HomeStreet, Inc.
Form 10-Q
August 04, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: June 30, 2017
Commission file number: 001-35424

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

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

601 Union Street, Suite 2000
Seattle, Washington 98101
(Address of principal executive offices)
(Zip Code)
(206) 623-3050
(Registrant's telephone number, including area code) Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x
The number of outstanding shares of the registrant's common stock as of August 1, 2017 was 26,884,028.6.

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PART I – FINANCIAL INFORMATION

ITEM 1FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 1–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

These unaudited interim financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results of the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q. The results of operations in the interim financial statements do not necessarily indicate the results that may be expected for the full year. The interim financial information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission (“2016 Annual Report on Form 10-K”).

Recent Accounting Developments

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

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

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

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

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

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

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

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

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

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

NOTE 2–BUSINESS COMBINATIONS:

Recent Acquisition Activity

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

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

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

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

NOTE 3–INVESTMENT SECURITIES:

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

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

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

Mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMO") represent securities issued by government sponsored enterprises ("GSEs"). Each of the MBS and CMO securities in our investment portfolio are guaranteed by Fannie Mae, Ginnie Mae or Freddie Mac. Municipal bonds are comprised of general obligation bonds (i.e., backed by the general credit of the issuer) and revenue bonds (i.e., backed by revenues from the specific project being financed) issued by various municipal corporations. As of June 30, 2017 and December 31, 2016, all securities held, including municipal bonds and corporate debt securities, were rated investment grade based upon external ratings where available and, where not available, based upon internal ratings which correspond to ratings as defined by Standard and Poor’s Rating Services (“S&P”) or Moody’s Investors Services (“Moody’s”). As of June 30, 2017 and December 31, 2016, substantially all securities held had ratings available by external ratings agencies.

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

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

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

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

The Company has evaluated securities available for sale that are in an unrealized loss position and has determined that the decline in value is temporary and is related to the change in market interest rates since purchase. The decline in value is not

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

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

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

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

Sales of investment securities available for sale were as follows.

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

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

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

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

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

NOTE 4–LOANS AND CREDIT QUALITY:

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

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

Loans held for investment consist of the following:

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

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

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

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

Credit Risk Concentrations

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

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

Credit Quality

Management considers the level of allowance for loan losses to be appropriate to cover credit losses inherent within the loans held for investment portfolio as of June 30, 2017. In addition to the allowance for loan losses, the Company maintains a separate allowance for losses related to unfunded loan commitments, and this amount is included in accounts payable and other liabilities on the consolidated statements of financial condition. Collectively, these allowances are referred to as the allowance for credit losses.

For further information on the policies that govern the determination of the allowance for loan losses levels, see Note 1, Summary of Significant Accounting Policies, within our 2016 Annual Report on Form 10-K.

Activity in the allowance for credit losses was as follows.

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

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

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

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

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

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

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

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

(in thousands)	At June 30, 2017 Allowance: collectively evaluated for impairment	Allowance: individually evaluated for impairment	Total	Loans: collectively evaluated for impairment	Loans: individually evaluated for impairment	Total
Consumer loans						
Single family	$7,964	$ 324	$8,288	$1,059,203	$ 83,968	$1,143,171
Home equity and other	6,810	46	6,856	412,729	1,701	414,430