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

FORM 10-Q

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

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

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

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

PART I – FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

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

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 1–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

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

Recent Accounting Developments

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

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

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

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

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

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

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to Maturity Transactions, Repurchase Financings, and Disclosures. The ASU applies to all entities that enter into repurchase-to-maturity transactions or repurchase financings. The amendments in this ASU require that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty (a repurchase financing), which will result in secured borrowing accounting for the repurchase agreement. The amendments require an entity to disclose information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements, in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. In addition the amendments require disclosure of the types of collateral pledged in repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions and the tenor of those transactions. The amendments in this ASU are effective for public business entities for the first interim or annual period beginning after December 15, 2014. The application of this guidance required enhanced disclosures of the Company's repurchase agreements, but had no impact on the Company's consolidated financial statements.

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

NOTE 2–BUSINESS COMBINATIONS:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Unaudited Pro Forma Results of Operations

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

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

NOTE 3–INVESTMENT SECURITIES:

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

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

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

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

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

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

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

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

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

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

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

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

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

Sales of investment securities available for sale were as follows.

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

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

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

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

NOTE 4–LOANS AND CREDIT QUALITY:

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

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

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

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

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

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

Loans held for investment are primarily secured by real estate located in the Pacific Northwest, Oregon, California and Hawaii. At September 30, 2015, we had concentrations representing 10% or more of the total portfolio by state and property type for the loan classes of single family, commercial real estate and construction/land development within the state of Washington, which represented 19.3%, 15.2% and 11.5% of the total portfolio, respectively. Additionally, we had a concentration representing 10% or more by state and property type for the single family loan class within the state of California, which represented 13.5% of the total portfolio. At December 31, 2014 we had concentrations representing 10% or more of the total portfolio by state and property type for the loan classes of single family, commercial real estate and construction/land development within the state of Washington, which represented 28.0% and 20.7% and 13.7% of the total portfolio, respectively.

Credit Quality

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

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

Activity in the allowance for credit losses was as follows.

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

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

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

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

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

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

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

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

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

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

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

Impaired Loans

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

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

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

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

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

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

(1) Includes partial charge-offs and nonaccrual interest paid.
(2) Unpaid principal balance does not include partial charge-offs, purchase discounts and premiums or nonaccrual interest paid. Related allowance is calculated on net book balances not unpaid principal balances.
(3) Includes $73.6 million in single family performing TDRs.

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

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

Credit Quality Indicators

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

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

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

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

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

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

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

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

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

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

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

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

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

-

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Nonaccrual and Past Due Loans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	4	620	3	282
	4	$620	3	$282

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

NOTE 5–DEPOSITS:

Deposit balances, including stated rates, were as follows.

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

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

Interest expense on deposits was as follows.

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

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

Certificates of deposit outstanding mature as follows.

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

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

NOTE 6–DERIVATIVES AND HEDGING ACTIVITIES:

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

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

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

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

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

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

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

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

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

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

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

2015 and December 31, 2014.

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

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

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

NOTE 7–MORTGAGE BANKING OPERATIONS:

Loans held for sale consisted of the following.

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

Loans sold consisted of the following.

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

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

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

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

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

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

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