fourth quarter of 2016. While the fair value hedge accounting error at issue in the settlement was disclosed by HomeStreet in

November 2014 and neither the errors nor the amount of the settlement was ultimately material to our financial statements in any period, inquiries by the SEC took the time and attention of management for significant periods of time and may have had an adverse impact on investor confidence in us in the near term which may have had a negative impact on the value of our securities. Future failures of a similar nature may have a more significant impact than might generally be expected, both because of a potential for enhanced regulatory scrutiny and the potential for further reputational harm.

Our allowance for loan losses may prove inadequate or we may be negatively affected by credit risk exposures. Future additions to our allowance for loan losses, as well as charge-offs in excess of reserves, will reduce our earnings.

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

In addition, as we have acquired new operations, we have added the loans previously held by the acquired companies or related to the acquired branches to our books. We expect that future acquisitions we may make may bring additional loans originated by other institutions onto our books. Although we review loan quality as part of our due diligence in considering any acquisition involving loans, the addition of such loans may increase our credit risk exposure, require an increase in our allowance for loan losses, and adversely affect our financial condition, results of operations and cash flows stemming from losses on those additional loans.

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

A portion of our assets are carried on the balance sheet at fair value, including investment securities available for sale, mortgage servicing rights related to single family loans and single family loans held for sale. Generally, for assets that are reported at fair value, we use quoted market prices or internal valuation models that use 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. As we grow the expectation for the sophistication of our models will increase and we may need to hire additional personnel with sufficient expertise.

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes in the fee structures by Fannie Mae, Freddie Mac or other third party loan purchasers, such as an increase in guarantee fees and other required fees and payments, may increase the costs of doing business with them and, in turn, increase the cost of mortgages to consumers and the cost of selling conforming loans to third party loan purchasers. Increases in those costs could in turn decrease our margin and negatively impact our profitability. Additionally, increased costs for premiums from mortgage insurers, extensions of the period for which private mortgage insurance is required on a loan purchased by third party purchasers and other changes to mortgage insurance requirements could also increase our costs of completing a mortgage and our margins for home loan origination. Were any of our third party loan purchasers to make such changes in the future, it may have a negative impact on our ability to originate loans to be sold because of the increased costs of such loans and may decrease our profitability with respect to loans held for sale. In addition, any significant adverse change in the level of activity in the secondary market or the underwriting criteria of these third party loan purchasers could negatively impact our results of business, operations and cash flows.

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

Market-Related Risks

Restrictions on new home construction and lack of inventory of homes for sale in our primary markets may negatively impact our ability to originate mortgage loans at the volumes we have experienced in the past.

While demand for mortgages remains strong in our primary markets, as is evidenced by a continued demand from customers for mortgage loan applications and pre-approvals, new and resale home availability in those markets has not kept pace with demand. Despite sustained job and population growth, the number of homes listed for sale in Washington and California has decreased year over year by 21% and 18% respectively, according to Zillow.com, and there is no indication that there will be any near-term meaningful change in this imbalance. While this limit of supply has not negatively impacted our market share to date, it has negatively impacted our loan volume and may continue to impair both our volume and earnings in the mortgage banking segment.

The housing supply constraint is complicated by a slow development of new home construction, which is itself constrained by the geography of the West Coast and the lingering effects of the last recession. Newly constructed single family home inventory remains extremely low as homebuilders struggle to find and develop available and appropriate land for new housing and meet increased land use regulations which increase costs and limit the number of lots per parcel. In addition, because the timeline for converting raw land to finished development may exceed five years, the curtailment of development following the recession means that inventory will likely remain low for the foreseeable future.

In addition, because the demand for houses and financing to purchase houses remains strong due to continued strong job growth and in-migration in our markets, our application volume without property information, which represents customers seeking pre-qualification to shop for a home, is up 4% in the second quarter of 2017 and increased from 31% to 36% of our total pipeline during that period compared to the same period in 2016. This partial underwriting creates expenses without the revenue associated with a closed mortgage loan, which in turn provides a further negative impact on our mortgage banking results.

Further, we recently implemented a series of cost-control measures that were intended to make our mortgage operations more efficient in light of the expected market conditions. These included a reduction of 73 jobs that were focused on mortgage origination as well as an investment in a new mortgage loan origination system that we hope will make our operations both more accurate and less personnel-intensive. However, if our expectations about changing market conditions ultimately prove to be inaccurate, we may be less well-positioned to take advantage of such changes and, as a result, we may suffer a loss of market share, which could affect our mortgage banking segment revenues and our overall revenues and profitability.

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

Interest rates may be affected by many factors beyond our control, including general and economic conditions and the monetary and fiscal policies of various governmental and regulatory authorities. For example, unexpected increases in interest rates such as those in the fourth quarter of 2016 relating to the reaction to the U.S. presidential election resulted in an increased percentage of rate lock customer closing loans, which in turn increased our costs relative to income. Related and concomitant asymmetrical changes in the values of MSRs and certain derivative instruments used in related hedging transactions also adversely impacted our MSR-related risk management results in that period. Even expected increases in interest rates, such as those implemented in early 2014, may reduce our mortgage revenues by reducing the market for refinancings, which may negatively impact 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. Market volatility in interest rates can be difficult to predict, as unexpected interest rate changes may result in a sudden impact while anticipated changes in interest rates generally impact the mortgage rate market prior to the actual rate change.

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

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

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

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

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

In addition, constraints on the number of houses available for sale in some of our largest markets are driving up home prices, which may also make it harder for our customer to qualify for a mortgage, adversely impact our ability to originate mortgages and, as a consequence, our results of operations. Any return to a recessionary economy could also 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.

The price of our common stock is subject to volatility.
The price of our common stock has fluctuated in the past and may face additional and potentially substantial fluctuations in the future. Among the factors that may impact our stock price are the following:

- Variances in our operating results;
- Disparity between our operating results and the operating results of our competitors;
- Changes in analyst’s estimates of our earnings results and future performance, or variances between our actual performance and that forecast by analysts;
- News releases or other announcements of material events relating to the Company, including but not limited to mergers, acquisitions, expansion plans or other strategic developments;
- Future securities offerings by us of debt or equity securities
- Addition or departure of key personnel;
- Market-wide events that may be seen by the market as impacting the Company;
- The presence or absence of short-selling of our common stock;
- General financial conditions of the country or the regions in which we operate;
- Trends in real estate in our primary markets; or
- Trends relating to the economic markets generally.

The stock markets in general experience substantial price and trading fluctuations, and such changes may create volatility in the market as a whole or in the stock prices of securities related to particular industries or companies that is unrelated or disproportionate to changes in operating performance of the Company. Such volatility may have an adverse effect on the trading price of our common stock.
Current economic conditions continue to pose significant challenges for us and could adversely affect our financial condition and results of operations.

We generate revenue from the interest and fees we charge on the loans and other products and services we sell, and a substantial amount of our revenue and earnings comes from the net interest and noninterest income that we earn from our mortgage banking and commercial lending businesses. Our operations have been, and will continue to be, materially affected by the state of the U.S. economy, particularly unemployment levels and home prices. A prolonged period of slow growth or a pronounced decline in the U.S. economy, or any deterioration in general economic conditions and/or the financial markets resulting from these factors, or any other events or factors that may disrupt or dampen the economic recovery, could dampen consumer confidence, adversely impact the models we use to assess creditworthiness, and materially adversely affect our financial results and condition. If the economy worsens and unemployment rises, which also would likely result in a decrease in consumer and business confidence and spending, the demand for our credit products, including our mortgages, may fall, reducing our net interest and noninterest income and our earnings. Significant and unexpected market developments may also make it more challenging for us to properly forecast our expected financial results.

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, mortgage servicing rights, or MSRs and derivative instruments used to hedge against changes in the value of our 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 Federal Reserve Board’s policies and cannot predict when changes are expected or what the magnitude of such changes may be.

The Federal Reserve Board's monetary policies during the recession and subsequent economic recovery may have had the effect of supporting higher revenues than might otherwise be available. For instance, during a period beginning in November 2008 through October 2014, the Federal Reserve Board purchased certain mortgage-backed securities and United States Treasury securities under its quantitative easing programs in an effort to meet specific economic targets and bolster the U.S. economy. If the rebound in employment and real wages is not adequate to offset the termination of that program, or if the Federal Reserve begins selling off the securities it has accumulated, we may see a reduction in mortgage originations throughout the United States, and may see a corresponding rise in interest rates, which could reduce our mortgage origination revenues and in turn have a material adverse impact upon our business.

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

A substantial portion of our consolidated net revenues (net interest income plus noninterest income) are derived from originating and selling residential mortgages. Residential mortgage lending in general has experienced substantial volatility in recent periods. An increase in interest rates in the second quarter of 2013 resulted in a significant adverse impact on our business and financial results due primarily to a related decrease in volume of loan originations, especially refinancings. The Federal Reserve increased interest rates in December 2015 and again in December 2016. Interest rate changes in the fourth quarter of 2016 resulted in lower rate locks and higher closed loan volume. We book revenue at the time we enter into rate lock agreements after adjusting for the estimated percentage of loans that are not expected to actually close, which we refer to as “fallout”. When interest rates rise, the level of fallout as a percentage of rate locks declines, which results in higher costs relative to income for that period, which may adversely impact our earnings and results of operations. In addition, an increase in interest rates may materially and adversely affect our future loan origination volume, margins, and the value of the collateral securing our outstanding loans, may increase rates of borrower default, and may otherwise adversely affect our business.

We may incur losses due to changes in prepayment rates.

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

Regulatory-Related Risks

We are subject to extensive regulation that may restrict our activities, including declaring cash dividends or capital distributions or pursuing growth initiatives and acquisition activities, 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 Board, and to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. The laws, rules and regulations to which we are subject evolve and change frequently, including changes that come from judicial or regulatory agency interpretations of laws and regulations outside of the legislative process that may be more difficult to anticipate. . We are subject to various examinations by our regulators during the course of the year. Regulatory authorities who conduct these examinations have extensive discretion in their supervisory and enforcement activities, including the authority to restrict our operations and acquisition activity, adversely reclassify our assets, determine the level of deposit premiums assessed, require us to increase our allowance for loan losses, require customer restitution and impose fines or other penalties. The level of discretion, and the extent of potential penalties and other remedies, have increased substantially during recent years. 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 or if they determine that remediation of operational deficiencies is required.

In addition, recent political shifts in the United States may result in additional significant changes in legislation and regulations that impact us. Dodd-Frank’s level of oversight and compliance obligations increase significantly for banks with total assets in excess of $10 billion, which may limit our ability to grow beyond that level or may significantly increase the cost and regulatory burden of doing so. While the Trump administration and Republicans controlling Congress have announced that they intend to repeal or revise significant portions of Dodd-Frank and other regulation impacting financial institutions, the nature and extent of such repeals or revisions are not presently known and readers should not rely on the assumption that these statement will come to pass. These circumstances lead to additional uncertainty regarding our regulatory environment and the cost and requirements for compliance. We are unable to predict whether U.S. federal or, state authorities, or other pertinent bodies, will enact legislation, laws, rules or regulations. Further, an increasing amount of the regulatory authority that pertains to financial institutions comes in the form of informal “guidance”, such as handbooks, guidelines, field interpretations by regulators or similar provisions that will affect our business or require changes in our practices in the future even if they are not formally adopted as laws or regulations. Any such changes could adversely affect our cost of doing business and profitability.

Changes in regulation of our industry has the potential to create higher costs of compliance, including short-term costs to meet new compliance standards, limit our ability to pursue business opportunities and increase our exposure to the judicial system and the plaintiff’s bar.

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

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

The CFPB was also given authority over the Real Estate Settlement Procedures Act, or RESPA, under the Dodd-Frank Act and has, in some cases, interpreted RESPA requirements differently than other agencies, regulators and judicial opinions. As a result, certain practices that have been considered standard in the industry, including relationships that have been established between mortgage lenders and others in the mortgage industry such as developers, realtors and insurance providers, are now being subjected to additional scrutiny under RESPA. Our regulators, including the FDIC, review our practices for compliance with RESPA as interpreted by the CFPB. Changes in RESPA requirements and the interpretation of RESPA requirements by our regulators may result in adverse examination findings by our regulators, which could negatively impact our ability to pursue our growth plans, branch expansion and limit our acquisition activity.

In addition to RESPA compliance, the Bank is also subject to the CFPB's Final Integrated Disclosure Rule, commonly known as TRID, which became effective in October 2015. Among other things, TRID requires lenders to combine the initial Good Faith Estimate and Initial Truth in Lending (“TIL”) disclosures into a single new Loan Estimate disclosure and the HUD-1 and Final TIL disclosures into a single new Closing Disclosure. The definition of an application and timing requirements has changed, and a new Closing Disclosure waiting period has been added. These changes, along with other changes required by TRID, require significant systems modifications, process and procedures changes and training and we have incurred and will continue to incur additional personnel costs in the near future related to compliance with TRID. Failure to comply with these new requirements may result in regulatory penalties for disclosure and other violations under the Real Estate Settlement Procedures Act (“RESPA”) and the Truth In Lending Act (“TILA”), and private right of action under TILA, and may impact our ability to sell or the price we receive for certain loans.

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

While the full impact of CFPB's activities on our business is still unknown, and there is a potential for repeal or significant revision of new and proposed CFPB regulations under the Trump administration, any additional rule changes under the HMDA and other CFPB actions that may follow and any changes in interpretation of the regulations applicable to the Bank could increase our compliance costs, require changes in our business practices and limit the products and services we are able to provide to customers.

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

Regulatory and judicial interpretation of existing and future federal and state legislation, case law, judicial orders and regulations could also require us to revise our operations and change certain business practices, impose additional costs, reduce our revenue and earnings and otherwise adversely impact our business, financial condition and results of operations. For instance, judges interpreting legislation and judicial decisions made during the recent financial crisis could allow modification of the terms of residential mortgages in bankruptcy proceedings which could hinder our ability to foreclose promptly on defaulted mortgage loans or expand assignee liability for certain violations in the mortgage loan origination process, any or all of which could adversely affect our business or result in our being held responsible for violations in the mortgage loan origination process. In addition, the exercise by regulators of revised and at times expanded powers under existing or future regulations 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, penalties, enforcement actions and reputational risk.

Such judicial decisions or regulatory interpretations may 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.

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, failing to provide advertised benefits, selling unnecessary insurance to borrowers, repeatedly refinancing loans, imposing excessive fees for overdrafts, and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. It is our policy not to make predatory loans or engage in deceptive practices, but these laws and regulations create the potential for liability with respect to our lending, servicing, loan investment, deposit taking and other financial activities. As a company with a significant mortgage banking operation, we also, inherently, have a significant amount of risk of noncompliance with fair lending laws and regulations. These laws and regulations are complex and require vigilance to ensure that policies and practices do not create disparate impact on our customers or that our employees do not engage in overt discriminatory practices. Noncompliance can result in significant regulatory actions including, but not limited to, sanctions, fines or referrals to the Department of Justice and restrictions on our ability to execute our growth and expansion plans. These risks are enhanced because of our growth activities as we integrate operations from our acquisitions and expand our geographic markets. As we offer products and services to customers in additional states, we may become subject to additional state and local laws designed to protect consumers. The additional laws and regulations may increase our cost of doing business, and ultimately may prevent us from making certain loans, offering certain products, and may cause us to reduce the average percentage rate or the points and fees on loans and other products and services that we do provide.

Changes to regulatory requirements relating to customer information may increase our cost of doing business and create additional compliance risk.

In May 2016, the Financial Crimes Enforcement Network of the Department of Justice announced that beginning in May 2018, financial institutions would be required to identify the ultimate beneficial owners of all entity clients as part of their customer due diligence compliance. Meeting this new requirement will increase our overall compliance burden and require us to expend additional resources in the review of customers who are entities. In addition, there may be unforeseen challenges in obtaining beneficial ownership information about all of our entity customers, which increases the risk that we will not be in compliance with this new requirement.

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

As of January 1, 2015, we became subject to new rules relating to capital standards requirements, including requirements contemplated by Section 171 of the Dodd-Frank Act as well as certain standards initially adopted by the Basel Committee on Banking Supervision, which standards are commonly referred to as Basel III. Many of these rules apply to both the Company and the Bank, including increased common equity Tier 1 capital ratios, Tier 1 leverage ratios, Tier 1 risk-based ratios and total risk-based ratios. In addition, beginning in 2016, all institutions subject to Basel III, including the Company and the Bank are required to establish a “conservation buffer” that is being phased in and will take full effect on January 1, 2019. This conservation buffer consists of common equity Tier 1 capital and will ultimately be required to be 2.5% above existing minimum capital ratio requirements. This means that once the conservation buffer is fully phased in, in order to prevent certain regulatory restrictions, the common equity Tier 1 capital ratio requirement will be 7.0%, the Tier 1 risk-based ratio requirement will be 8.5% and the total risk-based capital ratio requirement will be 10.5%. Any institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases and discretionary bonuses to executive officers.

Additional prompt corrective action rules implemented in 2015 also apply to the Bank, including higher and new ratio requirements for the Bank to be considered well-capitalized. The new rules also modify the manner for determining when certain capital elements are included in the ratio calculations, including but not limited to, requiring certain deductions related to mortgage servicing rights and deferred tax assets. For more on these regulatory requirements and how they apply to the Company and the Bank, see “Regulation and Supervision of HomeStreet Bank - Capital and Prompt Corrective Action Requirements - Capital Requirements” in our Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the Securities and Exchange Commission on March 9, 2017. The application of more stringent capital requirements could, among other things, result in lower returns on invested capital and result in regulatory actions if we were to be unable to comply with such requirements. In addition, if we need to raise additional equity capital in order to meet these more stringent requirements, our shareholders may be diluted.

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

We originate and purchase, sell and thereafter service single family and multifamily mortgages under the Fannie Mae, and to a lesser extent, the Freddie Mac single family purchase programs and the Fannie Mae multifamily DUS® program. In 2008, Fannie Mae and Freddie Mac were placed into conservatorship, and since then Congress, various executive branch agencies and certain large private investors in Fannie Mae and Freddie Mac have offered a wide range of proposals aimed at restructuring these agencies.

We cannot be certain whether or how Fannie Mae and Freddie Mac ultimately will be restructured or replaced, 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. We valued these MSRs at $236.6 million at June 30, 2017. 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 significant revision or 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.

Changes in accounting standards may require us to increase our Allowance for Loan Losses and could materially impact our financial statements.

From time to time, the Financial Accounting Standards Board (the “FASB”) and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can materially impact how we record and report our financial condition and results of operations. For example, in June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326) which changes, among other things, the way companies must record expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, available for sale and held-to-maturity debt securities, trade and other receivables, net investment in leases and other commitments to extend credit held by a reporting entity at each reporting date, and require that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis and eliminate the probable initial recognition in current GAAP and reflect the current estimate of all expected credit losses based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets.

For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination (“PCD assets”) that are measured at amortized cost, an allowance for expected credit losses will be recorded as an adjustment to the cost basis of the asset. Subsequent changes in estimated cash flows would be recorded as an adjustment to the allowance and through the statement of income. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security's cost basis. The amendments in this ASU will be effective for us beginning on January 1, 2020. For most debt securities, the transition approach requires a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period the guidance is effective. For other-than-temporarily impaired debt securities and PCD assets, the guidance will be applied prospectively. We are currently evaluating the provisions of this ASU to determine the impact and developing appropriate systems to prepare for compliance with this new standard, however, we expect the new standard could have a material impact on the Company's consolidated financial statements.

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

HomeStreet, Inc. is a separate legal entity from the Bank, and although we may receive some dividends from HomeStreet Capital Corporation, the primary source of our funds from which we service our debt, pay any dividends that we may declare to our shareholders and otherwise satisfy our obligations is dividends from the Bank. The availability of dividends from the Bank is limited by various statutes and regulations, as well as by our policy of retaining a significant portion of our earnings to support the Bank's operations. New capital rules impose more stringent capital requirements to maintain “well capitalized” status which may additionally impact the Bank’s ability to pay dividends to the Company. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Capital Management” as well as “Regulation and Supervision of HomeStreet Bank - Capital and Prompt Corrective Action Requirements” in our Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the Securities and Exchange Commission on March 9, 2017. 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 paid special dividends in some prior quarters, we have not adopted a dividend policy and our board of directors has elected to retain capital for growth rather than to declare a dividend in recent years. As such, we have not declared dividends in any recent quarters, and the potential of future dividends is subject to cash flow limitations, capital requirements, capital and strategic needs and other factors.

The financial services industry is highly competitive.

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

We will be subject to heightened regulatory requirements if we exceed $10 billion in assets.

We anticipate that our total assets could exceed $10 billion in the next several years, based on our historic organic and acquisition growth rates. The Dodd-Frank Act and its implementing regulations impose various additional requirements on bank holding companies with $10 billion or more in total assets, including compliance with portions of the Federal Reserve’s enhanced prudential oversight requirements and annual stress testing requirements. In addition, banks with $10 billion or more in total assets are primarily examined by the CFPB with respect to various federal consumer financial protection laws and regulations. Currently, our bank is subject to regulations adopted by the CFPB, but the FDIC is primarily responsible for examining our bank’s compliance with consumer protection laws and those CFPB regulations. As a relatively new agency with evolving regulations and practices, there is uncertainty as to how the CFPB’s examination and regulatory authority might impact our business.

To ensure compliance with these heightened requirements when effective, our regulators may require us to fully comply with these requirements or take actions to prepare for compliance even before our or the Bank’s total assets equal or exceed $10 billion. In fact, we have already begun implementing measures to allow us to prepare for the heightened compliance that we expect will be required if we exceed $10 billion in assets, including hiring additional compliance personnel and designing and implementing additional compliance systems and internal controls. We may incur significant expenses in connection with these activities, any of which could have a material adverse effect on our business, financial condition or results of operations. We expect to incur these compliance-related costs even if they are not yet fully required, and may incur them even if we do not ultimately reach $10 billion in asset at the rate we expect or at all. We may also face heightened scrutiny by our regulators as we begin to implement these new compliance measures and grow toward the $10 billion asset threshold, and our regulators may consider our preparation for compliance with these regulatory requirements when examining our operations generally or considering any request for regulatory approval we may make, even requests for approvals on unrelated matters. In addition, compliance with the annual stress testing requirements, part of which must be publicly disclosed, may also be misinterpreted by the market generally or our customers and, as a result, may adversely affect our stock price or our ability to retain our customers or effectively compete for new business opportunities.

Risks Related to Information Systems and Security

A failure in or breach of our security systems or infrastructure, including breaches resulting from cyber-attacks, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

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

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

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

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

Third parties with which we do business or that facilitate our business activities, including exchanges, clearing houses, financial intermediaries or vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. Specifically, we receive core systems processing, essential web hosting and other Internet systems and deposit and other processing services from third-party service providers. Such third parties may also be target of cyber-attacks, computer viruses, malicious code, unauthorized access, hackers or information security breaches that could compromise the confidential or proprietary information of HomeStreet and our customers. To date none of our third party vendors or service providers has notified us of any security breach in their systems.

In addition, if any third-party service providers experience difficulties or terminate their services and we are unable to replace them with other service providers, our operations could be interrupted and our operating expenses may be materially increased. If an interruption were to continue for a significant period of time, our business financial condition and results of operations could be materially adversely affected.

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

Others provide technology that we use in our own regulatory compliance, including our mortgage loan origination technology. If those providers fail to update their systems or services in a timely manner to reflect new or changing regulations, or if our personnel operate these systems in a non-compliant manner, our ability to meet regulatory requirements may be impacted and may expose us to heightened regulatory scrutiny and the potential for payment of monetary penalties.

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

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

We are subject to federal and state privacy regulations and confidentiality obligations that, among other things restrict the use and dissemination of, and access to, certain 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.

If we do not properly comply with privacy regulations and contractual obligations that require us to protect confidential information, or if we experience a security breach or network compromise, we could experience adverse consequences, including regulatory sanctions, penalties or fines, increased compliance costs, remedial costs such as providing credit monitoring or other services to affected customers, litigation and damage to our reputation, which in turn could result in decreased revenues and loss of customers, all of which would have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

Anti-Takeover Risk

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

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

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

In addition, as a Washington corporation, we are subject to Washington law which imposes restrictions on business combinations and similar 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. These restrictions may limit a shareholder’s ability to benefit from a change-in-control transaction that might otherwise result in a premium unless such a transaction is favored by our board of directors.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 OTHER INFORMATION

Not applicable.

ITEM 6 EXHIBITS
EXHIBIT INDEX

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

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

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

(3) Pursuant to Rule 405 of Regulation S-T, includes the following financial information included in the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in XBRL (eXtensible Business Reporting Language) interactive data files: (i) the Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016, (ii) the Consolidated Statements of Financial Condition as of June 30, 2017 and December 31, 2016, (iii) the Consolidated Statements of Shareholders’ Equity for the six months ended June 30, 2017 and 2016, and Statements of Comprehensive Income for the three and six months ended June 30, 2017 and 2016, (iv) the Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016, 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 August 4, 2017.

HomeStreet, Inc.

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

HomeStreet, Inc.

By: /s/ Mark R. Ruh
Mark R. Ruh
Interim Chief Financial Officer, Senior Vice President, Corporate Development & Strategic Investments