

Edgar Filing: HomeStreet, Inc. - Form 10-Q

HomeStreet, Inc.
Form 10-Q
August 03, 2018

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us-gaap:CommercialPortfolioSegmentMember hmst:OwnerOccupiedCommercialRealEstateMember
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us-gaap:ScenarioForecastMember 2018-07-01 2018-09-30 0001518715 us-gaap:EmployeeSeveranceMember
2017-04-01 2017-06-30 0001518715 us-gaap:EmployeeSeveranceMember 2018-04-01 2018-06-30 0001518715
us-gaap:FacilityClosingMember 2017-04-01 2017-06-30 0001518715 us-gaap:EmployeeSeveranceMember
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iso4217:USD xbrli:shares hmst:segment hmst:loan hmst:claim

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, 2018

Commission file number: 001-35424

HOMESTREET, INC.

(Exact name of registrant as specified in its charter)

Washington

(State or other jurisdiction of incorporation)

91-0186600

(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)

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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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large Accelerated Filer Accelerated Filer

Non-accelerated Filer Smaller Reporting Company

Emerging growth Company

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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of outstanding shares of the registrant's common stock as of August 1, 2018 was 26,985,537.6.

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Unless we state otherwise or the content otherwise requires, references in this Form 10-Q to “HomeStreet,” “we,” “our,” “us” or the “Company” refer collectively to HomeStreet, Inc., a Washington corporation, HomeStreet Bank (“Bank”), HomeStreet Capital Corporation (“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, 2018	December 31, 2017
<u>ASSETS</u>		
Cash and cash equivalents (including interest-earning instruments of \$126,083 and \$30,268)	\$ 176,218	\$ 72,718
Investment securities (includes \$829,422 and \$846,268 carried at fair value)	907,457	904,304
Loans held for sale (includes \$527,088 and \$577,313 carried at fair value)	568,514	610,902
Loans held for investment (net of allowance for loan losses of \$39,480 and \$37,847; includes \$4,187 and \$5,477 carried at fair value)	4,883,310	4,506,466
Mortgage servicing rights (includes \$245,744 and \$258,560 carried at fair value)	272,205	284,653
Other real estate owned	752	664
Federal Home Loan Bank stock, at cost	48,157	46,639
Premises and equipment, net	99,155	104,654
Goodwill	22,564	22,564
Other assets	185,545	188,477
Total assets	\$ 7,163,877	\$ 6,742,041
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Liabilities:		
Deposits	\$ 5,120,285	\$ 4,760,952
Federal Home Loan Bank advances	1,008,613	979,201
Accounts payable and other liabilities	173,145	172,234
Other borrowings	30,007	—
Long-term debt	125,368	125,274
Total liabilities	6,457,418	6,037,661
Commitments and contingencies (Note 7)		
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, 26,978,229 shares and 26,888,288 shares	511	511
Additional paid-in capital	340,723	339,009
Retained earnings	384,947	371,982
Accumulated other comprehensive loss	(19,722)	(7,122)
Total shareholders' equity	706,459	704,380
Total liabilities and shareholders' equity	\$ 7,163,877	\$ 6,742,041

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)	2018	2017	2018	2017
Interest income:				
Loans	\$ 61,409	\$ 51,198	\$ 117,345	\$ 100,704
Investment securities	5,527	5,419	11,086	11,051
Other	253	125	432	261
	67,189	56,742	128,863	112,016
Interest expense:				
Deposits	9,562	5,867	17,350	11,490
Federal Home Loan Bank advances	4,782	2,368	8,418	4,769
Federal funds purchased and securities sold under agreements to repurchase	24	5	56	5
Long-term debt	1,662	1,514	3,246	2,993
Other	156	120	330	240
	16,186	9,874	29,400	19,497
Net interest income	51,003	46,868	99,463	92,519
Provision for credit losses	1,000	500	1,750	500
Net interest income after provision for credit losses	50,003	46,368	97,713	92,019
Noninterest income:				
Net gain on loan origination and sale activities	57,049	65,908	105,368	126,189
Loan servicing income	7,032	8,764	14,606	18,003
Income from WMS Series LLC	322	406	311	591
Depositor and other retail banking fees	1,953	1,811	3,898	3,467
Insurance agency commissions	527	501	1,070	897
Gain on sale of investment securities available for sale	16	551	238	557
Other	2,490	3,067	4,729	5,765
	69,389	81,008	130,220	155,469
Noninterest expense:				
Salaries and related costs	69,127	76,390	135,818	147,698
General and administrative	14,707	15,872	29,291	33,000
Amortization of core deposit intangibles	407	493	813	1,007
Legal	839	150	1,569	310
Consulting	758	771	1,635	1,829
Federal Deposit Insurance Corporation assessments	1,079	697	2,008	1,521
Occupancy	14,953	8,880	23,133	17,089
Information services	8,693	8,172	17,158	15,820
Net cost (benefit) from operation and sale of other real estate owned	2	(181)	(91)	(156)
	110,565	111,244	211,334	218,118
Income before income taxes	8,827	16,132	16,599	29,370
Income tax expense	1,728	4,923	3,634	9,178
NET INCOME	\$ 7,099	\$ 11,209	\$ 12,965	\$ 20,192
Basic income per share	\$ 0.26	\$ 0.42	\$ 0.48	\$ 0.75
Diluted income per share	\$ 0.26	\$ 0.41	\$ 0.48	\$ 0.75
Basic weighted average number of shares outstanding	26,976,892	26,866,230	26,952,178	26,843,813
Diluted weighted average number of shares outstanding	27,156,327	27,084,608	27,157,664	27,071,028

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

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

(Unaudited)

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$7,099	\$11,209	\$12,965	\$20,192
Other comprehensive (loss) income, net of tax:				
Unrealized gain (loss) on investment securities available for sale:				
Unrealized holding (loss) gain arising during the period, net of tax (benefit) expense of (\$642) and \$1,848 for the three months ended June 30, 2018 and 2017, and (\$3,300) and \$2,887 for the six months ended June 30, 2018 and 2017, respectively	(2,412)	3,431	(12,412)	5,361
Reclassification adjustment for net gains included in net income, net of tax expense of \$4 and \$193 for the three months ended June 30, 2018 and 2017, and \$50 and \$195 for the six months ended June 30, 2018 and 2017, respectively	(12)	(358)	(188)	(362)
Other comprehensive (loss) income	(2,424)	3,073	(12,600)	4,999
Comprehensive income	\$4,675	\$14,282	\$365	\$25,191

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, 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
Balance, January 1, 2018	26,888,288	\$ 511	\$ 339,009	\$ 371,982	\$ (7,122)	\$ 704,380
Net income	—	—	—	12,965	—	12,965
Share-based compensation expense	—	—	1,460	—	—	1,460
Common stock issued	89,941	—	254	—	—	254
Other comprehensive loss	—	—	—	—	(12,600)	(12,600)
Balance, June 30, 2018	26,978,229	\$ 511	\$ 340,723	\$ 384,947	\$ (19,722)	\$ 706,459

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,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 12,965	\$ 20,192
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion	12,104	10,911
Provision for credit losses	1,750	500
Net fair value adjustment and gain on sale of loans held for sale	(44,297)	(113,742)
Fair value adjustment of loans held for investment	31	(1,203)
Origination of mortgage servicing rights	(33,369)	(35,211)
Change in fair value of mortgage servicing rights	(24,878)	21,722
Net gain on sale of investment securities	(238)	(557)
Net loss (gain) on sale of loans originated as held for investment	628	(297)
Net fair value adjustment, gain on sale and provision for losses on other real estate owned	(92)	(356)
Loss on disposal of fixed assets	302	106
Loss on lease abandonment	5,802	502
Net deferred income tax (benefit) expense	(46)	7,510
Share-based compensation expense	1,702	1,362
Origination of loans held for sale	(3,248,078)	(3,665,396)
Proceeds from sale of loans originated as held for sale	3,345,695	3,769,126
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable and other assets	3,437	(7,198)
Increase (decrease) in accounts payable and other liabilities	2,347	(17,371)
Net cash provided by (used in) operating activities	35,765	(9,400)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(97,842)	(246,435)
Proceeds from sale of investment securities	22,232	314,633
Principal repayments and maturities of investment securities	52,857	50,043
Proceeds from sale of other real estate owned	459	2,170
Proceeds from sale of loans originated as held for investment	230,527	23,780
Proceeds from sale of mortgage servicing rights	65,263	—
Mortgage servicing rights purchased from others	—	(565)
Capital expenditures related to other real estate owned	—	(57)
Origination of loans held for investment and principal repayments, net	(617,670)	(420,530)
Purchase of property and equipment	(5,926)	(28,789)
Net cash used in investing activities	(350,100)	(305,750)

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(in thousands)	Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits, net	\$ 359,251	\$ 318,132
Proceeds from Federal Home Loan Bank advances	5,637,500	4,497,700
Repayment of Federal Home Loan Bank advances	(5,608,000)	(4,498,700)
Proceeds from federal funds purchased and securities sold under agreements to repurchase	796,000	326,618
Repayment of federal funds purchased and securities sold under agreements to repurchase	(796,000)	(326,618)
Proceeds from line of credit draws	30,000	—
Proceeds from Federal Home Loan Bank stock	98,621	91,939
Purchase of Federal Home Loan Bank stock	(100,139)	(93,362)
Proceeds from stock issuance, net	11	11
Payments from equity raise	—	(46)
Net cash provided by financing activities	417,244	315,674
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	102,909	524
Cash, cash equivalents and restricted cash, beginning of year	73,909	56,364
Cash, cash equivalents and restricted cash, end of period	176,818	56,888
Less restricted cash included in other assets	(600)	(2,441)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 176,218	\$ 54,447
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest paid	\$ 28,825	\$ 19,757
Federal and state income taxes refunded, net	(112)	(23,382)
Non-cash activities:		
Loans held for investment foreclosed and transferred to other real estate owned	455	1,125
Loans transferred from held for investment to held for sale	252,567	113,278
Loans transferred from held for sale to held for investment	10,480	29,809
Ginnie Mae loans recognized with the right to repurchase (reduction in), net	1,992	(2,358)
Receivable from sale of mortgage servicing rights	3,457	—

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 on the West Coast of the 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, HomeStreet Statutory Trusts and HomeStreet Bank (the "Bank"), and the Bank's subsidiaries, HomeStreet/WMS, Inc., HomeStreet Reinsurance, Ltd., Continental Escrow Company, HomeStreet Foundation, HS Properties, Inc., HS Evergreen Corporate Center LLC, Union Street Holdings LLC, HS Cascadia Holdings LLC and YNB Real Estate 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, management 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. Some of these estimates require application of management's most difficult, subjective or complex judgments and result in amounts 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, allowance for credit losses (Note 3, *Loans and Credit Quality*), valuation of residential mortgage servicing rights and loans held for sale (Note 6, *Mortgage Banking Operations*), valuation of certain loans held for investment (Note 3, *Loans and Credit Quality*), valuation of investment securities (Note 2, *Investment Securities*), and valuation of derivatives (Note 5, *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, 2017, filed with the Securities and Exchange Commission ("2017 Annual Report on Form 10-K").

Recent Accounting Developments

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No.2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from *Accumulated Other Comprehensive Income*, or ASU 2018-02. The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act ("Tax Act"). The update does not have any impact on the underlying ASC 740 guidance that requires the effect of a change in tax law be included in income from continuing operations. The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted and should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. 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 August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, or ASU 2017-12. This standard better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedge instruments and the hedged item in the financial statements. Adoption for this ASU is required for fiscal years and interim periods beginning after December 15, 2018 and 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 March 2017, the FASB issued 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 June 2016, FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. Current U.S. GAAP requires an "incurred loss" methodology for recognizing credit losses that delay recognition until it is probable a loss has been incurred. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendment affects loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial asset not excluded from the scope that has the contractual right to receive cash. The amendments in this ASU replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this ASU require a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The measurement of expected credit losses will be based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The amendments in this ASU broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit loss, which will be more decision useful to users of the financial statements. The amendments in this ASU will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is still evaluating the effects this ASU will have on the Company's consolidated financial statements. The Company has formed an internal committee to oversee the project. Upon adoption, the Company expects a change in the processes and procedures to calculate the allowance for loan losses, including changes in assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. The new guidance may result in an increase in the allowance for loan losses; however, management is still assessing the magnitude of the increase and its impact on the Company's consolidated financial statements. In addition, the current accounting policy and procedures for other-than-temporary impairment on investment securities available for sale will be replaced with an allowance approach. The Company has begun developing and implementing processes to address the amendments of this ASU.

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.

NOTE 2—INVESTMENT SECURITIES:

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

(in thousands)	At June 30, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
AVAILABLE FOR SALE				
Mortgage-backed securities:				
Residential	\$ 121,537	\$ 2	\$(5,691)	\$ 115,848
Commercial	31,216	—	(862)	30,354
Municipal bonds	370,688	951	(9,840)	361,799
Collateralized mortgage obligations:				
Residential	175,563	6	(7,050)	168,519
Commercial	113,926	27	(2,330)	111,623
Corporate debt securities	22,606	2	(1,129)	21,479
U.S. Treasury securities	10,907	—	(469)	10,438
Agency debentures	9,868	—	(506)	9,362
	\$ 856,311	\$ 988	\$(27,877)	\$ 829,422
HELD TO MATURITY				
Mortgage-backed securities:				
Residential	\$ 11,430	\$ —	\$(301)	\$ 11,129
Commercial	21,773	—	(649)	21,124
Collateralized mortgage obligations	17,341	45	(72)	17,314
Municipal bonds	27,396	169	(445)	27,120
Corporate debt securities	95	—	—	95
	\$ 78,035	\$ 214	\$(1,467)	\$ 76,782

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(in thousands)	At December 31, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
AVAILABLE FOR SALE				
Mortgage-backed securities:				
Residential	\$ 133,654	\$ 4	\$(3,568)	\$ 130,090
Commercial	24,024	8	(338)	23,694
Municipal bonds	389,117	2,978	(3,643)	388,452
Collateralized mortgage obligations:				
Residential	164,502	3	(4,081)	160,424
Commercial	100,001	9	(1,441)	98,569
Corporate debt securities	25,146	67	(476)	24,737
U.S. Treasury securities	10,899	—	(247)	10,652
Agency debentures	9,861	—	(211)	9,650
	\$ 857,204	\$ 3,069	\$(14,005)	\$ 846,268

HELD TO MATURITY

Mortgage-backed securities:				
Residential	\$ 12,062	\$ 35	\$(99)	\$ 11,998
Commercial	21,015	75	(161)	20,929
Collateralized mortgage obligations	3,439	—	—	3,439
Municipal bonds	21,423	339	(97)	21,665
Corporate debt securities	97	—	—	97
	\$ 58,036	\$ 449	\$(357)	\$ 58,128

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 Federal National Mortgage Association ("Fannie Mae"), Government National Mortgage Association ("Ginnie Mae") or Federal Home Loan Mortgage Corporation ("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, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, substantially all securities held had ratings available by external ratings agencies.

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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, 2018					
	Less than 12 months		12 months or more		Total	
	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
AVAILABLE FOR SALE						
Mortgage-backed securities:						
Residential	\$(343)	\$13,874	\$(5,348)	\$101,421	\$(5,691)	\$115,295
Commercial	(509)	23,846	(353)	6,508	(862)	30,354
Municipal bonds	(4,038)	176,321	(5,802)	125,662	(9,840)	301,983
Collateralized mortgage obligations:						
Residential	(1,529)	63,185	(5,521)	101,000	(7,050)	164,185
Commercial	(940)	43,156	(1,390)	43,017	(2,330)	86,173
Corporate debt securities	(176)	8,683	(953)	12,566	(1,129)	21,249
U.S. Treasury securities	(2)	998	(467)	9,440	(469)	10,438
Agency debentures	(506)	9,363	—	—	(506)	9,363
	\$(8,043)	\$339,426	\$(19,834)	\$399,614	\$(27,877)	\$739,040
HELD TO MATURITY						
Mortgage-backed securities:						
Residential	\$(96)	\$4,686	\$(205)	\$4,131	\$(301)	\$8,817
Commercial	(649)	21,124	—	—	(649)	21,124
Collateralized mortgage obligations	(72)	13,850	—	—	(72)	13,850
Municipal bonds	(171)	10,506	(274)	9,168	(445)	19,674
	\$(988)	\$50,166	\$(479)	\$13,299	\$(1,467)	\$63,465

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At December 31, 2017						
(in thousands)	Less than 12 months		12 months or more		Total	
	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
AVAILABLE FOR SALE						
Mortgage-backed securities:						
Residential	\$(182)	\$18,020	\$(3,386)	\$110,878	\$(3,568)	\$128,898
Commercial	(113)	15,265	(225)	6,748	(338)	22,013
Municipal bonds	(760)	105,415	(2,883)	134,103	(3,643)	239,518
Collateralized mortgage obligations:						
Residential	(612)	53,721	(3,469)	104,555	(4,081)	158,276
Commercial	(538)	57,236	(903)	35,225	(1,441)	92,461
Corporate debt securities	(15)	5,272	(461)	13,365	(476)	18,637
U.S. Treasury securities	(3)	997	(244)	9,655	(247)	10,652
Agency debentures	(211)	9,650	\$—	—	(211)	9,650
	\$(2,434)	\$265,576	\$(11,571)	\$414,529	\$(14,005)	\$680,105
HELD TO MATURITY						
Mortgage-backed securities:						
Residential	\$(13)	\$2,662	\$(86)	\$4,452	\$(99)	\$7,114
Commercial	(161)	15,900	—	—	(161)	15,900
Collateralized mortgage obligations	—	3,439	—	—	—	3,439
Municipal bonds	(3)	2,185	(94)	9,465	(97)	11,650
	\$(177)	\$24,186	\$(180)	\$13,917	\$(357)	\$38,103

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 June 30, 2018 and December 31, 2017. In addition, as of June 30, 2018 and December 31, 2017, 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.

(dollars in thousands)	At June 30, 2018									
	Within one year		After one year through five years		After five years through ten years		After ten years		Total	
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
AVAILABLE FOR SALE										
Mortgage-backed securities:										
Residential	\$—	— %	\$—	— %	\$8,022	1.62 %	\$107,826	2.04 %	\$115,848	2.02 %
Commercial	—	—	13,412	2.10	13,337	2.66	3,605	2.87	30,354	2.44
Municipal bonds	1,263	2.20	15,989	2.28	32,279	2.71	312,268	3.23	361,799	3.14
Collateralized mortgage obligations:										
Residential	—	—	—	—	—	—	168,519	2.28	168,519	2.28
Commercial	—	—	10,149	2.27	25,398	2.76	76,076	2.25	111,623	2.37
Agency debentures	—	—	—	—	9,362	2.19	—	—	9,362	2.19
Corporate debt securities	1,018	2.10	4,153	3.01	11,557	3.33	4,751	3.50	21,479	3.25
U.S. Treasury securities	998	1.22	—	—	9,440	1.72	—	—	10,438	1.68
Total available for sale	\$3,279	1.87 %	\$43,703	2.29 %	\$109,395	2.57 %	\$673,045	2.69 %	\$829,422	2.65 %
HELD TO MATURITY										
Mortgage-backed securities:										
Residential	\$—	— %	\$—	— %	\$—	— %	\$11,129	2.87 %	\$11,129	2.87 %
Commercial	—	—	14,469	2.41	6,655	2.58	—	—	21,124	2.46
Collateralized mortgage obligations	—	—	8,893	3.46	—	—	8,421	2.73	17,314	3.11
Municipal bonds	—	—	1,807	2.85	4,474	2.16	20,839	3.20	27,120	3.00
Corporate debt securities	—	—	—	—	—	—	95	6.00	95	6.00
Total held to maturity	\$—	— %	\$25,169	2.81 %	\$11,129	2.41 %	\$40,484	3.02 %	\$76,782	2.86 %

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(dollars in thousands)	At December 31, 2017									
	Within one year		After one year through five years		After five years through ten years		After ten years		Total	
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
AVAILABLE FOR SALE										
Mortgage-backed securities:										
Residential	\$—	— %	\$—	— %	\$8,914	1.63 %	\$121,176	1.97 %	\$130,090	1.94 %
Commercial	—	—	15,356	2.07	4,558	2.03	3,780	2.98	23,694	2.21
Municipal bonds	641	2.64	24,456	3.10	39,883	3.25	323,472	3.81	388,452	3.71
Collateralized mortgage obligations:										
Residential	—	—	—	—	—	—	160,424	2.10	160,424	2.10
Commercial	—	—	12,550	2.09	21,837	2.38	64,182	2.13	98,569	2.18
Agency debentures	—	—	—	—	9,650	2.26	—	—	9,650	2.26
Corporate debt securities	1,048	2.11	6,527	2.80	11,033	3.49	6,129	3.57	24,737	3.27
U.S. Treasury securities	997	1.22	—	—	9,655	1.76	—	—	10,652	1.71
Total available for sale	\$2,686	1.90 %	\$58,889	2.58 %	\$105,530	2.67 %	\$679,163	2.90 %	\$846,268	2.85 %

HELD TO MATURITY

Mortgage-backed securities:										
Residential	\$—	— %	\$—	— %	\$—	— %	\$11,998	2.93 %	\$11,998	2.93 %
Commercial	—	—	6,577	2.15	14,352	2.71	—	—	20,929	2.53
Collateralized mortgage obligations	—	—	—	—	—	—	3,439	1.90	3,439	1.90
Municipal bonds	—	—	1,846	3.35	4,630	2.57	15,189	3.50	21,665	3.28
Corporate debt securities	—	—	—	—	—	—	97	6.00	97	6.00
Total held to maturity	\$—	— %	\$8,423	2.41 %	\$18,982	2.68 %	\$30,723	3.10 %	\$58,128	2.86 %

Sales of investment securities available for sale were as follows.

	Three Months Ended		Six Months Ended June	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Proceeds	\$5,357	\$312,247	\$22,232	\$314,633
Gross gains	38	551	261	576
Gross losses	(22)	—	(23)	(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, 2018	At December 31, 2017
Federal Home Loan Bank to secure borrowings	\$85,339	\$ 425,866
Washington and California State to secure public deposits	134,420	118,828
Securities pledged to secure derivatives in a liability position	10,615	7,308
Other securities pledged	5,403	6,089
Total securities pledged as collateral	\$235,777	\$ 558,091

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, 2018 and December 31, 2017.

Tax-exempt interest income on securities totaled \$2.2 million and \$2.4 million for the three months ended June 30, 2018 and 2017, respectively, and \$4.5 million and \$4.9 million for the six months ended June 30, 2018 and 2017, respectively, was recorded in the Company's consolidated statements of operations.

NOTE 3—LOANS AND CREDIT QUALITY:

For a detailed discussion of loans and credit quality, including accounting policies and the methodology used to estimate the allowance for credit losses, see Note 1, *Summary of Significant Accounting Policies*, and Note 5, *Loans and Credit Quality*, within our 2017 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 non-owner occupied commercial real estate, multifamily, construction/land development and owner occupied commercial real estate and commercial business loans within the commercial loan portfolio segment.

Loans held for investment consist of the following:

(in thousands)	At June 30, 2018	At December 31, 2017
Consumer loans		
Single family ⁽¹⁾	\$ 1,416,072	\$ 1,381,366
Home equity and other	513,016	453,489
Total consumer loans	1,929,088	1,834,855
Commercial real estate loans		
Non-owner occupied commercial real estate	640,984	622,782
Multifamily	836,260	728,037
Construction/land development	778,094	687,631
Total commercial real estate loans	2,255,338	2,038,450
Commercial and industrial loans		
Owner occupied commercial real estate	400,149	391,613
Commercial business	319,038	264,709
Total commercial and industrial loans	719,187	656,322
Loans held for investment before deferred fees, costs and allowance	4,903,613	4,529,627
Net deferred loan fees and costs	19,177	14,686
	4,922,790	4,544,313
Allowance for loan losses	(39,480)	(37,847)
Total loans held for investment	\$ 4,883,310	\$ 4,506,466

(1) Includes \$4.2 million and \$5.5 million at June 30, 2018 and December 31, 2017, 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 \$2.01 billion and \$1.81 billion at June 30, 2018 and December 31, 2017, respectively, were pledged to secure borrowings from the Federal Home Loan Bank ("FHLB") as part of our liquidity management strategy. Additionally, loans totaling \$556.3 million and \$663.8 million at June 30, 2018 and December 31, 2017, 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, 2018, we had concentrations representing 10% or more of the total portfolio by state and property type for the single family loan class within the states of Washington and California, which represented 13.9% and 10.6% of the total portfolio, respectively. At December 31, 2017, we had concentrations representing 10% or more of the total portfolio by state and property type for the single family loan class within the states of Washington and California, which represented 15.0% and 10.9% 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, 2018. 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 our consolidated statements of financial condition. Collectively, these allowances are referred to as the allowance for credit losses. The allowance for unfunded commitments was \$1.5 million at June 30, 2018, compared to \$1.3 million at June 30, 2017.

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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 2017 Annual Report on Form 10-K.

Activity in the allowance for credit losses was as follows.

(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Allowance for credit losses (roll-forward):				
Beginning balance	\$40,446	\$36,042	\$39,116	\$35,264
Provision for credit losses	1,000	500	1,750	500
(Charge-offs) recoveries, net	(464)	928	116	1,706
Ending balance	\$40,982	\$37,470	\$40,982	\$37,470

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

(in thousands)	Three Months Ended June 30, 2018				Ending balance
	Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	
Consumer loans					
Single family	\$9,208	\$ —	\$ 2	\$(616)	\$8,594
Home equity and other	6,987	(145)	147	357	7,346
Total consumer loans	16,195	(145)	149	(259)	15,940
Commercial real estate loans					
Non-owner occupied commercial real estate	4,627	—	—	137	4,764
Multifamily	4,651	—	—	366	5,017
Construction/land development	9,159	—	172	(126)	9,205
Total commercial real estate loans	18,437	—	172	377	18,986
Commercial and industrial loans					
Owner occupied commercial real estate	2,966	—	—	66	3,032
Commercial business	2,848	(652)	12	816	3,024
Total commercial and industrial loans	5,814	(652)	12	882	6,056
Total allowance for credit losses	\$40,446	\$(797)	\$ 333	\$ 1,000	\$40,982

(in thousands)	Three Months Ended June 30, 2017				Ending balance
	Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	
Consumer loans					
Single family	\$7,954	\$(2)	\$ 683	\$(347)	\$8,288
Home equity and other	6,546	(186)	67	429	6,856
Total consumer loans	14,500	(188)	750	82	15,144
Commercial real estate loans					
Non-owner occupied commercial real estate	4,699	—	—	217	4,916
Multifamily	3,793	—	—	266	4,059
Construction/land development	8,069	—	214	(57)	8,226
Total commercial real estate loans	16,561	—	214	426	17,201
Commercial and industrial loans					
Owner occupied commercial real estate	2,337	—	—	202	2,539
Commercial business	2,644	(16)	168	(210)	2,586
Total commercial and industrial loans	4,981	(16)	168	(8)	5,125
Total allowance for credit losses	\$36,042	\$(204)	\$ 1,132	\$ 500	\$37,470

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(in thousands)	Six Months Ended June 30, 2018				
	Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	\$9,412	\$ —	\$ 282	\$(1,100)	\$8,594
Home equity and other	7,081	(242)	223	284	7,346
	16,493	(242)	505	(816)	15,940
Commercial real estate loans					
Non-owner occupied commercial real estate	4,755	—	—	9	4,764
Multifamily	3,895	—	—	1,122	5,017
Construction/land development	8,677	—	343	185	9,205
Total commercial real estate loans	17,327	—	343	1,316	18,986
Commercial and industrial loans					
Owner occupied commercial real estate	2,960	—	—	72	3,032
Commercial business	2,336	(653)	163	1,178	3,024
Total commercial and industrial loans	5,296	(653)	163	1,250	6,056
Total allowance for credit losses	\$39,116	\$ (895)	\$ 1,011	\$ 1,750	\$40,982

(in thousands)	Six Months Ended June 30, 2017				
	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 real estate loans					
Non-owner occupied commercial real estate	4,481	—	—	435	4,916
Multifamily	3,086	—	—	973	4,059
Construction/land development	8,553	—	434	(761)	8,226
Total commercial real estate loans	16,120	—	434	647	17,201
Commercial and industrial loans					
Owner occupied commercial real estate	2,199	—	—	340	2,539
Commercial business	2,596	(16)	432	(426)	2,586
	4,795	(16)	432	(86)	5,125
Total allowance for credit losses	\$35,264	\$ (529)	\$ 2,235	\$ 500	\$37,470

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

(in thousands)	At June 30, 2018			Loans: collectively evaluated for impairment	Loans: individually evaluated for impairment	Total
	Allowance: collectively evaluated for impairment	Allowance: individually evaluated for impairment	Total			
Consumer loans						
Single family	\$8,478	\$ 116	\$8,594	\$1,344,362	\$ 67,548	\$1,411,910
Home equity and other	7,302	44	7,346	511,740	1,260	513,000
Total consumer loans	15,780	160	15,940	1,856,102	68,808	1,924,910
Commercial loans						
Non-owner occupied commercial real estate	4,764	—	4,764	640,984	—	640,984
Multifamily	5,017	—	5,017	835,476	784	836,260
Construction/land development	9,205	—	9,205	777,428	666	778,094
Total commercial real estate loans	18,986	—	18,986	2,253,888	1,450	2,255,338
Commercial and industrial loans						
Owner occupied commercial real estate	3,032	—	3,032	398,889	1,260	400,149
Commercial business	2,902	122	3,024	317,012	2,026	319,038
Total commercial and industrial loans	5,934	122	6,056	715,901	3,286	719,187
Total loans evaluated for impairment	40,700	282	40,982	4,825,891	73,544	4,899,435
Loans held for investment carried at fair value	—	—	—	—	—	4,187 ⁽¹⁾
Total loans held for investment	\$40,700	\$ 282	\$40,982	\$4,825,891	\$ 73,544	\$4,903,622

(in thousands)	At December 31, 2017			Loans: collectively evaluated for impairment	Loans: individually evaluated for impairment	Total
	Allowance: collectively evaluated for impairment	Allowance: individually evaluated for impairment	Total			
Consumer loans						
Single family	\$9,188	\$ 224	\$9,412	\$1,300,939	\$ 74,967	\$1,375,906
Home equity and other	7,036	45	7,081	452,182	1,290	453,472
Total consumer loans	16,224	269	16,493	1,753,121	76,257	1,829,378
Commercial real estate loans						
Non-owner occupied commercial real estate	4,755	—	4,755	622,782	—	622,782
Multifamily	3,895	—	3,895	727,228	809	728,037
Construction/land development	8,677	—	8,677	687,177	454	687,631
Total commercial real estate loans	17,327	—	17,327	2,037,187	1,263	2,038,450
Commercial and industrial loans						
Owner occupied commercial real estate	2,960	—	2,960	388,624	2,989	391,613
Commercial business	2,316	20	2,336	261,603	3,106	264,709
Total commercial and industrial loans	5,276	20	5,296	650,227	6,095	656,322
Total loans evaluated for impairment	38,827	289	39,116	4,440,535	83,615	4,524,150
Loans held for investment carried at fair value	—	—	—	5,246	231	5,477 ⁽¹⁾
Total loans held for investment	\$38,827	\$ 289	\$39,116	\$4,445,781	\$ 83,846	\$4,529,627

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

Impaired Loans

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

(in thousands)	At June 30, 2018		
	Recorded investment	Unpaid principal balance ⁽²⁾	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	\$ 65,585	\$ 66,378	\$ —
Home equity and other	759	784	—
Total consumer loans	66,344	67,162	—
Commercial real estate loans			
Multifamily	784	822	—
Construction/land development	666	666	—
Total commercial real estate loans	1,450	1,488	—
Commercial and industrial loans			
Owner occupied commercial real estate	1,260	1,569	—
Commercial business	1,589	2,262	—
Total commercial and industrial loans	2,849	3,831	—
	\$ 70,643	\$ 72,481	\$ —
With an allowance recorded:			
Consumer loans			
Single family	\$ 1,963	\$ 2,021	\$ 116
Home equity and other	501	500	44
Total consumer loans	2,464	2,521	160
Commercial and industrial loans			
Commercial business	437	857	122
Total commercial and industrial loans	437	857	122
	\$ 2,901	\$ 3,378	\$ 282
Total:			
Consumer loans			
Single family ⁽³⁾	\$ 67,548	\$ 68,399	\$ 116
Home equity and other	1,260	1,284	44
Total consumer loans	68,808	69,683	160
Commercial real estate loans			
Multifamily	784	822	—
Construction/land development	666	666	—
Total commercial and industrial loans	1,450	1,488	—
Commercial and industrial loans			
Owner occupied commercial real estate	1,260	1,569	—
Commercial business	2,026	3,119	122
Total commercial and industrial loans	3,286	4,688	122
Total impaired loans	\$ 73,544	\$ 75,859	\$ 282

(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 \$65.5 million in single family performing trouble debt restructurings ("TDRs").

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(in thousands)	At December 31, 2017		
	Recorded investment	Unpaid principal balance ⁽¹⁾ (2)	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	\$ 71,264 ⁽⁴⁾	\$ 72,424	\$ —
Home equity and other	782	807	—
Total consumer loans	72,046	73,231	—
Commercial real estate loans			
Multifamily	809	837	—
Construction/land development	454	454	—
Total commercial real estate loans	1,263	1,291	—
Commercial and industrial loans			
Owner occupied commercial real estate	2,989	3,288	—
Commercial business	2,398	3,094	—
Total commercial and industrial loans	5,387	6,382	—
	\$ 78,696	\$ 80,904	\$ —
With an allowance recorded:			
Consumer loans			
Single family	\$ 3,934	\$ 4,025	\$ 224
Home equity and other	508	508	45
Total consumer loans	4,442	4,533	269
Commercial and industrial loans			
Commercial business	708	755	20
Total commercial and industrial loans	708	755	20
	\$ 5,150	\$ 5,288	\$ 289
Total:			
Consumer loans			
Single family ⁽³⁾	\$ 75,198	\$ 76,449	\$ 224
Home equity and other	1,290	1,315	45
Total consumer loans	76,488	77,764	269
Commercial real estate loans			
Multifamily	809	837	—
Construction/land development	454	454	—
Total commercial real estate loans	1,263	1,291	—
Commercial and industrial loans			
Owner occupied commercial real estate	2,989	3,288	—
Commercial business	3,106	3,849	20
Total commercial and industrial loans	6,095	7,137	20
Total impaired loans	\$ 83,846	\$ 86,192	\$ 289

(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 \$69.6 million in single family performing TDRs.

(4) Includes \$231 thousand of fair value option loans.

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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, 2018		Three Months Ended June 30, 2017	
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
Consumer loans				
Single family	\$68,188	\$ 657	\$83,653	\$ 790
Home equity and other	1,263	19	1,568	24
Total consumer loans	69,451	676	85,221	814
Commercial real estate loans				
Non-owner occupied commercial real estate	—	—	1,161	—
Multifamily	792	6	832	6
Construction/land development	628	6	1,105	21
Total commercial real estate loans	1,420	12	3,098	27
Commercial and industrial loans				
Owner occupied commercial real estate	2,057	19	3,280	37
Commercial business	2,405	29	2,380	36
Total commercial and industrial loans	4,462	48	5,660	73
	\$75,333	\$ 736	\$93,979	\$ 914

(in thousands)	Six Months Ended June 30, 2018		Six Months Ended June 30, 2017	
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
Consumer loans				
Single family	\$70,525	\$ 1,310	\$82,661	\$ 1,540
Home equity and other	1,272	38	1,533	43
Total consumer loans	71,797	1,348	84,194	1,583
Commercial real estate loans				
Non-owner occupied commercial real estate	—	—	1,065	—
Multifamily	797	12	836	12
Construction/land development	570	11	1,367	47
Total commercial real estate loans	1,367	23	3,268	59
Commercial and industrial loans				
Owner occupied commercial real estate	2,367	55	2,676	96
Commercial business	2,639	66	2,684	83
Total commercial and industrial loans	5,006	121	5,360	179
	\$78,170	\$ 1,492	\$92,822	\$ 1,821

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 financial 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.

• The borrower 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 it faces industry issues that, when combined with performance factors create uncertainty in its 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 institution's credit position at some future date. Loans in this category contain unfavorable characteristics and are generally undesirable. They 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:

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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, or when there is 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 through 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 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 uncollateralized 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 uncollectible 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 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 days or more past due from the required payment date at month-end.

Loss. A homogeneous loss loan is risk rated 10 when the loss has been confirmed and charged off through the Bank's commercial special assets collection process.

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 is risk rated 10 when it 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.

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

(in thousands)	At June 30, 2018				
	Pass	Watch	Special mention	Substandard	Total
Consumer loans					
Single family	\$ 1,395,212 ⁽¹⁾	\$ 3,360	\$ 11,041	\$ 6,459	\$ 1,416,072
Home equity and other	510,922	132	695	1,267	513,016
	1,906,134	3,492	11,736	7,726	1,929,088
Commercial real estate loans					
Non-owner occupied commercial real estate	629,257	3,182	7,756	789	640,984
Multifamily	790,836	45,139	—	285	836,260
Construction/land development	757,359	8,951	6,966	4,818	778,094
	2,177,452	57,272	14,722	5,892	2,255,338
Commercial and industrial loans					
Owner occupied commercial real estate	356,391	29,172	13,724	862	400,149
Commercial business	268,488	32,887	16,495	1,168	319,038
	624,879	62,059	30,219	2,030	719,187
	\$ 4,708,465	\$ 122,823	\$ 56,677	\$ 15,648	\$ 4,903,613

(1) Includes \$4.2 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.

(in thousands)	At December 31, 2017				
	Pass	Watch	Special mention	Substandard	Total
Consumer loans					
Single family	\$ 1,355,965 ⁽¹⁾	\$ 2,982	\$ 11,328	\$ 11,091	\$ 1,381,366
Home equity and other	451,194	143	751	1,401	453,489
	1,807,159	3,125	12,079	12,492	1,834,855
Commercial real estate loans					
Non-owner occupied commercial real estate	613,181	8,801	—	800	622,782
Multifamily	693,190	34,038	507	302	728,037
Construction/land development	664,025	22,062	1,466	78	687,631
	1,970,396	64,901	1,973	1,180	2,038,450
Commercial and industrial loans					
Owner occupied commercial real estate	361,429	20,949	6,399	2,836	391,613
Commercial business	220,461	39,588	1,959	2,701	264,709
	581,890	60,537	8,358	5,537	656,322
	\$ 4,359,445	\$ 128,563	\$ 22,410	\$ 19,209	\$ 4,529,627

(1) Includes \$5.5 million of loans where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

As of June 30, 2018 and December 31, 2017, 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 2017 Annual Report on Form 10-K.

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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 Administration ("FHA") or guaranteed by the Veterans Administration ("VA") are generally maintained on accrual status even if 90 days or more past due.

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

(in thousands)	At June 30, 2018						
	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	\$9,857	\$ 4,322	\$47,426	\$61,605	\$ 1,354,467 ⁽¹⁾	\$ 1,416,072	\$ 40,967 ⁽²⁾
Home equity and other	477	19	1,267	1,763	511,253	513,016	—
	10,334	4,341	48,693	63,368	1,865,720	1,929,088	40,967
Commercial real estate loans							
Non-owner occupied commercial real estate	—	—	—	—	640,984	640,984	—
Multifamily	—	—	285	285	835,975	836,260	—
Construction/land development	—	—	75	75	778,019	778,094	—
	—	—	360	360	2,254,978	2,255,338	—
Commercial and industrial loans							
Owner occupied commercial real estate	—	—	394	394	399,755	400,149	—
Commercial business	—	—	1,150	1,150	317,888	319,038	—
	—	—	1,544	1,544	717,643	719,187	—
	\$ 10,334	\$ 4,341	\$ 50,597	\$ 65,272	\$ 4,838,341	\$ 4,903,613	\$ 40,967

(in thousands)	At December 31, 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	\$ 10,493	\$ 4,437	\$48,262	\$63,192	\$ 1,318,174 ⁽¹⁾	\$ 1,381,366	\$ 37,171 ⁽²⁾
Home equity and other	750	20	1,404	2,174	451,315	453,489	—
	11,243	4,457	49,666	65,366	1,769,489	1,834,855	37,171
Commercial real estate loans							
Non-owner occupied commercial real estate	—	—	—	—	622,782	622,782	—
Multifamily	—	—	302	302	727,735	728,037	—
Construction/land development	641	—	78	719	686,912	687,631	—
	641	—	380	1,021	2,037,429	2,038,450	—
Commercial and industrial loans							
Owner occupied commercial real estate	—	—	640	640	390,973	391,613	—
Commercial business	377	—	1,526	1,903	262,806	264,709	—
	377	—	2,166	2,543	653,779	656,322	—
	\$ 12,261	\$ 4,457	\$ 52,212	\$ 68,930	\$ 4,460,697	\$ 4,529,627	\$ 37,171

(1) Includes \$4.2 million and \$5.5 million of loans at June 30, 2018 and December 31, 2017, 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 our consolidated statements of operations.

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(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.

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

(in thousands)	At June 30, 2018		
	Accrual	Nonaccrual	Total
Consumer loans			
Single family	\$ 1,409,613 ⁽¹⁾	\$ 6,459	\$ 1,416,072
Home equity and other	511,749	1,267	513,016
	1,921,362	7,726	1,929,088
Commercial real estate loans			
Non-owner occupied commercial real estate	640,984	—	640,984
Multifamily	835,975	285	836,260
Construction/land development	778,019	75	778,094
	2,254,978	360	2,255,338
Commercial and industrial loans			
Owner occupied commercial real estate	399,755	394	400,149
Commercial business	317,888	1,150	319,038
	717,643	1,544	719,187
	\$ 4,893,983	\$ 9,630	\$ 4,903,613

(in thousands)	At December 31, 2017		
	Accrual	Nonaccrual	Total
Consumer loans			
Single family	\$ 1,370,275 ⁽¹⁾	\$ 11,091	\$ 1,381,366
Home equity and other	452,085	1,404	453,489
	1,822,360	12,495	1,834,855
Commercial real estate loans			
Non-owner occupied commercial real estate	622,782	—	622,782
Multifamily	727,735	302	728,037
Construction/land development	687,553	78	687,631
	2,038,070	380	2,038,450
Commercial and industrial loans			
Owner occupied commercial real estate	390,973	640	391,613
Commercial business	263,183	1,526	264,709
	654,156	2,166	656,322
	\$ 4,514,586	\$ 15,041	\$ 4,529,627

⁽¹⁾ Includes \$4.2 million and \$5.5 million of loans at June 30, 2018 and December 31, 2017, 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.

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

		Three Months Ended June 30, 2018		
(dollars in thousands)	Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	5	\$ 777	\$ —
	Payment restructure	39	8,741	—
Total consumer				
	Interest rate reduction	5	777	—
	Payment restructure	39	8,741	—
		44	9,518	—
Total loans				
	Interest rate reduction	5	777	—
	Payment restructure	39	8,741	—
		44	\$ 9,518	\$ —
		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 real estate loans				
Construction/land development				
	Payment restructure	1	436	—
Total commercial real estate				
		1	436	—
Total loans				
	Interest rate reduction	13	2,097	—
	Payment restructure	32	6,728	—
		45	\$ 8,825	\$ —

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		Six Months Ended June 30, 2018			
(dollars in thousands)	Concession type	Number of loan modifications	Recorded investment	Related charge-offs	
Consumer loans					
Single family					
	Interest rate reduction	13	\$ 2,462	\$	—
	Payment restructure	64	13,930	—	
Total consumer					
	Interest rate reduction	13	2,462	—	
	Payment restructure	64	13,930	—	
		77	16,392	—	
Commercial and industrial loans					
Commercial business					
	Payment restructure	2	267	—	
Total commercial and industrial					
	Payment restructure	2	267	—	
		2	267	—	
Total loans					
	Interest rate reduction	13	2,462	—	
	Payment restructure	66	14,197	—	
		79	\$ 16,659	\$	—

		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 real estate loans					
Construction/land development					
	Payment restructure	1	436	—	
Total commercial real estate					
		1	436		
Commercial and industrial loans					
Commercial business					
	Payment restructure	1	18	—	
Total commercial and industrial					
	Payment restructure	1	18	—	
Total loans					
	Interest rate reduction	39	6,920	—	
	Payment restructure	46	9,697	—	
		85	\$ 16,617	\$	—

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, 2018 and 2017, 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 June 30,	
	2018	2017
(dollars in thousands)	Number of loan relationships that re-defaulted	Number of loan relationships that re-defaulted
Consumer loans		
Single family	6 \$ 1,395	7 \$ 1,382
	6 \$ 1,395	7 \$ 1,382

	Six Months Ended June 30,	
	2018	2017
(dollars in thousands)	Number of loan relationships that re-defaulted	Number of loan relationships that re-defaulted
Consumer loans		
Single family	12 \$ 2,279	8 \$ 1,652
	12 \$ 2,279	8 \$ 1,652

NOTE 4-DEPOSITS:

Deposit balances, including stated rates, were as follows.

(in thousands)	At June 30, 2018	At December 31, 2017
Noninterest-bearing accounts	\$ 1,021,790	\$ 980,902
NOW accounts, 0.00% to 1.00% at June 30, 2018 and 0.00% to 1.98% at December 31, 2017	486,104	461,349
Statement savings accounts, due on demand, 0.05% to 1.13% at June 30, 2018 and December 31, 2017	283,969	293,858
Money market accounts, due on demand, 0.00% to 1.92% at June 30, 2018 and 0.00% to 1.80% at December 31, 2017	1,932,340	1,834,154
Certificates of deposit, 0.10% to 3.80% at June 30, 2018 and 0.05% to 3.80% at December 31, 2017	1,396,082	1,190,689
	\$5,120,285	\$ 4,760,952

Interest expense on deposits was as follows.

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
NOW accounts	\$ 430	\$ 503	\$ 870	\$ 980
Statement savings accounts	217	253	446	505
Money market accounts	4,064	1,935	7,523	4,165
Certificates of deposit	4,851	3,176	8,511	5,840
	\$9,562	\$5,867	\$17,350	\$11,490

The weighted-average interest rates on certificates of deposit were 1.50% and 1.12% at June 30, 2018 and December 31, 2017, respectively.

Certificates of deposit outstanding mature as follows.

(in thousands)	At June 30, 2018
Within one year	\$ 1,114,257
One to two years	207,361
Two to three years	45,187
Three to four years	10,340
Four to five years	18,660
Thereafter	277
	\$1,396,082

The aggregate amount of time deposits in denominations of more than \$250 thousand at June 30, 2018 and December 31, 2017 were \$86.3 million and \$88.8 million, respectively. There were \$607.8 million and \$345.5 million of brokered deposits at June 30, 2018 and December 31, 2017, respectively.

NOTE 5-DERIVATIVES AND HEDGING ACTIVITIES:

To reduce the risk of significant interest rate fluctuations on the value of certain assets and liabilities, such as certain mortgage loans held for sale or Mortgage Servicing Rights ("MSRs"), the Company utilizes derivatives, such as forward sale commitments, futures, option contracts, interest rate swaps and interest rate swaptions as risk management instruments in its hedging strategy. Derivative transactions are measured in terms of notional amount, which is not recorded in the consolidate

d 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, 2018 or December 31, 2017. 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 statements of financial condition. Refer to Note 2, *Investment Securities*, for further information on securities collateral pledged. At June 30, 2018 and December 31, 2017, 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 2017 Annual Report on Form 10-K.

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

(in thousands)	At June 30, 2018		
	Notional amount	Fair value derivatives	
		Asset	Liability
Forward sale commitments	\$ 1,609,872	\$ 2,224	\$(3,134)
Interest rate swaptions	30,000	79	—
Interest rate lock and purchase loan commitments	594,753	16,972	(106)
Interest rate swaps	1,311,000	9,609	(35,063)
Eurodollar futures	4,483,000	78	—
Total derivatives before netting	\$ 8,028,625	28,962	(38,303)
Netting adjustment/Cash collateral ⁽¹⁾		(8,771)	33,928
Carrying value on consolidated statements of financial condition		\$ 20,191	\$(4,375)

(1) Includes cash collateral of \$25.2 million at June 30, 2018 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.

(in thousands)	At December 31, 2017		
	Notional amount	Fair value derivatives	
		Asset	Liability
Forward sale commitments	\$ 1,687,658	\$ 1,311	\$(1,445)
Interest rate swaptions	120,000	—	—
Interest rate lock and purchase loan commitments	472,733	12,950	(25)
Interest rate swaps	1,869,000	12,171	(23,654)
Eurodollar futures	3,287,000	—	(101)
Total derivatives before netting	\$ 7,436,391	26,432	(25,225)
Netting adjustment/Cash collateral ⁽¹⁾		(6,646)	23,505
Carrying value on consolidated statements of financial condition		\$ 19,786	\$(1,720)

(1) Includes cash collateral of \$16.9 million at December 31, 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.

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

At June 30, 2018					
(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	\$ 28,962	\$(8,771)	\$ 20,191	\$ —	\$ 20,191
Derivative liabilities	\$(38,303)	33,928	\$(4,375)	3,766	\$(609)

At December 31, 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	\$ 26,432	\$(6,646)	\$ 19,786	\$ —	\$ 19,786

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Derivative liabilities (25,225) 23,505 (1,720) 1,213 (507)

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Includes cash collateral of \$25.2 million and \$16.9 million at June 30, 2018 and December 31, 2017, respectively, as part of the netting (1) 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,		Six Months Ended June 30,	
	2018	2017	2018	2017
Recognized in noninterest income:				
Net gain (loss) on loan origination and sale activities ⁽¹⁾	\$2,957	\$(10,109)	\$17,082	\$(11,608)
Loan servicing (loss) income ⁽²⁾	(12,188)	8,874	(43,165)	9,253
	\$(9,231)	\$(1,235)	\$(26,083)	\$(2,355)

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

(2) Comprised of interest rate swaps, interest rate swaptions and forward contracts used as an economic hedge of single family MSRs.

NOTE 6—MORTGAGE BANKING OPERATIONS:

Loans held for sale consisted of the following.

(in thousands)	At June 30, 2018	At December 31, 2017
	Single family	\$527,088
Multifamily DUS ^{®(1)}	35,656	29,651
Small Business Administration ("SBA")	4,253	3,938
CRE-Non-DUS ^{®(1)(2)}	1,517	—
Total loans held for sale	\$568,514	\$610,902

(1) Fannie Mae Multifamily Delegated Underwriting and Servicing Program ("DUS[®]") is a registered trademark of Fannie Mae.

(2) Loans originated as Held for Investment.

Loans sold proceeds consisted of the following.

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Single family	\$1,768,348 ⁽¹⁾	\$1,808,500	\$3,319,072 ⁽¹⁾	\$3,548,237
Multifamily DUS ^{®(2)}	54,621	35,312	87,597	112,161
SBA	3,622	3,532	7,314	11,167
CRE-Non-DUS ^{®(2)(3)}	114,650	21,163	114,650	26,714
Total loans sold	\$1,941,241	\$1,868,507	\$3,528,633	\$3,698,279

(1) Includes proceeds of \$138.6 million in single family loans originated as held for investment.

(2) Fannie Mae Multifamily DUS[®] is a registered trademark of Fannie Mae.

(3) Loans originated as Held for Investment.

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,		Six Months Ended June 30,	
	2018	2017	2018	2017
Single family:				
Servicing value and secondary market gains ⁽¹⁾	\$48,093	\$57,353	\$89,520	\$107,891
Loan origination and funding fees	6,158	6,823	11,603	12,604
Total single family	54,251	64,176	101,123	120,495
Multifamily DUS [®]	1,613	1,273	2,759	4,633
SBA	385	316	686	918
CRE-Non-DUS ^{® (2)}	800	143	800	143
Total gain on loan origination and sale activities	\$57,049	\$65,908	\$105,368	\$126,189

Comprised of gains and losses on interest rate lock and purchase loan commitments (which considers the value of servicing), single family (1) 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) Loan originated as held for investment.

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 that contribute to loan servicing income is presented below at the unpaid principal balance.

(in thousands)	At June 30, 2018	At December 31, 2017
Single family		
U.S. government and agency	\$18,493,704	\$22,123,710
Other	579,472	507,437
	19,073,176	22,631,147
Commercial		
Multifamily DUS [®]	1,357,929	1,311,399
Other	82,083	79,797
	1,440,012	1,391,196
Total loans serviced for others	\$20,513,188	\$24,022,343

The Company has made representations and warranties that the loans sold meet certain requirements. The Company may be required to repurchase mortgage loans or indemnify loan purchasers due to defects in the origination process of the loan, such as documentation errors, underwriting errors and judgments, appraisal errors, early payment defaults and fraud. For further information on the Company's mortgage repurchase liability, see Note 7, *Commitments, Guarantees and Contingencies*, of this Quarterly Report on Form 10-Q.

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

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Balance, beginning of period	\$2,665	\$2,863	\$3,015	\$3,382
Additions (reductions), net of adjustments ⁽¹⁾	(5)	328	605	(32)
Realized losses ⁽²⁾	(156)	(201)	(1,116)	(360)
Balance, end of period	\$2,504	\$2,990	\$2,504	\$2,990

(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 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 \$2.6 million and \$5.3 million were recorded in other assets as of June 30, 2018 and December 31, 2017, 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 June 30, 2018 and December 31, 2017, delinquent or defaulted mortgage loans currently in Ginnie Mae pools that the Company has recognized on its consolidated statements of financial condition totaled \$41.3 million and \$39.3 million, respectively, with a corresponding amount recorded within accounts payable and other liabilities on the consolidated statements of financial condition. The recognition of previously sold loans does not impact the accounting for the previously recognized MSR's.

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

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Servicing income, net:				
Servicing fees and other	\$18,385	\$15,977	\$36,836	\$32,156
Changes in fair value of single family MSR's due to modeled amortization ⁽¹⁾	(9,400)	(8,909)	(18,270)	(17,429)
Amortization of multifamily and SBA MSR's	(1,064)	(761)	(2,113)	(1,692)
	7,921	6,307	16,453	13,035
Risk management, single family MSR's:				
Changes in fair value of MSR's due to changes in market inputs and/or model updates ⁽²⁾	11,299 ⁽³⁾	(6,417)	41,318 ⁽³⁾	(4,285)
Net (loss) gain from derivatives economically hedging MSR	(12,188)	8,874	(43,165)	9,253
	(889)	2,457	(1,847)	4,968
Loan servicing income	\$7,032	\$8,764	\$14,606	\$18,003

(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.

(3) Includes pre-tax income of \$573 thousand, net of brokerage fees and prepayment reserves, resulting from the sale of single family MSR's during the three and six months ended June 30, 2018.

All MSRs are initially measured and recorded at fair value at